

# GLOSSARY OF TERMS

## Active Ownership

When shareholders exercise their rights, actively engaging with the investee companies on business strategy, including sustainability issues, to reduce investment risk and/or enhance long-term shareholder value.

## Best-in-class

Assets or investments that are the best performers amongst their peer group in terms of Environmental, Social and/or Governance factors.

## Decarbonisation

The process of reducing carbon dioxide emissions produced through the burning of fossil fuels. This is achieved by moving to low-carbon energy sources.

## Engagement

The practice of seeking to influence the behaviour of a company in which a fund is invested in order to improve its Environmental, Social and Governance practices. For example, engaging with a company's board of directors in order to improve its labour practices.

## ESG stands for Environmental, Social & Governance

The acronym used by the investment industry to easily categorise into three simple "buckets" the broad range of sustainability risks and opportunities associated with a company's supply chain, operations and/or products & services.

## ESG Integration

The explicit and systematic inclusion of ESG issues in investment analysis and decisions; or the analysis of all material factors in investment analysis and decisions, including ESG factors.

- Basic ESG: the use of hard exclusion-based approach to screen out companies based on the way they derive their revenue (e.g. screening out companies whose revenue comes from gambling).
- Advanced ESG: Integration of quantitative and/or qualitative ESG inputs into research, stock selection, portfolio management and stewardship.

## Green Bonds

Bonds whose proceeds are exclusively used to finance/re-finance green projects, as defined by the Green Bond Principles (GBP). Green bonds may be standard "use of proceeds" in nature, which gives bondholders recourse to the issuer's business and cashflows, or "revenue/project bonds", which provide bondholders with recourse only to specific cashflows.

## Green Economic Growth

A growth path that is low-carbon, resource-efficient and socially inclusive.

## Green Economy Taxonomy

Taxonomy is a naming convention or classification system. Within finance, it defines the categories and qualifying characteristics of sectors, assets and projects. A green taxonomy governs what financial instruments can be called "green".

## Greenwashing

The act of making false or misleading claims about the environmental benefits or performance of a product, service, technology or organisation.

## Impact Investing

An approach to investment with the intentional goal of achieving specific positive Social/Environmental outcomes, while also delivering a risk-adjusted return. Impact investments can either be:

- Impact generating: these are typically private market investments, applies to some activist/stewardship strategies in public equity markets & green bond markets
- Impact aligned: typically applies to public market strategies that invest in companies whose revenue growth comes from products and services aligned with green economy outcomes.

## Net-zero Pledges

These aim to negate the amount of greenhouse gases produced. This is achieved by reducing emissions (shifting from fossil fuels to low-carbon energy sources) and absorbing greenhouse gases already in the atmosphere (through forestation and drawdown technologies.)

## Paris Agreement

A global commitment, agreed at the UN's Climate Change Conference in Paris in 2015, to limit global temperature rise to below 2°C.

## Responsible Investment

A cross-cutting approach to investment that integrates ESG issues into investment and stewardship decision-making processes.

## SFDR Articles 6, 8 & 9 Funds

The EU Sustainable Finance Disclosure Regulation (SFDR) aims to increase transparency in sustainable investment, partly to address the serious issue of greenwashing. The SFDR provides a framework for the disclosure of investment funds' sustainability characteristics and distinguishes between three types of funds, as laid out by Articles 6, 8 and 9 of the SFDR. Article 6 funds do not integrate any kind of binding sustainability controls into their investment process.

Article 8 funds have binding Environmental or Social characteristics (i.e. these must be considered as part of the investment process), or a combination of the two. Companies in which investments are made must also follow good Governance practices.

Article 9 funds have binding Environmental or Social characteristics and target a specific sustainability goal.

## Sustainable Investment

Similarly to responsible investment, this refers to any investment approach integrating ESG factors into the selection and management of investments. There are many different approaches to sustainable investing, including best-in-class, ESG integration, exclusion and impact investing.

## Sustainability

Term defined by the United Nations which means "meeting the needs of the present without compromising the ability of future generations to meet their own needs".

## Sustainability-linked Bonds

Sustainability-linked Bonds (SLBs) are any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined sustainability/ESG objectives. Issuers are thereby committing explicitly (including in the bond documentation) to future improvements in sustainability outcome(s) within a predefined timeline. SLBs are a forward-looking performance-based instruments. Their objectives are measured through predefined Key Performance Indicators (KPIs) and assessed against predefined Sustainability Performance Targets (SPTs).

## United Nations Sustainable Development Goals (SDG)

A United Nations endorsed set of 17 sustainability goals that provide a global framework to align business and government efforts.