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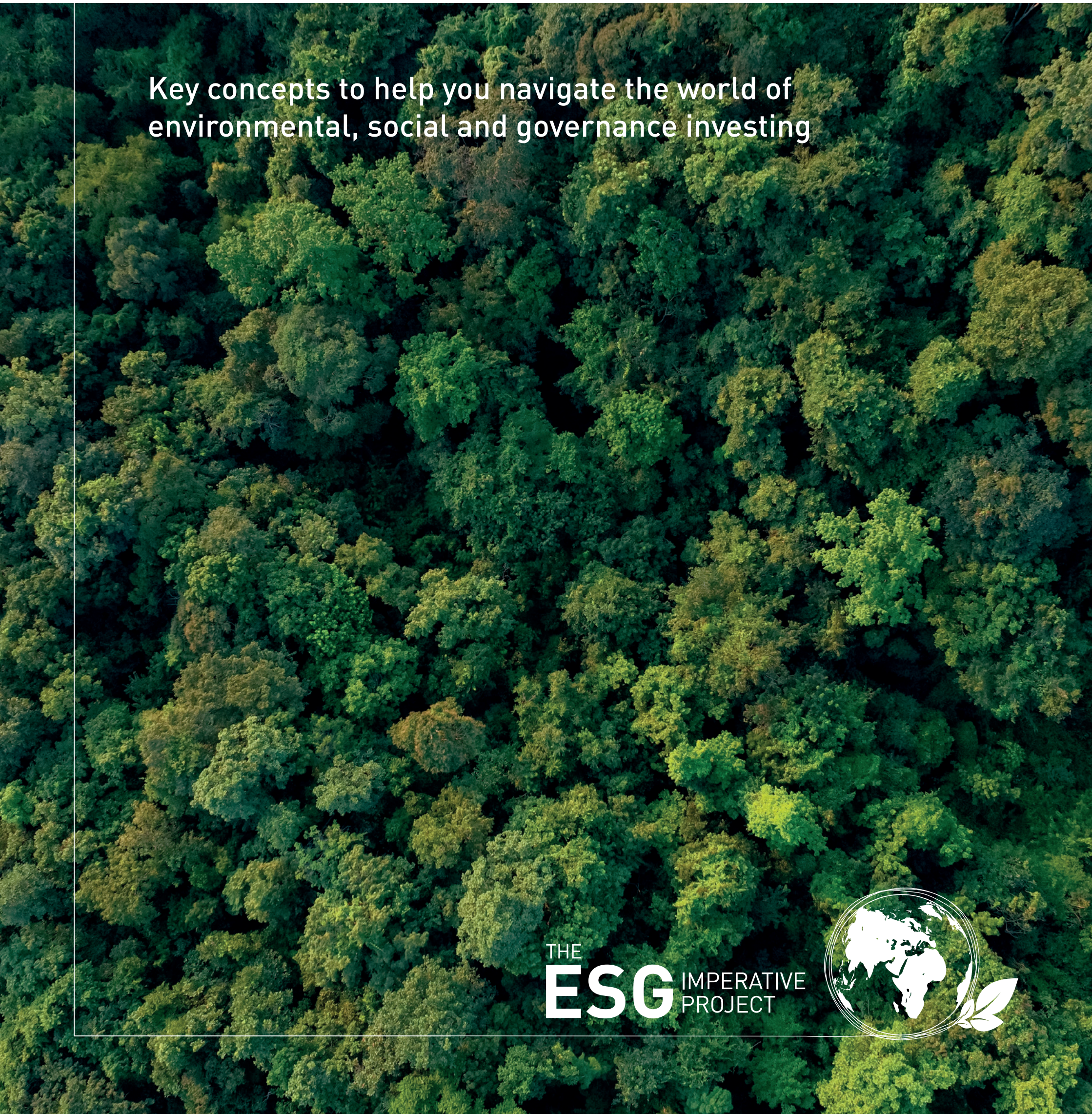

Key concepts to help you navigate the world of environmental, social and governance investing

THE ESG IMPERATIVE PROJECT

Contents

Welcome Message

Evelyn Partners is delighted to sponsor this best practice A-Z guide of ESG related terms. As several aspects of charity investment have evolved over recent years, this guide endeavours to help demystify jargon and provide clarity in a confusing arena.

The investment industry is now beginning to form a consensus behind some key definitions, where in the past 10 years or so, words have been used indiscriminately and interchangeably. We welcome the opportunity to provide charities with an introduction that distinguishes between important terms used throughout this booklet.

There is a difference between defining and understanding. In **responsible investment**, defining terminology is the first step towards aligning your investments with your values. At Evelyn Partners, we want to make this as simple and straightforward as possible for you.

Let's start with the most popular term of all – **ESG**, so often used in this short-hand without explanation. Many have used ESG as a de facto hallmark to imply that an activity or company is doing "good", or something "positive" or "sustainable". Instead, an investor should ask, "what are the material ESG factors for this activity or company and how do they affect an investment case?" A subtle but important difference.

An **ESG factor** can be qualitative or quantitative information related to environmental, social, or governance topics. ESG integration, as an investment strategy, operates on the belief that not all such factors are reflected in asset valuations, prompting the exploration of various information sources to gain further insights into them. Additionally, ESG factors often overlap and do not fit neatly into separate categories. For instance, a regional conflict could be considered both a geopolitical and a social factor.

Considering and integrating these factors into investment decisions, along with active stewardship, is known as **responsible investment**; a definition formalised by the UN Principles of Responsible Investment (UNPRI). This widely used and largely risk-based management approach to investment contrasts with the altogether more specialist **"sustainable investment"**. This describes portfolios that aim to deliver long-term positive social or environmental outcomes, where a meaningful proportion of the total investment qualifies against a set of predetermined criteria. They are likely to have a more limited investment universe with consequences for both performance and risk profile.

In truth, a grey area exists between the two approaches, and introducing two lesser-known but increasingly used terms, **"sustainability related"**, or those with **"sustainability characteristics"**, may be helpful. These catch- all terms capture efforts made to make an investment portfolio more socially and/or environmentally friendly, particularly if it does not quite qualify for more restrictive **"sustainability"** labels (such as one of the four sustainability labels under the FCA's **Sustainability disclosure and labelling regime**).

Sustainability-related portfolios can follow an "ethical" or values-based approach, where exposure to areas considered harmful eg tobacco are limited. Portfolios might also have **sustainability characteristics**. This suggests that they hold some investments in sustainable activities or assets but the proportion falls short of a meaningful allocation to sustainable investment. Again, a subtle but important difference.

It might take a while for these new ways of using sustainability-related words to catch on. This guide provides a clearer pathway through the complex array of terms. As long-standing stewards and managers of charity investments, Evelyn Partners is proud to support this initiative by Civil Society Media.

Adaptation financing

Adaptation financing provides funding for projects and initiatives that help vulnerable communities reduce the risk of harm or devastation due to the extreme effects of climate change such as rising temperatures, floods, storms and drought. This includes investment in areas such as flood defences, people relocation and climate resistant infrastructure.

Much of the talk in recent years has been around climate change mitigation, with significant proportions of sustainability-related portfolios dedicated to renewable energy projects such as wind and solar, and decarbonisation initiatives including reforestation and sustainable farming.

However, with clear signs of accelerated climate change related risk, coupled with the likelihood that investment in mitigation will fail to achieve net-zero targets, adaptation financing is becoming a more pressing concern. According to the Climate Policy Initiative, adaptation finance accounted for $63bn (£48.5bn) in 2021-22. Worryingly, this falls far short of the estimated $212bn (£163bn) needed per year by 2030 for developing countries alone.

On launching the Guide for Adaption and Resilience Finance in April this year, David Greenall, global managing director, climate risk, decarbonisation, nature and adaptation, at KPMG International, said: "Emerging markets and developing economies have a disproportionate risk of exposure to the negative effects of rising temperatures and extreme weather, and in many cases have fewer resources or less capacity to respond."

"We need capital to move in the right direction and to mainstream natural and climate hazard resilience into financial flows. Commercial banks and private investors have an opportunity to lead in meeting the adaptation challenge."

B Corporations

A certified **B Corporation** is a company that has voluntarily met the highest standards for social, governance and environmental performance. These standards are developed independently and cover a company's impact in key areas, including governance, labour, community, environment and customers.

The network behind the certification is a global not-for-profit called B Lab. To get certified, a company must meet stringent requirements, including completing a comprehensive assessment of the company's impacts on all stakeholders. It must disclose any controversial operations and commit to transparent and public disclosure of its performance. This is then verified by B Lab.

Unlike traditional corporations that give priority to financial profitability, B Corps look at the triple bottom line (see p26) and use the power of business and funds to address social and environmental problems.

B Corps are still a relatively new concept, with the first companies only being certified in 2007. Consequently, there's a lot of confusion about what they actually are.

B Lab's definition goes some way to clarifying the concept: "Certified B Corporations are businesses that meet the highest standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose. B Corps are accelerating a global culture shift to redefine success in business and build a more inclusive and sustainable economy."

"Building on our standards and certification process, our network leads economic systems change to support our collective vision of an inclusive, equitable and regenerative economy."

Circular economy

The Footprint Data Network estimates that if we continue with the same rates of population growth and consumption that we have currently, we will need 2.3 planets' worth of resources by 2050 just to maintain current levels.

Obviously, this is unsustainable. One potential solution is to reimagine the global economic infrastructure to be more sustainable and rethink how we design, make, transport and use the things we need, from the food we eat to the clothes we wear. This is known as the **circular economy**.

Major proponent and not-for-profit network the Ellen MacArthur Foundation defines this as a "systems solution framework that tackles global challenges such as climate change, biodiversity loss, waste, and pollution". This involves sharing, leasing, reusing, repairing, refurbishing and recycling existing materials and products for as long as possible. Key areas of focus are reducing food wastage, recycling and reducing packaging, and policy and regulatory changes around sustainable manufacturing.

Founder Dame Ellen MacArthur explains: "A circular economy decouples economic activity from the consumption of finite resources. It is a resilient system that is good for business, people and the environment. Surely there is a way where we can build our economy by design from the outset so that it could be regenerative and restorative for the long term."

She adds: "There has been an incredible momentum building over the last few years with extraordinary take up from businesses and governments. We still have a long way to go, but we have seen change at a pace we have never seen before."

Divestment

One of the first investment strategies to attempt to promote an ethical approach, **divestment** has seen charities and portfolio managers shedding tobacco, arms and other investments that present reputational risks over recent decades. It has also been a major weapon in the fight against climate change.

However, purely exclusionary strategies may not have the desired effect. Recent research by Newton Investment Management showed that while 24% of respondents to a survey felt that divestment was the best way to tackle the climate crisis, the vast majority (70%) thought that engaging with companies is the best method.

Former commercial sustainability lead at Newton Kelly Tran suggests there are pros and cons to stopping all investment in, for example, fossil fuels. "If you take fossil fuels out of the portfolio then it puts public pressure on the companies and immediately divests capital – the action is tangible, raises awareness and reduces the carbon footprint," she says. "But it excludes fossil fuel companies that are moving away from high-level emissions. Is it better to keep lobbying behind closed doors?"

Another point to consider, says Tran, is that the secondary market will continue to invest regardless, perhaps with less concern about the environmental or social impact than charities would have. "You have to debate whether simply excluding fossil fuel companies captures the nuances of the global energy market or solves the problems we are facing."

She adds that trustees should ask themselves a set of questions when discussing fossil fuel exclusion: "First, why are you doing it? And if you do decide to do it, how would you measure success? And on what timeframe?"

ESG investing

Environmental, social and governance **(ESG) investing** has been the go-to moniker for all green and ethical investment practices for over 20 years. The term ESG first came to prominence in a 2004 report titled Who Cares Wins, which was a joint initiative of financial institutions at the invitation of the United Nations (UN). The term has been broadly used to cover everything from human and worker rights to animal welfare and conservation.

Partly because of this nebulous quality, ESG as catch-all term has come under criticism over recent years for failing to define measurable outcomes, not providing for standardisation and facilitating greenwashing. In the summer of 2023, BlackRock announced that it would no longer use the term ESG to describe the company's investing approach, with other providers also seeking to define investment strategies in more detail. The term has also become more politicised over recent years and has led to a backlash among investors.

The problem now is settling on a different term as an industry standard. While ESG-related principles continue to remain an important aspect of operations for many stakeholders, many institutional investors are replacing the acronym with terms such as "sustainable", "impact" or "responsible" investing. But there are subtle differences even among these categories.

Ian Chesham director at Barclays Private Bank and member of its charities team, says that "it is the role of the adviser to cut through the jargon when talking to charity clients, and present opportunities in a digestible/simplified manner. However, although the willingness to learn is there, it is a very steep curve," he adds.

Footprint

In the context of investments, a **footprint** refers to the measurable impact of an investment on various factors, including the environment, society, and the economy. This term is often associated with sustainability-related criteria, where investors assess the broader implications of their financial choices beyond financial returns. An investment's footprint can reveal its carbon emissions, energy usage, diversity practices, community impact, and governance quality.

For investors, understanding the footprint of their portfolios has become increasingly important as stakeholders demand transparency and responsibility. A company with a large negative environmental or social footprint may face regulatory, reputational and operational risks, potentially reducing shareholder value. On the other hand, companies with positive footprints in areas such as renewable energy or social inclusion often attract investors with ESG or sustainability preferences seeking long-term value and impact.

Often credited with inventing the concept of footprint investing, former special envoy for the United Nations Sustainable Development Goals (SDGs – see p27) Hiro Mizuno says: "The investment footprint is about understanding not just what we earn, but how we earn it – and ensuring that our capital contributes to building a sustainable future."

Mizuno emphasises that achieving long-term financial performance is tied to improving the overall economy and addressing systemic risks such as climate change and inequality.

For charities, including footprint investing in their portfolio is essential for aligning financial strategies with their mission and values. By prioritising investments with a positive footprint, charities can amplify their impact beyond direct programmes, supporting companies and initiatives that drive sustainable change.

Greenwashing

Greenwashing is the practice of misleading consumers, investors, or stakeholders by presenting false or exaggerated claims about a company's environmental practices or sustainability efforts. It often involves branding or marketing tactics that create a perception of eco-friendliness without substantive actions to back up those claims. This phenomenon undermines genuine sustainability efforts and erodes trust in businesses, particularly as more people demand accountability for environmental impacts.

In the financial world, it can involve misrepresenting the credentials of funds or investments in order to attract sustainability-focused investors.

Greenwashing not only damages a company's reputation but also hinders progress toward tackling climate change and other pressing global challenges. When stakeholders cannot trust sustainability claims, it creates scepticism that harms genuinely responsible businesses.

To combat greenwashing, stakeholders are increasingly turning to transparency measures, such as third-party certifications, standardised impact non-financial reporting, and stricter regulations. As awareness grows, companies are being held accountable for ensuring their sustainability claims are accurate and backed by measurable action.

However, former associate of responsible investment at Ruffer, Lorena Cebuc, urges caution: "It can be challenging to identify genuine progress when it comes to greenwashing. To allocate capital efficiently, investors must have access to reliable data. At present, sustainability-related or non-financial data [see Quantifiable p23] is reported under a mixture of frameworks and is unstandardised, making it challenging for investors to compare data on progress. Having said that, regulatory authorities are slowly waking up to the challenge."

Human Rights Watch

Human Rights Watch (HRW) is an international non-governmental organisation that advocates for human rights and works to expose abuses worldwide. Founded in 1978, HRW operates in over 90 countries, documenting violations such as political oppression, gender-based violence, war crimes, and racial discrimination.

Kenneth Roth, the former executive director of HRW, emphasised the organisation's mission, stating: "The first step toward progress is naming and shaming. Once the abuses are exposed, the world can no longer look away."

HRW plays a significant role in shaping the landscape of responsible investing, particularly in the social and governance areas. Through its research and advocacy, HRW highlights human rights abuses, corruption, and governance failures across global industries, encouraging investors to scrutinise companies' operations and impacts. HRW's detailed reports on labour rights, environmental justice, and corporate accountability help investors assess whether companies are upholding ethical standards and aligning with sustainable practices.

As responsible investing has grown in popularity, HRW's work provides a resource for investors seeking to avoid exposure to risks associated with human rights violations, which can lead to reputational damage, legal liabilities, and financial losses. Furthermore, HRW has pushed for greater transparency in corporate supply chains, advocating for the inclusion of human rights metrics in ESG factor assessments.

In this context, HRW has helped influence both institutional investors and asset managers to consider human rights as an integral factor in their responsible investment strategies, promoting the idea that long-term value creation must include respect for fundamental human rights.

Impact investing

Impact investing, as defined by the Global Impact Investing Network (GIIN), involves investments made with the intention of generating positive, measurable social and environmental impact alongside a financial return.

This investment approach targets capital towards business models and assets that address global challenges while achieving financial returns, ensuring enterprises minimise negative impacts. Examples include investment in areas such as sustainable agriculture, renewable energy, conservation, microfinance, and essential services including housing, healthcare, and education.

The level of positive impact and financial return varies by investor type and asset class. Investors often balance between prioritising financial returns and impact outcomes, sitting on a spectrum that includes both.

GIIN notes that impact investing is defined by several key elements:

1. Intentionality: investors aim to generate positive social and/or environmental impact through their investments.
2. Investment with return expectations: these investments are expected to yield financial returns, ranging from a return of capital to market-rate returns.
3. Range of return expectations and asset classes: impact investments can offer below-market to market-rate returns and span various asset classes, including cash equivalents, fixed income, venture capital, and private equity.
4. Impact measurement: investors are committed to measuring and reporting the social and/or environmental performance of their investments, ensuring transparency and accountability.

Investors who adopt an impact investing strategy consider how a company is committed to corporate social responsibility (CSR), to positively benefit society or the environment as a whole. Their investment choices are influenced by this commitment, and the resulting impact can differ based on the industry and the specific company involved.

Just transition

A **just transition** refers to the need to balance the shift toward a low-carbon economy with social equity and economic inclusion. It emphasises ensuring that workers, communities and stakeholders affected by the transition are supported, particularly those in industries or regions reliant on high-carbon activities.

As governments, corporations and investors align with global sustainability goals such as the Paris Agreement [see p22], the potential for economic disruption in traditional industries grows. A just transition framework aims to mitigate these risks by promoting policies and investments that protect jobs, foster economic diversification, and enhance social welfare. This approach bridges the environmental and social dimensions of the transition, ensuring that climate action doesn't exacerbate inequality.

Investors play a crucial role in enabling a just transition by engaging with companies to promote fair labour practices, supporting retraining programmes, and ensuring that underrepresented groups benefit from green investments. Additionally, integrating a just transition lens can identify risks and opportunities often overlooked in traditional analysis of ESG considerations. For instance, renewable energy projects that neglect community engagement can face social backlash, while inclusive strategies can create long-term value.

Mary Robinson, former UN High Commissioner for Human Rights, highlights this balance, stating: "Climate justice is about putting people at the heart of climate action." This principle underpins the just transition philosophy, encouraging investors to align financial returns with equitable and sustainable societal outcomes.

By fostering collaboration among stakeholders, just transition strategies ensure that no one is left behind in the journey to a sustainable future.

Kyoto Protocol

The **Kyoto Protocol**, adopted in 1997 and entering into force in 2005, was a landmark international treaty aimed at combating climate change by reducing greenhouse gas emissions. It marked the first legally binding agreement under the United Nations Framework Convention on Climate Change, requiring industrialised nations and economies in transition to meet specific emission reduction targets.

The treaty recognised that developed countries were historically responsible for the majority of emissions due to decades of industrialisation. As a result, it introduced the principle of "common but differentiated responsibilities," obligating wealthier nations to take the lead in cutting emissions while supporting developing countries in sustainable development.

To meet these goals, the Kyoto Protocol established mechanisms such as carbon trading, joint implementation, and the Clean Development Mechanism. These allowed countries to invest in emission-reduction projects domestically or abroad, creating economic incentives for greener technologies.

Despite its significance, the Kyoto Protocol faced challenges. Major emitters such as the US never ratified it, and others, including Canada, later withdrew. Its limited scope and the absence of binding commitments for developing nations led to criticisms, ultimately paving the way for the Paris Agreement [see p22] in 2015.

As former UN secretary-general Kofi Annan noted: "The Kyoto Protocol is an essential first step toward a truly global solution to climate change." Though imperfect, it set a precedent for international cooperation and highlighted the urgency of addressing the climate crisis, shaping subsequent efforts to achieve a sustainable future.

Life Cycle Assessment

Life Cycle Assessment (LCA) is a critical tool in sustainability-related investing, offering a comprehensive approach to evaluating the environmental impacts of a product, process, or company across its entire lifecycle. By analysing stages such as raw material extraction, production, transportation, use and end-of-life disposal, LCA provides investors with insights into the sustainability and efficiency of operations.

LCA helps identify hidden risks and opportunities by quantifying a company's environmental footprint, such as greenhouse gas emissions, energy consumption, water use, and waste generation. For example, a business may market itself as sustainable due to energy-efficient manufacturing but might have significant environmental impacts in its supply chain. LCA reveals these blind spots, enabling investors to make informed decisions.

This tool also aids in driving innovation, as companies that perform well in LCA studies often focus on sustainable practices such as circular economy [see p9] models or renewable energy integration. It aligns with the growing investor demand for transparency and accountability, encouraging companies to adopt more sustainable practices to attract thematically focused capital. By integrating LCA into investment strategies, interested investors can potentially better evaluate long-term risks, support sustainable business models, and contribute to global efforts to combat climate change and resource depletion.

Morgan Stanley Capital International metrics

Morgan Stanley Capital International (MSCI) metrics are widely recognised benchmarks in the realm of ESG investing. MSCI provides data-driven tools, indices and ratings that help investors assess companies' ESG performance and integrate sustainability into their portfolios.

MSCI ESG Ratings evaluate companies based on their exposure to ESG risks and their ability to manage these risks relative to peers. Companies are rated on a scale from "AAA" (leader) to "CCC" (laggard), using a rules-based methodology that considers industry-specific factors. Metrics analysed include carbon emissions, labour management practices, board diversity, and exposure to controversial activities such as fossil fuel production.

One key feature of MSCI metrics is their focus on materiality, ensuring that ESG factors relevant to a company's long-term financial performance are emphasised. For instance, environmental risks might be more material for an energy company, while data privacy could be critical for a technology firm. This nuanced approach allows investors to make informed decisions while aligning with both financial and sustainability goals.

As MSCI states: "Better ESG characteristics are associated with better performance in mitigating risks and capturing opportunities." This underscores the growing consensus that ESG factors are financially material and essential for resilience in a rapidly changing world.

By leveraging MSCI metrics, investors gain actionable insights into ESG risks and opportunities, enabling them to build portfolios that deliver competitive returns while contributing to a more sustainable and equitable future.

Negative screening

Negative screening is one of the earliest and most widely used approaches in ethical investing. It involves excluding companies, industries, or sectors from an investment portfolio based on specific ethical or sustainability criteria. Investors employing this strategy aim to avoid exposure to activities they deem harmful or inconsistent with their values, such as tobacco, fossil fuels, weapons manufacturing, gambling, or violations of human rights.

This approach appeals to those seeking to align their investments with personal or institutional values. It also helps mitigate financial risks by avoiding companies or sectors that may face regulatory challenges, reputational damage, or obsolescence due to unsustainable practices. For instance, divesting [see p10] from coal mining companies can shield portfolios from risks associated with the global energy transition.

While some critics argue that negative screening may limit diversification or financial returns, it also signals to companies that unsustainable or unethical practices are increasingly unacceptable. Over time, this can drive companies to improve their overall ESG performance to maintain investor interest.

Christiana Figueres, former executive secretary of the UN Framework Convention on Climate Change, says: "Investors have a powerful role to play in signalling that certain activities, such as profiting from environmental destruction or human rights abuses, are no longer acceptable."

OECD

The **Organisation for Economic Co-operation and Development (OECD)** has emerged as a significant entity in shaping standards and practices. While the OECD itself does not provide ESG ratings, its guidelines and frameworks heavily influence ESG rating methodologies used by other organisations. For example, the OECD Guidelines for Multinational Enterprises offer principles on responsible business conduct, covering areas such as human rights, labour standards, environmental sustainability, and anti-corruption.

ESG ratings inspired by OECD frameworks evaluate companies on how well they manage risks and opportunities related to these principles. Such ratings assess various factors, including a company's carbon footprint, supply chain practices, and governance structures. By providing a structured approach to evaluating corporate sustainability, OECD-aligned ESG ratings help investors make informed decisions that align with global sustainability and ethical norms.

Critics of ESG ratings often highlight inconsistencies in methodologies across providers. However, the OECD's globally recognised frameworks lend credibility and uniformity to ESG evaluation, making them valuable for investors seeking transparency and accountability.

As Angel Gurría, former OECD secretary-general, stated: "We need to build a sustainable recovery that includes everyone, aligns with climate goals, and creates long-term resilience in our economies and societies."

"We live in a highly interconnected world. Addressing the global challenges of inequality, climate change, and sustainability requires a global approach. We need more cooperation between governments, the private sector, and civil society to advance ESG objectives."

"It is critical to have robust, comparable data to measure ESG performance. Without clear standards and metrics, it will be difficult for businesses and investors to make informed decisions."

Paris Agreement

The **Paris Agreement**, also known as the Paris Accords or Paris Climate Accords, is a legally binding international treaty on climate change. The agreement aims to limit global warming to well below 2°C above pre-industrial levels, and to pursue efforts to limit it to 1.5°C.

The agreement includes commitments from countries to reduce emissions; work together to adapt to climate change impacts; strengthen commitments over time; and provide financing to developing countries. Each country sets its own emission-reduction targets, known as nationally determined contributions, which are reviewed every five years. The agreement entered into force on November 4, 2016.

Implementation of the Paris Agreement requires economic and social transformation, based on the best available science. It calls for climate finance for mitigation, because large-scale investments are required to significantly reduce emissions. Climate finance is equally important for adaptation, as significant financial resources are needed to adapt to the adverse effects and reduce the impacts of a changing climate.

As of February 2023, 194 states and the EU, representing over 98% of global greenhouse gas emissions, have ratified or acceded to the agreement, including China and the US (although the latter has recently indicated it will withdraw), the countries with the first and second largest CO2 emissions among United Nations Framework Convention on Climate Change members.

Lauded by many world leaders as being a landmark moment in global cooperation to tackle climate change, many activists criticise the agreement for not going far enough.

Greta Thunberg said: "The Paris Agreement was a step in the right direction, but it is not enough. We need much stronger, more urgent action. The science is clear: we are still not doing enough to avoid the worst consequences of the climate crisis."

Quantifiable

The availability of non-financial sustainability-related data is transforming the investment landscape by enabling the integration of measurable sustainability metrics into financial decision-making. These include carbon emissions, diversity statistics, and board independence ratios, which allow investors to evaluate the tangible impact of their portfolios. This shift addresses concerns about greenwashing, providing a clearer connection between investments and sustainability outcomes.

The rise of **quantifiable** non-financial factors has been fuelled by advancements in data analytics and regulatory frameworks that demand transparency. For instance, tools such as environmental impact scores and social responsibility indices enable investors to assess companies with precision. According to the Global Sustainable Investment Alliance (GSIA), assets under management in sustainable investments reached $35.3tn in 2020, with increasing emphasis on measurable criteria.

Critics argue that the complexity of data collection and varying global standards pose challenges to quantify non-financial sustainability related factors. Nonetheless, the approach has the potential to redefine investment strategies by balancing profitability with measurable environmental and/or societal impact. By prioritising data-backed insights, the availability of quantifiable ESG factors ensures that sustainability data becomes a core pillar of financial decision-making rather than a secondary consideration.

Samantha Steele of Russell Investments says: "There is still quite a lot of greenwashing in the market and managers that look backwards, saying what they have done but without saying what they originally intended to do. We want to know what their targets were and whether they are hitting those KPIs."

Responsible investing

Responsible investing has grown in popularity as a catch-all term over recent years that incorporates ESG factors to consider investment that combines financial and non-financial value creation. It also includes the practice of active ownership or stewardship.

The term and investment management practice explicitly acknowledges the relevance to the investor of the consideration of material environmental, social and governance factors, and of the long-term health and stability of the market as a whole. It recognises that the generation of long-term sustainable returns is dependent on stable, well-functioning and well-governed social, environmental and economic systems.

Katrina Brown, head of responsible investment at Evelyn Partners, says: "Responsible investing is our default investment approach where we factor in the consideration of material non-financial risks and opportunities (ESG) into our investment process, together with an active stewardship programme."

In practice, responsible investing requires diligence, transparency, and a commitment to aligning financial objectives with values. It challenges investors to rethink traditional measures of success and recognise that the true cost of doing business extends beyond quarterly profits.

"There have been many false starts when it comes to responsible investing, but you can see true momentum now," says director in the charities team at Barclays Private Bank, Ian Chesham. "It will take time to make change happen but you can see how all companies are thinking about it within their own industry, and how they can have a positive effect. It is no longer about just transitioning to more environmentally friendly practices but how to do it the right way – a just transition [see p16]."

Stewardship code

A **stewardship code** is a set of guidelines that requires institutional investors to act in the best interests of their clients. First released in 2010 by the Financial Reporting Council (FRC), the UK Stewardship Code was updated in 2020. It's a voluntary code for asset managers, asset owners, and service providers.

The code typically includes the following requirements:

- Transparency: Investors should be transparent about their investment processes.
- Engagement: Investors should engage with the companies they invest in.
- Voting: Investors should vote at shareholders' meetings.
- Conflict management: Investors should have a clear policy on how they manage conflicts of interest.
- Monitoring: Investors should monitor the companies they invest in to ensure their sustainable growth.
- Reporting: Investors should periodically report to their clients and beneficiaries on how they are fulfilling their stewardship responsibilities.

To become a signatory to the code, organisations must submit to the FRC an annual stewardship report demonstrating how they have applied the code's principles in the previous 12 months. The FRC will assess the report and if it meets its reporting expectations, the organisation will be listed as a signatory to the code. Once listed, organisations must annually report to remain signatories.

When it comes to responsible investment commitments, the code requires signatories to "systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities".

Triple bottom line

The concept of the **triple bottom line (TBL)** expands the traditional definition of business success by incorporating three key dimensions: people, planet and profit. Coined by John Elkington in the 1990s, TBL challenges businesses to measure their performance not just by financial gains but by their social and environmental impact as well.

The "people" dimension focuses on social responsibility, ensuring that businesses positively contribute to the well-being of employees, customers and communities. This could involve fair labour practices, equitable wages, and community development initiatives.

The "planet" dimension emphasises environmental stewardship, urging businesses to minimise their ecological footprint through sustainable practices such as reducing emissions, conserving resources, and supporting biodiversity.

Finally, the "profit" dimension, while essential, is viewed through a lens of sustainability, encouraging long-term value creation rather than short-term gains.

As sustainability expert Elkington himself stated: "If sustainability is to mean anything, it must be grounded in an economic model. But that model must also take account of the planet and its people." This holistic approach acknowledges that businesses operate within a larger social and ecological system, and their success depends on the health of these systems.

Implementing TBL not only enhances a company's reputation but also drives innovation and resilience in an increasingly complex global economy. By balancing the needs of people, planet, and profit, the TBL offers a sustainable framework for businesses to thrive while contributing to a more equitable and sustainable world.

UNSDGs

The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future.

At its heart are 17 **United Nations Sustainable Development Goals (UNSDGs)**, which are an urgent call for action by all countries - developed and developing - in a global partnership. They recognise that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.

The 17 goals are:

1. No poverty.
2. Zero hunger.
3. Good health and well-being.
4. Quality education.
5. Gender equality.
6. Clean water and sanitation.
7. Affordable and clean energy.
8. Decent work and economic growth.
9. Industry, innovation and infrastructure.
10. Reduced inequalities.
11. Sustainable cities and economies.
12. Responsible consumption and production.
13. Climate action.
14. Life below water.
15. Life on land.
16. Peace, justice and strong institutions.
17. Partnership for the goals.

Value chain emissions

Value chain emissions, also known as Scope 3 emissions, encompass the greenhouse gas emissions generated throughout a company's entire value chain. This includes not only direct emissions (Scope 1) and indirect emissions from purchased energy (Scope 2) but also emissions from activities such as sourcing raw materials, transportation, product use, and disposal. For many companies, these upstream and downstream emissions constitute the majority of their carbon footprint, making them a critical focus in the fight against climate change.

Managing value chain emissions requires businesses to collaborate closely with suppliers, customers, and other stakeholders to identify and mitigate carbon-intensive activities. This can involve adopting cleaner production processes, sourcing sustainable materials, improving energy efficiency, and promoting circular economy [see p9] practices. Transparency and accurate data collection are essential for assessing these emissions and setting meaningful reduction targets.

Addressing value chain emissions not only helps combat climate change but also provides businesses with long-term benefits. Companies that take the lead in reducing emissions often experience enhanced reputations, operational efficiencies, and resilience to regulatory and market changes.

In an era of increasing stakeholder expectations and global climate commitments, tackling value chain emissions is no longer optional; it is a vital step toward achieving net-zero [see p34] goals and fostering a sustainable economy.

World Federation Exchanges

The **World Federation of Exchanges (WFE)**, a global industry association for stock exchanges, plays a critical role in promoting sustainability through its non-financial guidance and metrics. Recognising the growing demand from investors, regulators, and other stakeholders for greater transparency on ESG performance, the WFE developed a set of standardised metrics to encourage consistent and meaningful disclosures by listed companies.

The WFE ESG guidance, first issued in 2015 and updated since, provides exchanges with a framework to support listed companies in disclosing ESG data. The framework covers key areas such as climate change, resource efficiency, labour standards, diversity, and corporate governance. By standardising ESG disclosures, the WFE aims to enhance comparability and reliability, enabling investors to make informed decisions while encouraging companies to adopt sustainable practices.

Nandini Sukumar, CEO of the WFE, states: "The role of exchanges in fostering sustainability is vital. Transparent disclosures are not just about reporting; they drive corporate behaviour and investment decisions, creating a virtuous cycle for sustainable development."

The guidance also aligns with global initiatives, such as the UN Sustainable Development Goals [see p27] and the Task Force on Climate-related Financial Disclosures. By integrating ESG considerations into capital markets, the WFE is fostering a culture of accountability and resilience, ensuring that financial systems contribute to long-term sustainability.

Generation X

Generation X (often shortened to gen X) is the demographic cohort following the baby boomers and preceding millennials. Researchers and popular media often use the mid-1960s as its starting birth years and the late 1970s as its ending birth years, with the generation being generally defined as people born from 1965 to 1980.

Although ESG as a term wasn't coined until 2005, gen X investment strategies are clearly guided by environmental, social and governance principles. A recent study by Stanford University and the Hoover Institution surveyed investors' holdings, asking investors whether they hold socially responsible funds in their portfolios now. The survey found that only 19% of boomers did, compared with 62% of generation X.

This highlights a very differing philosophy when it comes to how the two generations approach investment strategies. Older investors developed strategies firmly founded in the principles of risk and return, where profit was king, and the driving ideology was to get maximum return for the investment. The idea of divesting a stock or excluding an industry for anything other than financial reasons was not very popular.

Gen X investors, who are expected to increase and make up much of the market in the future, are more likely to view investment though a socially and environmentally focused lens. It is no longer a fringe or niche form of investing for generation X.

Youth Climate Movement

The **Youth Climate Movement** has emerged as a powerful force in the global fight against climate change, driven by a sense of urgency and intergenerational equity. Young activists around the world have mobilised millions, demanding immediate and transformative action to address the climate crisis. Through protests, advocacy, and education, they have reframed the conversation on climate policy, pushing governments, businesses and institutions to prioritise sustainability.

One of the most prominent figures in this movement is Greta Thunberg, the founder of the Fridays for Future campaign, which began as a solitary school strike in 2018 and has since grown into a global phenomenon. Her message is simple yet profound: "I have learned you are never too small to make a difference." This belief has inspired young people from all walks of life to recognise their collective power in shaping the future.

The movement's strength lies in its ability to blend grassroots activism with digital connectivity, amplifying voices and building global solidarity. From organising climate strikes in major cities to influencing international summits such as COP conferences, youth activists have held leaders accountable for failing to act swiftly.

Moreover, the movement is intersectional, acknowledging that climate change disproportionately impacts marginalised communities. Young leaders are advocating for policies that not only reduce emissions but also promote environmental justice and equity.

The Youth Climate Movement underscores the urgency of addressing climate change while offering a vision of hope and resilience. Their activism is a testament to the transformative potential of young people in building a sustainable future.

Zero emissions targets

Zero emissions targets, often referred to as net-zero, are commitments by organisations, governments and nations to eliminate or offset their greenhouse gas emissions. These targets represent a critical strategy for limiting global warming to 1.5°C above pre-industrial levels, as outlined in the Paris Agreement [see p22].

Achieving zero emissions typically involves two core approaches: reducing emissions through decarbonisation, and balancing residual emissions with carbon removal technologies, such as reforestation or carbon capture and storage. Key sectors such as energy, transportation, industry and agriculture are focusing on transitioning to renewable energy, improving efficiency, and adopting innovative technologies to reach these goals.

The adoption of zero emission targets has also created new benchmarks for accountability. Organisations are increasingly required to disclose their progress, adhere to scientific guidelines, and address emissions across their entire value chains, including Scope 1, 2, and 3 emissions [see p29].

Alison El-Araby, portfolio manager at Newton Investment Management, says: "Achieving net zero is the responsibility of everyone. Governments, society and companies all have to follow through on their commitments to stop increasing global greenhouse gas concentrations in the atmosphere. No individual actor can achieve net zero alone, but aligning portfolios to net zero is a critical step to reducing the physical risks from climate change to our portfolios, and our world."