RESPONSIBLE INVESTMENT GLOSSARY

A

Active Ownership - voting company shares and/or engaging corporate managers and boards of directors in dialogue on environmental, social, and corporate governance (ESG) issues, as well as on business strategy issues. Investors increasingly pursue active ownership efforts to reduce risk and enhance long-term shareowner value.

Actuarial Assumption - factors actuaries use in estimating pension costs, such as the rate of interest on plan investments and the rate at which plan members are expected to leave the plan because of death or job termination.

Alternative Investment - an investment that is not one of the three traditional asset types (stocks, bonds and cash). Most alternative investment assets are held by pension funds and other institutional investors or accredited, high-net-worth individuals because of their complex nature, limited regulations and relative lack of liquidity.

Asset Allocation - a well-diversified portfolio is made up of a spectrum of asset classes as a means of spreading risk across classes. A fund's asset allocation policy is the targeted percentage of funds to be invested in an asset class as a percentage of total assets, assessed by the actual investment mix.

Asset Churning - excessive trading by a broker in a client's account largely to generate commissions. While there is no quantitative measure for churning, frequent buying and selling of securities that does little to meet the client's investment objectives may be construed as evidence of churning.

Asset Targeting - refers to the active targeting of investments, utilizing responsible investment principles and ETI methodologies.

B

Benchmark - A standard against which the performance of a security, index or investment can be measured.

Best-in-Class - focusing investments in companies that have historically performed better than their peers within a particular industry or sector based on analysis of environmental, social, and corporate governance (ESG) issues. Typically involves positive or negative screening, or portfolio tilting.

Buyout Funds - specialize in acquiring a large or controlling stake in more companies, both mature and underperforming ones.

C

Capital Gap - A capital gap results from inefficiencies in the financial markets linked to information asymmetries which occur when one party to the exchange, either the buyer or the seller, has more information about the investment. Smaller enterprises that seek capital are unable to secure affordable financing because sellers or owners know far more about the investment than the buyers (i.e., external investors). Due to this imbalance of knowledge, buyers are cautious and will either withdraw from the exchange or demand a higher risk premium for the investment to offset uncertainty.

Capital Steward - pension fund trustee; a fiduciary; a person entrusted to hold and invest other people's money, keeping their interest and principles in mind.

Carried Interest - a share in the profits of a private equity fund. Typically, a fund must return the capital given to it by limited partners plus any preferential rate of return before the general partner can share in the profits of the fund. The general partner will then receive a 20% carried interest, although some successful firms receive 25%-30%. Also known as "carry" or "promote".

Cleantech - a large and growing venture capital investment category representing a range of products, services, and processes that either directly reduce or eliminate ecological impacts or require lower resource inputs. Cleantech is an investment theme rather than an industrial sector as it may include investments in agriculture, energy, manufacturing, materials, technology, transportation, and water.

Climate Risks - risks stemming from climate change that have the potential to affect companies, industries and whole economies. There are five key areas of business risk associated with climate change: regulatory, physical, litigation, competitiveness, and reputational.

Collateral Benefits - non-fiduciary benefits that may accompany financial benefits; the rule is that if risk and return are equal, the capital steward may choose the investment that provides the collateral benefit.

Collective Bargaining Agreement - the contractual agreement between an employer and a Labor Union that governs wages, hours, and working conditions for employees and which can be enforced against both the employer and the union for failure to comply with its terms.

Commercial Mortgage-Backed Security (CMBS) - a security backed by a pool of mortgages. It is similar to a mortgage-backed security, but secured by loans with commercial property in addition to residential property.

Community Investing - directing investment capital to communities that are underserved by traditional financial services institutions. Generally provides access to credit, equity, capital, and basic banking products that these communities would otherwise lack.

Conflicts of Interest - transactions between the corporation and interested parties such as officers and directors.

Corporate Governance - procedures and processes according to which an organization (in this context, mainly a company) is directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organization—such as the board, managers, shareowners and other stakeholders—and lays down the rules and procedures for decision making.

Cost Benefit Analysis - a comparison of the estimated costs of an action which the estimated benefits it is likely to produce.

Country Risk - risk to investments that stems from the conditions in the countries in which foreigners invest, such as labor rights abuses, political instability, and weak democratic institutions.

Cross-Border Capital Stewardship - applying the principles of capital stewardship to international investing, including through the adoption of specific international policies in seeking to build relationships with capital stewards in other countries.

CSR / CR (Corporate Social Responsibility / Corporate Responsibility) - an approach to business which takes into account economic, social, environmental, and ethical impacts for a variety of reasons, including mitigating risk, decreasing costs, and improving brand image and competitiveness.

D

Defined Benefit Plan - a retirement plan which specifies the benefits or the method of determining the benefits; i.e., a specified amount per month at retirement (flat benefit), a stated percentage of compensation (fixed benefit), or a stated percentage of compensation multiplied by the years of service (unit benefit).

Defined Contribution Plan - a pension plan in which the contributions are fixed, but where the benefits are not fixed; i.e., a fixed amount is contributed for each hour of work or a fixed percentage of compensation is established; examples include money purchase plans, profit-sharing plans, and 401(k) plans.

Delegation - assigning responsibility to another; the person who delegated the responsibility still remains responsible if the task is not done.

Discretionary - the use of judgment in accomplishing a task.

Diversification - the spreading of risk by putting money into different types of investments or asset classes.

Divestment - selling or disposing of shares or other assets. Changes in corporate behavior or investment policies can lead investors to reduce or eliminate holdings in certain investments. Investors who practice active ownership often view divestment as the last resort. Divestment gained prominence during the boycott of companies doing business in South Africa, prior to the dismantling of apartheid. More recently, a campaign has focused on divestment from fossil fuel extraction companies.

Due Diligence - the investigatory process performed by investors to assess the viability of a potential investment and the accuracy of the information provided by the target company.

E

Economically-Targeted Investments (ETIs) - investments made by capital stewards that seek competitive rates of return but that also provide collateral benefits to communities and to society in general.

Emerging Market - a less developed country in which foreign investment is made, characterized by less sophisticated capital markets and regulatory regimes.

ESG (Environmental, Social, Governance) - an investment approach which incorporates environmental, social, and governance factors into the investment process. ESG terminology was developed and promulgated by the United Nations Principles for Responsible Investing (PRI).

ESG Integration - the active investment management processes that include an analysis of environmental, social, and corporate governance risks and opportunism.

ETF (Exchange Traded Fund) - a security that tracks an index, a commodity, or a basket of assets like a mutual fund, but trades like a stock on an exchange. An ETF experiences price changes throughout the day as it is bought and sold (like a stock).

Ethical Investing - investment philosophy guided by moral values, ethical codes, or religious beliefs. This practice has traditionally been associated with negative screening.

Executive Compensation - compensation paid to corporate executives including, salary, cash, bonuses, long-term compensation, stock bonuses, stock options, incentive compensation, and retirement benefits.

Externality - costs or benefits created by corporation's conduct that are paid for or enjoyed by third parties. Benefits are positive externalities. Costs are negative externalities.

Extra-Financial Factors - the factors that have the potential to have at least a long-term effect on financial performance but lie outside the usual span of variables that get integrated into investment decisions, irrespective of whether they are part of the research process. They include ESG factors but also traditional financial factors that are often ignored or under-utilized, at least in terms of the alignment of investments with the interests of beneficiaries.

F

Fiduciary - a person who, by virtue of his relationship to another, is obligated to act solely in the interest of that person and exclusively for his benefit.

Fiduciary Duties - the duties imposed upon a person who exercises some discretionary power in the interests of another person in circumstances that give rise to a relationship of trust and confidence. Fiduciary duties are the key source of limits on the discretion of investment decision makers in common law jurisdictions. The most important fiduciary duties are the duty to act prudently and the duty to act in accordance with the purpose for which investment powers are granted (also known as the duty of loyalty).

G

General Partner (GP) - a class of partner in a partnership. The general partner retains liability for the actions of the partnership. In the private equity world, the GP is the fund manager while the limited partners (LPs) are the institutional and high net worth investors in the partnership. The GP earns a management fee and a percentage of profits (see Carried Interest).

H

Hedge Fund - a private investment partnership that aggressively manages a portfolio of investments that uses advanced investment strategies such as leveraged, long, short and derivative positions in both domestic and international markets with the goal of generating high returns (either in an absolute sense or over a specified market benchmark).

High-Frequency Trading - a program trading platform that uses powerful computers to transact a large number of orders at very fast speeds. High-frequency trading uses complex algorithms to analyze multiple markets and execute orders based on market conditions. Typically, the traders with the fastest execution speeds will be more profitable than traders with slower execution speeds.

I

Impact Investing - investment strategies that provide capital to companies working to generate a financial return along with significant societal or environmental benefit.

Independent Director - a director who has never been an employee of the corporation or its subsidiaries; is not related to an employee; provides no services to the corporation and is not employed by a firm which provides services to the corporation; and has received no compensation from the corporation other than directors' fees.

Institutional Investors - pension funds, banks, insurance companies, mutual funds and other institutions that invest other people's money.

Investment Advisor - an investment advisor monitors investment managers for the named fiduciaries and provides advice with regard to investment decisions.

Investment Manager - a person who: has the power to manage, acquire, or dispose of any asset of the plan; is registered as an investment advisor onto the Investment Advisors Act of 1940; and has acknowledged in writing that he is a fiduciary with respect to the plan.

L

LBO Fund - a Leveraged Buyout Fund acquires another company using a significant amount of borrowed money (bonds or loans) to meet the cost of acquisition. Often, the assets of the company being acquired are used as collateral for the loans (in addition to the assets of the acquirer). The purpose of leveraged buyouts is to allow companies to make large acquisitions without having to commit a lot of capital, thus compounding the potential return (or loss).

Limited Partner (LP) - an investor in a limited partnership. The general partner is liable for the actions of the partnership while the limited partners are generally protected from legal actions and any losses beyond their original investment. The limited partner receives income, capital gains and tax benefits.

Liquidity - the degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid assets. Liquidity also refers to the ability to convert an asset to cash quickly.

Low Income - a term used to describe household income that does not exceed 80% of the area median income.

M

Management Fee - a fee charged to the limited partners in a fund by the general partner. Management fees in a private equity fund typically range from 0.75% to 3% of capital under management, depending on the type and size of fund.

Merger - the combination of two corporations in which one corporation survives and the other disappears.

Minority and Female Owned and/or Emerging Manager (MFOE) - investment managers owned by minorities or females or have a relatively small amount of assets under management. The definition of "minority" manager can vary but commonly includes those firms majority owned by African American, Native American, Asian American, and Hispanic groups. In some cases, disabled or veteran owners also meet the definition for inclusion under an investor's policy in this area. The definition of "emerging" also varies but generally connotes a manager with between zero and several hundred million dollars in assets under management or that has a performance record of less than three years. A firm can be minority or female owned without being considered emerging, or vice versa. These managers would not ordinarily be included in a manager search and would benefit from an affirmative action program.

Moderate Income - a term used to describe household incomes that range between 80% and 120% of the area median income.

Mortgage Vehicle - a mortgage vehicle is an instrument engaged in the business of originating and/or funding mortgages for residential or commercial property. A mortgage is a loan collateralized by property.

Multiemployer Plan - a pension or health and welfare plan to which more than one employer is required to contribute, which is maintained pursuant to a collective-bargaining agreement (also called Taft-Hartley Fund).

N

Negative Screening - a strategy of avoiding investing in companies whose products and business practices are harmful to individuals, communities, or the environment. It is a common mistake to assume that SRI "screening" is simply exclusionary, or only involves negative screens. In reality, SRI screens are being used more and more frequently to identify and invest in companies that are leaders in adopting clean technologies, managing environmental impacts, and integrating exceptional social and governance practices.

P

Plan Document - documents that govern the conduct of the plan; including the trust agreement, the plan, the collective-bargaining agreement, and the investment guidelines.

Plan Sponsor - the employer or union that established the plan.

Pooled Funds - funds from many individual investors that are aggregated for the purposes of investment, as in the case here of pension funds, real estate funds, etc. Investors in pooled fund investments benefit from economies of scale, which allow for lower trading costs per dollar of investment, diversification and professional money management.

Positive Screening - including strong corporate social responsibility (CSR) performers or otherwise incorporating CSR factors into the investment analysis process. Generally, socially conscious investors seek to own profitable companies that make positive contributions to society, and avoid those that do not. "Buy" lists may include enterprises with, for example, good employer-employee relations, strong environmental practices, products that are safe and useful, and operations that respect human rights around the world. See also “Qualitative Analysis” below.

Primogeniture - the right of succession belonging to the firstborn child, especially the feudal rule by which the whole real estate of an intestate passed to the eldest son.

Private Capital - traditionally invests in existing companies seeking to expand or to add new products. Private capital is generally employed as sizable privately-placed debt and equity investments in SMEs in many industries, including manufacturing, transportation, distribution, communications and technology.

Property Development - financing for the construction of new buildings and property.

Property Re-development - financing for improvements, upgrades and expansions to existing real-estate stock.

Prospectus - the primary legal document offering securities or mutual fund shares for sale, required by the Securities Act of 1933. It must explain the offer, including the terms, issuer, investment objectives (if mutual fund) or planned use of the money (if securities), historical financial statements, and other information that could help investors decide whether the investment is appropriate for them.

Proxy Voting - entitled shareowners who do not attend shareholders' meetings delegate their proxy votes to others who vote on their behalf. Proxy voting allows shareholders to exercise their right to vote without committing the time involved in actually attending company annual meetings.

Proxy Voting Policy - the written policy which articulates how proxy voting decisions are to be made and executed. Proxy voting policies can include specific guidance on environmental, social, corporate governance and ethical voting decisions.

Prudent Man Rule - a common rule pertaining to fiduciary duty in Anglo-Saxon countries. The Employee Retirement Income Security Act of 1974 (ERISA) outlines minimum standards for private pension plans that have since been adopted by many public pension plans.

Q

Qualified Plan - a plan that meets the requirements of the Internal Revenue Code, and therefore, is entitled to preferential tax treatment.

Qualitative Analysis - analysis of company policies, practices, behaviors, and impacts which helps portfolio managers avoid undesirable companies and identify and invest in the best managed organizations in each industry group. Often used interchangeably with "positive screening."

R

Responsible Contractor Policies - a policy signed as part of the construction of a job that requires all workers on the job, during and after construction, to be employed by a "responsible," i.e. an employer that pays prevailing wages and abides by workplace laws.

Responsible Investment (RI) - the integration of environmental, social and corporate governance (ESG) considerations into investment management process and ownership practices in the belief that these factors can have an impact on financial performance. Responsible investment can be practices across all asset classes.

Responsible Investment Policy Statement - a general (usually public) statement on responsible investment adopted by boards of trustees or directors that directs investment staff practices and decisions. This can be included within a broader investment policy statement and/or developed as a standalone RI policy statement.

Responsible Property Investment - a property investment approach that includes the consideration of environmental, social and corporate governance issues. Energy and resource efficiency, both in construction and ongoing operations is a common consideration, as is social impact.

Restricted List - a list of securities that are not to be included in a portfolio by an investment manager. Typically facilitates implementation of negative screening.

Return on Investment (ROI) - the proceeds from an investment, during a specific time period, calculated as a percentage of the original investment. Also, net profit after taxes divided by average total assets.

Risk-Adjusted Return - a measure of investment return in relation to the amount of risk. Often used to compare a high-risk, potentially high-return investment with a low-risk, lower-return investment.

S

Secondary Market - a market for the sale of partnership interests in private equity funds. Sometimes limited partners chose to sell their interest in a partnership, typically to raise cash or because they cannot meet their obligation to invest more capital according to the takedown schedule. Certain investment companies specialize in buying these partnership interests at a discount.

Shareholder - a person or institution who owns a share of stock; a stockholder.

Shareholder Activism - see *Active Ownership.*

Shareholder Engagement - the practice of monitoring corporate behavior and seeking changes where appropriate through dialogue with companies or through the use of share ownership rights, such as filing shareholder resolutions. Shareholder engagement is often employed in attempts to improve a company's performance on environmental, social and corporate governance issues.

Shareholder Proposal - a shareholder request that the company or its board of directors take particular action. Proposed by the shareholder, this request may be presented a company's general shareholders' meeting and voted on by all shareholders. In some instances, shareholder proposals are withdrawn by shareholders or disallowed by regulators.

"Short-Termism" - the bias some investors demonstrate for near-or immediate-term investment performance and share price appreciate instead of long-term investment performance. This bias may put pressure on corporate managers to make decisions that boost short-term accounting measures of profitability rather than long-term economic profitability.

Single Employer Plan - a plan maintained by one employer.

Solvency Ratio - a key metric used to measure an enterprise's ability to meet its debt and other obligations. The solvency ratio indicates whether a company's cash flow (a better determinant of solvency than net income) is sufficient to meet its short-term and long-term liabilities. The lower a company's solvency ratio, the greater the probability that it will default on its debt obligations.

Special Situations Funds - a subset of buyout and turnaround funds are that target financially-distressed firms, even those in bankruptcy.

SRI Mutual Funds - SRI mutual funds integrate ESG analysis into the investment process— generally seeking to avoid owning companies with a harmful impact on society, and seeking to own the most responsible companies with the highest profit potential. Such funds may represent any asset class and many different investment strategies, including domestic and international investments. A growing range of products are available, including hedge funds and ETFs (exchange traded funds).

Stakeholders - the individuals or organizations with an interest in the actions and impacts of an organization. They may be employees, customers, suppliers, shareholders, communities, members of special interest groups, nongovernmental organizations, or regulators.

Stakeholder Statute - statute that allows a corporation to consider the interest of its stakeholders, including employees.

Sustainable Development - the concept of meeting present needs without compromising the ability of future generations to meet their needs. It encompasses social welfare, protection of the environment, efficient use of natural resources, and economic wellbeing.

T

Taxable Bonds - an obligation to which the income on an interest-bearing bond is taxable by the federal, state and/or local governments.

Tax-Exempt Bonds - an obligation to which the interest income is exempt from the taxation of either federal or state governments. Municipal bonds issued by state or local governments are an example of these.

Thematic Investment - the selected investment in companies with a commitment to chosen responsible business products and/or services, such as environmental technologies.

Total Return - return equal to income plus the change in value or market price of an asset.

Triple Bottom Line - a holistic approach to measuring a company's performance on environmental, social, and economic issues. The triple bottom line approach to management focuses companies not just on the economic value they add, but also on the environmental and social value they may add or compromise.

Trust Agreement - the document that establishes the trust and sets out the trustees' authority and power.

U

Unfunded Liabilities - future payment obligations of the plan that are not fully funded.

Universal Owner - a large investor that holds a broad selection of investments in different public companies as well as other assets and whose performance is, therefore, tied to the performance of markets or economies as a whole—not just to the performance of individual holdings. These investors have a vested interest in the long-term health of the economy, making public policy issues and cross-market ESG concerns particularly relevant.

V

Venture Capital - risk money; money invested in a risky company, usually a startup company, for a greater-than-average rate of return.

Vesting (Vested, adj.) - the process by which an employee accrues non-forfeitable rights over employer-provided stock incentives or employer contributions made to the employee's qualified retirement plan account or pension plan. Vesting gives an employee rights to employer-provided assets over time, which gives the employee an incentive to perform well and remain with the company. The vesting schedule set up by the company determines when the employee acquires full ownership of the asset. Generally, non-forfeitable rights accrue based on how long the employee has worked there.

W

Wall Street Talk - instead of selling an underperforming stock, the shareholder either meets with management to discuss ways to improve corporate performance, or files shareholder resolutions to accomplish the same results.

Wall Street Walk - a shareholder does the “Wall Street Walk” when, dissatisfied with the company’s performance, the shareholder sells the stock.

Welfare Plans - welfare plans include benefits for medical, hospitalization, accidental death insurance, unemployment, legal service, daycare, scholarships, and apprenticeships.