Standard Life
Part of Phoenix Group

Environmental, social and governance (ESG) jargon buster

Help your members cut through the jargon to discover the potential power of their pension

Sustainable, ESG, stewardship, ethical, Net Zero – do your members understand what it all means? Help them discover the potential power of their pension with our investing jargon buster.

We know that most members want to find out more about responsible investing, with the appetite even greater among those aged between 18-34. But our ongoing research also tells us that many find this information too complicated.

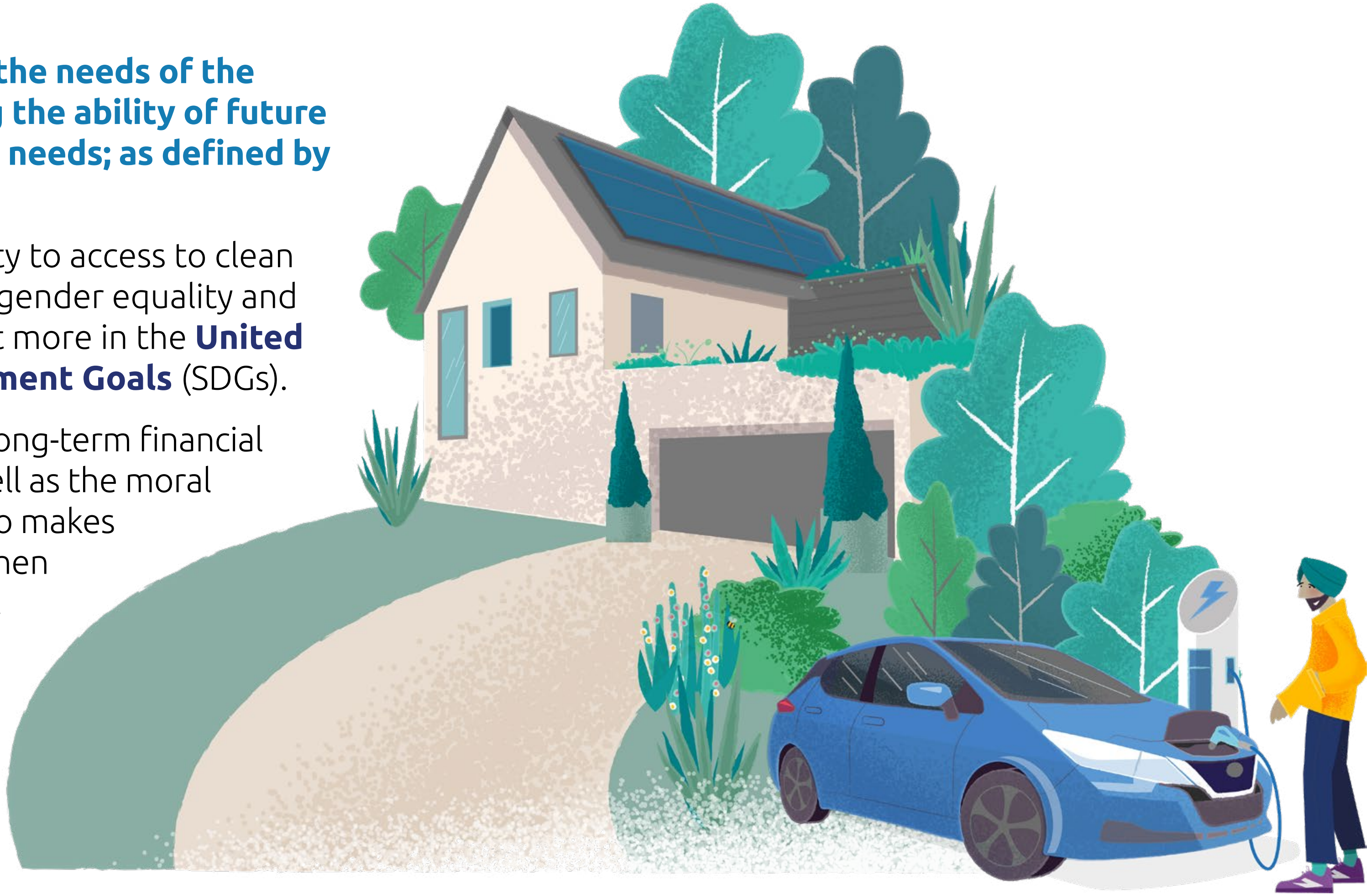
Let's help members by translating the jargon and pointing them to where to find out more. Doing so could help to engage your members in their pension investments and make better decisions about their finances.

Sustainability: all eyes on the future

Sustainability means meeting the needs of the present without compromising the ability of future generations to meet their own needs; as defined by the United Nations.

It covers everything from poverty to access to clean water and quality education, to gender equality and climate action – you can find out more in the **United Nation's Sustainable Development Goals** (SDGs).

Sustainability can present huge long-term financial risks and opportunities. So, as well as the moral reasons to support change, it also makes sense to consider these issues when it comes to pension investments.



Environmental, social and governance (ESG): the bricks and mortar

How a company manages (or doesn't manage) environmental, social and governance behaviours can affect their financial performance – and therefore the returns (value) they can deliver to investors.

Environment

An investment manager can look closely at a company's impact on land, sea, air, wildlife, plant life and the climate. They might consider things like how much energy a company uses, waste disposal, land development and carbon footprint.

Social

An investment manager can review a company's relationship with its employees, suppliers and the community where it operates. They might consider things like labour practices, human rights, employee wellbeing, health schemes for staff and supplier relationships.

Governance

An investment manager can look at the issues that might affect a company's management and processes. They might consider things like who's running the company, how the company and its finances are managed, and how it approaches salaries and strategy.

There's a lot to think about. A company's readiness to move to a low-carbon future, its waste disposal and energy use, supply chains, treatment of its employees and local communities – just some of the areas where a company can fail or flourish.

That's why investment managers dig deep into the detail to spot potential risks on the horizon and to encourage companies to improve their ESG standards; take a look at 'stewardship'.

Stewardship: the power to influence positive change

Stewardship means overseeing or taking care of something. When it comes to the money invested in a pension, it's about investment managers engaging with the companies they invest in to manage risk, deliver value, as well as driving positive change. They do this using engagement and voting.

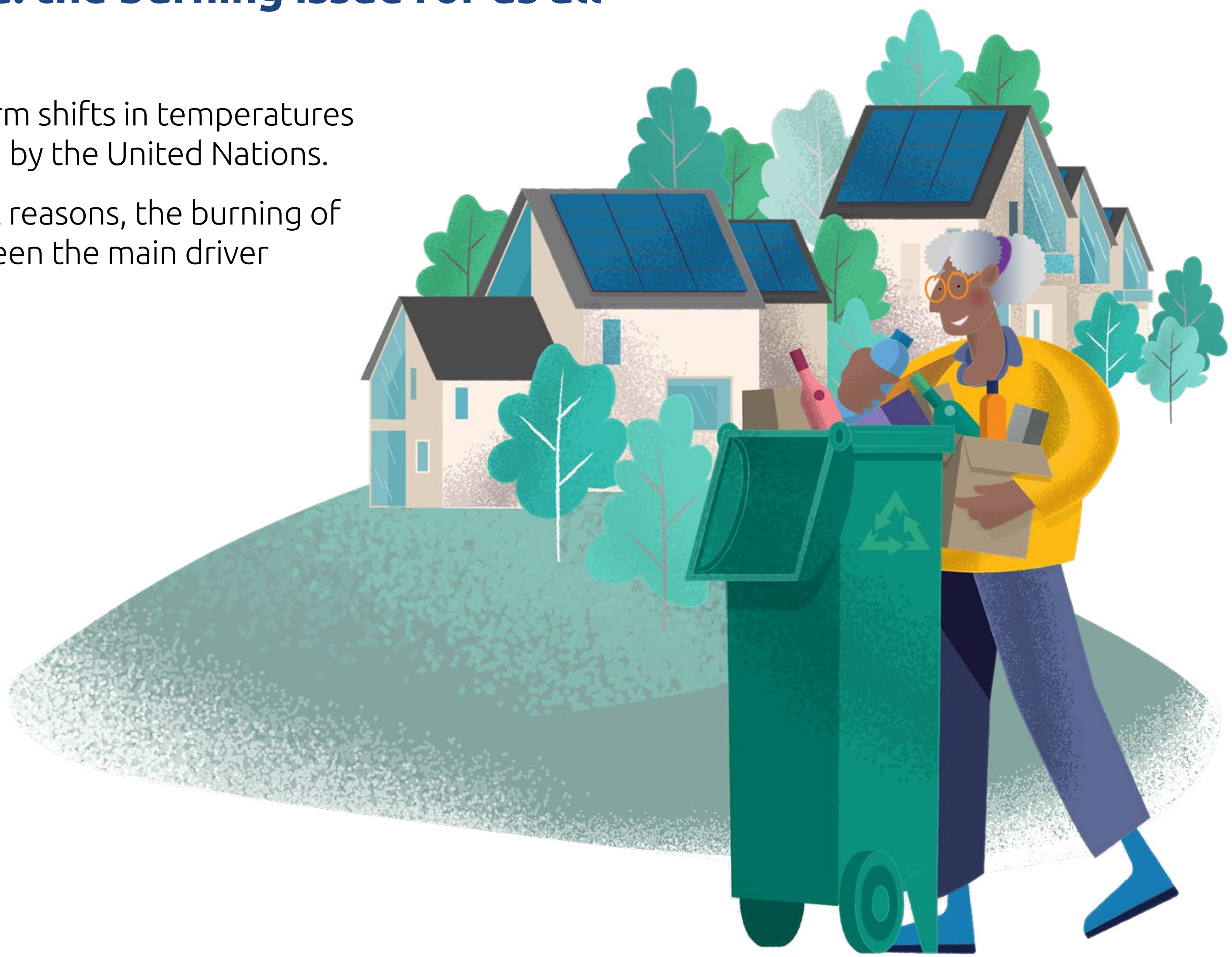
Engagement: regular, open conversations with companies to understand how they're run; how they manage their strategy, behaviours, resources and involvement with society – and to encourage companies to uphold high standards in these areas. So, for example, talking to a company about its climate plans or how it sources certain products.

Voting: when you invest in a company you receive shareholder voting rights. You can use these to vote on the running of the company – matters such as good governance, climate change, tax practices, labour standards and diversity. If you're investing through a company (like your pension provider) then it's usually up to their investment managers to do this on your behalf.

Climate change: the burning issue for us all

Climate change refers to long-term shifts in temperatures and weather patterns; as defined by the United Nations.

While this can happen for natural reasons, the burning of fossil fuels since the 1800s has been the main driver of climate change.



Carbon footprint: a measure of harmful emissions

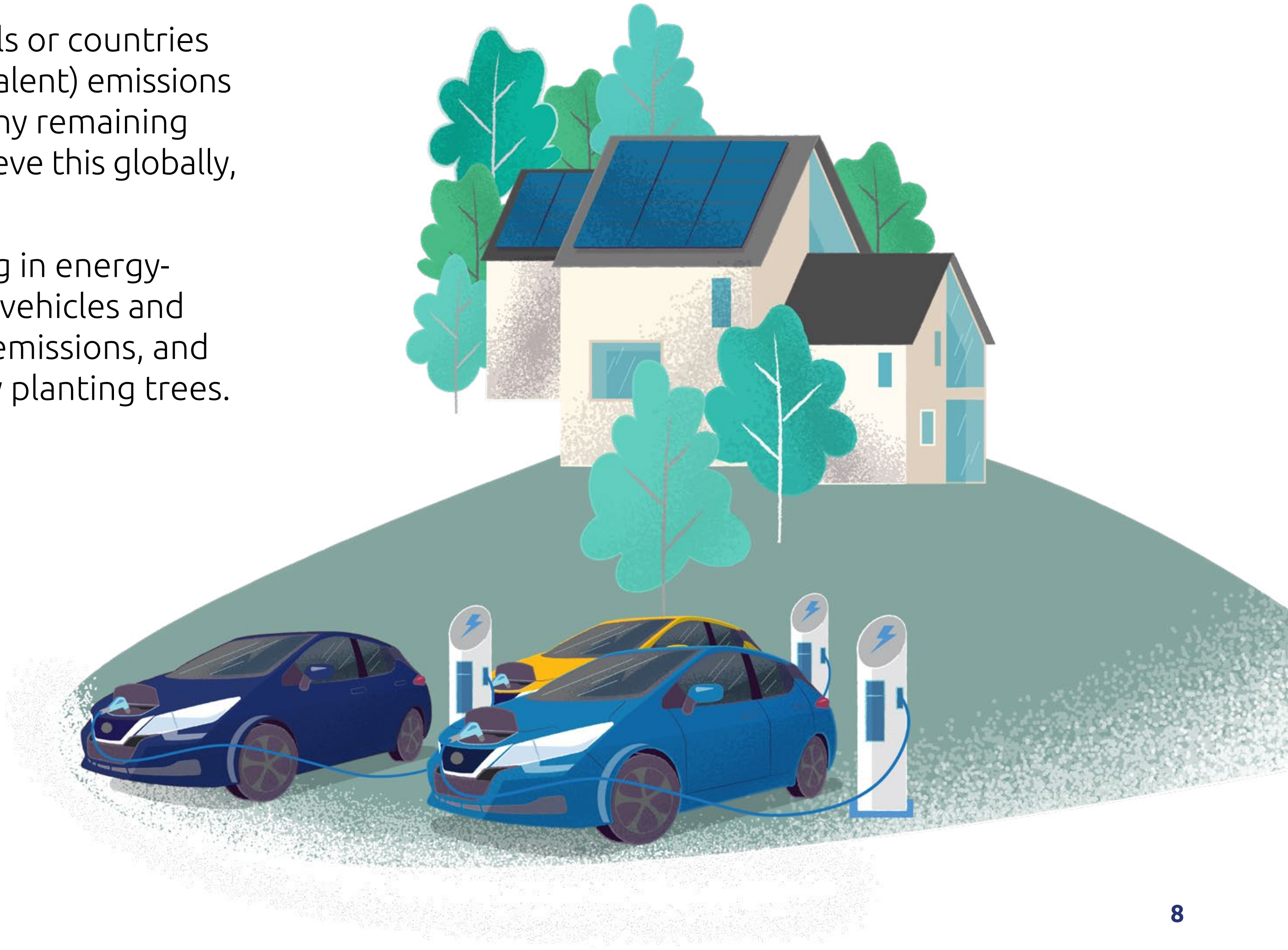
This gives a measure of the environmental impact of an organisation, event, person or product.

The extent to which their/its activities produce harmful greenhouse gas (CO2e – carbon dioxide equivalent) emissions and therefore contribute to climate change.

Net Zero: reducing and removing CO2 to stop global warming

Net Zero is about organisations, individuals or countries reducing their CO2e (carbon dioxide equivalent) emissions as much as possible and then offsetting any remaining emissions that can't be reduced. If we achieve this globally, we can reduce any further global warming.

An example would be a company investing in energy-efficient equipment, switching to electric vehicles and buying renewable energy to minimise its emissions, and then offsetting its remaining emissions by planting trees.



Offsetting: paying somebody else to compensate for your emissions

A company wanting to become Net Zero may pay somebody else to offset its remaining CO2 emissions after it has done everything it can to reduce its emissions.

Planting trees, which remove CO2 from the atmosphere, is the most common example. Offsetting is only credible if it's verified through recognised schemes.

Transition risk (stranded assets): ready or not for a low carbon future

As we move towards a low-carbon economy, companies that fail to change how they operate will be left behind, worth less or become completely 'stranded'.

This is what's known as 'transition risk'. It can happen through lack of demand for products or services or support from investors, or when companies don't adapt quickly enough to new laws or regulations, or changes in the economy and consumer behaviour.

Meanwhile innovative companies, seeking to help solve the climate crisis or find solutions to other sustainability problems, may perform better.

Ethical investing: where it all began

Ethical investing is just one type of responsible investing, really the earliest form (dating back to the 1900s).

As its name suggests, it's all about ethics. So your ethical investor is ruling out 'harmful' investments and therefore avoiding certain types of company or industry.

Today's ethical investments tend to exclude investment in companies involved in industries and practices such as animal testing, climate change impacts and human rights issues.

Ethical investing often refers to 'screening' out certain investments based on strict negative criteria.

Thematic funds: tapping into specific environmental or social goals

The goal of a thematic fund is to grow the value of the investment and try to achieve a specific environmental or social goal at the same time.

Examples include investing in renewable energy and climate solutions, social housing and education, or investing in companies with high levels of gender diversity and equality. Impact and social impact funds are types of thematic investing.

A clearer path to a sustainable future

These aren't all the terms your members will come across as they explore the world of investing and sustainability but they're important ones.

Thankfully, there's a big focus on this area of investing becoming clearer and more consistent going forward. And this should help more members discover that their pension pot is a powerhouse – helping them save for the lifestyle they need and want in retirement, while also helping to create a sustainable future to retire into.

Find out more

At Standard Life, we offer a range of different **investment options** that aim to help you deliver the right financial outcomes for your members, while also helping to create a sustainable future they can retire into. Our flagship default **Sustainable Multi Asset Universal Strategic Lifestyle Profile** aims to give members the income they need in retirement, by focusing on a range of ESG factors that can positively or negatively affect returns.

Find out more about **how we invest pensions responsibly** and the role of **stewardship** in driving improvement in ESG behaviours and practices.

As part of Phoenix Group, Standard Life is taking action to invest in the future we all want. We've set clear targets to help fight climate change, and to drive a wider, more positive impact on our sector and economy. Read the **2022 Sustainability Report** from Phoenix.

The value of investments can go down as well as up and may be worth less than what was paid in.

The information here is based on the understanding of Standard Life in July 2023 and shouldn't be regarded as financial advice. Standard Life accepts no responsibility for information on external websites. These are provided for general information.

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