Vinson & Elkins LLP – ESG Glossary

Updated February 10, 2020

"Bloomberg ESG" Bloomberg ESG provides a "1 to 100" score to companies based only on their level of ESG and sustainability disclosure. Bloomberg ESG is much more concerned about whether companies disclose information than what that information shows. Bloomberg does not indicate whether it has a mechanism for companies to verify information or provide feedback on their ESG disclosure score.

"Carbon Tracker" is a non-profit headquartered in London that researches the impact of climate change on financial markets. Carbon Tracker popularized the notion of a "carbon bubble", which describes the incompatibility between the continued development of fossil fuel projects and combating climate change.

"CDP" was formerly the Carbon Disclosure Project. CDP solicits primarily climate-related information from companies annually by sending Climate Change, Water, and Forest Questionnaires. Companies that disclose information to CDP are assigned grades and are regularly benchmarked against their peers.

"CDSB" means the Climate Disclosure Standards Board. The CDSB is a standards-setting consortium of environmental non-governmental organizations and other groups that focuses its efforts on disclosures related to "natural capital."

"CERES" is a non-profit organization that leads a national coalition of investors, environmental organizations, and other public interest groups working with companies to address sustainability challenges, such as climate change and water scarcity.

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

"CSR" means Corporate Social Responsibility. CSR is generally used to describe the intersection between a company's governance and its ethical obligations to the communities with which it interacts.

"DJSI" means the Dow Jones Sustainability Index, which was launched in 1999 and tracks the stock performance of the world's leading companies in terms of economic, environmental and social criteria. *See also "RobecoSAM CSA"*.

"Double Bottom Line" means the combination of quantitative and qualitative analysis embraced by socially conscious investors. The qualitative analysis overlay generally differentiates responsible investing from its conventional roots and competitors.

"Environmental Justice" means the fair treatment and inclusion of all people, regardless of their race, color, national origin or socio-economic status. This inclusion is comprehensive of all issues, from development, implementation and enforcement of environmental laws, regulations, and policies. Flint Michigan and Hurricane Katrina are two historic examples of environmental injustice.

"Equator Principles" or "EPs" are a risk management framework adopted by financial institutions for determining, assessing and managing environmental and social risk in project finance. The EPs are primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making.

"ESG" means Environmental, Social, and Governance. These terms refer to the three central factors typically used in evaluating the sustainability and ethical impact of a company or an investment.

"GRI" means the Global Reporting Initiative. GRI is the most widely used and most extensive voluntary reporting framework for ESG and sustainability topics. The latest version of its framework, the GRI Standards was published in 2016.

"GRI Standards" are a set of standards published by the GRI, which anticipate that companies will choose their own level of disclosure on a wide variety of ESG and sustainability topics and publish annual sustainability reports.

"Human Rights Watch" is an international non-governmental organization, headquartered in New York City, which investigates and reports on human rights abuses around the world.

"IIRC" means the International Integrated Reporting Council. The IIRC formed the Integrated Reporting Framework, which seeks for companies to calculate and publish in consolidated reports their contributions to, and impacts on, six "capitals": financial capital, manufactured capital, intellectual capital, human capital, social and relationship capital, and natural capital.

"Integrated Reporting" or "IR" is the process that results in the communication of a company's performance and strategy across a broad array of ESG factors, with equal weight given to financial and non-financial data, and with the interests of investors and other stakeholders considered equally. Integrated reporting is the goal of many that push for greater ESG disclosure—the aim is to redefine the concept of "materiality" in public reporting.

"ISS" means Institutional Shareholder Services, Inc., which launched an Environmental & Social QualityScore Disclosure and Transparency Signal scoring tool that provides a metric for institutional investors to use, together with ISS's Governance QualityScore, to more fully evaluate the ESG risk of their portfolio companies.

"ISO 26000" means the International Organization for Standardization (ISO) Standard 26000. The ISO publishes many different operational standards for companies, with ISO 26000 covering "socially responsible" processes that companies may implement and report.

"MSCI" seeks to rate companies based on ESG risks and management's response to those risks. MSCI considers 37 ESG indicators in its ratings. Data is collected from publicly available sources and monitored on an ongoing basis, but each company also receives an annual in-depth review. MSCI has a formal data verification process that companies may use to verify and comment on data.

"Negative Screening" means the 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. See "Positive Screening" below.

"OECD MNEs" are the Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises. The OECD MNEs provide "recommendations for responsible business conduct in a global context" and recommend multinational companies to take specific actions with regards to human rights, employment, the environment, corruption, consumers, science and technology, competition, and taxation.

"Portfolio Tilting" means an investment strategy that overweighs a particular investment style.

"Positive Screening" means the act of including strong CSR performers or otherwise incorporating positive 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.

"Principles for Responsible Investment" means the six principles created by the UNPRI for investors to voluntarily use to develop a more sustainable global financial system. The six principles are:

1. Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
2. Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
5. Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
6. Principle 6: We will each report on our activities and progress towards implementing the Principles.

"R-Factor" is short for "Responsibility-Factor", which is a transparent ESG scoring system developed by State Street Global Advisors. It measures the performance of a company's business operations and governance as it relates to financially material ESG issues facing the company's industry.

"RobecoSAM CSA" is the RobecoSAM Corporate Sustainability Assessment, which is an ESG and sustainability questionnaire that is sent to companies annually. RobecoSAM uses the results of the questionnaire to benchmark companies, provide a sustainability score, and to create the DJSI. RobecoSAM allows companies who pay for their services to receive individual feedback and to discuss their scores with a RobecoSAM representative.

"SASB" means the Sustainability Accounting Standards Board. The SASB finalized industry-specific voluntary reporting frameworks for "material" ESG and sustainability topics in late 2018. The SASB encourages companies to disclose "material" ESG and sustainability information on identified topics in annual financial reports.

"Science Based Targets Initiative" means the collaboration between CDP, the UNGC, World Resources Institute, and the World Wide Fund for Nature that requests companies to create and publish targets to reduce greenhouse gas emissions in line with the level of decarbonization required to keep global temperature increase below 2 degrees Celsius compared to pre-industrial temperatures.

"SRI" means Socially Responsible Investing and refers to an investment discipline that considers ESG criteria to generate long-term competitive financial returns and positive societal impact through targeted investment decision-making.

"SSSE" means the Sustainable Stock Exchanges Initiative. The SSSE is a UN Partnership Programme intended to provide a global platform for exploring how exchanges, in collaboration with investors, companies, regulators, policymakers and relevant international organizations, can enhance performance on ESG issues and encourage sustainable investment, including the financing of the UN Sustainable Development Goals.

"Stranded Assets" means those assets that lose value or turn into liabilities before the end of their expected economic life. In the context of fossil fuels, this could be used to describe those assets that will not be extracted and burned; they will remain stranded in the ground.

"Sustainability" is a term broadly used to describe a company's ability to withstand certain changes in the marketplace and environment.

"Sustainability Report" means the report produced by an organization to inform stakeholders about its policies, programs, and performance regarding ESG and other matters. Sustainability Reports, sometimes referred to as corporate citizenship reports, or CSR reports, are usually voluntary, and are sometimes independently audited and/or integrated into financial reports. There is a growing trend toward integration and assurance.

"Sustainalytics" provides companies with an ESG risk rating score out of 100 and across five risk levels (negligible, low, medium, high and severe) based on industry-specific ESG indicators. Sustainalytics identifies areas of exposure to material ESG issues, analyzes management's responses to manageable areas of exposure, provide discounts for controversies, and assign an overall ESG Risk Rating. Sustainalytics does not indicate whether it has a mechanism for companies to verify information or provide feedback on their ESG disclosure score.

"TCFD" means the Taskforce on Climate-related Financial Disclosures. The TCFD published international recommendations for companies to disclose climate-related financial and physical risks and opportunities in 2017, which call for companies to undertake climate scenario analyses and report on their findings. The TCFD recommendations have been integrated into many of the other ESG and sustainability reporting frameworks, but companies have also published standalone TCFD reports.

"Triple Bottom Line" or "TBL" or "3BL" means the accounting framework originally developed in an effort to measure sustainability. TBL goes beyond traditional measures to incorporate three additional dimensions of performance: social, environmental (or ecological), and economic.

"UNGC" means the United Nations Global Compact, a non-binding United Nations pact to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation.

"UNPRI" means the United Nations Principles for Responsible Investing, which are a set of guidelines for investors to incorporate ESG and sustainability issues in their decision-making and to seek disclosure from companies in which they invest.

"UNSDGs" means the United Nations Sustainable Development Goals, which are goals set to be achieved by nations and companies by 2030 and that provide a general backdrop for the UNGC.

"Vice Stocks" or "Sin Stocks" means stocks companies either directly or indirectly associated with activities considered to be unethical or immoral, such as tobacco, alcohol, or gambling.

"WEF ESG Guidance and Metrics" means the World Federation Exchanges ESG Guidance and Metrics, which are published for member exchanges to consider to "introduce, improve or require ESG reporting in their markets."