Environmental, Social and Governance (ESG) lexicon

Overview

ESG (Environmental, Social, Governance): The three areas in which we work to create thoughtful, innovative, and sustainable solutions.

E – Environmental Factors: Our commitment to a sustainable planet and making decisions that contribute to a sustainable economy (climate change, renewable energy, waste management, biodiversity)

S – Social Factors: Our commitment to serving as a force for social good by advancing Diversity, Equity and Inclusion, supporting our most vulnerable neighbors and considering the societal impacts of our business decisions.

G – Governance Factors: Our commitment to acting responsibly by doing business with integrity and fostering a strong and ethical culture.

ESG Fund: An investment vehicle in which a company may invest that applies ESG considerations in its selection of the fund investments (also referred to as ethical, sustainable, green, or responsible funds).

ESG Integration: The incorporation of ESG considerations into our core business and investment decisions.

ESG Rating: Third-party measurements designed to evaluate material ESG issues of companies.

Sustainable Development: "Meeting the needs of the present without compromising the ability of future generations to meet their own needs."[i]

Corporate Sustainability: A business approach that creates long-term stakeholder value by embracing the opportunities and managing the risks from evolving environmental, social, and governance topics.

"E" terms

Biofuel: Fuel produced from organic materials. It is used as an alternative to fossil fuel.

Carbon Footprint: A measure of the amount of greenhouse gas emissions, expressed in terms of carbon dioxide (CO2), produced by a certain activity or entity.

Carbon Offset: An action that intends to reduce or remove CO2 emissions in one part of the economy to compensate for emissions made elsewhere.

Carbon Neutral: The state of achieving zero emissions by removing an equivalent amount of emissions from the atmosphere as that which you produce, also known as offsetting.

Carbon Pricing: The assignment of a particular monetary value per ton of CO2 emitted.

Carbon Sequestration: The process of capturing and storing CO2 from the atmosphere in order to slow the accumulation of greenhouse gases in the atmosphere.

Circular Economy: An approach to economic development and product design that focuses on eliminating waste and pollution, circulating products and materials, and regenerating nature (ex. recycling).

Decarbonization: Reducing the amount of greenhouse gases emitted from burning fossil fuels.

Energy Transition: Transitioning from fossil-fuel based energy sources to non-fossil-fuel based energy sources (especially renewable energy), which produce fewer greenhouse gas emissions.

Environmental Justice: "The fair treatment and meaningful involvement of all people regardless of race, color, national origin, or income, with respect to the development, implementation, and enforcement of environmental laws, regulations, and policies."[ii]

Greenhouse Gas (GHG) Emissions: Gases that serve to regulate the climate via the greenhouse effect. Too many GHGs, including carbon dioxide and methane, disrupt the equilibrium of the climate, resulting in climate change.

Low Carbon Economy: An economy based on energy and fuel sources that produce low greenhouse gas emissions.

Net-Zero: The state of emitting no greenhouse gas emissions, either by reducing total emissions or removing emissions from the atmosphere to offset emissions released.

Physical Risks: The outcomes of an increase in extreme weather events that cause damage to physical and natural assets, impacting society and the economy.

Renewable Energy: Energy from sources that are not depleted (solar, wind, hydro).

Renewable Energy Credits (RECs): Tradable energy certificates that represent one MWh of electricity being generated from renewable resources and fed onto the power grid.

Resilience: The ability to withstand and recover from disruptions, specifically those caused by climate change.

Scenario Analysis and Planning: A method for developing strategic plans to understand and quantify the risks and uncertainties under different hypothetical futures. It is a tool used to inform strategic thinking.

Science-Based Targets: A carbon reduction target aligned with science to meet the goals of the Paris Climate Accord to limit global warming to well below 2 degrees Celsius.

Scope I Emissions: Emissions a company directly emits into the air, typically through the combustion of fuels (natural gas, transport fuels, diesel backup generation) or the release of process emissions (chemical reactions, refrigerants).

Scope II Emissions: Emissions a company indirectly emits through their purchased electricity, steam, heat, or cooling.

Scope III Emissions: A company's indirect emissions other than those covered in scope 1 & 2. Examples include upstream and downstream emissions, emissions generated by underwriting and investments, emissions resulting from the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the company, waste disposal, etc.

Transition Risks: "Risks from the realignment of our economic system towards low-carbon or carbon-positive solutions. Includes policy and legal, technology, market, and reputation risks."[iii]

"S" terms

Corporate Social Responsibility (CSR): A type of self-regulation model for businesses that helps them be socially responsible beyond the level required by law.

Social Justice: "Human welfare through equal rights and share of benefits, fair treatment, recognition of cultural differences, and equitable access to resources and opportunities."[iv]

Social Risks: Risks related to how a company's actions affect the surrounding community.

Socially Responsible Investing (SRI): An approach to investing that involves the exclusion of investments that do not meet certain ethical standards.

For a more detailed list of "S" terms, please visit the DEI lexicon here.

"G" terms

Data Management: The processes of collecting, using, retaining, and protecting data across an organization. Data management encompasses measures such as cyber security and data privacy.

Materiality: A concept that defines why and how certain ESG and financial issues or information are important for a company.

Materiality Assessment: An assessment across a stakeholder group on material ESG and economic topics most important to them.

Responsible Investing: Investing that focuses on incorporating ESG factors in investment decisions.

Stakeholder: Any person, organization, or community that is impacted by the actions of a company.

Stewardship: Engagement between a company's shareholders and board to ensure that the long-term interests of shareholders are being upheld by management practices.

Supply Chain: The system of organizations or operations that work together in the creation, distribution, and consumption of a product.

Values-Based Investing: Investing that prioritizes a company's values, rather than focusing solely on financial return.

Organizations/Forums

BREEAM*: The world's leading sustainability assessment method for master planning projects, infrastructure, and buildings. It recognizes and reflects the value in higher performing assets across the built environment lifecycle, from new construction to in-use and refurbishment. For more information, visit here.

Carbon Disclosure Project (CDP): A not-for-profit charity that runs a global rating system for investors, companies, cities, states, and regions to manage their environmental impacts. For more information, visit here.

Ceres*: An organization that advances leadership among investors, companies and capital market influencers to drive solutions and take action on the world's most pressing sustainability issues. For more information, visit here.

ClimateWise*: A global network of leading insurance industry organizations, helping to align its members' expertise to directly support society as it responds to the risks and opportunities of climate change. For more information, visit here.

Conference of the Parties (COP): A decision-making body of the UN Framework Convention on Climate Change that meets annually to review the national communications and emission inventories submitted by parties. Based on this information, the COP assesses the effects of the measures taken by parties and the progress made towards stabilizing GHG emissions. For more information, visit here.

Corporate Eco Forum (CEF)*: A membership organization comprised of large, global companies that demonstrate a serious commitment at the senior executive level to environment as a business strategy issue. For more information, visit here.

FCLTGlobal*: A non-profit organization that aims to focus capital on the long-term by developing actionable research and tools to drive long-term value creation for savers and communities. For more information, visit here.

Force for Good*: An initiative that aims to mobilize the deployment of capital as a force for good in the world. The initiative engages the world's leading financial institutions and other stakeholders with a view to impacting sustainable development through the deployment of capital and solutions that address the world's greatest issues and build a better future. For more information, visit here.

Global Reporting Initiative (GRI)*: Standards designed to deliver the highest level of transparency for organizational impacts on the economy, the environment, and people. For more information, visit here.

Greenhouse Gas Protocol (GHGP): An organization that provides standards, guidance, tools, and training for business and government to measure and manage climate-warming emissions. For more information, visit here.

Institute of International Finance*: A global association to support the financial industry in the prudent management of risks; to develop sound industry practices; and to advocate for regulatory, financial and economic policies that are in the broad interests of its members and foster global financial stability and sustainable economic growth. For more information, visit here.

International Panel on Climate Change (IPCC): The UN body for assessing the science related to climate change. For more information, visit here.

Leadership in Energy and Environmental Design (LEED)*: LEED certification, developed by the US Green Building Council, provides a framework for green building design, construction, operations, and performance. For more information, visit here.

Occupation Safety and Health Administration (OSHA): An organization that ensure the safe and healthful working conditions for workers by setting and enforcing standards and by providing training and education. For more information, visit here.

Paris Agreement: A legally binding international treaty on climate change, adopted by 196 parties in 2015. For more information, visit here.

Partnership for Carbon Accounting Financials (PCAF)*: An industry-led partnership to facilitate transparency and accountability of the financial industry to the Paris Agreement by enabling financial institutions to assess and disclose greenhouse gas emissions of loans and investments. For more information, visit here.

Principles for Responsible Investment (PRI)*: A UN-supported network of investors working to promote sustainable investment through the incorporation of environment, social, and governance factors into investment decision-making. For more information, visit here.

Principles for Sustainable Insurance (PSI): A global framework and initiative of the UN Environment Programme and Finance Initiative that is designed specifically for the insurance industry that puts sustainability at the heart of risk management. For more information, visit here.

Sustainability Accounting Standards Boards (SASB)*: Standards that guide the disclosure of financially material sustainability information by companies to their investors. For more information, visit here.

Sustainable Development Goals (SDG): A list of 17 goals adopted by all UN member states that serve as an urgent call to action and provide a blueprint for peace and prosperity, now and in the future. For more information, visit here.

Task Force on Climate-Related Financial Disclosures (TCFD)*: Financial climate-related disclosure recommendations designed to help companies provide better information to support informed capital allocation. For more information, visit here.

Task Force on Nature-Related Financial Disclosures (TNFD)*: A market-led, science-based and government-endorsed alliance working to develop and deliver a risk management and disclosure framework for organizations to report and act on evolving nature-related risks. For more information, visit here.

United Nations Global Compact*: An initiative for companies to align their strategies and operations with universal principles on human rights, labor, environment, and anti-corruption, and to take actions that advance societal goals. For more information, visit here.

**Liberty Mutual is a member or signatory. Note this list is not exhaustive of all the organizations Liberty Mutual is a part of.*
These are Liberty Mutual's definitions based on a compilation from the following sources: ESG Law Institute, Goby Inc., Novisto, Schroders, and Invesco.

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[i] https://www.un.org/en/academic-impact/sustainability
[ii] https://www.epa.gov/environmentaljustice
[iii] https://www.tcfdhub.org/wp-content/uploads/2019/07/Transition-risks-how-to-move-ahead.pdf
[iv] https://www.unescwa.org/sites/default/files/pubs/pdf/social-justice-concepts-principles-tools-challenges-english.pdf