What do we mean by sustainable and responsible investing (SRI)?

Read our jargon buster containing simple definitions of some of the commonly used terminology around SRI

Defining the commonly used terms

The terms surrounding sustainable and responsible investing (SRI) can be confusing. We've provided some simple terminology definitions and examples below of some of the key terms used:

Sustainable and Responsible Investment (SRI)

An umbrella term for a wide range of investment strategies that focus on ethical, social and environmental issues. It includes ethical investing, green investing and engagement. Similar to the term 'Responsible Investing' (below), this area was previously known as Socially Responsible Investment and then amended to reflect growing interest in the sustainability agenda and environmental issues rather than focusing on 'people issues'.

Responsible investing

An investment strategy that incorporates ESG – the impact investments can have on the world, as well as the impact ESG factors can have on investments. This means looking at the bigger picture. We can bring about long-term growth whilst making the world a better place, but we need to move away from the idea that making a quick buck is the only aim.

Example:
Investing in alternative energy companies could help increase that company's market share, which would in turn attract more investment, allowing the company to expand. This could cause fossil fuel companies' market share to shrink, result in more energy coming from sustainable sources and have a measurable effect on global warming.

ESG (Environmental, Social, Governance)

Environmental:

The environmental impact of companies which make up a fund. This could include a company's:

- carbon footprint
- use of sustainable energy
- efforts to offset its use of fossil fuels.

Environmental also encompasses other topics such as recycling, pollution and measures to combat global warming. It's the way companies treat their work environment and the environment as a whole.

Example:
This can also relate to the businesses supplying a company – working towards being carbon neutral is a fantastic goal, but not so great if one of their suppliers still uses coal in its factories.

Social:

Focuses on people, particularly employees and wider relations within the community. How a company treats its employees is becoming as important to investors as the company's products. Social measures hold a spotlight to the human rights records of companies, including:

- health and safety
- diversity and inclusion
- employment policies.

Example:
Remember the challenge by Uber drivers to be recognised as employees and granted employee rights? The case went to the Supreme Court, but the resulting win for the drivers has not only made a huge difference for them personally, it's also massively enhanced Uber's social policy.

Governance:

How a company is run. Governance exists to make sure not only that rules are followed, but that there are rules in the first place. If rules are being broken, governance policies are there to spot this and fix it. Governance looks at:

- who is on a company's board of directors
- ensuring board members have the best interests of the company, its employees and its investors at heart
- whistleblowing policies
- examining bribery and corruption measures
- making sure audits are undertaken and are acted upon.

Example:
Think of a theme park with no rules: some people refuse to get off the rides when their turn is over; it's up to the operator what types of safety barriers to use (if any) and one group are allowed to queue-jump every single time because they're friends with the owners. With no one to answer to, there's no reason to change. That's where governance comes in.

Ethical investing:

Choosing investments based on individual ethics or morals. Often, ethical investors won't invest in funds with links to industries like tobacco, alcohol, firearms, fossil fuels or gambling. They may feel it would be morally irresponsible to make money from products they believe have a detrimental effect on society or the world environment.

It's a very personal choice and deciding whether or not a self-named "ethical" fund is indeed ethical depends on each investor.

Example:
You could feel that funds with ties to gambling companies are always on the "no" list, but connections can be complicated. Company A might have ties to company B and, through B, to C. Company C outsources work to company D, which invests in funds connected to gambling. You may discover your investments aren't as ethical as you believed.

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