

Explanation of ESG investment terminology

In January 2018, the IFoA's ESG Investment Working Party published its [Thoughts on Terminology](#) to use when seeking to engage actuaries on topics related to environmental, social and governance (ESG) issues in investment. The table below summarises and supplements their conclusions, to help IFoA staff and volunteers use terminology appropriately, for example when advertising events, writing articles or responding to consultations in this field. Note that the definitions given below reflect typical usage in 2018, but the definitions are evolving and there is not yet universal agreement.

Term	Meaning	Usage
ESG	Environmental, Social and Governance	<p>Use with care due to potential confusion with economic scenario generators and also because of its non-specific meaning.</p> <p>Not to be used on its own as if it were a noun. Should always be followed by a word such as issues, factors or topics.</p>
Responsible investment	Investment approaches that take account of ESG issues. Motivated by improving risk-adjusted financial returns, without necessarily being consistent with long-term social and environmental sustainability.	<p>A widely used and relatively well understood term. May be appropriate when working with the PRI (Principles for Responsible Investment) network and undertaking activities explicitly intended to fulfil the IFoA's commitment as a PRI network supporter.</p> <p>Appropriate when consideration of ESG issues is motivated by financial objectives.</p>
Sustainable investment	Investment approaches that take account of ESG issues in a way that is consistent with the long-term sustainability of society and the natural environment.	<p>The working party's preferred term, provided the meaning is appropriate given the context. Consistent with the IFoA's public interest remit.</p> <p>Appropriate when investment is motivated by financial objectives, having regard to long-term sustainability.</p>
Impact investment	Investment approaches that seek to generate positive social and/or environmental impacts as well as a financial return.	<p>Appropriate when investment is motivated by both financial and social/environmental objectives.</p> <p>Differs from sustainable investment in that investment is intended to have demonstrably positive social and/or environmental outcomes, not just to avoid negative outcomes.</p>

Term	Meaning	Usage
Ethical investment	Investment approaches that incorporate one or more ethically or morally motivated constraints.	Appropriate when ethical criteria are applied to investment decisions in ways that override financial considerations. For example, excluding tobacco manufacturers from an investment portfolio on the grounds that their business is morally wrong. Note that the choice of ethical criteria reflects personal values, with investors having differing views as to what is “unethical”.
Long-term investment	Investment approaches with a relatively long time horizon (perhaps ten years or more). Need not explicitly incorporate ESG considerations.	When investments are intended to be held for several years and investors are not particularly concerned about lower returns and/or higher volatility in the short term.
Patient capital	Money which is invested for the long term, without a requirement to produce good investment returns in the shorter term.	Related to long-term investment, but refers to the money that is invested rather than the investment approach itself.

We recommend that the following terms should usually be avoided, either because they are outdated or are not considered helpful.

Socially responsible investment	Investment approaches that incorporate social, environmental and/or ethical objectives as well as financial ones.	A relatively dated term that overlaps with many of the other terms. These other, more precise terms are preferred.
SRI	Originally used to mean Socially Responsible Investment, but more recently has sometimes been used to mean Sustainable and Responsible Investment.	Ambiguous, so don't use unless clearly defined.
Green investment	Investment with an environmental objective, potentially alongside financial and/or social objectives.	The working party recommends the adjective “green” is not used due to its emotional and political connotations.