ESG GLOSSARY

The following is a list of commonly used ESG/ sustainable investing terms and their definitions based on a review of multiple industry sources.

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CAPITAL ADVISORS

ESG GLOSSARY

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B Corp
Benefit Corporation
Best in Class
Biodiversity
Biofuel

c

Carbon Footprint
Carbon Neutral
Carbon Pricing
CDP
Ceres
Chief Executives for Corporate Purpose (CECP)
Climate Action 100+
Climate Change
Clean Energy/Renewable Energy
Circular Economy
Conference of the Parties (COP)
Corporate Social Responsibility
CSR Report

d

Diversity, Equity, and Inclusion
Divestment

e

Environmental Factors
Environmental, Social and Governance (ESG)
ESG Integration
Ethical Investing
EU Taxonomy (for Sustainable Activities)
Exclusionary (or Negative) Screening
Extra-financial Risks

g

Gender Equity
Gender Lens Investing
Global Reporting Initiative (GRI)
Governance Factors
Green Bonds
Greenhouse Gas (GHG) Emissions
GHG Protocol
Greenwashing

i

Impact Investing
Integrated Reporting
Issuer Engagement

m

Materiality

n

Net Zero

p

Physical Climate Risks
Positive Screening

s

Science-Based Targets Initiative (SBTi)
Scope 1 – Under the GHG Protocol, All Direct Emissions
Scope 2 – Under the GHG Protocol, Indirect Emissions
Scope 3 – Under the GHG Protocol, All Other Indirect Emissions
Shareholder Advocacy
Sin Stocks
Social Bonds
Social Factors
Social Progress Index (SPI)
Socially Responsible Investing (SRI)
Stakeholder Engagement
Stranded Assets
Sustainability Bonds
Sustainability-Linked Bonds
Sustainable Investing
The Sustainability Accounting Standards Board (SASB)
Sustainable Development Goals (SDG)
Sustainable Finance Disclosure Regulation (SFDR)
Sustainable Investing

t

Task Force on Climate-Related Financial Disclosures (TCFD)
Thematic Investing
Transition Risk
Triple Bottom Line

u

United Nations Framework Convention on Climate Change (UNFCCC)
United Nations Principles for Responsible Investing (UN PRI)

v

Values-Based and Impact Investing

z

Zero Waste

b

B CORP
Certified B Corporations are businesses that meet the highest standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose, as determined by B Lab.. B Lab defines itself as seeking to transform the global economy to benefit all people, communities, and the planet. It has organized a global network of companies, creates standards, policies, and tools for business, and certifies companies known as B Corps. (See also *https://bcorporation.net/* and *https://bcorporation.net/about-b-corps*).

BENEFIT CORPORATION
A benefit corporation has the same structure as a traditional for-profit corporation. The difference between a traditional corporation and a benefit corporation is in its purpose. A traditional for-profit corporation's purpose is to make profits for shareholders. A benefit corporation still has a profit-making goal, but it also has a broader public benefit purpose to make a material positive impact on society and the environment. Managers must work to achieve this purpose and, as a result, they have the flexibility to make decisions that balance profits with social causes and environmental responsibility. (See also *https://www.legalzoom.com/articles/what-is-a-benefit-corporation*).

BEST IN CLASS
An investment focused on identifying issuers that performed better than their industry or sector peers based on analyses of environmental, social and governance (ESG) issues.

BIODIVERSITY
A measure of variation at the genetic, species, and ecosystem level. (See also *https://www.nationalgeographic.org/encyclopedia/biodiversity/*).

BIOFUEL
Biofuel is produced from organic matter or waste through contemporary processes and used as an alternative to fossil fuels.

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CARBON FOOTPRINT
A measure of an individual's, group's or company's total greenhouse gas emissions. It is measured in equivalent tons of carbon dioxide emitted per year.

CARBON NEUTRAL
When a person, company or country says they are "carbon neutral," it means they have reduced the amount of carbon dioxide they emit through operations or via carbon credits that finance someone else to reduce their carbon emissions, essentially removing that carbon from the earth's atmosphere.

CARBON PRICING
Assigning value to greenhouse gas emissions as a way to account for and quantify these emissions and their impact on the environment.

CDP
A not-for-profit charity that runs the global disclosure system to help individuals, companies, cities, states, and regions manage their environmental impacts.

CERES
A nonprofit organization working to transform the economy to build a just and sustainable future for people and the planet.

CHIEF EXECUTIVES FOR CORPORATE PURPOSE (CECP)
A CEO-led coalition that believes that a company's social strategy — how it engages with key stakeholders, including employees, communities, investors, and customers — determines its success.

CLIMATE ACTION 100+
An investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

CLIMATE CHANGE
A shift in weather patterns due to a heating of the Earth's atmosphere, highly attributed to the burning of fossil fuels and other polluting activities that cause a release of greenhouse gasses.

CLEAN ENERGY/RENEWABLE ENERGY
Perpetual energy sources—including solar, wind, geothermal, hydroelectric and biomass—that are not derived from fossil fuels.

CIRCULAR ECONOMY
An economic system designed to produce no waste or pollution. (See also "Zero Waste" definition herein).

CONFERENCE OF THE PARTIES (COP)
COP is an annual conference attended by countries that signed the United Nations Framework Convention on Climate Change (UNFCCC) treaty in 1994. November 2021 marks COP26, the 26th such meeting. (See also *https://www.bbc.co.uk/newsround/51372486*).

CORPORATE SOCIAL RESPONSIBILITY
A business approach that takes into account economic, environmental, social and ethical impacts for a variety of reasons, including managing risks and costs, and seeking to improve stakeholder relations and enhance competitiveness and sustainability.

CSR REPORT
A Corporate Social Responsibility or Corporate Sustainability Report is an internal- and external-facing document that companies use to communicate social responsibility/sustainability efforts and their impact on the environment and community. An organization's CSR efforts can fall into four categories environmental, ethical, philanthropic, and economic. (See also *https://online.hbs.edu/blog/post/what-is-a-csr-report*).

d

DIVERSITY, EQUITY, AND INCLUSION
Diversity in an organization involves recruiting a variety of people from different ethnicities, abilities and perspectives, including women and minorities. It also involves respect and appreciation for these differences. Equity involves creating fair access, opportunity and advancement for all people within an organization. Inclusion involves valuing and respecting everyone within a diverse workforce and actively promoting a sense of belonging. All three are important in support of an open, inviting and supportive work environment that can encourage a workforce in pursuit of organizational goals. (See also *https://www.hud.gov/program_offices/administration/admabout/diversity_inclusion/definitions* and *https://ideal.com/diversity-equity-inclusion/*).

DIVESTMENT
Selling or disposing of shares or other assets in full or part based on corporate behavior and social, environmental or ethical considerations.

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ENVIRONMENTAL FACTORS
The "E" in ESG. Environmental factors relate to the quality and functionality of the natural environment and natural systems, assessed in responsible investment processes. It includes energy use, waste production and management, climate change, and pollution of water, air or other resources.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)
ESG considers a variety of issues that fall under environmental, social and corporate governance factors that may affect the current or future financial, economic, reputational, and/or legal prospects of an issuer, security, investment or asset class. (See also "Environmental Factors," "Social Factors" and "Governance Factors" definitions herein).

ESG INTEGRATION
The process of including ESG factors and integrating their economic impact into fundamental investment analyses with the goal of long-term performance growth and risk mitigation. This is often used with negative screening and thematic investing. (See also "Exclusionary (or Negative) Screening" and "Thematic Investing" definitions herein).

ETHICAL INVESTING
An investment approach that is guided by an investor's moral and ethical principles and values, which can include religious beliefs.

EU TAXONOMY (FOR SUSTAINABLE ACTIVITIES)
A robust, science-based transparency tool for companies and investors that was promulgated by the European Commission Joint Research Centre. The taxonomy creates a common language system established for investors to use to clarify which investments are environmentally sustainable, in the context of the European Green Deal. (See also *https://ec.europa.eu/commission/presscorner/detail/en/ip_21_1804*).

EXCLUSIONARY (OR NEGATIVE) SCREENING
The process of excluding certain companies and/or sectors from an investment portfolio. Investors might decide to do this for a variety of reasons, including ethical considerations, ESG performance relative to their peers, or based on specific ESG criteria.

EXTRA-FINANCIAL RISKS
Risks that are not covered by traditional financial risk management, such as liabilities related to poor performance on ESG metrics, including environmental contamination, poor sustainability practices, and related reputational damage.

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GENDER EQUITY
The creation of equal and/or equitable opportunities, treatment and pay in the workplace regardless of gender.

GENDER LENS INVESTING
Making investments that benefit women and girls by improving their access to opportunities, contributing to their well-being, enhancing their personal safety and security, and/or promoting a better life.

GLOBAL REPORTING INITIATIVE (GRI)
An international independent standards organization that helps businesses, governments and other organizations understand and communicate their impacts on issues related to climate change, human rights and corruption. (See also *https://ghgprotocol.org/*).

GOVERNANCE FACTORS
The "G" in ESG. Governance factors relate to how a company is managed, which includes, but is not limited to, management structure, executive compensation, internal controls and accountability policies, auditor independence, and shareholder rights.

GREEN BONDS
Bonds whose proceeds fund new or existing environmental or climate projects.

GREENHOUSE GAS (GHG) EMISSIONS
The levels of harmful greenhouse gases, including carbon dioxide, sulfur dioxide, methane and other noxious gases, that are byproducts of a company's industrial processes.

GHG PROTOCOL
The GHG Protocol establishes global standardized frameworks to measure and manage GHG emissions. Building on a long-term partnership between World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD), GHG Protocol works with governments, industry associations, nongovernment organizations, businesses and other organizations. (See also *https://ghgprotocol.org/*)

GREENWASHING
Promoting a product, service or company as more environmentally friendly than it truly is through false or misleading advertising of environmental benefits.

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IMPACT INVESTING
Impact investments are made with the intention to generate positive, measurable social and environmental impact alongside a financial return. They provide capital to address pressing challenges in sectors such as sustainable agriculture, renewable energy, conservation, microfinance, and affordable and accessible basic services, including housing, health care and education. (See also *https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing*).

INTEGRATED REPORTING
Integrating both sustainable and financial targets and considerations into a single report.

ISSUER ENGAGEMENT
The process of an investor in the equity (stocks) or debt (bonds) of an issuer (a bondholder or shareholder) engaging with the management of the security-issuing firm or government entity to begin or continue a discussion related to investor concerns, such as ESG practices, disclosure and other related considerations.

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MATERIALITY
Materiality is a measure of the importance of specific topics and information during the investment analysis process. In ESG investing, materiality helps identify the most important or relevant ESG information to consider when screening and selecting an investment.

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NET ZERO
A target of completely negating the amount of greenhouse gases produced by human activity. This can be achieved by reducing greenhouse gas (GHG) emissions and implementing methods of absorbing carbon dioxide from the atmosphere.

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PHYSICAL CLIMATE RISKS
Climate change-related risks, such as floods, droughts and severe storms, that affect our society directly and have the potential to do material economic harm. (See also *https://www.bankofengland.co.uk/knowledgebank/climate-change-what-are-the-risks-to-financial-stability*).

POSITIVE SCREENING
Investing in companies or governmental bond issuers that demonstrate leadership in environmental, social and governance issues. It involves the use of filters to identify and assess the most positive or promising potential investments based on assessing ESG performance.

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SCIENCE-BASED TARGETS INITIATIVE (SBTI)

The Science-Based Targets Initiative promotes best practices in emissions reductions and net-zero targets in line with climate science and in support of the Paris Agreement goals. (See also *https://compareyourfootprint.com/difference-scope-1-2-3-emissions/* as well as "GHG Protocol" definition herein).

SCOPE 1 – UNDER THE GHG PROTOCOL, ALL DIRECT EMISSIONS

From the activities of an organization or under its control. This includes fuel combustion on site, such as gas boilers, fleet vehicles and air-conditioning leaks. (See also "GHG Protocol" definition herein).

SCOPE 2 – UNDER THE GHG PROTOCOL, INDIRECT EMISSIONS

From electricity purchased and used by an organization. Emissions are created during the production of the energy and eventually used by the organization. (See also "GHG Protocol" definition herein).

SCOPE 3 – UNDER THE GHG PROTOCOL, ALL OTHER INDIRECT EMISSIONS

From activities of an organization, occurring from sources that it does not own or control. These usually make up the greatest share of the carbon footprint, covering emissions associated with business travel, procurement, waste and water. (See also *https://compareyourfootprint.com/difference-scope-1-2-3-emissions/* as well as "GHG Protocol" definition herein).

SHAREHOLDER ADVOCACY

A way that stock shareholders can influence a corporation's behavior on a range of policies and practices, including ESG issues, by exercising their rights as partial owners through filing a resolution or via the proxy voting process. (See also *https://iasj.org/about-shareholder-advocacy/*).

SIN STOCKS

Shares in companies engaged in or associated with activities judged by investors to be immoral or unethical. Some examples include companies that produce or distribute alcohol, tobacco or weapons, or run gambling or adult entertainment businesses.

SOCIAL BONDS

Social bonds raise funds for new and existing projects with positive social outcomes. For example, bond proceeds might finance access to essential health, education or financial services, affordable housing, or microfinance for small business. (See also *https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/social-bond-principles-sbp/*).

SOCIAL FACTORS

The "S" in ESG. Social factors relate to how a company treats its employees and the community. These include such issues as employee diversity and inclusion, employee engagement programs, human rights policies, health and well-being initiatives, labor relations, and consumer protection.

SOCIAL PROGRESS INDEX (SPI)

The index measures the performance of a country in meeting the basic human needs of its citizens, establishes the building blocks that allow citizens and communities to enhance and sustain the quality of their lives, and creates the conditions for all individuals to reach their full potential. (See also *https://www.isc.hbs.edu/research-areas/Pages/social-progress-index.aspx*).

SOCIALLY RESPONSIBLE INVESTING (SRI)

An investing strategy or approach that considers a positive or desirable social outcome alongside a financial return. It can involve positive and/or negative screening. (See also "Exclusionary (or Negative) Screening" and "Thematic Investing" definitions herein).

STAKEHOLDER ENGAGEMENT

An engagement process that, while similar to issuer engagement, expands beyond security holders to include other members of communities that may be affected by the policies and practices of a security issuer. (See "Issuer Engagement" definition herein).

STRANDED ASSETS

Fossil fuel supply and generation resources that could lose their value as a result of the transition to a low-carbon economy. (See also *https://www.theimpactivate.com/understanding-the-risk-of-stranded-assets/*).

SUSTAINABILITY BONDS

Proceeds of sustainability bonds will be exclusively applied to finance or re-finance a combination of green and social projects. Green bonds may finance projects aimed at, for example, energy efficiency, pollution prevention, sustainable agriculture, fishery and forestry, the protection of aquatic and terrestrial ecosystems, clean transportation, clean water, and sustainable water management. Social bonds may finance projects related to, for example, food security and sustainable food systems, socioeconomic advancement, affordable housing, access to essential services, and affordable basic infrastructure. (See also *https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/sustainability-bond-guidelines-sbg/*).

SUSTAINABILITY-LINKED BONDS

Bonds issued with financial and/or structural characteristics that may vary depending on whether the issuer achieves predefined sustainability or ESG goals. For example, issuers might have to make additional payments to bondholders if they fall short of their sustainability or ESG goals. (See also *https://www.spglobal.com/ratings/en/research/articles/210428-how-sustainability-linked-debt-has-become-a-new-asset-class-11930349*).

THE SUSTAINABILITY ACCOUNTING STANDARDS BOARD (SASB)

A non-profit organization whose goal is to develop sustainability accounting standards. (See also *https://www.sasb.org/*).

SUSTAINABLE DEVELOPMENT GOALS (SDG)

Also known as the Global Goals, the SDG are 17 goals that were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the earth, and achieve peace and prosperity for all people by 2030. (See also *https://sdgs.un.org/goals*).

SUSTAINABLE FINANCE DISCLOSURE REGULATION (SFDR)

Introduced by the European Commission, the SFDR mandates asset managers and other financial markets participants to provide standardized disclosure on how they integrate ESG factors at both an entity and product level. (See also *https://assets.kpmg/content/dam/kpmg/ie/pdf/2021/03/ie-sustainable-finance-disclosure-reg-sfdr.pdf*).

SUSTAINABLE INVESTING

A responsible and forward-thinking investment approach largely focused on sustainability. It is an umbrella term that can include negative screening, ESG integration and impact investing. (See also "Exclusionary (or Negative) Screening," "ESG Integration" and "Impact Investing" definitions herein).

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TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)
The TFCD was created in 2015 by the Financial Stability Board (FSB) to develop consistent climate-related financial risk disclosures for use by companies, banks and investors in providing information to stakeholders. (See also *https://www.unepfi.org/climate-change/tcfd/*).

THEMATIC INVESTING
Thematic investing can enable investors to address ESG issues by supporting dedicated solutions, such as renewable energy, waste and water management, sustainable forestry and agriculture, health products, and inclusive finance. (See also *https://www.unpri.org/investment-tools/thematic-and-impact-investing#*).

TRANSITION RISK
Financial risks that could arise from changes to policies, laws, technology, and capital markets as we transition to a lower-carbon economy and climate-resilient future.

TRIPLE BOTTOM LINE
An accounting framework with three main components: social, environmental and financial. Companies focused on a triple bottom line believe that, instead of a single bottom line, there are three bottom lines–people, planet and profit.

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UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE (UNFCCC)
The UNFCCC secretariat (UN Climate Change) is the United Nations entity tasked with supporting the global response to the threat of climate change. Created in 1992, the UNFCCC holds annual conferences that bring together all parties to the Convention: the United Nations Climate Change Conference (UNCCC). The Convention has 197 parties and is the parent treaty of the 1997 Kyoto Protocols and the 2015 Paris Agreement. (See also *https://unfccc.int/about-us/about-the-secretariat*).

UNITED NATIONS PRINCIPLES FOR RESPONSIBLE INVESTING (UN PRI)
A United Nations-supported international network of investors working together to implement its six aspirational principles, often referenced as "the Principles." (See also *https://www.unpri.org/pri/what-are-the-principles-for-responsible-investment*).

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VALUES-BASED AND IMPACT INVESTING
An investing approach that reflects an investor's values or pursuit of favorable ESG-related outcomes through investment rather than a strict focus on investment returns. Values-based or Impact investments typically are made with the intention to generate positive, measurable environmental, social or other positive outcomes alongside a financial return. These investing approaches generally seek to allocate capital to address pressing challenges in sectors such as sustainable agriculture, renewable energy, conservation, microfinance, and affordable and accessible basic services, including housing, health care and education.

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ZERO WASTE
A set of principles focused on preventing a generation of waste by redesigning products, rethinking how products are used, and reusing products with the goal of eliminating waste sent to landfills. (See also "Circular Economy").

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All investments involve risk, including loss of principal. Diversification cannot assure a profit or protect against loss. Fixed income investments have varying degrees of credit risk, interest rate risk, default risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer-term securities. Income from municipal bonds can be declared taxable because of unfavorable changes in tax laws, adverse interpretations by the IRS or state tax authorities, or noncompliant conduct of a bond issuer.

Breckinridge believes that the assessment of ESG risks, including those associated with climate change, can improve overall risk analysis. When integrating ESG analysis with traditional financial analysis, Breckinridge's investment team will consider ESG factors but may conclude that other attributes outweigh the ESG considerations when making investment decisions.

There is no guarantee that integrating ESG analysis will improve risk-adjusted returns, lower portfolio volatility over any specific time period, or outperform the broader market or other strategies that do not utilize ESG analysis when selecting investments. The consideration of ESG factors may limit investment opportunities available to a portfolio. In addition, ESG data often lacks standardization, consistency and transparency and for certain companies such data may not be available, complete or accurate.

Breckinridge's ESG analysis is based on third party data and Breckinridge analysts' internal analysis. Analysts will review a variety of sources such as corporate sustainability reports, data subscriptions, and research reports to obtain available metrics for internally developed ESG frameworks. Qualitative ESG information is obtained from corporate sustainability reports, engagement discussion with corporate management teams, among others. A high sustainability rating does not mean it will be included in a portfolio, nor does it mean that a bond will provide profits or avoid losses.

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