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Sustainability Research & Investing

RobecoSAM—3 steps ahead in mapping, measuring, and monitoring the SDGs

Ever since the United Nations defined its Sustainable Development Goals (SDGs), investors have become increasingly interested in investments that both contribute to realizing these goals while providing financial returns.

Together with Robeco, RobecoSAM is among the first investment managers to construct an effective framework for mapping and measuring SDG contributions that can be applied across investment portfolios.

- RobecoSAM maintains its reputation as an early pioneer in developing and advancing the newest research and analysis in sustainability investing
- We are an early mover in creating a proprietary framework for evaluating the intersection of SDGs and business
- Top-down, industry-specific criteria combined with bottom-up, company-specific data allow us to rate companies' SDG impact
- SDG ratings can be used to develop impact investment products across a range of asset classes.

Getting behind the acronym

The United Nations released the Sustainable Development Goals (SDGs) in 2015. The 'Agenda for Sustainable Development' was adopted by 193 countries, which together agreed to contribute to the realization of 17 SDGs by 2030. The 17 goals target a broad range of topics including the availability of water and sanitation for all, food security, achieving gender equality, and access to affordable and sustainable energy.

The UN Commission on Trade and Development estimates the investments required to achieve the goals at USD 5-7 trillion per year from 2015 – 2030. Given the overwhelming price tag, the UN explicitly invited the private sector to contribute. Surprisingly, big business and big financiers have enthusiastically embraced the invitation.

Figure 1—The UN Sustainable Development Goals¹



Source: RobecoSAM

Corporate Social Responsibility (CSR) departments across all sectors are booming and gaining unprecedented access to C-suite decision-making. Business leaders with rock-star like status are promoting socially responsible, environmentally-sustainable, and measurably-transparent projects and initiatives across banking and finance, pharmaceuticals and healthcare, utilities and consumer goods. And amidst all this activity, the SDGs and their measurement are prominent on the agenda. Given the increasing interest in business, investors too have taken a keen interest in having sustainability and SDGs in their portfolios—interest that goes beyond mere exposure towards demonstrating measurable impact. Now, the challenge for asset managers is to quantify a company’s contribution to the SDGs.

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RobecoSAM’s current line-up of sustainable equity products are already strongly aligned with the SDGs and we continue to explore ways to enhance impact reporting in these areas. Moreover, we are developing new products that not only align but are designed to measure SDG contributions from companies. RobecoSAM’s SDG Global Credits and Global Sustainable Impact Equities strategies are tailor-made to invest in attractively-valued companies with high impact on SDGs.

But just how does one move from globally-endorsed development principles to financially-viable investment products? In this paper, we discuss our inputs and approach in constructing a framework that can objectively and reliably measure SDG contributions within an investment portfolio.

¹ More information on the UN SDGs is available at: www.un.org/sustainabledevelopment/sustainable-development-goals/

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The Challenge: measuring an investment’s impact on the SDGs

It is easy to imagine that some businesses have a positive impact on goals, and others negative. Some of these are intuitive—a solar company is more likely to contribute positively than an oil company. But intuition only gets you so far. The challenge is to properly evaluate and quantify the contribution of *all* companies in an investment universe when building a targeted SDG strategy. This requires rigor, objectivity, consistency and replicability. In other words, a framework with clear, objective and consistent rules.

RobecoSAM is one of the first asset managers to meet this challenge by developing a proprietary SDG framework which consists of a 3-step approach (see in Figure 2). RobecoSAM and Robeco investment analysts are already successfully collaborating to apply the framework within fixed income and equity asset classes. The investment teams for RobecoSAM’s Global SDG Credits and Global Sustainable Impact Equities strategies use it for universe construction. Eligibility is based on SDG scores assigned to each company / issuer.

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Figure 2—The 3 step SDG Framework: Key Steps, Key Questions, Key Issues

Step 1:	Step 2:	Step 3:
Product Focus	Company policies & processes	Continuous Monitoring
<p>What do companies produce?</p> <p>Do products or services contribute positively or negatively to SDGs?</p>	<p>How do companies operate?</p> <p>Do companies’ business conduct contribute to the SDGs?</p>	<p>Are legal disputes public?</p> <p>Has the company been involved in controversies?</p>
<p>Product focus examples:</p> <p>+ Positive contributions:</p> <ul style="list-style-type: none"> • Medicine, Water, Healthcare <p>- Negative contributions:</p> <ul style="list-style-type: none"> • Shale gas, fast food, gambling 	<p>Company Assessment examples:</p> <ul style="list-style-type: none"> • Governance factors • Patterns of questionable conduct • Differentiate between firms with highest SDG impact 	<p>Controversies examples:</p> <ul style="list-style-type: none"> • Spills • Bribery and Fraud • Misselling

Source: RobecoSAM

Step 1: Product Focus—What does the company produce?

Step 1 is about linking products and services offered by companies to the SDGs. To what extent do these products and services contribute positively or negatively to the SDGs? Companies are

assessed on an extensive set of rules and Key Performance Indicators (KPIs). These are summarized in a guidebook, linking each sector and industry to specific SDGs that correspond to the products and services provided by a specific company / issuer. The guidebook also states whether the contribution of these products and services is positive, neutral or negative.

Figure 3—Guidebook examples

Sector	SDGs	Starting point		Measure	KPI - 1		KPI - 2		---	
		Contribution	Impact		Threshold	Contribution	Impact	Measure		Threshold
Banks	1, 8, 9	Positive	Low	%SME loans/total loans	>25%	Positive for SDG 1, 8, 9	Medium	%EM loans/total loans	<25% >25% >50%	---
Insurance	1, 3, 8, 11, 13	Neutral		%GWP (or oper. Profit) stemming from life	>33% >67%	Positive for SDG 8 Positive for SDG 8	Low Medium	%GWP (or oper. Profit) stemming from health	>33% >67%	---
Telecoms, cable	1, 8, 9	Positive	Low	%EM sales	<10% >10% >25% >50%	No pass SDG 1, positive for SDG 8, 9 Positive for SDG 1, 8, 9 Positive for SDG 1, 8, 9 Positive for SDG 1, 8, 9	Low Low Medium High	%Radio/TV content of sales	>50%	---
Healthcare/ pharma	3	Positive	Medium	%true healthcare/ pharma revs	<33%	Positive for SDG 3	Low	%EM sales	>25%	---
Tobacco	3	Negative	High	%Tobacco revenues	>5%	Negative for SDG 3	High			---

Source: RobecoSAM. These examples are for illustrative purposes only and are not intended as investment advice.

For telecom, for example, the starting point is positive. Telecommunications are an essential part of the infrastructure needed to maintain a safe, secure and connected society. Industrialization and the increase in productivity highly depend on effective telecommunications. They contribute to making cities smarter and more sustainable, improving the quality of life. Farmers can use mobile phones to check market prices before selling to middlemen, and market traders can accept payments in mobile money. This way, the telecom sector can contribute to a proper infrastructure (SDG 9), economic growth (SDG 8) and ultimately to the reduction of poverty (SDG 1).

We then determine the extent of the contribution, which in the case of telecom is deemed to be low. Having determined the starting point of the overall sector’s contribution and impact, we then dig deeper by looking at the individual companies within this sector. To this end, we define a set of KPIs, on which the companies are assessed. If, for example, more than 25% of the telecom company’s sales take place in emerging markets (which have most to gain from a good telecom network, as e.g. mobile payments can provide large numbers of unbanked with bank accounts), we upgrade the impact from positive-low to positive- medium or, if it’s 50%, to positive-high. See figure 3 for an illustration of the KPIs that are used.

Step 2: Company policies & processes—How does the company operate?

SDGs are also about how companies operate themselves. Are they polluting, do they respect labor rights, do they refrain from corruption and do they have a well-diversified board? In step 2, analysts check if the way the firm operates is compatible with the SDGs. RobecoSAM’s Corporate Sustainability Assessment (CSA) provides the foundation for this analysis, with comprehensive evaluations of a company’s environmental policies, conduct track record, governance framework, etc. If necessary, the SDG ratings can be adjusted.

Step 3: Continuous Monitoring—Are legal disputes public and controversies known?

In the final step, we check whether the company concerned has been involved in any controversies. A company can make the right products, operate in the right manner, and so meet the criteria set in steps 1 and 2, but still be caught up in controversies, such as oil spills, fraud or bribery. The analyst then determines whether a company passes. In this context, it is important to know if the controversy is structural or just a one-off, and if management has adequately dealt with it to prevent recurrence in the foreseeable future. The credit analyst can therefore propose to temporarily put the SDG ranking at (-3) while awaiting management reaction and corrective measures. If firms commit serious and structural breaches of the UN Global Compact, they are even excluded.

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The outcome of this three-step analysis is quantified with a proprietary SDG rating methodology. All companies obtain an SDG score based on their contribution to the SDGs (positive, neutral or negative) and the extent of this contribution (high, medium or low). This is shown in Table 1.

Table 1 – SDG rating methodology

Assessment	Impact	SDG Score
Positive	High	+3
	Medium	+2
	Low	+1
Neutral		0
Negative	Low	-1
	Medium	-2
	High	-3

Source: RobecoSAM

The good and the bad in the credit universe

Robeco investment analysts and RobecoSAM’s SI analysts have mapped around 450 companies in line with this process. Our assessments show that 62% of the companies within the analysis group are making a positive contribution. Noteworthy examples include grid operators, healthcare companies, and banks. For some, it may be counterintuitive to think of banking ranking high on SDG contributions. However, banks are a critical means of financing the small engines of the economy. This is especially true in emerging markets where banks play an important role in fostering innovation and stimulating economic growth. Moreover,

utilities (where coal, nuclear energy and oil make up less than 30% of the energy generation mix) also received positive SDG scores.

Just over a quarter (26%) of the companies analyzed make a negative contribution. Companies with a weaker SDG profile are, for example, energy producers with a relatively large share of fracking, companies that produce unhealthy food, car manufacturers with a low share of EV/hybrid models, gambling companies and tobacco producers. Interestingly, in 13% of the cases, an adjustment was made in step 2 or 3 of the process.

All companies obtain an SDG score based on their contribution to the SDGs.

Conclusion

For RobecoSAM, the SDGs wide-scale popularity, is satisfying affirmation of a decades-long conviction of the power of sustainability in business and investments. But the work of harnessing the power of SDGs for investing has just begun.

For sure, assessing a company's contribution to the SDGs is a challenge. But we are confident of the effectiveness of this simple yet robust approach that 1) links a company's products and services to the SDGs for contribution and impact, 2) analyzes the rigor of sustainability within its corporate policies, structures, and operations, and 3) continuously monitors for material controversies that could result in reputational damage, regulatory fines, or profit losses.

So far, the results of our analysis indicate that some sectors are already well-advanced in aligning with and contributing to the SDGs, however, the pace of innovation (not to mention the reckoning force of regulation and public scrutiny) is accelerating unprecedented change across not only individual companies but entire industries. We are already witnessing this within the energy and automotive sectors and the trend will only continue to gain traction and expand across developed and emerging economies. In the end, SDG impact may be a pre-requisite for business rather than a complementary component.

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For more information on RobecoSAM's products and services visit:

<http://www.robecosam.com/en/professionals/strategies-services/funds/global-sustainable-impact.jsp>

About RobecoSAM

Founded in 1995, RobecoSAM is an investment specialist focused exclusively on Sustainability Investing. It offers asset management, indices, impact analysis and investment, sustainability assessments, and benchmarking services. Together with S&P Dow Jones Indices, RobecoSAM publishes the globally recognized Dow Jones Sustainability Indices (DJSI) as well as the S&P ESG Factor Weighted Index Series, the first index family to treat ESG as a standalone performance factor using the RobecoSAM Smart ESG methodology. As of December 31, 2017, RobecoSAM had client assets under management, advice and/or license of approximately USD 20 billion.

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