# Just transition to recovery

## From integrating ESG risks to targeting SDG impacts

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Sustainable Investing Expertise by ROBECOSAM

# What I’d like to talk to you about today

## The SDGs as a blueprint for a sustainable recovery

Can the Sustainable Development Goals serve as a blueprint for a sustainable recovery?

Why are the SDGs relevant for investors, and how might these goals be integrated into investment strategies?

How does SDG investing differ from ESG integration?

# The Sustainable Development Goals

## A blueprint for a sustainable recovery

# COVID-19 is daunting sustainability issue

## At the nexus of environmental degradation, health, well-being, inequality, and economic development

**Environmental degradation**

*Higher likelihood of viruses passing from animals to humans*

**Covid-19**

*Over 200 million cases and 4.5 million deaths worldwide*

**Hunger**

*Pushing an additional 130 million people to the brink of starvation*

**Education**

*Forcing children out of schools around the world*

**Poverty and inequality**

*Flinging 400 million people below the $1.90 a day poverty line*

Sources:
van Zanten & van Tulder (2020). Beyond COVID-19: Applying 'SDG logics' for resilient transformations.
USGLC (2021). Covid-19 Brief: Impact on Food Security
UNDESA (2020). Policy brief #78 – achieving the SDGs through the COVID-19 response and recovery.

# Fortunately, the world has a plan to move through, and beyond, the pandemic

## In 2015 all 193 countries agreed to achieve 17 Sustainable Development Goals by 2030

### The SDGs are an intergovernmental agreement

- All countries – no matter how rich or poor – agreed to achieve the SDGs
- The SDGs are “soft” international law
- The treaty outlining the SDGs calls on the private sector for contributions

### The SDGs are integrated, indivisible, and balance all dimensions of sustainable development

- Economic development
- Social inclusion
- Ecological sustainability

### The SDGs are a shared blueprint for sustainable development

- The SDGs are based on inputs from business, NGOs, and over a million people
- The 17 SDGs - with 169 targets and 232 indicators – clarify what sustainability is
- This makes the SDGs a global blueprint for sustainable development

# The past years witnessed progress on some SDGs…


**24% of parliamentarians are women**
Up from 19% in 2010


**17.5% of energy consumption is renewable**
In 2017, compared to 15% in 2015


**17% of the ocean* now is protected**
More than double since 2010

*Of ocean waters falling within national jurisdiction (<200 nautical miles from coasts)

# … but progress is too slow around the world

## Inequality is widening…
Bottom 40% receives
<25% of overall income

## … hunger is on the rise…
25.9% of people face
food insecurity

## … biodiversity is eroding…
1,000,000 species are
facing extinction

## … the world is warming…
The world warmed by 1.1C,
threatening all SDGs

## … and a pandemic emerged
Covid-19 afflicts health,
and devastates societies

# To accelerate progress, the UN marks the next 10 years as a "Decade of Action" for the SDGs

## Doubling down on the SDGs to embark on a just recovery


*"The SDGs are vital for a [COVID-19] recovery that leads to greener, more inclusive economies, and stronger, more resilient societies"*

*"We have ten years to bring that vision to life, and we can only get there together. That is why we have launched a 'Decade of Action' to deliver the Goals."*

# Integrating the SDGs in investment strategies

## Why and how?

# Why should investors care about the SDGs?

## The SDGs help select winners, avoid losers, are part of SI regulation, and are a plan for positive impact

### Business opportunities

"The SDGs present **US$ 12 trillion** in annual business **opportunities**"*

### Regulatory compliance

The SDGs are increasingly part of **SI regulation**, like the EU Sustainable Finance Action Plan

### Risk mitigation

For instance, oil majors face a real risk of **stranded assets** due to climate change legislation

### Positive impact

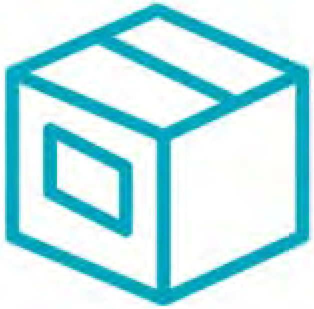
Contributing to **wealth**, **wellbeing**, and a stable **planet****

* Business & Sustainable Development Commission. (2017). *Valuing the SDG prize*

** Steffen, W., Richardson, K., Rockström, J., Cornell, S. E., Fetzer, I., Bennett, E. M., ... & Folke, C. (2015). Planetary boundaries: Guiding human development on a changing planet. *Science, 347*(6223).

# Assessing companies’ impacts on the SDGs through a 3-step approach

## Our SDG framework

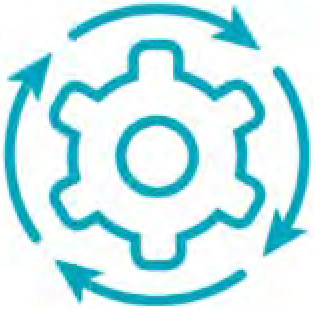


### Product

What do companies produce?

**Positieve contribution examples:**
- Medicine, weater, healthcare

**Negative contribution exmples:**
- Shale gas, fast food, gambling



### Procedure

How do companies produce?

**Assess a company:**
- Governance factors
- Pattern of questionable conduct?
- Differentiate between firms with highest SDG impact

### Controversies

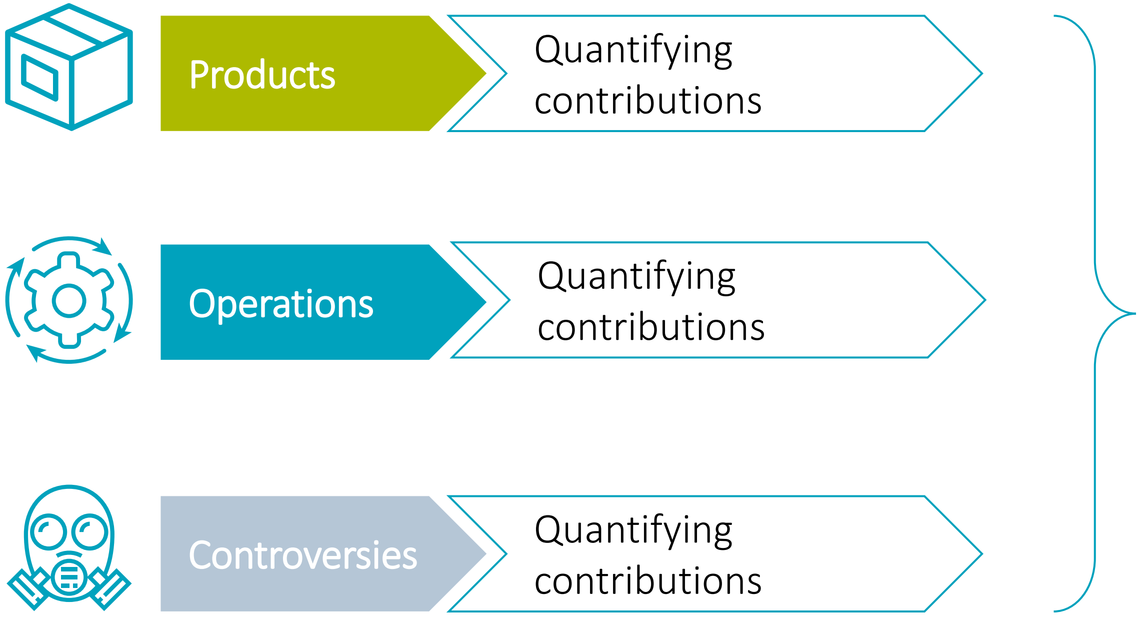
Are controversies known?

**Examples of controversies:**
- Spills
- Bribery and fraud
- Mis-selling

# Transformation of SDG research into a scoring system

## SDG framework

### A three-step company assessment




### RobecoSAM SDG Score describes overall impact level

| Assessment | Impact | RobecoSAM SDG Score |
|---|---|---|
| | High | 3 |
| **Positive** | Medium | 2 |
| | Low | 1 |
| **Neutral** | | 0 |
| | Low | -1 |
| **Negative** | Medium | -2 |
| | High | -3 |

# Sector specific KPIs

## Extensive set of rules in our guidebook

| | | | |
|---|---|---|---|
| Sector | Banks | | |
| SDGs | SDG 1<br>NO POVERTY | SDG 8<br>DECENT WORK AND ECONOMIC GROWTH | SDG 9<br>INDUSTRY, INNOVATION AND INFRASTRUCTURE |
| Starting point | Positive Low +1 | | |
| KPI 1 | % SME loans / total loans | | |
| | > 15%<br>Positive Medium +2 (Positive Low +1 for SDG 1) | | |
| KPI 2 | % EM loans / total loans | | |
| | < 33%<br>No contribution to SDG 1 | > 33%<br>Positive Medium +2 to SDG 1 | |
| KPI 3, 4, 5, 6 | .... | | |

Source: Robeco. Data end of May 2021.
These examples are for information purposes only and not intended to be an investment advice in any way

# Sector specific KPIs

## Extensive set of rules in our guidebook

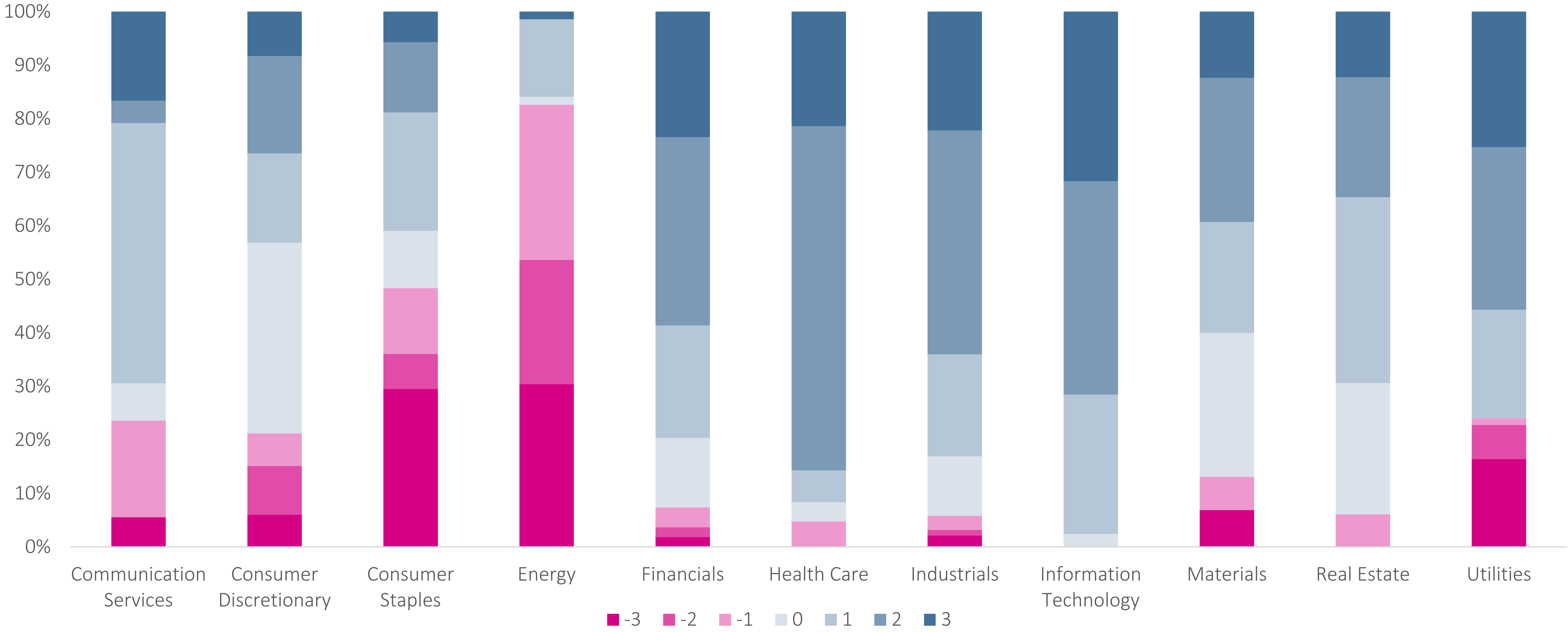
| | | | |
|---|---|---|---|
| Sector | Energy (E&P) | | |
| SDGs | SDG 7 AFFORDABLE AND CLEAN ENERGY | SDG 13 CLIMATE ACTION | |
| Starting point | Negative Medium -2 | | |
| KPI 1 | % Natural gas and renewable energy in production mix | | |
| | > 65% Positive Low +1 | 40-65% Neutral 0 | > 30% Negative Low -1 |
| KPI 2 | % Revenue from unconventional oil & gas | | |
| | > 10% Negative Low -1 | > 50% Negative Medium -2 | > 80% Negative High -3 |
| KPI 3 | …. | | |

Source: Robeco. Data end of May 2021.
These examples are for information purposes only and not intended to be an investment advice in any way

# How are the SDG scores distributed across sectors?

## Positive impact is found in IT, Healthcare, and Financials; negative impacts found in Energy and Consumer Staples

### Distribution of SDG scores per sector (n ~ 1,400)

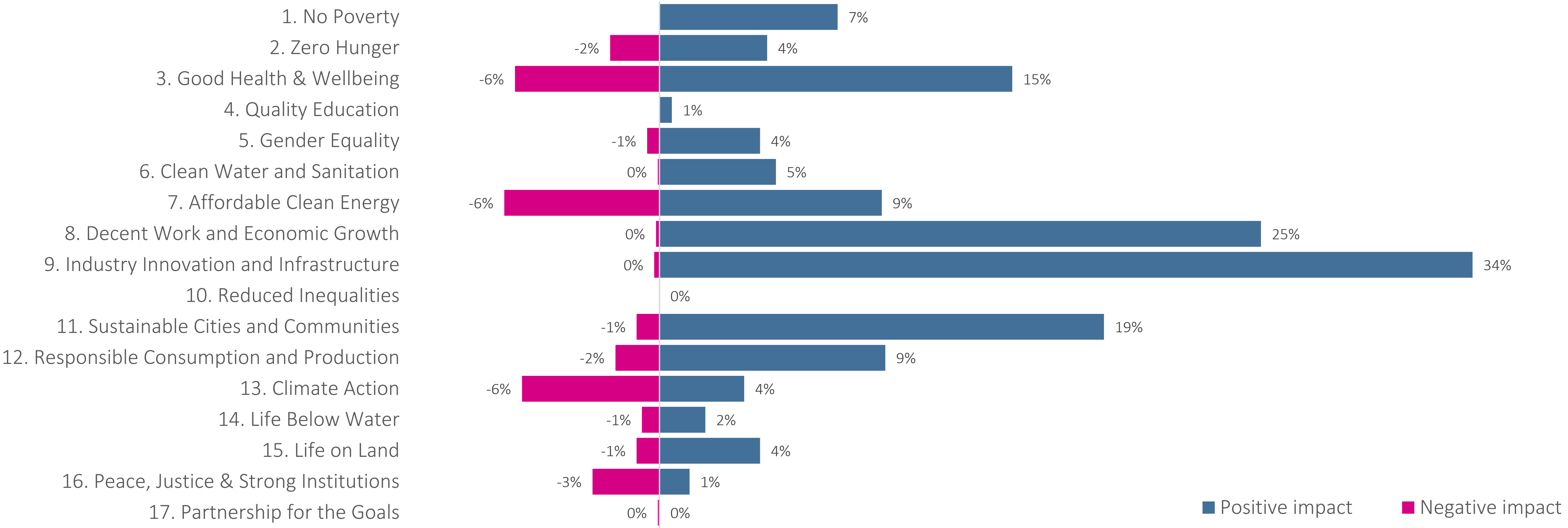


# Which SDGs are most investable?

## Percentage of companies having positive and negative impact per SDG

- Positive impacts are on SDG 9 (34% of universe); SDG 8 (25%); and SDG 11 (19%)
- Negative impacts are on SDG 3 (6%); SDG 7 (6%); and SDG 13 (6%)
- SDG 10 is least investable; some companies contribute to education (SDG 4)

### SDG's Impacted



# Sustainable investing

## From avoiding ESG risks to targeting SDG impacts

# Sustainable investing is on the rise…

## … but do investors have the right metrics for determining which companies are most sustainable?

SUSTAINABILITY MATTERS

### Sustainable Fund Flows Reach New Heights in 2021's First Quarter

Green funds are blossoming this spring.

Alyssa Stankiewicz
Apr 30, 2021

**Mentioned:** AMG GW&K ESG Bond N (MGFIX), iShares ESG Aware MSCI EM ETF (ESGE), iShares ESG Aware MSCI USA ETF (ESGU), Defiance Next Gen H2 ETF (HDRO), Direxion Hydrogen ETF (HJEN), First Trust NASDAQ® Cln Edge® GrnEngyETF (QCLN), iShares Global Clean Energy ETF (ICLN)

**Let the Flows Record Show**

Once again, sustainable funds in the United States attracted an all-time record level of fund flows in the first quarter of 2021.

In the first three months of 2021, the U.S. sustainable fund landscape saw nearly $21.5 billion in net inflows. That's more than the previous record for a quarter, $20.5 billion, set in the fourth quarter of 2020, and more than double the $10.4 billion seen one year ago in the first quarter of 2020. It was also about 5 times greater than first-quarter flows in 2019.

### Refinitiv's inclusion of tobacco, pharma and mining in ESG 'top five' divides opinion

Top-five ranking by London Stock Exchange Group-owned data provider branded a "joke", but others say it highlights myths around ESG

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# How do the SDGs relate to ESG integration?

## ESG is about risk, SDGs are all about impact

### ESG Integration

How does sustainable development affect a company?

- Focus on financial materiality, influence on performance
- Emphasis on ability of a company to generate value in mid- to long-term.

### SDG Investing

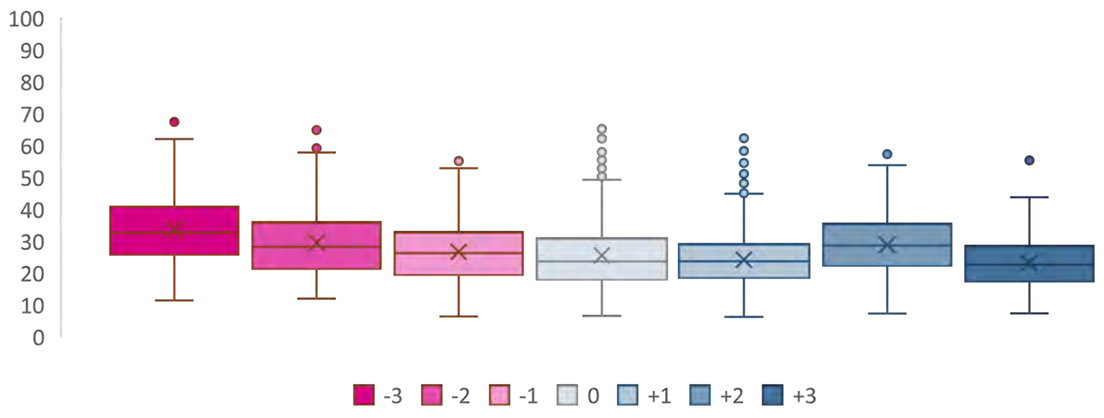
How does a company affect sustainable development?

- Focus on societal value and stewardship: Ethics and Norms-based
- Exclusions are part of impact investing: avoiding harm

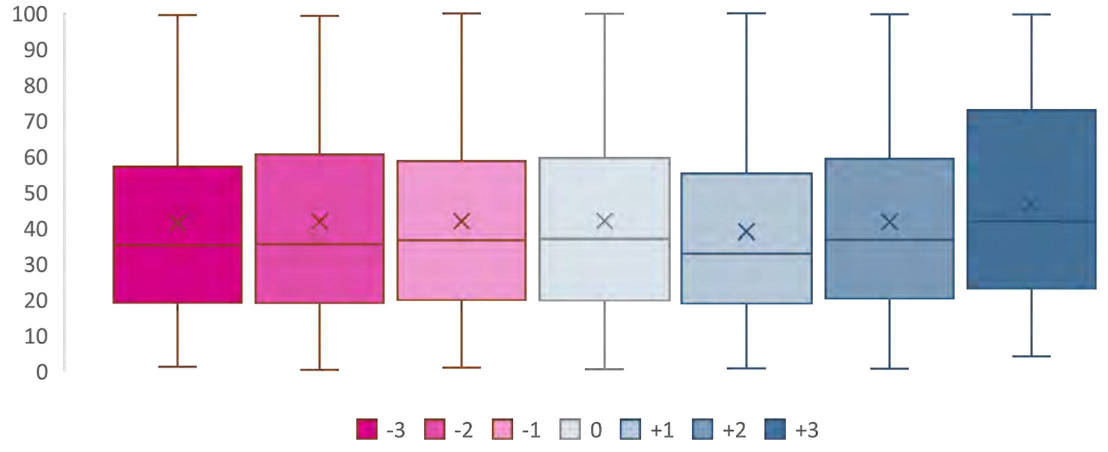
# No correlation: ESG is about risk, SDGs are about impact

## A quarter of the top-30% ESG rated companies has negative impacts on SDGs

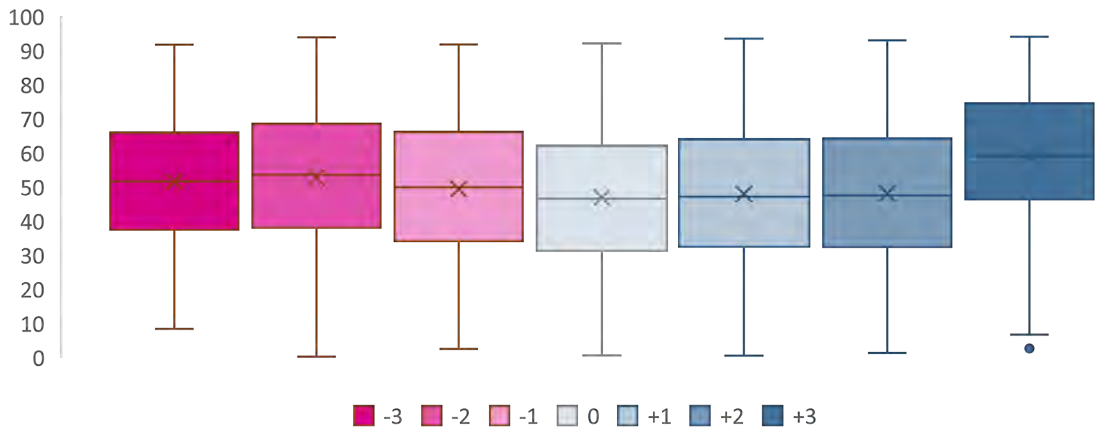
### Sustainalytics ESG risk score (n = 6,219)



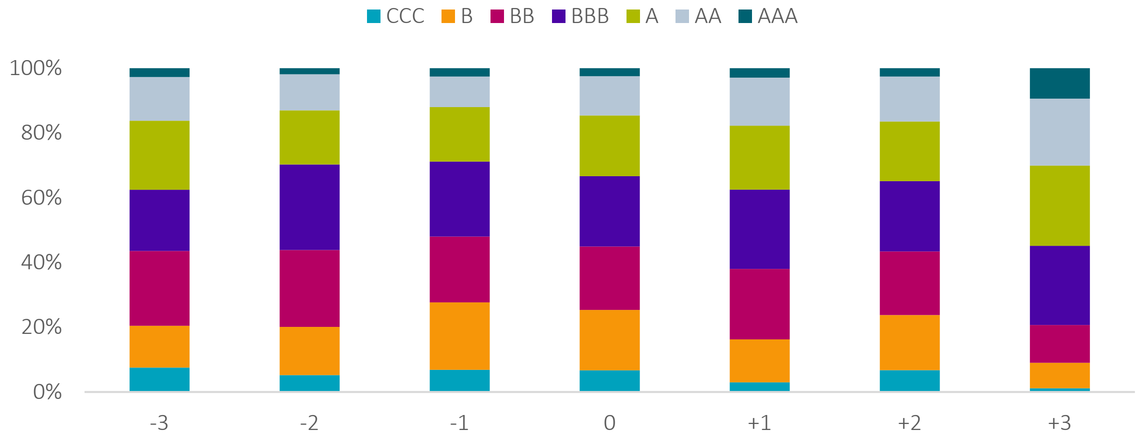

### S&P CSA score (n = 6,391)




### Refinitiv ESG score (n = 5,327)




### MSCI ESG Rating (n = 5,767)




Source: van Zanten, J.A. & Huij, J. (2021). From ESG to SDG: Corporate Sustainability Performance and Financial Performance Revisited. *Robeco Working Paper*.

# Embedding in, and contributing to, the academic literature

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## Sustainability integration for sovereign debt investors: engaging with countries on the SDGs

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ABSTRACT
Investors recently adopted a novel approach to sustainable investing: engaging with countries to advance sustainable development. But engaging with sovereign entities on sustainability challenges, like the Sustainable Development Goals (SDGs), operati… method… navigat… answers…

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RESEARCH ARTICLE

Business Strategy and the Environment WILEY

## Improving companies' impacts on sustainable development: A nexus approach to the SDGS

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Abstract
Companies play a decisive role in achieving the Sustainable Development Goals (SDGs). However, most of the world's sustainable development challenges are interconnected and systemic in their nature. How can companies ensure that their strategies effectively contribute to sustainable development? This interdisciplinary paper draws from the social-ecological systems, corporate sustainability, and sustainability sciences literatures, in order to introduce a nexus approach to corporate

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RESEARCH ARTICLE

Business Strategy and the Environment WILEY

## Analyzing companies' interactions with the Sustainable Development Goals through network analysis: Four corporate sustainability imperatives

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Abstract
The alignment between co… (SDGs) can be an indicat… companies are most, and… how 67 economic activiti… services they deliver—inte… define which activities are…

## Does Sustainable Investing Deprive Unsustainable Firms of Fresh Capital?

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KEY FINDINGS

- Examining stock and bond issuance of listed firms, the authors find no evidence that fresh capital is flowing more to sustainable than to unsustainable firms.
- The sustainability profile of equity issuers is generally similar to the broad market, while debt issuers even tend to have a below-average sustainability profile.
- To date, unsustainable firms have not been deprived of fresh capital, although further mainstreaming of sustainable investing might change that in the future.

ABSTRACT
This article examines the sustainability characteristics of listed firms that raise fresh capital by issuing stocks or bonds. Issuance—that is, the primary market—should be of paramount importance to sustainable investors because this is where the demand for and supply of capital meet, contrary to the secondary market where ownership of existing stocks and bonds is merely exchanged between investors. The authors find no evidence that fresh capital is flowing more toward sustainable than to unsustainable firms. The sustainability profile of equity issuers is generally similar to the broad market, while debt issuers even


The SDGs can serve as a blueprint for a fair recovery…
… investors do well to use SDGs to guide their SI strategy…
… thereby going beyond ESG risk integration, in a way that targets impact

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