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insights

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Image by Miguel Muñoz Hierro from Pixabay

the editor's word

Accelerating change

Amidst the current economic and social turmoil brough about by the pandemic and the violence of the Black Lives Matter movement, it has become clear that seeking a more cohesive way of driving business is crucial.

In this context, the Sustainable Development Goals undeniably qualify as an *epochal shif*, citing an insightful dive into impact due diligence in this handbook. If only last year, investors were still scratching their head and discussing whether the SDGs were a gimmick or a tool in the sustainable investor's arsenal, we seem to have reached a point of no return. The SDGs are here to stay. The question that most investors have been focusing on in the past 12 months is: how exactly to use, and not abuse, the framework.

In this handbook, you will find that asset owners as well as investors have found solid marks, mostly by focusing on what works in a specific context. From there, coherence investment selection and measurement comes more naturally.

From here, the main challenge remains the acceleration of change, especially in a post-pandemic world. The best intentions are tested in adversity. For those seeking inspirations, we hope to provide solid examples of succesfull SDG integration and thereby support this important trend. The faster the better.

Aline Reichenberg Gustafsson, CFA

Editor-in-Chief

NordSIP

The Danish SDG Fund

by Filipe Pires de Albuquerque

Given the Investment Fund for Developing Countries' (IFU) unique position as the foremost Danish investor in sustainable economic development in emerging markets, NordSIP was keen to hear from its CEO, Torben Huss, about its Danish SDG Investment Fund, its investments, challenges and successes.

Originally founded as Denmark's national development finance institution, the IFU provides advisory services and risk capital to companies wishing to do business in developing countries and emerging markets. It has participated in co-investment projects worth DKK209 billion (approximately €28 billion) in 1,300 companies across 100 countries in Africa, Asia, Latin America and parts of Europe. Of that total, the IFU is responsible for contributing DKK23 billion (approximately €3 billion).

From DFI to impact fund

The creation of the Danish SDG Investment Fund was the result of a long journey, Huss starts. "For the past ten years, the IFU has been on a journey combining public and private funds. We have evolved from a traditional state-funded development finance institution (DFI) to a fund manager investing public as well as private capital in developing countries," Huss says. "The backdrop for this transformation was a lack of public resources to develop a growth strategy and the acknowledgement of the fact that without engaging private capital the UN Sustainable Development Goals (SDGs) cannot realistically be met by 2030."

"Based on the increasing focus on the climate agenda, the IFU launched the idea of setting up a climate investment fund, which could combine the need for a green transition in developing countries with Danish world-class technology and know-how within renewable energy and cleantech."

Combining public and private funds

According to Huss, the lessons learnt from previous IFU funds were crucial when the time came to create the SDG fund. "The Danish Climate Investment Fund was launched in 2014. Two years later, it was supplemented by the Danish Agribusiness Investment Fund, which was based on the same idea of combining a need for increased and improved food production in developing countries and Danish know-how within the agricultural sector," he explains.

"The framework for these funds was a public-private partnership (PPP) based on a 40/60 funding split, with private investors contributing 60% and the state and IFU contributing 40% in combination," he continues. "The concept was developed in cooperation with the investors to offer a balanced risk/return profile that provided the private investors with an incentive to invest in developing countries, which in general was unknown territory to them."

"The Danish Climate Investment Fund had a total commitment of DKK 1.3 billion and has led to increasing investments in renewable energy. In combination with IFU's own public funds, we have invested in more than 1,150-megawatt wind and solar power in developing countries such as Kenya, Egypt, Mongolia and Brazil."

The SDG fund benefited from the critical lessons learned with the Climate and the Agribusiness funds. "The proven concept of combining public and private funds has also formed the basis for the Danish SDG Investment Fund," says Huss. "The purpose of this fund is to support the UN Sustainable Development Goals by investing blended capital in private sector projects in developing countries. This is done from a commercial platform securing a return to investors while retaining a tight focus on investing only in projects with a documented impact on the SDGs."

The Danish SDG Investment Fund

"The idea for the Danish SDG Investment Fund was developed with the Ministry of Foreign Affairs and in an ongoing dialogue with potential investors," Huss says. "Unlike the Danish Climate Investment Fund, the Danish SDG Investment Fund is untied, meaning that it is not necessary to include Danish companies in the projects we are investing in."

Torben Huss, Chief Executive Officer – IFU

"In general, the concept was well-received by pension funds and private investors. The total commitment reached close to DKK5 billion, which is by far our largest fund to date. Based on our experience this will lead to a total investment of around DKK30 billion in developing countries, as the Danish SDG Investment Fund is always a minority investor in the individual projects. Investors in the fund are large Danish pension funds including PKA, PensionDanmark, PFA, ATP, P+, Pensam as well as Swedish bank SEB and two private investors, Navest and Secure."

Investing in the SDGs

According to the IFU, the Danish SDG Investment Fund focuses on SDGs 1, 2, 6, 7 and 9 in particular. It seeks to alleviate poverty and hunger, ensure clean water and renewable energy as well as support industry, innovation and infrastructure.

"In principle, the Danish SDG Investment Fund can invest in all sectors. But based on the prior experience and the needs in developing countries, three strategic sectors have been singled out: climate, agribusiness and the financial sector. The fund will allow IFU to remain a large investor in the green transition and the agribusiness sector, which is crucial to improving the livelihood of people in developing countries and central to the SDG framework. Moreover, the financial sector is equally important because it provides people with opportunities to finance their small local businesses that cannot be reached directly by foreign investors."

"To steer IFU and the Danish SDG Funds' investments to support the SDGs, IFU has developed and implemented a holistic sustainability policy and an impact management system including SDG targets and indicators relevant for private sector investments. Many of these are developed jointly with other DFIs. In addition to the assessment and mitigation of ESG risks, the due diligence phase also focuses on assessing the SDG potential for each investment. At this stage, we

“IFU and the SDG Investment Fund stand ready to assist existing as well as new healthy companies in surviving the crisis and build on that platform to become an even stronger business with a higher SDG impact in the future.”

also develop an impact creation plan together with the investee. To track the investments' contribution to the SDG-targets, investees report annually on ESG issues and the agreed indicators of the impact creation plan.”

Developing Local Communities and Fighting Climate Change and Hunger

“To date, the Danish SDG Investment Fund has made ten investments with a total commitment of DKK 760 million,” Huss explains. “Total expected investment, including additional investors, amount to DKK4.5 billion. The investments cover Africa, Asia, Latin America as well as Europe and include renewable energy, agribusiness, IT, education, health and the hospitality sector.

At the beginning of 2019, the SDG fund invested over DKK80 million in a project aimed at developing local business and communities. With this investment, IFU contributed to the purchase of an additional 180 hectare and upgrade packing house infrastructure by South Africa's Mbiza, one of the continent's leading blueberry producers.

The SDG fund also invested DKK170 million towards JCM Power at the start of 2020. JCM Power is a Canadian independent power producer developing and operating renewable energy projects in developing countries in Africa, Asia and Latin America. The hope is to help fund the installation of 800 megawatts solar and wind energy in total. The project targets SDG 7 and 13, which focus on sustainable energy and climate action.

Shortly thereafter, the IFU announced its participation in a project aimed at poverty relief. The SDG fund invested DKK95 million in a Leap India Food & Logistics project aiming to build storage facilities capable of holding 700,000 tons of grain. In a country where approximately 40% of the grain production is lost due to a lack of appropriate storage facilities, this project contributes to putting an end to the “paradox of the plenty”, where availability of food grain does not reflect production.

Challenges and the Post-COVID19 World

The investment process can be complicated, Huss admits. “The main challenge is to find the right projects,” he says. “Especially within renewable energy, there is often a lack of local developers capable of taking a project from idea through development and to implementation. That is one of the reasons for investing in JCM, which is a Canadian company with expertise in developing and implementing renewable energy projects.”

Of course, this is not the only hurdle the IFU's SDG fund has faced. “In general, we also experience the normal challenges operating in developing countries with bureaucracy, incomplete judicial systems and avoiding corruptive practises,” adds Huss.

The pandemic has also made conditions direr on the ground, according to Huss. “There is no doubt that COVID-19 is a global game-changer,” he says. “Besides the health issue, where developing countries are particularly vulnerable, the pandemic could lead to a 35% reduction in foreign capital inflows to developing countries and a loss of 20 million jobs in Africa, alone according to some estimates. Consequently, there is a high demand for DFIs to step in and fill the gap and stimulate growth and job creation.”

“IFU and the SDG Investment Fund stand ready to assist existing as well as new healthy companies in surviving the crisis and build on that platform to become an even stronger business with a higher SDG impact in the future,” Huss concludes.

Investing In, not Along the SDGs

by Filipe Pires de Albuquerque

Given the prominence of the AP funds in the Swedish investment industry, we reached out to Magdalena Håkansson, Head of Sustainable Value Creation at AP1, to better understand the public pension fund's experiences investing in the UN Sustainable Development Goals (SDGs).

Håkansson joined AP1 on May 2nd 2019 from MSCI ESG Research where she advised Nordic institutional clients about ESG integration and sustainable investments. Prior to taking on that role, she was the Head of Client Relation for the Nordic region at GES International, which was subsequently acquired by Sustainalytics (now a subsidiary of financial data group Morningstar).

“The SDGs overlap with other principles and guidelines we consider important and expect companies we invest in to adhere to, such as the UN Global Compact,” Håkansson says, discussing the ability of the SDGs to facilitate impactful, sustainable investments. “When it comes to the actual contribution of investments to meeting the SDGs, the underlying targets help us understand what actions are required. If we are to meet the targets by 2030, we need to focus on change, not business as usual. Either businesses that are already aligned with the SDG's need to grow or more business needs to become aligned with the goals.”

Engaging in the SDGs

To fulfil its pledge to invest in line with the SDGs, AP1 has chosen to focus on the seven goals that are the most relevant to the fund. To organise its priorities, it has divided its preferred SDGs into two categories, depending on their purpose: “Dialogue” and “Dedicated Investments”. For the purpose of its dialogue and engagement activities, AP1 focuses

Magdalena Håkanson
Head of Sustainable Value Creation at AP1

on three SDGs: gender equality (SDG 5), decent work and economic growth (SDG 8) and bribery and corruption within peace, justice and strong institutions (SDG16).

"We singled out SDGs 5, 8 and 16 as our main focus targets because we understand that achieving these SDGs will be important for us," Håkansson explained. "As a long-term investor with a large and well-diversified portfolio, these goals will allow us to meet our investment targets."

Håkansson was keen to emphasise that constructive dialogue focused on governance issues is helpful over a long-term investment horizon. "At the same time, issues covering diversity, working conditions and corruption are typically related to the way companies conduct their business rather than the products and services they provide."

"For these reasons, these SDGs are relatively challenging to address in a structured and forward-looking way during the portfolio's construction. By identifying these SDGs as our focus areas, we also ensure they are not overlooked but given the proper attention in our active ownership activities."

"For each engagement, we define a change that we seek to achieve. We monitor and measure the progress of our dialogue based on this target. As with many of the issues we engage on, it's difficult to attribute the achieved outcomes directly to our efforts as there are often multiple interacting factors contributing to the end result. Our priority is to ensure that we meet the overall objective."

Dedicated Investments to Achieve the SDGs

The remaining four other UN SDGs that AP1 focuses on are used for dedicated investment purposes. The pension fund defines these as "areas where the Fund actively seeks investment that could contribute to a more sustainable society, while the return must also be high." To this end, AP1 has chosen to focus on affordable and clean energy (SDG 7), industry, innovation and infrastructure (SDG 9), sustainable cities and communities (SDG 11) and responsible production and consumption

"With our dedicated investments, we are interested in helping companies to provide products and services or to invest in specific projects that will contribute towards the four SDGs."

(SDG 12).

"The framework for dedicated investments was developed last year as part of the broader sustainability strategy," adds Håkansson. Discussing the different focuses between engagement and dedicated investments, she explains that the two efforts do not operate in isolation. "They complement one another," she says. "With our dedicated investments, we are interested in helping companies to provide products and services or to invest in specific projects that will contribute towards the four SDGs. It's currently a relatively small but important part of our total portfolio. While the other three SDGs are used in our engagement activities to help companies across our entire portfolio improve the way they conduct their business, our concern with dedicated investments is how to add value."

Consistent with the goal of value creation, AP1 seeks attractively priced investments that will benefit from the shift towards a more sustainable society under its dedicated investments approach. "Currently AP1 has dedicated investments in companies in the energy transition sector such as Nilar, which develops batteries, reusable and free from cobalt with long lifespan, which makes them suitable for storing solar energy in the home, for industrial use and to balance the power grid," Håkansson says. "Our PE investment in Summa Equity also gives us access to small, fast-growing companies in the field of resource efficiency, demographic change and new technology. Through Polhem Infra, we also invest in unlisted Swedish companies that focus on infrastructure". One of the requirements, Håkansson insists, is that SDG-targeted investments have at least the same expected risk-adjusted return as other comparable bond and equity investments.

"The way we think about our dedicated investments is focused on contributing to the SDGs rather than investing in line with them. Our focus is on investing in companies providing products and services that contribute to the targets rather than in companies whose businesses are aligned with the SDGs. "

"Generally, investment decisions from public equity portfolios rarely have a direct impact on the underlying assets. Investors exchanging capital and shares have limited effects on the underlying asset. The contribution to reaching the SDGs is less evident. Through our dedicated investments, we seek to provide value to the company either through financing or as long-term, active company owners. When we bring financing or value as long-term, active owners to a company that offers solutions to the SDGs, we can meaningfully contribute to a sustainable future."

A Solid Foundation for the Future

According to Håkansson, AP1's approach has shown positive results and there are no immediate plans to change course. "Many of the issues we have covered as part of our engagement over the years are related to the SDGs. Being able to refer to the SDGs, only makes it easier," she says.

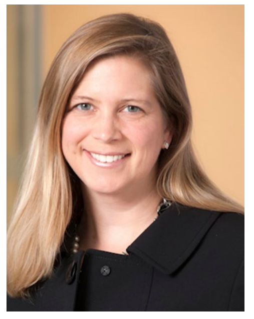
While the disruption created by COVID-19 is undeniable, Håkansson remains confident about AP1's approach to the SDGs. "Going forward, these SDGs will remain our primary focus. We will continue to engage on a large number of relevant topics identified in our screening process and proactively on other issues such as biodiversity and climate, in addition to goals 5, 8 and 16."

Photo by Hannah Cedzo on Unsplash

Listed Impact

The intersection of impact investing and UN SDGs

by Tara Stilwell, CFA
and Campe Goodman, CFA



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As the world struggles to overcome the devastating COVID-19 pandemic, we believe impact companies and issuers that are focused on providing innovative solutions to the world's biggest challenges may emerge in coming years as differentiated investment opportunities. We believe our public-sector opportunity set will expand on the heels of this crisis, and we have never been more excited to be part of the impact investing community or to support the United Nations Sustainable Development Goals (SDGs).

The past year has been eventful for Wellington Management's impact investing franchise. Combining the portfolio management teams of Wellington's two impact investment strategies, focusing on equity and bonds, respectively, has created a synergy that enables us to identify what we see as compelling opportunities across asset classes. Our goal continues to be identifying equity and fixed income investments that meet our standards of materiality, additionality and measurability, and to engage with management teams to ensure the viability of our theory of change — or impact thesis — for each organisation.

Achieving tangible impact

In 2019, Wellington's Global Impact Fund and Global Impact Bond Fund invested in solutions that improved the lives of billions of people. For example, investments:

- Provided education and job training to more than 1.5 million people worldwide and funded the operation, renovation and construction of schools for more than 850,000 students
- Supplied more than one million affordable housing units
- Generated nearly 1,100 terawatt hours of renewable energy, enough to power almost 90 million homes and avoid 760 million metric tons of CO_2 emissions
- Cleaned more than 6.5 billion cubic meters of polluted water
- Provided digital access to nearly 610 million people in developing countries
- Protected more than 504,000 organisations (and millions of their customers) with cybersecurity products

As of 31 December 2019 | The specific securities identified are not representative of all of the securities purchased, sold, or recommended for clients. It should not be assumed that an investment in the securities identified has been or will be profitable. Actual holdings will vary for each client and there is no guarantee that a particular client's account will hold any or all of the securities listed.

Our impact themes and alignment with UN SDGs

We launched our first impact approach for institutional investors in 2015 with a diversified set of 10 impact themes, which were based on years of research and extensive consultation with internal and external advisors. When the UN SDGs were published, we were pleased to see how well our themes aligned. In 2018, we added our "Safety & Security" theme to reflect the growing importance of cybersecurity and home, road and workplace safety.

Wellington's 11 impact themes

Life essentials	Human empowerment	Environment
Affordable housing	Digital divide	Alternative energy
Clean water & sanitation	Education & job training	Resource efficiency
Health	Financial inclusion	Resource stewardship
Sustainable agriculture & nutrition	Safety & security	

For each company and issuer in our portfolios, we tag the goals we believe they align with, and, if appropriate, to any of the 169 underlying targets outlined by the UN. For example, the top equity holding in our Education & job training theme provides educational and professional services to disadvantaged populations in many countries; our top fixed income holding funds school infrastructure-improvement projects in low-income areas in the US. We tag these organisations as such:

Target 4.3: Ensure equal access for all women and men to affordable and quality technical, vocational, and tertiary education, including university

Target 4.4: Substantially increase the number of youth and adults who have relevant skills — including technical and vocational skills — for employment, decent jobs, and entrepreneurship

Target 10.2: Empower and promote the social, economic, and political inclusion of all

Our high standards for inclusion in our portfolios result in strategies that support many of the SDGs. The checkmarks indicate which of the goals our impact strategies currently align with.

Not all companies or issuers can be tagged to an underlying target because the targets do not capture all impact categories we consider critical, such as bridging the digital divide or providing cybersecurity products and services. Without exception, however, the companies and issuers we invest in offer what we consider to be much-needed solutions to many of the major challenges identified in the SDGs. Wellington is proud to continue supporting — and working toward — the UN SDGs, the world's blueprint for securing a sustainable future for generations to come.

For more information about the Wellington Global Impact and Global Impact Bond funds, as well as our complete Sustainable Investing platform and investment products, please visit www.wellingtonfunds.com/sustainable-investing or contact:

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Wellington Global Impact Fund and Wellington Global Impact Bond Fund alignment with UN SDGs

Photo: David Mark from Pixabay

A strategy or emphasis on environmental, social and governance factors (ESG) may limit the investment opportunities available to a portfolio. Therefore, the portfolio may underperform or perform differently than other portfolios that do not have an ESG investment focus. A portfolio's ESG investment focus may also result in the portfolio investing in securities or industry sectors that perform differently or maintain a different risk profile than the market generally or compared to underlying holdings that are not screened for ESG standards.

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Emerging Markets

Why alignment with the SDGs is crucial when investing in developing economies

by Patricia Ribeiro

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Senior Portfolio Manager for
Emerging Market Strategies
American Century Investments

At American Century Investments® (ACI), we think impact investing using the U.N. Sustainable Development Goals (SDG) framework is especially crucial in emerging markets (EM). EM countries need greater investment in areas such as infrastructure, technological innovation and education than developed markets. Living standards are among the lowest in the world, and socioeconomic inequalities, including gender and income, can be significant. With some of the world's most fragile ecosystems, EM countries are also more vulnerable to environmental damage as well as pandemics and rare regional diseases.

The SDGs are an attempt to address the world's most pressing environmental, social and economic issues. These goals are not materially different from relevant ESG issues. We believe that investing alongside these goals could be a financial opportunity for investors. For example, climate change and hunger are global challenges and the companies that find solutions will benefit. When addressing the various SDG goals, it's clear that they are most impactful to EM countries. Thus, we believe investors should consider an EM SDG investment because the need is great there.

Investing in companies aligned with the SDGs is consistent with our overall disciplined investment process and aligned with our firm's underlying commitment to impact investing. Delivering investment results to clients enables us to distribute over 40% of dividends to the Stowers Institute for Medical Research, a 500- person, non-profit basic biomedical research organization. The Institute owns more than 40% of ACI and has received dividend payments of USD 1.6 billion since 2000.

Each stock recommended by an investment analyst for inclusion in our strategy must meet specific criteria, such as alignment with ACI's investment philosophy and process, alignment with SDGs as well as in-house proprietary ESG risk assessment. ACI's EM equity analysts do SDG mapping during the fundamental research process.

As part of idea generation, and when the initial fundamental research process begins, our analysts look to find companies whose businesses or corporate actions could generate an SDG impact. Analysts use the APG/PGGM SDG taxonomy framework (a third-party AI-powered platform for investing in the UN SDGs) to assess how a company's business aligns with the SDGs. As part of the research process, the analyst engages with a company to discuss the company's fundamentals, and to assess its ESG and SDG activities. The analyst then generates an impact thesis to explain the SDG alignment in combination with the stock's fundamental investment thesis.

By investing in advancing the SDGs, asset owners and asset managers can play a critical role in creating a more inclusive society. Achieving the SDGs could unlock new market opportunities in food and agriculture, cities, energy and materials, and health and well-being, in addition to creating millions of new jobs in developing countries. While many other SDGs are inextricably linked to the developing world, one of the many notable opportunities is in education.

Access to higher education can help an individual rise above poverty, build a successful career, and take part fully in society. The need for a highly skilled workforce, with advanced technical knowledge, has never been greater. Also, a gap persists between access to education between girls and boys in emerging markets. Research from the ONE Campaign suggests that supplying equal education for children could save the poorest nations more than USD 300 million per day. Addressing this gender cap could also reduce infant mortality in Africa by up to 70%. We have found several education companies aligned with SDG #4, Quality Education, SDG #8 Decent Work and Economic Growth, and SDG #10 Reduced Inequalities. One such example is the China Education Group (CEG).

CEG is the leading operator of private higher education and vocational schools in China. It runs six universities and three vocational schools across China. By supplying quality education, professional training and job placement services that may lead to better employment opportunities, CEG helps reduce poverty and improve working conditions and economic growth potential. The company helps reduce income inequalities and empower women by elevating their social status and broadening access to job prospects. In the case of CEG, results are clear. CEG student enrollment surpassed 181,000 in the first quarter, up more than 6% from 170,000 at the end of fiscal year 2019 the previous August. More evidence of the firm's success can be seen in its 96% graduation rate for FY17 and FY18 and its 93% first-year placement rate for graduates.

Through our analysis, we are better able to map out how a company's activities generate impact and outcomes. Outcomes are measured by the most relevant metric, so for our investment in an education provider, for example, it would be the number of students who gain access to higher education and the amount of success they achieve after that through that education. As with education, outcomes for all company analyses roll into one or more of the 17 SDG goals of the U.N.

Before establishing a company's exposure to an SDG, all stocks will be assessed based on American Century's proprietary ESG risk assessment framework. We believe that it is essential to ensure businesses are checked for all ESG risks and externalities. Any positive SDG alignment should not be wiped out by harmful ESG risks. This, along with adopting exclusion policies, also protects against "SDG impact washing."

We believe engagement with a company on SDG issues is an essential part of the investment process. As we already have a dialogue with companies about their business fundamentals, meeting with them on SDG issues is a natural part of that process. The topics of engagement may range from any of the problems that could prove to be material to our investment. We work very closely with our ESG Research team to find ESG risks and externalities. Even though EM corporations are not currently at the level of disclosure seen in developed markets, our experience suggests that corporate willingness to converse and engage on these issues is improving.

As we invest in public equities, the ability to truly measure the incremental impact of our investment in the form of "additionality" is more challenged, especially when compared with private equity or endowment investments, where funding is much more targeted and specific. Despite this, we believe that to achieve the SDG goals in the timeframe envisioned by the U.N., resources must be called upon from all aspects of society. Investment managers in public equities can undoubtedly contribute to this effort. We believe it is crucial to support and invest in companies aligned to SDGs to potentially increase the capital available to them, which could better enable them to advance activities that can lead to positive change.

The importance of impact investing and alignment with ESG goals and SDGs has become increasingly clear in recent years. Environmental and social issues are integrated into all aspects of life today and have influenced how investors and businesses make decisions. The current global health crisis has underscored how crucial impact investing is and the importance it can have in the developing world. The Covid-19 pandemic and its repercussions support the notion that the environment, public health, and the global economy are intertwined. We believe this understanding has helped raise awareness of impact investing and the importance of the SDGs. We found it interesting that the drastic mitigation measures put in place to address the virus may have helped reduce pollution as factory use declined. Apart from highlighting the SDGs, it also puts a spotlight on the "Social" pillar in ESG as investors focus on how a company reacts in terms of its emergency response mechanisms, supply chain control, and employee benefits.

Image by bluebudgie from Pixabay

Conducting Impact Due Diligence

by Irene Mastelli

Irene Mastelli, Independent Advisor, Maloja Advisory

Irene Mastelli works as an independent advisor to institutional asset owners in the field of sustainable and impact investments.

As we meet impact managers and conduct due diligence on their funds, we ask: what is different when looking at impact investing compared to mainstream investments. In this article, we argue, the two tasks and processes are similar in most aspects. At the core, investors want to know if the proposition is credible, if the team can execute on the strategy, and, in the process, gain knowledge of and become comfortable with key risks. Impact, however, requires at least three additional layers of expertise.

Responsible investing with intent

When conducting an impact due diligence, just as for traditional investments, investors should look at whether the target company or the investment manager is stable and well-resourced, if the team has experience, and if there is a convincing basis to generate economic returns. Beyond that, the first hurdle for the investment manager and investment team is to qualify as responsible investors. For example, they should have a strategy to tackle and mitigate environmental, social and governance (ESG) risks, and an overarching principle of "doing no harm". Impact investing is sometimes defined as an evolution of responsible investing (responsible investing with intent), and it should always incorporate its basic elements. In this respect, investigating how the investment company and team approach ESG is key.

The three dimensions of impact

Impact investing adds another dimension to the process – asset owners should also investigate the three key differentiators of the proposition: intent, contribution (also known as additionality, or the difference capital is making relative to someone else's), and finally reporting. In fact, impact is not an asset class, rather it is an approach that can be applied to many different types of investments, from single assets to comingled vehicles. Without all three elements of intent, contribution, and reporting, a fund can represent a 'sustainable' or 'thematic' strategy, but it does not constitute an impact investment.

The hunt for contribution

Of all three, contribution is probably the hardest to assess. Investment managers bear the burden of demonstrating that, should their capital not have been deployed in the project, the positive impact would not have been achieved. Very few managers can show true additionality. The use of techniques such as randomised control trials is, in many cases, either impossible, not viable, or plain unethical.

The necessary theory of change

For a strategy to qualify as impact, a credible "theory of change" is also necessary – a model, based on certain assumptions, that explains how the manager plans to go from action to outcome to more systemic impact.

Consider a fund providing capital to small medium-size enterprises delivering an essential service in an emerging market, with the intent to improve access to such service, and targeting underserved populations. The greater access to financing, for example, represents the additionality. Another contribution may be brought about by the investors' expertise in helping the target company to market its services more effectively. The theory of change explains how the company's action tackles the initial problem (the poor access to the essential service, in this case), leading to improvements for the target population, ultimately leading to overall societal gains. In this case, the model would have to highlight the assumptions and causal links to show how capital leads to better outcomes and systemic change.

The issues with reporting

Where available, the impact report can truly shed light on both contribution and theory of change. Reporting, therefore, is an essential piece of the proposition. However, many of these reports present the reader with a colourful "SDG patchwork" alongside wind turbines and happy children, but how many narrate a convincing story, with a coherent and logical model? They often miss a clear narrative linking the societal or environmental issue; how the capital makes a difference, which key performance indicators (KPIs) are targeted, which were achieved, and if the investments are leading to more systemic change. In addition, first-time funds will, of course, have a tough time presenting any reporting at all, given that they will have had nothing to report on.

The notion of impact investing does generate emotional value and impact reports give investment managers a chance to capitalise on that value, while being more creative. Ultimately, however, for impact investments to be taken seriously, reporting has to clearly showcase achievements and link them to the investment and impact thesis.

An additional hurdle is that a vast majority of the commercial, large, institutional impact funds are generalists. They invest in a number of unrelated sectors and impact themes, whether societal or environmental. As a result, reporting on unrelated KPIs is problematic. For example, reduced greenhouse gas emissions are unrelated to the number of adults in job training and these metrics cannot be presented coherently in one chart. Ultimately each manager should find ways to tell its own story in a compelling way.

In this respect, whilst the Sustainable Development Goals (SDGs) themselves represent an epochal shift, their use in impact reporting can be, at times, almost confusing. It seems that any economic activity can be classified under at least one of the goals, whether it is sustainable or not. The underlying targets, however, are more compelling than the 17 SGDs. For example, SDG 7 "Ensure access to affordable, reliable, sustainable and modern energy for all" is difficult to measure without looking at the underlying targets, for example target 7.3: "By 2030, double the global rate of improvement in energy efficiency". Ideally the report should explain how the fund plans to affect that specific area. Alternatively, managers may define goals on their terms, which might very well differ from the sub-targets, in a perfectly acceptable manner. As long as the aim is coherent with the goal and the effect consequent and measurable.

Tricky alignment

Beyond the design of an impact strategy and its deployment, investors should get comfort that the managers put their money where their mouth is. Compensation should be strongly tied to responsible behaviour and to achieving a positive impact. "Impact hurdles", i.e. variable compensation tied to the achievement of certain outcomes as per the fund's strategy are still relatively rare, however. Some teams donate part of the carried interest to worthwhile causes and, in some cases, that is presented as a part of the impact proposition. Mechanisms for full alignment of interests seem more important. Investors are interested in obtaining a financial return and contributing to societal and environmental impact. It may be optimistic to think that managers will be motivated as much by their contribution to charity as by the size of their personal bonus and carry.

The assessment of other qualitative and organisational aspects shouldn't be neglected. Investors should view positively the firm's engagement in industry initiatives (for example the Global Impact Investing Network (GINN), the UN Principles for Responsible Investing (PRI), or the IFC's Operating Principles), as well as the presence of a responsible investment function with real investment decision-making power. Similarly, investors should investigate the team's ability to generate a sufficient pipeline. Information about positive impact is not as widespread as financial information, and therefore, to screen investments from an impact perspective requires different skills. In this respect, particularly new impact managers benefit from the collaboration with philanthropic entities that bring knowledge and experience in delivering impact on the ground.

The gist of it

In summary, impact investment funds present three specific challenges, in addition to the risks of traditional funds. The first is a potential lack of responsibility in investing – for example, the absence of processes in place to ensure that investments are carried out responsibly, and that ESG risks are considered and integrated in the investment analysis. Failure to properly take these factors into account will ultimately result in either financial underperformance or reputational damage (or both).

Responsibility goes beyond the investment process. The culture and ethos of the people behind the strategy should be carefully evaluated. Recent news of irresponsible, or unethical, and in some case unlawful behaviour come to mind. The allegations that Bill McGlashan, founder of TPG's Rise Fund (one of the largest, most visible and earliest impact funds), was involved in an illegal college admission scheme provide the perfect example. McGlashan allegedly paid bribes to improve the chances of his children's admission to elite US colleges, charges which he denies. This kind of charges would hurt the reputation of any fund, but they may put the entire ecosystem in danger when they are associated with a supposed leader in the impact industry.

The second is "impact washing" – labelling an investment as impact hoping for a greater commercial appeal rather than a genuine intent to generate systemic change. This issue can be tackled by investigating a manager's impact proposition, and only consider as impact those with intent, contribution, and reporting, and a credible and substantiated theory of change.

The third is fraud, which is not specific to impact investing, but the risk may be higher when looking at investments that are designed to generate an emotional response from the investor. In its Operating Principles for Impact Management, which are considered an industry standard, the International Finance Corporation (IFC), the development finance institution of the World Bank Group – a large and sophisticated impact investor, calls for independent verification of impact by a third party or an independent committee within the firm. Whilst this is considered costly and can be perceived as bureaucratic, it is as essential as an independent financial verification, an indispensable line of defence against fraudulent schemes.

Conclusion

To conclude, analysing an impact proposition requires some of the same well-tested methods developed in the due diligence of traditional investment managers, as well as the analysis of additional elements that are the essence of what constitutes impact, and namely intent, contribution, and reporting, held up together by a theory of change. Asking questions and employing the same intuition that always served investors well, particularly when something does not smell right, remain of course indispensable.


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Inclusive Growth

Why global recovery shouldn't be at the expense of the planet

by Andrew Parry

Will the Covid-19 coronavirus crisis profoundly change the way we tackle social and environmental challenges? The answer to that will depend on our ability to learn from the mistakes made post Global Financial Crisis. As the world recovered from the 2008 financial crisis, a reliance solely on market forces and cheap borrowing led to a compounding of challenges. It resulted in a missed opportunity to deliver a more inclusive economic recovery that recognised the long-term benefits of tackling pressing social and environmental issues.

Andrew Parry
Head of Sustainable Investment at Newton, part of BNY Mellon Investment Management

While the arrival of Quantitative Easing in 2008 led to an economic recovery, it was a missed opportunity for governments to place incentives in the systems to encourage a flow of capital to areas of need rather than merely to bolster corporate profits – often at the expense of social and environmental challenges.

Today the European Union's planned Green Recovery Plan will provide a stimulus package focused on renovation, clean mobility, hydrogen and renewable energy. While we still await confirmation on the exact scale and details of the plan, it shows an ambition by some governments to use the crisis to accelerate the energy transition and to recognise the importance of shared social resources such as hospitals, schools, social housing and public transport.

With tens of millions of people losing their jobs, their livelihoods and potentially their wellbeing, we need to support a recovery that is intolerant of poverty (SDG1) and is backed by a vision that sustainability is a view of a possible future that brings multiple benefits for society and the world in which we dwell.

The city of Amsterdam is also a sign of optimism that more inclusive, cleaner growth can be placed at the centre of the recovery from the economic pain caused by the Covid-19 pandemic. The city is officially embracing the sustainable development framework created by the Oxford economist, Kate Raworth, which has become known as 'doughnut economics'. It is aiming to emerge from the crisis by balancing the needs of people without harming the environment: an ambitious commitment, and something of an experiment but precisely the sort of new thinking needed if we are not going to reinforce the broken paradigms of the past.

Sustainable development goals

A central part of Raworth's doughnut economic model is the inclusion of the UN Sustainable Development Goals for 2030 (SDG). These are an ambitious set of objectives created to deliver shared prosperity for all and to safeguard the wellbeing of the planet through their focus on unmet needs.

The goals were first launched in 2015 with the ambition of eliminating global poverty. The 17 SDGs were ostensibly designed for governments to work in partnership with broader civil society to improve health and education, reduce inequality, and to spur inclusive economic growth, while tackling climate change and preserving the health of our biosphere. A truly ambitious set of universal objectives signed up to by 193 countries.

Looking at the SDG through the lens of the Covid-19 crisis reinforces the potential powerful role they play in delivering an economic recovery with enduring benefits for the wellbeing of people and the planet. Yet the scale of the expenditure needed to deliver on the Goals is in the trillions.

For many, the original cost was seen as an uneconomic burden that countries could ill-afford at a time when they were still suffering from years of austerity post the financial crisis. For the optimists, the scale of the opportunity was seen in a different light: achieving the overarching goal of eliminating global poverty and securing the health of the planet would provide larger and more resilient markets in a way that social and environmental activists alongside investors and companies could agree upon. The very human cost of the Covid-19 crisis illustrates vividly that achieving these objectives represents an alternative vision of recovery to the free market, winner-takes-all-mentality of the last 40 years.

Meeting future needs

As we look at the scale of the stimulus packages put in place to haul the battered global economy out of its slump, the size of the funding for meeting the ambitions of the UN SDGs suddenly seems far more achievable. As we flirt with near-universal negative-interest rates, enlightened authorities have been granted an opportunity to embrace sustainable development as the cornerstone of a broader economic recovery at the lowest financing cost on record.

Aspirations, such as no poverty (SDG1), good health and wellbeing (SDG3), decent work and economic growth (SDG8), sustainable cities (SDG11), and responsible consumption and production (SDG12), are all central planks of a strong, vibrant economic system that is fit to meet our future needs and resilient to the inevitable shocks that will assail us periodically. Any civil society that aspires to peace, justice and strong institutions (SDG16) should automatically aspire to delivering an economic plan that embraces these manifestly obvious goals.

History has delivered to us severe economic conditions that became social crises before. The Great Depression of the 1930s and the recovery from the devastation of the Second World War required coordinated action between nations and between civil society and corporations. At his commencement speech at Oglethorpe University in May 1932, at the depth of the Great Depression, President Franklin D. Roosevelt made a rousing speech that marked the beginning of his New Deal plan. There was a line in that speech that presaged the importance of the SDGs and the central importance of sustainable development in tackling a slump: "...to inject life into our ailing economic order, we cannot make it endure for long unless we can bring about a wiser, more equitable distribution of the national income."

Importance of engagement

Thinking on sustainability is not new: the seminal Brundtland Report, published in 1987, remains the benchmark for a peer-reviewed, science-based approach to delivering a sound economy based on the principles reflected years later in the UN Sustainable Development Goals. Increasingly, the term 'stakeholder capitalism' is being touted as the successor to the shareholder-centric model that grew out of the economic malaise of the 1970s. If we are to achieve this transition, governments, regulators and corporations need to fully embrace the opportunity represented by Brundtland's definition of sustainability: "... development that satisfies the needs of the present without compromising the capacity of future generations, guaranteeing the balance between economic growth, care for the environment and social well-being."

The Covid-19 crisis is a very human experience. It has dislocated the lives of hundreds of millions of people across every continent. The pandemic has exposed a fragility in many health systems – even in the prosperous developed economies - that has undermined the health and future wellbeing of many (SDG3), and will leave scars for many years to come.

While investors cannot easily address the failing of individual health-care systems, they can influence better outcomes for all countries by actively engaging with companies to recognise the benefits of supporting the wellbeing of their workforce. For many workers, the absence of a societal or corporate safety net for health care has come at considerable personal expense, especially for the low paid.

There is also a cost to companies too from absences, staff turnover and poor productivity, as well as fragile supply chains originating in the developing world. A society struggling too much with economically marginalised workforces (SDG8) is not an economy operating at its optimal level, as it excludes many from participating in the benefits enjoyed by others. Creating islands of prosperity in a sea of inequality is not a recipe for enduring economic success, recognition of which was central both to the New Deal and the Marshall Plan, designed to rebuild Europe after WWII.

A sustainable recovery

The lens of sustainable development and even the UN SDGs, is ultimately about good capitalism: It is about deploying capital to areas that tackle the underserved needs of global society – a call option on future prosperity – hence identifying secular areas of growth.

With tens of millions of people losing their jobs, their livelihoods and potentially their wellbeing, we need to support a recovery that is intolerant of poverty (SDG1) and is backed by a vision that sustainability is a view of a possible future that brings multiple benefits for society and the world in which we dwell. To achieve this vision requires civil society to value the aspirations enshrined in the 17 SDGs and to recognise the shared benefits now and for future generations from such an approach.

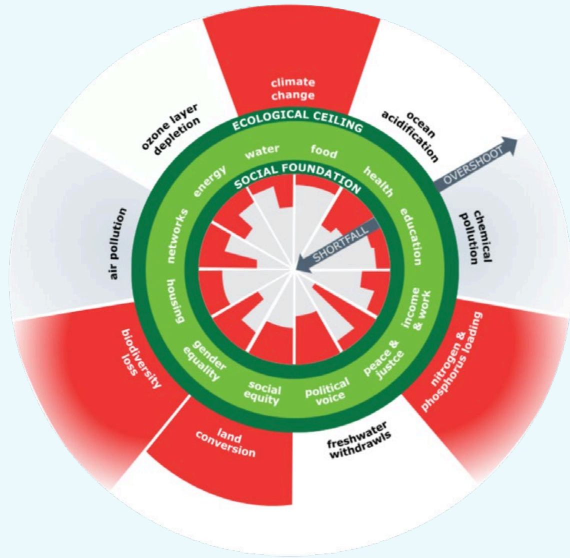
Working in partnership (SDG17) will be central to this outcome if we are to ensure that a better future for the many is delivered. The SDGs, along with ESG, are not a label of convenience to signal virtue: they are aspirations for the future that require action now.

It is not certain the future path we follow as societies will follow these lines, as there is a tendency for free-riding and self-interest to become the default in times of economic stress. Yet there are signs of hope that a better way of managing our future destiny is emerging that just requires us to cut loose from the anchors of past behaviour.

What on Earth is the Doughnut?...

Humanity's 21st century challenge is to meet the needs of all within the means of the planet. In other words, to ensure that no one falls short on life's essentials (from food and housing to healthcare and political voice), while ensuring that collectively we do not overshoot our pressure on Earth's life-supporting systems, on which we fundamentally depend – such as a stable climate, fertile soils, and a protective ozone layer. The Doughnut of social and planetary boundaries is a playfully serious approach to framing that challenge, and it acts as a compass for human progress this century.

The environmental ceiling consists of nine planetary boundaries, as set out by Rockstrom et al, beyond which lie unacceptable environmental degradation and potential tipping points in Earth systems. The twelve dimensions of the social foundation are derived from internationally agreed minimum social standards, as identified by the world's governments in the Sustainable Development Goals in 2015. Between social and planetary boundaries lies an environmentally safe and socially just space in which humanity can thrive.



Source: www.kateraworth.com/doughnut/
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Photo by Hannah Cedzo on Unsplash

Goal #11

Investing in Resilient Urban Trends

by Filipe Pires de Albuquerque

When Tom Walker and Hugo Machin joined Schroders as Co-Heads Global Property Securities after working together for six years at Australian-based AMP Capital, they knew they wanted to put their stamp on their new fund. "When Hugo and I joined Schroders in 2014, we wanted to create a fund that we would both be passionate about and want to invest in," Walker says.

Tom Walker
Co-head of Global Real Estate Securities, Schroders

"Hugo and I started working together in 2006, and we spent the best part of the next decade learning how real estate markets worked. In the process, we developed a philosophy of how an investor should invest to derive the strongest and most consistent returns. When we joined Schroders to take over a global listed real estate strategy, we thought it was our opportunity to make this fund our own, change the strategy, change the process and further improve returns for investors," Walker continues

Urbanisation – A Consistent Driver of Value

The experience of working in the market and observing successes and failures yielded essential conclusions for the Schroders duo. "We noticed that the strongest and most resilient returns were always created by assets in key cities around the world. Urbanisation is

"The cities of 2050 will be far more environmentally sustainable. Comparative advantage and the pressures of agglomeration will also lead to increased specialisation."

a crucial driver of economic growth and cities dominate a country's economy." Walker adds.

"Cities' networking and efficiencies allow them to become more dominant and increasingly attract more people. The conclusion was that urbanisation is a self-fulfilling prophecy and the most defining trend of the 21st century. Once the pieces fell into place, it was clear that the fund had to focus on urbanisation. Having defined our vision for the fund, we needed to find a way to quantify the strength of leading cities to motivate investment decisions."

Assessing Opportunities – Unbiased Quantification

"In terms of quantificating the strength of leading global cities, our secret weapon is data. We look at several factors, including economic growth, proximity to innovation, transport connectivity and the environmental risks. We created four proprietary databases with millions of data points to help us establish where the most promising opportunities lay."

The assessment process is not static but rather adaptable, according to Walker. "Our investment process has evolved as our understanding of urbanisation grows. At the inception of the fund, in 2014, there were two data sets. The fund started with an economic database mapping which cities have the strongest economies and an innovation database, which focuses on closeness to innovative universities. In 2018, these two datasets were enhanced with information about transportation and connectivity. Finally, in 2020, the environmental database, using data from NASA, the European Space Agency and the Japanese Space Agency added another layer of insight."

"We use data in a completely unemotional way to quantify which locations are going to be the best for us to allocate capital to," Walker explains. "Using data as opposed to emotion or our gut feeling biases, it is possible to identify the most attractive places to allocate capital. This emotional detachment remains a constant in our approach to how each of the databases and their constituent variables is weighted."

"One of the key databases which determine how a city ranks is the economic score. Of the relevant economic factors considered, median household disposable income was the one most correlated with rental growth, which is the target variable to maximise value for our clients. Other salient economic factors included GDP, retail sales, and the population growth of people aged 15 years and above.

Alignment with SDG 11

"The fund is naturally in line with SDG11," Walker says, referring to Sustainable Cities and Communities. "However, although we are aware of the criteria that the UN SDG framework stipulates under SDG 11, the fund uses metrics based on those data determinations made in the first stage of the investment process." The emphasis on innovation and transportation is also consistent with SDG 9 – Industry, Innovation and Infrastructure, with the focus on the environment contributing to SDG 13 - Climate Action.

"For example, when assessing the environmental risks for a relevant global city, there are three key areas of risk for our investors, and within these there are several sub-factors," Walker elaborates. "Our first consideration concerns the physical risk of investing in a specific city. It's crucial to determine whether

"It's impossible to have an economically strong location that is not environmentally sustainable. Those days are gone. May be ten or fifteen years ago one could have invested in a city that was very economically strong but was not so advanced environmentally. Today that is just not possible."

that city is exposed to specific physical risks, such as earthquakes, hurricanes, volcanos, heat stress or tropical storms."

"Next, the fund considers the wellbeing risk to individuals. Are people going to be working in a location where they will be breathing polluted air or drinking polluted water? The third relevant category is policy risk. What is the government doing to address air quality in any given city? Do they recognise that risk? Are they putting in place policies that will then improve that quality of air? These are all important issues to bear in mind" Walker explains.

"Every step of the fund's investment process before the actual capital allocation to a stock is trying to determine which companies have the most environmentally sustainable assets in the most environmentally sustainable location. Economic and environmental strength are inextricably linked. It's impossible to have an economically strong location that is not environmentally sustainable. Those days are gone. May be ten or fifteen years ago one could have invested in a city that was very economically strong but was not so advanced environmentally. Today that is just not possible."

The Investment Process

According to Walker, the data-driven quantification of the best investment locations is the starting point of the first stage of the investment process. "Having identified the best cities, it is necessary to select the companies with the best value prospects. That is all done through the data. The funds use several sophisticated python scripts that scrape the websites of companies to generate an up-to-date and accurate geospatial analysis of their portfolios."

"Our mandate allows us only to invest in publicly listed real estate companies. However, within that mandate, the fund is not constrained. We invest in a wide range of assets, including residential, commercial, offices, warehouses, infrastructure, hospitals, data centres and self-storage."

"Having identified the companies with the highest exposure to the leading cities, the second phase of the investment process is very much the normal analysis associated with real estate analysis. We physically visit the properties, assess the demand and the supply of that market, consider the strength of prospective investee balance sheets, analyse the quality of the asset and meet management teams."

"Where the fund stands out is in the fact that the four databases used in the first stage purely determine which companies are analysed. We don't waste any time looking at companies that do not have assets in attractive cities."

ESG Integration for Company Selection

In the second stage of their investment process, after selecting preferred locations and once they begin considering potential companies, Walker and Machin's analysis integrates considerations about the environmental, social and governance performance of those specific real estate companies.

"ESG sustainability is a crucial part of the fund. Fundamentally, we are looking to invest in the most environmentally sustainable city and to own the assets that contribute the most to a sustainable environment. To that end, the fund is interested in companies that use recycled materials in their construction, falling energy intensity and increased reliance on renewable

"ESG sustainability is a crucial part of the fund. Fundamentally, we are looking to invest in the most environmentally sustainable city and to own the assets that contribute the most to a sustainable environment.

energy sources, water recycling, etc. In new buildings, tenants only sign a lease on a property if it has strong environmental credentials. Companies and society today need to reduce their environmental impact. Those that ignore this fact will not succeed," Walker explains

"In addition to environmental sustainability, the fund also considers the social credential of these companies. Considerations about real estate companies' contribution to their local areas and their communities and whether they are providing jobs are important for investment decisions. The fund prioritises companies that are doing this very well. Hopefully, that creates a self-fulfilling prophecy. If the companies have a lower cost of capital, they can work towards further improving their portfolio and their sustainability ratings," adds Machin.

The Global Real Estate Sustainability Benchmark's (GRESB) analysis shows that the fund owns some of the world's leading sustainable real estate companies, as well as the key players in their subsectors, including self-storage, commercial or industrial real estate. In Sweden, the fund owns shares in Faberge, which has extremely promising environmental credentials, a real estate portfolio solely focussed on Stockholm and are listed on the stock exchange.

Value Creation in the Post COVID-19 World

"We are always looking to evolve in terms of our investment assessment. Although there are no plans to add new databases to the Schroders Global Cities fund, the existing sources are updated to improve our information and find better opportunities," Walker says.

"The fund has performed well over the last 5 years. Investing in resilient Global Cities allows the fund to do well in rising markets and in difficult times," he explains. "So far this year the fund has outperformed our benchmark by 8%, following a 10% outperformance last year." Please note that past performance is not a guide to future performance and investors may not get back the original amount invested.

Looking ahead at investment trends in a post-Coronavirus world, the future remains uncertain, of course, but Walker discerns some favourable patterns. "The portfolio is positioned to profit from trends which will be accelerating in the next decade, because of COVID19. Lockdowns have favoured online retail and working from home, to the detriment of traditional retail and offices. There will be fewer interactions in offices, but the remaining interactions will be more important and still take place in a city. Suburban office locations will be particularly fragile. Warehouses and data centres will benefit."

"The cities of 2050 will be far more environmentally sustainable. Comparative advantage and the pressures of agglomeration will also lead to increased specialisation. There will be an even stronger tendency towards a select few cities becoming the dominant knowledge hubs for specific industries, and will be the drivers of economic growth for the countries they are in," Walker concludes.

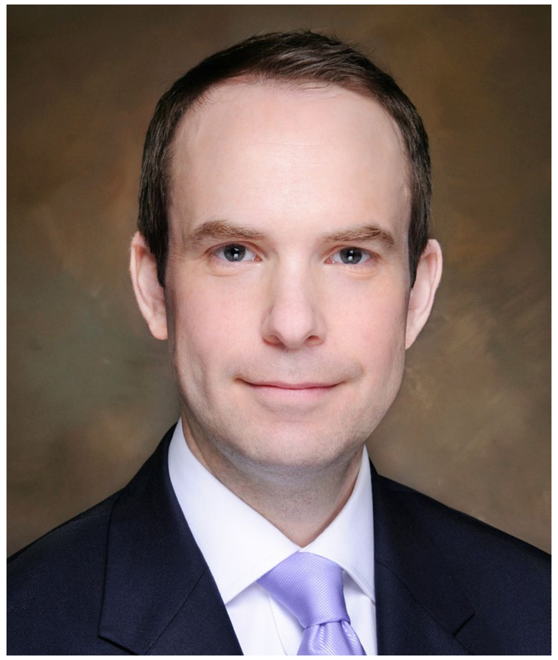
Photo by Charles Deluvio on Unsplash

Goal #17

Partnerships Between Clients and Global Investors Shaping New Opportunities for the SDGs

by Aline Reichenberg Gustafsson, CFA

Worldwide, the role of the financial sector in sustainable development is increasingly emphasized. Long-term investments, including foreign direct investment, play a key role in directing resources to where they are most needed, away from where they are not, and for mobilizing change around the Sustainable Development Goals (SDG).



Laurence Taylor
Portfolio specialist
T. Rowe Price Sustainable Global Growth Equity Fund

With public policy and UN-led initiatives such as the Principles for Responsible Investment (PRI) shining a spotlight on this issue, we have seen a partnering of sustainability and financial thinking that moves beyond traditional assumptions about the passive role of private financial institutions in sustainable development agendas, and spotlights the financial sector as an agent of change.

The strengthening of laws and increasing public interest in the sustainability of financial investments, are two of the driving forces behind this changing perception. However, there remains disagreement about the precise role of large financial institutions in specific sustainable development issues, and precisely how to achieve industry-wide change that reflects shifting customer and policy demands.

It is here that the final Sustainability Goal #17: Partnerships for the Goals, plays a significant part in our capabilities as an industry to address the other 16 aims. Partnerships for the Goals is most often focused on creating links between state actors and the private or charity sectors. However, for us, it is also interesting to consider how partnerships within sectors such as the financial industry (between companies, internal departments, and among individuals) help to shape the changes necessary to meet the aims of sustainable development.

For a traditional asset management firm like T. Rowe Price, the emergence of sustainability thinking has opened-up a world of new ways to view the investment landscape. Partnerships, both internal and external to the firm, have in many ways helped to reframe and reshape traditional thinking, and to build a framework for improved transparency and flexibility that better serves client needs.

Within this article, we look at how the sharing of ideas through internal and external partnerships is helping to drive change throughout the company. The creation of a new range of sustainable investment products is a prime example of this.

Partnerships Between Clients and Global Investors Shaping New Product Development

T. Rowe Price has recently registered three new sustainable funds in Sweden – the first funds of this type that the company has launched. This shift in product direction was greatly influenced by the engagement of some of their larger Nordic clients. Henrik Fahlåker, Country Head for Sweden at T. Rowe Price, recently spoke about the firm's new sustainable funds and the key role that internal advocacy played in their development. According to Mr. Fahlåker, "our proprietary exclusion screen was developed in response to the most common ESG concerns expressed by our clients. The sustainable range of funds, however, were ultimately made possible by the early commitment and support of two key clients, Söderberg & Partners and SPK. Mr. Fahlåker goes on to state that the two clients were "onboard right from the start, putting their trust in the T. Rowe Price sustainable proposition."

According to Patrik Ohlsson, Head of Responsible Investments at Söderberg & Partners Asset Management, his firm has a long-standing relationship with T. Rowe Price. In a statement about the new sustainable funds, and their partnership with T Rowe Price, in helping to create them, he said, "We consider sustainable investments to be a key component of future returns in our funds and we are pushing all our external managers to improve in this area. The dialogue is transparent, and we share our views and how we analyze ESG factors to facilitate mutual progress with our collaborators. We have a long-standing relationship with T. Rowe Price and value their expertise in managing US Equity. As our sustainability work is constantly developing, we expect to see the same from our external managers. With their Sustainable Funds, we believe T. Rowe Price is on the right path and is well aligned with our policy for responsible investments."

Stefan Ros, Chief Investment Officer at SPK, also highlighted the role of partnership in achieving change, commenting that "Our sustainability policy for investments focuses on risks related to ESG factors. Our main process for enabling this is through dialogue and engagement to influence the external managers to work in the same direction as we do to achieve the highest standard of ESG integration. We were pleased to support T. Rowe Price in launching an SRI variant of its flagship Global Growth Equity Fund, which is largely aligned with our sustainability policy. The new sustainable fund is managed by the same team as the original fund and aligns well with our sustainability policy and our overall approach to ESG."

Sustainability Teams Driving Change in Investor perspectives

In the two years since joining, Maria Elena Drew, Director of Research, Responsible Investing at T. Rowe Price has focused on fully integrating ESG analysis as part of the investment process. As she described in an interview with us last year, some of the most important projects she and her team were involved in revolved around educating investment managers about how ESG analysis can help their investment process. Today, portfolio managers and analysts at T. Rowe Price are supported by Maria's specialist ESG team, providing proprietary ESG factor analysis, as well as written research on key ESG topics (both investment specific and thematic), and providing subject matter expertise on specific issues.

Talking about the current COVID 19 crisis, Laurence Taylor, portfolio specialist for the new T. Rowe Price Sustainable Global Growth Equity Fund, believes that the additional perspectives afforded by ESG analysis are ever more important as we deal with the uncertainties of current markets. Mr Taylor states, "societal pressures are constantly forcing managers to integrate and improve ESG dimensions. I can see real potential for the crisis period we are living through to compound these pressures as we eventually return to a new normal. How to interpret (changes in the investment environment) and how to invest on the right side of them, stock by stock, will form an even more crucial part of our job in a post coronavirus world."

Mr. Taylor also sees this as an opportunity for T. Rowe Price. In his view, "clients are looking for help and intelligent observations in a difficult time," and institutional investors like T. Rowe Price have huge potential to help enrich solutions by playing an active part, and working together with clients, to build well balanced, integrated portfolio solutions.

At T. Rowe Price, analysts and portfolio managers have responsibility for integrating ESG factors into investment decision and therefore it is encouraging to see growing engagement with ESG as a tool for analysis, enriching portfolios with a different way of understanding value and ultimately helping ensure value for the long term.

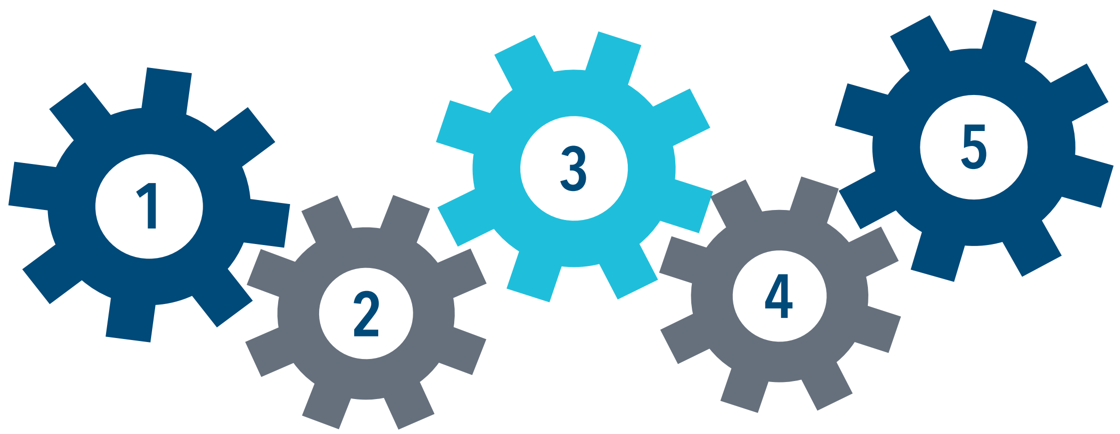
Partnerships Between Investors and Industry Shaping Change

Participation in collaborative industry initiatives also supports T. Rowe Price's core engagement program. The firm selectively engages in partnerships that it believes can have the most viable and impactful effect on change.

Often, these initiatives target improved disclosure or business practices on a market-wide level. In 2017, for example, T. Rowe Price joined a coalition of 16 large investors to become a founding member of the Investor Stewardship Group (ISG). ISG was formed to bring investors together to address fundamental issues of governance and investment stewardship in the US, where no market-wide governance code existed.

Five key considerations for collaborative engagement

When considering participation in a collaborative engagement initiative, we weigh the following factors:



ALIGNMENT

How closely aligned is this engagement opportunity with our investment holdings? Dose it include companies where we are significant shareholders?

IMPACT POTENTIAL

Would our participation help the engagement initiative? Dose it need a large asset manager merely to gain attention, or dose it already have broad support?

RECOURSE FOCUS

Dose the engagement make the most efficient use of our internally dedicated engagement resources?

PRACTICALITY

Have we already undertaken the same engagement or very similar engagements unilaterally with success?

TANGIBILITY

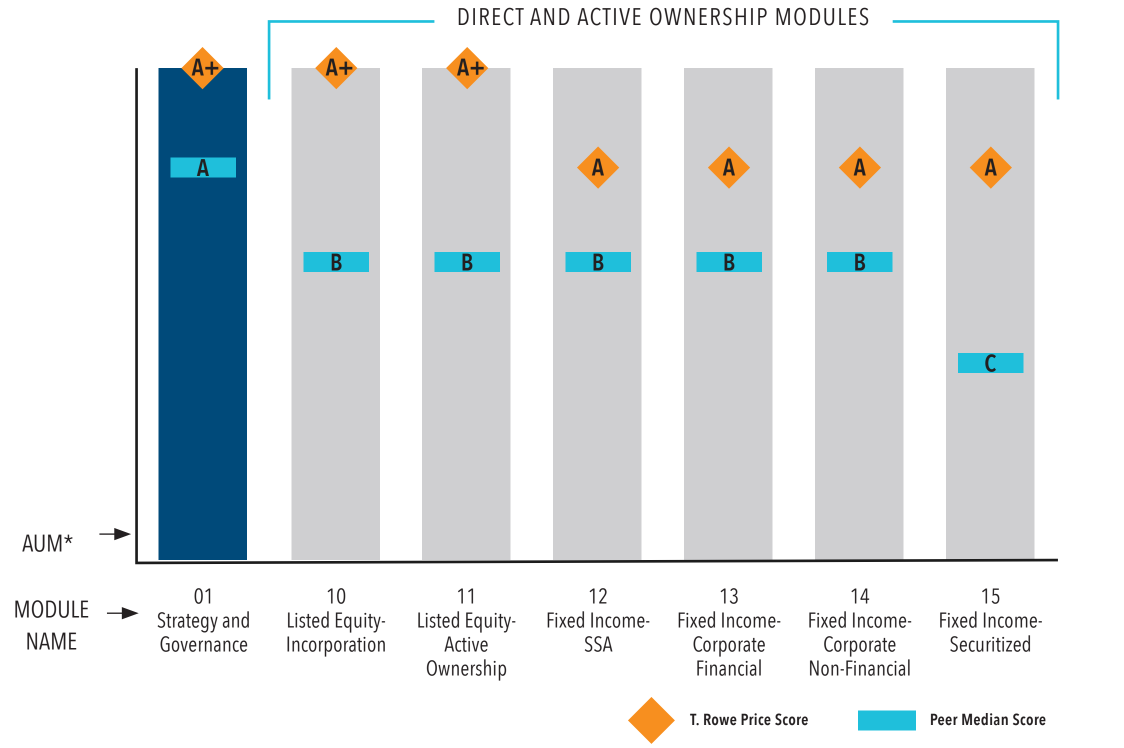
Is the cope of the collaborative engagement clear and are we confident that it will not change over time?

Source: T Rowe Price ESG Report 2019, pg 34 .

T. Rowe Price PRI Scorecard 2019

As of July 2019

T. Rowe Price has been a signatory of the PRI since 2010.



* Asset Classes were aggregated to four ranges: 0%, <10%-50%, and >50%. T. Rowe Price AUM, as of December 31, 2018

Source: T Rowe Price ESG Report 2019, pg 36

Under the PRI's transparency requirements, all signatories complete an annual self-assessment. A significant portion of this report must be publicly disclosed on the PRI's website. T. Rowe Price's most recent Transparency Report is available via the PRI data portal dataportal.unpri.org. The PRI Summary Scorecard provides an overview of our aggregate score for each module assessed and the median score. These bands range from "A+" (top band) to "E" (lowest band). The PRI Assessment scoring methodology is available at unpri.org.
Source: PRI Assessment report 2019, showing the applicable T. Rowe Price scores.

Similarly, T. Rowe Price was one of 40 organizations and individuals to sign on as original members of the Japan Stewardship Initiative (JSI). Launched in November 2019, the aim is to encourage wide-ranging discussions among asset owners, asset managers, and other interested parties, on issues related to company stewardship – and where the outcomes of those discussions will drive beneficial change for everyone in the industry.

Conclusions

The financial industry has a vitally important role to play in ensuring sustainable development. Indeed, the SDGs include access to financial services among its core targets. However, it is not enough to simply act as a passive provider of capital. Industry participants at all levels must take a more active role in ensuring that the allocation of capital continues to be most efficiently and effectively channeled in the pursuit of sustainable development.

Collaboration and partnership across the industry play a crucial part in this. It is not only macro level partnerships, between industry heavyweights and state actors, or NGOs, that can affect positive change. Partnerships at all levels can achieve similarly positive, smaller scale outcomes. T. Rowe Price's development of a new range of sustainable funds in close partnership with key clients is one such example.

As an industry, it is crucial that we work together to effectively respond to the growing public appetite for positive change, and to actively participate in fostering long-term sustainable development.

You can read more about ESG at T Rowe Price by clicking through to their latest ESG Report.

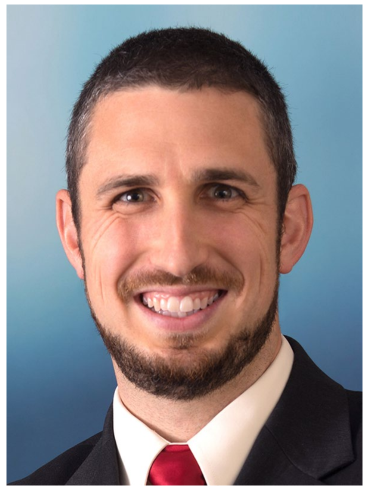
Photo: Franklin Templeton

Real Estate

Contributing to the SDGs
through Real Estate
The Case for Social Infrastructure

by Raymond Jacobs and John G. Levy

Buildings and services with a civic and social purpose underpin our economies. At Franklin Real Asset Advisors, we define these physical assets as social infrastructure. Examples of social infrastructure include hospitals, schools, affordable housing and buildings related to justice, emergency and civil services.

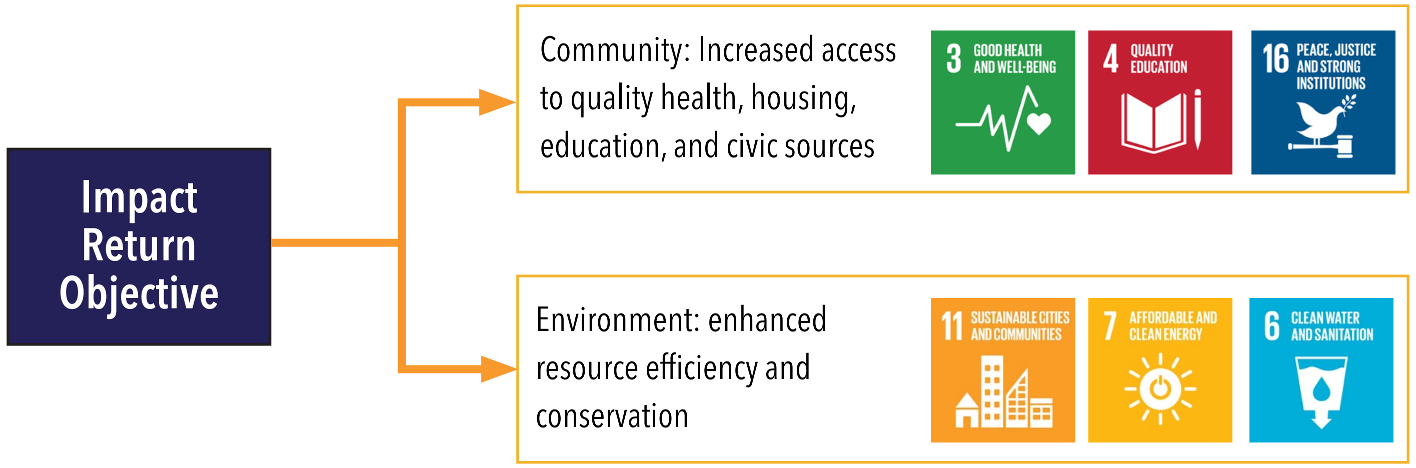


Raymond Jacobs,
Managing Director,
Franklin Real Asset Advisors

John G. Levy, CFA, CAIA
Director of Impact,
Franklin Real Asset Advisors

While social infrastructure is crucial to the health and vibrancy of communities, these vital assets have suffered from underinvestment during the past decade. Furthermore, the current COVID 19 crisis is not creating just a health crisis. It is creating a human crisis affecting all 17 Sustainable Development Goals (SDGs). In this context, we believe that private investors have an opportunity to make a great contribution through impact-focused strategies that align to some of the SDGs, while also achieving a financial return.

The SDGs guide our impact management system and we aim to measure and report back our specific contributions to the SDGs we target. Our impact strategy has two vectors, community and environment and it is aligned to six SDGs as shown in the exhibit. In this article we will provide detailed examples to show how social infrastructure can directly contribute to these crucial goals.



Contributing to SDG3

The Case fo Healthcare

Challenge

At least half of the global population does not have access to essential health services[1] despite the significant advances in medicine and medical technology. And where health services do exist, the challenge is to provide services of high quality[2]. While most of Europe enjoys universal health coverage, quality health care is not always available. As Europe's population ages, demand for more and better health care-related infrastructure and services is expected to increase[3].

The Role of Social Infrastructure

Healthcare is a key sector of social infrastructure. We aim to contribute to this SDG by improving and expanding healthcare facilities. SDG 3 can also be supported with sale and leaseback arrangements for healthcare operators that provide quality services.

Strategy in Action

Our strategy has acquired seven healthcare assets. Early in 2019, we were introduced to a struggling operator in Lido de Venezia, Italy. Given the location of the property, other investors saw the asset as a prime opportunity to redevelop the space into a high-end residential and hotel offering. By acquiring the asset and bringing in new and experienced operators, we ensured that Lido de Venezia would continue to have access to local healthcare services. In addition, through the utilization of a special tenant-financed capital expenditure (CapEx) plan, we are improving the asset which will, in turn, boost the quality of care that can be provided. Finally, through conversations with the tenant, we have identified opportunities to expand the space available to them through further reconditioning and development at the site, helping to increase the space dedicated to these services

[1] Source: UN SDG3, United Nations, Sustainable Development Goals
[2] Source: Improving healthcare quality in Europe. European Observatory on Health Systems and Policies, 2019
[3] Source: Population structure and ageing, Eurostat, as of March, 2020

Contributing to SDG4
Investing in Education

Challenge

Over the last 15 years, Europe has increased the rate of students completing secondary school. For most countries, between 80 and 90% of students graduate with a high school certificate[4]. However, there is still insufficient access to quality education at all levels—daycare, primary, secondary, and university—with adverse effects on individuals and communities. The need for safe, high quality education facilities is therefore clear.

The Role of Social Infrastructure

Education is a key sector of social infrastructure. We aim to support this SDG with investments in quality education assets in Europe. The strategy is similar to how we approach investments in healthcare: we look to preserve, improve, and expand education.

Strategy in Action

In June of 2019, we acquired the Valla Park property, a multi-tenant and multi-purpose building in the Swedish town of Sundbyberg that includes a number of educational facilities. These include IES, a free primary school; NTI Gymnasiet, an upper secondary school specialised in technology, IT design, and media; and Yrkes Akademin, a leading company in the vocational education and labour market training industry. In addition to the privately-run education services, the local municipality operates education services on the property, including an adult vocational school, a job centre to coach those in lower skill jobs, and a school for adults without high school qualifications. We aim to carry out physical improvements to the educational facilities and, through our engagement with tenants, develop community initiatives.

Contributing to SDG7
Improving Energy Efficiency

Challenge

The EU's 2030 climate and energy framework sets ambitious targets for clean energy and energy efficiency. The built environment has a significant role to play in meeting these sustainable energy goals.

The Role of Social Infrastructure

As owners of social infrastructure assets, we can contribute to SDG targets 7.2 and 7.3 by improving the energy efficiency of buildings and evaluating the installation of rooftop solar systems where appropriate.

Strategy in Action

In every business plan we include asset-specific improvements such as LED lighting, smart metering, and the use of energy management systems. In 2020, we will conduct solar feasibility assessments across the whole portfolio and install rooftop solar where indicated.

[4] Source: Secondary graduation rate, Organization for Economic Co-operation and Development, as of March, 2020

Contributing to SDG11
The Growing Need for Affordable Housing

Challenge

Urbanization and associated community and environmental issues are central to SDG 11. Europe's increasingly dense urban areas suffer a lack of amenities, inadequate waste disposal, high prices of basic goods, and not enough affordable housing[5]. As urban populations continue to rise, the need for urban mobility, energy efficiency, and community resiliency becomes increasingly critical. One in four Europeans are considered "rent burdened"—spending more than 40% of disposable incomes on rent—while ballooning housing costs are increasing the number of people at risk of poverty[6].

The Role of Social Infrastructure

We believe social infrastructure is uniquely positioned to contribute to both aspects of this SDG. From a community perspective, the preservation of safe and affordable housing directly aligns with SDG target 11.1. From an environmental standpoint, we work with tenants to ensure that waste is minimised, and recycling practices are optimised to support SDG target 11.6.

Strategy in Action

In September of 2019, we acquired a portfolio of unoccupied homes and apartments in Cambridge, UK, where there is a shortage of affordable housing for students, senior residents and low-income workers. Local hospital staff, for example, are considered rent burdened. We aim to make our housing portfolio available to students at below-market rates, thereby meeting a community need We are also in talks with the local community council to learn more about which groups may best be served by this portfolio. We will then jointly develop an action plan to best address the housing needs of the community.

Not all the world's problems can be directly addressed through impact investing, and even fewer can be addressed in a market-rate, core real estate strategy. However, much more can be done than at present. We hope to be a part of a paradigm shift where profit-seeking capital can directly address some of the world's biggest problems. We aim to align investment strategies with the United Nation's Sustainable Development Goals (SDGs), thereby creating a virtuous circle of financial growth and positive impact.

More information can be found is our recently released Annual Impact Report.

[5]Source: UN SDG11, United Nations, Sustainable Development Goals
[6]Source: Housing statistics, Eurostat, as of June, 2020

about our partners

American Century Investments is a leading global asset manager focused on delivering investment results and building long-term client relationships while supporting research that can improve human health and save lives.

Founded in 1958, American Century Investments' 1,400 employees serve financial professionals, institutions, corporations and individual investors from offices in New York; London; Hong Kong; Frankfurt; Sydney; Mountain View, Calif.; and Kansas City,

Mo. Jonathan S. Thomas is president and chief executive officer, and Victor Zhang serves as chief investment officer. Delivering investment results to clients enables American Century Investments to distribute over 40 percent of its dividends to the Stowers Institute for Medical Research, a 500-person, non-profit basic biomedical research organization.

The Institute owns more than 40 percent of American Century Investments and has received dividend payments of $1.6 billion since 2000. American Century Investments is a signatory to the United Nations Principles of Responsible Investing, the world's leading proponent of responsible investment. For more information about American Century Investments, visit www.americancentury.com.

BNY Mellon Investment Management is one of the world's largest investment firms. We believe that the right results begin by being relevant to every client, whether that is engaging the way they want, offering diversified strategies or providing quality insights for better informed decisions.

That is why we have designed a model that is built around investors' needs to offer the best of both worlds: bringing together world-class investment firms with best of breed talent and unique cultures combined with the global scale and strength of BNY Mellon Investment Management. We look to connect investors with opportunities across every major asset class, globally.

Today, we have eight investment firms: Alcentra, ARX, Dreyfus Cash Investment Strategies, Insight, Mellon, Newton Investment Management, Siguler Guff and Walter Scott.

At Franklin Templeton, we're dedicated to one goal: delivering better client outcomes. By bringing together multiple, world-class investment teams in a single firm, we're able to offer specialized expertise across styles and asset classes, all supported by the strength and resources of one of the world's largest asset managers. This has helped us to become a trusted partner to individual and institutional investors across the globe.

Franklin Real Asset Advisors (FRAA) is our dedicated investment team for real assets. They have been investing globally since 1984. The team provides global expertise in private real estate funds, including core, non-core and impact investing strategies.

As a global investment manager, we help institutions, intermediaries and individuals meet their goals, fulfil their ambitions, and prepare for the future. But as the world changes, so do our clients' needs. That's why we have a long history of adapting to suit the times and keeping our focus on what matters most to our clients.

Doing this takes experience and expertise. We bring together people and data to spot the trends that will shape the future. This provides a unique perspective which allows us to always invest with conviction. We are responsible for £500.2 billion (€590.3 billion/$662.6 billion)* of assets for our clients who trust us to deliver sustainable returns. We remain determined to build future prosperity for them, and for all of society. Today, we have over 5,600 people across six continents who focus on doing just this.

We are a global business that's managed locally. This allows us to always keep our clients' needs at the heart of everything we do. For over 200 years and more than seven generations we've grown and developed our expertise in tandem with our clients' needs and interests.

Further information about Schroders can be found at www.schroders.com.

Founded in 1937 during the Great Depression, T. Rowe Price is built on the enduring philosophy of our founder – meeting clients' individual needs. For over 80 years and through changing investment and economic environments, the core principles that guide our business have remained the same.

Research informs our decision making and guides our culture of collaboration and diverse thinking.

Our global research platform is the engine behind our portfolios. We have 302* specialist equity and fixed income research analysts based in 9 offices around the world, collaborating through joint analyst meetings and regularly sharing their research across asset classes and regions.

Our team provides a 360-degree view on all investments, delivering insights and best ideas to our portfolio managers. Going beyond the numbers to keep our investors on the right side of change.

* (as of 31 March 2020)

Tracing our history to 1928, Wellington is one of the world's largest independent investment management firms. With approximately US$1 trillion in assets under management as of 31 March 2020, we serve as a trusted investment adviser to a diverse client base of more than 2,200 institutions, insurers, global wealth managers and mutual fund sponsors in over 60 countries. Our comprehensive investment capabilities are built on the strength of rigorous, proprietary research and span nearly all segments of the global capital markets, including equity, fixed income, multi-asset and alternative strategies. As a private partnership whose sole business is investment management, our long-term views and interests are aligned with those of our clients.

NORDSIP
NORDIC SUSTAINABLE INVESTMENTS

Investing Along the 17 Shades of SDGs

Handbook Series
October 2019