

THE SDG INVESTMENT CASE

THE SIX PRINCIPLES

PREAMBLE TO THE PRINCIPLES

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

- 1 We will incorporate ESG issues into investment analysis and decision-making processes.
- 2 We will be active owners and incorporate ESG issues into our ownership policies and practices.
- 3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- 4 We will promote acceptance and implementation of the Principles within the investment industry.
- 5 We will work together to enhance our effectiveness in implementing the Principles.
- 6 We will each report on our activities and progress towards implementing the Principles.



PRI's MISSION

We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.

The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

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EXECUTIVE SUMMARY

The launch of the UN Sustainable Development Goals (SDGs) in 2015 has made clear that the global community of countries relies heavily on the private sector to solve some of the most urgent problems the world is facing. Both companies and institutional investors are being asked to contribute to the SDGs through their business activities, asset allocation and investment decisions.

Discussions taking place since the launch of the SDGs tend to focus on how investors can contribute to the SDGs. But it is often too easily taken for granted that investors are already convinced they should. *The SDG investment case* tries to answer the question: Why are the SDGs relevant to institutional investors? It explains what the SDGs are, why there is an expectation that investors will contribute, and then makes the case for why investors should want to.

Since the launch of the Principles for Responsible Investment in 2006, the preamble to the Principles has said: “We recognise that applying these Principles may better align investors with broader objectives of society.” Never before have these “broader objectives of society” been more clearly defined than in the SDGs. All the countries of the world have agreed on a sustainability agenda, covering three broad areas – economic, social and environmental development – and comprising 17 global goals, further developed in 169 targets, to be reached by 2030.

As well as the SDGs providing the first generally agreed framework that defines the “broader objectives of society”, SDG 17 clearly shows the global community’s need to get investors on board. But to do so, investors will want to know how contributing to the SDGs will help them fulfil liabilities and beneficiaries’/clients’ expectations about risk-adjusted returns. They will ask: Why should I consider the SDGs relevant to my investment strategy, policy, asset allocation, investment decisions and active ownership?

THE GLOBAL GOALS For Sustainable Development



We group the SDGs' relevance to responsible investors into five overarching arguments:

1. THE SDGS ARE THE GLOBALLY AGREED SUSTAINABILITY FRAMEWORK

The SDGs are an articulation of the world's most pressing sustainability issues and as such act as the globally agreed sustainability framework. The SDGs can support investors in understanding the sustainability trends relevant to investment activity and their fiduciary duties.

2. MACRO RISKS: THE SDGS ARE AN UNAVOIDABLE CONSIDERATION FOR "UNIVERSAL OWNERS"

Large institutional investors relying on modern portfolio theory can be considered "universal owners": their highly-diversified, long-term portfolios are sufficiently representative of global capital markets that they effectively hold a slice of the overall market, making their investment returns dependent on the continuing good health of the overall economy. They can therefore improve their long-term financial performance by acting in such a way as to encourage sustainable economies and markets.

Failure to achieve the SDGs will impact all countries and sectors to some degree, and as such create macro financial risks. Universal owners' portfolios are inevitably exposed to these growing and widespread economic risks – which are in large part caused by the companies and other entities in which they are invested.

3. MACRO OPPORTUNITIES: THE SDGS WILL DRIVE GLOBAL ECONOMIC GROWTH

Achieving the SDGs will be a key driver of global economic growth, which any long-term investor will acknowledge as the main ultimate structural source of financial return: over the long term, economic growth is the fundamental driver of the growth in corporate revenues and earnings, which in turn drive returns from equities and other assets.

The SDGs aim to create a viable model for the future in which all economic growth is achieved without compromising our environment or placing unfair burdens on societies. Embracing the relationship with society, the environment and government creates a new strategic lens through which to view and judge business success.

4. MICRO RISKS: THE SDGS AS A RISK FRAMEWORK

In the last 10 years, responsible investment has evolved from being a primarily exclusionary approach to one focused on identifying companies that can effectively manage ESG risks and opportunities. The challenges put forward by the SDGs reflect that there are very specific regulatory, ethical and operational risks which can be financially material across industries, companies, regions and countries.

At some point in the future, a significant proportion of currently external costs such as environmental damage or social upheaval might be forced into companies' accounts. The uncertainty surrounding the timing and extent of this internalisation is a critical component of the overall risk landscape facing investors. The SDGs and underlying targets provide a common way of referencing the move towards a more sustainable world, and can thus strengthen investors' ESG risk frameworks.

5. MICRO OPPORTUNITIES: THE SDGS AS A CAPITAL ALLOCATION GUIDE

Companies globally moving towards more sustainable business practices, products and services provide new investment opportunities. If investors believe that providing solutions to sustainability challenges offers attractive investment opportunities, they can implement investment strategies that explicitly target SDG themes and sectors. Opportunities are available in most asset classes, for example: clean technology stocks in listed equity, private equity and venture capital; low-carbon infrastructure; green bonds; green real estate, sustainable forestry and agriculture.

In many cases investors are implicitly taking these factors into account already, but not articulating it: the SDGs give a common language with which to shape and articulate such an investment strategy.

MORE ON WHAT THE SDGS MEAN FOR PRI SIGNATORIES

Making the investment case is an important part of the PRI's work on the SDGs, but it is just the beginning. The SDGs and their targets provide a way to understand and measure investors' real-world impact, and a way for responsible investors to demonstrate how their efforts to incorporate issues such as climate change, working conditions and board diversity into their investment approach are contributing to the kind of world their beneficiaries want to live in.

As part of our *Blueprint for responsible investment*, we identified that we will:

- set out steps and develop tools for investors to align their investment activities with the SDGs;
- encourage investors to seek, through the full range of active ownership activities, corporate responsibility enhancements that advance the SDGs;
- encourage capital towards projects with positive, real-world impact;
- introduce the SDGs into the PRI Reporting Framework;
- map our work against the SDGs, and report on our contribution towards them;
- engage policy makers to encourage public policy that supports the SDGs;
- work with our UN partners to deliver the SDGs, such as by leveraging UNEP FI's Principles for Positive Impact Finance and the UN Global Compact's Ten Principles.

“The granularity and detail of the SDGs helps investors to more clearly articulate how they are applying ESG topics to their investment decision making and engagement. It further helps investors communicate to clients how their money contributes to the broader priorities of global society.”

Carly Greenberg, CFA, Senior ESG Analyst, Walden Asset Management

“The SDGs are a powerful, visible and colourful set of flags around which investors can gather to learn a common language. Improved communication, complemented by bigger data on the consequences of choices made in the past, will lead to a better understanding and better investment decisions for the future. The SDGs are also 17 globally recognised beacons which investors can move towards. The speed and the direction of progress, how to measure it, and how to manage it is now a question of ‘how and when’ and not a question of ‘if or why’. Investors now have a framework within which to channel their sense of urgency for change towards more sustainable development.”

Vivina Berla, Co-Managing Partner, Sarona Asset Management

INTRODUCTION: INVESTORS AND THE SUSTAINABLE DEVELOPMENT GOALS

In September 2015 the global community, represented by all 193 member states of the United Nations (UN), adopted the Sustainable Development Goals (SDGs). The 17 SDGs and 169 individual targets will guide the global community's sustainable development priorities from now until 2030 and seek to “stimulate action [...] in areas of critical importance for humanity and the planet”¹.

Countries, NGOs, companies and investors are all needed to help achieve the 17 SDGs and the 169 underlying targets. Never before has the global community set out such an ambitious agenda – and the need to meet the challenges is urgent: the UN Commission on Trade and Development (UNCTAD) estimates that meeting the SDGs will require US\$5 trillion to US\$7 trillion in investment each year from 2015 to 2030. In order to unlock this opportunity, it will be critical for investors to re-orient their investment flows towards the new innovative products and services focused on finding solutions to achieve the SDGs. In their recently published “taxonomy”, Dutch pension managers APG and PGGM have identified investment opportunities linked to 13 of the 17 SDGs and demonstrated areas they consider potential “sustainable development investments”, bridging the gap between the UN's targets and tangible investment opportunities.

While government spending and development assistance will contribute, they are expected to make up no more than US\$1 trillion per year, so new flows of private sector capital will be key, either through new allocations or by re-routing existing capital flows.

“At its essence, sustainability means ensuring prosperity and environmental protection without compromising the ability of future generations to meet their needs.”

Ban Ki-Moon, Secretary General, United Nations²

THE GLOBAL GOALS For Sustainable Development



¹ <https://www.un.org/development/desa/socialperspectiveondevelopment/2015/08/26/transforming-our-world-the-2030-agenda-for-sustainable-development/>

² <http://www.who.int/pmnch/media/news/2015/idea/en/>

The global SDGs are a clear call to action for the private sector. Some of the SDGs are easier to contribute to than others; sometimes public policy changes are needed and will be made to make certain SDGs more investable. Sometimes it is easier to address an SDG through investment decisions; sometimes it is easier to incorporate the SDG in active ownership. But either way, investors will be asked to contribute.

So why should investors care about the SDGs?

THE SDG INVESTMENT CASE:

Fiduciary duty		
The SDGs are an articulation of the world's most pressing sustainability issues and as such act as the globally agreed sustainability framework. The SDGs can support investors in understanding the sustainability trends relevant to investment activity and their fiduciary duties.		
	Risks	Opportunities
Macro	By the nature of their investments, asset owners that choose to hold a diversified portfolio, investing in a wide range of asset classes and geographies, will be exposed to the global challenges that the SDGs represent. Failure to achieve the SDGs will impact all countries and sectors to some degree, and as such create macro financial risks.	Achieving the SDGs will be a driver of global economic growth, which any long-term investor will acknowledge as a structural source of financial return.
Micro	The challenges put forward by the SDGs reflect that there are very specific regulatory, ethical and operational risks which can be financially material across industries, companies, regions and countries.	Companies globally moving towards more sustainable business practices, products and services provide new investment opportunities.

Many PRI signatories believe that their investments in companies (and other entities) will only be profitable in the long term if societies and the financial system develop in an equitable and sustainable way.

Additionally, ultimate beneficiaries (participants in pension funds, clients of insurance companies, etc.) increasingly demand that all parties in the investment chain (markets, asset holders and managers) take their broader long-term interests, and those of future generations, into account.

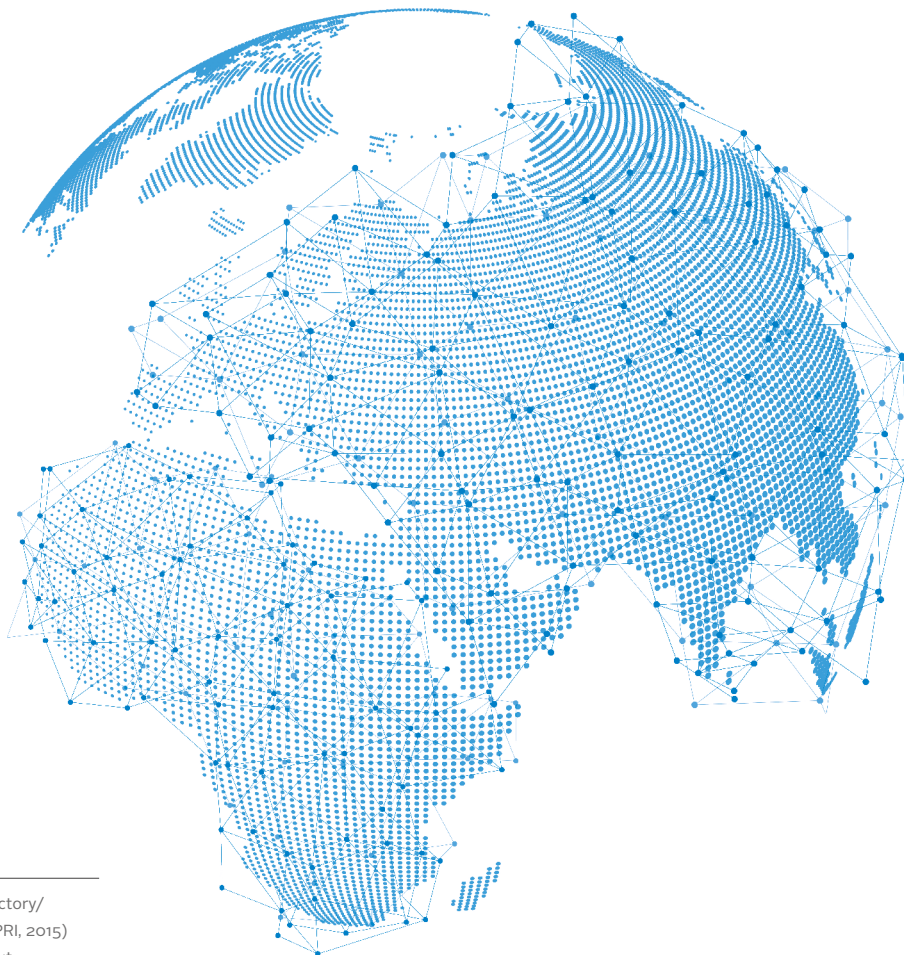
The preamble to the Principles for Responsible Investment, signed by more than 1,750 signatories³, states: “We recognise that applying these Principles may better align investors with broader objectives of society.” The SDGs act as welcome guidance as to what the “broader objectives of society” are, and should play an important role in the development of a responsible investment agenda for the years ahead. As the largest responsible investment initiative in the world, representing more than half of the world’s professionally managed assets⁴, the PRI is best positioned to help set that agenda. Our roadmap towards achieving these objectives is outlined in our *Blueprint for responsible investment*.

“We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.”

PRI Mission⁵

“Driving sustainable development in line with the UN SDGs will create a more prosperous world, to live in today and to pass on tomorrow.”

PRI Blueprint for responsible investment⁶



³ <https://www.unpri.org/directory/>

⁴ Report on progress 2015, (PRI, 2015)

⁵ <https://www.unpri.org/about>

⁶ <https://blueprint.unpri.org/>

MOVING RESPONSIBLE INVESTMENT FROM PROCESS AND BUSINESS CONDUCT TO REAL-WORLD IMPACT AND CONTRIBUTION TO THE SDGS

Responsible investment is generally understood as a process to incorporate material ESG factors in investment policies, decisions and ownership, and improvement of business conduct. This raises the question to what extent responsible investment has already led to positive outcomes to society.

Responsible investment practices have gained enormous traction in the industry over recent years, which has already aligned investors, investments and active ownership, with the “broader objectives of society” to some extent. Positive outcomes can be realised through three mechanisms: integrating ESG factors in investment decisions, improving ESG performance through active ownership and allocating assets to thematic investments.

Evaluating the contribution of current responsible investment practices to real-world impact:

Effects of integration	The assumption behind integrating ESG factors in investment policy and decisions is that it will ultimately affect the cost of capital, lowering the costs of capital for sustainable businesses and increasing the costs for non-sustainable businesses. As a result of the lower costs of capital, sustainable businesses will in the long run crowd out non-sustainable businesses. Meta-studies by Mercer ⁷ and the University of Hamburg and Deutsche Asset & Wealth Management ⁸ provide clear evidence that sustainable business practices lead to lower cost of capital and equal or even better financial performance, but despite higher costs of capital, companies with poor ESG management still have sufficient access to capital and companies providing unsustainable products and services may have relatively good ESG risk management (and vice versa). Conventions of finance still point towards practices that don't reward sustainable businesses sufficiently to drive out unsustainable business.
Effects of active ownership	Including ESG factors in engagement with investee companies is intended to highlight the materiality of ESG issues, convince businesses to adopt more sustainable products, services and processes and thus improve the risk-return profile of the businesses. Academic research has provided some insight ⁹ into the positive impact of active ownership on corporate ESG practices and financial performance, but finds the contribution is often focused on process improvements and business conduct rather than real-world impact aligned with the SDGs.
Effects of thematic asset allocations	One in six PRI signatories ¹⁰ (17%) report allocating capital to environmentally/ socially themed investments (e.g. inclusive finance, renewable energy, clean technology, affordable housing). These investments, made under the assumption that they will provide market rate returns as well as positive outcomes to society, are seeing increasing inflows, but the approximately US\$1.3 trillion invested in impact investments by PRI signatories ¹¹ is far from the approximately US\$75 trillion to US\$105 trillion that UNCTAD's estimates suggest is required from the private sector overall over the life of the SDGs.

⁷ Demystifying Responsible Investment Performance: A review of key academic and broker research on ESG factors (UNEP FI and Mercer, 2007)

⁸ ESG-integration and Corporate Financial Performance (A. Bassen, G. Friede and M. Lewis, 2015)

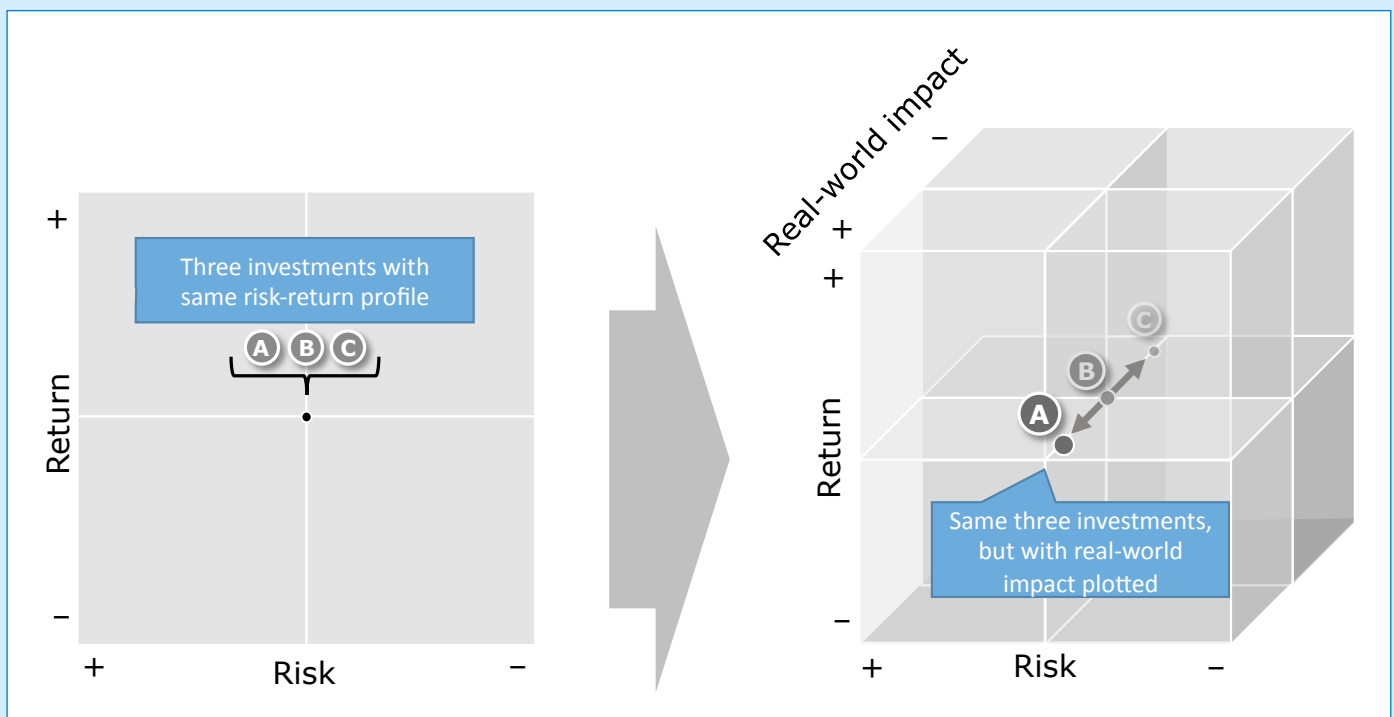
⁹ ESG & Corporate Financial Performance: Mapping the global landscape (Deutsche Asset & Wealth Management, 2015)

¹⁰ Unless stated otherwise, all data relating to PRI signatories comes from the annual submissions made to the PRI Reporting Framework. For more details, see <https://www.unpri.org/report/>.

¹¹ <https://www.unpri.org/page/impact-investing-market-map>

Undeniably, current responsible investment practices contribute to the “broader objectives of society”, but the contribution is limited and achieving the SDGs through corporate responsibility and responsible investment will require a more dedicated approach. To meet the challenges of the SDGs, responsible investment should not just look at how ESG risks and opportunities affect the risk-return profile of an investment portfolio, but also how a responsible investment portfolio affects those broader objectives of society.

The PRI's work on investment strategy is introducing a shift towards including a third dimension of “real-world impact” (aligned with the SDGs) alongside risk and return, describing how to embed real-world outcomes in the development of an investment strategy.



“The SDGs are the framework that institutional investors need in order to fulfil their purpose and full potential in the capital markets and society at large, and to be accountable to their beneficiaries.”

Vipul Arora, Co-Founder, Solaron

THE SDGS ARE THE GLOBALLY AGREED SUSTAINABILITY FRAMEWORK

The global journey towards achieving the SDGs provides investment risks and opportunities investors are keen to understand. Although some investors have already adopted strategies to capture these benefits and avoid the risks presented by ignoring the SDGs, many are still seeking answers to the question of if and how the SDGs will affect their investment strategy, policy, asset allocation and other investment decisions.

A consideration important for investors is the fulfilment of their fiduciary duty. The PRI's Fiduciary duty in the 21st century¹² concluded that as part of their duty to beneficiaries, investors must consider all financially material factors, regardless of their origin. Far from fiduciary duty being a barrier to considering sustainability issues, the report finds that there are positive duties on investors to incorporate them, and this belief is supported by a growing number of policy makers and regulators.

There are principles that underpin fiduciary duty:

1. that financially material ESG factors should be incorporated in investment decision-making;
2. that investors should consider ESG factors consistent with the time-frame of the obligation;
3. that investors should understand and incorporate the sustainability preferences of their clients/beneficiaries/savers.

The ESG requirements of fiduciary duties are not yet clarified in all regulatory frameworks. As part of the fiduciary duty project, the PRI, UNEP FI and The Generation Foundation have published detailed roadmaps¹³ across the world's major capital markets, setting out policy and practice recommendations to overcome barriers to a fiduciary fulfilling the sustainability considerations of his or her duty.

Recent policy initiatives in Europe, UK, South Africa and Brazil include an obligation to integrate ESG issues in investment decisions and conduct dialogue with beneficiaries on their sustainability preferences - including making transparent how incorporating preferences may influence investment returns. To the extent that they understand the sustainability preferences of their clients/beneficiaries/savers investors may decide to incorporate them in their investment strategies and decisions. This obligation will then be relevant for both asset owners and managers.

The SDGs impact upon the capital markets in a number of ways, but the most relevant for our purposes are:

- the SDGs are a global consensus on long-term sustainability goals, and investors have a role to play in achieving those goals;
- they can be used as a framework for measuring real-world impact at the investor and system level;
- they act as signposts for economic actors and public sector policy, which will impact finance, both at the macro level of GDP growth and the sustainability of the financial system, as well as on the micro level of risks and opportunities for companies and investments.

It is in this respect that in this paper we will discuss the other elements that make the SDGs relevant for investors. So, when considering the wider role of finance in society, the SDGs are likely to become the common framework with which to shape future investment decisions and against which to judge the utility of finance.

¹² Fiduciary duty in the 21st century (PRI, 2015)

¹³ <https://www.unpri.org/about/pri-teams/sustainable-financial-system/fiduciary-duty-in-the-21st-century>

“At Cbus our priority is investing to generate the best outcomes for our members and ensuring our strategy delivers sustained value. A sustainable global financial system requires the realisation of the SDGs. That is why we are committed to investing in a way that contributes to the achievement of these ambitious goals and encourage others to join us.”

David Atkin, CEO, Cbus

“Institutional investors should be in the business of investing for the long term well-being of their beneficiaries. After all, nobody wants to retire into a world ruined by poor corporate practices. The SDGs provide the best guide as to how to build the world we all want. That’s why at Aviva we’re bringing together others to build a set of free, publicly available benchmarks to show how well companies are doing in contributing to – or working against – the aims of the SDGs. We believe everyone needs to work together to deliver the bold aims of the SDGs and a healthy future for all.”

Steve Waygood, Chief Responsible Investment Officer, Aviva Investors

“As a fiduciary investing on behalf of our institutional clients, Western Asset seeks to identify investments which will deliver superior and consistent returns over the long-term horizon. We believe that the Sustainable Development Goals (SDGs) are vitally important to the health of the global economy and as such, fully synergistic with our investment objectives. Through our engagements with issuers, we seek to increase transparency around environmental, social, and governance factors, and through our partnerships with clients, we seek to increase understanding of the importance of the SDGs.”

Western Asset

MACRO RISKS: THE SDGs ARE AN UNAVOIDABLE CONSIDERATION FOR “UNIVERSAL OWNERS”

Large institutional investors relying on modern portfolio theory can be considered “universal owners”¹⁴: their highly-diversified, long-term portfolios are sufficiently representative of global capital markets that they effectively hold a slice of the overall market, making their investment returns dependent on the continuing good health of the overall economy. They can therefore improve their long-term financial performance by acting in such a way as to encourage sustainable economies and markets, and must act – including acting collectively – to reduce the economic risk presented by sustainability challenges. Even for non-universal owners, major environmental and social issues will represent risks to their business.

The way that past economic growth has been achieved cannot be maintained: it has been responsible for an expanding list of environmental and social burdens. With many of the catalysts of past growth (e.g. use of fossil fuels and rapid urbanisation) no longer sustainable in their current form, future growth is likely to be much slower and more erratic over the next 30 years than over the past 30.

The Financial Stability Board (FSB) has already identified climate change as a potential systemic risk. This may also be the case for other issues addressed by the SDGs, such as clean water, biodiversity and inequality. The economic implications of these environmental issues (such as climate change, resource scarcity, biodiversity loss and deforestation), and social challenges (such as poverty, income inequality and human rights) are increasingly being recognised, as evidenced by the global growth¹⁵ of responsible investment, for which understanding the risks posed by externalised environmental and social costs in the real economy is central.

Universal owners’ portfolios are inevitably exposed to these growing and widespread economic costs – which are in large part caused by the companies and other entities in which they are invested. Inefficiently allocating capital to companies with high external costs, such as those engaged in highly-polluting or socially disruptive activities, can over time lower asset values, reducing returns to investors: one company’s externalities can damage the profitability of other portfolio companies and overall market return.

For a universal owner, environmental costs are unavoidable as they come back into the portfolio as insurance premiums, taxes, inflated input prices and the physical cost associated with disasters. Social concerns, such as poverty and inequality, can lead to societal and political unrest and instability, which can also create costs that will reduce future cash flows and dividends. The macro financial or even systemic risks that may materialise if one or more of the SDGs are not achieved can have enormous negative consequences for financial returns.

There is therefore a growing school of thought that investors should integrate the price of externalities into the investment process, and take into account the wider effects of investments by considering the impact on society and future generations. This will ensure that investors can pay benefits to their beneficiaries, but also provides collateral benefits to the wider community. The active ownership model gives more weight than traditional portfolio management to inter-generational concerns and to the sustainability of the economy as factors affecting future risk-adjusted returns.

For more than a decade, responsible investors have been calling for governments to set policies in line with the fundamental challenges to our future. The SDGs, including their targets and detailed indicators, provide an agreed framework for all UN member state governments to work towards in aligning with global priorities such as the transition to a low-carbon economy and the elimination of human rights abuses in corporate supply chains.

Ultimately, a failure to meet the challenges of the SDGs could significantly affect the value of capital markets or their potential for growth, and with that, the value of diversified portfolios.

ENVIRONMENTAL RISKS

We are demanding more from the planet than it can sustain. In 2016, the Global Footprint Network (GFN) estimated that our demands on renewable natural resources would need 1.6 earths to be met, and more than 80% of people now live in countries that demand more from nature than their ecosystem can regenerate.¹⁶ With the population forecast to reach 8.3 billion people by 2030, we will need 50% more energy, 40% more water and 35% more food¹⁷.

¹⁴ There has been discussion about and development of the universal owner approach since Monks and Minow first used the term (R.A.G. Monks and N. Minow, *Corporate Governance* (1995)). Other major research works include Saint Mary’s College of California *Universal Ownership: Exploring Opportunities and Challenges*: Conference Report (2006) and R. Thamotheram and H. Wildsmith *Increasing Long-Term Market Returns: Realizing the Potential of Collective Pension Fund Action - Corporate Governance: An International Review*, Vol. 15 (2007), who emphasise the opportunities in asset owner collaboration.

¹⁵ <https://www.unpri.org/about>

¹⁶ <http://www.footprintnetwork.org/our-work/ecological-footprint/>

¹⁷ *What’s driving the future?* (PwC, 2014)

In 2010 the PRI and the UNEP FI commissioned Trucost¹⁸ to calculate the cost of global environmental damage and to examine why this is important to the economy, capital markets, companies and institutional investors. Annual environmental costs from global human activity were calculated at US\$6.6 trillion in 2008, equivalent to 11% of GDP, with the top 3,000 public companies – i.e. those that make up large, diversified equity portfolios – responsible for a third of this (US\$2.15 trillion). In a hypothetical investor equity portfolio weighted according to the MSCI All Country World Index, environmental externalities alone could equate to over 50% of the companies' combined earnings.

The Stockholm Resilience Centre has identified nine “planetary boundaries”¹⁹ within which humanity can continue to develop and thrive for generations to come, but in 2015 found that four – climate change, loss of biosphere integrity, land-system change and altered biogeochemical cycles (phosphorus and nitrogen) – have been crossed²⁰. Two of these – climate change and biosphere integrity – are deemed “core boundaries”, for which significant alteration would “drive the Earth System into a new state”.

Without radical changes in the current food and agriculture system, the cost of biodiversity and ecosystem damage could reach up to 18% of global economic output by 2050 (up from around 3.1% (US\$2 trillion) in 2008²¹). The costs of runaway climate change would be even greater, acting as a risk multiplier across already fragile environmental and social systems. The global cost of flooding alone will reach US\$17 trillion a year by 2030²².

SOCIAL RISKS

There are vast numbers of people who do not have access to basic services such as healthcare, clean water, energy and sanitation. Income inequality in OECD countries is at its highest level for 30 years²³, and Oxfam estimates that the 62 richest people in the world have the same wealth as half the world's population²⁴. This significant level of income inequality is creating a number of social stresses, including mistrust of governments and business, as well as governance and security-related issues. In 2014, the world spent 9.1% of its GDP on costs associated with violence.²⁵

IMPACT OF CLIMATE CHANGE ON A PORTFOLIO

CISL (2015) calculate that the long-term impact of climate change on the performance of a balanced portfolio in a no mitigation scenario (i.e. no special efforts are made to contain environmental challenges) is -30% in nominal terms, compared to +17% in a 2°C scenario (i.e. policies are implemented to restrict the increase in global temperature to 2°C above pre-industrial levels).

They warn that such risks are not just long-term concerns related to the physical effects of climate change. There is also a danger that financial actors could anticipate future climate-related risks by abruptly changing their portfolio strategy. This could lead to losses of up to 45% for equity portfolios and 23% for fixed income portfolios. Only around half of the equity losses could be hedged through the financial markets, so investors risk seeing the value of their portfolios reduced by over 20%.

Undernutrition is a huge killer in developing economies, including through increasing vulnerability to pathologies such as malaria, anaemia and acute respiratory infection, and has severe economic consequences: the economic cost of undernutrition to families in Ethiopia alone is just under US\$70 million per annum²⁶. While the number of undernourished people in the world has declined sharply, there are still estimated to be almost 870 million people, or one in eight, suffering from chronic malnutrition, mostly in developing countries²⁷.

Non-communicable diseases (NCDs), though historically an affliction for the richest nations, are increasingly affecting the large populations of developing economies as well. In 2011, it was estimated that over the next 20 years, NCDs would cost more than US\$30 trillion (48% of global GDP in 2010) and push millions of people below the poverty line²⁸.

A study by Jensen (2012) demonstrated that supplying work opportunities to girls in India, at a cost of US\$100 annually, returned an increased annual income of over US\$2,000.

18 Universal Ownership: Why environmental externalities matter to institutional investors (PRI, UNEP FI, Trucost, 2010)

19 1. Stratospheric ozone depletion; 2. Loss of biosphere integrity (biodiversity loss and extinctions); 3. Chemical pollution and the release of novel entities; 4. Climate change; 5. Ocean acidification; 6. Freshwater consumption and the global hydrological cycle; 7. Land system change; 8. Nitrogen and phosphorus flows to the biosphere and oceans; 9. Atmospheric aerosol loading.

20 Journal of Science, 16 Jan 2015

21 Better Business, Better World (Business and Sustainable Development Commission, 2016)

22 UNFCCC 2017

23 Focus on Inequality and Growth (OECD, 2014)

24 An Economy for the 1%: How privilege and power in the economy drive extreme inequality and how this can be stopped (Oxfam, 2016). The analysis was based on a report from Credit Suisse and the Forbes list of billionaires, and Politifact (<http://www.politifact.com>) rates it as “mostly true”.

25 AlphaBeta analysis for the Business and Sustainable Development Commission report, based on information from the United Nations Environment Programme, 2010. The Economics of Ecosystems and Biodiversity (TEEB).

26 Unicef 2010

27 <http://www.un.org/apps/news/story.asp?NewsID=43235#.Vm6coxsnm4>

28 Global Status Report on noncommunicable diseases (World Health Organization, 2014)

MACRO OPPORTUNITIES: THE SDGS WILL DRIVE GLOBAL ECONOMIC GROWTH

Over the long term, economic growth is the fundamental driver of the growth in corporate revenues and earnings, which in turn drive returns from equities and other assets. Thus, growth in equity markets as a whole is ultimately driven by growth in the economy. The SDGs aim to create a viable model for the future in which all economic growth is achieved without compromising our environment or placing unfair burdens on societies. Embracing the relationship with society, the environment and government creates a new strategic lens through which to view and judge business success.

Economic development often means using more resources and increasing carbon emissions: from 2000 to 2013 most countries increased both their GDP and their ecological footprints. However, there were 48 countries that managed to develop sustainably, increasing their GDP whilst also decreasing their ecological footprints.²⁹

The Business and Sustainable Development Commission (BSDC)³⁰ – a collection of 36 leaders from business, finance, civil society, labour and international organisations exploring why and how business can contribute to delivering the SDGs – have outlined how incorporating the SDGs into

core growth strategies, value chain operations and policy positions opens up new opportunities and big efficiency gains for companies, whilst also enhancing reputations.

The BSDC estimates that this could unlock economic opportunities worth at least US\$12 trillion a year by 2030 (more than 10% of global GDP) and generate up to 380 million jobs (covering more than 10% of the forecast labour force in 2030), mostly in developing countries. But they estimate that the total economic prize from implementing the SDGs could be two to three times larger still, assuming that the benefits are captured across the whole economy and accompanied by much higher labour and resource productivity.³¹

Further studies show great potential from focusing on social outcomes, such as gender equality. The McKinsey Global Institute estimate that achieving gender parity would add between US\$12 trillion and US\$28 trillion to global growth by 2025³². Research from the Copenhagen Consensus³³ identified a top set of 19 of the 169 SDG targets that will deliver more than US\$15 of good for every US\$1 spent benefitting people, planet and the economy.

“The Sustainable Development Goals and the 2030 Agenda are relevant to all businesses, all nations and all people. They are the foundation for us to be able to keep going in a healthy way. If all businesses understood how the SDGs truly affects them, there would be no businesses not working on them. It is important for investors to know, demand information and take into consideration the SDGs in their decision-making process.”

Sonia Favaretto, Managing Director of Media Relations, Sustainability, Communications and Social Investment, B3

The SDGs are shared institutionalised goals, coming at a time when the alignment between the financial economy and real economy has never been more vital for future development. The company contribution to the SDGs will either mitigate adverse impacts on development, or positively contribute to sustainable growth, meaning that most companies' strategies will be aligned to these goals. Responsible investment not considering the SDGs will follow a logic that is not mainstream, so will necessarily remain niche.”

Erin Levey, Head of Research and Investor Strategy, eRevalue

²⁹ <https://www.sciencealert.com/we-would-need-1-7-earths-to-make-our-consumption-sustainable?perpetual=yes&limitstart=1>

³⁰ <http://businesscommission.org/>

³¹ Better Business, Better World (Business and Sustainable Development Commission, 2017)

³² How advancing women's equality can add \$12 trillion to global growth (Woetzel et al, 2015)

³³ <http://www.copenhagenconsensus.com/post-2015-consensus/nobel-laureates-guide-smarter-global-targets-2030>

The biggest opportunities from the BSDC research have been identified across four economic systems: food and agriculture; cities; energy and materials; health and well-being. In food and agriculture, for instance, a system in line with the SDGs would deliver nutritious, affordable food for a growing world population, generate higher incomes (particularly for the world's 1.5 billion small-holder farmers), and help restore vital ecosystems such as the world's oceans. This has the potential to create new economic value of more than US\$2 trillion by 2030 and would be much more resilient to climate risk.

Opportunities in four economic systems:

Food and agriculture	Energy and materials
<ul style="list-style-type: none"> ■ Food waste in the value chain (US\$155 billion to US\$405 billion a year) <ul style="list-style-type: none"> – Today 20%-30% of food is wasted, most of it in post-harvest losses that are easy to prevent. – Aligned to SDG 12 ■ Forest ecosystem services (US\$140 billion to US\$365 billion a year) <ul style="list-style-type: none"> – Deforestation and forest degradation account for 17% of global emissions (more than transport). There are major opportunities for business in sustainable forest services, such as climate change mitigation, watershed services and biodiversity conservation. – Aligned to SDG 15 ■ Low income food markets (US\$155 billion to US\$265 billion) <ul style="list-style-type: none"> – Undernutrition and malnutrition are widespread in the world's poorest populations. Business can address the challenge by investing in supply chains and food innovation to give those on very low incomes access to more nutritious food. – Aligned to SDG 2 	<ul style="list-style-type: none"> ■ Circular models in the automotive sector (US\$475 billion to US\$810 billion) <ul style="list-style-type: none"> – More efficient remanufacturing, replacement of weakest link components and refurbishment present opportunities not realised by scrapping cars. – Aligned to SDG 12 ■ Expansion of renewables (US\$165 billion to US\$605 billion) <ul style="list-style-type: none"> – IRENA forecasts that renewables' share of energy generation worldwide could increase to 45% by 2030 (from 23% in 2014) presenting opportunities for renewable energy generators and equipment manufacturers. – Aligned to SDG 7 ■ Circular models for the appliances and machinery sectors (US\$305 billion to US\$525 billion) <ul style="list-style-type: none"> – Domestic appliances and industrial machinery in particular present significant remanufacturing opportunities. – Aligned to SDG 12

³⁴ Externalities are costs (or benefits) resulting from business activities that are not accounted for in market prices or otherwise compensated, borne by parties who did not choose to incur those costs.

Cities	Health and well-being
<ul style="list-style-type: none"> ■ Affordable housing (US\$650 billion to US\$1,080 billion) <ul style="list-style-type: none"> – As well as construction spending to add capacity and replace inadequate housing, innovation is required to unlock new land and make better use of space for development. – Aligned to SDG 11 ■ Energy efficiency in buildings (US\$555 billion to US\$770 billion) <ul style="list-style-type: none"> – Innovations such as retrofitting existing buildings with more efficient heating/cooling technologies and switching to efficient lighting/appliances could shrink energy demand. – Aligned to SDG 7 and SDG 11 	<ul style="list-style-type: none"> ■ Risk pooling (US\$350 billion to US\$500 billion) <ul style="list-style-type: none"> – Increasing the penetration of private, public-private and community insurance schemes could address disproportionately high health costs. ■ Remote patient monitoring (US\$300 billion to US\$440 billion) <ul style="list-style-type: none"> – Emerging technologies that enable remote monitoring of patients could reduce the cost of treating chronic diseases in health systems by 10%-20% by 2025. – Aligned to SDG 3 ■ Telehealth (US\$130 billion to US\$320 billion) <ul style="list-style-type: none"> – Mobile internet technologies could extend access for consultations and diagnosis to remote patients around the world. – Aligned to SDG 3



“The SDGs have fundamentally changed the game. They are the closest thing the world has to a strategy”.

Dr Jake Reynolds, Cambridge Institute for Sustainability Leadership³⁶

“The SDGs offer the greatest economic opportunity of a lifetime”.

Paul Polman, CEO, Unilever³⁷

“The SDGs provide a very useful framework for how investors can contribute to the core global challenges through their investments and for the standardisation of impact investments and impact measurement.”

Marcel Jeucken, Managing Director, Responsible Investment, PGGM

³⁵ Disruptive technologies: Advances that will transform life, business, and the global economy (McKinsey Global Institute, 2013)

³⁶ <https://www.ukssd.co.uk/Blogs/blog/blog-creating-positive-change-with-the-sustainable-development-goals-in-the-uk>

³⁷ <http://businesscommission.org/our-work/sustainable-development-isnt-just-doing-the-right-thing-its-good-business-sense>

MICRO RISKS: THE SDGS AS A RISK FRAMEWORK

In the last 10 years, responsible investment has evolved from being a primarily exclusionary approach to one focused on identifying companies that can effectively manage ESG risks and opportunities. PRI reporting data and conversations with investors suggest that today, ESG factors represent an important – and growing – part of client engagement for many investors worldwide³⁸.

At some point in the future, a significant proportion of currently external costs such as environmental damage or social upheaval might be forced into companies' accounts. The uncertainty surrounding the timing and extent of this internalisation is a critical component of the overall risk landscape facing investors. There are various ways that ESG factors can become material, both suddenly and over a period:

- Committing to achieve the SDGs by 2030 will see many governments need to introduce new regulations and policies that will internalise previously unaccounted costs, e.g. substantial emission pricing or taxation to address climate change, or the introduction of emission standards for vehicles.
- Poor operational management or internal control might lead to events that destroy value, such as BP's Deepwater Horizon incident in 2010.
- Changing consumer preferences can drive business away from unsustainable companies.

External reporting and assurance on ESG risk processes and responsible investment data is also gaining traction³⁹. Yet, assurance providers have noted⁴⁰ that investors (and clients) do not always agree on which investment decisions and financial products are deemed sustainable. The SDGs and underlying targets can help to address this misalignment by providing a framework for a common way of referencing contribution to a more sustainable world, and thus strengthen investors' ESG risk frameworks.

Many investors across Europe and North America have already started looking at ways to use the SDGs as a risk management tool and as a source of common language around ESG risks that can affect different industries, geographies and asset classes.

DEVELOPING SDG-FOCUSED INITIATIVES

While negative and positive screening have become increasingly sophisticated in the last decade⁴¹, the SDGs provide a new opportunity to measure the ESG risk companies bring to the portfolio alongside their sustainability impact on the real world. Tools to benchmark corporate performance against the SDGs, as called for by Aviva Investors in the UK International Development Committee's first report⁴², could be transformational.

One of the first initiatives to be released, which could pave the way for other tools, is the MSCI ESG Sustainable Impact Metrics. MSCI has grouped the 17 SDGs into five themes – basic needs, empowerment, climate change, natural capital and governance – under which they have developed a detailed taxonomy of products and services offering solutions. Companies' revenue exposure to these products and services has been estimated, and investors are offered the option to apply minimum ESG standards, to minimise exposure to negative impacts and maintain governance standards⁴³.

Investors are also developing SDG-based scoring methodologies. Mirova⁴⁴, the responsible investment division of Natixis Asset Management, has developed a scoring methodology to determine companies' contribution to the SDGs and exclude companies or increase allocations accordingly.

38 Global Sustainable Investment Review (GSIA, 2016) (http://www.gsi-alliance.org/wp-content/uploads/2017/03/GSIR_Review2016.F.pdf) - according to this study, sustainable, responsible and impact investment assets – which by definition include ESG considerations – reached nearly \$23 trillion last year, a 25 increase from 2014; See also: G. Serafeim, The Fastest-Growing Cause for Shareholders Is Sustainability (Harvard Business Review, 2016) (<https://hbr.org/2016/07/the-fastest-growing-cause-for-shareholders-is-sustainability>); See also the traction gained by the PRI: The Principles were launched in April 2006 at the New York Stock Exchange. Since then the number of signatories has grown from 100 to over 1,750 signatories, from over 50 countries, representing approximately US\$70 trillion.

39 Based on client experience of report co-author PwC.

40 Based on client experience of report co-author PwC.

41 For example, the increasingly comprehensive ESG research and ratings developed by specialists such as Sustainalytics (<http://www.sustainalytics.com/esg-research-ratings/>) and MSCI (<https://www.msci.com/esg-ratings>).

42 UK implementation of the Sustainable Development Goals (UK House of Commons, 2016)

43 MSCI ESG Sustainable Impact Metrics covers over 2,500 companies for social impact themes and over 8,500 companies for environmental impact themes. The MSCI ACWI Sustainable Impact Index, which leverages the data, is designed to identify companies with high net exposure to sustainable impact themes while meeting minimum ESG standards. See: <https://www.msci.com/esg-sustainable-impact-metrics>

44 Transforming Our World Through Investment: An introductory study of institutional investors' role in supporting the Sustainable Development Goals (2016)

“The SDGs buttress the legitimacy of our engagement work. When we talk to the companies we invest in on the topic of water, human rights or climate change, to name a few, we can now also point to the fact that the 193 countries of the United Nations affirm that action on these issues is of critical importance to sustainable economic development worldwide”.

Carly Greenberg, CFA, Senior ESG Analyst, Walden Asset Management

A RISK COMPASS FOR ALTERNATIVE ASSET CLASSES

It can be difficult to navigate the ESG risks involved in investing beyond traditional equity and fixed income, especially because well-known and well-tested risk management processes such as negative, positive and best-in-class screening do not apply. From infrastructure to real estate to commodities, alternative asset classes come with specific risk profiles, including on sustainability.

The SDGs can act as a much-needed risk compass in these broad and fast-growing markets. While some links can appear relatively straightforward (for instance between commodity hedging and SDG 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture), more research is needed to ensure that all potential ESG issues arising from investment practices are accurately mapped to the SDGs and to their underlying targets. For some asset classes and specific contexts, e.g. investing in private equity in developing countries/emerging markets, due diligence methodologies could be designed that take the SDGs and their targets into account.

TAKING ENGAGEMENT TO THE NEXT LEVEL

Investors have traditionally understood ESG engagement as either a tool of (ESG) risk management (i.e. as a way to make sure ESG risks are adequately managed by companies) or as compliance-driven (i.e. an effort to improve business conduct and bring a company back to compliance after they showed failure to uphold certain ESG standards). In this way, ESG engagement has usually been reactive rather than proactive and focused on the current, specific risks faced by a particular company as a result of negative media attention or whistle-blowing.

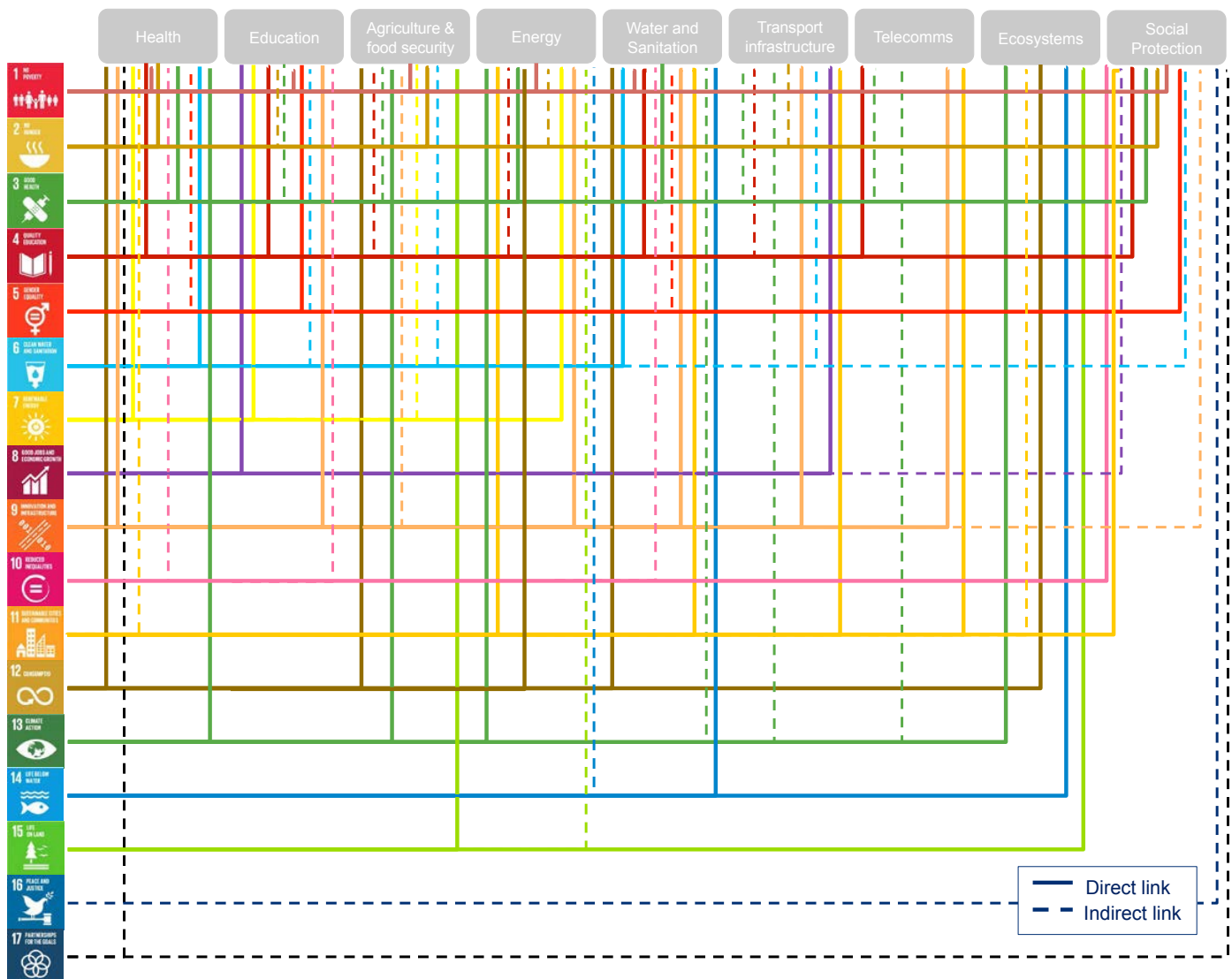
Several investors are already using the SDGs to bring their risk discussions with companies to the next level. In the past couple of years, we have seen a rising trend of engagement – on issues such as climate change and human rights – that goes beyond fixing a specific deficiency to working together with companies to find long-term solutions and build better practices. The notions of risk and performance have become broader, and the widely-endorsed SDG agenda gives investors new language and processes to drive ESG engagement.



MICRO OPPORTUNITIES: THE SDGS AS A CAPITAL ALLOCATION GUIDE

If investors believe that providing solutions to sustainability challenges offers attractive investment opportunities, they can implement investment strategies that explicitly target SDG themes and sectors. In many cases, investors are implicitly taking these factors into account already, but not articulating it: the SDGs give a common language with which to shape and articulate such an investment strategy. Opportunities are available in most asset classes, for example: clean technology stocks in listed equity, private equity and venture capital; low-carbon infrastructure; green bonds; green real estate, sustainable forestry and agriculture.

Mapping the SDGs to existing areas of thematic investments:



Source: PwC analysis

The SDGs offer investors the opportunity to use a different lens through which to filter future investment decisions. There is a growing school of thought that investment strategies should focus upon investments that create a positive impact on society and/or the environment, in addition to fulfilling their future financial risk and return requirements, thereby simultaneously creating benefits for both business and society.

In 2015 researchers from ShareAction interviewed 52 institutional investors, based in every region of the world, on their attitudes and intentions in relation to the SDGs and they found that:

- 95% of respondents plan to engage with investee companies about issues covered by the SDGs;
- 84% will allocate capital to investments supporting the SDGs;
- 89% will support regulatory reforms that promote the SDGs.⁴⁵

PwC's 2015 survey of business and consumers found that 78% of citizens were more likely to buy goods and services from a company that had signed up to the SDGs.⁴⁶

PERFORMANCE OF LONG-TERM FOCUSED COMPANIES

Recent research by McKinsey Global Institute has shown that companies that operate with a true long-term mindset perform better, consistently outperforming their industry peers since 2001 across almost every financial measure that matters.

Among the firms they identified as focused on the long term, in 2014 average revenue and earnings growth were 47% and 36% higher than for companies that weren't, and their market capitalisation grew faster. Companies that were managed for the long term also provided greater returns to the overall economy and to society between 2001 and 2015, adding on average nearly 12,000 more jobs than their peers.

McKinsey calculated that US GDP over the past decade could have grown an additional US\$1 trillion if the whole economy had performed at the level that the long-term stalwarts delivered, and generated more than five million additional jobs.⁴⁷

“Every challenge presented by the UN Sustainable Development Goals also presents an opportunity. Investors can therefore contribute to the attainment of these global goals. Through our sustainable development activities and the investments we make, the fund contributes in various ways towards the UN's Sustainable Development Goals.”

Eva Halvarsson, CEO, AP2

The SDGs also bring opportunities to reach relatively untapped markets and geographies, and to develop innovative financial products.

BLENDED FINANCE INSTRUMENTS

Several countries and financial institutions started to experiment with public-private finance long before the SDGs, but as the SDGs are becoming a language that is spoken and understood by the public and private sector alike, they offer a way to communicate and set targets using a shared impact framework. This has rekindled interest in blended solutions, as evidenced by a recent qualitative assessment and review of existing blended finance vehicles by Dutch development bank FMO and asset manager PGGM.

Signatories to the Dutch SDG Investing Agenda have identified the systematic deployment of blended finance instruments as one of the avenues that will enable private investors to increase their involvement in sectors such as energy, infrastructure, water, agriculture and food and healthcare – all sectors that constitute a largely untapped potential in higher risk markets, where private investors would not venture alone, but will invest alongside development finance institutions and sovereign wealth funds.

⁴⁵ Transforming Our World Through Investment: An introductory study of institutional investors' role in supporting the Sustainable Development Goals (ShareAction, 2016)

⁴⁶ Make it your business: Engaging with the Sustainable Development Goals (PwC, 2015)

⁴⁷ Measuring the economic impact of short-termism (McKinsey Global Institute, 2017) <http://www.mckinsey.com/global-themes/long-term-capitalism/where-companies-with-a-long-term-view-outperform-their-peers>

FINANCIAL PRODUCT INNOVATION

The SDGs can be a driving force for financial product innovation. Examples include specific SDG-related bonds – for instance, those issued by the World Bank and BNP Paribas⁴⁸ – but also the refining and growing of existing products such as green bonds, or insurance and banking products for peripheral groups. Examples include:

- the Climate Policy Initiative⁴⁹, which provides lessons and innovations to spur green investment in developing countries;
- the Climate Finance Lab⁵⁰, which identifies, develops, and pilots transformative climate finance instruments with the aim of driving billions of dollars of private investment into climate change mitigation and adaptation in developing countries;
- the Green Infrastructure Investment Coalition⁵¹, launched at COP21, which is dedicated to reducing investment barriers to green infrastructure.

A recent PwC report⁵² describes an example from Australia's Westpac Group:

WESTPAC GROUP TACKLES FINANCIAL EXCLUSION WITHIN THE PACIFIC REGION

SDG 5 and SDG 10

Global Challenge: Vast numbers of people across the world are still regarded as “unbankable”. This could be due to their gender, social status, physical ability or poor infrastructure where they live. In order to improve the financial and economic status of those currently excluded from the system, there is a need for more financial institutions to recognise this as an issue and also to recognise the opportunity.

Business Response: Westpac has focused on issues which are material to them as a financial institution and where they can use their skills and resources to make a meaningful impact. One of their sustainability objectives is to “increase access to financial services in the Pacific”. The region's geography and limited infrastructure as well as the subsistence livelihoods of many Pacific Islanders all contribute to poor financial inclusion. Within their 2013-2017 sustainability strategy, Westpac set out a target to provide access to basic and affordable banking to an additional 300,000 Pacific Islanders, with the aspiration that 50% of these will be women; their approach includes a combination of ‘in-store’ banking, the choice of a basic account, and a financial literacy programme.

Benefits: For many, having a bank account is a fundamental step for improving their money management as well as having a safe place to store their income or savings. Financial literacy support will help new customers to make better financial decisions. This is especially crucial in the case of women who often don't hold the social status but are responsible for running households and managing their family finances; their improved financial knowledge might empower them and increase their status within their household and community.

Over time this strategy will increase Westpac's customer base and revenue. An additional benefit to the company is that by diversifying and looking for new customers, Westpac is also planning ahead for the demographic trend of an aging population in Australia.

Improved access to financial services within Pacific Islands will make it easier to receive remittances, encourage the creation of small businesses and in turn, contribute to the economic development of the region.

⁴⁸ For further information on the World Bank and BNP Paribas collaboration on achieving the SDGs, see: <http://sdg.iisd.org/news/world-bank-launches-sdg-linked-bonds/>

⁴⁹ Lessons and Innovations to Spur Green Investment in Developing Countries (Jane Wilkinson, 2017)

⁵⁰ <http://climatefinancelab.org/>

⁵¹ <http://www.giicoalition.org/>

⁵² Navigating the SDGs: a business guide to engaging with the UN Global Goals (PwC, 2016)

Existing research⁵³ highlights the following areas as presenting some concrete opportunities for blended instruments and SDG-targeted products:

SDG	Opportunity
 <p>6 CLEAN WATER AND SANITATION</p>	<p>Water infrastructure, treatment and management</p> <p>Investments are needed along the entire water value chain, in developed and emerging markets alike. Global water infrastructure projects alone are expected to see annual growth of 5%-8%, according to 2016 figures by Bank of America Merrill Lynch. Examples of areas where investors could play a role – including via blended instruments – include exploration, desalination and wastewater treatment plants.</p>
 <p>7 AFFORDABLE AND CLEAN ENERGY</p>	<p>Energy efficiency opportunities, from tech/software to transport/logistics</p> <p>Demand for energy efficiency has driven innovative financial products and a new range of blended solutions. Research from Bain & Company⁵⁴ shows some concrete examples from India. India's Bureau of Energy Efficiency develops policies and initiatives to help reduce the country's energy intensity, including innovative financing of energy-efficiency projects. Private domestic bank ICICI was one of several to embrace the programme, introducing a loan scheme to help commercial and industrial companies, small and medium-sized enterprises and public sector organisations to finance energy-efficiency services and purchase equipment and lighting for energy-efficiency projects. A US\$350 million loan from the World Bank supports these efforts, with most loans delivered over 3-5 years at 7%-9% annual rates. Energy savings from these projects range from 15%-30%.</p>
 <p>3 GOOD HEALTH AND WELL-BEING</p>	<p>Healthcare and education providers in emerging markets</p> <p>Demand for quality healthcare and education is increasing in emerging markets and developing countries, as shown by the growing engagement of multilateral investors in these sectors. The IFC, CDC, FMO and Dutch Good Growth Fund (DGGF) are just some of the examples of development finance institutions that have invested in companies providing education and healthcare in developing countries⁵⁵. These investments are often being done via fund-of-funds structures, with funds funnelled to the companies via financial intermediaries such as local private equity funds that have built their portfolios around the notions of innovation and quality services that cater to a growing middle class. In the last two years, the ESG team at PwC (which is responsible for handling the ESG assessments of intermediaries on behalf of the Dutch Good Growth Fund) has assessed the ESG profiles of intermediaries financing education and healthcare in markets such as Ghana, Democratic Republic of the Congo and India.</p>

The steps that investors have taken in these areas show the work towards engaging with the SDGs and connecting them with investment opportunities has already begun.

⁵³ In challenge lies opportunity: Investing for sustainable development (UBS, 2015)

⁵⁴ Bain & Company, Energy Efficiency: Opportunities in Emerging Markets, in Business Insights: <http://www.bain.com/publications/articles/energy-efficiency-opportunities-in-emerging-markets.aspx>

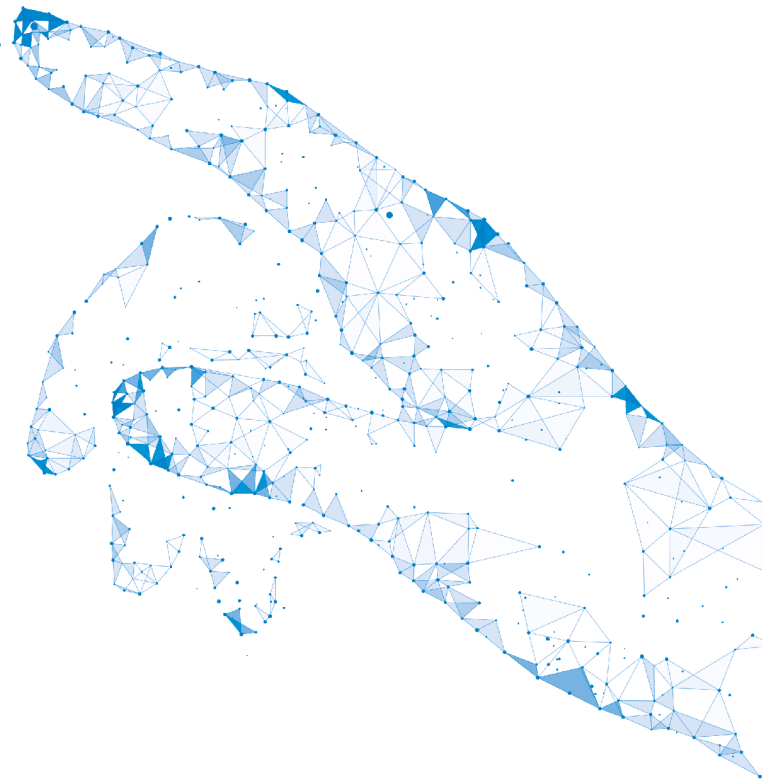
⁵⁵ As disclosed in annual and integrated reports.

NEXT STEPS: THE PRI'S SDG AGENDA

Based on this SDG investment case and the PRI's *Blueprint for responsible investment*, the PRI will develop a programme that stimulates and helps signatories to align their responsible investment practices with the broader sustainable objectives of society, as currently best defined by the SDGs. We will provide research and education, facilitate collaboration and embed the SDGs in our work on public policy, investment practices (investment strategy, asset allocation, manager selection, incorporation in asset classes), active ownership and engagement.

Wherever possible, the PRI will do this in collaboration with UN organisations, including our UN partners, UNEP FI and UN Global Compact. A board policy committee has been installed to oversee the PRI's SDG activities and serve as a soundboard to the executive. There is also a PRI SDG Advisory Committee that helps the executive to further develop the SDG work programme. Planned activities include:

- information and communication about the UN SDGs to all signatories;
- regularly updating *The SDG investment case*, as new information becomes available and investors gain experience in contributing to the SDGs;
- guidance on how the SDGs (and ESG issues in general) can be incorporated in asset allocation decisions by asset owners and multi-asset fund managers;
- guidance on how the SDGs can be incorporated in diverse active ownership activities;
- a tool that will help investors identify their current contribution to the SDGs and to develop their SDG strategy;
- contributing to a select number of initiatives that will help investors identify investment opportunities that contribute to the SDGs and allow investors to measure their own contribution to the SDGs;
- incorporating the SDGs in the regular guidance documents for investment practices and in collaborative engagements;
- developing a policy agenda for SDGs that are not yet easily investable and require public policy changes to make them investable;
- incorporating investors' contribution to the SDGs in the PRI Reporting Framework;
- PRI will contribute to the development of a global system of standardised, comparable SDG reporting standards.



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Some of the language in this document framing the relationship between the SDGs and fiduciary duty has been adjusted since first publication.

The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

More information: www.unpri.org



The PRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact.

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

More information: www.unepfi.org



United Nations Global Compact

The United Nations Global Compact is a call to companies everywhere to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues embodied in the Sustainable Development Goals. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate practices. Launched in 2000, it is the largest corporate sustainability initiative in the world, with more than 8,800 companies and 4,000 non-business signatories based in over 160 countries, and more than 80 Local Networks.

More information: www.unglobalcompact.org

