MARKETING COMMUNICATION

Allspring

# UN Sustainable Development Goals — Aligning or Progressing?

## SDGs: From "no poverty" to "climate action" to "partnerships for the goals"—and everything in between

The United Nations (UN) Sustainable Development Goals (SDGs) are widely supported and look to address global issues with ambitious goals—zero hunger, sustainable cities and communities, and life below water, for instance.

However, achieving these goals will be difficult and certainly not cheap. The United Nations Conference on Trade and Development says we'd need to invest $5 trillion to $7 trillion per year from 2015 to 2030, with $3.3 trillion to $4.5 trillion per year directed specifically to developing countries. That's an annual gap of about $2.5 trillion from the level of investment at the time of the estimate.[1]

Beneath the 17 SDGs, there are 169 specific underlying targets, with 247 indicators. These goals, agreed upon by UN member countries to be achieved by 2030, are applicable at a country level. The targets and indicators indicate actions—from governments, corporates, nonprofits, and multilateral institutions—as well as policies and outcomes that can support the goals.

UN SUSTAINABLE DEVELOPMENT GOALS

1. No poverty
2. Zero hunger
3. Good health and well-being
4. Quality education
5. Gender equality
6. Clean water and sanitation
7. Affordable and clean energy
8. Decent work and economic growth
9. Industry, innovation, and infrastructure
10. Reduced inequalities
11. Sustainable cities and communities
12. Responsible consumption and production
13. Climate action
14. Life below water
15. Life on land
16. Peace, justice, and strong institutions
17. Partnerships for the goals


HANNAH SKEATES

+ Co-Head of Sustainable Investing

HIMANI PHADKE

+ Sustainable Investment Strategist

NASHAT FARHANA MOIN

+ Senior Sustainable Investment Analyst


1. World Investment Report 2014, Investing in the SDGs: An Action Plan, United Nations Conference on Trade and Development

## From global goals to investment portfolios—from governments to companies

So how do *companies'* actions bring us closer to achieving these global goals or potentially take us farther away from them?

Companies, especially the large publicly listed ones in the major indexes, are complex beasts. They operate in many countries, and their actions create ripple effects in many directions. They build infrastructure and green buildings, provide basic services such as health care and energy, offer innovative solutions, and have various operational and behavioral impacts all along their value chains. When evaluating company behavior, it's not just a question of whether or not they have one or two products that sound similar to one of the goals, but rather their activities more holistically.

Success ultimately will depend on ongoing, increased investment to achieve these goals, whether on the ground or in the oceans. Are we getting closer? And, if so, how? Because of what actions?

It's often the case that there's an expectation of being able to report a monetary figure highlighting the dollars/euros/pounds aligned with the SDGs for an investment portfolio.

> "We believe that adding up the value tied to a company's products that seem aligned with the SDGs gives only a partial view of a company's SDG contribution."

As we will describe, we think it's important to frame the analysis as to whether a company is helping or hindering the achievement of specific SDG goals through a series of questions pertinent to the goal and tied directly to its targets and indicators. (As an example, the appendix on page 7 provides a series of questions around SDG 5, gender equality, and SDG 6, clean water and sanitation.)

UNDERSTAND COMPANY AND INVESTMENT IMPACT

01 **View company activities holistically**

02 **Understand how to attribute actions**

03 **Consider how to invest**

## The dilemma for mainstream asset management

Most investors do not make 100% private equity, venture capital, infrastructure, or SDG bond investments. The critical question is how should investors think about the SDGs in the context of an equity investment or traditional debt?

When buying bonds, you are, in a sense, lending money to a company or country. The growing importance of environmental, social, and governance (ESG) allows money to be specifically allocated to target specific purposes. This is particularly true with the issuance of green, social, sustainable, and SDG bonds. Despite the improved labeling regarding their intention, it is worth considering if the investment does provide benefits in working toward the stated goal.

## A new approach is needed

This is especially important when trying to understand SDG exposure/alignment within a portfolio. Here are a few considerations to have in mind when looking to "invest in the SDGs":

- How should you best assess a company that acts in a way that reflects the intentions of the SDGs, even though they may not be making any significant contribution toward the achievement of a particular goal?
- Should you rate a company based on its progress toward one of the SDG goals even though it may be detracting from the 16 others?
- Are investment portfolios, while appearing "aligned," actually making a difference to real-world outcomes in the way the UN intended?

## Moving from "SDG alignment" to "helping achieve the SDGs"

The UN sees the private sector—companies and investors—as a valuable partner that can help close the gap on achieving the SDGs. They are currently developing SDG reporting standards for private equity investments and bonds as well as for companies that want to report on their SDG efforts. The goal is to "reorient practice away from using the SDGs to report current activities differently toward using them more strategically to make different decisions."[2]

The current standards for companies refer to other impact and ESG frameworks such as IRIS+ and GRI but are not prescriptive in tying these to specific SDG targets and indicators. Additionally, they do not cover the measurement of portfolio SDG impact, including publicly listed equity portfolios.

The increased interest in the SDGs has brought a parallel increase in data providers and finance sector players trying to measure the investment impact related to the SDGs, if not necessarily on the SDGs.

We see ESG data providers gathering preexisting reported environmental, social, and financial information and providing revenue figures or scores to indicate whether companies are "aligned with" or "contributing to" each goal.

This runs the risk of over-attribution or unintentional "SDG-washing," while using impact metrics to map to specific SDG targets may result in too narrow or too low of coverage to be meaningful overall.

The evolution of second-generation SDG measurement tries to address possible overgeneralizations or narrow scopes of the initial versions yet may still be constrained by existing ESG research or analytical setups. This reinforces the importance of understanding the methodology applied to better understand the impact on results.

> "This brings us back to a preliminary point: Is there a tangible link to SDGs (and actions that can help achieve them), as reflected in SDG targets and indicators? Scores are important, but understanding if—and how—a portfolio helps achieve these global goals are key considerations as well."

2. https://sdgimpact.undp.org/

REFRAME THE QUESTION TO:

***On which goals, or lower-level SDG targets, is a company helping achieve the goal, and on which goals (or targets) is a company hindering the achievement of the goal?***

**The answers** to this question can be approached by considering four characteristics that influence the nature of a company's impact on the SDGs:

## Its industry:

This determines the SDG targets, and therefore SDGs, on which it is likely to have the most impact.

## Its operations:

The physical location of assets can influence the magnitude and relevance of impact.

## Its market:

It might be relevant to consider whether the SDG is specific to either a company's geographic market (emerging or developed) or the target population for which the product or service is provided.

## Its business model:

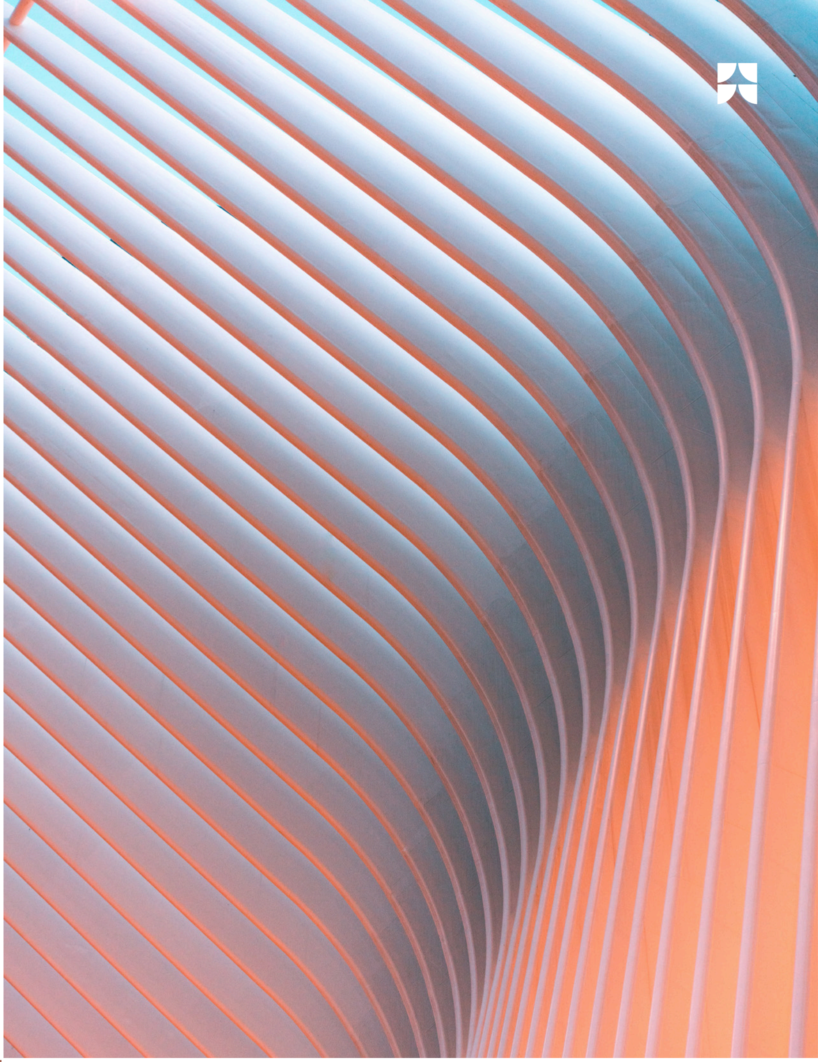
The type of business model can determine the extent and source of impact (e.g., outsourced manufacturing might determine where in the value chain the impact lies).

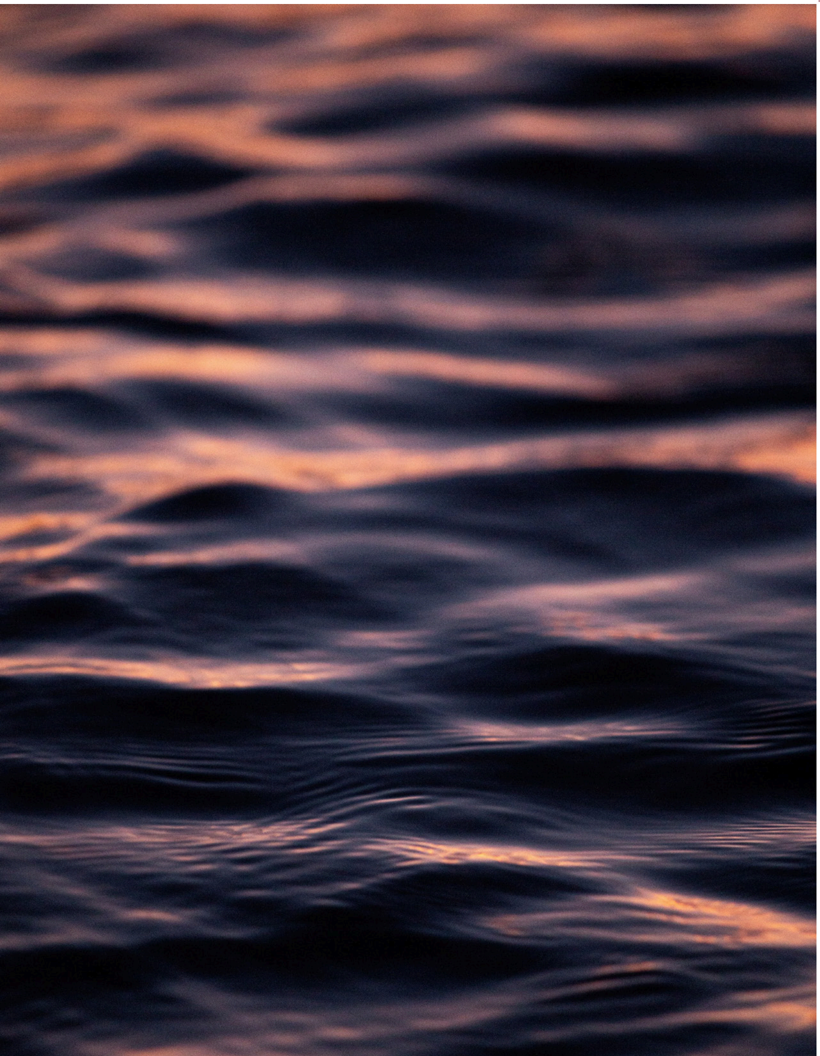
To understand a company's final contribution to the achievement of a given SDG goal, we suggest addressing a two-part question:

01 ***What* are we using to assess a company? (i.e., the topics or indicators that indicate its *potential* impact)**

On a practical level, the first question involves a mapping exercise at the SDG target and indicator level to the most salient industry-specific levers of impact—whether they be related to the company's products and services or to changes to its operations (keeping in mind the four characteristics discussed above). This provides insight into which specific companies or sectors are most likely to influence which of the various SDGs. In most cases, the high-level SDG scores we've reviewed don't provide a view into this type of analysis.[3]

3. A combination of existing ESG or impact datasets may be sufficient to understand many of the mapped topics and indicators. That said, many existing ESG analyses combine several distinct pieces of information that may be relevant for different SDG targets (e.g., supply chain management information). In fact, the SDG mapping provides a more granular view into how business practices can influence specific ultimate environmental or social outcomes.





02 ***How* would we assess *actual* contribution, balancing positive and negative impacts?**

The second question is where the methodology of assigning "credit" to the company under each of the relevant topics becomes important—and ultimately important to the understanding of a portfolio's contribution. A key factor is deciding the level of the bar for the relevant questions: What is deemed to be "enough" to be helping to effect change and goal attainment? Many SDG targets are defined in a qualitative way, and even where quantitative tracking is possible, the desired 2030 state is not quantitatively determined. And is nonaction equivalent to hindering progress?

We think transparency on these items is key.

## Moving forward: Partnerships for the goals

DEFINING YOUR INTENTIONS AND SEEKING OUTCOMES

Real-world outcomes related to investment portfolios are becoming increasingly important and relevant to investors' objectives. The 17 SDGs clarify this "impact" while highlighting systemic risks and new opportunities for businesses globally. Making an impact toward attaining the SDGs is crucial to our global society.

To meaningfully and positively influence those outcomes, it's important to build the right SDG assessment scaffolding, appreciating which aspects of a company's actions are being assessed. This can then allow investors to take practical steps to engage with the SDGs from the perspective that's important to them.

01 **Ask the question:** Do you believe the positive contribution of a portfolio toward the SDGs should be a reflection of progress toward the actual attainment of the goals? Or is another measure acceptable to you?

02 **Decide what kind of current portfolio assessment is meaningful to you.** Do the appropriate tools currently exist to give you the information you require in relation to the UN SDGs? As described, the framework of what and how to measure is important.

03 **Consider if conscious capital allocation is a possible or appropriate route.** If sustainability-driven objectives are a higher priority, investors may allocate capital more deliberately to the differences they would like to make. These may focus on one goal or several goals and occur in one part of a portfolio or in the context of an overall asset allocation.

Liking the idea of the SDGs is admirable. Making an impact toward attaining them is important for our global society.

Allspring Global Investments strives to contribute to developing industry best practices. Our team of sustainable investing experts and background in designing ESG risk scoring systems and positive impact assessment frameworks mean we are well positioned to assist investors in exploring how they can assess or direct capital toward positive environmental and social outcomes.

Allspring would welcome collaborating with investors to further explore their intentions related to the UN SDGs.

## Appendix

SDG 5: GENDER EQUALITY

***Does the company have a diversity and inclusion policy, and are mechanisms in place to track and promote gender equality and women's empowerment (including in the supply chain)?***

***Is the proportion of women in managerial positions at around 50%?***

***Does the company have any controversies related to discrimination?***

Specific questions like these that can translate underlying metrics to the language of the SDG targets and goals can help investors consider the trade-offs involved in their investment decisions and provide actionable insights for company engagement.

Ultimately, for a portfolio, an investor would be able to see the proportion of the portfolio "helping" on a particular SDG as well as the proportion that might be "hindering" or where the impact is neutral or undetermined, and they would know why.

*We illustrate an SDG matrix, tying SDG targets and indicators to specific industry topics and related questions, looking at two goals relevant for a food and beverage company. For illustrative purposes only.*

| SDG #: NAME AND RELATED INDUSTRY TOPIC | HELPING OR HINDERING? | RELEVANT SDG TARGETS | SDG INDICATORS |
|---|---|---|---|
| SDG 5: Gender equality<br><br>**Industry SDG topic:**<br>Diversity, nondiscrimination, and inclusion | Answered by considering:<br>1) (a) Does the company have a policy, and are mechanisms in place to promote, enforce, and monitor equality and nondiscrimination on the basis of sex?<br>(b) Does the company have any controversies related to discrimination, including both its own operations and its supply chain?<br><br>2) Is the percentage of women in managerial positions at 50% (+/-5%)?<br><br>3) Does the company have a diversity and inclusion policy, and are mechanisms in place to track and promote gender equality and women's empowerment (including in the supply chain)? | 5.1 **End all forms of discrimination** against all women and girls everywhere<br><br>5.5 Ensure women's **full and effective participation and equal opportunities for leadership** at all levels of decision-making in political, economic, and public life<br><br>5.c **Adopt and strengthen sound policies** and enforceable legislation for the **promotion of gender equality and the empowerment** of all women and girls at all levels | 5.1.1 Whether or not legal frameworks are in place to promote, enforce, and monitor equality and nondiscrimination on the basis of sex<br><br>5.5.2 Proportion of women in managerial positions<br><br>5.c.1 Proportion of countries with systems to track and make public allocations for gender equality and women's empowerment |
| SDG 6: Clean water and sanitation<br><br>**Industry SDG topic:**<br>Sustainable water use | Answered by considering whether:<br>1) The annual improvement in water-use efficiency is "substantial"<br><br>2) Water withdrawals are "sustainable" either as a proportion of available freshwater resources or considering a company's location in a water-stressed area<br><br>3) Programs to protect water-related ecosystems that the company engages in are "strong" (e.g., watershed management programs)<br><br>4) There are any controversies on water use<br><br>For 1 through 3 above, "substantial," "sustainable," or "strong" could be determined using comparisons to peers or to quantitative targets associated with industry best practices, technical feasibility, or other technical criteria. | 6.4 By 2030, **substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals** and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity<br><br>6.6 **By 2020, protect and restore water-related ecosystems**, including mountains, forests, wetlands, rivers, aquifers, and lakes | 6.4.1 Change in water-use efficiency over time<br><br>6.4.2 Level of water stress: Freshwater withdrawal as a proportion of available freshwater resources<br><br>6.6.1 Change in the extent of water-related ecosystems over time |

Sources: Allspring. Text for SDG targets and indicators is taken from the United Nations Department of Economic and Social Affairs, Sustainable Development.

## To learn more

We want to help clients build for successful outcomes, defend portfolios against uncertainty, and create long-term financial well-being. To learn more, investment professionals can contact us.

## Contact details

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- To reach our U.S.-based intermediary sales professionals, contact your dedicated regional director, or call us at **1-888-877-9275**.
- To reach our U.S.-based retirement professionals, contact Nathaniel Miles, head of Retirement at Allspring Global Investments, at **nathaniel.s.miles@allspring-global.com**.
- To discuss sustainable investing solutions, contact Hannah Skeates or Christopher McKnett, co-heads of Sustainable Investing at Allspring Global Investments, at **hannah.skeates@allspring-global.com** or **christopher.mcknett@allspring-global.com**.

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- To reach our non-U.S.-based investment professionals, contact us at **AllspringInternational@allspring-global.com.**

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