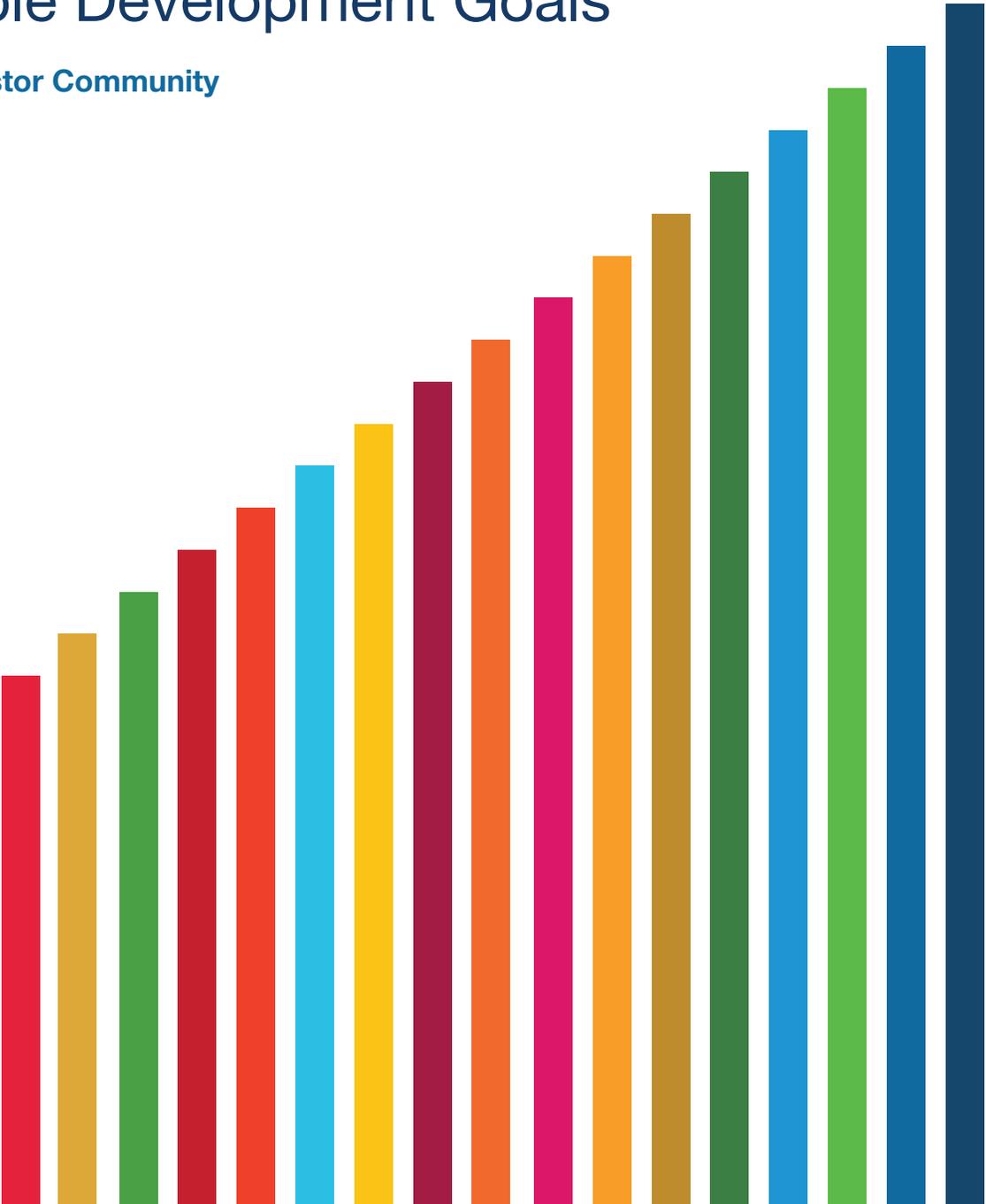


# Investing to Achieve the UN Sustainable Development Goals

A Report for the US Investor Community





## About the Publisher

The US SIF Foundation, a 501(C)(3) organization, undertakes educational and research activities to advance the mission of US SIF: The Forum for Sustainable and Responsible Investment, the leading voice advancing sustainable and impact investing across all asset classes. That mission is to rapidly shift investment practices towards sustainability, focusing on long-term investment and the generation of positive social and environmental impacts. Both US SIF and the US SIF Foundation seek to ensure that environmental, social and governance impacts are meaningfully assessed in all investment decisions to result in a more sustainable and equitable society.

Among the hundreds of US SIF members are investment management and advisory firms, asset owners, mutual fund companies, research firms, financial planners and advisors, community investing institutions and non-profit organizations.

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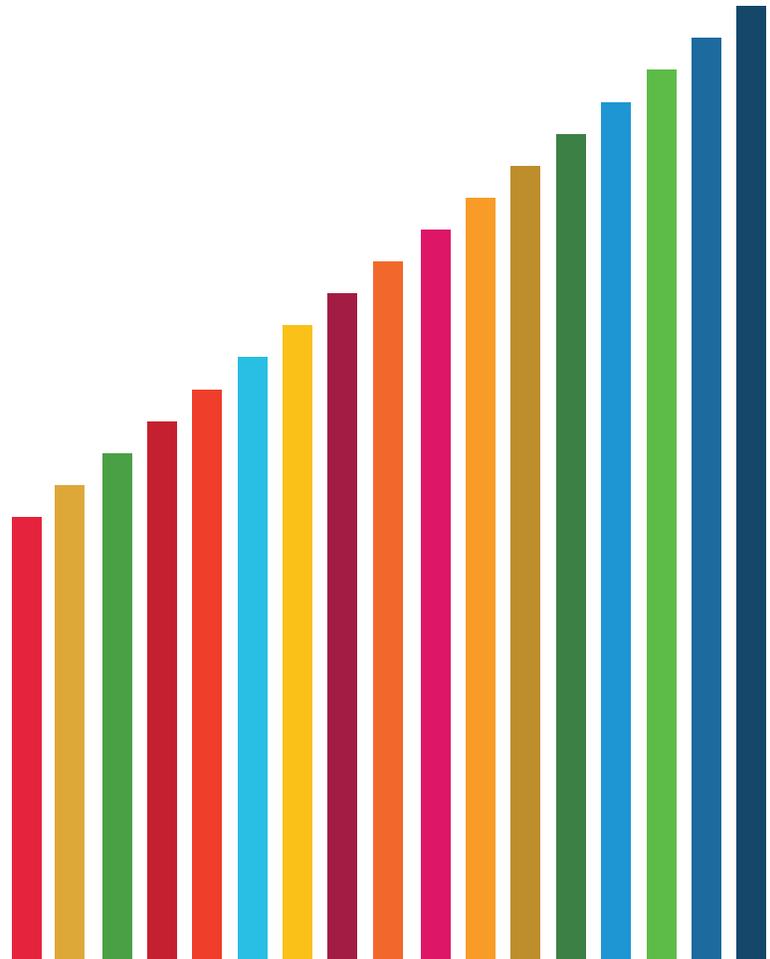
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# Table of Contents

- 2 | Introduction
- 3 | The History of the Sustainable Development Goals
- 3 | The Case for Investing in the SDGs
- 5 | Encouraging Private Sector Investment
- 6 | The Rise of Green, SDG and Sustainable Bonds
- 8 | The SDGs in the Equity Markets
- 9 | The Response of US Sustainable Investors
- 11 | Conclusion

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# Introduction

The [2030 Agenda for Sustainable Development](#), adopted by all United Nations Member States in 2015, includes 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all countries—developed and developing—in a global partnership. The goals recognize that “ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth—all while tackling climate change and working to preserve our oceans and forests.” The [SDGs](#) also call on civil society, business leaders and investors to take action to help realize these goals.

Unlike the Millennium Development Goals that they supersede, the SDGs do not only impose obligations on sovereign governments. They also call on investors and business to step up to close a development financing gap that estimated at \$2.5 trillion annually over the 15 years that the SDGs’ framers set as their deadline—and this is just in developing countries alone.<sup>1</sup> We know that the SDGs are of interest to an array of investors who responded to a question about motivations in the survey for the US SIF Foundation’s 2018 *Report on US Sustainable, Responsible and Impact Investing Trends*.

Thus, we were interested to assess whether the SDGs have led to a change in investment strategies, new investment products or new investment flows. Therefore, this report examines three main areas:

1. The United Nations’ own public reports, updates and data on private sector investments in SDG-related projects;
2. The issuance of and participation in SDG and climate bonds and in SDG-themed equity funds;
3. Interviews with the representatives of a select group of investment management firms and institutional asset owners<sup>2</sup> who indicated on the US SIF Foundation’s survey for the 2018 *Report on US Sustainable, Responsible and Impact Investing Trends* that the SDGs are a motivation for their sustainable investing.

This paper provides a closer look at why the SDGs have emerged as a motivation for US investors interested in sustainability, whether new approaches are being brought to bear to achieve the Goals and what challenges exist in the ability to invest to further the SDGs.

Figure 1: The Sustainable Development Goals



Source: The United Nations

1. “Unlocking SDG Financing: Good Practices from Early Adopters” (United Nations Development Operations Coordination Office, July 2018), <https://unsdg.un.org/sites/default/files/Unlocking-SDG-Financing-Good-Practices-Early-Adopters.pdf>, 3.

2. Interviews were undertaken with a subgroup of participants who indicated that the SDGs are a motivation for their sustainable investing when they responded to the 2018 *Report on US Sustainable, Responsible and Impact Investing Trends*.

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# The History of the Sustainable Development Goals

The SDGs consist of 17 goals with 169 sub-targets and 232 indicators designed to create a better world by 2030.

The SDGs succeed the [Millennium Development Goals](#) (MDGs), which ran from 2000 to 2015. The process used in creating the MDGs was criticized for not consulting broadly enough with stakeholders, and the MDGs' efficacy in addressing all eight of their thematic goals is debated.<sup>3</sup> However, the MDGs were very successful in addressing the HIV/AIDS epidemic and other significant treatable diseases such as tuberculosis and malaria. The United Nations reported that HIV infections fell 40 percent between 2000 and 2013, and 13.6 million people were receiving antiretroviral therapy in 2014 compared with only 800,000 people in 2003. Moreover, 6.2 million malaria deaths were averted between 2000 and 2015, while prevention, diagnosis and treatment interventions saved an estimated 37 million lives from tuberculosis between 2000 and 2013.<sup>4</sup>

In comparison with the MDGs, the SDGs were designed with a broader set of stakeholders in mind and were targeted at all nations, not only developing economies. Most pertinent for

this analysis is that the SDGs called on private investors to be a critical part of the mix to achieve the Goals.

Since their introduction, the UN and various other organizations have deployed significant resources to increase global understanding of the SDGs. This has included work to educate investors and to help governments make policy changes to attract capital and enshrine best practice regulations on issues such as gender equality and strengthening institutions.

However, recent reports from the UN and outside researchers show that the pace of progress towards fulfilling the Goals is insufficient. The UN has said that the “status quo is not enough to achieve the SDGs by 2030,”<sup>5</sup> and the Sustainable Development Solutions Network's [2019 Sustainable Development Report](#) found that “no country is on track to meeting all the goals.”

The progress reports for each Goal can be found on the [UN Sustainable Development Goals Knowledge Platform website](#), or more in-depth datasets are available at the [UN Global SDG Database website](#).

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## The Case for Investing in the SDGs

As interest in investing to achieve the SDGs has grown, there has been discussion and analysis of the business case for such investments.

The Business and Sustainable Development Commission (BSDC), a two-year initiative spearheaded by business, civil society and various global development agencies to make the business case for the SDGs, estimated in its final report that the

SDGs have created a \$12 trillion set of market opportunities in four economic systems: food and agriculture, cities, energy and materials, and health and well-being.<sup>6</sup> Several other analyses—which can be found in Box 1 on the next page—suggest that fulfillment of the SDGs would increase global growth by spurring new industries, decreasing industry- and country-level risks and properly pricing externalities, all of which are fundamental factors to improving investment

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3. Sandbu, Martin. “Critics Question Success of UN's Millennium Development Goals.” *Financial Times*, September 15, 2015. <https://www.ft.com/content/51d1c0aa-5085-11e5-8642-453585f2cfcf>.

4. *The Millennium Development Goals Report 2015*. The United Nations, 2015, 6.

5. Brown, Kaysie, and Krista Rasmussen. “What the Science Says on the Sustainable Development Goals.” Web log, September 17, 2017. [https://unfoundation.org/blog/post/what-the-science-says-on-the-sustainable-development-goals/?utm\\_source=Twitter&utm\\_campaign=SDGs](https://unfoundation.org/blog/post/what-the-science-says-on-the-sustainable-development-goals/?utm_source=Twitter&utm_campaign=SDGs).

6. *Better Business, Better World*. London: Business and Sustainable Development Commission, 2017, [https://d306pr3pise04h.cloudfront.net/docs/news\\_events%2F9.3%2Fbetter-business-better-world.pdf](https://d306pr3pise04h.cloudfront.net/docs/news_events%2F9.3%2Fbetter-business-better-world.pdf).

## BOX 1: ADDITIONAL RESOURCES ON THE BUSINESS CASE FOR THE SDGS

- [Cornerstone Capital: The Case for Aligning Portfolios with the Sustainable Development Goals](#)
- [Principles for Responsible Investing: The SDG Business Case](#)
- [Business for 2030: A Business Case for the SDGs](#)
- [ShareAction: An Introductory Study of Institutional Investors' Role in Supporting the Sustainable Development Goals](#)
- [Schroders: Global Investor Study – Are People Compelled to Invest Sustainably?](#)

returns. The BSDC points out that ending poverty, reducing income inequality and advancing the socioeconomic status of women—as the Goals emphasize—would spur economic growth and also provide opportunities for many business enterprises to expand their customer base.

Below are four examples of the economic benefits from achieving specific Sustainable Development Goals.

### SDG 5: Gender Equality

Gender equality and empowerment in the corporate context improves company performance. Greater access to education, along with equal property and financial rights, can allow women and girls the opportunity to add their productive capacity to markets. A recent report from the US SIF Foundation, [Investing to Advance Women](#), further explores the economic benefits of greater gender equality and the business case for investing in gender equality and gender-lens products on the market.

### SDG 7: Affordable and Clean Energy

According to the International Renewable Energy Agency (IRENA), more than one-third of global power capacity is now based on renewable energy—176 gigawatts of new renewable capacity were added in 2019.<sup>7</sup> IRENA found that “biomass for power, hydropower, geothermal and onshore wind can all now provide electricity competitively compared to fossil fuels at the utility scale.”<sup>8</sup> This represents a significant market opportunity as installed renewable energy capacity continues to grow.

### SDG 12: Responsible Consumption and Production

This goal aims to relieve and reduce pressure on natural resources by doing better with less. A good example is reducing food waste. Every year approximately 1.3 billion tons of food produced for human consumption is lost or wasted, costing roughly \$680 billion in industrialized countries and \$310 billion in developing countries.<sup>9</sup> The United Nations Food and Agriculture Organization found that “investing in [food waste] prevention yields more safe and nutritious food for human consumption than investing only in increasing food production.”<sup>10</sup>

### SDG 13: Climate Action

[The Task Force on Climate Related Financial Disclosure \(TCFD\)](#) reported that transitioning to a lower-carbon economy will require investment of around \$1 trillion per year for the indefinite future. This is expected to generate significant new investment opportunities. Meanwhile, the cost of inaction on climate and of a business-as-usual approach could reduce global stock of manageable assets by as much as \$43 trillion by the end of this century.<sup>11</sup>

7. “Renewable Capacity Highlights 31 March 2020.” International Renewable Energy Association, March 31, 2020. [https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2020/Mar/IRENA\\_RE\\_Capacity\\_Highlights\\_2020.pdf?la=en&hash=B6BDF8C3306D271327729B9F9C9AF5F1274FE30B](https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2020/Mar/IRENA_RE_Capacity_Highlights_2020.pdf?la=en&hash=B6BDF8C3306D271327729B9F9C9AF5F1274FE30B).
8. “Power Generation Costs” (International Renewable Energy Association), accessed May 28, 2020, <https://www.irena.org/costs/Power-Generation-Costs>.
9. “Save Food: Global Initiative on Food Loss and Waste Reduction” (Food and Agriculture Organization of the United Nations), accessed 10, 2020, <http://www.fao.org/save-food/resources/en/>.
10. “Policy Support and Governance Portal - Food Loss and Food Waste,” Food and Agriculture Organization of the United Nations, accessed March 10, 2020, <http://www.fao.org/policy-support/policy-themes/food-loss-food-waste/en/>.
11. Hope, C., Schaefer, K. “Economic impacts of carbon dioxide and methane released from thawing permafrost,” *Nature Climate Change*, 6,56–59 (January 2016), <https://doi.org/10.1038/nclimate2807>.

# Encouraging Private Sector Investment

The annual shortfall in investment over the 15-year period covered by the SDGs is \$2.5 trillion in developing countries alone. The UN has recently said, “even if funding from all public sources is maximized, there will still be a significant shortfall, making financing from the private sector imperative.”<sup>12</sup>

However, the Division for Sustainable Development of the UN Department of Economic and Social Affairs acknowledged that although SDG investment opportunities offer competitive returns to investors, they are currently often “small in size, or have long capital outlays and returns.” Investors typically are leery of tying up their money over a long time horizon, particularly in emerging markets. Therefore, traditional risk models can act as “a significant barrier to ensuring capital flows towards sustainability.”<sup>13</sup>

An important part of unlocking future private sector investment flows is to institute policy and regulatory changes. This is particularly the case in developing countries where SDG-focused investment is most needed and where development agendas to support financial inflows have been slow to develop.<sup>14</sup>

Along these lines, UN Secretary General António Guterres issued a call to action for policymakers and regulators to:

1. Price externalities into the economic and financial system.
2. Integrate environmental, social and governance (ESG) issues into the concept of fiduciary duty.

3. Put in place policies and regulations that create incentives for long-term market investment in climate-resilient infrastructure and for divestment from carbon-intensive technologies.
4. Prevent receipt of illicit financial flows, assist in repatriating such flows and prosecute perpetrators.
5. Meet official development assistance (ODA) commitments, while also shifting the focus of ODA from disaster management after the fact to reducing the risk of future disasters and improving disaster preparedness in least developed countries.
6. Regulate new digital financial sectors to provide efficient financial intermediation for inclusion and remittances, prevent cybercrime and money laundering, and mitigate the risks of misuse and unintended consequences.<sup>15</sup>

Underscoring Guterres’ first three points, a recent [World Bank report](#) found that policy changes can complement investments in the SDGs, and specifically that “green bonds perform better when they are combined with carbon pricing” because the returns for green bonds financing climate change mitigation or adaptation projects rise with carbon pricing. A direct carbon tax is more effective than emissions trading schemes as it locks in a stable carbon price and appropriately distributes the inter-generational costs of pricing in and mitigating climate change externalities.<sup>16</sup>

12. “30 Business Titans Join UN Push to Scale Up Private Sector Investment for Sustainable Development,” October 16, 2019. The United Nations. <https://www.un.org/sustainabledevelopment/blog/2019/10/gisd-alliance/>.

13. “SDG Investing: Advancing a New Normal in Global Capital Markets” (The Financing for Development Office and the Division for Sustainable Development of the United Nations Department of Economic and Social Affairs, 2017), [https://www.un.org/esa/ffd/wp-content/uploads/2017/03/SDG-Investing-Report\\_170306.pdf](https://www.un.org/esa/ffd/wp-content/uploads/2017/03/SDG-Investing-Report_170306.pdf), 35.

14. See, for example, a paper jointly commissioned by two UN agencies, which itemizes the steps that governments can take to establish sustainable financial systems and accelerate SDG investments.

15. “United Nations Secretary-General’s Roadmap for Financing the 2030 Agenda for Sustainable Development” (The United Nations, 2019), <https://www.un.org/sustainabledevelopment/wp-content/uploads/2019/07/UN-SG-Roadmap-Financing-the-SDGs-July-2019.pdf>, 6.

16. Dirk Heine et al., “Financing Low-Carbon Transitions through Carbon Pricing and Green Bonds” (The World Bank Group Macroeconomics, Trade and Investment Global Practice, <http://documents.worldbank.org/curated/en/808771566321852359/pdf/Financing-Low-Carbon-Transitions-through-Carbon-Pricing-and-Green-Bonds.pdf>, 2019).

UN agencies are also looking to guide private sector investments in the SDGs by providing standards and certifications that could make tracking, cataloging and impact measurement more widespread and effective. [The SDG Impact Practice: Standards for Private Equity Funds](#) is one such initiative, discussed in more detail on page nine.

Despite the importance the United Nations places on private sector investment in support of the SDGs, there is no UN or other official agency cataloging these flows.<sup>17</sup> A robust system to catalogue such investments would be useful to governments, investors and civil society as a way to track capital flows across geography and issue area and understand where more may be needed.

## The Rise of Green, SDG and Sustainable Bonds

A number of organizations outside of the UN system do, however, make efforts to track the issuance of sustainability focused bonds. Their research indicates that the issuance of green bonds has increased notably since 2015, the SDGs' launch year. Given the size of the global bond market—\$100 trillion—it is an important pool of capital to tap to help achieve the SDGs by 2030.

According to data from the Climate Bond Initiative (CBI), between the start of 2016 and October 2019, 4,693 “green labeled” bonds were issued globally, compared with 581 issuances between June 2007 and 2015.<sup>18</sup> Although only 214 of the issuances from 2016 to 2019 were certified under the [Climate Bonds Standard and Certification Scheme](#), it is a significant increase from the 11 issuances that received this certification from 2010 through the end of 2015.

Moody's also tracks green bonds, but categorizes them somewhat differently. For example, where CBI data shows 349 green bond issuances in the second quarter of 2019, Moody's reported only 164.<sup>19</sup> Moody's uses CBI data as part of its methodology but excludes issuances from the Federal National Mortgage Association, among other differences.<sup>20</sup> Nonetheless, as the chart on the next page shows, Moody's

**FIGURE 2: COMPARING GREEN BOND ISSUANCES AND CERTIFICATIONS**

	GREEN BOND ISSUANCES	NUMBER OF CERTIFIED CLIMATE BONDS
2009 – 2015	581	11
2016 – 2019	4,693	214

**Source:** Climate Bond Initiative

also has found a generally rising trend line of green bond issuances since 2015.

A handful of “transition” bonds have also emerged, which are designed to help more carbon-intensive (and less green) companies raise funds to support the transition to greener business practices. The most notable is a [\\$500 million issuance](#) by Brazilian food processing company Marfrig, the second largest beef producer in the world. However, a debate exists within the investment community over whether transition bonds can actually be considered green products—and whether, in fact, lending to any highly carbon-intensive

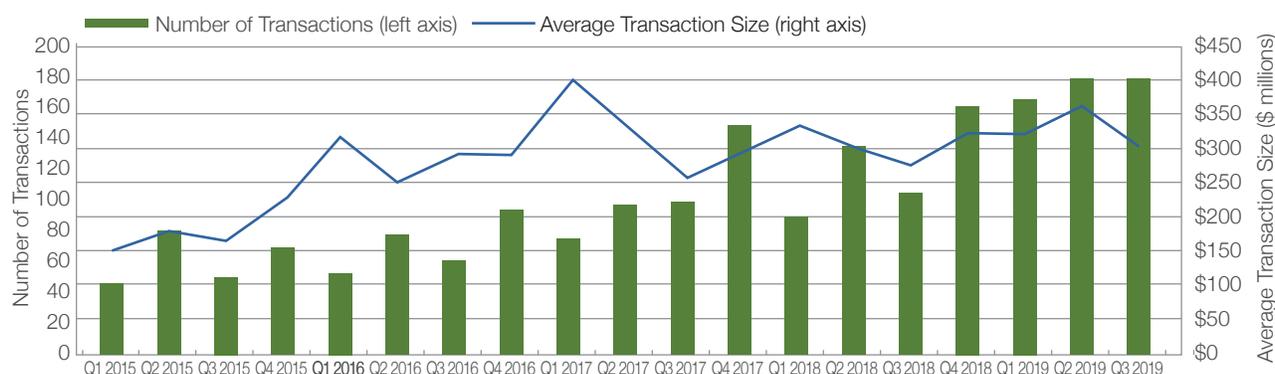
17. Tracking capital flows is much more robust, in contrast, when focused on “official” flows of development financing by countries and international financial institutions like the World Bank or International Finance Corporation (IFC). The AIDDATA Research Lab at William & Mary's Global Research Institute provides a database of these financing flows from 2000-2013 and is developing a methodology to track and estimate post-2015 flows.

18. “Labelled Green Bonds Data: Latest 3 Months,” Labelled Green Bonds Data (Climate Bonds Initiative), accessed September 16, 2019, <https://www.climatebonds.net/cbi/pub/data/bonds>.

19. Billy Nauman, “Green Bond Issuance Hits \$66.6bn in Second Quarter,” Green bond issuance hits \$66.6bn in second quarter (Financial Times, August 9, 2019), <https://www.ft.com/content/06ef9174-ba22-11e9-8a88-aa6628ac896c>.

20. “Green Bonds – Global: Strong Third-Quarter Issuance Propels Market toward \$250 Billion for 2019” (Moody's Investor Service, 2019), [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_1191440](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1191440), 3.

**FIGURE 3: TRACKING GREEN BOND ISSUANCES**



Source: Moody's Investors Services<sup>21</sup>

company can be considered a step forward. While there are no formal classification or rating frameworks for transition bonds, Reuters reported that many in the industry expect the transition bond asset class to grow substantially as “[t]he combination of demand for assets with any kind of sustainability label, issuers keen to show their green credentials, and banks chasing deals create ideal conditions” for growth in the asset class.<sup>22</sup>

In addition, designated “SDG bonds” (sometimes also called “sustainability bonds”) have emerged. A few examples include:

- [The World Bank’s SDG-Linked Bonds](#) directly linked to the SDGs, its first such issuance.
- [The World Bank’s €1.5 billion issuance](#), centered on SDGs 2, 5, 13 and 16.
- [PepsiCo’s \\$1 billion bond](#) to fund sustainability initiatives, focused on SDGs 6, 7, 9, 11, 12 and 15.
- [Alphabet’s](#) issuance of \$5.75 billion in “sustainability bonds” with the proceeds to be used to “support investment in both environmental and social initiatives.”

Given the growing number of bonds ostensibly linked to sustainability goals, the [International Capital Markets Association](#) (ICMA), beginning in 2014, has developed

principles for [green](#), [social](#) and [sustainability](#) bonds and published guides on how to approach creating, issuing and investing in such securities. In all three of these guideline documents, ICMA encourages issuers to structure their products as use-of-proceeds bonds designated for specific projects. ICMA also provides recommendations on how to track and report key impact metrics. In addition, ICMA released a related guide in June 2019 on [mapping to the SDGs](#), laying out how investors can “evaluate the financing objectives of a given Green, Social or Sustainability Bond/Bond Programme against the SDGs.”<sup>23</sup>

In addition, the International Finance Corporation (IFC) recently announced its [Operating Principles for Impact Management](#) as a guide for those seeking to manage their investments “with the intent to contribute to measurable positive social or environmental impact, alongside financial returns.”<sup>24</sup> The IFC manages a \$17 billion green and social bond fund and sits on the executive committee of ICMA’s Green Bond Principles. Notably, signatories to the Operating Principles are expected to pass an independent audit and verification that their investments align with the Principles.

Denise Odaro, Head of Investor Relations at the IFC, told the US SIF Foundation that the momentum around fixed income

21. Moody’s Investors Service, “Green Bonds—Global Strong third-quarter issuance propels market toward \$250 billion for 2019,” (November 2019), 3. [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1191440](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1191440).

22. Gareth Gore and Miluska Berrospi, “Update 1-Rise of Controversial Transition Bonds Leads to Call for Industry Standards,” *Reuters* (Thomson Reuters, September 6, 2019), <https://www.reuters.com/article/idUSL5N25X3IC>.

23. The report is titled *Green, Social & Sustainability Bonds: A High-Level Mapping to the Sustainable Development Goals*.

24. “Guide to Investing for Impact: Operating Principles for Impact Management” (Washington, DC: The International Finance Corporation, 2018), <https://www.impactprinciples.org/>, 6.

securities focused on climate-related SDGs has led investors to ask which other SDG fixed income investments should be prioritized. She and her colleagues have received feedback on the operating principles from investors who want to report more fully on impact and achievement in their investments across asset classes.

Although the IFC's and ICMA's guidelines emphasize that the proceeds from SDG and green bonds should be used directly by the issuers for sustainability projects in order for

their bonds to merit their labels, at least one self-described "general purpose SDG-linked bond" has taken a different approach. Rather than describing the specific use(s) of the proceeds to be raised, a €2.5 billion issuance by the Italian energy firm Enel in October 2019 promises that the interest rate on the issuance's tranches will rise if the firm does not meet specific environmental targets. Targets include increasing its renewable generation capacity to 55 percent by 2021 and decreasing greenhouse gas emissions by nearly two-thirds by 2030.<sup>25</sup>

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## The SDGs in the Equity Markets

In addition to fixed income products, there has been notable growth in equity products that seek to address the development and financing challenges laid out by the SDGs. Since 2015 this growth has centered within exchange traded funds (ETFs) and mutual funds, though there has been some interest in the private equity space.

**ETFs AND MUTUAL FUNDS:** SDG-themed ETFs and mutual funds usually include language in their prospectuses on how they seek to contribute to one or more of the SDGs; a few only provide this information on their websites.

SDG ETF products currently offered include:

- [iShares MSCI Global Impact ETF](#), which says that its "Underlying Index is composed exclusively of companies whose core business addresses at least one of the world's major social and environmental challenges, as defined by the United Nations Sustainable Development Goals;"
- [Impact Shares Sustainable Development Goals Global Equity ETF](#), the underlying index of which was "designed to measure the performance of large and mid-capitalization companies globally that...display a commitment to the UN's Sustainable Development Goals;"

- [Serenity Shares US Core Impact Index](#), which "takes a top-down approach similar to that defined by the United Nations Sustainable Development Goals" and is based on a benchmark SerenityShares designed.

SDG mutual funds currently include:

- [Cornerstone Capital Access Impact Fund](#)
- [Federated Hermes SDG Engagement Equity Fund Institutional Shares](#)
- [AB Sustainable Global Thematic Fund](#)
- [RobecoSAM Global SDG Equities](#)
- [BMO SDG Engagement Global Equity Fund](#)

Cornerstone Capital states that its "in-house research process identifies a universe of target managers across a range of global thematic impact areas that Cornerstone prioritizes for the Fund based on extensive research and thought leadership. To further its analysis, the team carefully evaluates each strategy considering fully the UN Sustainable Development Goals (SDGs)."<sup>26</sup>

The BMO SDG Engagement Global Equity Fund's objective is to "achieve long-term capital growth and support sustainable development....For each holding there must

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25. "Enel Successfully Places Its First 'General Purpose SDG Linked Bond' on the European Market with a Multi-Tranche Issue of 2.5 Billion Euros," October 10, 2019. Enel. <https://www.enel.com/content/dam/enel-common/press/en/2019-October/EURO%20SDG%20Bond%20ENG.pdf>.

26. "Liquid Access to Global Impact." Accessed June 17, 2020. <https://cornerstonecapitalfunds.com/>.

be an engagement agenda aligned to the 17 sustainable Development Goals (SDGs), addressing issues including poverty, inequality, climate change, peace and justice.”<sup>27</sup>

RobecoSAM says that its Global SDG Equities fund, in addition to selecting companies offering products and services or promoting trade customs that contribute to achieving the SDGs, uses voting and engagement as “an additional sustainability overlay for the strategy.” It says its active ownership team “informs and educates companies regarding the consequences of their activities on the environment, business and society as well as on the strategic imperative of integrating sustainability into their business decisions.”<sup>28</sup>

As of May 31, 2020, these five mutual funds had \$1.85 billion in aggregated net assets under management.

**PRIVATE EQUITY:** Private equity managers and investors are increasingly interested in the SDGs, as the business case for achieving the SDGs has become clearer. However, SDG-related investments and reporting in private equity remains in a more formative stage than in fixed income and public equity investing.

A recent study by EMPEA, the global industry association for private capital in emerging markets, [Private Equity's Role in Delivering the SDGs: Current Approaches and Good Practice](#), found that while many private equity fund managers are reporting interest from their limited partners in supporting the SDGs, managers are not yet widely using the SDGs to influence their strategies or investment policies. The report summarizes the business case for private equity investments to achieve the SDGs, describes challenges facing private equity in engaging with the SDGs and provides a number of case studies.

A paper from the UN Development Program, [The SDG Impact Practice Standards: Private Equity Funds](#), provides performance benchmarking and reporting standards for fund managers and other actors in the private equity space. The UNDP says these standards are a response to the “market-led acknowledgement that more is required beyond reporting on current activities.”

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## The Response of US Sustainable Investors

The US SIF Foundation sought to gauge money manager and institutional asset owner interest in the SDGs in its survey for the 2018 *Report on US Sustainable, Responsible and Impact Investing Trends*. Survey recipients, all of whom consider environmental, social or governance factors as part of their investment process, were asked whether they were motivated “to help fulfill one or more of the UN Sustainable Development Goals,” in their sustainable investing. This option was included in a list of eight potential motivating factors.

Of the 141 money managers that responded regarding their motivations, 40 percent—56 firms with a total of \$2.15 trillion in ESG assets under management (AUM)—said they considered the SDGs as a motivating factor in pursuing sustainable

investing strategies. Among institutional asset owners, interest in the SDGs as a motivating factor was prevalent primarily at smaller institutions. Of the 92 institutional asset owners that responded on their motivations for pursuing sustainable investing strategies, 23 percent—21 asset owners—cited the SDGs as a motivation. These institutional respondents represented \$4 billion in ESG AUM.

To get a better idea of these investors’ activities regarding the SDGs, the US SIF Foundation held follow-up interviews with representatives of 10 investment management firms and one multifamily office who responded affirmatively to this survey question.

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27. “BMO SDG Engagement Global Equity Fund.” BMO Global Asset Management, August 26, 2019. <https://www.bmogam.com/gb-en/intermediary/bmo-sdg-engagement-global-equity-a-acc-usd/>.

28. “Invest in the UN Sustainable Development Goals” (Zurich: RobecoSAM, 2019), [https://www.robecosam.com/media/e/3/9/e394615e47189995a1e16fd0ddcb9726\\_20191023-global-sdg-equities-capturing-sdg-impact-within-listed-equities\\_tcm1011-21511.pdf](https://www.robecosam.com/media/e/3/9/e394615e47189995a1e16fd0ddcb9726_20191023-global-sdg-equities-capturing-sdg-impact-within-listed-equities_tcm1011-21511.pdf), 8.

## BOX 2: INVESTMENT SPOTLIGHT

Nuveen's global fixed income team has used a proprietary impact framework since 2007 across 10 accounts with approximately \$12 billion in assets under management. The team at Nuveen believes that their framework, which focuses on four areas of impact—affordable housing, community development, renewable energy and climate and natural resources—already aligns with several SDGs. Thus, they continue to seek securities that fit their pre-existing impact framework, rather than use the SDGs specifically as a starting point. A critical aspect of the Nuveen approach is to obtain proof of impact from investees, and to explain the metrics to its investor base.

Stephen Liberatore, Head of Nuveen's ESG/Impact Fixed Income Team, told the US SIF Foundation that it is "imperative that investors work with managers that understand the [SDG] space in order to reflect their values and concerns when investing."

A majority of the interviewees agreed that the SDGs are helpful in defining a common language between investors, companies and the public. Another interviewee described the SDGs' utility as a framework that has "provided an opportunity to look at the investment-making process" to better analyze companies and identify factors that have a material impact on corporate performance. Most of the interviewees said that they were "mapping" their sustainable investing activities to the SDGs. However, some expressed trepidation that "greenwashing" may arise from less rigorous mapping activities.

Another theme that emerged from the interviews is the macroeconomic growth and stability that would result from achieving the SDGs. In the view of Chris Meyer, Manager of Advocacy and Research at Everence, fulfilling the SDGs would create a "more sustainable economy for long-term, broad value creation." Similarly, John Bianucci, Iroquois Valley Farms' Director of Impact, said that "caring about the land used to produce food promotes longer term sustainability in food markets and land conservation."

**FOCUSING ON THE INDICATORS:** Three of the interviewees—two money managers and the multi-family office representative—spoke about the utility of focusing on the targets and indicators connected with each of the SDGs. In total there are 169 targets and 232 indicators. The targets provide a level of specificity to the Goals to make them less opaque to stakeholders. The indicators provide the data-gathering and statistical analysis tools to track progress across each target, and therefore progress toward achieving the Goal itself.

According to Saturna Capital's Senior Investment Analyst Elizabeth Alm:

The SDGs' sub-targets have been valuable to Saturna's portfolio analysis and security selection. This is because the top line of each Goal doesn't necessarily tell the whole story. For instance, SDG 8 'Decent Work and Economic Growth' includes expanding access to financial services as a sub-target, which may not jump to the top of one's mind on the topic of decent work. The sub-targets ultimately provide more tangible metrics by which to measure financial performance and ESG impact.

Similarly, Amy Augustine, Boston Trust Walden's Director of ESG Investing, said:

We believe achieving the SDGs will be beneficial to our clients and will help grow the global economy. The SDG sub-targets and indicators offer a level of specificity that help investors—and companies—go beyond a simple mapping exercise towards concrete actions and innovative solutions that move the needle. At Boston Trust Walden, we have used the sub-targets and indicators to focus and communicate our engagement efforts and results.

The family office representative said his clients want to use the indicators to "go deeper" in understanding what metrics are the most useful to measure overall net progress toward the SDGs at the portfolio level.

**SHAREHOLDER ENGAGEMENT:** Representatives of Boston Trust Walden, HSBC, Everence, Pimco and the multi-family office said that company engagement is part of their investment strategy to help fulfill the SDGs. Augustine of Boston Trust Walden described shareholder engagement as

“critical” to helping fulfill the SDGs, and her firm provides an overview of some of its [Active Ownership practices](#) geared toward achieving the SDGs.

When Walden first mapped its engagement activity to the SDGs, it found that it had engaged companies on topics related to 11 of the SDGs. It focuses its current engagement activities on goals 5 (gender equality), 10 (reducing inequalities), 13 (climate action) and 16 (peace, justice and strong institutions). For example, Walden considers its engagement asking companies to disclose their political lobbying activities as consistent with the sub-targets under SDG 16 to “develop effective, accountable and transparent institutions at all

levels” and to “ensure responsive, inclusive, participatory and representative decision-making at all levels.”

Even without a specific reference to the SDGs, many other money managers and institutional asset owners have used shareholder engagement over the years to encourage companies to implement policies and disclose data related to the broad range of issues included in the 17 SDGs. (For more background on the impact of shareholder engagement initiatives on sustainability issues, see Chapter 2 of the US SIF Foundation report, [The Impact of Sustainable and Responsible Investment.](#))

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## Conclusion

The SDGs are a critical piece of the global community’s efforts to address major systemic issues facing the environment and society. Investors have been called upon to be a part of the solution.

Since the launch of the SDGs in 2015, there has been a notable increase in the issuance of green bonds tracked by the Climate Bond Initiative, and also in the narrower category of climate bonds that meet its certification standards. Some bond issuers now specifically reference the SDGs in naming and marketing their bonds. A number of SDG-themed equity ETFs and mutual funds have also emerged. While there are now definitions of what constitutes green, social and sustainable bonds, along with guidance on mapping investments across asset classes to the SDGs, there is no official database tracking private sector investments in the SDGs or the collective impact of these investments toward meeting these goals.

The select group of investors we interviewed for this project were already knowledgeable about and engaged in sustainable investing techniques. These sustainable investors welcome the SDGs for highlighting critical issues they have long considered in their products, analyses and shareholder advocacy. In their general view, the SDGs provide a helpful framework for investment firms to explain and measure the impact of their work and approaches. Many investors are undergoing the exercise of mapping existing efforts and investments to applicable Goals.

In the interviews there was also broad agreement that there is a strong business case for fulfilling the SDGs—that a healthier planet and more equitable society will boost global growth and open significant new market opportunities. However, there are concerns that some investment firms may seek to capitalize on interest in the SDGs through “greenwashing” in the form of products or statements that provide lip service to the SDGs but fall short on impact.

Therefore, managers or issuers of investment products that purport to support one or more of the SDGs should be able to demonstrate the impact the product will have and, in the case of bonds, monitor that the proceeds are used to support the stipulated SDG purpose. As SDG-themed public equity funds attain three- and five-year milestones, many of their investors will expect them to report on the impact they have achieved. Currently this type of reporting is sparse, but it is a way for funds that purport to support the SDGs to substantiate these claims and to differentiate themselves.

The Sustainable Development Goals were a relatively new concept when the US SIF Foundation asked investors about their interest in them in its 2018 biennial survey. We expect to see a higher number of survey recipients—investment management firms and institutional asset owners—citing the SDGs as an additional motivation for sustainable investing in 2020 and beyond.



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