ROBECO
The Investment Engineers

THE NEW KIT ON THE BLOCK

SIX THINGS YOU NEED TO KNOW ABOUT SDG INVESTING

RobecoSAM SDG Credit Income

Sustainable Investing Expertise by ROBECOSAM

1. WHAT ARE SDGs?
A blueprint for the future of impact investing

The Sustainable Development Goals (SDGs) are 17 objectives for improving human society, ecological sustainability and the quality of life published by the United Nations in 2015. They cover a broad spectrum of sustainability topics, ranging from eliminating hunger and combating climate change to promoting responsible consumption and making cities more sustainable.

All countries – no matter how rich or poor – have agreed to work towards achieving the 17 SDGs by 2030, thereby establishing a 15-year timeframe for progress. The goals are part of 'Transforming our World: the 2030 Agenda for Sustainable Development' and are branded by the UN as "a blueprint to achieve a better and more sustainable future for all."

The SDGs succeed the Millennium Development Goals, which were eight objectives launched in 2000. They included a commitment to eradicate extreme poverty and hunger, achieve universal primary education, and combat HIV/AIDS. Developed from 2012 using a global consultation period in which more than one million people gave their inputs, the SDGs are much broader in scope – and they apply to all countries, not just those earmarked as 'developing'.

We can all play our part

The 'call to action' that lies at the heart of the SDGs is that unlike most UN initiatives, the 17 goals are not just aimed at governments or NGOs, but the whole of society. It presents both a challenge and an opportunity, aimed equally at businesses and investors, who are seen as key to achieving the goals.

It means the SDGs are unique, as it is the first time in history that a global plan has been drawn up to promote social well-being, economic development and ecological sustainability. What is more, this plan applies to all countries and involves everyone.

How investors can play their part in this global plan and progress the SDGs through investment will be discussed fully in this brochure.

2. INVESTORS ARE RAMPING UP INVESTMENTS IN THE SDGs

Creating a better world while also making returns

The SDGs have certainly caught investors' imagination. This was borne out by the 2022 Robeco Global Climate Survey, which showed rising adoption of the full range of 17 goals over the next two years. And while the survey's core subject of climate is a major motivation, they are also being used to target specific investment objectives such as equality or health care.

Some 18% of investors said they had made it a high priority to align or benchmarking their portfolios with the SDGs, while 22% indicated they were doing this, but as a lower priority. A further 40% said they would consider doing so over the next two to three years.

And as has been commonly found in SDG investing, some of the goals are more popular to target than others, with a core focus on the favorite objective of tackling climate change itself (SDGs 7 and 13), but surprisingly with less interest in the related issue of natural capital (SDGs 12, 14 and 15).

Views of 300 investors

The results are contained in the 2022 Robeco Climate Survey, which gathered the views of 300 global investors on their approaches to decarbonization, climate change, biodiversity and engagement. It is the second survey of its kind following the success of the 2021 report.

The research was carried out via an extensive global online survey conducted by CoreData Research during January 2022. Collectively the investors questioned have assets under management of USD 23.7 trillion, ranging from under USD 1 billion for the smallest to over USD 1 trillion for the largest.

A blueprint for investors

"The SDGs provide a blueprint for sustainable investors, and this survey shows that many investors are using the goals for exactly that purpose," says Jan Anton van Zanten, Robeco's SDG Strategist. "In most cases, investors indicate that they are trying to align their investments with these goals, now and in the future, though with differing objectives."

"It's encouraging news because integrating these global goals into investing strategies can be a daunting task. How do you know which goals are positively or negatively impacted by the companies you might invest in? This requires research to identify the companies that can really make a difference – and of course, this is where we come in."

3. SIX THINGS YOU NEED TO KNOW ABOUT SDG INVESTING

They're more than just sustainable investing

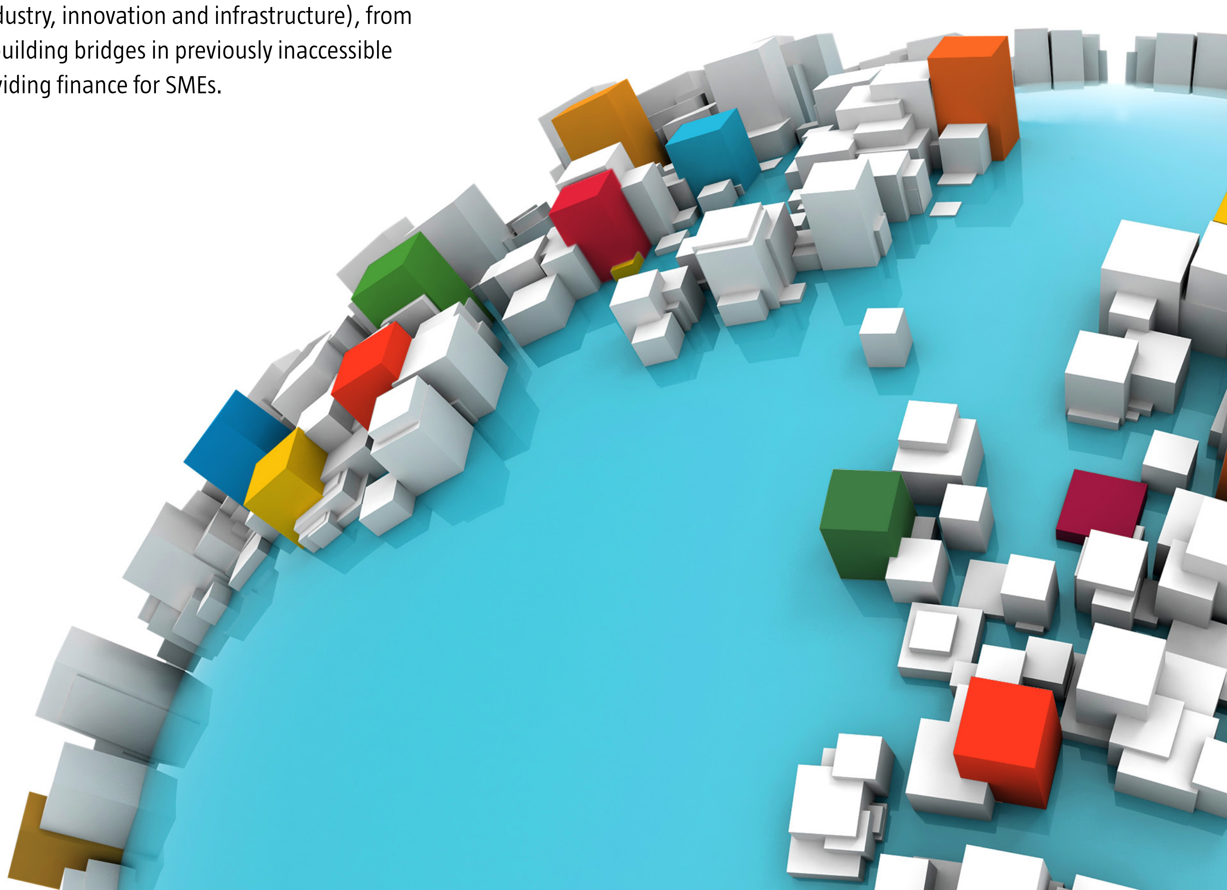
ONE – The SDGs are a business opportunity

The UN has been clear from the outset that the SDGs are not intended to be another form of development aid or charity, but a globally shared sustainable development agenda for the betterment of all. Achieving the goals leads to diverse business opportunities as it means investing in the companies whose products and services can progress them, from making telecoms accessible in remote areas, to rolling out health care facilities and building new schools to a wider populace.

Subsequently, contributing to the SDGs presents a massive business opportunity. Some companies and sectors will be naturally more attuned to contributing to the SDGs than others, which in turn has directed investment flows. For example, the industrial and financial sectors are rich with companies that can contribute to SDG 9 (industry, innovation and infrastructure), from the construction firms building bridges in previously inaccessible areas, to the banks providing finance for SMEs.

Renewable energy is also quite an easy and popular sector for investment, since solar or wind companies are clearly contributing to SDG 7 (affordable and clean energy) and SDG 13 (climate action) while also delivering a clear return in the revenue streams from selling electricity.

Other sectors are fairly obvious as contributors, but may be less so in terms of making returns. A business creating educational materials for schools is directly contributing to SDG 4 (quality education), while a firm that actively works to promote women in leadership roles is advancing SDG 5 (gender equality). The returns they generate, however, may be more difficult to quantify.



Investible in different ways

And all the SDGs are investible in different ways, even if the goal on first impression isn't an obvious candidate. For example, SDG 16 (peace, justice and strong institutions) can be helped by any company making security products that can cut crime or enhance personal safety. In a tile-by-tile guide, here are the principal business opportunities for each SDG:

SDG 1
NO POVERTY

Banks providing access to finance in emerging markets, or telecommunications companies offering mobile banking services.

SDG 2
ZERO HUNGER

Producers of nutritious food and sustainable agrochemicals.

SDG 3
GOOD HEALTH & WELL-BEING

Health care companies providing greater access to medicine and improved well-being.

SDG 4
QUALITY EDUCATION

Publishers of educational content providing materials needed for anyone's schooling.

SDG 5
GENDER EQUALITY

Companies that have high proportions of women in senior positions.

SDG 6
CLEAN WATER AND SANITATION

Water utilities that provide access to clean drinking water or companies delivering sanitation products.

SDG 7
AFFORDABLE AND CLEAN ENERGY

Renewable energy companies and any firms whose products support energy efficiency.

SDG 8
DECENT WORK AND ECONOMIC GROWTH

Banks who lend to small to medium-sized enterprises or companies, particularly in emerging markets.

SDG 9
INDUSTRY INNOVATION AND INFRASTRUCTURE

Engineering companies developing infrastructure or companies providing raw materials for construction.

SDG 10
REDUCED INEQUALITIES

Companies with good diversity track records and policies that allow minorities to advance their careers.

SDG 11
SUSTAINABLE CITIES AND COMMUNITIES

Providers of sustainable public transport systems such as trains and metros, as well as promoters of safe and sustainable housing.

SDG 12
RESPONSIBLE CONSUMPTION & PRODUCTION

Waste management companies that avoid landfills and promote recycling, and packaging companies using recycled materials.

SDG 13
CLIMATE ACTION

Renewable energy firms plus climate adaptation companies such as catastrophe insurance providers.

SDG 14
LIFE BELOW WATER

Firms engaged in sustainable aquaculture that can help reduce the burden on scarce marine resources.

SDG 15
LIFE ON LAND

Any firm involved in sustainable forestry management, or the prevention of deforestation or biodiversity loss.

SDG 16
PEACE, JUSTICE AND STRONG INSTITUTIONS

Companies providing online and physical security technologies that enhance cybersecurity or cut crime.

SDG 17
PARTNERSHIPS FOR THE GOALS

Raising financing for the goals and forming partnerships to advance them, rather than seeking to achieve specific outcomes.

TWO – They let you zoom in on your own goals

With 17 SDGs to choose from, there's no shortage of subjects that an investor can use to zoom in on their own ambitions. This has helped narrow down a broad and often opaque universe into something more solid. Sustainable investing used to be a rather vague concept that everybody interpreted differently, with different motivations, from becoming greener to avoiding harmful companies. The SDGs have changed all that.

The SDGs contain 17 goals with 169 targets – so there is lots to choose from when deciding what your sustainable investing strategy should encompass. In addition to targeting the whole SDG agenda, investors can target those goals that are closest to their own personal wish lists.

As we have seen, some goals are more popular than others. It really boils down to what the investor wants to achieve on behalf of its own sustainability agenda, or that of its stakeholders.

For the Climate Survey, the 17 goals were categorized in five buckets covering climate change, governance, basic needs, empowerment and natural capital. Many sustainable investors prefer to follow a theme (or bucket) rather than a particular SDG, though there are exceptions. This gives rise to opportunities within each bucket or theme.

For example:

– For **climate change**, renewable energy is a genre of investing in its own right. Investors interested in this broad theme would be targeting SDG 7 (affordable and clean energy) and SDG 13 (climate action).

– Achieving greater equality and diversity, particularly in the workplace, is covered by the **empowerment** and **governance** issue. Some strategies target this, such as the RobecoSAM Global Gender Equality Equities strategy, which contributes to SDG 5 (gender equality).

– Meeting **basic needs** can be supported by investing in companies providing nutritious food, contributing to SDG 2 (zero hunger); those supplying affordable medicines help SDG 3 (good health and well-being); providing access to education boosts SDG 4 (quality education); and those making water drinkable aid SDG 6 (clean water and sanitation).

– Preserving **natural capital** has led to growing interest in green bonds – debt securities issued mainly by governments, municipalities and NGOs to fund environmental projects. As such they can contribute to SDG 14 (life below water) and SDG 15 (life on land). It has also increased interest in protecting biodiversity and reducing adverse impacts on ecosystems.

More holistic issues such as the concept of the circular economy, which aims to replace the wasteful 'take-make-dispose' model, can be targeted directly or indirectly. Robeco offers a Circular Economy Equities strategy which focuses on technologies that promote loop resources. More generally, investing in any companies that specialize in recycling or reusing materials promotes SDG 12 (responsible consumption and production).

THREE – Impact investing is not the same as ESG integration

The SDGs are the world's plan for promoting sustainable economic growth, advancing social inclusion and safeguarding the natural environment. This means investing in companies that contribute to the goals is a means of impact investing, focusing on companies that are moving towards (and not against) achieving the goals and are making a real-world impact.

This is totally different from ESG integration, which focuses on avoiding financial risks that stem from poor performance on environmental, social and governance issues. Many investors conflate ESG integration with the positive sustainability benefits that accrue from this, including helping achieve the SDGs. This is not the case: there are many examples of companies that have top-notch ESG ratings but that also obviously generate negative societal and environmental impacts, such as tobacco companies, beer brewers and coal-fired power plants.

ESG ratings versus SDG scores

A Robeco research project looked at whether SDG scores and ESG ratings align with sustainable investing ambitions. We found that SDG scores are able to identify which companies are expected to have significant negative impact and that they can pick out firms that provide sustainable solutions. ESG ratings are much less able to meet these objectives.

First, we compared the ESG and SDG performance of companies on exclusion lists. To do so, we collected the exclusion lists of major asset owners and found the 'usual suspects' of controversial weapons producers, human rights abusers and polluters. The Robeco SDG Framework assigns negative scores to the vast majority of these companies, thus adequately crystallizing their negative impact.

However, the ESG ratings of these companies on exclusion lists were often found to be average or even quite good. Using ESG integration to screen out the bottom quarter of the investable universe still leaves a lot of room for accidentally investing in companies on exclusion lists!

Second, we compared how the companies in some of the world's most recognizable sustainable thematic funds perform on ESG ratings and the Robeco SDG score. We focused on three groups – clean energy, sustainable water and health care – which cover some of the most urgent sustainability challenges. We found that most of the companies included in these funds have very positive Robeco SDG scores, indicating that they make a positive contribution to sustainable development.

Yet, the ESG ratings for these companies are often average, or even poor! So, while prioritizing positive SDG scores in an investment strategies does help to identify sustainability leaders, ESG ratings do not do this.

These results may sound surprising, but they're not really. ESG integration is about avoiding financial risks rather than contributing to sustainable development in the real world. SDG scores are about advancing sustainability objectives, and not about avoiding financial risk. This makes ESG integration and SDG investing complementary.

FOUR – We can identify the contributions that companies make to the SDGs

Companies can contribute to achieving the SDGs by making products or offering services that help achieve one or more of the 17 goals. As we have seen so far, some businesses may be naturally able to contribute to particular SDGs, while others may be better placed to contribute to a whole theme or bucket, such as meeting basic needs.

So, how to measure these contributions for investment purposes? In 2018, Robeco became one of the first asset managers to develop an investment framework focused exclusively on the impacts that companies have on the goals. The SDG Framework methodology uses a three-step process to ascertain this:

STEP 1: What does the company produce? Analysts look at what the company makes or supplies to determine whether this contributes positively or negatively to the relevant SDGs, using specific key performance indicators and thresholds.

STEP 2: How does the company produce it? Here, analysts examine how these goods and services are produced and whether these companies advance SDGs in their operations, or whether there are any flipsides to apparent good intentions, such as poor governance.

STEP 3: Has the company erred? Checks are made to see whether the company has been involved in any controversies, such as pollution incidents, corruption or the mis-selling of services.

Assessing the overall impact

Scores are then assigned to assess a company's overall impact. These range from +3 (highly positive) to -3 (highly negative). Companies with +2 or +3 scores can be included in strategies that target the SDGs. Lower-ranking companies can also be considered for specific strategies, including one that targets firms in the -1 to +1 bracket to engage with them for improvement. Companies with highly negative scores such as -2 or -3 can be removed from the investment universe for the strategy in question.

The framework offers a rules-based approach to assigning SDG scores that adequately capture the positive and negative impacts that companies are having on the SDGs. For example, a bank that lends money to lower-income enterprises in emerging markets but was also involved in a mis-selling scandal in developed markets would score highly for Step 1 but poorly for Step 3. The net score would need to be used.

Some companies may even contribute both positively and negatively to the same SDG, such as a utility that uses both wind and coal power to generate its electricity. Even more complex challenges arise with the creation of products or services that advance SDGs but simultaneously generate negative externalities. For example, mining metals that are crucial for the manufacture of electric cars or wind turbines, also adversely impact ecosystems and emit greenhouse gases.

Proprietary SDG framework, shown below, consists of a three-step approach

STEP 1
What do companies produce?

Do products or services contribute positively or negatively to SDGs?

Positive contribution examples:
– Medicine, water, health care

Negative contribution examples:
– Shale gas, fast food, gambling

STEP 2
How do companies produce?

Does the company's business conduct contribute to SDG's?

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

STEP 3
Are controversies known?

Has the company been involved in controversies?

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

Source: Robeco

FIVE – Engagement is the latest tool in our armory

We can see how some companies that already contribute to the SDGs make attractive investments. But what about those that are partly contributing, or those that could make a much higher contribution with a bit of a nudge? That's where engagement comes in.

Robeco has long believed in the power of engagement to seek sustainability improvements at companies, with a track record going back to 2005. It works by making companies more sustainable, which in turn should feed through into better risk-adjusted returns. Where it hadn't been used before was in directly focusing on a company's SDG contributions – until now.

One of our recently launched strategies, RobecoSAM Global SDG Engagement Equities, intentionally looks for those companies that a work in progress. Eligible stocks are first identified through a screening process in which SI analysts assign scores to companies using the SDG Framework, taking our impact universe as a starting point. But whereas a normal SDG strategy would seek those companies with +2 and +3 scores, SDG Engagement Equities targets those with scores of -1 to +1. The only condition is that they must be open to engagement, and all portfolio companies are willing participants.

It means turning the traditional 'best in class' model on its head. The companies that are in the middle of the range offer the most opportunity for improvement, and with it, the biggest potential to make an impact. Ironically, it means that when a company does improve to the point where it gets a +2 or +3 score, it falls out of the scope of the strategy.

As we have seen, some SDGs are more investible for companies under this kind of engagement than others. For example, the strategy has 31% of its assets in companies contributing to SDG 9 (industry, innovation and infrastructure) and 25% targeting SDG 8 (decent work and economic growth), which means more than half of the portfolio is concentrated in just two goals. Conversely, there are zero investments in SDG 1 (no poverty), SDG 4 (quality education) and SDG 10 (reduced inequalities).

Global universe (1,500 companies)

PRODUCT	Quantifying contributions		+3 High	15%	Investible universe
			+2 Medium	20%	
PROCEDURE	Quantifying contributions	SDG Score	+1 Low	23%	55%
			0	18%	
			-1 Low	14%	
CONTROVERSIES	Quantifying contributions		-2 Medium	6%	
			-3 High	4%	

Source: Robeco

BASIC NEEDS	HEALTHY PLANET	SUSTAINABLE SOCIETY	EQUALITY & OPPORTUNITY	ROBUST INSTITUTIONS
SDG 2 ZERO HUNGER 2%	SDG 7 AFFORDABLE AND CLEAN ENERGY 6%	SDG 9 INDUSTRY INNOVATION AND INFRASTRUCTURE 31%	SDG 1 NO POVERTY 0%	SDG 16 PEACE, JUSTICE AND STRONG INSTITUTIONS 9%
SDG 3 GOOD HEALTH & WELL-BEING 19%	SDG 12 RESPONSIBLE CONSUMPTION & PRODUCTION 9%	SDG 8 DECENT WORK AND ECONOMIC GROWTH 25%	SDG 5 GENDER EQUALITY 5%	SDG 17 PARTNERSHIPS FOR THE GOALS 2%
SDG 4 QUALITY EDUCATION 0%	SDG 14 LIFE BELOW WATER 3%	SDG 11 SUSTAINABLE CITIES AND COMMUNITIES 6%	SDG 10 REDUCED INEQUALITIES 0%	
SDG 6 CLEAN WATER AND SANITATION 4%	SDG 15 LIFE ON LAND 2%	SDG 13 CLIMATE ACTION 4%		

Source: RobecoSAM impact data. Data as of 31-12-2021

Wider engagement programs can indirectly contribute to the SDGs, even when they are not focused on one particular goal. Robeco launches four or five new engagement themes every year. For example, the ongoing engagement with high-carbon companies and the banks that fund them, along with the wider net-zero emissions theme, contribute to SDG 13 (climate action).

Other engagement themes for the protection of biodiversity, natural resource management and the promotion of Nature Action 100+ can contribute to SDG 6 (clean water and sanitation), SDG 14 (life below water) and SDG 15 (life on land). The theme for diversity and inclusion helps SDG 5 (gender equality) and SDG 10 (reduced inequalities), while a campaign to improve labor rights in the post-Covid world helps SDG 8 (decent work and economic growth).

This also broadens our impact investing approach. Investing in companies with positive SDG scores helps us align our investments with positive impact. But engagement goes beyond impact-aligned investments: here we seek to directly generate impact ourselves, using all the sustainability expertise we have in-house.

SIX – We've made a good start, but we need to ramp up to meet the targets

The SDGs have certainly captured investors' imagination, with billions of euros now committed to achieving the goals. However, more than six years since the SDGs were launched, not nearly enough public or private capital has been committed to meet all the targets by the 2030 deadline set when they were introduced.

The situation has been made worse by Covid-19 in which the world effectively locked down for two years, stifling investment while containment measures were used to bring the pandemic under control. As the world fought a deadly virus, meeting the SDGs took a back seat, and there is now a considerable funding gap for the goals.

Estimates vary widely for how much funding is needed to meet all 17 goals. The UN's own estimates are USD 5-7 trillion a year is needed, representing 7-10% of global GDP and 25-40% of annual global investment. However, only about half of that amount is currently being invested by public and private organizations, which means the funding gap is currently USD 2.5-3 trillion per year.

A USD 12 trillion opportunity

One solution has been to promote the kind of ideas we saw earlier – that this is a massive business opportunity. For example, renewable energy or medicines could be sold to people who previously had no access to them. One estimate suggested this could mean as much as USD 12 trillion of market opportunities per year and that 380 million new jobs could be created, particularly in projects related to combatting climate change.

It's also increasingly an issue that cannot be treated as something that is 'nice to have' and can look good for PR purposes – using the SDGs for 'greenwashing'. Regulations are changing fast, and the public is increasingly demanding a more sustainable approach to business. Companies and investors that embed SDGs into their strategy will subsequently be more likely to align with present and future governmental policies and regulations.

Making progress

Since the adoption of the SDGs there has been some progress towards meeting some of them. For instance, women are now slightly better represented in parliaments (SDG 5), the proportion of renewables in the energy mix is slowly increasing (SDG 7), and marine areas are starting to be better protected around the world (SDG 14).

But overall progress has been far too slow, and we are still facing immense challenges. Average global temperatures continue to rise, biodiversity is eroding at an alarming rate, and Covid-19 has cost millions of lives and disrupted societies and economies. The pandemic has also exacerbated inequalities and halted or even reversed some of the progress that had been made towards many of the SDGs.

Perhaps the one thing that Covid has shown is that human life can be fragile, affecting everyone and requiring global solutions. Offering innovative ways of investing in the SDGs has proven to be an effective way of furthering the goals and progressing human development.

In the next section, we will present
our SDG Credit Income strategy that targets
the goals set out above

RobecoSAM SDG Credit Income

Offering attractive income as well as real-world impact

RobecoSAM SDG Credit Income

Offering attractive income as well as real-world impact

Robeco's range of SDG strategies expanded further in June 2019 when our Credit Income strategy started using the SDG framework in its investment process, thereby adding an extra dimension for investors seeking attractive yield. It aims to provide yield and stable income throughout the credit cycle while also contributing positively to the SDGs.

The strategy invests in companies that can contribute positively to the SDGs. In this way, it encompasses diversified exposure to businesses that contribute to global ambitions.

The strategy is unconstrained in the sense that it has no benchmark. The starting point is a portfolio that is equally split across global investment grade corporate bonds, global high yield corporate bonds and hard-currency emerging market corporate bonds.

Depending on the phase of the credit cycle, the strategy can change its allocation to these different segments of the credit market to achieve the best risk-return profile for that particular market phase. For example, in a bear market phase, the emphasis is more on limiting drawdowns, which can be achieved by adding government exposure to the portfolio. In a recovery phase, the asset allocation moves more towards high yield, emerging market bonds and subordinated debt.

Investment objective and benchmark

OBJECTIVE
The strategy aims to maximize income while also contributing to the SDGs.

APPROACH
This multi-asset credit strategy follows an active approach, based on the investment team's views on overall market conditions as well as thorough analysis of companies' fundamental and sustainability features. Issuers must have an SDG score of zero or higher to be considered for investment.

BENCHMARK
Performance is geared towards ensuring a regular income. The strategy does not have a benchmark.

ARTICLE 9
The strategy is classified as Article 9, as targeting a portfolio of sustainable investments under the EU's Sustainable Finance Disclosure Regulation.

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Contact

Robeco Australia
Suite 22.02, Level 22
259 George Street
Sydney NSW 2000
Australia

T +61 2 8220 9000
I www.robeco.com/au

1496-05'22_AU