



Integrating the SDGs in Quant strategies

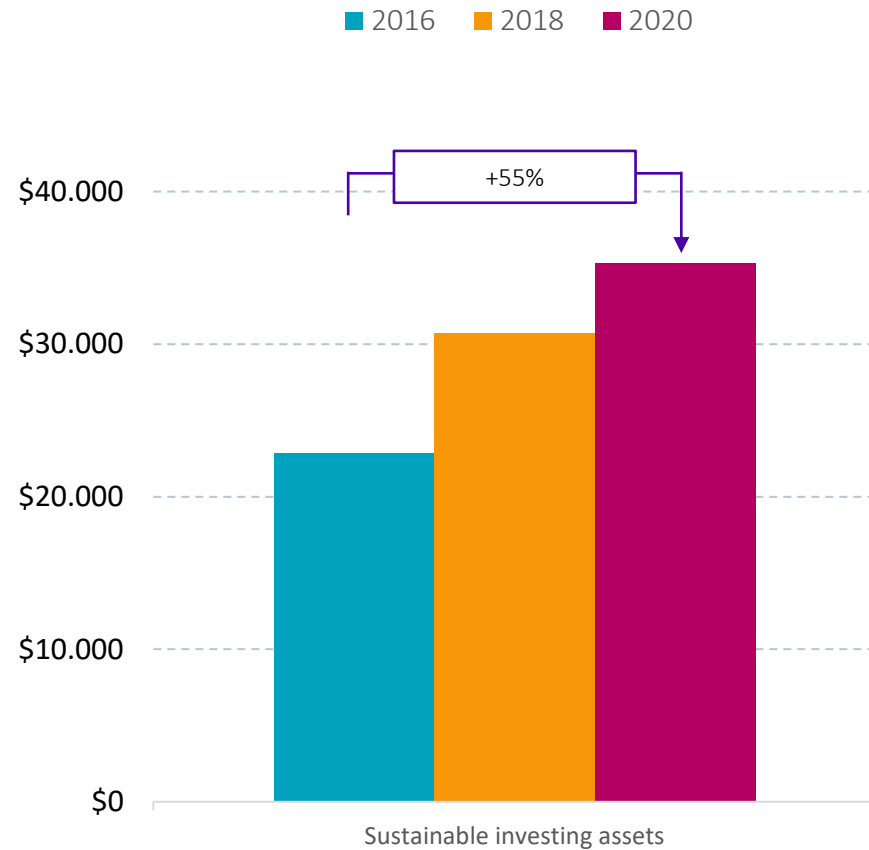
The SDGs as a blueprint for sustainable investing

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Sustainable investing is becoming mainstream...

Between 2016 and 2020, global sustainable investing assets grew 55% to reach 35% of all AuM

Global growth of sustainable investing assets (bn USD)



Source: Global Sustainable Investment Alliance, Global Sustainable Investment Review 2020

ESG by the Numbers: Sustainable Investing Set Records in 2021

Bloomberg



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Sustainable Business

Global sustainable fund assets hit record \$3.9 trillion in Q3, says Morningstar

Sustainable investing reaches record levels

By Jon Bragg — 1 minute read

10 February 2022



More than \$44 billion is now invested in sustainable funds across Australasia.

Sustainable funds in Australia and New Zealand received record flows of \$3.62 billion in the fourth quarter, according to a new report from Morningstar.

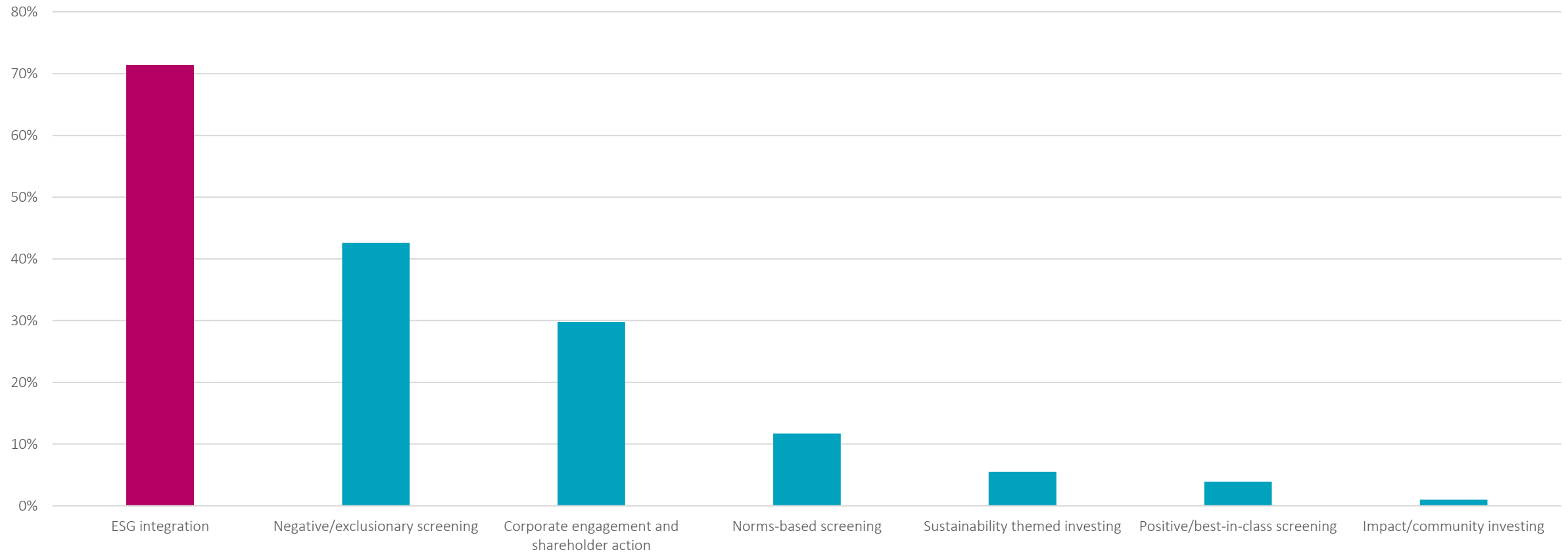
Total assets invested in sustainable funds reached \$44.27 billion during the quarter, up 12 per cent compared to the previous quarter and 40 per cent higher than a year earlier.

Morningstar said that sustainable fund assets across Australasia had more than doubled over the past two years.

... whereby ESG integration is the most used sustainable investing strategy

ESG integration accounts for 71% of all sustainable assets under management

Share of different sustainable investing strategies in total sustainable investing assets (2020)



*Note that some assets may be covered by more than one type of sustainable investing strategy. Hence, the sum of percentages shown in the chart exceed 100%. For definitions of each of the sustainable investing strategies, refer to page 7 in the Global Sustainable Investment Review 2020.

Source: Global Sustainable Investment Alliance, Global Sustainable Investment Review 2020

How sustainable do you perceive these companies to be?

Measuring sustainability performance



But do investors use the right metrics to assess which companies are most sustainable?

ESG ratings are under fire

ESG measures financial risk from ESG issues, not companies' contributions to a better world

ESG ratings of different providers are not correlated: what is being measured?

ESG ratings contain various biases, e.g., in size, location, etc.

Home > News & Analysis > Environmental > Refinitiv's inclusion of tobacco, pharma and mining in ESG 'top five' divides...

Hot Topics

Refinitiv's inclusion of tobacco, pharma and mining in ESG 'top five' divides opinion

Top-five ranking by London Stock Exchange Group-owned data provider branded a "joke", but others say it highlights myths around ESG

By **Paul Verney** - 9 March 2021

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A new list of the 'Top 5' ESG performers, which includes tobacco, big pharma and a mining giant, has divided market opinion.

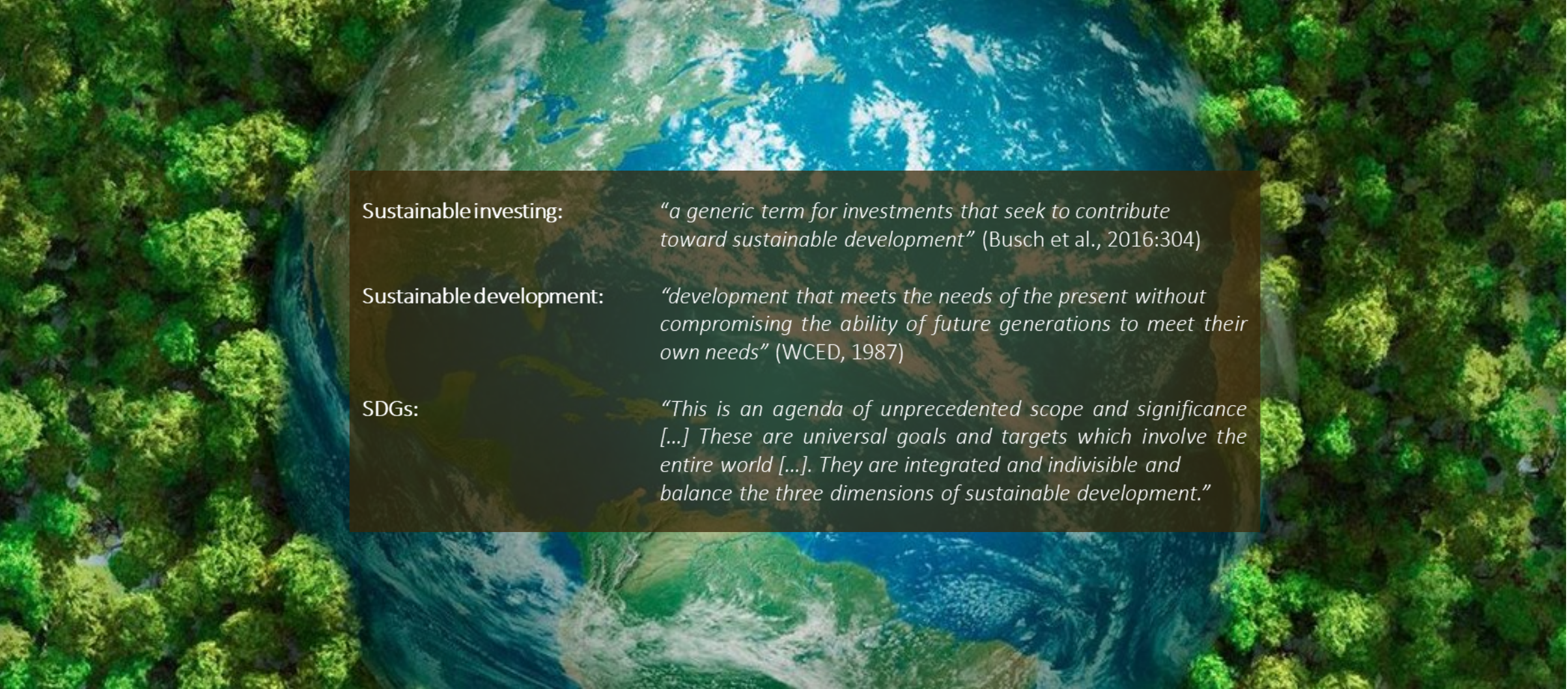
The list was **published last week** by UK-based financial services firm

Hargreaves Lansdown, and is based on

data from Refinitiv – a subsidiary of the London Stock Exchange Group. It focuses on constituents of the FTSE100, and identifies British American Tobacco, Glencore, AstraZeneca, GlaxoSmithKline and the Coca-Cola Hellenic Bottling Company as the most highly-rated companies on environmental, social and governance factors.

What is the objective of sustainable investing?

Definitions



Sustainable investing:	<i>“a generic term for investments that seek to contribute toward sustainable development” (Busch et al., 2016:304)</i>
Sustainable development:	<i>“development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (WCED, 1987)</i>
SDGs:	<i>“This is an agenda of unprecedented scope and significance [...] These are universal goals and targets which involve the entire world [...]. They are integrated and indivisible and balance the three dimensions of sustainable development.”</i>

The SDGs are a blueprint for sustainable investing

Global, holistic, and specific



I believe we need to assess the impacts of products, procedures, and controversies

Analyzing companies' impacts on the SDGs

Three step framework

Product

Do products and services contribute positively or negatively to the SDGs?

Procedure

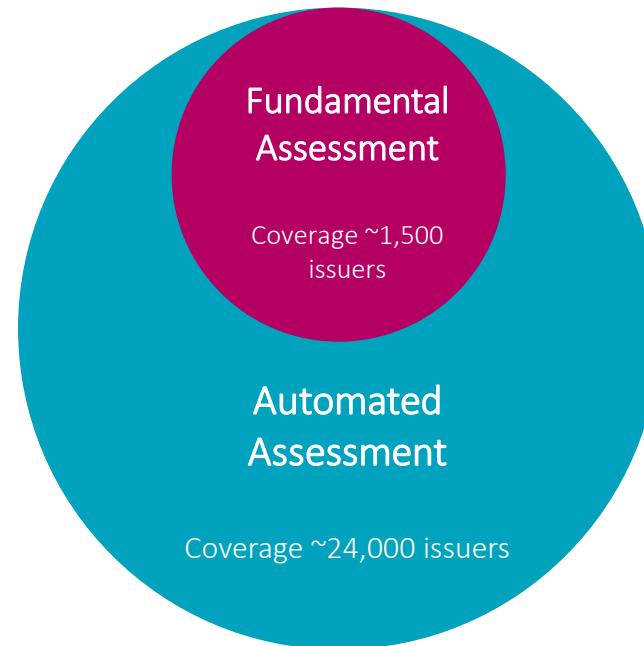
Does the company's business conduct contribute to the SDGs?

Controversies

Has the company been involved in controversies?

Translating contribution into score

Fundamental coverage complimented by automation to increase coverage



The final SDG score

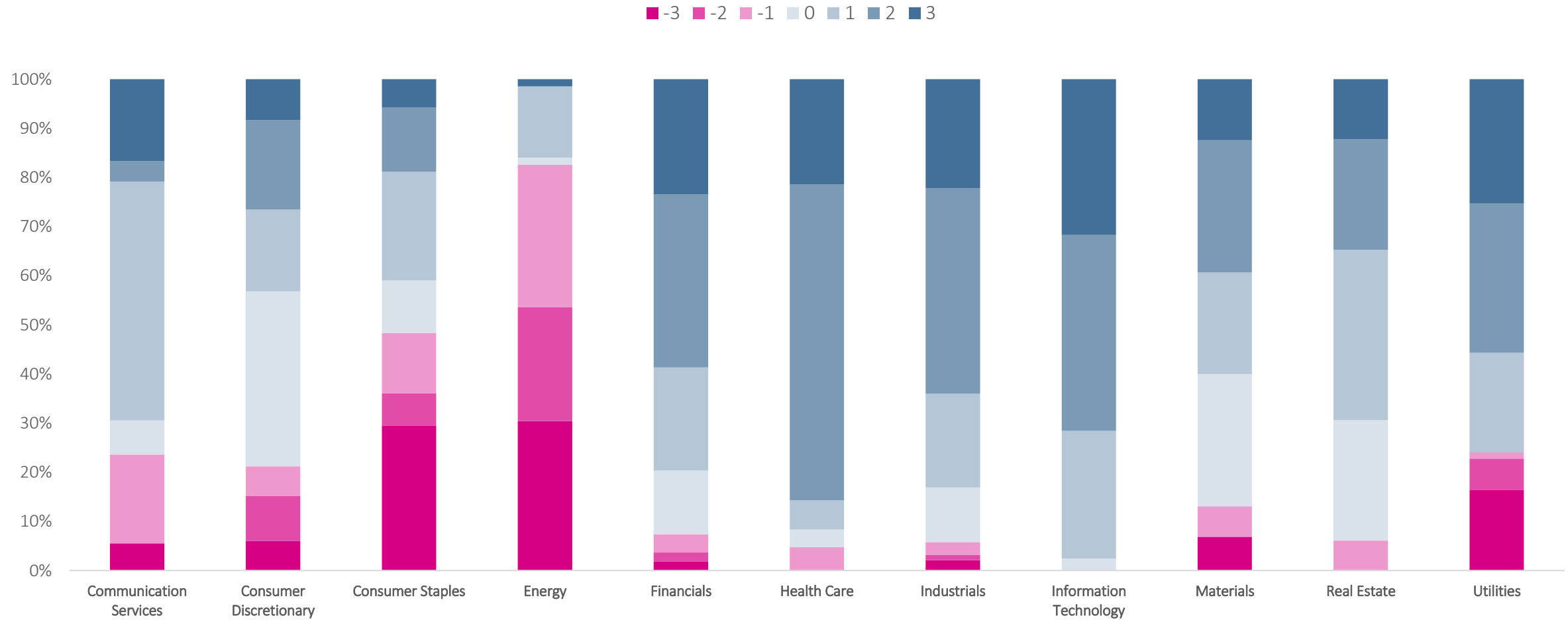
Considering both contribution and extent of contribution

Score	Contribution
+3	High positive
+2	Medium positive
+1	Low positive
0	Neutral
-1	Low negative
-2	Medium negative
-3	High negative

How are the SDG scores distributed across sectors?

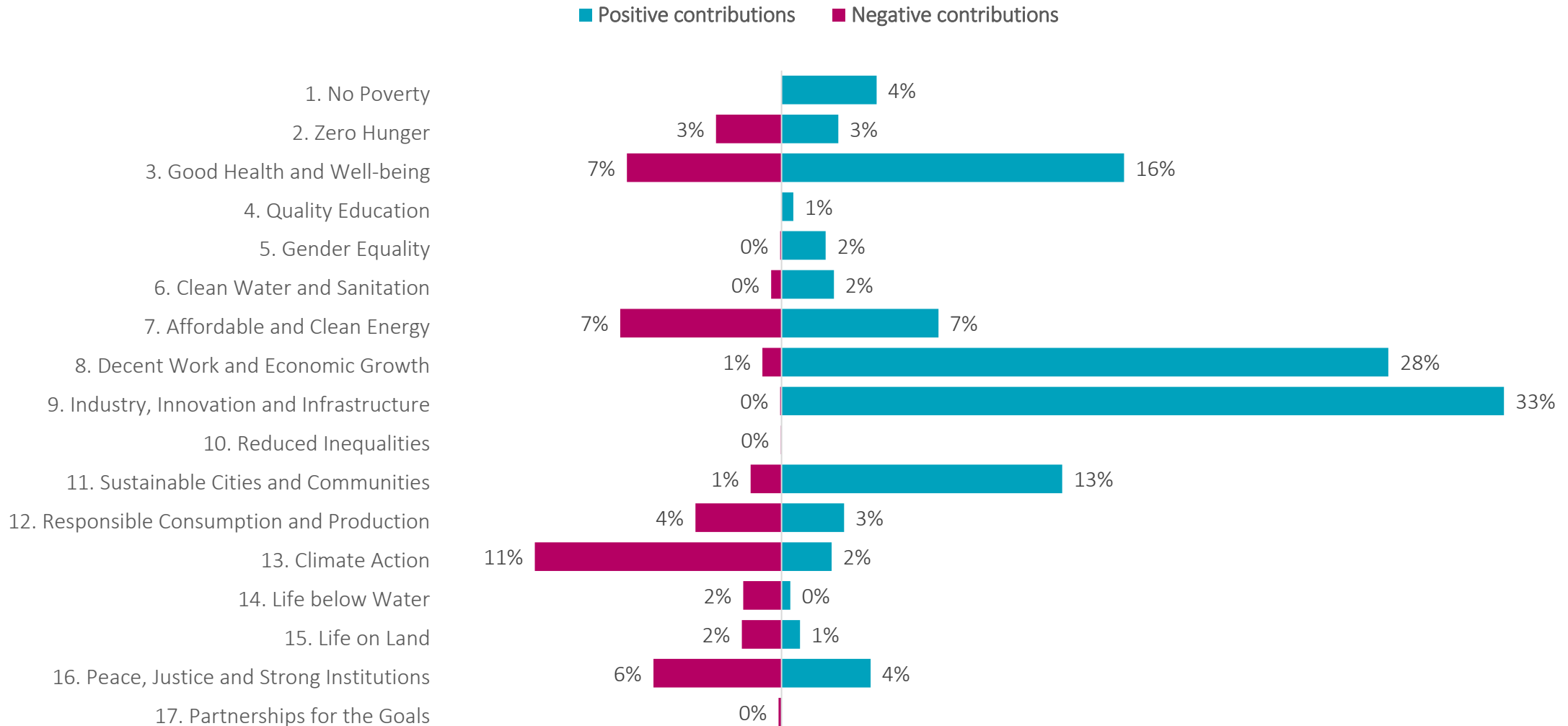
Positive impact is found in IT, Healthcare, and Financials; negative impacts found in Energy and Consumer Staples

Distribution of SDG scores per sector



Which SDGs are most investable?

% of companies having positive and negative impact per SDG, whereby companies may impact multiple goals*



Since companies can have impact on multiple SDGs, the sum of the percentages shown here exceed 100%

Source: Robeco, 2022.

A company's SDG score is not correlated with its ESG performance...
... so how might we test which metric best captures companies' impacts?



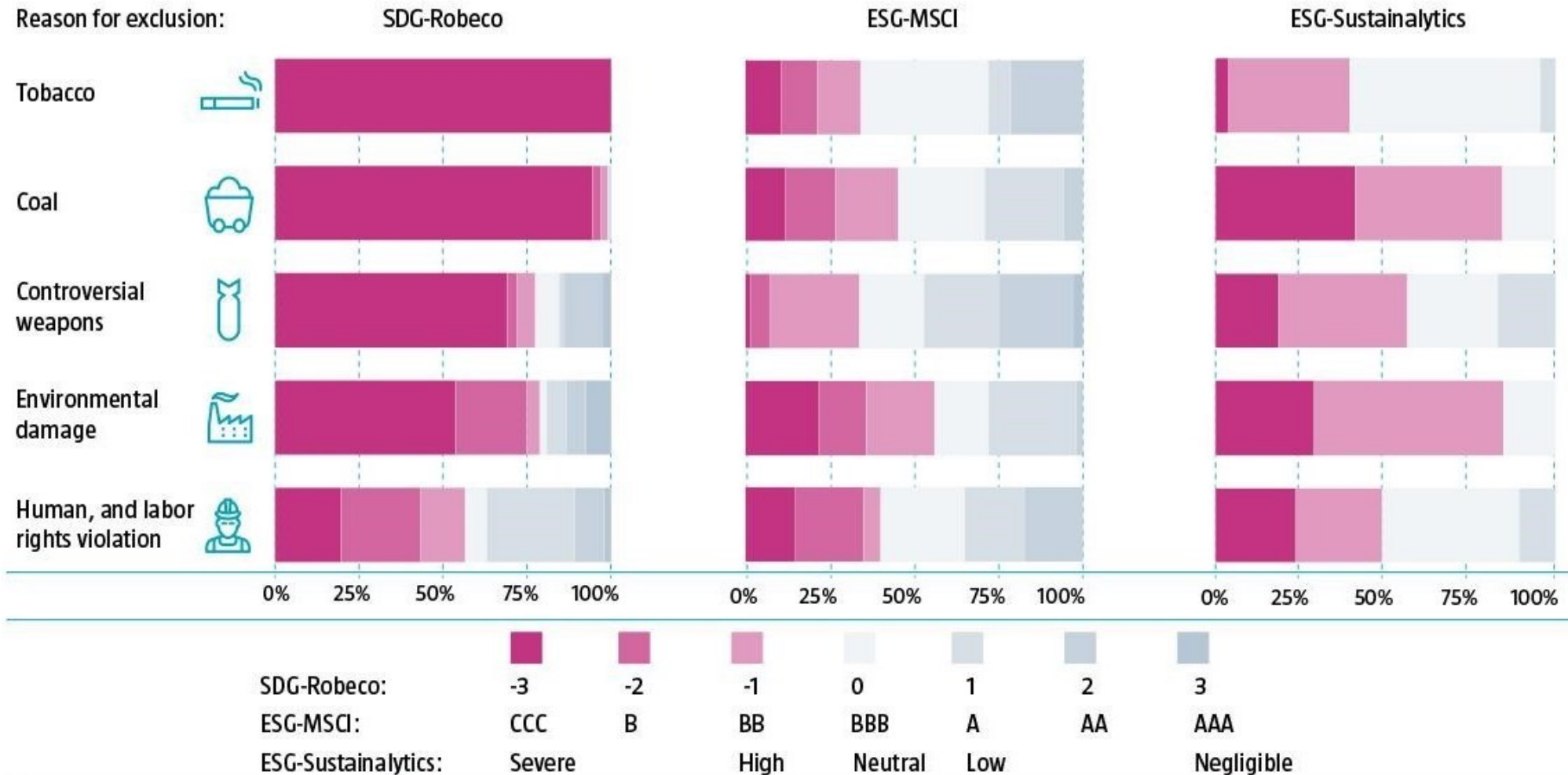
Can an SDG score or ESG rating identify companies that have such negative impacts that asset owners exclude them?



Can an SDG score or ESG rating identify companies that have such positive impacts that they are holdings in sustainable thematic funds?

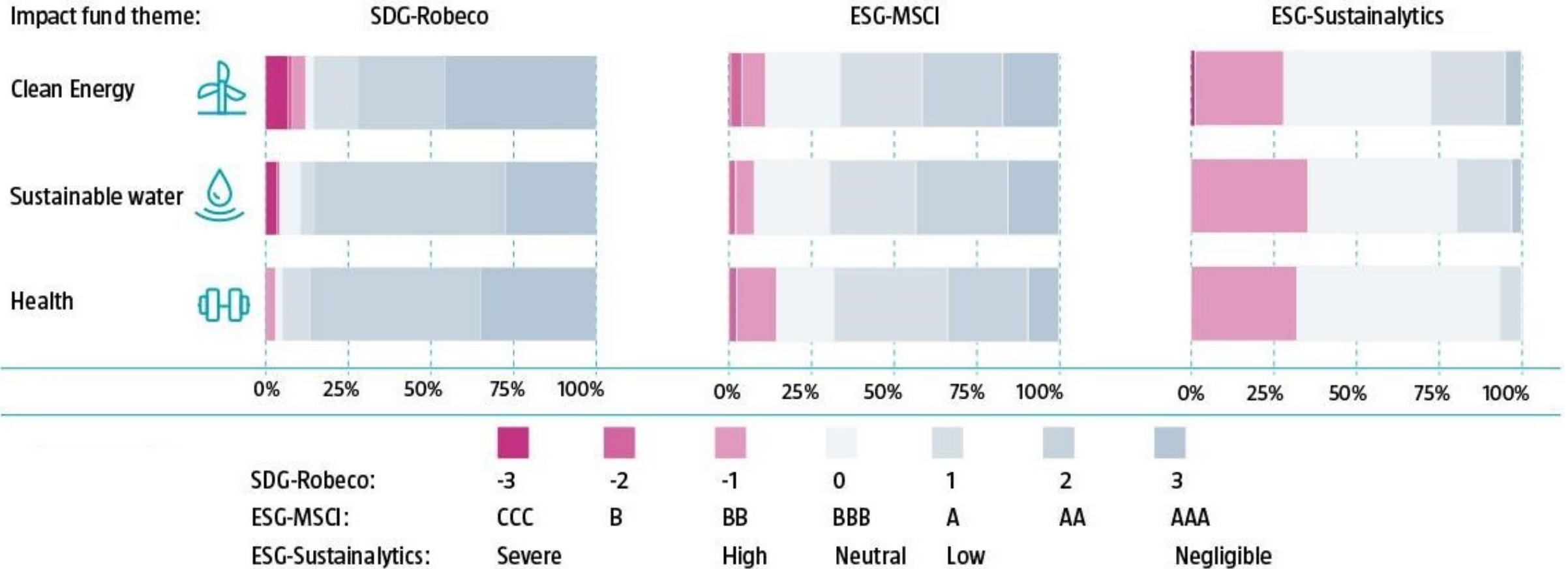
I find that companies on exclusion lists tend to get negative SDG scores... ... but they often have average or good ESG performance

Scores of companies on exclusion lists, using different sustainability measures



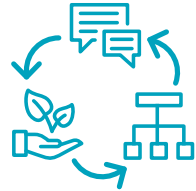
And companies held by sustainable thematic funds get good SDG scores... ... but they often have average or poor ESG performance

Scores of companies in thematic impact funds, using different sustainability measures



ESG is about avoiding risk, while the SDGs are all about impact

ESG and SDG can support one another



ESG Integration



How does sustainable development affect a company?



Focus on financial materiality, influence on performance



Emphasis on ability of a company to generate value in mid- to long-term.



SDG Investing



How does a company affect sustainable development?



Focus on societal value and stewardship: Ethics and Norms-based



Exclusions are part of impact investing: avoiding harm

How to integrate these SDG scores into quant investment strategies?

Avoiding negative impact while pursuing positive contributions



Avoid companies with negative impact



Overweight companies with high(er) positive impact



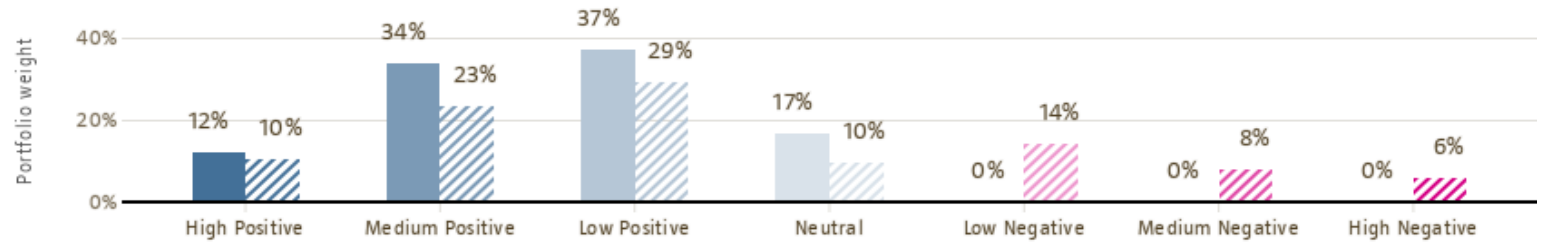
Prioritize companies with positive scores on the SDGs that matter most to you



Comparing the overall SDG exposure of an SDG Quant strategy to the benchmark...

This report shows the portfolio weight allocated to companies with a positive, negative and neutral impact on the Sustainable Development Goals. The positive or negative impacts can be high, medium or low. If the data set does not cover the full portfolio, the figures shown above each impact level sum to reflect the data coverage of the portfolio, with minimal deviations that reflect rounding. Weights < 0.5% will show as 0. If an index has been selected, the same figures are also provided for the index.

Below the bar chart a table overview is available.



		Portfolio weight	Index weight
+++	High Positive	12%	10%
++	Medium Positive	34%	23%
+	Low Positive	37%	29%
=	Neutral	17%	10%
-	Low Negative	0%	14%
--	Medium Negative	0%	8%
---	High Negative	0%	6%



Portfolio



Index

Data as of: 31-08-2022

Source: Robeco Switzerland Ltd. Certain underlying data is sourced from third parties (such as e.g. CDP Europe Services GmbH).

... including to individual SDGs

This report shows the portfolio's impact on specific Sustainable Development Goals, both individually and grouped by impact area. The graphs depict the portfolio weight allocated to companies contributing to (or detracting from) each individual SDG. As a company can have an impact on several SDGs (or none), the values shown in the report do not sum to 100%. When grouped by impact area, double-counting of an individual company's impact is avoided by only counting a company's highest positive (and negative) impacts once. Please note that charts of SDGs grouped by impact area are aimed for internal use only.



Data as of: 31-08-2022
 Source: Robeco Switzerland Ltd. Certain underlying data is sourced from third parties (such as e.g. CDP Europe Services GmbH).



How could you integrate the SDGs into your investment strategies?

Have a look at our website for research and insights

Insight article

Introductory Guide to SDG Engagement Equities

27-05-2022 | Insight

Robeco has long believed in engagement to improve the sustainability of companies. We're also deeply committed to contributing to the UN's Sustainable Development Goals. Now, for the first time, we have an investment strategy that does both.

Insight article

Taking on the challenge of measuring investment impact

11-02-2022 | Insight

We've further innovated the process of quantifying companies' impact on the world. Our new impact measurement framework is illustrated by applying it to the SDG Credit strategies.

Insight article

What we've learned from three years of SDG credit investing

28-07-2021 | Insight

It's possible to pursue both wealth and well-being. Robeco SDG Credit strategies, which now have a three-year track record, are clear examples of this.

Insight article

Translating universal goals into SDG impact

22-09-2021 | Insight

With the SDGs, the UN has framed the need and drawn the blueprints to advance sustainable development in society. With its SDG Framework, Robeco has created an SDG scoring tool and a suite of SDG-linked strategies that advance sustainable impact exposure in investment portfolios.

Online learning module

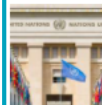
The Essentials of SDGs

Educational module for investment professionals

[Go to the SDG test](#)

[See all educational modules](#)

Continuous education is an important part of any professional investor's career, particularly as times change so rapidly. Investing is changing fast, as seen with the rapid adoption of the UN's Sustainable Development Goals (SDGs). This has put some financial professionals at a



1. What are the SDGs?

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