Introduction

Although investors are increasingly embracing sustainable investing, there is no one-size-fits-all approach. Sustainable investing means different things to different people, and their investment goals can vary considerably. While it is easy for asset managers to talk about sustainability, it is much more challenging for them to implement it. Compounding the lack of a clear definition is the challenge of measuring the impact sustainable investors make. Nevertheless, there have been some very interesting developments in this ever-evolving investment field.

Launched in 2015 and often used as the basis for impact investing, the UN Sustainable Development Goals (SDGs) take the quest for sustainability to the next level by making integration tangible and measurable. Investors are becoming increasingly interested in investment products that contribute to the realization of these goals and at the same time offer attractive returns. Building on the success of the Millennium Development Goals and adopted as part of 2030 Agenda for Sustainable Development, which was signed by 193 countries, the SDGs are a vast agenda of 17 goals and 169 targets such as the elimination of poverty and hunger, decent work and growth, sustainable cities and communities.

The UN Commission on Trade and Development (UNCTAD) estimates that between USD 5 and 7 trillion per year will be needed to achieve these goals within this timescale. As governments alone are unlikely to be able find such huge sums of money, the UN has explicitly asked the private sector, including asset owners, to contribute as well. According to a survey among Dutch institutional investors carried out by the Dutch Association of Investors for Sustainable Development (VBDO), the SDGs are on the agenda of pension fund boards, although most of them have yet to integrate SDGs in their portfolios.

Why should investors embrace the SDGs?

There are many, often quite intuitive reasons why it is essential to incorporate SDG considerations into investment strategies. In an increasingly renewables-powered global economy, it is easy to foresee that the business models of companies such as coal miners, oil producers

Figure 1: The UN Sustainable Development Goals

Source: United Nations, www.un.org/sustainabledevelopment/sustainable-development-goals/, September 2015

and fossil fuel-based electricity generators will come under severe pressure. Although less obvious, the same applies to car manufacturers that do not adapt quickly enough to a world of electric vehicles.
The financial consequences – in the form of fines, compensation and potential license withdrawals – can be very material for companies that fail to act in accordance with the SDGs. Environmental spills, bribery, money laundering and miss-selling are a few examples. Ignoring the SDGs could therefore ultimately affect every investor, reinforcing the relevance of SDG-linked investment strategies. Those companies that offer solutions to help achieve the SDGs may well be the winners of the future as well as attractive investment candidates.

SDGs and Robeco

Robeco has been at the forefront of sustainable investing for nearly 25 years. Our long history of innovation and enhancing sustainable products and services is the result of close cooperation between our Credits team, Active Ownership team, and the sustainability research analysts at our affiliate RobecoSAM. We were the first asset manager to launch an SDG Credits product.

Robeco can apply various dimensions of sustainability to credit portfolios including exclusion, ESG integration, engagement, environmental footprint reduction, green bonds and alignment with the UN SDGs.
ESG integration, exclusion of the most controversial companies, and engagement have been an integral part of all our credit strategies for the last decade. Consistently integrating ESG information in the Robeco bottom-up credit analysis, and thus avoiding defaults or distressed situations, has significantly contributed to reducing downside risks in our credit portfolios

Our belief at Robeco is that using financially material ESG information leads to better-informed investment decisions and benefits society.

Step 3 – Are there any controversies?

The third and final step is to establish whether companies have been involved in any controversies. A company can meet the criteria in Steps 1 and 2 by making the right products and operating in the right manner, but still be caught up in controversies such as oil spills, fraud or bribery. In this context, it is important to know if the controversy is structural or just a one-off, and whether the management has taken sufficient precautions to prevent recurrence in the foreseeable future. The results of this three-step analysis are quantified in a proprietary SDG score and each company is scored on the basis of its contribution to the SDGs (positive, neutral or negative) and the impact of this contribution (high, medium or low). This is shown below in Figure 3.

Figure 3 | Outcome three-step process quantified in SDG rating framework

Assessment	Impact	SDG Score
	High	+3
Positive	Medium	+2
	Low	+1
Neutral		0
	Low	-1
Negative	Medium	-2
	High	-3

Source: Robeco, RobecoSAM

Based on these proprietary SDG scores, Robeco's Credits team can screen the universe for corporate bonds issued by companies that contribute to the UN SDGs and exclude corporate bonds of companies that detract from them. As shown below, we then apply our well-established credit investment process to create a credit portfolio that, in our opinion, makes a positive contribution to the UN SDGs and aims to deliver attractive financial returns.

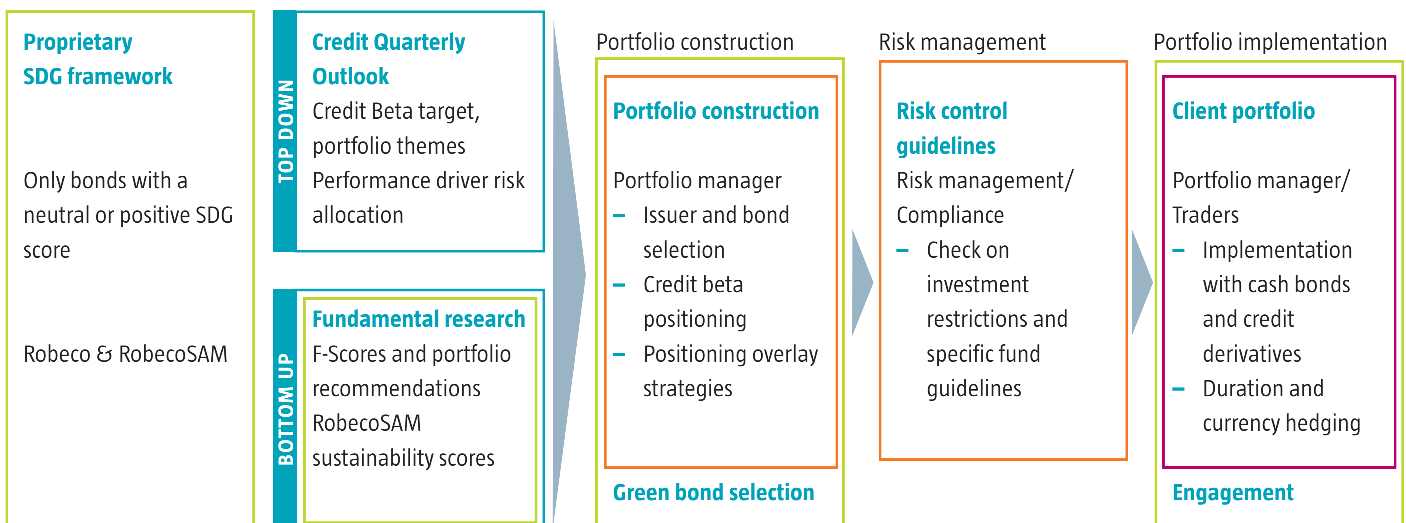
However, the fact that a credit has made it through the SDG screening is never the only reason to invest in it. We also conduct a fundamental credit analysis and will only take a position if we believe it is merited by its valuations relative to its fundamentals, and compared with issuers with a similar rating. After all, our aim is twofold: to contribute to the UN SDGs and deliver returns for clients.

Will the SDG screening cause sector biases in credit portfolios?

Robeco's Credits team has applied the SDG measurement framework to a credit universe of over 600 names. This universe is diversified in terms of sectors and consists of investment grade, high yield, and emerging issuers. The overall outcome was that 60% of the companies were assessed as making a positive contribution. Of the companies analyzed, 24% received a negative SDG score, and 16% received a neutral ranking. In 10% of cases, the scores were adjusted in Step 2 and 3. It is difficult to approach SDGs purely through sectors. Nevertheless, a few general conclusions can be drawn from applying the SDG screening.
Grid operators and companies in the banking, healthcare, utility and communications sectors generally have a strong SDG profile; while companies in the food and beverage, automotive and energy sectors generally have a weaker one.

The weaker SDG profile of companies in the food and beverage sector might seem somewhat surprising. Intuitively, one would expect the food and beverage sector as a whole to contribute significantly to SDG 2 (Zero Hunger). Unfortunately, however, the opposite turns out to be the case.

Figure 4 | Investment process SDG Credits strategies



Both SDG 2 and SDG 3 (Good Health and Well-Being) require healthy and nutritious food. And herein lies the problem. Most food and beverage producers add too much sugar and/or fat to their products. The result is unhealthy high-calorie foods that are helping fuel the global obesity epidemic. More and more food manufacturers are adapting their product range to tackle this, but the proportion of healthy foods they produce is generally still far below the thresholds defined in our SDG framework.

Another challenging industry from an SDG perspective is the energy sector. In our SDG framework both the E&P (exploration and production) and oil services (oilfield services and refining) industries are assessed as negative. We currently categorize natural gas as an 'intermediate' energy source and believe it could facilitate the transition to a global economy based entirely on renewable sources of energy. Those E&P companies at which over 65% of production consists of natural gas receive a positive-low impact SDG score, while those with 45% receive a neutral impact score. An additional requirement is that companies in this industry should not engage in fracking. Unfortunately, there are very few companies that are able to achieve these thresholds.

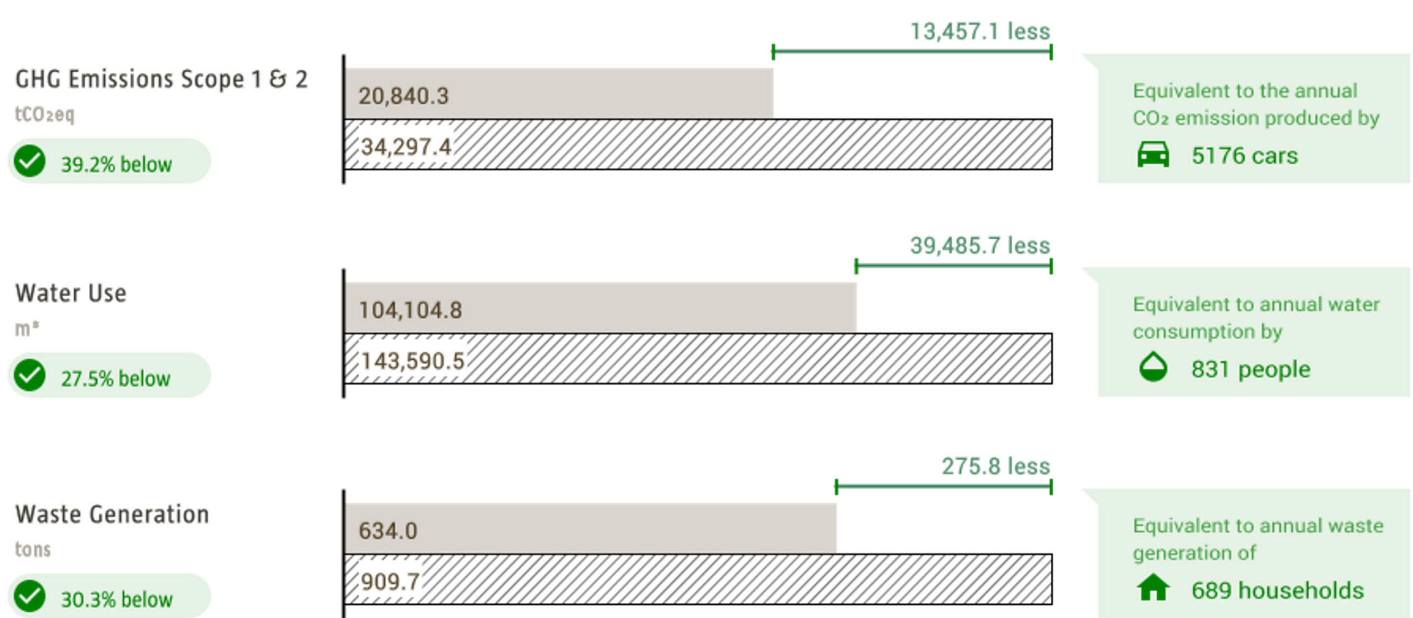
Other sectors that generally do not perform particularly well in the SDG assessment are the aerospace, defense, tobacco, and gaming industries. Sectors that have a more positive impact from an SDG perspective include telecoms, banks, grid operators and healthcare/pharmaceutical companies.

Additionally, we publish quarterly reports on the portfolio's environmental footprint relative to the relevant index, which varies depending on strategy. Below is an excerpt from this report for the RobecoSAM Global SDG Credits Strategy as of the end of March 2020 which shows the portfolio's impact on four environmental factors: greenhouse gas emissions, energy consumption, water use and waste generation. Typically, the positive SDG screening will result in a more favorable environmental footprint for the portfolio (green bars) compared to the index (black bars). The index in this case is the Bloomberg Barclays Global Aggregate Corporates Index (EUR).

The environmental footprint in more detail

Deep insight in the environmental footprint

Figure 6 | Environmental footprint of the RobecoSAM Global SDG strategy



Source: RobecoSAM. Data end of March 2020
Portfolio: RobecoSAM Global SDG Credits. Benchmark: Bloomberg Barclays Global Aggregate Corporate
European average figures per year: www.ec.europa.eu/eurostat and www.ee.europa.eu

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