RESPONSIBLE INVESTING: ALIGNING INDIVIDUAL AND GLOBAL ACTION

You cannot open a newspaper, professional publication, or attend an investment conference without some form of discussion about responsible investing, whether it's the role of Environmental, Social & Governance (ESG) considerations, impact investing, or concerns surrounding climate change. In the past, responsible investing was largely the focus of investors with a particular cause. For example, the Canadian Cancer Society has a vision for a world with fewer deaths as the result of cancer and takes a proactive stance by excluding tobacco companies from the foundation investment portfolio. Increasingly, there is a belief that responsible investing should be the bedrock of all investment decisions for the benefit of society as a whole.

This change in viewpoint should come as no surprise. According to governments around the world we should all be engaged in achieving the 17 Sustainable Development Goals (SDGs) adopted by all United Nations (UN) members in 2015. They apply to developed and developing countries and represent a global plan of action for the planet, people and prosperity.

This article reviews why there needs to be greater awareness of the SDGs and how they should be better aligned with the investment initiatives of all investors and not simply those with a particular focus on responsible investing.

Sustainable Development Goals

The SDGs seek to build on the eight UN Millennium Goals and are trying to complete what earlier goals did not achieve.

Figure 1: Sustainable Development Goals

Not only are there 17 SDGs, but there are also 169 targets within these goals, which can make tracking progress a challenge. Investors with multiple investment manager mandates streamline oversight by focusing on how the total portfolio return is progressing relative to overall return and risk objectives. Similarly, the Social Progress Index (SPI) does the same for the SDGs and the underlying targets within the goals.

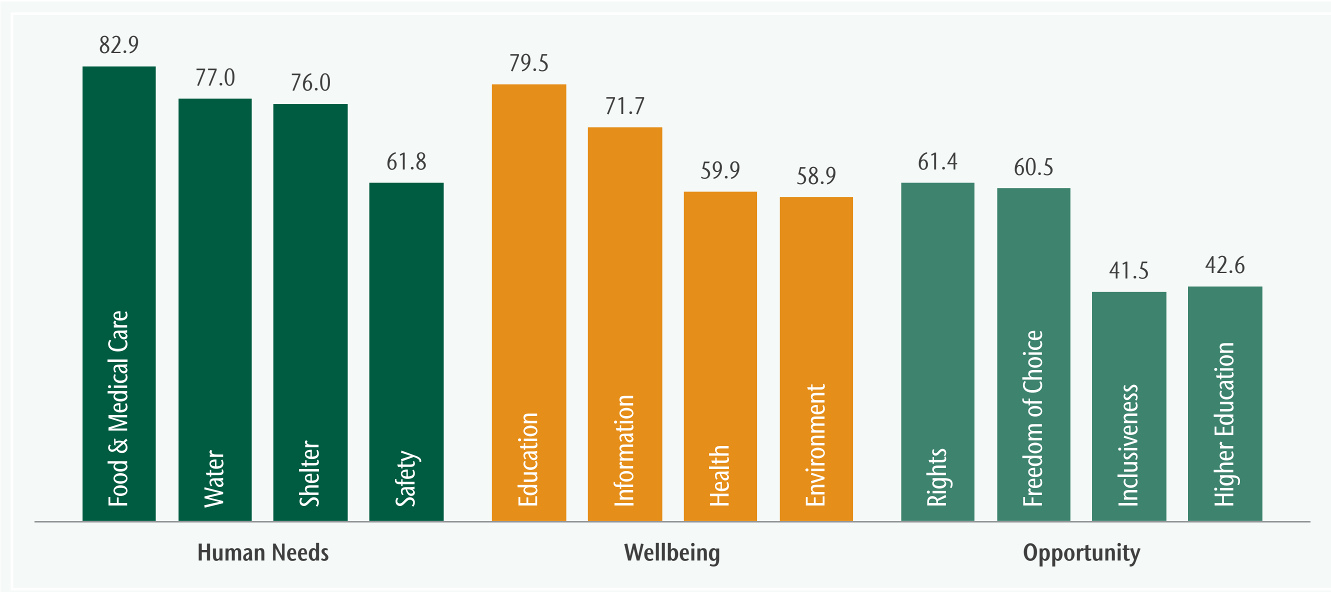
If the world was a country, it would have an SPI score of 64.5. For the latest SDG goals to be deemed a success, the SPI needs to get to 75.0 by 2030. Unfortunately, based on the current progress trend, the goal will not be hit until after 2070.[i]

The SPI is comprised of three broad dimensions:

- **Basic human needs:** food, water, shelter and personal safety;
- **Foundations of wellbeing:** access to basic knowledge, health and wellness and quality of environment; and
- **Opportunity:** personal rights and freedom and access to advanced education.

Figure 2 summarizes the progress across the three dimensions. The most progress has been for basic human needs (dark green bars) with an average score of 74 for the major components. In contrast, opportunity (light green bars) is the laggard averaging around 51.

Figure 2: Global Social Progress Index



Source: Social Progress Imperative.

Encouraging Greater Alignment

So how can institutional investors change the level of progress and play a more active role to improve the odds of success?

Under foundations of wellbeing, while we all try our best to reduce the purchase of plastic bottled water and avoid using plastic bags when we go to the grocery store, it is estimated that 32% of all plastic packaging ends up in nature. If we don't change our practices, there will be more plastic than fish in our oceans by 2050.[ii]

Another global challenge is our reliance on old polluting energy. A study by Credit Suisse looked at our reliance on the different energy sources for generating electricity and found that by far our heaviest dependence was on coal followed by oil and gas then nuclear energy. In contrast, renewable energy sources were only starting to make a meaningful contribution.

A challenge under basic human needs is making sure there is sufficient food to feed a growing global population. It is estimated that we will need more food in the next 40 years than all the harvests in history combined.[iii] To make matters worse, approximately a third of global food production is wasted.[iv]

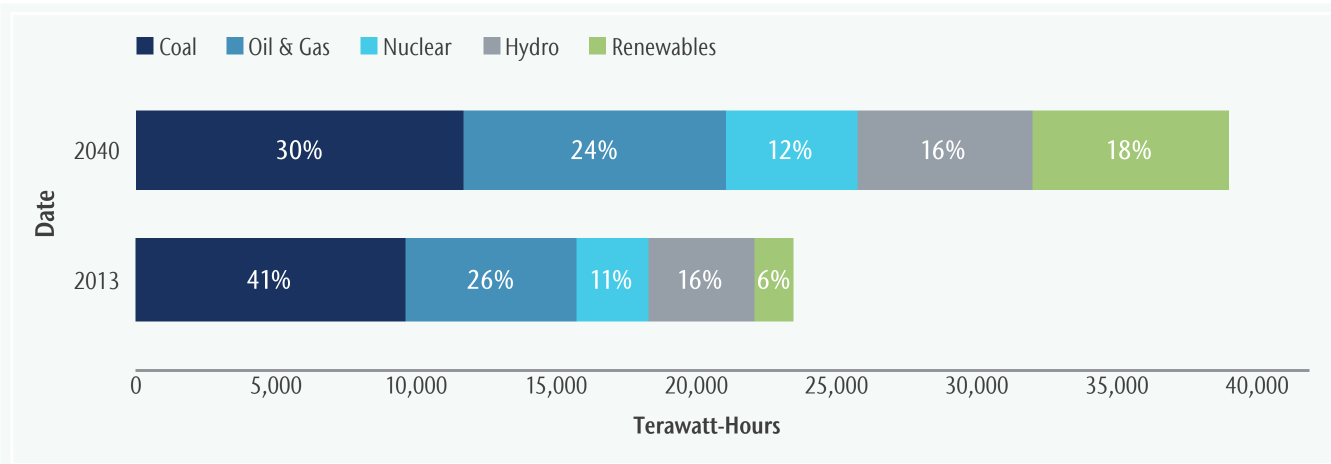
The opportunities to support these examples, and the SDGs in general, run wide and deep from individual stocks to opportunities at an asset class level. From a stock level perspective, the Norwegian company Tomra is an example of an innovative company making a difference and supporting the success of the SDGs; in their case zero hunger, responsible consumption and production and life below water. They have achieved this recognition through technological innovation that improves how efficiently things are recycled and how food wastage is reduced.

Tomra pioneered sensor-based technology that provides high speed processing and separation of recycling items based on type of material, shape, size and the colour, which in the past was a much more labour intensive task. They also developed sensor-based technology to reduce food wastage. Its sensors don't just help identify internal defects or how something may taste, but can also help detect food hazards. While there are many causes of liver cancer, such as drinking and smoking, another leading factor is contaminated food, which the sensor technology helps to avoid.

From an asset class perspective, infrastructure renewables can fulfill an important role and help governments around world balance their policy goals of economic growth, while also meeting important environmental goals. In particular renewable energy can reduce our current dependence on sources of power, such as coal, oil and gas and nuclear energy.

One of the debates with respect to climate change is whether to exclude fossil fuel companies from portfolios. However, one of the less discussed components of the debate is the growing global population and the implied greater energy needs. While renewable energy is forecast to represent a larger share of energy sources by 2040 compared to 2013, coal will still remain the largest source of electricity in 2040, and the amount of energy generated from coal will be greater due to the growing population (Figure 3).

Figure 3: Sources for Global Electricity Generation



Source: Credit Suisse: Super Trends.

Framework for Alignment

To improve the alignment of the SDGs and ESG considerations requires "leadership from every seat" with respect to roles and responsibilities (Figure 4). The SDGs fulfill the strategy component role, while under implementation is where the role of ESG considerations apply, and monitoring helps ensure what gets measured, gets managed.

Figure 4: Roles and Responsibilities

Role	Responsibility
STRATEGY SUSTAINABLE DEVELOPMENT GOALS	UNITED NATIONS & INDIVIDUAL COUNTRIES
IMPLEMENTATION ENVIRONMENTAL, SOCIAL & GOVERNANCE	ASSET OWNERS: SHAREHOLDER ENGAGEMENT INDIVIDUAL COMPANIES: INNOVATION
MONITOR WHAT GETS MEASURED, GETS MANAGED	SOCIAL PROGRESS INDEX CARBON FOOTPRINT ANALYSIS

The SDGs are the responsibility of the leaders of the UN, as well as the individual countries supporting the goals through government initiatives to promote a better world. Within the confines of institutional investors, implementation is a shared role between asset owners and their investment managers, who can lead through shareholder engagement and proxy voting. Individual companies can attract capital through their innovation and how it supports the SDGs, such as the leadership demonstrated by Tomra with respect to enhancing the task of recycling and preventing food wastage.

From a monitoring perspective, the SPI tracks our strategic progress, while investment managers can demonstrate their ESG contributions through the likes of carbon footprint analysis of portfolios relative to the respective market benchmark.

Investors can do their part by fostering a stronger link between ESG policies and the SDGs. For example, at future committee meetings when an investment manager talks about a stock success, check to see whether the company's business model is linked in any way to helping to meet the SDGs and keeping the importance of these issues at the forefront of discussions.

Leadership from Every Seat

The success of the global action plan of the UN member countries requires leadership from every seat. Individual countries can do their part by financing and encouraging innovation to support the SDGs' three broad dimensions of basic human needs, foundations of wellbeing and opportunity. Investors can do their part in the process by ensuring there is greater alignment with ESG policies and the SDGs.

At times it may feel like not much progress has been made to meeting the SDGs. However, less focus should be on looking back, and instead more energy spent looking forward to see if new initiatives and strong leadership can make a difference. As Mary Pickford eloquently stated, "The past cannot be changed, but the future is yet in your power".

(i) Social Progress Imperative: 2019 Social Progress Index
(ii) World Economic Forum, The New Plastics Economy: Rethinking the future of plastics, January 2016
(iii) Economist, Barbarians at the Farm Gate, December 2014
(iv) United Nations, Study by the Swedish Institute for Food, 2011

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