How business opportunities through the SDGs are starting to create financial value

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Capitalism is a complex, evolutionary system

- The creation of long-term economic value based on an idea that solves a problem: **“entrepreneurship”**
- The avoidance of risks that could compromise long-term economic value: **“risk management”**
- Externalities are not a free option: **“planetary boundaries”**
- Resilience, adaption and cooperation drive survivorship and progress: **“innovation & technology”**
- The underpinning of thriving business and the accumulation of solutions to human problems: **“humanism”**

Source: Sustainable Investing – A Path to a New Horizon (Bril, Kell and Rasche – September 2020)

How to Measure a Company's Real Impact

- Companies have always caused "externalities" — benefits for society for which they are not fully compensated and costs on society which they don't have to fully pay for.
- A major change in global business in recent years is that these externalities are becoming increasingly rare — what was once extraneous to a business is increasingly affecting corporate revenues, costs, and risk profiles.
- This is a positive development, as society holds business to account.
- A major outstanding hurdle to this "internalization," however, is the lack of a full accounting method to understand and quantify companies' impacts on society.
- The good news is that accounting for impact took a big step forward in July 2020 with the publication of the cost of the environmental impact of 1,800 companies by the Impact-Weighted Accounts Initiative (IWAI) at Harvard Business School.
- Next year, the IWAI will publish the cost of product and employment impacts too, providing a complete picture of the impact each of the 1800 companies create.
- The authors claim the initiative will have far-reaching consequences. It will allow for more effective taxation, more accurate pricing by capital markets, and for customers to more easily shop ethically. The authors argue that impact transparency will reshape capitalism

Source: HBR 3 September 2020 by Ronald Cohen and George Serafeim

ESG Impact Is Hard to Measure — But It’s Not Impossible

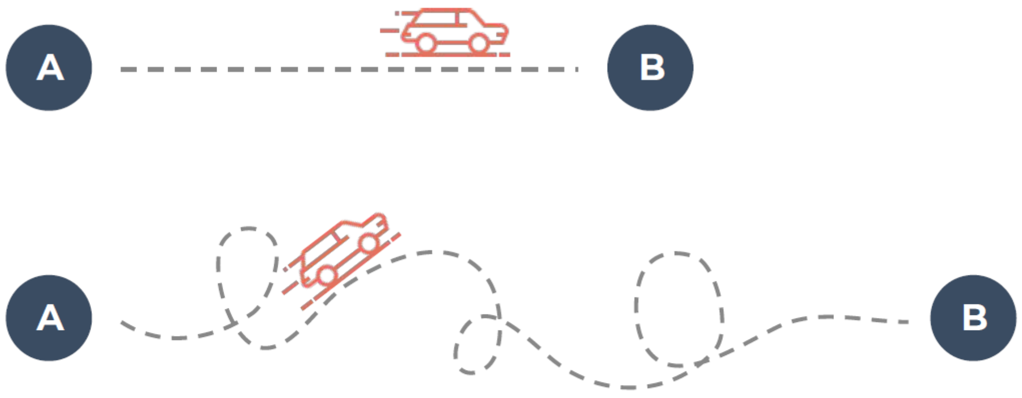
- ESG measurement is an increasingly popular way of holding companies accountable when it comes to sustainability efforts, and of giving companies an incentive to improve them.
- But measurement, no matter how sophisticated, is much better at capturing easily quantifiable inputs than complex and messy outcomes and impacts.
- Companies need to do everything they can to understand those outcomes and impacts — and that requires doing more than just measurement.
- In particular, companies need to do three things: (1) zoom in to develop insights on processes, (2) zoom out to see broader systems, and (3) value curiosity and learning.

Source: HBR 22 January 2021 by Jennifer Howard-Grenville

ESG data is first order data – where the puck is now, not where it is going

Long term investors need to use second level thinking to understand resilience

First order approximations can be off the mark, depending on your time horizon.



How fast will the car get from Point A to Point B?
Velocity will give you a pretty good idea… for short distances

How fast will the car get from Point A to Point B?
For long distances, velocity will steer you wrong, you must also know acceleration.

ESG data = velocity (first order).
Resilience data = acceleration (2nd order).

Source: Building resilient companies – Jean Rogers (Founder and former CEO SASB)

Resilient companies make resilient portfolios

2nd order information is essential for long-term investors

First Order
Performance...

- Diversity data
- Carbon footprint
- Safety data
- Resource efficiency
- Security breaches
- Volume of sustainability reporting
- Negative media events

A snapshot in time; where the company is now

Second Order
Priorities...

- Investment in human capital
- Investment in climate programs
- Investment in training, safety, and well- being
- Investment in closing loops and reducing product life-cycle impacts
- Investment in data science and AI
- Stakeholder representation in decision making
- Alignment of business model and investment in engagement

The long-term trajectory that a company is on

Source: Building resilient companies – Jean Rogers (Founder and former CEO SASB)

Sustainable Investing based on SDG framework – SDI Asset Owner Platform

Sustainable Development Investments (SDI)

SDI DEFINITION

We invest in solutions that contribute to the UN Sustainable Development Goals. These investments meet our financial risk and return requirements and support the generation of positive social and/or environmental impact through their products and services, or at times through acknowledged transformational leadership. We distinguish between investments where impact has and those where it has not been measured, and stimulate the latter to report on measurable impacts.

Defining contribution to the SDGs

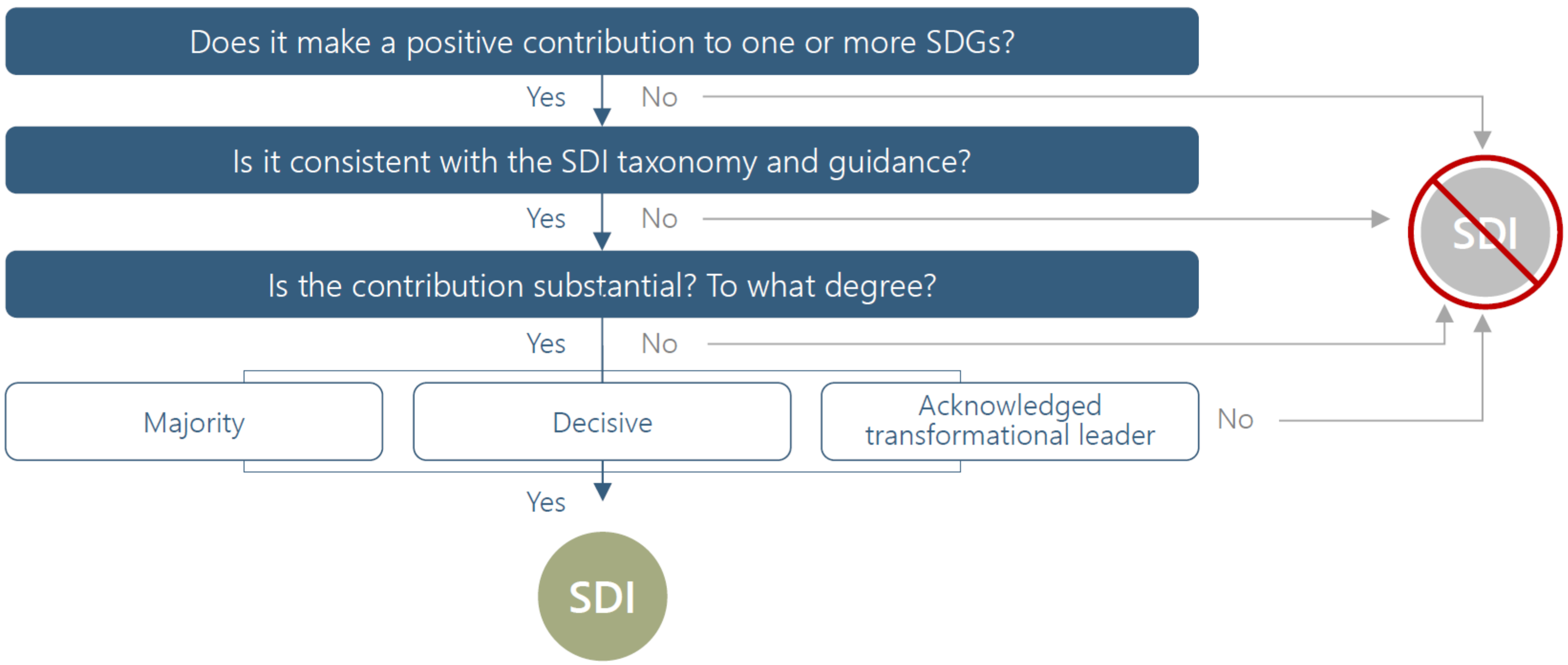
SUSTAINABLE DEVELOPMENT GOALS

P Contribution through product & services (solutions)

O Contribution through operations & conduct

SDI Decision Tree

SDI DECISION TREE



In Search of Impact report: the Sustainable Investment Framework

- **All investment has an impact on the world** – negative or positive - whether intended or not.
- The Sustainable Investment Framework provides investors with a way to **holistically measure** investment outcomes against all 17 SDGs, concentrated into a **dashboard** of six core themes.
- The report shows significant improvements in data/disclosure are required but sets a practical roadmap for public equity and credit portfolios. Each metric therefore has an **ideal version** and a **basic version** (what we can measure today).

Source: https://www.cisl.cam.ac.uk/resources/sustainable-finance-publications/in-search-impact-measuring-full-value-capital-update

Key characteristics of the Framework

- Measures derived from the **SDGs**
- Number kept deliberately small
- **Meaningful to the public**, not just specialists
- Focus on **outcomes not intent**
- **Universal application** to assets (initial focus public markets)
- **Transparent**, published methodology
- Based on today's **data**
- **Updated** as science, data and technology improve

Impact per US$ 1m invested