EDENTREE RI EXPERT BRIEFING | AUGUST 2022

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THE SUSTAINABLE DEVELOPMENT GOALS (SDGS)

At the heart of the United Nations "Agenda 2030" are the 17 UN Sustainable Development Goals (SDGs) which are defined by the UN as the blueprint for peace and prosperity, applying to all nations. This Expert Briefing is an update on our 2018 publication, exploring the topic more deeply, and setting out our house view.

WHAT ARE THE SDGS?

The 17 Sustainable Development Goals (SDGs), the successor to the Millennium Development Goals, were devised by the UN and agreed in 2015. The Goals are underpinned by 169 targets and are an agenda for the world up to the year 2030. These Goals apply universally to all nations to mobilize efforts to end poverty, fight inequality and tackle climate change. The Goals require a revitalised partnership between agencies and Government for 'people, planet and prosperity', but were not primarily built for business or investors.

WHY ARE THE SDGS SUCH A POPULAR REPORTING TOOL?

Although not built primarily for businesses, we have seen an increase in investor appetite and business reporting surrounding the SDGs over the recent years. This is due to the fact that the SDGs form a plan for the development of societies, and thus they allow companies to demonstrate how their business can help drive sustainable development. With countries relying heavily on the public sector to solve some of the most urgent problems the world is facing, in theory, the SDGs allow companies to identify future business opportunities and achieve positive impacts on people and the planet.

HOW ARE COMPANIES USING THE SDGS

Despite investor appetite, companies are not required to report against the SDGs, and the state of current disclosure is variable. The Global Reporting Initiative (GRI) has recently found that whilst roughly 75% of companies assessed in their recent study reportedly align their sustainability reports to the SDGs, fewer than half set measurable targets for how their actions contribute towards fulfilling the Goals.[1] On the contrary, back in 2018, data suggested that only 40% of the world's largest companies discussed the SDGs in corporate reporting. The mass uptake in adoption of the SDGs by business could be attributed to the fact that since then, the UN has published detailed guidance to business on how to adopt the SDGs and report on them.[2]

UN steps for SDG reporting

A joint publication from the GRI and Support the Goals analysed a sample of over 200 companies with regards to their contribution to the SDGs and found that:

- 83% of companies state that they support the SDGs;
- 69% of companies articulate which Goals are most relevant to their business, with 61% specifying how their actions support the SDGs;
- 40% of companies set measurable commitments for how they will help achieve the SDGs, while 20% include evidence to assess their positive impacts.

Companies are most likely to align with **SDG 1**: No Poverty, **SDG 8:** Decent Work and Economic Growth, and **SDG 12**: Responsible Consumption and Production. The least engaged SDGs were found to be **SDG 4**: Quality Education, **SDG 14**: Life Below Water, and **SDG 15**: Life on Land. Surprisingly, **SDG 13**: Climate Action appears less of a broader priority, which could be due to the fact that smaller businesses tend to find their climate impacts relatively immaterial.[3]

During our screening process of companies, we found that very few companies have considered the underlying 169 targets to the SDGs, and almost no companies discuss any negative or detrimental impact of their operations on the SDGs. We believe comprehensive integration requires a 'balanced score card' of both positive and negative contribution.

Further data shows that companies working towards the SDGs tend to concentrate their efforts on their own internal operations, rather than aspects of their business where change is more challenging to achieve, such as supply chain, and are therefore failing to make significant changes.[4]

[1] https://www.globalreporting.org/about-gri/news-center/most-companies-align-with-sdgs-but-more-to-do-on-assessing-progress/

[2] https://www.unglobalcompact.org/library/5628

[3] https://www.bcorporation.net/en-us/sdgs/17-days-17-goals

[4] https://www.pioneerspost.com/news-views/20210903/efforts-of-sdg-focused-companies-slammed-new-report

HOW ARE INVESTORS USING THE SDGS?

The responsible investment market is vibrant and changing. Products now encompass multiple strategies including 'ethical', 'thematic' and 'sustainable'. Definitions vary, but this approach typically looks at solutions-based approaches that are utilising the SDGs. Investors use the SDGs in various ways: some map their investment portfolios to the SDGs, some others assess impact against the SDGs with self-defined measurement metrics, and others use the SDGs to decide on asset allocation, and investment decisions, going as far as having an SDG-aligned Fund.

Following the increased popularity of the SDGs amongst investors, the PRI (Principles for Responsible Investment) has issued guidance on integrating the SDGs into investment decisions[5]. They identified a five-part framework for any investors looking to shape real-world outcomes in line with the SDGs. These are:

1. Identify outcomes
2. Set policies and targets
3. Investors shape outcomes
4. Financial system shapes collective outcomes
5. Global stakeholders collaborate to achieve outcomes in line with the SDGs

Additionally, for the first time in 2021, the PRI has included a set of outcomes questions in their reporting questionnaire. They stated that this report is only the beginning in bringing together thinking on ESG risks and opportunities with the potential to shape SDG outcomes.

RISK OF GREENWASHING

Various new product launches in the UK and Europe claim to 'integrate' the SDGs to make investments that contribute positively to selected SDGs via the goods and services they produce by the companies held in the Fund. With the increase of SDG popularity and given the challenges in corporate reporting discussed in this briefing, there is also a risk of Greenwashing. 'Greenwashing' is defined as the dissemination of false or incomplete information by an organisation in order to present an environmentally or socially responsible public image.[6]

There are increasing concerns that the SDGs may be used as PR or marketing vehicles, as there is no agreed framework for SDG reporting. For this reason, it is necessary for companies and investors to demonstrate clearly how they align their products with the SDG targets, through clear measurement alongside progress.

[5] download unpri.org

[6] https://enveurope.springeropen.com/articles/10.1186/s12302-020-0300-3

CASE STUDY: GOOD PRACTICE VERIZON

One example of a company SDG reporting we view as best practice is **Verizon Communications Inc.** (Verizon). Verizon is an American telecommunications and media conglomerate. It was among the original companies to be spun out of AT&T in 1984 and is now the largest wireless carrier in the US.

Verizon 2021 ESG Report

Approach | Governance | Environmental | Social | SASB index | **Appendix**

Our UN SDG-aligned goals and progress

	UN SDG targets	Verizon goals	Progress
4 QUALITY EDUCATION	**4.4:** By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship.	• By 2030, provide 10 million youths with digital skills training. • By 2030, prepare 500,000 individuals for jobs of the future.	• Over 1.3 million youths reached since 2012. • Over 6,100 individuals reached since 2019.
7 AFFORDABLE AND CLEAN ENERGY	**7.2:** By 2030, increase substantially the share of renewable energy in the global energy mix.	• By 2025, source or generate renewable energy equivalent to 50% of our total annual electricity consumption.	• -2.6 GW of anticipated renewable energy capacity under contract.
	7.3: By 2030, double the global rate of improvement in energy efficiency.	• Achieve net zero emissions in our operations (scope 1 and 2) by 2035.	• 6.3% reduction in scope 1 and 2 emissions in 2020 over a 2019 baseline.
8 DECENT WORK AND ECONOMIC GROWTH	**8.3:** Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.	• By 2030, provide 1 million small businesses with resources to help them thrive in the digital economy.	• Over 40,000 small businesses reached since 2021.
	8.4: Improve progressively, through 2030, global resource efficiency in consumption and production and endeavor to decouple economic growth from environmental degradation, in accordance with the 10-year framework of programmes on sustainable consumption and production, with developed countries taking the lead.	• By 2030, enable the avoidance of 20 million metric tons of CO_2e annually with Verizon solutions.	• Over 16 million metric tons of CO_2e avoided in 2021.
	8.5: By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.	• Annually, have 100% pay equity in salary for women and men globally, as well as with respect to race and ethnicity in the U.S.	• In 2021, across all of Verizon, we had 100% pay equity in salary for women and men. In the U.S., we also had 100% pay equity in salary with respect to race and ethnicity.
13 CLIMATE ACTION	**13.3:** Integrate climate change into national policies, strategies and planning.	• By 2030, reduce Verizon's absolute scope 1 and 2 emissions 53% over a 2019 baseline. • By 2035, reduce Verizon's absolute scope 3 emissions 40% over a 2019 baseline.	• 6.3% reduction in 2020. • 7.7% reduction in 2020.
	13.3: Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.	• By the end of 2026, enroll 50% of Verizon's workforce as Green Team members.	• 43% of employees are Green Team members.
15 LIFE ON LAND	**15.1:** By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements.	• By the end of 2030, sponsor the planting of 20 million trees globally.	• Over 9.5 million trees planted.
16 PEACE, JUSTICE AND STRONG INSTITUTIONS	We are aiming to promote inclusive societies where the rights of all people are respected and where rule of law is observed, through our corporate actions, policy development, donations and employee volunteering. We have taken steps to identify and manage our human rights impacts; established comprehensive policies, processes and systems to address corruption and bribery; and through our advocacy, volunteering and financial donations supported issues including criminal justice reform and efforts to fight online child exploitation.		

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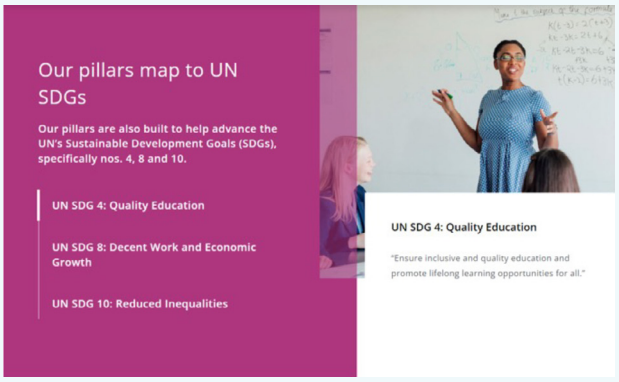
Verizon has aligned its operations with specific targets under SDG 4, SDG 7, SDG 8, SDG 13, SDG 15, and SDG 16. The company reports on the company goals, how they align with specific underlining SDG targets and the progress made to achieve these targets (see example above).[7]

CASE STUDY: CURRENT COMMON PRACTICE PEARSON

Pearson is an international publishing and education company focused on schools, higher education and professional segments such as textbooks and digital communications for teachers and students. The company operates through five divisions: assessment & qualifications, virtual learning, English language learning, workforce skills and higher education.

Through its core business purpose, the company naturally contributes to **SDG 4**: Quality education. However, we found that the company was not sufficiently reporting against the SDGs. The company aligns their strategy pillars to SDG 4, SDG 8 and SDG 10. However, there is no alignment to the underlining targets, and no reporting of company goals to achieve these targets or how they measure this alignment.[8]



WHAT HAS BEEN EDENTREE'S RESPONSE TO THE SDGS?

Our entire responsible investment offer to clients is built on trust and integrity. For over 30 years, we have sought fully to integrate ethical and responsible business practices into stock selection to deliver 'Performance with Principles'. Our initial response back in 2018 was to conduct intense due diligence to look at the viability of 'SDG integration' and we published an Expert Brief with our initial thoughts.

[7] https://www.verizon.com/about/sites/default/files/Verizon-2021-ESG-Report.pdf

[8] https://plc.pearson.com/en-GB/purpose/sustainability

HOW IS EDENTREE ALIGNED WITH THE SDGS?

The way we manage Funds and communicate to clients place the priorities of the SDGs at the very heart of what we do. Our screening process comprises six ESG risks and four themes. The ESG or Responsibility screens comprise business ethics, community, corporate governance, employment & labour, environment & climate change and human rights. Our four themes are education, health & wellbeing, social infrastructure, and sustainable solutions. The areas we look for in screening companies into the Responsible & Sustainable Funds encompass many, if not all, of the SDGs appropriate to the investor. For instance, SDG 8 (Good Work) correlates indirectly with our Employment & Labour pillar; SDG 3 (Good Health) with our Health & Wellbeing pillar. Our process serves positively to commend stocks into the screened funds, and in this way, we believe these companies are contributing to the spirit of the SDGs.

However, it is for companies themselves to articulate how they are contributing to meeting the Goals, and few, as we have seen, are yet reporting the direct contribution they are making to the underlying 169 targets. Due to these concerns, we do not currently provide stock or fund level alignment to the SDGs for our R&S Fund Range.

With regards to impact reporting of our Funds, we do not believe that it is appropriate for us to choose which SDGs companies in our portfolios align with. Instead, we will align our reporting with the SDGs the companies have selected as relevant for them.

Where relevant, we reference the SDGs in our Responsible & Sustainable EdenTree Insight reports and Expert Briefs. For instance, our Insight 'Hungry Planet Revisited' is a thematic response to SDG 2 (No Hunger), our Insight, 'Sustainable Cities' a response to SDG 11 (Sustainable Cities and Communities), and 'Thirsty Planet Revisited', a response to SDG 6 (Clean Water and Sanitation).

Additionally, our quarterly Global Corporate Governance reports reference SDG 16, Peace, Justice and Strong Institutions, which is a commitment to 'develop effective, accountable and transparent institutions at all levels'. We believe that our Stewardship on behalf of clients is a contribution towards strong institutions.

CONCLUSION

Overall, we believe that the SDGs can be a force for good and offer a useful framework for companies and investors to align capital and to help drive needed change to achieve a more sustainable future. However, as currently there are no regulatory requirements or standards for companies to report their alignment with the SDGs or particularly the underlying targets, there is a lack of standardisation globally, making it difficult to determine whether companies truly contribute to the SDGs or whether they are Greenwashing. Therefore investors still need to be cautious of how the SDGs are used in company reporting, until appropriate reporting standards develop.

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THE RESPONSIBLE INVESTMENT TEAM

We have a specialist in-house Responsible Investment (RI) team who carry out thematic and stock-specific research to identify ethically responsible investment ideas for our range of screened Funds. Headed up by Neville White, Head of RI Policy & Research, and supported by Responsible Investment Analysts Carlota Esguevillas, Rita Wyshelesky and Amelia Gaston, the team is also responsible for creating an on-going dialogue with companies, allowing us to engage on a wide variety of ethical and socially responsible investment concerns. For investors, it's an added layer of assurance that our client's money is being invested in companies that are operating in a responsible and sustainable way. Our ethical and responsible investment process is overseen by an independent Advisory Panel that meets three times a year, and comprises industry and business experts, appointed for their specialist knowledge.

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We hope you enjoy this RI Expert Brief and find it useful and informative.
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