



June 2019 | Market Perspective

# The Importance of SDG Investing in Emerging Markets



We believe investors may achieve alpha with impact without compromising solid returns.

## GLOBAL GROWTH EQUITY

### KEY TAKEAWAYS

- Investors increasingly seek investment solutions that address global concerns and help provide financial security. Including the United Nations Sustainable Development Goals (U.N. SDGs) in investment decision-making is one way toward attaining both aims.<sup>1</sup>
- We think impact investing using the SDG framework is especially crucial in emerging markets (EM). EM countries need greater investment in infrastructure, technological innovation and education than more developed markets. Living standards are among the lowest in the world and socioeconomic inequalities, including gender and income, can be significant. With some of the world's most fragile ecosystems, EM countries are also more vulnerable to environmental damage as well as pandemics and rare regional diseases.
- American Century's approach to impact investing in emerging markets offers a distinct proposition: To invest in accelerating growth companies whose businesses seek to help address some of the world's most pressing concerns in countries that may need the most help. We believe providing investment solutions geared toward the SDGs is a natural extension of the impact our firm creates through our unique impact business model.
- We believe investors can achieve positive social and environmental impact by investing in EM companies that contribute to one or more of the U.N. SDGs. We think this impact can be accomplished without compromising investment returns or reducing environmental, social and governance (ESG)-related risk mitigation.



PATRICIA RIBEIRO  
Senior Vice President  
Senior Portfolio Manager  
Global Growth Equity



GUILLAUME MASCOTTO  
Vice President  
Head of ESG and  
Investment Stewardship

<sup>1</sup>Developed by a global team of industry and government leaders and adopted by all 193 U.N. member states, the SDGs include 17 goals and 169 attendant targets aimed at solving some of the world's most pressing problems by 2030. The goals include eradicating poverty, protecting environmental resources, and achieving gender and income equality.

**WHY ACHIEVING SDGs IN EMERGING MARKETS IS IMPORTANT**

**SDGs can support growth.**

The Business and Sustainable Development Commission has estimated that SDGs could unlock more than \$12 trillion in market opportunities and up to 380 million jobs by 2030.<sup>2</sup> Achieving the U.N. SDGs could be a fundamental driver of corporate revenues and earnings growth, thereby helping drive returns from equities and other assets.

**SDGs can support better investment decisions and measurable impact.**

Incorporating SDGs into company assessment is an important step toward identifying a well-run business better positioned to benefit from the positive impacts of improved social and economic conditions. Focusing on a company's business exposure toward SDGs allows investors to make better informed decisions within a defined investment time horizon. Investors can also better track and measure their exposure to opportunities that result from having achieved the SDGs' broader goals.

**Sustainable investments are growing but remain a small portion of the marketplace.**

At the end of 2018, sustainable investment assets stood at \$30.7 trillion, a 129% increase over 2012, representing approximately one-third of total global assets under management (AUM). See **Figure 1**. Sustainability-themed investments have grown 269% globally since 2016, and impact/community investing has grown 79% over the same period. Yet, each type of investing represented a small percentage of total ESG-linked AUM in 2018 (3% and 1.4%, respectively). SDG funding is still small relative to the size of the investable universe, which comprises hundreds of trillion of dollars in tradable securities and private investments.



**EM markets can be slow in recognizing inflection points.**

We believe markets tend to be slow in recognizing inflection points in growth trends, which creates market inefficiencies. Focusing on inflection points and the long-term potential for earnings growth, as well as impact considerations, can help identify opportunities sooner.

**EM markets have a lot at stake relative to developed markets.**

With large and growing populations, some EM countries are experiencing vast wealth and equality disparities. Therefore, EM companies have greater potential to benefit from growth generated by the positive impacts of SDGs. However, EM financial systems are also characterized by less transparency and fewer regulations.

Against this backdrop, avoiding “impact washing” is crucial. Disciplined, bottom-up ESG risk evaluation of EM companies complements impact investment by helping mitigate the potential downside risk from ESG issues. For example, while one company may clearly meet an investor's impact criteria from an environmental perspective, that investor should also determine whether the company aligns with the other pillars of ESG risk assessment.

**WHY ACHIEVING SDGs IN EMERGING MARKETS WILL BECOME MORE IMPORTANT GOING FORWARD**

**The sustainability information gap is closing.**

As more companies report their SDG exposure, we expect increased transparency. Detailed and reliable disclosure and better technology should make it easier and more efficient to access and analyze relevant data.

**SDGs help align investors' goals with broader objectives for a better world.**

As global investment markets and globalized flows heighten, investors' returns will become more closely tied to the success of the overall global economy. Not accomplishing the SDGs could add to avoidable macroeconomic risks. Thus, we believe it's in investors' own best interests to seek investment in companies that contribute to sustainable economies and improved social conditions.

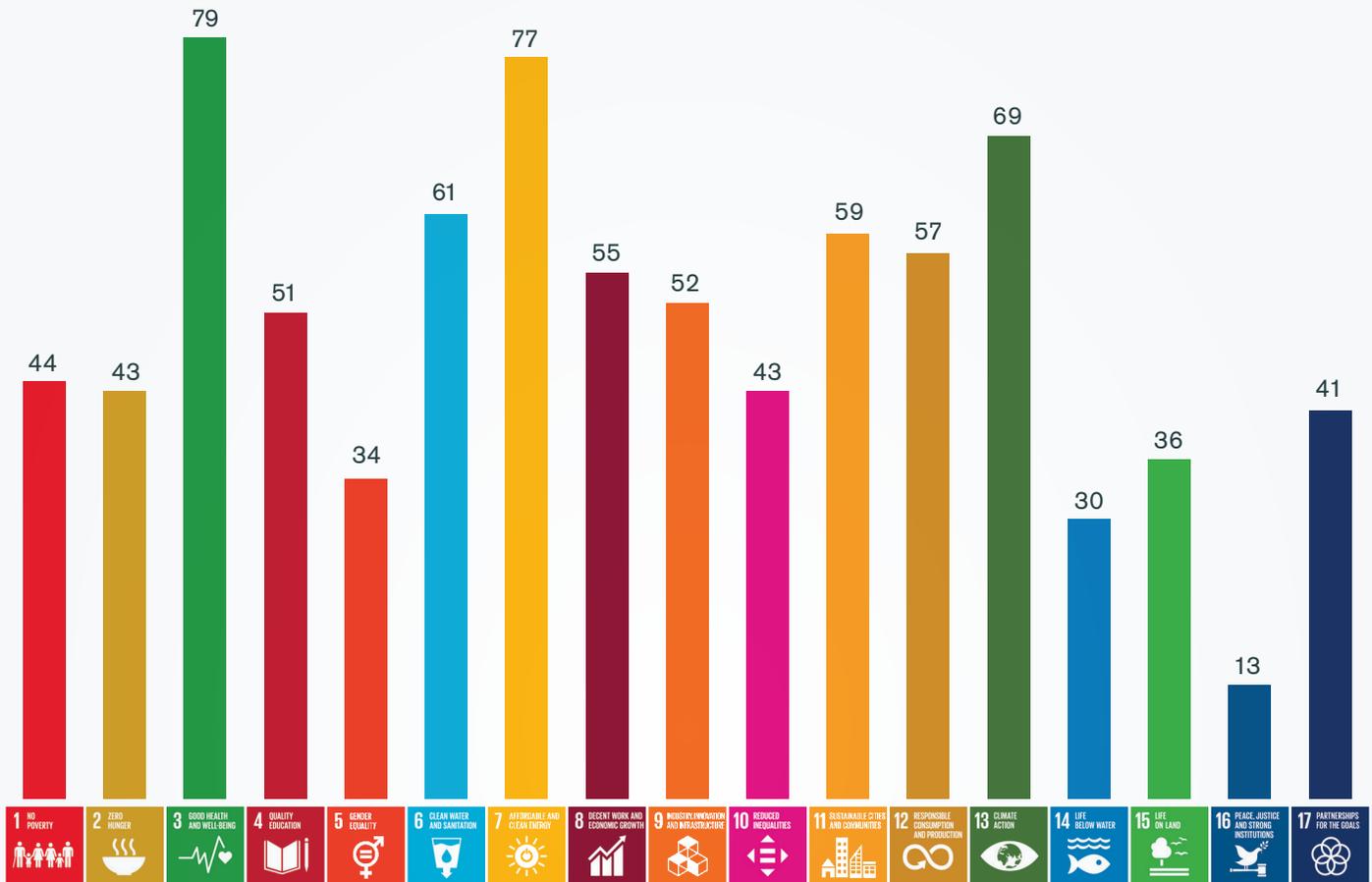
**Emerging markets have a longer runway and steeper slope for SDG improvement.**

Lower levels of transparency, regulation and enforcement mean the SDG improvement story is earlier in the cycle and may have longer to play out in emerging markets than in developed markets. Consequently, there is incentive for early adopter companies across emerging markets to more fully integrate SDGs to leverage the potential for accelerated growth.

<sup>2</sup> “Sustainable Business Can Unlock at Least U.S. \$12 Trillion in New Market Value and Repair Economic System.” [Press Release]. Business and Sustainable Development Commission. Jan. 16, 2017.

FIGURE 2

**Institutional Investors Plan to Increase Allocations to United Nations Sustainable Development Goals**  
(Percent of Total Investors Surveyed)



Source: Phenix Capital, *Impact Investing Asset Owner Trend Report*, April 2019. N=61.

**Investors are committed to increasing SDG allocations.**

Research indicates assets allocated to each SDG are likely to grow in the near term. A recent survey found that institutional investors plan to increase allocations to sustainable investments. (Source: Phenix Capital, *Impact Investing Asset Owner Trend Report*, April 2019).

As shown in **Figure 2**, investors most-cited SDGs for increased investment included Good Health and Well-Being for People (Goal 3), Affordable and Clean Energy (Goal 7), and Climate Action (Goal 13).

**CASE STUDIES**

Consider two examples of companies where we identified opportunities to achieve investment return potential along with measurable SDG impact.

**Bharat Financial Inclusion Ltd.**

Bharat Financial Inclusion is a microfinance institution providing financial services to women in India, a historically underserved segment of the population. In an economy where access to credit has traditionally been limited to the wealthy, and where men have traditionally controlled financial matters, Bharat Financial helps alleviate poverty by empowering millions who previously had little or no access to financial products and services.

As the largest non-banking financial company in India, the company promotes gender equality by providing women with access to capital. By providing access to capital for small business ventures, Bharat supports improved working conditions and economic growth.

**SDG Exposure**



**Impact**

- 8.5 million borrowers (7 million active)
- Annual loan disbursements of \$10 million+
- Annualized loan book value of \$3.9 billion
- Average loan per borrower of \$336
- One of microfinance industry's lowest effective annual lending rates of 19.75%

**Company Mission**

Provide financial services to economically weaker areas of India.

Source: Bloomberg, 2019.

**China Education Group (CEG)**

CEG is the leading operator of private higher education and vocational schools in China. By providing the quality education, vocational training and job placement services that may lead to better employment opportunities, CEG helps reduce poverty and improve working conditions and economic growth potential. The company helps reduce income inequalities and empower women by elevating their social status and broadening access to job prospects.

**SDG Exposure**



**Impact**

- Total enrollment of approximately 145,000 students ages 16-22
- Operates mainly in the Yangtze River and Pearl River deltas, areas with some of China's most important transportation hubs and largest planned development projects
- Guangdong Province in the Pearl River delta is the nation's highest populated (116 million) and among the nation's fastest growing provinces

**Company Mission**

Provide quality educational services, as defined by independent rankings, and boost employment placement rates among the general population.

Source: Bloomberg, 2019.



#### AMERICAN CENTURY INVESTMENTS: ALPHA WITH IMPACT

A central component of American Century's approach to investing is that investors don't need to make a binary distinction between impact and returns. We distribute 40% of our annual dividends to our owner, the Stowers Institute for Medical Research, a world-class biomedical research organization focused on researching gene-based diseases, including cancer. We believe we can make an impact by investing in companies that fuel change by contributing to achieving the SDGs and demonstrating solid ESG risk management practices while also generating alpha through our distinct growth philosophy.

Our philosophy centers on the belief that improving business fundamentals leads to acceleration in earnings and revenues. The acceleration in growth can yield stock price performance alongside positive societal and environmental value.

A strategy or emphasis on environmental, social and governance factors ("ESG") may limit the investment opportunities available to a portfolio. Therefore, the portfolio may underperform or perform differently than other portfolios that do not have an ESG investment focus. A portfolio's ESG investment focus may also result in the portfolio investing in securities or industry sectors that perform differently or maintain a different risk profile than the market generally or compared to underlying holdings that are not screened for ESG standards.

# American Century Investments®

OUR SOLE FOCUS IS INVESTMENT MANAGEMENT

**179** INVESTMENT PROFESSIONALS  
TOTAL as of 3/31/2019.



**19** YEARS OF EXPERIENCE  
AVERAGE as of 3/31/2019.

**1958**  
BUSINESS FOUNDED

**\$165b**  
ASSETS UNDER MANAGEMENT  
as of 3/31/2019.

## INVESTMENT CAPABILITIES

Global Growth Equity

Global Value Equity

Global Fixed Income

Disciplined Equity

Multi-Asset Strategies

Alternatives

Past performance is no guarantee of future results.

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### American Century Investments®

4500 Main Street Kansas City, MO 64111-7709	330 Madison Avenue 9th Floor New York, NY 10017	1665 Charleston Road Mountain View, CA 94043	2121 Rosecrans Avenue Suite 4345 El Segundo, CA 90245
Suite 3201 Champion Tower 3 Garden Road, Central Hong Kong	12 Henrietta Street, 4 <sup>th</sup> Floor Suite 4345 London, WC2E 8LH	Governor Phillip Tower RM 3676 L36, 1 Farrer Place Sydney, NSW, 2000, AUS	



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