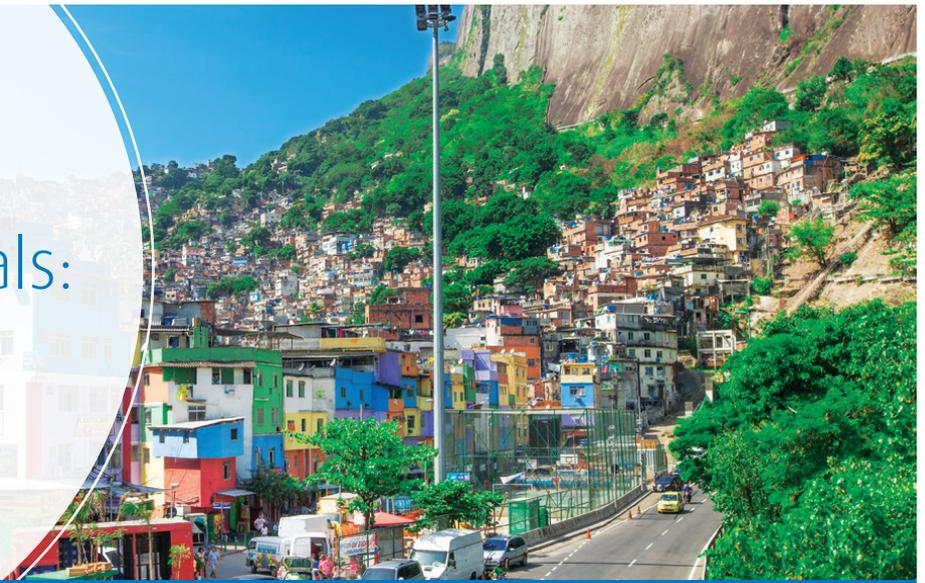


Sustainable Development Goals: A framework for investors



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The Sustainable Development Goals (SDGs) are emerging as a global framework for governments, investors and corporations to prioritise agendas, and report on their impact.

The high-level goals need to be translated into practical tools that investors can use in their day-to-day decision-making processes. Here we set out how, at BMO Global Asset Management, we have developed methodologies to use the SDGs to analyse our investment choices and undertake company engagement. In our view this helps to support the long-term financial performance our clients want and promote positive change.

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“As leaders in responsible investment we believe that recognising the impact we have on sustainable development is both a business imperative and a moral duty for our industry.”

Kristi Mitchem, CEO, BMO Global Asset Management

Awareness of the effect our consumption choices have on the environment and society has never been higher. Increasingly, individuals are striving to make a positive impact, from using reusable coffee cups and reducing reliance on single-use plastics, to driving a hybrid or electric car. There is growing recognition that choices regarding investments and pensions are no different, and that it is possible to choose options aligned with personal values, as well as delivering financial returns.

What are the SDGs?

The SDGs, which replaced the Millennium Development Goals (MDGs), were developed in 2015 by the UN with a variety of stakeholders including that of industry, finance and NGO's, and endorsed by all 193 UN member states.

The SDGs set out a roadmap towards a more sustainable global economy and society by 2030. There are 17 high level goals, and each goal has a set of targets setting out specific objectives to achieve the goal, with 169 targets in total. Underlying the targets are 230 indicators, which can help us to determine progress. Since the SDGs came into force in January 2016, they are increasingly being adopted as a common and consistent way to articulate sustainability, by companies and investors alike.

Levels of the SDG framework – example

Goal:



Target:



By 2030, end the epidemics of AIDS, tuberculosis, malaria and neglected tropical diseases and combat hepatitis, water-borne diseases and other communicable diseases

Indicators:

- 3.3.1 ... Number of new HIV infections per 1,000 uninfected population, by sex, age and key populations
- 3.3.2 ... Tuberculosis incidence per 1,000 population
- 3.3.3 ... Malaria incidence per 1,000 population
- 3.3.4 ... Hepatitis B incidence per 100,000 population
- 3.3.5 ... Number of people requiring interventions against neglected tropical diseases

The role of investors

Finance has a critical role to play in achieving the SDGs, by channelling capital towards solutions and driving improvement through engagement with companies. We believe that the financial sector cannot be a passive bystander to sustainability challenges and should work actively alongside companies and governments within their privileged and trusted position as stewards of capital. Utilising the SDGs can also have advantages by providing macroeconomic context of the key sustainability trends that can help shape thinking about future investment opportunities.

Ultimately, achieving the vision of the 2030 Agenda for Sustainable Development, of a secure and thriving environment and society is essential for laying the foundations to long-term global prosperity and investment performance.

Recognising this, a growing number of investors are already working to embed the SDGs in their processes. However, the risk of 'SDG-washing' is also starting to emerge, as concerns are voiced that the SDGs are becoming a way merely to re-badge existing practices, rather than driving genuine change. We believe that by taking the time to develop the approach we set out here, we are avoiding this risk, and are turning the SDGs into a practical framework for action.

Transparency about methodologies and approaches is essential to demonstrate and share good practice, and here we set out our work to integrate the SDGs in two core aspects of our own work: the way we identify companies to invest in, and how we conduct our engagement.



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Through our SDG analysis we have achieved a much deeper understanding of where our portfolios support the sustainable development agenda.

Aligning investments with the SDGs

We see global sustainability trends such as climate change, water scarcity and public health as important drivers that can create long-term growth opportunities for those companies that are able to provide solutions. The SDGs have provided further clarity on how to identify and track these opportunities in a structured way.

In 2016, the starting point for our analysis was to look at how the companies within our portfolios mapped against each of the 17 SDGs.

Whilst this gave us a useful starting point, the high-level mapping against the 17 goals was not granular enough to provide sufficient insight into our portfolio holdings. We extended our analysis by going to a deeper level in 2018 and considering the underlying SDG targets.

We analysed the individual revenue streams of portfolio holdings and identified whether the products and services in those business segments have links to SDG targets, and if so, which ones.

When aggregating the data, we use the weighting of the holding within the portfolio, to determine not only the number of companies with a link, but also the value of the portfolio's assets with links.

One company, depending on its breakdown by business segment, may have links to more than one goal and/or target; another company may have a business segment that is linked, and one that isn't. Through this analysis we have achieved a much deeper understanding of where the exposure lies, both to business areas that support the sustainable development agenda, and to areas that are not so aligned. We developed an in-house methodology to do this, considering existing investor resources¹ but using our own interpretation of the many borderline cases that arose.

We are in the process of applying this approach to a range of our specialist ESG funds, including Responsible Global Emerging Markets and Responsible Global Equity².

The result of this analysis for one of our strategies, Responsible Global Equity, is summarised on page 4³. This shows the strongest connections being with SDG 8 – Decent Work and Economic Growth, which links to finance and services companies; SDG 3 – Good Health and Well-being, which includes healthcare holdings; and SDG 9 – Industry, Innovation and Infrastructure, which has links to firms in sectors such as industrials and chemicals providing solutions to improve energy efficiency.

1

Break down company revenues by business segment

2

Analyse each revenue line at SDG target level; attribute a link where relevant

3

Aggregate, using weight of holding, to obtain portfolio-level alignment

¹ Approaches we reviewed included the SDG Compass and Sustainable Development Investments (SDIs) Taxonomies – PGGM and APG

² BMO Responsible Global Emerging Markets: <https://www.bmogam.com/gb-en/intermediary/wp-content/uploads/2019/06/bmo-responsible-gem-equity-strategy-esg-profile-and-impact-report-2019.pdf>. BMO Responsible Global Equity: <https://www.bmogam.com/wp-content/uploads/2019/05/bmo-responsible-global-equity-strategy-esg-profile-and-impact-report-2019.pdf>

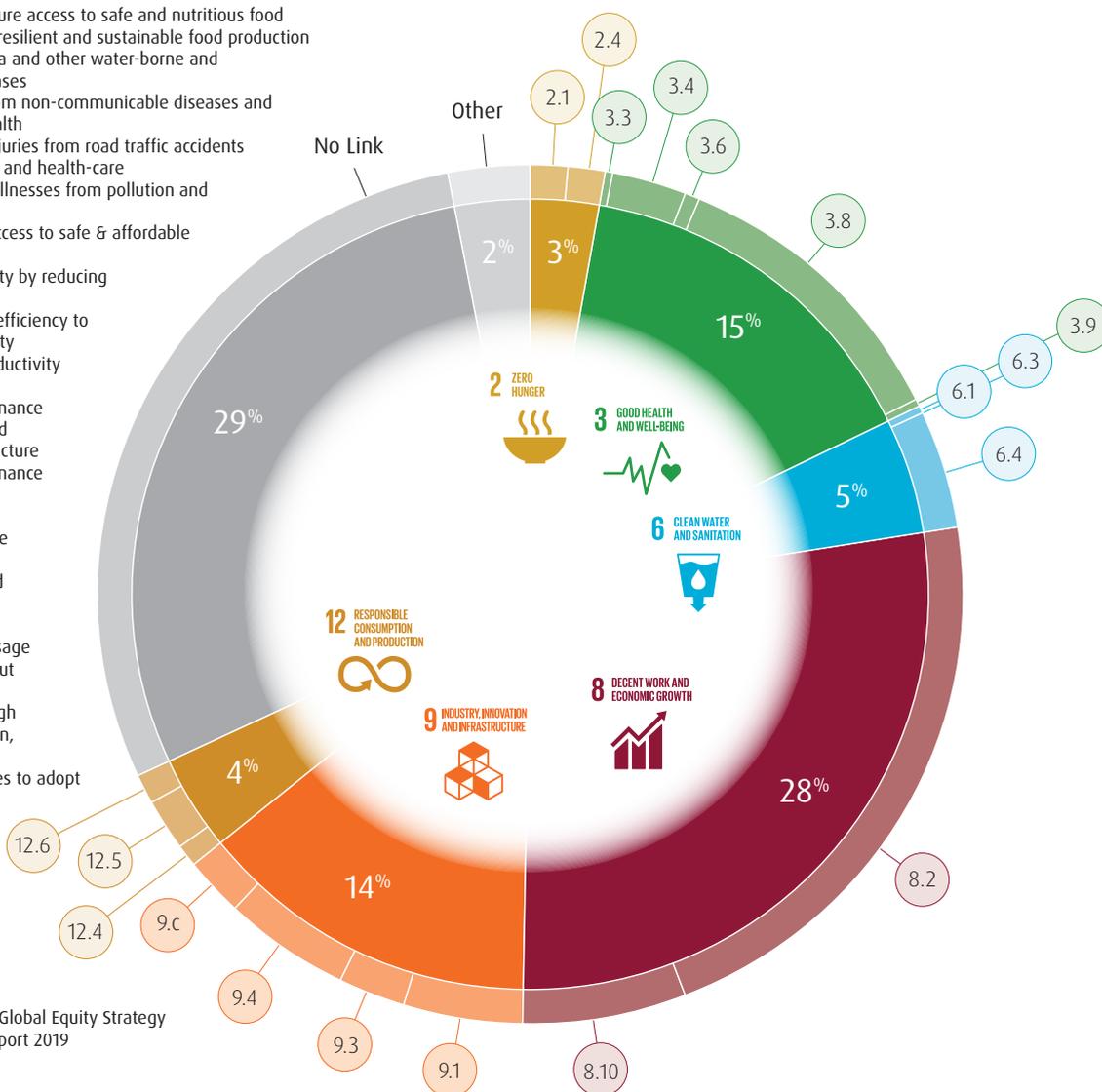
³ The full portfolio analysis is available in the 2019 ESG Profile and Impact Report: Responsible Global Equity Strategy: <https://www.bmogam.com/wp-content/uploads/2019/05/bmo-responsible-global-equity-strategy-esg-profile-and-impact-report-2019.pdf>

BMO Responsible Global Equity Strategy: investment alignment with the SDGs and underlying targets

- 2.1 End hunger and ensure access to safe and nutritious food
- 2.4 Implement climate-resilient and sustainable food production
- 3.3 End AIDS, TB, malaria and other water-borne and communicable diseases
- 3.4 Reduce mortality from non-communicable diseases and promote mental health
- 3.6 Halve deaths and injuries from road traffic accidents
- 3.8 Access to medicines and health-care
- 3.9 Reduce deaths and illnesses from pollution and contamination
- 6.1 Achieve universal access to safe & affordable drinking water
- 6.3 Improve water quality by reducing pollution
- 6.4 Increase water-use efficiency to address water scarcity
- 8.2 Achieve greater productivity through innovation
- 8.10 Increase access to finance
- 9.1 Develop resilient and sustainable infrastructure
- 9.3 Increase access to finance for SMEs
- 9.4 Upgrade and retrofit industries to increase sustainability
- 9.c Ensure universal and affordable access to technology
- 12.4 Manage chemical usage and waste throughout their life cycle
- 12.5 Reduce waste through prevention, reduction, recycling and reuse
- 12.6 Encourage companies to adopt sustainable practices and enhance ESG reporting

Other includes smaller-weighted SDGs.

Source: BMO Responsible Global Equity Strategy ESG Profile and Impact Report 2019



Company examples

Company name	Weight in Strategy	SDG	Target	Target summary	Share of company revenue
CSL LTD	1.2%	● SDG 3	3.3	End AIDS, TB, malaria and other water-borne and communicable diseases	12%
		● SDG 3	3.4	Reduce mortality from non-communicable diseases and promote mental health	84%
			No link		4%
COMFORTDELGRO CORP LTD	0.7%	● SDG 3	3.6	Halve deaths and injuries from road traffic accidents	4%
		● SDG 11	11.2	Provide access to safe and affordable transport systems	72%
			No link		24%
SMURFIT KAPPA GROUP PLC	1.6%	● SDG 12	12.5	Reduce waste through prevention, reduction, recycling and reuse	100%



Aligning engagement with the SDGs

Engagement is a powerful tool for investors to achieve positive sustainability impacts. Investors have engaged for many years on topics such as climate change, human rights and labour standards, and since 2016 we have been reporting on how this engagement supports the SDGs. Our approach started with a high-level mapping of how our major engagement themes corresponded to individual goals, and has since evolved to using the SDGs as a framework to design and conduct the engagement itself in line with specific SDG targets, as well as reporting at this level of detail.

Our experience is that companies welcome this development in engagement approach. Increasingly, there is pressure on companies to effectively disclose Environmental, social and governance (ESG) information and we believe the SDGs

provide a framework to streamline this disclosure for use by various stakeholders.

Our approach is based on systematically capturing engagement at a target level, where applicable. This has involved analysing how our in-house engagement categorisations, which are based on 7 themes and 43 subthemes, correspond with one or more of the 169 SDG targets. We then adapted our engagement data systems in 2018 so that every time an engagement or engagement outcome (milestone) is recorded by one of our team, they are prompted to select relevant SDG targets. Not all targets are relevant for investors, as they may be more policy focused, for example: out of the total of 169, we have identified 80 that we believe we can add value to through our work.

2019 engagement priorities⁴

Protecting vulnerable workers	Gender equality	Antimicrobial resistance	Climate change	Biodiversity and water

Developing our engagement methodology has allowed us to:

- Use the SDGs as idea generation for our annual prioritisation of engagement themes
- Refer to the SDGs and specific targets when engaging companies on related topics
- Disclose in our reporting how our engagement relates to the SDGs
- Create a new investment strategy focused on driving improvement through engagement, in line with the SDG framework

⁴ See BMO Annual Responsible Investment Review 2018 for details: <https://www.bmogam.com/wp-content/uploads/2019/04/responsible-investment-2018-review.pdf>



Engagement and the SDGs

17

SUSTAINABLE DEVELOPMENT GOALS

169

Underlying targets

80

Targets identified by the BMO Responsible Investment team where there is opportunity for engagement to drive change

Target level engagement: Dali Foods Group example



Target
2.1

End hunger and ensure access to safe and nutritious food.

Dialogue
Engaging on nutrition

Encouraging increased reformulation, clear labelling and responsible marketing.



Target
14.1

Prevent and reduce marine pollution of all kinds.

Dialogue
Engaging on responsible packaging

Encouraging the reduction of single use plastic, innovation in materials and strategic implementation.

Large manufacturer and retailer of food and beverage products, headquartered in China. Its product categories include bread, cakes, biscuits, pastries, potato-based snacks, energy drinks, herbal teas, milk and plant-based beverages.

Outcomes: Kerry Group example



Target
15.2

Promote the implementation of sustainable forest management and halt deforestation.

Dialogue
Engaged on responsible sourcing practices

Engaged to encourage better management of risks associated with raw material sourcing within its supply chain.

Change
No deforestation across high risk supply chains by 2025

Committed to full supply chain traceability and to using RSPO* certified palm oil for own branded products – benefiting the environment and mitigating risks.



Target
6.4

Increase water-use efficiency and ensure sustainable withdrawals.

Dialogue
Engaged on water management

Engaged on water management in relation to its supply chain and direct operational exposure, and encouraged stringent assessment procedures.

Change
Improved disclosure and risk assessment

Has disclosed to CDP Water for the last two years and developed methodology using the WRI Aqueduct Tool for assessing water risk within operations.

* Roundtable on Sustainable Palm Oil.

BMO SDG Engagement Global Equity Fund

Individuals increasingly want to make a positive impact. As consumers, there is a growing recognition that we can align our investment decisions with our values. Ultimately, we want our money to drive improvement in the world around

us and this is exactly what our BMO SDG Engagement Global Equity Fund⁵ is designed to achieve. Our aim is to enhance long-term performance, reduce risk, and to encourage a positive contribution to broader environmental and social issues.

Invest

Access our global network of small and mid-cap specialists with a rich heritage of identifying investment opportunities

Engage

We engage deeply, having identified 80 SDG targets to focus on, and talk directly with key decision makers

Improve

Our ambition is to deliver attractive investment returns and clearly demonstrate positive progress towards achieving SDG targets



“ ”

The BMO SDG Engagement Global Equity Fund aims to provide capital growth by investing in a well-diversified selection of global small and mid-sized companies. The fund seeks to achieve a positive impact through targeted, impact-focused, active engagement with companies, using the SDG framework.

⁵ BMO SDG Engagement Global Equity Fund: <https://www.bmogam.com/gb-en/intermediary/capabilities/responsible-investing/sdg/>

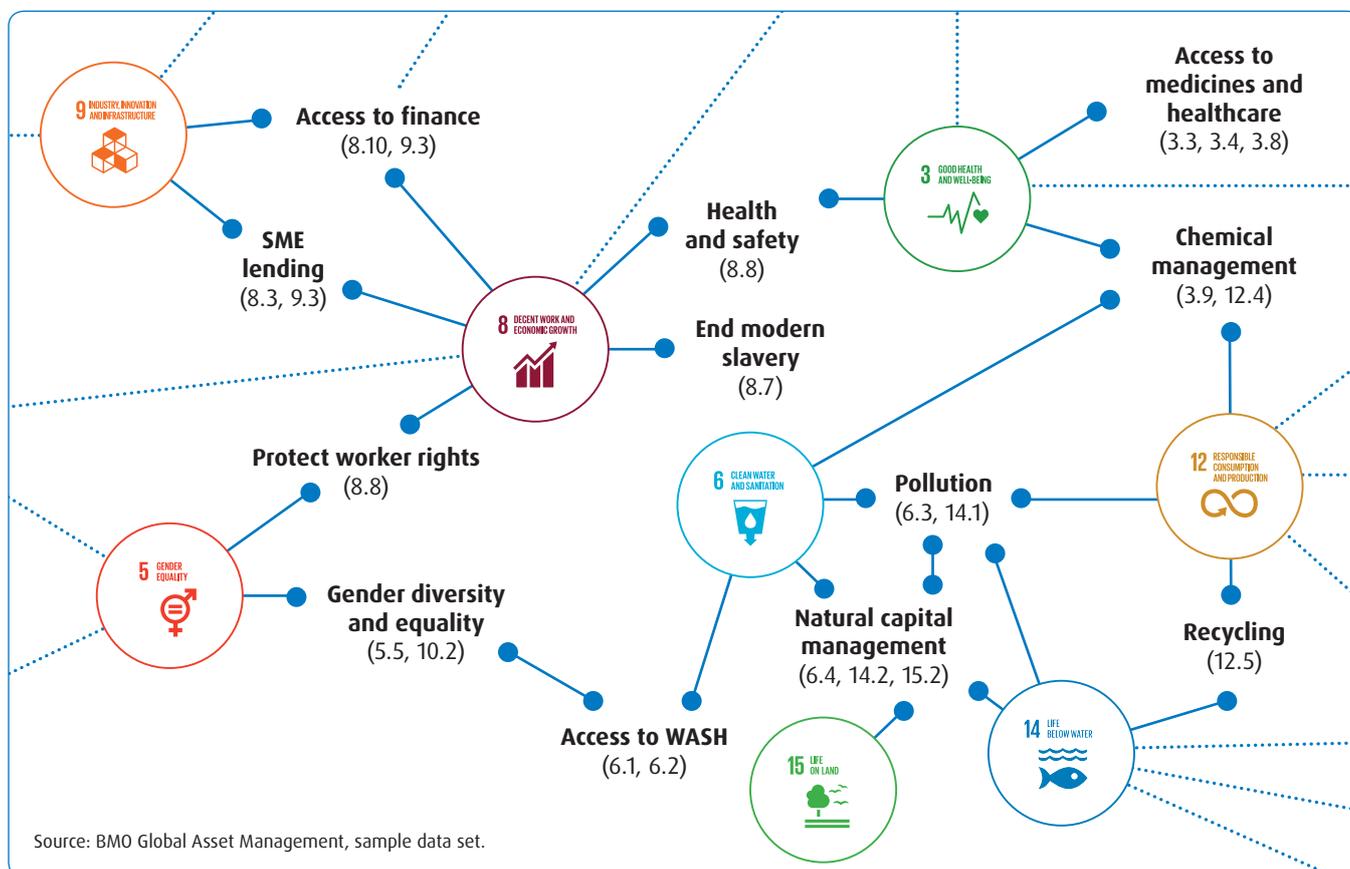


SDG linkages and trade-offs

Applying our SDG engagement approach in a systematic way has furthered our understanding of where there is interconnectivity between the SDGs, as well as possible trade-offs.

For instance, we initiated an engagement programme on ocean plastics, which clearly links to SDG 14 – Life Below Water, and target 14.1 – Prevent and reduce marine pollution of all kinds. We encouraged companies to eliminate unnecessary single use plastic, use recycled content in packaging, and improve recyclability and the supporting infrastructure.

These topics also support target 12.5, which aims to improve recycling and reuse rates. However, a shift to paper and cardboard packaging could put at risk target 15.2, which covers healthy forest ecosystems under SDG 15 – Life on Land. Our engagement therefore emphasises the need for enhanced forest management practices, alongside a plastics strategy, to avoid this potential trade-off.



“We must strongly accelerate our broader efforts to achieve the Sustainable Development Goals... and we need increased financing for those solutions.”

UN Secretary-General
António Guterres, 2019

ESG and SDG engagement: overlaps and differences

In many cases there was an easily-recognised overlap between the objectives of our existing engagement programme and the Sustainable Development Goals. In other cases, we had to carefully consider the targets and indicators to identify whether links could be drawn.

- **Human rights:** there is no single “human rights” SDG. This does not mean that the SDGs ignore human rights. On the contrary, human rights are relevant to most of the 17 SDGs, with the 30 fundamental human rights in the Universal Declaration of Human Rights covering issues including access to food, water and sanitation, education and medical care, which have clear relevance to the SDGs⁶.

In terms of how this links to our engagement, the choice of goal and target will depend on the subject but one human rights topic we engage on is companies’ operations in conflict-afflicted regimes, which we see as supportive of SDG 16 – Peace, Justice and Strong Institutions.

- **Corporate governance:** although we see good governance as an essential building block in creating a more sustainable economy, we do not see this as being a direct link to a specific SDG. The main exception is our engagement on board diversity, much of which has covered gender diversity issues, which we see as supportive of SDG 5 – Gender Equality and target 5.5⁷.

- **Data privacy:** this issue is not specifically addressed in the SDGs but is rapidly growing in importance as concerns mount about misuse of personal data by corporations or governments and is relevant to the 2030 Agenda for Sustainable Development. We decided to go beyond the original meaning of SDG 9 – Industry, Innovation and Infrastructure by interpreting the infrastructure targets as applying to both digital as well as physical infrastructure, and have linked our engagement primarily to target 9.1⁸.
- **Animal welfare:** nowhere do the SDGs specifically target animal welfare, although of course many environmental aims such as the protection of biodiversity and water are critically important in supporting animal life. Engagement on topics such as the well-being of farmed animals is relevant to SDG 2 – Zero Hunger, though this implies that animals are a ‘means to an end’ of addressing human nutrition rather than being intrinsically valuable. We will continue to engage on animal welfare as an end in itself, whilst recognising the SDG links where relevant.

⁶ See, for instance, the Danish Institute of Human Rights, whose Human Rights Guide to the SDGs has a comprehensive mapping of how each SDG goal and target corresponds to the UDHR and other human rights standards

⁷ Goal 5, target 5.5, Ensure full equality of opportunity for women, including at leadership levels

⁸ Goal 9, target 9.1, Develop resilient and sustainable infrastructure

Future developments

We intend to continue developing our approach to SDGs, namely our in-house methodology as well as working with relevant collaborative groups. In particular, we aim to focus on the following areas:

● Understanding the geography of impact

As work by the Impact Management Project and others has emphasised, understanding impact means not only identifying what the impact is, but also who it affects. The greatest impact is achieved by providing services in parts of the world that have the most urgent needs.

Ideally an impact methodology would integrate geographical mapping so that, for instance, the positive impact of an education services provider would be measured as greater in a country with poor access to education, than in one with nearly universal education already in place.

So far, we have not systematically captured this, due in part to the way data is provided by companies, which often reports at a highly aggregated level (for instance, breaking down revenues by continent rather than country). Our aim is to identify data sources to deepen our understanding of these effects.

● Measuring negative impact

To date we have categorised companies' activities as either aligning positively with the SDGs or being neutral. However, clearly some products and services have effects which could undermine the achievement of the SDGs, such as tobacco or weapons, and possibly less obvious areas such as foods with poor nutritional value. Our methodology has captured these where obvious, but qualitatively and not in a systematic way.

The funds we have analysed in our SDG investment alignment work to date have all been from our specialist ESG product range, which has little or no exposure to certain products or services that are widely considered as damaging. However, as we seek to extend this methodology to more of our funds, understanding the conflicts will become increasingly important.

● Balancing product and conduct

In looking at the alignment of investments with the SDGs we understand that some companies may sell products that are socially or environmentally beneficial, but at the same time could have a negative impact through the way they operate, for instance having poor labour standards or mismanagement of emissions.

Conversely, a company may not be supporting the SDGs directly through their products and services but be providing significant social or environmental benefit through adopting market-leading policies and conduct practices, such as around diversity or efficiency in use of natural resources. It is important to assess both sides of this in a systematic way.

● Impact metrics and benchmarking progress

In our ESG Profile and Impact reports, alongside the SDG alignment data, we also report portfolio metrics such as carbon footprint, water use and gender diversity.

We aim to continue developing these, and additional impact metrics, as well as monitoring progress in relation to the SDG indicators.



Understanding impact means not only identifying what the impact is, but also who it affects.