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Who cares, wins: why investors care about the Sustainable Development Goals

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The Sustainable Development Goals (SDGs) are the blueprint to achieving a better and sustainable future for all. This article explores how investors can use the SDGs to secure sustainable returns and communicate their impact to stakeholders.

The Sustainable Development Goals

In 2015, the United Nations (UN) launched the 17 SDGs, as part of the 2030 Sustainable Development Agenda. The SDGs deal with the most pressing global problems, such as climate change, food shortages, inequality and health. Every goal represents a clear ambition and has underlying targets. Five years later, the SDGs are being embraced as the worldwide standard for financial, social and environmental sustainability.

Paying vs gaining: investors need to think about returns rather than charity

Reaching the SDGs will be a challenge. It will require major changes and active engagement from everyone, and at a quick pace.

The UN Commission on Trade and Development (UNCTAD) estimates that meeting the SDGs will require US$5 trillion to US$7 trillion in investment each year from 2015 to 2030.

While government spending and development assistance will mobilise some funding, this will only come up to US$1 trillion per year. Where will the rest of the money come from? Additional flows of private sector capital will be key. But should the money come from regular investors, such as pension funds, asset managers and private equity houses? One may wonder whether achieving the SDGs simply means that investors are supposed to chip in through corporate social responsibility (CSR) projects, philanthropy and other ‘do good’ initiatives that do not generate returns.

That would be a short-sighted approach. To truly unlock the SDG opportunity, it will be critical for investors to identify innovative companies that focus on products and services linked to the SDG agenda and actively decide to allocate their funding there. This means that investors will not only be footing the bill, but also that they will be able to count on solid returns.

Finding enough ‘good’ companies to fund can be challenging. Banks such as Rabobank or ABN Amro are already offering better corporate lending terms to SDG-aligned businesses. For companies, tackling the SDGs will be the gateway to accessing more capital.

Asset managers and pension funds are also struggling to find enough sustainable assets, meaning that companies that move quickly on the SDGs have a higher chance of attracting investment.

Investors can embrace the SDGs through decision-making and reporting

When looking at sustainability and the ability to manage environmental, social and governance (ESG) issues, we can already see how the investment landscape has changed in just a few years. Many studies show that sustainability-minded companies perform better. For example, extensive research shows that companies that integrate ESG issues in their decisions are consistently outperforming their industry peers since 2001 across almost every financial measure that matters.

Private Equity Responsible Investment Survey 2019

Our own PwC investor research on specific finance segments like asset and wealth management and private equity shows that ESG integration is slowly becoming mainstream. *Most of the private equity houses and asset managers we surveyed agree on the fact that ESG drives long-term value.*

Asset and wealth management

According to *PwC's 2019 Global SDG Challenge*, the SDGs where most financial sector companies (asset managers and banks) think they can generate most impact are related to decent work and climate action, followed by education, gender equality and the cluster of industry-innovation-infrastructure.

PwC 2019 Global SDG Challenge

Figure 1 Industry selection of SDGs

	Global total	Consumer markets	Energy utilities & resources	Financial services	Industrial manufacturing & automotive	Technology, media & telecoms
1	8 DECENT WORK AND ECONOMIC GROWTH	8 DECENT WORK AND ECONOMIC GROWTH	13 CLIMATE ACTION	8 DECENT WORK AND ECONOMIC GROWTH	8 DECENT WORK AND ECONOMIC GROWTH	8 DECENT WORK AND ECONOMIC GROWTH
2	13 CLIMATE ACTION	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	8 DECENT WORK AND ECONOMIC GROWTH	13 CLIMATE ACTION	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	13 CLIMATE ACTION
3	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	13 CLIMATE ACTION	7 AFFORDABLE AND CLEAN ENERGY	4 QUALITY EDUCATION	13 CLIMATE ACTION	4 QUALITY EDUCATION
4	3 GOOD HEALTH AND WELL-BEING	3 GOOD HEALTH AND WELL-BEING	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	5 GENDER EQUALITY	3 GOOD HEALTH AND WELL-BEING; 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
5	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	6 CLEAN WATER AND SANITATION	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE		

Source: PwC, SDG Challenge 2019
Base: Companies that mentioned specific SDGs (737); Consumer markets (143), Energy, utilities & resources (167), Financial services (150), Industrial manufacturing & automotive (167), Technology, media & telecommunications (93)

Translating these ESG issues and SDG priorities into practice will require a few extra steps. To ensure they reap the long-term benefits of using the SDGs as a leading framework, investors need to think of the goals in both risk and impact terms.

A holistic framework for decision-making

The SDGs are an articulation of the world's most pressing challenges. How companies and markets grapple with these challenges will determine their long-term performance. The SDGs can thus support investors in understanding the global trends relevant to them, help them identify key risks and opportunities and translate those trends into investment and portfolio management decisions.

In a paper co-published with the UN Principles for Responsible Investment (UNPRI), PwC argued that the SDGs are a holistic framework for investment decision-making: they can serve as a risk compass and as a capital allocation guide.

Let's start with the risks. These are often a mix of regulatory, ethical and operational issues that can quickly become financially material to investors across industries and regions.

Committing to achieve the SDGs by 2030 will see governments introduce regulations and policies that will internalise previously unaccounted costs. This internalisation could translate to emission pricing, to taxation to address climate change, or to the introduction of emission standards for vehicles.

On the social front, the aspiration to create a just and equitable future for all will push governments towards the adoption of more precise laws in the space of business and human rights. The Dutch government offers a very recent example, with the Dutch Senate adopting the Child Labour Due Diligence Law just last May.

These regulatory changes are an important component of the overall risk landscape facing investors, as previously addressed in another article in this Spotlight series: 'Voorlopers zijn klaar voor wet- en regelgeving omtrent *duurzaamheidsverantwoording' (Spotlight 2019-4)*.

Spotlight 2019-4

But risk is hardly the only thing that should be on investors' mind as they start working with the SDGs. In fact, many investors also have a lot to gain. They can now choose from a wide range of products and companies that can deliver social and financial return. Some examples include:
- clean technology and energy stocks in listed equity;
- clean and inclusive tech companies in private equity and venture capital;
- low-carbon innovation and infrastructure;
- green bonds and social impact bonds;
- green real estate and sustainable forestry.

Family offices are among the investors that have already taken some interesting first steps in combining the risk and opportunity lenses.

Family offices
The SDGs pave the way for a smooth transition to the next generation

Millennials and Generation Z want to invest in a customised way that aligns with their values and beliefs, but without sacrificing performance.

'One of the key challenges for family offices is ensuring a smooth transition to the next generation. We increasingly see that the younger generations firmly believe that social and environmental impacts are as important as financial returns. For this reason, we started to check and explore alignment to the SDGs when helping them identify and select new investment opportunities and making up their family constitutions.'
Niels Govers, partner Family Business PwC

The SDGs also bring opportunities to reach relatively untapped markets and geographies, and to develop innovative financial products there. We see examples of this trend in development finance portfolios, such as the Dutch Good Growth Fund.

Blended finance
Government-owned impact portfolios have become attractive to private investors

Development finance used to be a government instrument to transfer funds to poorly performing markets, often thanks to a mandate to do good rather than out of commercial viability. In recent years, things have started to change. One example is the **Dutch Good Growth Fund (DGGF)**, a 700-million-euro impact fund owned by the Dutch Ministry of Foreign Affairs and managed by a consortium of PwC and Triple Jump.

Dutch Good
Growth Fund

DGGF invests in private equity firms and financial institutions that in turn fund small and medium-sized (SME) companies in fast-growing markets like India, Colombia and Kenya.

Many of these SMEs are exactly the innovative companies that can deliver financial return and contribute to the SDGs at the same time. They work on new technologies like AI applied to agriculture, or fintech and online banking for rural communities, or education and healthcare solutions for the growing middle class in the Middle East and Africa.

Companies like these are interesting to private investors too – and it is no surprise that many 'normal' investors often join DGGF in these deals.

A common language to communicate your impact

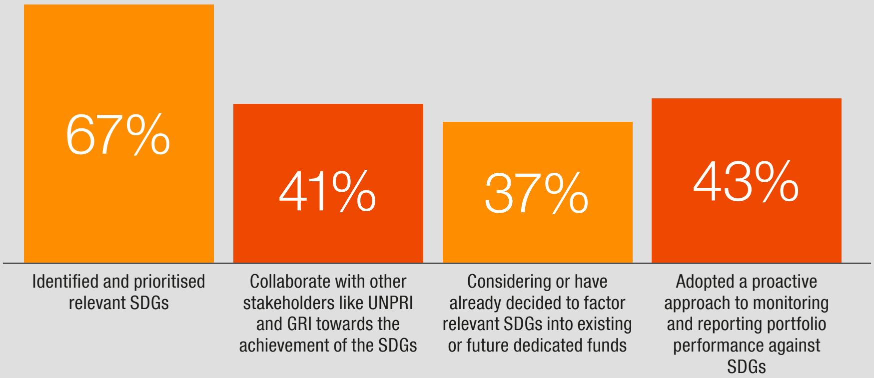
Many companies and investors are increasingly interested in reporting on the positive impact they generate through their products or – in the case of the financial sector – through their allocation and portfolio management choices. Assurance providers and reporting advisors have noticed a common challenge in this field. While ESG risk management has become slightly more robust, investors still struggle to agree on a common threshold around impact. The SDGs and underlying targets can help investors answer these questions and address this misalignment. Applying the common language of the SDGs helps to communicate impact messages more clearly in many settings, and certainly in external reporting. Several industry bodies and standard-setters – like De Nederlandsche Bank or the UN Development Programme (UNDP) – have worked to create guidance and reporting standards around the SDGs and impact, with some of the guidance and standards being specific to investors.

Private equity
Private equity houses communicate their SDG priorities

PwC's Private Equity Responsible Investment Survey 2019 shows that a growing number of private equity houses, particularly in Western Europe, integrate ESG and impact concerns in their investment decisions. The top ESG issues in private equity are climate and human rights – both central to achieving the SDGs.
43% of the private equity houses surveyed said that they have adopted a proactive approach to monitoring and reporting performance against the SDGs.

Figure 2 Maturity of approach to the SDGs

Q: What actions, if any, is your firm taking to contribute to the achievement of the SDGs? (select as many options as apply)



Source: PwC PE Responsible Investment Survey 2019
Base: All respondents (162)

Conclusion

The SDGs are moving up the corporate and investor agenda. With clear targets around equality, climate, access to work and education, smart cities and infrastructure, the SDGs can be used as a risk compass and asset allocation guide. They capture the full range of ESG risks and opportunities that investors and companies need to bear in mind to be future-proof.

All investors have a chance to seize the market opportunities presented by the goals, and all companies have a chance to move quickly to tackle the goals and attract more capital.