Cammillion

Investing towards UN Sustainable Development Goals (SDG) – Creating Optimal Portfolios and Measuring Impact

Executive summary

The UN Sustainable Development Goals (SDGs) have been accepted as the universal benchmark for sustainability. To help investors understand how their money contributes to the broader priorities of global society, this paper focuses on: 1) aligning portfolios towards SDG; 2) assessing the impact of stocks or portfolios on the 17 SDGs; and 3) allocating capital to thematic investments.

Firstly, companies were found to primarily engage with SDGs that aim to "avoid harm", rather than with SDGs that seek to "do good". Although avoiding harm—or limiting negative externalities—is necessary for sustainable development, it is insufficient for achieving the objectives that the SDGs represent. By explicitly including SDGs in our portfolio optimisation, we propel SDG considerations into the forefront of portfolio construction and allow investors to align their capital to specific SDG and reward firms that prioritise SDGs. We also discuss and describe how we capture the substance of the SDG indicators in a corporate setting.

Secondly, to report the SDG impact and make it comparable across firms and over time, we propose our SDG scorecard, leveraging on Refinitiv's ESG data. By using Refinitiv's well established ESG data and report our computation approach in an open and transparent manner, we mitigate the confusion caused by a plethora of alternative and competing measurement frameworks; and allow others to replicate our measurement. To measure impact, we assess: 1) if the firm has achieved that SDG based on its ESG scores; and 2) the degree of adherence of all 17 SDGs.

Lastly, we recognise that SDG investing should be overlaid with thematic ideas such as ageing society. This allows investors to ride on long term themes and potential outperformance. Our approach can also cope with Shariah investing.

Our SDG investing approach covers the full investing cycle of measurement, portfolio construction (portfolio optimisation, risk management, transaction costs minimisation), impact and performance attribution. Further understanding can be obtained from our thematic factor based portfolio construction, risk management, transaction costs minimisation and wealth management papers; and our sustainability and Shariah investing papers.

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