

Investing towards UN Sustainable Development Goals (SDG) – Creating Optimal Portfolios, Measuring Impact & Delivering Outperformance

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 seventeen SDGs; 3) overlaying SDG objectives with thematic investments for potential outperformance; and 4) showcasing sustainable investing in practice.

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 the implementation challenges and describe how we capture the substance of the SDG indicators in a corporate setting.

Secondly, to assess the firm’s SDG impact and make it comparable across firms and over time, our SDG scorecard leverages on Refinitiv’s ESG data and the framework developed by the Global Reporting Initiative (GRI), the UN Global Compact, and the World Business Council for Sustainable Development (WBCSD). 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) the degree of adherence of all 17 SDGs; and 2) if the firm has achieved that SDG based on its SDG scores.

Thirdly, we recognise that investors may want to overlay thematic ideas (e.g. ageing society) to ride on long term themes and capture potential outperformance. Our approach allows this and can also cope with Shariah investing.

Lastly, to showcase how SDG investing can be deployed in practice, we demonstrate several cases. Our approach and platform was the [Principles for Responsible Investment \(PRI\) Awards 2021](#) finalist. The PRI is the London based global proponent with over 4,000 signatories managing over USD 100 trillion.

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