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Securing financial returns through positive impacts

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1.2 INTERVIEW

Responsible investment 3.0 - Using impact investing and Sustainable Development Goals as a framework for institutional investors

Interviewer

Noel Hillmann,
Managing Director,
Clear Path Analysis

Interviewee

Marcel Jeucken,
Managing Director
Responsible Investment,
PGGM Investments

SUMMARY

- *Large numbers of ESG investments have developed sufficient and attractive track records to make them suitable for institutional investors*
- *Mainstream investors already invest in such a way that they could be rated as ESG focussed*
- *ESG investments are often held back by scale and cost of due diligence comparable to returns*
- *Investors need often consider the financial trade-offs, through higher than average volatility, lower short-term performance or ease of cash generation*

Noel Hillmann: Which Social Development Goals (SDGs) have the best chance of being achieved within an investment framework?

The campaign group ShareAction, in a recent study of 52 institutional investors, identified three of the UN's Principles for Responsible Investing 'Social Development Goals' as having the most potential to help meet their respective organisation's investment objectives. These were:

- **Goal 8 – Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all**
- **Goal 9 – Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation, and**
- **Goal 13 – Take urgent action to combat climate change and its impact**

Would you agree that these are the most important and in your view, which Social Development Goals (SDGs) have the greatest chance of being achieved within an investment framework?

Marcel Jeucken: As the SDG's are a broad defined framework, not all of them are equally suitable for inclusion in an investment framework. In 2016 we worked together with APG [the Dutch pension plan] to create a framework that identifies investment opportunities for institutional investors within every SDG. Our framework indeed shows that some SDG's have more potential than others.

Our current 'investments in solutions' programme was launched before the SDG's, and therefore is focussed on four topics: health, water, food and climate. These are areas that are connected with SDG's 2, 3, 6, 7, 9 and 11. Important to mention is that, for our investments in solutions we focus on products and services that provide solutions to current challenges; so the 'What' rather than the 'How' of companies. For all these investments, we look for market rate financial returns as well as the tangible impact being made to foster a sustainable world.

Because we focus on solutions, SDG 8 is not one of the areas where we find we can make a difference. Every investment in a way contributes to jobs and economic growth and we find this criterion not restrictive enough.

Noel: Can you outline the main barriers to investors supporting the goals?

Marcel: The barriers for institutional investors are mainly scale and a limited track record of many projects/products that provide solutions for our current problems. For us as a pension fund manager, an additional challenge is to find investments that make a positive impact and provide market-rate returns on our investments.

Noel: We know institutional investors are expected to play a vital role in advancing the SDGs by encouraging businesses to adopt behaviours and conduct themselves in ways that indirectly support them. But how specifically are investors supporting these goals?

Marcel: We support these goals in various ways:

1. For every investment, across all asset classes, we conduct a thorough ESG analysis focussed also on business and conduct
2. We engage actively with companies in our portfolio that do not act in a way that we deem 'responsible', and
3. We signal to the market which companies we think are acting 'responsibly' by enlarging our positions in those companies.

Noel: The research also indicated that awareness of the goals among many investors is not high and work is needed to ensure the framework of the goals is seen as relevant by the world's major institutional investors. Were you of a similar opinion when you first considered this? Can the targets effectively guide implementation?

Marcel: We find the SDG's a very powerful framework for investors to focus their investments towards a better world. As the goals are very broadly defined we feel that every actor and investor should find their own focus within the SDG's and chose topics where they believe they can and should make a difference.

In addition, it is essential for the advancement of the SDG's as a framework that we find ways to measure our impact on the SDG's. This is the next step in advancing impact investments and making the efforts of companies as well as investors measurable.

In the Netherlands, we notice that the SDG's are increasingly known in the financial sector. There have already been various sector-wide initiatives around the realisation and the measurement of 'impact' for investments in the SDG's. PGGM is currently chairing a sector-wide initiative – under the auspices of the Dutch Central Bank – for harmonisation of SDG impact measurement for investments.

Noel: Many have found a lack of connection between the 17 goals, increasing the risk of overlap between goals and situations where one goal would advance at the expense of another. How much of an issue do you consider this to be?

Marcel: In deciding to make an investment in solutions, we not only take the positive social contribution into account, but the potential negative effects as well. For example, a company may make a positive contribution to the food theme, but have an adverse impact on climate. In that case we as much as possible net out the positive and negative effects to determine whether the investment ultimately contributes to a solution.

Noel: Thank you for your comments.

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