

Sustainable Development Goals 1-2-3

The RBC Global Equity team

An increasing number of investors are caring not just about the returns on their investments but how those returns have been generated. They want to know that their capital is not being used to support business activities that do not align with their personal values. For many this will involve avoiding certain business activities, but for others it may involve going further than ‘doing no harm’ but trying ‘to do good’. This is about making a positive difference; having a positive impact.

This view is gaining a bigger profile and for many investors, such as ourselves, it is obvious that a business that does not make a positive impact is unlikely to be a sustainable one. Thinking about this impact is therefore an essential part of any business appraisal.

The development of the United Nations Sustainable Development Goals (SDGs), which came into effect in early 2016, is an important contribution to this.

How useful are the SDGs for investors

The SDGs are gaining recognition worldwide as nations and corporations begin to prioritise the areas that are most applicable to them. Using the goals as a common framework will enable comparison, and increase transparency around progress towards achieving them, at the global, national and sub-national levels. As well as helping society to tilt in favour of a more sustainable future, they may also prove to be a valuable tool for those investors who believe that sustainable businesses make better long-term investments.

The SDGs are comprehensive and have a universal appeal which makes them relevant across different sections of society. This also means, however, that a degree of contextual interpretation will be required for companies and investors to apply them. For example, each SDG is supported by a number of subsidiary goals which provide further granularity. Some of these relate more to public policy rather than enterprise, such as providing legal identity for all, including birth registration (Goal 16.9), which is unlikely to be attainable by enterprise alone. Other goals have greater relevancy and where there is alignment with a firm’s purpose, the SDGs can provide a framework whereby purpose can be turned into Key Performance Indicators to help companies and investors assess impact.

Scope and interpretation

Measurement, however, can be far from straightforward. Traditional financial reporting copes best when there are discrete values for changes in financial capital. When it comes to sustainability and impact, however, investors often need to consider pre-financial forms of capital. For example, diversity can add resiliency to human capital

but is hard to find in the numbers. Environmental issues can be especially problematic in this regard as traditional accounting would only recognise the cost of pollution prevention but not the benefit. In essence these are externalities that are not being priced by the market.

Pricing would be helped by disclosure and in many ways the SDGs highlight areas ripe for improvement. There are distinct parallels with the topic of carbon. Several years ago carbon data was patchy and, where available, was often generated using different underlying assumptions. Today, there remain some very substantial challenges, especially around measuring the carbon impact of using goods and services, but the number of companies providing carbon data is steadily increasing, similarly, it may be the case that companies’ reporting around SDGs will continue to develop over time. As investors and owners we have an active part to play in this, but until that time problems of disclosure and measurement will likely inhibit investors from deriving a quantitative assessment of how a company complies with each SDG. This does not mean, however, that investors should disregard SDGs. To the contrary, we feel they are an incredibly useful addition to the discussion. But they are a tool and, like any tool, they need to be used in the right way to get the most out of them.

The SDGs and RBC Global Equity Team

We favour a contextual approach above a quantitative one, especially when SDGs are assessed through the lens of a firm’s purpose. Purpose provides meaning and direction and can be a way in which a firm can achieve alignment across all its stakeholders to better achieve its goals. Without purpose a firm is unlikely to be either sustainable or have a positive impact. RBC has its own purpose “to help clients thrive and communities prosper” and we have also considered our team purpose: “to make a positive difference to our clients, to the companies we own and to society as a whole through responsible long-term investment”.

We continue to experiment with how best to communicate the adoption and targeting of SDGs by investee companies. Our expectation is that although our portfolio may change, the relevancy of SDGs for each company will be set by the company’s purpose and this is likely to evolve only slowly with each company’s business model.

In the graphic on the third page¹ we show whether or not each investee company has officially committed to the SDGs, together with the goals that the company discloses are being addressed.



Background to the creation of the SDGs

In 2015 leaders from 193 countries around the world came together to tackle the challenges of the future and what confronted them was far from comforting. In all parts of the world people faced the prospect of famine, drought, war, poverty and disease, but it was apparent that the resources needed to alleviate the worst effects of these disasters were not being shared equally. A common vision for a better future began to take shape and the Sustainable Development Goals were created. The Goals are a set of 17 internationally-agreed targets that imagine a future – the year 2030 – free from poverty and hunger, and safe from the worst extremes of climate change. The creation of the SDGs resulted from 83 national surveys and engaged seven million people over three years. They are listed at the bottom of this page.

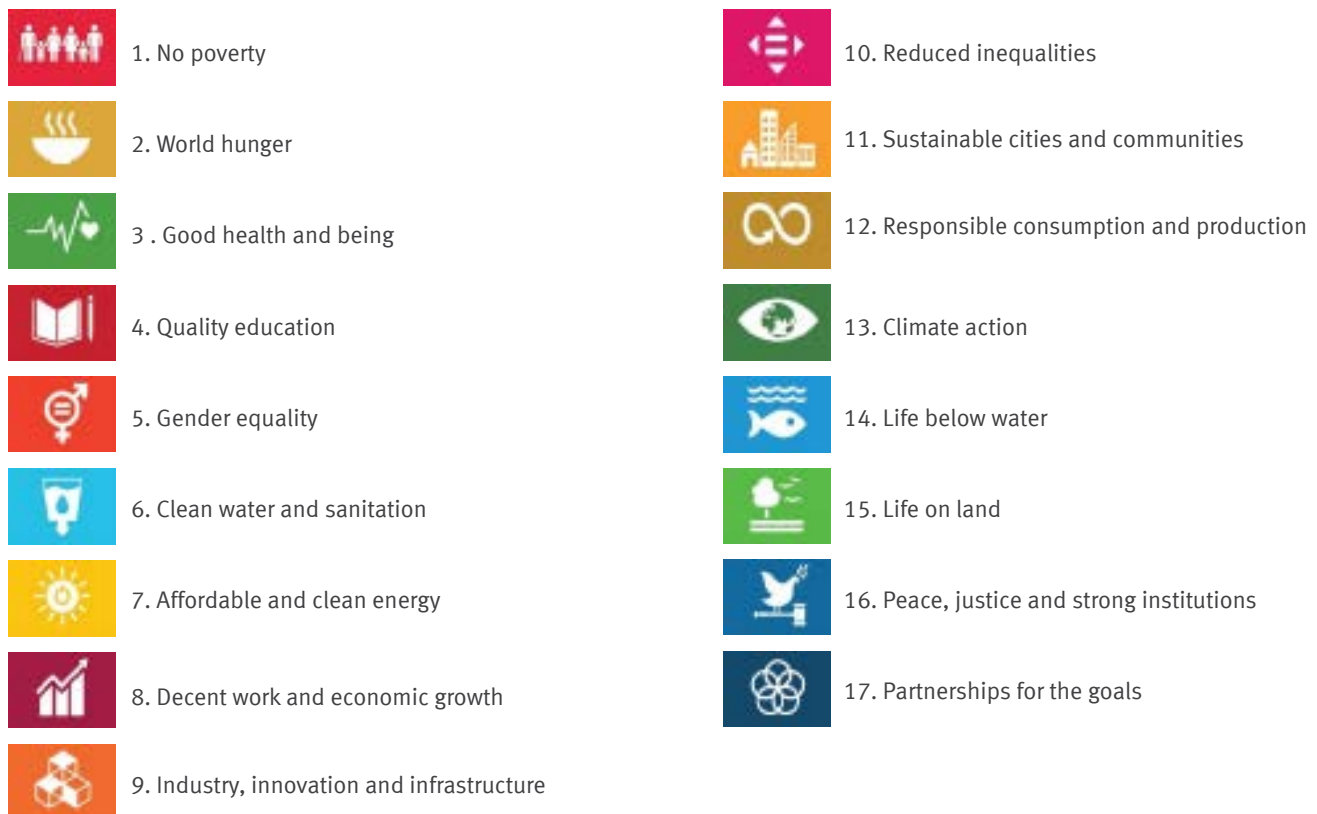
The Sustainable Development Goals Report of 2018² stated that “The 2030 Agenda for Sustainable Development provides a global blueprint for dignity, peace and prosperity for people and the planet and, three years into the implementation of the Agenda, countries are turning this shared vision into national development plans and strategies.”

The report also highlighted the progress being made in many areas, for example:

- Since 2000 in sub-Saharan Africa, the maternal mortality rate has declined by 35%; the under-5s mortality rate has dropped by 50%
- In South Asia the risk of a girl marrying in childhood has declined by over 40%
- More than 100 countries have sustainable consumption and production policies and initiatives

There’s still a lot of work to do, however, to meet the Agenda’s goals and targets by 2030. This is especially true for the most disadvantaged and marginalised groups:

- Less than half of all children and adolescents meet minimum standards in reading and maths
- In 2015, 2.3 billion people lacked basic levels of sanitation and 892 million practised open defecation
- In sub-Saharan Africa, the HIV incidence in women of reproductive age is 10 times the global average



	Official Commit: SDGs	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
InterContinental Hotels	Yes	No	No	No	No	No	No	No	No	Yes	Yes	Yes	Yes	No	No	No	No	Yes
Mohawk Industries	Yes	Yes	Yes	No	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Paddy Power Betfair	No	No	No	No	No	No	No	Yes	No	Yes	No	No	No	No	No	No	No	No
Naspers	No	No	No	No	No	No	No	No	No	No	No	Yes	Yes	No	No	No	No	No
The TIX companies	No	Yes	Yes	Yes	Yes	Yes	No	Yes	No	Yes	Yes	Yes	Yes	No	No	No	No	Yes
Amazon	No	Yes	Yes	Yes	Yes	Yes	No	Yes	No	Yes	Yes	No	No	No	Yes	Yes	No	Yes
Anheuser-Busch InBev	Yes	No	No	No	Yes	No	Yes	Yes	Yes	Yes	No	No	Yes	Yes	Yes	Yes	No	Yes
Unilever	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
The Estée Lauder	No	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes
EOG Resources	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No
SVB Financial	No	No	No	No	No	No	No	Yes	No	No	No	No	No	No	No	No	No	No
Market Axess Holdings	No	No	No	No	No	No	No	Yes	No	No	No	No	No	No	No	No	No	Yes
First Republic Bank	No	No	No	No	No	No	Yes	Yes	No	No	No	No	No	No	No	No	No	Yes
HDFC Bank	No	Yes	No	No	No	No	Yes	Yes	No	No	No	No	No	No	No	No	No	No
Blackstone Group	No	No	No	No	No	No	Yes	Yes	No	No	No	No	No	No	No	No	No	Yes
Citigroup	Yes	No	No	No	No	No	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
AIA Group	No	No	No	No	Yes	No	No	No	Yes	No	No	Yes	Yes	No	No	No	No	Yes
St. James's Place	No	No	No	No	Yes	No	No	No	No	No	No	No	No	No	No	No	No	Yes
United Health Group	No	No	No	No	Yes	No	Yes	Yes	No	No	Yes	Yes	Yes	No	No	No	No	Yes
Roche Holdings	Yes	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	No	No	Yes	Yes	Yes
Incyte	No	No	No	No	Yes	No	No	No	No	No	No	No	No	No	No	No	No	No
Fortive	No	No	No	No	No	No	No	Yes	No	No	Yes	Yes	Yes	No	No	No	No	No
Danaher	No	No	No	No	No	Yes	Yes	No	No	No	No	No	No	No	No	No	No	No
Nidec	Yes	No	No	Yes	No	No	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
Deutsche Post	Yes	No	No	No	No	No	Yes	Yes	No	No	Yes	Yes	Yes	No	No	No	No	Yes
Mitsumi Group	No	No	No	No	No	No	Yes	Yes	No	No	Yes	Yes	Yes	No	No	No	No	No
Alphabet	No	Yes	No	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	Yes	Yes	Yes
Gartner	No	No	No	No	No	No	Yes	No	No	No	No	No	No	No	No	No	No	Yes
Microsoft	No	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Taiwan Semiconductor Manufacturing	Yes	No	No	No	No	Yes	No	No	Yes	Yes	No	No	Yes	No	No	No	No	No
Croda International	No	No	No	No	No	No	No	No	No	Yes	Yes	Yes	Yes	No	No	No	No	No
Rio Tinto	Yes	No	No	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes

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Jeremy is part of the Global Equity Team at RBC Global Asset Management based in London. The team runs high-conviction portfolios investing in select global companies that have strong competitive dynamics, including environmental, social and governance credentials. Jeremy has over 20 years of investment experience and is a qualified chartered accountant.



Source: ¹RBC Global Asset Management, as at 30/06/2018. ²The Sustainable Developments Goals Report 2018. <https://unstats.un.org/sdgs/report/2018>.

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