



# THE SDGs AND SUSTAINABLE IMPACT: A PRACTICAL GUIDE FOR INVESTORS

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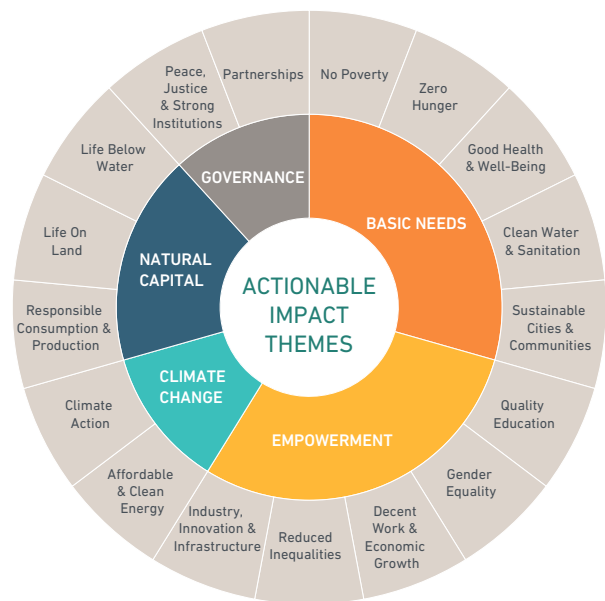
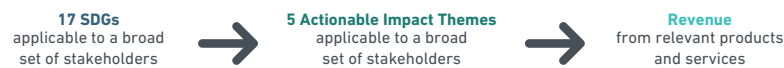
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# THE SDGs AND SUSTAINABLE IMPACT A PRACTICAL GUIDE FOR INVESTORS

Investors across the institutional, wealth, and retail spaces are increasingly expressing interest in impact or the UN Sustainable Development Goals (SDGs). This Executive Summary Screening Guide is aimed primarily at investors looking to measure their public equity portfolios' alignment with the UN SDGs, define an eligible universe of publicly traded companies for impact-themed investment, or develop a public equity fund with an impact or SDG focus.

## INVESTING FOR IMPACT:

Until 2015 or so, impact investing was largely limited to small-scale, private equity strategies. While this type of investment has continued to grow, some investors have sought to apply an "impact lens" across multiple asset classes – investing for impact with the aim of aligning public equity and public debt portfolios with sustainable solutions to social and/or environmental challenges.



Source: MSCI ESG Research

## THE SDGS AS INVESTMENT FRAMEWORK:

The United Nations Sustainable Development Goals (SDGs), launched in 2015, and describe 17 goals aimed at solving serious global problems by 2030. The SDGs have caught on with many audiences, including investors, as a framework to identify relevant problems and appropriate solutions. MSCI ESG Research's Sustainable Impact Metrics revenue data is based on the problems defined by the SDGs. We have identified five actionable themes that address these problems.

## COMMON USE CASES:

The most common use cases for MSCI ESG Sustainable Impact Metrics and data we have observed among our clients include portfolio reporting and identifying companies for the purposes of universe definition, stock selection, and/or product creation.

### 1) Set parameters

The first step is to determine the objective and approach for measuring exposure to Sustainable Impact themes. For example, whether to include only key areas of interest or all themes and solutions relevant to the SDGs. Secondly, whether to require a minimum revenue threshold and if so, at what level. And lastly, whether to require minimum ESG standards for qualifying companies in addition to revenue and theme requirements.

### 2) Company identification

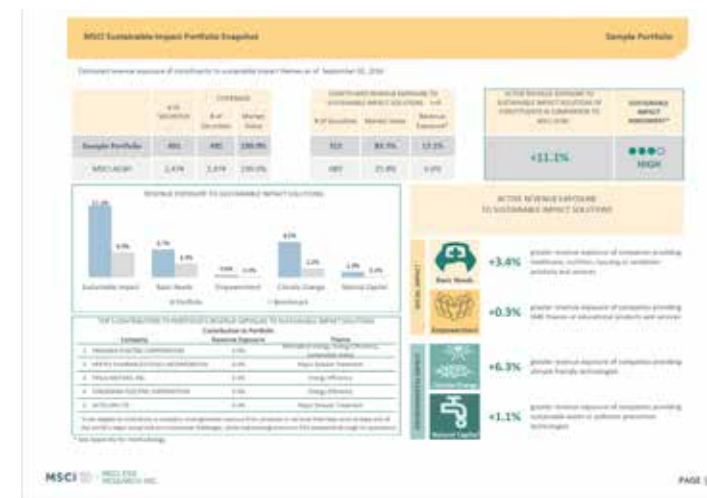
The size of the resulting opportunity set will be based on decisions made regarding themes, minimum revenue thresholds, and minimum ESG standards. For a highly focused approach that demands high revenue percentages and minimum ESG standards, relatively few companies will qualify, while less stringent requirements will result in more opportunities. As of August 2017, there were 1,077 companies or 53% of companies in the MSCI ACWI Index with any revenue exposure to Sustainable Impact Themes including Climate Change, Natural Capital, Basic Needs, and Empowerment.

### 3) Portfolio Reporting

Investors wishing to calculate portfolio exposure to SDG solutions may find MSCI's Sustainable Impact Portfolio Snapshot tool helpful. The tool allows for the comparison of a portfolio against a benchmark determined by the user. The results show the portfolio's revenue exposure to sustainable impact solutions by theme, highlights key companies, and calculates the actual dollar figures of revenue that would be associated with a USD 1 million investment. Additional contextual data about carbon emissions, controversy exposure, and other aspects of net impact is also included.

### 4) Universe Definition, Stock Selection, Product Creation

An asset manager looking to create an impact or SDG themed fund might start with the constituents of an index such as the MSCI ACWI Index and identify all companies with a minimum of 20% or even 50% of revenues from SDG solutions, with or without additional requirements for meeting minimum ESG standards, either to define eligible investments or as a starting place for additional research.



Sample Illustration of Partial Portfolio Reporting Results

For the full guide, please contact us at [esgclientservice@msci.com](mailto:esgclientservice@msci.com) or for more information, visit [msci.com/esg-sustainable-impact-metrics](https://msci.com/esg-sustainable-impact-metrics).

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MSCI's clients include 99 of the top 100 global asset managers, as ranked by P&I<sup>1</sup>.

<sup>1</sup> Based on latest P&I AUM data and MSCI clients as of Sept, 2017

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