

## Engaging with SDGs: five key takeaways from Global Goals Week



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Many delegates used Global Goals Week to call for better corporate reporting in relation to the UN Sustainable Development Goals (SDGs) and greater collaboration between stakeholders. But, as the lack of standardised data on SDG alignment poses a challenge to investors, we explain how our engagement efforts can inform investment decisions.

### **"We are not moving fast enough."**<sup>1</sup>

So said UN Secretary-General António Guterres as delegates – including political leaders, NGOs, asset owners and managers, commercial banks, development institutions and policy makers – gathered in New York for the [UN Global Goals Week](#) from 24-28 September.

The pace of progress to meet the UN SDGs has been insufficient, and with fewer than 5,000 days remaining to the deadline of the 2030 Agenda for Sustainable Development, we must respond to the commitments made to deliver tangible action and impact.

### **The SDG reporting challenge**

Today, asset managers are facing a challenge: there is an ever-increasing amount of data on environmental, social and governance (ESG) risks and SDG alignment available from research providers.

At the North America Sustainable Investment Forum during Global Goals Week, asset managers voiced their concerns about the quality of disclosed data, the multitude of frameworks and taxonomies through which companies are asked to report, the difference in companies' reporting and modelling styles, and the subjective nature of ESG scores. It is increasingly better quality data – rather than a greater quantity – that is needed. Meanwhile, at the UN Global Compact Leaders Summit, calls were made by business leaders to improve transparency: investors, alongside their advisory firms, were urged to drive better reporting, by voting against companies that do not provide sustainability reports, and to ensure full supply-chain

traceability. According to KPMG, 40% of the world's 250 largest companies currently reference the SDGs in their corporate reporting, while just 20% report on any of 169 SDG targets<sup>2</sup>.

The lack of standardised data on sustainability matters means that investors must conduct further analysis to obtain meaningful information about companies' operations and their exposure to the SDGs. Indeed, the absence of granular and reliable data is, in part, why face-to-face engagement with corporate boards and executives is so important.

### **Meeting investors' needs on SDG reporting through engagement**

The Hermes SDG Engagement Equity Fund aims to generate attractive investment returns and positive social and environmental impacts by investing in companies with strong potential to improve through engagements focused on the SDGs. Our SDG-driven engagement enables us to gain context, provides a broader view of a company's culture and operations, and forms a potent force for meaningful change. We encourage companies to be bold and imaginative when considering the relevance of the SDGs and, in turn, establishing what they can do to contribute towards their delivery.

But, in the absence of global standardised reporting, specifically developed for the purpose of reporting on the SDGs and thereby, their measurement and a company's subsequent action, how can our engagement efforts help investors make informed investment decisions?

<sup>1</sup> "Companies 'a driving force' in fostering peace, pushing governments to assume climate change commitments, Secretary-General tells Private Sector Forum," published by the UN on 24 September 2018.

<sup>2</sup> "How to report on the SDGs: What good looks like and why it matters," published by KPMG in February 2018.

**1 Become part of the solution:** As an asset manager, we must help companies measure, manage and disclose their exposure to the SDGs in a way that is feasible to them, and importantly, useful to investors. This means taking a holistic view of a company's touchpoints with the SDGs, looking beyond its products and services to its direct operations and extended supply chain. There is also a need for greater collaboration between stakeholders. Our [partnerships with the CDP initiative](#), formerly known as the [Carbon Disclosure Project](#), and other environment-focused NGOs, are helping us improve environmental disclosures. This is evident in our engagement plans with railroad company Genesee and Wyoming and tank barge operator Kirby Corporation, both of whom have begun the process of providing meaningful disclosures to investors. Furthermore, the report recently published by the Global Reporting Initiative and the UN Global Compact *Integrating the SDGs into Corporate Reporting: A Practical Guide* helps companies of all sizes to prioritise SDG targets to act and report on, deterring them from selecting SDGs that are easy to address<sup>3</sup>. What's more, to produce useful SDG reporting, companies must broaden the scope of the impacts they measure, consider their ability to reduce harm, and create a positive societal impact.

**2 Engage the unengaged:** At Hermes, we engage in three ways:

- Direct engagement with portfolio companies: we have met with and have regular phone conversations with all of our portfolio companies.
- Collaborations with other entities: we are members of, among other initiatives, Climate Action 100+, the International Corporate Governance Network (ICGN), and Farm Animal Investment Risk and Return (FAIRR).
- Public policy engagement: Hermes supported the California's Diversity Bill, which was signed by Governor Jerry Brown in recent days. It mandates that all publicly traded California companies have at least one woman on their boards by the end of 2019.

But, it is also important to engage with those that do not share our ethos. Last week, two chief executives that are not focused on achieving the SDGs – one from an energy company, the other from a coal manufacturing group – participated in a seminar attended by investment analysts rather than advocates. A multi-faceted, robust – and at times, confrontational, conversation ensued. While our engagements aim to generate long-standing conversations and achieve change, this seminar highlighted that investors are well-served by engaging with representatives from all types of organisations.

**3 Create value:** Corporate responsibility and sustainability reports must go further than building the reputations and brands of businesses – they must be credible, reliable, relevant and strategic, and contain the right information for the right people. For example, long-term investors increasingly want to know the contribution that a company makes in supporting the SDGs and the effects that a company has on achieving the SDG targets. This data must be robust, relevant and reliable. At Hermes, we encourage companies to conduct a stakeholder materiality analysis. We believe it is important for companies to think about the role they can play in sustainable development, identify the most important issues to their key stakeholders and seek to make a tangible and positive impact across the breadth of their value chain. For example, if CO<sub>2</sub> emissions are

a material risk for a company, we seek CO<sub>2</sub> reporting and business-specific emission-reduction targets. Similarly, as every company employs people and operates within communities, disclosing and quantifying gender diversity, employee training and development and supplier diversity practices in its sustainability report is also important.

**4 Catalyse impact:** During the Sustainable Investment Forum, not-for-profit organisations emphasised that investors have a significant influence on companies. Although non-profits and think tanks generally lay the groundwork on ESG policy engagement with companies, investors play a crucial role in catalysing the shift in companies' behaviours and achieving the SDGs.

**5 Consider farm reform:** The commitment to reduce greenhouse-gas emissions has been a key component of governance engagements for many years. The investment community, for the most part, concentrates its efforts on engaging on electricity generation and carbon emissions. [Agriculture rarely features in climate change debates](#), but last week it commanded UN delegates' attention. According to the US Environmental Protection Agency, agriculture – and the deforestation associated with it – contributes a combined 24% to global greenhouse-gas emissions – that's almost equal to the 25% attributable to power generation<sup>4</sup>. We are engaging with current holding Glanbia, a food-ingredients company, about the issue of farm-level emissions and its exposure to animal proteins, and specifically how it can shift towards non-dairy or non-meat proteins – a journey the company has already begun.

## The Hermes approach

Investors were urged to step up in their pursuit of achieving the SDGs during Global Goals Week. At Hermes, our SDG-driven engagement focuses on the full spectrum of a company's operations and strategy, providing opportunities to create meaningful and lasting societal impacts.

The UN Global Goals Week has reaffirmed the engagements that we are currently undertaking with our portfolio companies by highlighting the importance of catalysing impact, establishing collaborative partnerships and improving sustainability reporting in order to create value for investors and stakeholders. And given the lack of standardised data on SDG alignment, it is only through engagement that investors can really understand a company's impacts and achieve positive change.

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This document does not constitute a solicitation or offer to any person to buy or sell any related securities or financial instruments.

<sup>3</sup> "Integrating the SDGs into Corporate Reporting: A Practical Guide," published by the Global Reporting Initiative and the UN Global Compact in August 2018.

<sup>4</sup> "Global Greenhouse Gas Emissions Data," published by the US Environment Protection Agency on 21 March 2018.

## HERMES INVESTMENT MANAGEMENT

We are an asset manager with a difference. We believe that, while our primary purpose is to help savers and beneficiaries by providing world class active investment management and stewardship services, our role goes further. We believe we have a duty to deliver holistic returns – outcomes for our clients that go far beyond the financial – and consider the impact our decisions have on society, the environment and the wider world.

Our goal is to help people invest better, retire better and create a better society for all.

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#### Multi asset

Multi asset inflation

#### Stewardship

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