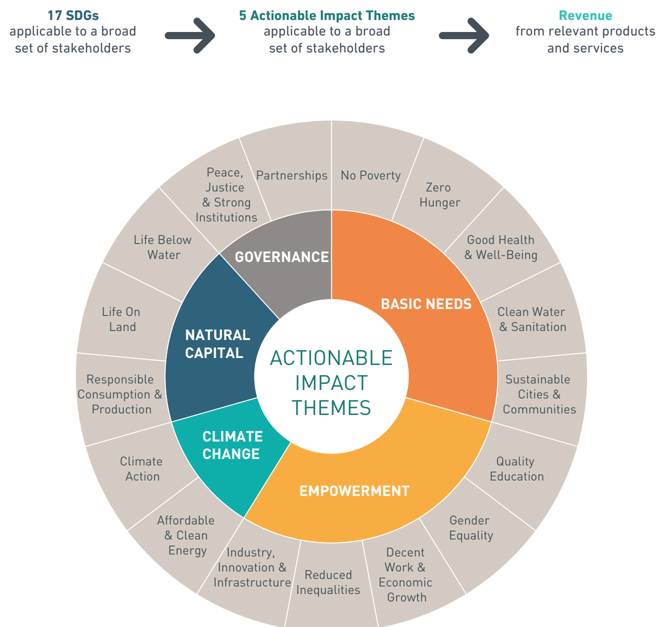
Investors focus on SDGs

The SDGs have provided an ideal framework for the growing number of investors looking to 'do the right thing'. But how can investors gauge the SDG impact of investments?

The launch of the United Nations Sustainable Development Goals (SDGs) in 2015 provided a framework that has been embraced by institutional investors whose objectives include positive social or environmental outcomes as well as financial returns.

In 2016, MSCI ESG Research adopted the SDG framework designed to help institutional investors align their investments to the SDGs, offering data on companies' revenue from relevant products and services. In the intervening year, we have observed a substantial uptick in interest in this area. Interest in investing for impact in public equities is illustrated by high-profile commitments from mostly European institutions such as APG and PGGM.[1] We have also observed growing interest in the US, including from retail brokerage providers and wealth management, and nascent interest in Japan.

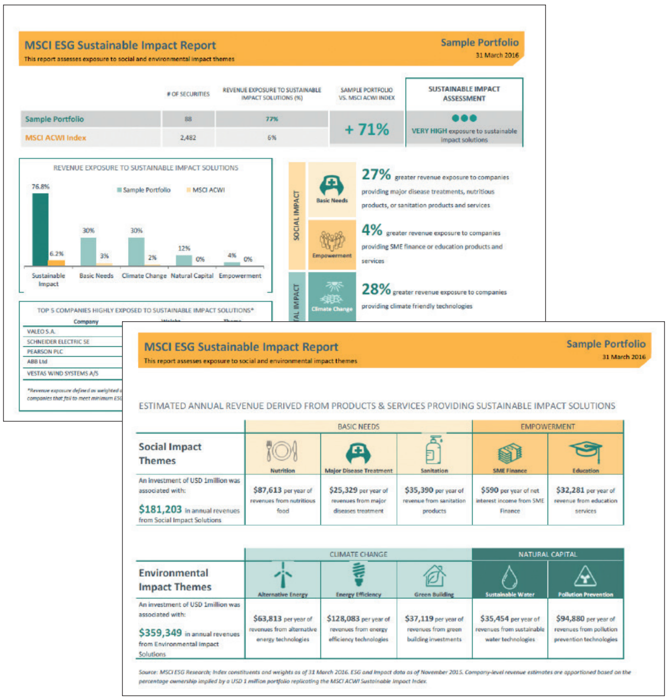
In our 2017 client consultation, *The State of Investing for SDG Impact Through Public Equities*, global investors we consulted said they were looking at impact and the SDGs because of both intrinsic beliefs ("it's the right thing to do") and external pressure ("stakeholders are asking about it").[2] For many investors, the first step is portfolio measurement and reporting: investors are increasingly seeking ways to measure portfolio alignment with the SDGs. Key challenges include lack of standard definitions, insufficient data, and measurability of outcomes. Some investors are also bringing impact objectives into their investment strategies, usually with a focus on companies' products and services as a vector for impact. Many impact funds are thematic, focusing on a single theme rather than SDGs overall.



In our 2017 client consultation, 91% of consultees were trying to measure portfolio exposure to SDG themes, to compare overall exposure to a benchmark, identify areas of highest or lowest exposure and communicate with clients, prospects and stakeholders.[3] 81% of consultees were bringing impact considerations into the portfolio construction process to identify an initial eligible universe of stocks for investment for impact (subject to additional ESG and/or financial criteria), pick stocks for an SDG- or impact-focused allocation or mandate, and create products for institutional and retail/wealth markets (38% of consultees).[4]

How MSCI can help

In 2016, MSCI ESG Research launched MSCI ESG Sustainable Impact Metrics to help institutional investors align their investments to the SDGs.



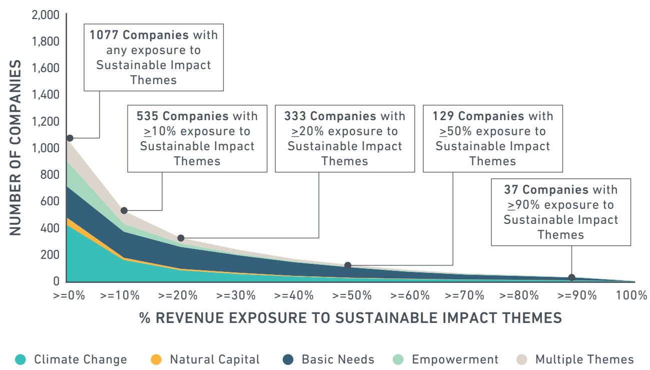
Product features:

- A tool to measure revenue exposure of a portfolio (per $M invested) to sustainable impact themes and compare it to a benchmark.
- Screens to identify sustainable impact companies that also meet minimum ESG standards.
- Granular data to measure revenue exposure to sustainable impact solutions on thousands of companies, and support actionable thematic allocations in line with the SDGs.

We used the Sustainable Impact Metrics tool to conduct research on approximately 2,500 companies (using MSCI ACWI Index as the reference universe):

- As of August 1, 2017, about 44% of the universe (1,077 companies) had some estimated revenue from SDG solutions as defined by MSCI Sustainable Impact Metrics methodology, though only about half of those (535 companies) derived at least 10% of revenue from solutions.
- At the 50% threshold, only about 5% of the universe (129 companies) qualified.
- About 22% of the universe had at least 10% of revenue from social or environmental solutions such as major disease treatments, affordable housing, alternative energy, or sustainable water solutions.
- Similarly, about 5% of companies derived 50% or more of revenue from SDG-aligned products or services. We consider these companies 'pure-play' solution providers from a public market impact perspective. ■

BREAKDOWN OF ESTIMATED SUSTAINABLE IMPACT REVENUES AS OF AUGUST 1, 2017



Reference universe: MSCI ACWI index

1, 2, 3, 4 The State of Investing for SDG Impact Through Public Equities, January 2018 MSCI ESG Research

ABOUT MSCI

For more than 40 years, MSCI's research-based indexes and analytics have helped the world's leading investors build and manage better portfolios. Clients rely on our offerings for deeper insights into the drivers of performance and risk in their portfolios, broad asset class coverage and innovative research. Our line of products and services includes indexes, analytical models, data, real estate benchmarks and ESG research. MSCI serves 99 of the top 100 largest money managers, according to the most recent P&I ranking.

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