

The UN Sustainable Development Goals (SDGs) Impact on Capital Allocation



- **Problem:** Our society and planet face a set of seemingly intractable long-term social and environmental challenges. While generally accepted as important societal concerns, many of these issues fail to attract the capital necessary in the short and intermediate term to remedy them over the long term.
- **Development:** Following the expiration of the Millennium Development Goals in 2015, the United Nations adopted the more ambitious set of Sustainable Development Goals (SDGs), which are intended to promote coordination among businesses, investors, policymakers and other stakeholders. Improved coordination should enable society to better address these long-term challenges.
- **Materiality:** The SDGs are impacting investors in a variety of ways. First, certain companies see these societal challenges as opportunities to bolster future revenue growth and improve their reputations as socially-conscious entities. Second, some asset owners are adopting the SDGs as a framework for effective long-term asset allocation. Third, investment managers are utilizing the SDGs to validate areas of long-term investment opportunity and to frame their dialogue with clients.
- **Impacted sector(s):** All.
- **Next steps:** Review the [United Nations Sustainable Development Goals](#), and especially [the sub-goals](#), and consider their impact/applicability/materiality within your coverage. When engaging with companies, discuss efforts they have made to incorporate the SDGs into their decision-making process.

ESG in Depth

August 2018

Problem

Our society and planet face a set of seemingly intractable long-term challenges. While generally accepted as urgent concerns, these challenges have often failed to attract the short and intermediate term capital necessary to impact them over the long term due to a lack of ownership and coordination within society.

Development

In an effort to catalyze support for these issues, the United Nations announced eight development goals in the year 2000 that addressed issues such as extreme poverty and environmental sustainability. The goals were met with mixed results, with the largest improvement being the reduction of extreme poverty resulting from the tremendous economic growth experienced by China. In 2015, these goals expired and the United Nations embarked upon a consultation program to identify a new set of goals. The replacement program is known as the Sustainable Development Goals. Comprising 17 goals and 169 targets (or sub-goals), the SDGs cover a wide spectrum of environmental and social issues. They officially went into effect in January 2016. Each goal and its set of targets can be found [here](#).¹

Materiality

The goals represent a distillation of the critical long-term issues facing society. Aggressive outreach to stakeholders has resulted in the SDGs being adopted in number of ways:

- **Companies:** Some companies are evaluating ways that meeting needs tied to the SDGs could drive future revenue opportunities. In other instances, companies may simply be promoting their alignment with the SDGs to drive reputational benefits or to improve employee recruitment and engagement.
- **Asset Owners:** Recently, several of the largest European pension funds have indicated they will begin utilizing the SDGs as a framework for more effectively allocating capital towards long-term investment opportunities. Dutch pension managers PGGM and APG have created a Sustainable Development Investments (SDIs) [taxonomy](#)² that categorizes each SDG target as investable or not investable. Investments (by industry) are outlined for each target that has been identified as investable.
- **Investment Managers:** Investment managers have been adopting the SDGs in a few different ways. While some have pointed to idea generation, most have used the SDGs as validation of company-specific revenue tailwinds that can increase investor confidence in the margin of safety within financial forecasts. Companies aligning themselves with these themes may also benefit from a level of multiple support as asset owners move to reallocate capital around these goals. Finally, SDGs can be an effective tool when communicating a holistic investment thesis to clients who are increasingly interested in measuring impact.

While the SDGs may not be a primary driver of your investment thesis for each security, they can be an excellent tool to bolster conviction. Review the SDGs and their targets, and the SDI taxonomy, to evaluate how businesses are addressing them and whether that impact is intentional or incidental.

¹ <https://sustainabledevelopment.un.org/topics/sustainabledevelopmentgoals>

² <https://www.apg.nl/pdfs/SDI%20Taxonomies%20website.pdf>

ESG in Depth

August 2018

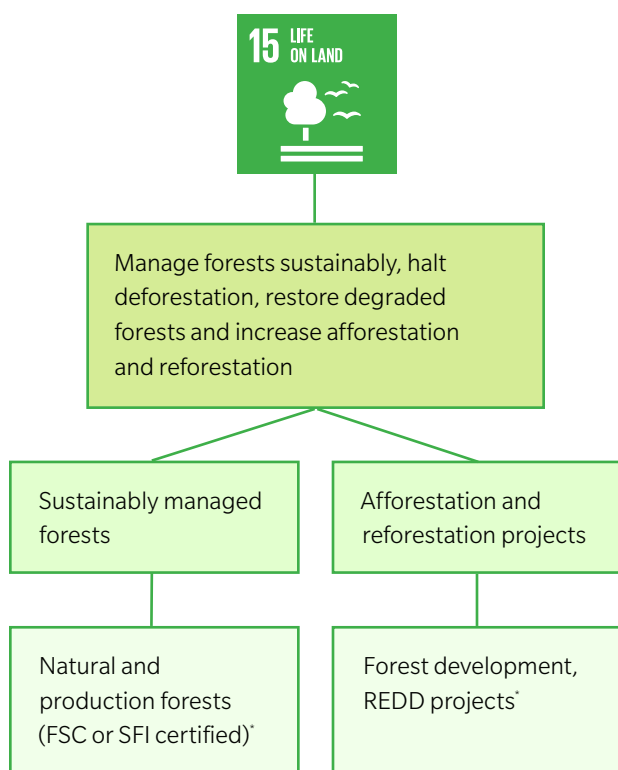
MFS examples

The following are examples of companies in MFS managed portfolios that are addressing Sustainable Development Goals:

Company A

Goal 15: Life on Land – Sub-Goal 15.2: Sustainable management of forests, halt deforestation, restore degraded forests and increase afforestation and reforestation.

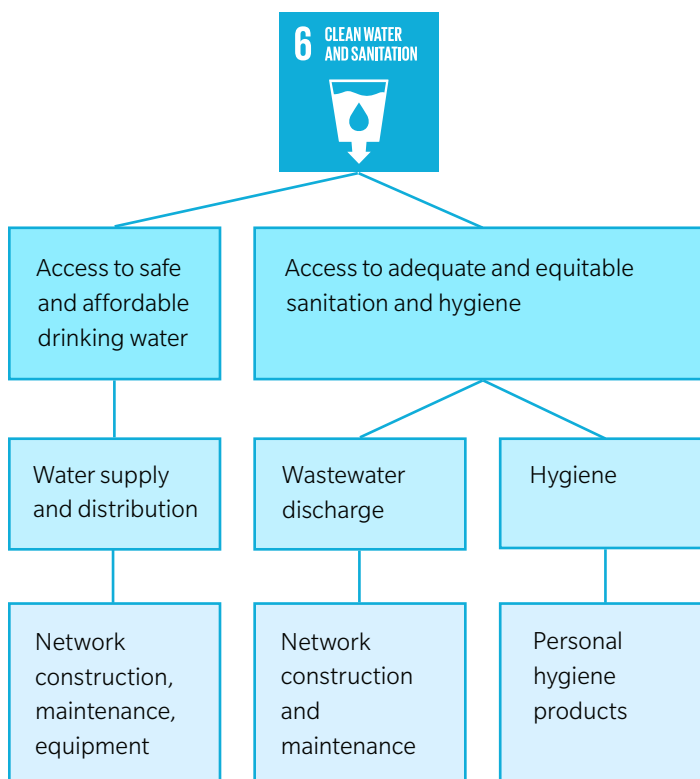
Although Company A has recently been highlighted negatively in an NGO report on Palm Oil supply chains, its commitment to the Trade for Sustainable Development (T4SD) Principles and the UN SDGs (as noted in their 2016 Corporate Sustainability Report) is reinforced by a laudable level of transparency.



Company B

Goal 6: Clean Water and Sanitation – Sub-Goal 6.1: Access to safe and affordable drinking water and **Sub-Goal 6.2:** Access to adequate and equitable sanitation and hygiene.

Company B is one of the better pure-play water companies that satisfies Goal 6 and several others (e.g., Goal 11: Sustainable Cities and Communities and Goal 3: Good Health and Well-Being). Referring to these goals/sub-goals can help when thinking through where a company's opportunities may lie over a longer-term investment horizon. The broader capital reallocation into these themes also appears to be supportive of Company B's recent multiple expansion.



* Forest Stewardship Council (FSC), Sustainable Forestry Initiative (SFI), Reducing emissions from deforestation and forest degradation (REDD)

ESG in Depth

August 2018

Company C

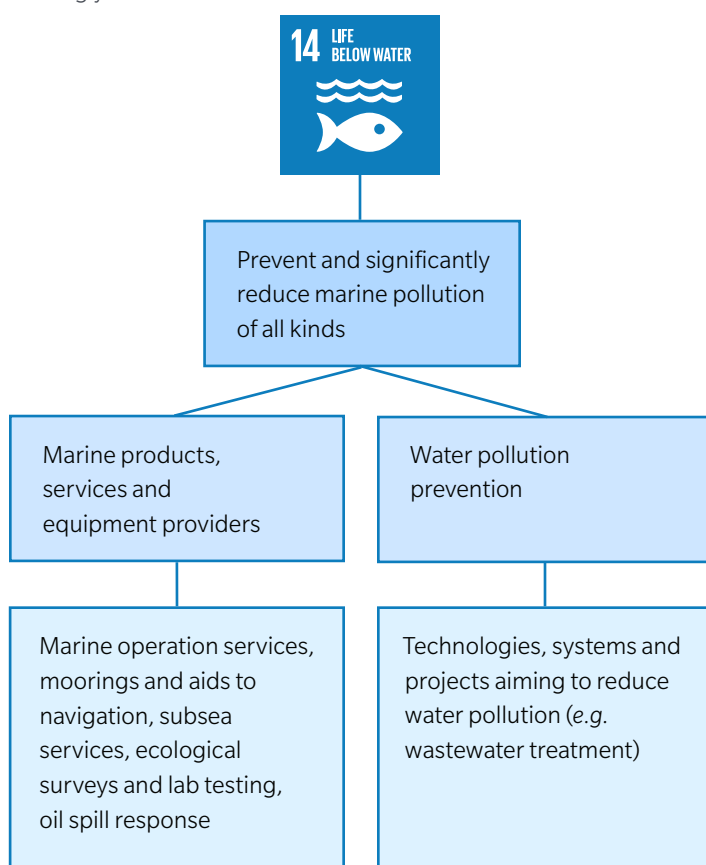
Goal 14: Life Below Water – Sub-Goal 14.1: Prevent and significantly reduce marine pollution of all kinds.

MFS is a large shareholder of Company C, whose business is focused on environmental remediation and industrial waste management.

As highlighted by UN SDG Goal 14, there is a dire need for the tools and capabilities to keep our environment clean. With the impending completion of their significant capex program, Company C has further solidified themselves as the market leader in environmental remediation. In addition, as their capex program winds down, free cash flow is primed to expand, which should give them greater flexibility to respond to opportunities as they evolve over the coming years.

Next Steps

- Review the [United Nations Sustainable Development Goals](#) and especially [the sub-goals](#).
- Consider how companies in your coverage could be financially impacted — either positively or negatively — by an increased emphasis on specific SDGs.
- Engage with companies about their efforts to incorporate the SDGs into their decision-making process.



ESG in Depth

August 2018

ESG in Depth is an internal research series produced for the benefit of MFS investment professionals. Certain examples have been made available externally to illustrate the thematic research regularly produced by and for our investment team. As such, all suggestions are directed to the MFS investment team, not the general public.

The views expressed in this report are subject to change at any time. These views should not be relied upon as investment advice, as securities recommendations, or as an indication of trading intent on behalf of any other MFS investment product.

Unless otherwise indicated, logos and product and service names are trademarks of MFS® and its affiliates and may be registered in certain countries.

Distributed by:

U.S. – MFS Institutional Advisors, Inc. (“MFSI”), MFS Investment Management and MFS Fund Distributors, Inc.; Latin America – MFS International Ltd.; Canada – MFS Investment Management Canada Limited. No securities commission or similar regulatory authority in Canada has reviewed this communication; U.K. - MFS International (U.K.) Limited (“MIL UK”), a private limited company registered in England and Wales with the company number 03062718, and authorized and regulated in the conduct of investment business by the U.K. Financial Conduct Authority. MIL UK, an indirect subsidiary of MFS, has its registered office at One Carter Lane, London, EC4V 5ER UK and provides products and investment services to institutional investors globally. This material shall not be circulated or distributed to any person other than to professional investors (as permitted by local regulations) and should not be relied upon or distributed to persons where such reliance or distribution would be contrary to local regulation; Singapore – MFS International Singapore Pte. Ltd. (CRN 201228809M); Australia/ New Zealand - MFSI and MIL UK are exempt from the requirement to hold an Australian financial services licence under the Corporations Act 2001 in respect of the financial services they provide to Australian wholesale investors. MFS International Australia Pty Ltd (“MFS Australia”) holds an Australian financial services licence number 485343. In Australia and New Zealand: MFSI is regulated by the US Securities & Exchange Commission under US laws and MIL UK is regulated by the UK Financial Conduct Authority under UK laws, which differ from Australian and New Zealand laws. MFS Australia is regulated by the Australian Securities and Investments Commission.; Hong Kong - MFS International (Hong Kong) Limited (“MIL HK”), a private limited company licensed and regulated by the Hong Kong Securities and Futures Commission (the “SFC”). MIL HK is approved to engage in dealing in securities and asset management regulated activities and may provide certain investment services to “professional investors” as defined in the Securities and Futures Ordinance (“SFO”).