

ACHIEVING THE SUSTAINABLE DEVELOPMENT GOALS: **THE ROLE OF IMPACT INVESTING**



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The Global Impact Investing Network (GIIN) recognizes the global importance of the UN Sustainable Development Goals. As the world's largest network of asset owners, asset managers and others involved in directing capital to investments that generate positive social and environmental impact alongside financial returns, the GIIN welcomes the unique role that impact investing will play in achieving these goals and building a sustainable future. We urge all investors to contribute directly to the SDGs' success. The following profiles highlight the work of leading impact investors who are actively investing in and supporting sustainable solutions that, now, with the introduction of the SDGs, map not only to their individual impact goals but also to a clear and powerful global agenda.

Last fall, the 193 Member States of the United Nations unanimously committed to adopting the Sustainable Development Goals (SDGs), a global agenda to end poverty by 2030. The SDGs comprise 17 core goals that range from ending hunger to stemming climate change, and that altogether provide a critical roadmap to a sustainable future and more prosperous world. As part of this exciting and aspirational agenda, the UN also put out a strong call to action for the private sector to play a fundamental role in achieving these goals.

One group in particular is ready to heed the world's call: impact investors.

Many private sector players have been deepening their impact from supporting business models that do less harm (e.g., using ESG principles to filter out businesses that harm the environment or have poor working conditions) to making impact investments and building businesses that actively deliver solutions to global issues. Impact investments are investments made with the intention of generating positive social and/or environmental impact alongside a financial return.

For years, and in some cases decades, impact investors around the world have been demonstrating the full potential of the private sector to drive progress in areas such as affordable housing, access to financial services, and sustainable energy—impact areas that very clearly line up with SDGs. While it is still early days for the SDGs, the GIIN has heard from our members (who comprise the largest network of impact investors worldwide) that the impact investing community is eager to explore how their impact strategies can contribute to this global effort, and some are already actively leveraging the SDG goals as a framework for their investments.

To better understand how impact investors are approaching the SDGs and how this growing community can collectively drive results, the GIIN has profiled a variety of impact investors. In these profiles, experienced investors explain how aligning to the SDGs is helping them develop impact strategies and goals, communicate with stakeholders, and attract new capital.

If you are already involved in impact investing, we hope these profiles will provide compelling and useful information about why and how other impact investors are aligning to the SDGs to help support the success of this global initiative. **For all investors, we hope you will be inspired by the ways in which these leading impact investors are focusing on the SDGs, and consider how you can put your capital to work in this way, in order to transform our world.**

COMMUNICATION

Investors have found that SDGs are a useful framework for communications to simplify and articulate the relationship between investments and impact goals. This framework has streamlined communications with a range of stakeholders, including other investors, clients, and investees.

STRATEGY AND GOALS

While impact investors do not regard SDG alignment as a dramatic departure from their previous activities, they have found them to be reinvigorating. These goals help impact investors refocus and reenergize their existing activity. Interviewees stated that they view the SDGs as a global declaration that investing in sustainable development is an investment opportunity for the private sector.

NEW CAPITAL

The SDGs offer a simple and attractive entry point for investors not yet engaged in impact investing to begin to build an impact investing portfolio, hopefully driving more private capital toward achieving the SDGs.



Encourage Capital is an asset management firm specializing in strategic investments to solve critical social and environmental problems. It is currently managing and/or developing investment strategies in five impact areas, all of which are aligned with the SDGs: financial inclusion, climate change, sustainable infrastructure, sustainable seafood, and water conservation. Encourage is currently launching a private equity strategy in financial inclusion in emerging markets. This strategy invests in companies that contribute to the development of financial systems of emerging market economies in order to enable poor and marginalized groups to generate income, build assets, protect against shocks, and sustain livelihoods. Encourage posits that financial inclusion empowers individuals, businesses, and countries to reach their full economic potential, and contributes to the achievement of the SDGs.

ORGANIZATION TYPE	Fund manager
HEADQUARTERS LOCATION	New York, USA
INCEPTION YEAR	Founded in 2014, a combination of Wolfensohn Fund Management, LP and EKO Asset Management Partners, LLC
FUND NAME	Wolfensohn Capital Partners, L.P. ("WCP")
FUND ASSETS UNDER MANAGEMENT	USD 255 million
ASSET CLASS	Private equity
GEOGRAPHIC FOCUS	Emerging markets
IMPACT OBJECTIVES	Financial inclusion

THE IMPACT OBJECTIVES PURSUED BY ENCOURAGE CAPITAL MAP TO 11 OF THE 17 SDGS



Source: www.globalgoals.org

WHY does Encourage Capital track against the SDGs?

Encourage Capital believes that the SDGs are a useful framework to contextualize, communicate, and align impact objectives amongst a broad group of stakeholders, including governments, development finance institutions (DFIs), investors, and non-profits. The organization found that some investors, particularly those that were still early in their engagement with impact investing, were having difficulty understanding how investments in financial institutions could help drive positive social and environmental outcomes alongside the expected commercial financial returns. As a result, it has been using the SDGs to ground the impact outcomes that might be more difficult to conceptualize. Impact outcomes driven by financial inclusion such as access to capital for women, job creation, increased sustainable livelihoods in urban areas, and improved transparency in the financial sector are directly captured by the SDGs, namely SDG 5: Gender Equality, SDG 8: Decent Work and Economic Growth, SDG 11: Sustainable Cities and Communities, and SDG 16: Peace, Justice and Strong Institutions. These clearly illustrate and contextualize the wider systemic impact of financial inclusion.

Nevertheless, Encourage emphasizes the importance of taking a bottom-up approach to its impact objectives. By fostering an inclusive financial system, Encourage aims to empower individuals with a set of financial tools to enable them to prioritize their own tactics to improving their livelihoods, as opposed to a top-down approach that would set the priorities for them.

“The SDGs emphasize the importance of collaboration and alignment amongst a diverse group of stakeholders; this is consistent with our approach to solving social and environmental problems across our investment strategies.”

AMEYA BIJOOR, ENCOURAGE CAPITAL

HOW does Encourage Capital implement an SDG-aligned strategy?

Encourage Capital sees strong alignment between sound business metrics and impact metrics in its work in financial inclusion. In evaluating the impact of its investments, Encourage Capital examines three levels:

- **DIRECT IMPACT**, the impact that the investee has on people and ecosystems;
- **SYSTEMIC IMPACT**, the impact that the investee's business model has on the wider landscape of financial inclusion in the country of investment; and
- **ENCOURAGE CAPITAL'S IMPACT**, the impact that Encourage has on the investee's ability to operate effectively as a result of portfolio engagement and sector expertise.

They collect and report on several IRIS metrics¹ in their financial inclusion strategy. The direct and systemic impact highlighted above also align with specific SDGs.

EXAMPLE IN PRACTICE

Through its first fund (WCP), Encourage Capital invested in Ujjivan, a microfinance company that lends to 2.7 million urban poor women in India. The company's clients experienced improved access to financial services and higher household income and savings. Furthermore, Ujjivan has led the development of microfinance credit bureaus in India, which will facilitate transparency and access to financing for consumers and small businesses. These impacts are aligned to SDG 1: No Poverty, SDG 5: Gender Equality, and SDG 16: Peace, Justice and Strong Institutions. Ujjivan had a successful IPO in 2016, which provided an attractive commercial exit opportunity for WCP.

¹ IRIS is the catalog of generally-accepted performance metrics managed by the GIIN (<https://iris.thegiin.org/>).

WHAT are the implications of the SDGs for impact investors globally?

According to Encourage Capital, the SDGs provide context for impact investors to see how their strategies and objectives fit into broader sustainable development efforts. With their dedication to achieving both impact objectives and commercial returns, impact investors are uniquely positioned to invest in companies that further the SDGs. Encourage notes that its own experience in financial inclusion captured full alignment between commercial and impact objectives. This double or triple bottom line approach can help ensure that the private sector contributes to the achievement of the SDGs.



PGGM pursues risk-adjusted, market-rate returns through impact investments in four impact areas: climate change mitigation, water, food, and health. These themes were selected according to three criteria:

1. Fiduciary duty. How does the impact area contribute to PGGM's fiduciary responsibilities?

2. Capacity. Does PGGM have some comparative advantage in the impact area, such as through expertise or track record?

3. Identity. Does PGGM want to be known for its contributions to the impact objective?

By applying these criteria and actively pursuing their impact objectives, PGGM signals to both current and potential impact investors that long-term positive impact on society and the environment can be created alongside commercial returns. PGGM collects and reports data on three to four impact metrics that correspond to each theme. In the last year, PGGM has mapped each of these four impact themes to the SDGs, identifying six global goals that are supported through its impact investment portfolio.

ORGANIZATION TYPE	Pension fund
HEADQUARTERS LOCATION	Zeist, Netherlands
INCEPTION YEAR	1969, Impact investment strategy started in 2014
IMPACT ASSETS UNDER MANAGEMENT	EUR 8.9 billion
ASSET CLASSES	Public equities, bonds, private equity, real assets
GEOGRAPHIC FOCUS	Europe, Emerging Markets
IMPACT OBJECTIVES	Climate change mitigation, access to clean water, access to food, health improvements
INVESTMENT EXAMPLE	The PGGM Private Real Estate portfolio generates market-rate returns by investing in funds such as the Amvest Living & Care Fund, which invests in the creation of quality rental care homes in the Netherlands as an alternative to overcrowded care homes.

THE IMPACT OBJECTIVES PURSUED BY PGGM MAP TO 6 OF THE 17 SDGS



Source: www.globalgoals.org

WHY does PGGM track against the SDGs?

According to PGGM, the SDGs offer a useful framework that strengthens communications with several key stakeholder groups:

1. **CLIENTS** want to understand and articulate the overall impact of their portfolios and their commitment to generating impact through their assets.
2. **INVESTEES** are interested in the distinction between impact investing and sustainable Environmental, Social, and Corporate Governance (ESG) practices. They want to understand how these different approaches affect investors' long-term strategies, expectations of impact, and risk mitigation. While PGGM recognizes the importance of adopting ESG-aligned practices, it uses the SDGs specifically to demonstrate how investees can generate impact.
3. The SDGs provide the **WIDER INVESTMENT COMMUNITY**, particularly those investors not currently managing an impact portfolio, with a new way to understand the impact of their investments.

PGGM anticipates that improved communications around impact intent and impact performance resulting from SDG alignment will lead to an increase in client demand for impact investment products. This increased demand, in turn, will generate further interest in SDG alignment among the broader investor community.

"This is putting the soul back into finance."

PIET KLOP, PGGM

HOW does PGGM implement an SDG-aligned strategy?

While the adoption of the SDGs has not required a dramatic departure from its existing impact investment strategy, it has enhanced PGGM's communications toolkit and affected its operations in certain ways:

- While each of PGGM's impact objectives maps to one or more SDG, PGGM has also further explored which specific strategies and investment types can realize each objective. This exercise has helped PGGM strengthen its internal investment selection process, while also facilitating better articulation of how an investment strategy creates a specific type of impact.
- PGGM has also identified key impact metrics it already collected that track progress toward the six SDGs it targets. This exercise informs impact data collection, as well as reporting to clients and other key stakeholders.

EXAMPLE IN PRACTICE

Investments that address water scarcity map directly onto SDG 6: Clean water and sanitation. PGGM invests in solutions to this complex problem by addressing three components to the goal: quantity, quality, and access. Each of these is then further expounded into types of solutions, such as wastewater purification and water-saving technology, and corresponding potential investments, such as equipment or desalination plants.

WHAT are the implications of the SDGs for impact investors globally?

According to PGGM, many institutional investors are likely to engage with the SDGs in the next few years because they naturally align with a wide range of investment strategies. This could lead to a significant increase in the volume of capital allocated toward investments that generate positive social and environmental good. However, there remains a risk that it could also dilute both the message and impact of impact investing if investors interpret the SDGs loosely or oversimplify their impact measurement practice. 'SDG-washing', like 'impact washing' more broadly, can be mitigated through thoughtful, practical impact measurement and management.

**"If you have big problems...
you need to scale your
solutions."**

PIET KLOP, PGGM



We are Sustainability Investing.

RobecoSAM manages and advises a USD 10.7 billion portfolio, which includes a substantial allocation to impact investing.¹ RobecoSAM invests its impact investment portfolio into companies that seek to improve access to basic services, such as clean water, energy, health, and food security, to improve conservation efforts (including natural resources and water conservation), and to improve gender equality. Its typical investee creates a direct impact through the provision of products and services. For all of its investments, RobecoSAM tracks performance across a set of non-financial metrics tailored to the specific impact theme. Following the UN's adoption of the SDGs, RobecoSAM reviewed its impact approach and found that its social and environmental objectives and corresponding impact metrics align to many of the SDGs.

ORGANIZATION TYPE	Asset manager
HEADQUARTERS LOCATION	Zurich, Switzerland
INCEPTION YEAR	1995
ASSETS UNDER MANAGEMENT OR ADVICE	USD 10.7 billion
ASSET CLASSES	Private equity, public equity, fixed income
GEOGRAPHIC FOCUS	Global
IMPACT OBJECTIVES	Access to clean water, access to clean and renewable energy, climate change, health improvement, and gender equality

¹ The entire portfolio is allocated to impact investments, Environmental, Social, and Governance (ESG) investments, and Socially Responsible Investments (SRI).

THE IMPACT OBJECTIVES PURSUED BY ROBECOSAM MAP TO 16 OF THE 17 SDGS



Source: www.globalgoals.org

WHY does RobecoSAM track against the SDGs?

According to RobecoSAM, the SDGs provide a framework for it to manage and communicate impact. This framework generates value both internally and externally:

1. INTERNALLY: The goals allow RobecoSAM to test and validate its selection and measurement of appropriate and relevant impact metrics. Looking forward, RobecoSAM expects its improved catalog of impact metrics to optimize its strategies for achieving its impact objectives.

2. EXTERNALLY: The global goals help unify the language used among impact investors and the broader impact investing community about impact intent, and to simplify dialogue with clients about RobecoSAM's impact objectives and approach. However, while the conversation about impact is simplified through the SDGs framework, RobecoSAM does not yet see significant client interest specifically around contributing to this global initiative.

Overall, SDG adoption signals RobecoSAM's commitment to long-term social and environmental impact and provides clear benefits from coherent communications to refined impact management practice.

"The SDGs help clients better understand the impact we create because now we can put our approach in a broader global context."

DANIEL WILD, ROBECOSAM

HOW does RobecoSAM implement an SDG-aligned strategy?

IMPACT MEASUREMENT PRACTICE: Across its portfolio, RobecoSAM collects data on 100 non-financial impact metrics. For each investment, it collects and monitors a subset of approximately 20 sector-relevant metrics. In an effort to assess its alignment with the SDGs, RobecoSAM mapped each of the 100 impact indicators to one or more of 16 of the 17 goals. It found that, on average, over five indicators already collected and reported were indicative of contributions to each goal. For RobecoSAM, this process confirmed the natural alignment of its impact objectives with the SDGs. It noted, however, that following this mapping exercise, some impact metrics remained inherently more tangible than others, such as metric tons of water saved in an industrial process compared to an increase in social equality; both types of metrics are included in RobecoSAM's current portfolio monitoring process. This process has enabled RobecoSAM to review its impact measurement practice and ensure that it efficiently pursues appropriate and achievable impact objectives.

EXAMPLE IN PRACTICE

To account for sector-specific conditions, RobecoSAM compares the performance of a portfolio company against the performance of peers and standards in that sector. For example, when evaluating its influence over gender equality in the workforce in the industrial sector, RobecoSAM measures and tracks the gender diversity of each of its portfolio companies in this sector and compares those metrics to the figures of its global peers.

IMPACT REPORTING PRACTICE: Looking ahead, RobecoSAM intends to integrate the SDG-aligned impact framework into its standard impact metrics reporting to clients, as well as to aggregate data on impact performance across its portfolio for both internal review and reporting to investors. By using the SDG framework to guide its reporting, RobecoSAM will clearly articulate the potential impact of its investments to clients and facilitate broader discussion around both impact investing and SDG adoption with other key players in the market.

WHAT are the implications of the SDGs for impact investors globally?

According to RobecoSAM, the broader impact investing market is presented with both opportunities and challenges in aligning with the SDGs. Increased public awareness and related regulatory changes will affect the competitive environment in which companies operate. These factors may lead to more attractive growth opportunities for impact-creating companies, thus rendering impact considerations financially more material for investors. As a consequence, a range of new players, including both impact investors and other investors, may be motivated to align with the SDGs. Simultaneously, RobecoSAM believes that SDG alignment by investors does not have to occur at the expense of financially viable business practice. To embody this thesis, RobecoSAM will continue to pursue portfolios that yield at least market-rate returns. As such, RobecoSAM noted that, along with other impact investors, it should pursue financially viable investment opportunities that exhibit the competitive advantage of SDG alignment while simultaneously maintaining effective impact measurement and management practices.

Triodos Investment Management

Triodos Investment Management (Triodos IM) is a fund manager based in Zeist, Netherlands with USD 3.5 billion in AUM in sustainable investment funds. Of this, USD 2.2 billion is allocated toward direct impact investments in inclusive finance, energy and climate, sustainable food and agriculture, sustainable real estate, and arts and culture. Triodos has allocated USD 1.3 billion toward sustainable and thematic public equity and debt. Triodos IM invests in most emerging markets and in Europe in companies that build a sustainable future for individuals, communities, and the environment. Triodos IM views the SDGs as a framework that will galvanize investors to support these global efforts for development.

ORGANIZATION TYPE	Fund manager
HEADQUARTERS LOCATION	Zeist, Netherlands
INCEPTION YEAR	1990
ASSETS UNDER MANAGEMENT	USD 3.5 billion
ASSET CLASSES	Private equity, private debt, and project finance
GEOGRAPHIC FOCUS	Africa, Asia, Latin America, Europe, and Middle East
IMPACT OBJECTIVES	Inclusive finance, energy and climate, sustainable food and agriculture, sustainable real estate, and arts and culture
INVESTMENT EXAMPLE	The Triodos Microfinance Fund realized an average return of 4.4% over the past three years (as of July 31, 2016). At year-end 2015, the financial institutions in the fund's portfolio reached 13 million loan clients—of which 79% are women—and served 8.5 million savers in 35 countries across Africa, Asia, and Latin America.

THE IMPACT OBJECTIVES PURSUED BY TRIODOS INVESTMENT MANAGEMENT MAP TO 15 OF THE 17 SDGS



Source: www.globalgoals.org

WHY does Triodos Investment Management track against the SDGs?

According to Triodos IM, the SDGs provide a communications framework for the organization's existing impact work, enabling it to better highlight its investee outcomes and champion impact investing. It finds the SDGs useful for its activities both internally and externally:

1. INTERNALLY: Triodos IM is in the process of mapping its impact metrics to the SDGs and underlying targets. The SDGs are also informing its investment strategy in the development of new impact investing funds, which will help Triodos IM intentionally target specific SDGs with its investments.

2. EXTERNALLY: Triodos IM is using the SDGs to better communicate with various stakeholders; the widely recognized global agenda helps Triodos IM market its impact to investors, set impact expectations with investee companies, and support the development of a stronger impact investing industry. Triodos IM believes it is important to speak consistently with all stakeholders about the role of the financial sector in sustainable development. The SDGs could be the impetus that shifts the whole financial sector to consider the impact of its investments, therefore bringing more capital into impact investing.

"All investment should generate positive impact. The SDGs help make impact investing more mainstream and help shift the whole financial sector to start thinking about the impact their investments can drive."

**MARILOU VAN GOLSTEIN BROUWERS,
TRIODOS INVESTMENT MANAGEMENT**

HOW does Triodos Investment Management implement an SDG-aligned strategy?

INTERNAL SDG-ALIGNED INITIATIVES

Triodos IM is in the process of examining its internal impact measurement process, from its underlying theory of change to individual impact metrics; this will help to map it to the SDGs. At present it is beginning to use the SDGs as a new framework in communications materials for investors, but also considers incorporating it into its fund reporting in the future. Triodos IM uses IRIS to identify appropriate impact metrics. To further efforts to coordinate sound impact measurement practices, Triodos IM has noted that it would be beneficial for current impact measurement standards to explain how measurement standards and the SDGs work together to help illuminate collective progress toward global goals. Furthermore, it has begun to tie new funds' strategies to the SDGs from the outset, as a way to ensure investment alignment in investment selection, marketing, metrics, and reporting (see example box).

EXTERNAL SDG-ALIGNED INITIATIVES

Triodos IM is involved in several multistakeholder initiatives that promote the SDGs and impact investing more broadly. For example, it was a signatory to the UN Charter on the role of business, civil society, and cross-sector partnerships in the Post-2015 Development Agenda; it is part of a working group to drive Positive Impact Finance with the UN Environmental Programme Finance Initiative; and it is a member of the GIIN's Investors' Council¹. Triodos IM uses these platforms and others to encourage alignment with the SDGs and the growth of the impact investing industry.

EXAMPLE IN PRACTICE

Triodos IM is using the SDGs to develop its theory of change and investment strategy for a new organic agriculture and trade fund that will finance companies and initiatives in developing countries and emerging markets that contribute to a global sustainable food and agriculture sector. Through its investments, it plans to target SDG 2: No Hunger, SDG 8: Decent Work and Economic Growth, SDG 13: Climate Action, and SDG 15: Life on Land as the primary SDGs for this fund, with SDGs 1, 3 and 12 as follow-on effects. They will use these SDG targets to inform investment selection, marketing, metrics, and reporting for the fund.

¹ The GIIN's Investors' Council provides a forum for experienced impact investors to strengthen the practice of impact investing (<https://thegiin.org/investors-council>).

WHAT are the implications of the SDGs for impact investors globally?

Triodos IM believes that impact investors that align with SDGs will attract capital, thereby contributing to solving the problems that their investments set out to address. However, this will not have a significant effect unless impact investing can move from niche to mainstream—Triodos IM believes that the SDGs promote that move. More broadly, Triodos IM believes that, "investing in sustainable development is investing as it should be." It sees impact investing as the "front runner" in catalyzing change in the world, and that impact investing could scale significantly if it can come together with other investors around the SDGs.

Triodos IM expects that the SDGs, beyond just engaging the financial industry, will also bring a shared focus to the practices of public and private sector actors. These actors can share the same framework and work toward the same global goals. Triodos IM hopes this will highlight promising investing activities across the different sectors, clearly illuminating the impact of SDG-aligned actions.