



RLAM sustainable funds and the UN Sustainable Development Goals

The UN Sustainable Development Goals (SDGs) were launched in 2015 as part of the UN's Sustainable Development Agenda. These were adopted by all UN member states as part of a common aim to end poverty, protect the planet and ensure that everyone could enjoy peace and prosperity. The SDGs are not legally binding, but provide a framework for governments, the private sector and wider society to achieve a better future for us all.

At Royal London Asset Management (RLAM), we naturally support these goals – as you'd expect from an organisation with our background in responsible investing (RI). And for our sustainable funds, the overlap is material. The funds aim to invest in companies that provide a net benefit to society, with a key part of this being the identification of companies that provide solutions to global challenges, such as climate change and poor health, while avoiding companies that exacerbate these problems. We also invest in companies that show ESG leadership in their sectors. This applies to both equity and credit in our sustainable multi asset funds.

In recent years the desire to invest in this way has increased markedly due to both the greater acceptance around the broader idea of sustainability, plus increasing evidence that investment

choices are not binary: it is not a case of 'invest for society or invest for yourself'; introducing sustainable factors to an investment process can deliver both.

Reflecting SDGs in investment processes

The SDGs were launched in 2015, replacing the Millennium Development Goals¹, and are due to be revisited in 2030.

The nature of the SDGs often leads to an assumption that these can be integrated into an investment process such as ours. On one level this would seem an obvious thing to do, given our belief that these goals are ones that we should all be supporting.

However, the SDGs are targets that help both public and private sector organisations direct their efforts, rather than being specific investment targets, and the measurement and success of

these goals will rightly be driven by these organisations² – particularly governments – rather than investors. As such, although the companies that we invest in contribute to these goals, few will have this as their primary aim.

There are increasing numbers of standards and goals that can be applied to investment funds. We regularly discuss these – within RLAM and with our External Advisory Committee – as we are aware that the use of standardised reporting and assessment used is constantly evolving, as shown with the proposed 2021 merger of the International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB) announced at the end of December 2020 and the EU Sustainable Finance Taxonomy report, which investment funds will need to comply with by the end of 2021. These are all in addition to established firm-wide standards



for responsible investment such as the UK Stewardship Code or the UN Principles for Responsible Investment (UNPRI) – where investors can already get information on how their manager is investing their assets.

A long-term approach for long-term trends

The investment philosophy underpinning our sustainable funds, focusing on companies that provide a net benefit to society, has been in place since 2003. The challenge is that sustainable factors can take many years to play out. Global warming took a long time to be recognised and the shift away from carbon-based fuels is taking longer still. Hence a vital element of this is an emphasis on individual companies – focusing on both sustainable and financial strengths and qualities. We recognise that for investors, it is more intuitive to look at our portfolio and see the broader themes that these individual decisions lead to – which is the approach we took over a decade ago, before the SDGs were launched.

We believe that this is a more relevant way to look at a fund such as ours, with themes evolving as the sustainable investment opportunity set evolves. Crucially, sustainable themes are longer duration. In a decade or two, when the US Presidential election, Brexit and even Covid-19 are distant memories, themes such as energy transition, digitisation and the fourth industrial revolution will still be unfolding. Equally there will be new themes in our funds that cannot be predicted today.

Although there is often a desire to ‘standardise’ breakdowns of different sustainable funds, the different underlying approaches these take make this difficult. Even using a framework such as the SDGs is subjective. For example, AI and Cloud Computing has, in our view, been an enormous benefit to society over recent years and particularly during the pandemic. A glance at Microsoft could see it fall into the ‘Industry, Innovation and Infrastructure’ SDG and with its ambitious carbon reduction targets, it arguably helps with ‘Climate Action’. In our view, many potential investments can

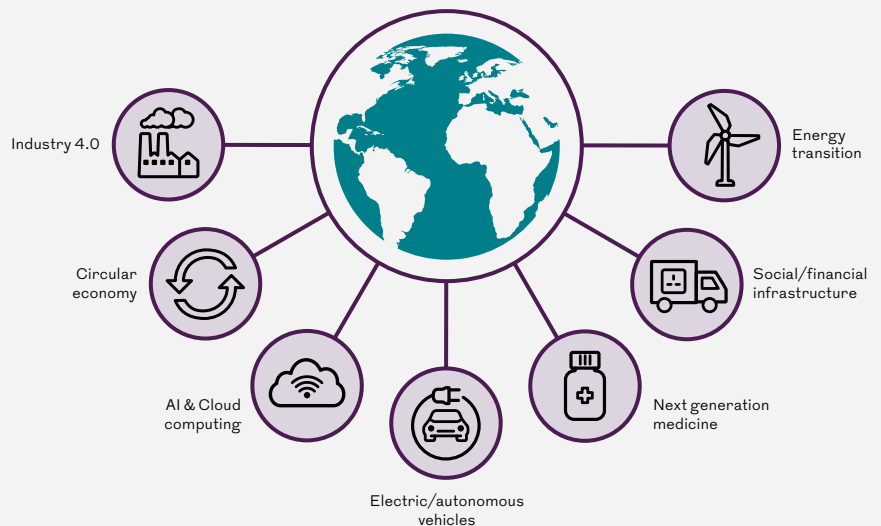
be made to fit certain categories, which is why we always emphasise stock over theme or goal.

We follow this in our own portfolio. While we hold Microsoft and categorise this as part of an AI and Cloud Computing theme in our portfolios, it is not held because it sits within a predetermined theme. As we noted before, themes and goals change over time. Reflecting this, and the fact that no company is perfect in every way, individual analysis and assessment is vital. The themes we use are an intuitive way to look at a portfolio that has already been created – rather than drivers of stocks we may buy tomorrow. Hence in the above example, when looking at Microsoft, we won’t consider whether it fits into a certain

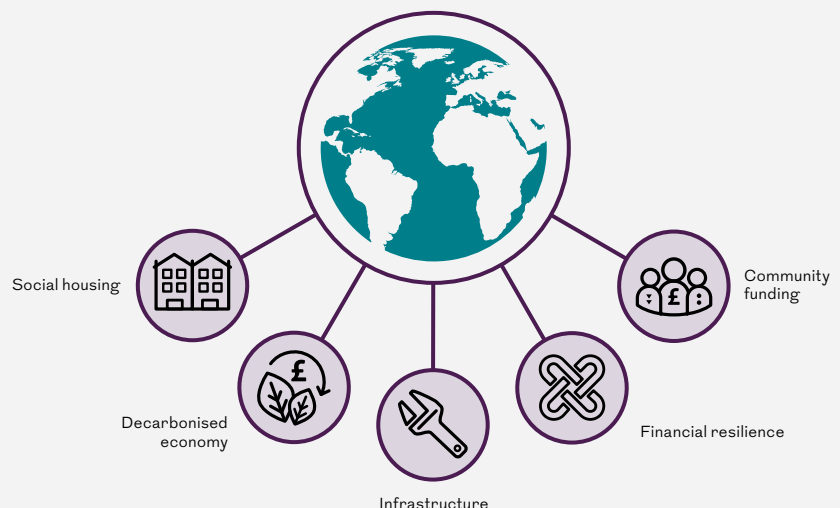
box – whether that is AI & Cloud Computing (under our themes) or Industry and Innovation (under SDGs). We assess whether we feel that Microsoft meets our sustainable philosophy of providing a net benefit to society through both the products it offers and through the way it conducts its operations.

And it’s important to remember that sustainable analysis on its own is not enough – it has to be integrated with rigorous financial analysis and a focus on valuation. By consistently and systematically looking at sustainable factors alongside financial factors, we believe we can gain an edge over more traditional approaches that solely consider the financials.

Current equity themes (March 2021)



Current fixed income themes (March 2021)



Research and transparency remain key

The launch of the SDGs addresses areas of global sustainability concerns, holding business accountable for their activities and their contribution to some of the world's most pressing challenges. RLAM has not aligned its RI activity explicitly to these goals, not because we don't believe in them, but because we believe that our clients will ultimately benefit if we take a more investor centric approach. One example is our signing up to the UNPRI in 2008, which created a yardstick for investment firms wanting to take more account of RI principles and importantly, rates us against those principles every year.

We believe that our approach, focusing above all on making sure holdings deliver benefits to society as well as to investors, is a successful long-term solution – one that is supported by

our track record. Our preference is to use the independent oversight of our External Advisory Committee as a better judge and yardstick of our approach. Using the committee also gives us greater flexibility to react where needed, rather than tying our funds to standards set elsewhere.

While it is tempting to map a portfolio to external classifications or goals, we believe that this could provide investors with a somewhat artificial view of their fund. Creating a sustainable investment portfolio isn't as straightforward as sifting out 'bad' companies or themes and investing in the 'good' ones.

You have to recognise the potential informational advantage of sustainable analysis; interpret it to reach broadly correct investment decisions; and hold your nerve, sometimes for a long

time. Ultimately, investors will need to dive deeper into processes and portfolios, with fund managers such as RLAM providing transparency around these funds.

Notes

- https://www.undp.org/content/undp/en/home/sdgooverview/mdg_goals.html
- <https://sdgintegration.undp.org/>

Contact us

For more information about our range of products and services, please contact us.

Royal London Asset Management

55 Gracechurch Street
London EC3V 0RL

For advisers and wealth managers

bdsupport@rlam.co.uk
020 3272 5950

For institutional client queries

institutional@rlam.co.uk
020 7506 6500

www.rlam.co.uk

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Issued in April 2021 by Royal London Asset Management Limited, 55 Gracechurch Street, London, EC3V 0RL. Authorised and regulated by the Financial Conduct Authority, firm reference number 141665. A subsidiary of The Royal London Mutual Insurance Society Limited.

Ref: AL RLAM PD 0090

