PRI Principles for Responsible Investment

INVESTING WITH SDG OUTCOMES:

A FIVE-PART FRAMEWORK

UNEP FINANCE INITIATIVE

United Nations Global Compact

An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

THE SIX PRINCIPLES

PREAMBLE TO THE PRINCIPLES

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1 We will incorporate ESG issues into investment analysis and decision-making processes.

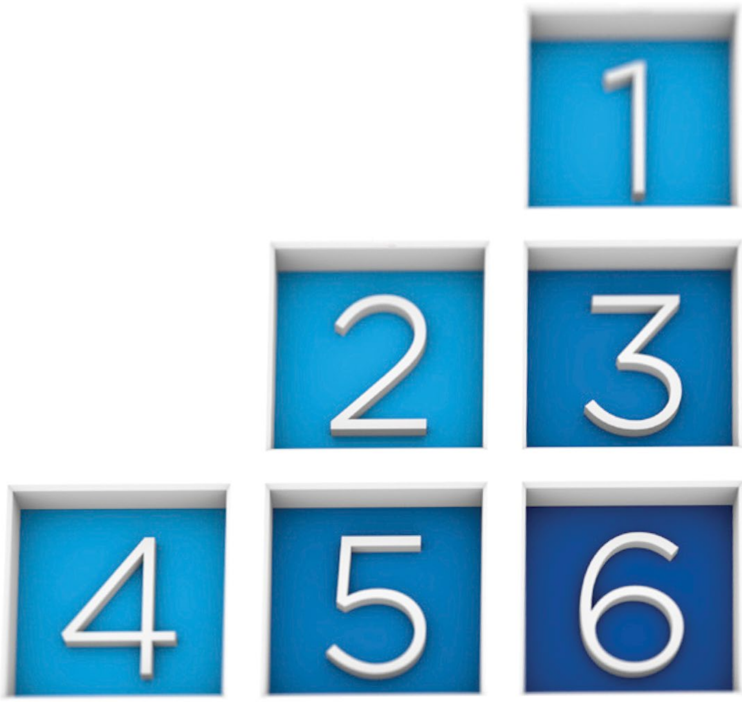
2 We will be active owners and incorporate ESG issues into our ownership policies and practices.

3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.

4 We will promote acceptance and implementation of the Principles within the investment industry.

5 We will work together to enhance our effectiveness in implementing the Principles.

6 We will each report on our activities and progress towards implementing the Principles.



PRI's MISSION

We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.

The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

CONTENTS

ABOUT THIS REPORT

This report provides a high-level framework for any investors looking to shape real-world outcomes in line with the Sustainable Development Goals (SDGs).*

Following on from the PRI's *The SDG investment case*[1] – which laid out why the SDGs are relevant to investors, why there is an expectation that investors will contribute and why investors should want to – this report takes the next steps by outlining a prospective framework for action. It is meant as a useful reference for all PRI signatories, providing sufficient scope for asset owners, investment managers and service providers to differ in the specific actions they undertake to shape outcomes in line with the SDGs.

This framework is the starting point for a deeper and ongoing body of work on the subject, and will be the basis for future guidance and support.

* Investors new to the topic of responsible investment should start with the PRI series *An introduction to responsible investment*[2].

1 https://www.unpri.org/sdgs/the-sdg-investment-case/303.article

2 https://www.unpri.org/pri/an-introduction-to-responsible-investment/what-is-responsible-investment

EXECUTIVE SUMMARY

ALL INVESTOR ACTIONS SHAPE POSITIVE AND NEGATIVE OUTCOMES IN THE WORLD

Issues such as human rights abuses, climate change and inequitable social structures seriously threaten the long-term performance of economies, investors' portfolios and the world in which beneficiaries live. Expectations from beneficiaries, clients, governments and regulators over how investors should respond have changed – driven by increased visibility and urgency around many of the SDGs.

The urgency to deliver on the SDGs has only been increased by the COVID-19 pandemic, with several governments recognising that the SDGs can act as a guide to the global response, "to make sure that nobody is left behind".[3]

To support meeting the SDGs, investors must understand how they can increase the positive outcomes and decrease the negative outcomes arising from their actions.

THERE IS SIGNIFICANT POTENTIAL FOR INVESTORS TO SHAPE OUTCOMES IN LINE WITH THE SDGS

With a combined US$89 trillion in assets under management, PRI signatories can play a unique role in helping the world to meet the SDGs – individually, and in collaboration with fellow investors and broader stakeholders.

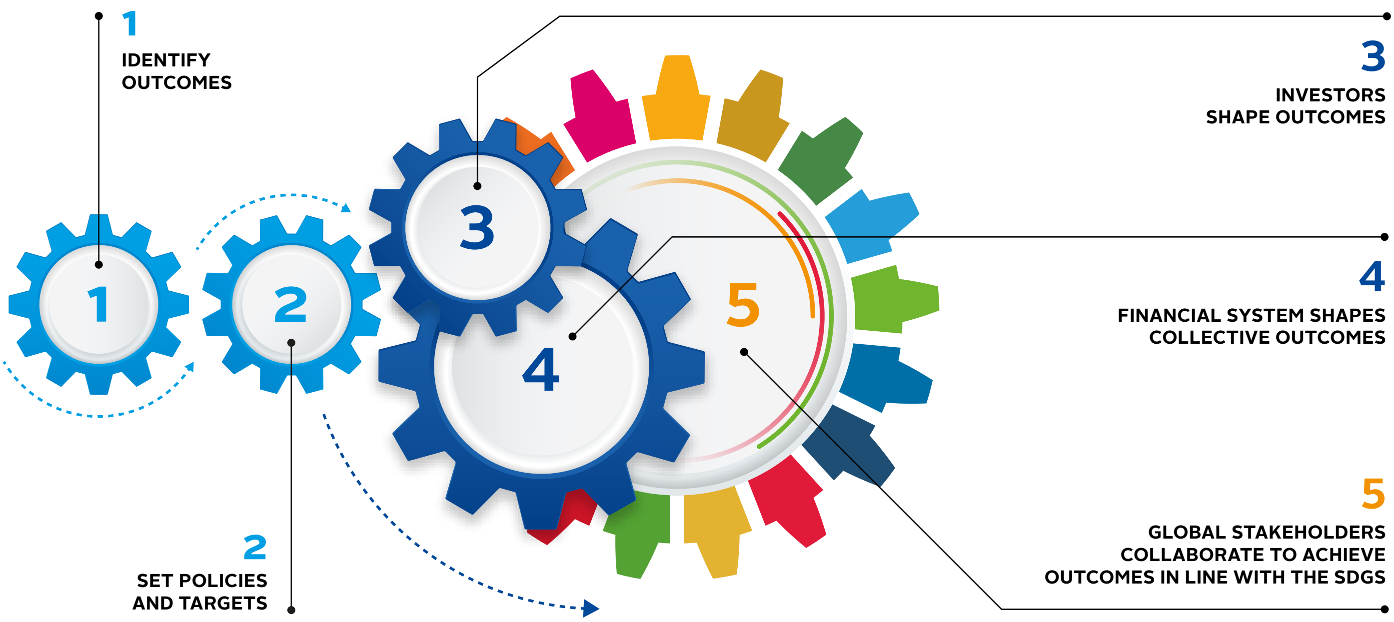
A focus on shaping SDG outcomes involves broadening the analysis of individual investees' financially material ESG issues, to also include a parallel analysis of the most important outcomes to society and the environment at a systemic level. These material issues and real-world outcomes overlap to some extent, but not fully, and this is part of the gap that needs to close to achieve the SDGs by 2030.

A focus on outcomes allows investors to understand the risks and opportunities that are likely to exist in the transition to an SDG-aligned world. Investors can:

- identify opportunities in business models, supply chains and products/services;
- prepare for legal and regulatory developments;
- protect their reputation and licence-to-operate;
- meet commitments to clients and beneficiaries – and communicate progress;
- consider materiality over longer time horizons, to include transition risks, tail risks, financial system risks etc.;
- minimise the negative outcomes and increase the positive outcomes of investments.

A FIVE-PART FRAMEWORK FOR INVESTORS

The PRI proposes a five-part framework for investors that are seeking to understand the real-world outcomes of their investments, and to shape those outcomes in line with the SDGs.



3 https://ec.europa.eu/commission/presscorner/detail/en/AC_20_795

1. IDENTIFY OUTCOMES

Part 1 is about investors identifying and understanding the unintended outcomes of their investments and their own operations. This assessment involves identifying positive and negative real-world outcomes related to investees' operations, products and services. It can build on activities such as mapping existing investments to the SDGs and determining the scale of investments in explicitly SDG-aligned activities.

2. SET POLICIES AND TARGETS

Part 2 sees investors setting policies and targets, moving the investor from identifying and understanding unintended outcomes towards taking intentional steps to shape outcomes. As many outcomes are connected – e.g. climate change and water scarcity, food security and poverty – investors will have to look across all investments and all SDGs holistically when considering their most important outcomes.

3. INVESTORS SHAPE OUTCOMES

In Part 3, investors seek to shape outcomes in line with the policies and targets set in Part 2, and report on progress against those objectives. We outline examples of how this takes place through investor actions including: investment decisions, stewardship of investees and engagement with policy makers and key stakeholders – and how it can be communicated through disclosure and reporting.

4. FINANCIAL SYSTEM SHAPES COLLECTIVE OUTCOMES

Part 4 considers the contribution of the financial system. Shaping outcomes in line with the SDGs at the financial system level takes place both through aggregating the actions of individual investors, and from investors acting collectively – including alongside other financial system participants such as credit rating agencies, index providers, proxy advisors, banks, insurers and multilateral financial institutions.

5. GLOBAL STAKEHOLDERS COLLABORATE TO ACHIEVE OUTCOMES IN LINE WITH THE SDGS

Part 5 recognises that no one set of actors will achieve the SDGs in isolation. The finance sector, businesses, governments, academia, civil society, the media, individuals and their communities must act collectively to ultimately achieve the SDGs. Necessary elements include programmes to connect supply and demand of investments at scale, and collaboration on tools to contextualise outcomes data in the global thresholds and timelines required to achieve the SDGs.

Although more support for investors needs to be developed, there are already several relevant tools, metrics and data sets that can be useful for investors to take action across the framework. Given the urgency with which the SDGs must be achieved, investors must work with others to further develop the tools and incentives needed.

NEXT STEPS: PRI SUPPORT FOR SIGNATORIES

The PRI will assist signatories seeking to shape outcomes in line with the SDGs, including supporting investors to focus on key issues that have systemic implications for market beta or the real economy, such as climate change and human rights issues. We will aim to do so for each part of the framework, across each of the investor actions. Subsequent guidance on each action could focus on improving transparency and collaboration, all with the objective of shaping real-world outcomes.

Following consultation with signatories on revising the PRI Reporting Framework, we will also include an initial set of outcomes questions in the pilot year of the new Reporting Framework in 2021. A small number will be in the 'core' section (questions that are mandatory to answer, and are assessed), with the majority in the 'plus' section (voluntary to answer, and not assessed).

This report is only the beginning in bringing together thinking on ESG risks and opportunities with thinking on the potential to shape SDG outcomes. The scale of the challenge will require working with others across the finance sector, as well as with other key stakeholders.

The SDGs set the global goals for society and all its stakeholders – including investors.

INTRODUCTION: INVESTORS AND THE SDGS

This section:

- briefly describes what the SDGs are, how investors can contribute to the Goals and how the Goals can be useful to investors;
- explains how a focus on shaping outcomes in line with the SDGs, as outlined in this paper, differs from existing ESG incorporation approaches.

SDGS: THE STORY SO FAR

The 2030 Agenda for Sustainable Development was adopted on 25 September 2015 at the United Nations Sustainable Development Summit.[4] The resulting Sustainable Development Goals (SDGs) established a globally accepted set of 17 overarching goals (underpinned by 169 specific targets, and 232 indicators by which they'll be measured) for real-world outcomes in areas such water, health, poverty, gender equality and biodiversity (Figure 1).

The SDGs set expectations and track progress on key global issues. They build on other global agreements, such as in human rights, where the SDGs are grounded in the Universal Declaration on Human Rights[5], and on climate change, where the SDGs reference the United Nations Framework Convention on Climate Change (and progress against governments' Paris Agreement[6] commitments).

The SDGs set the global goals for society and all its stakeholders – including investors.[7]

Figure 1: Sustainable Development Goals (SDGs)

4 https://www.un.org/sustainabledevelopment/sustainable-development-goals
5 https://sustainabledevelopment.un.org/post2015/transformingourworld
6 https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement
7 http://report.businesscommission.org/uploads/BetterBiz-BetterWorld_170215_012417.pdf

WHAT INVESTORS CAN BRING TO THE SDGS

There has been some progress since the SDGs were agreed. According to the UN, extreme poverty and child mortality have fallen, and access to energy and decent work have increased. But as UN Secretary-General António Guterres says: “Overall, we are seriously off-track. Hunger is rising, half the world’s people lack basic education and essential healthcare, women face discrimination and disadvantage everywhere. One reason for the faltering progress is the lack of financing.”[8]

There is a clear role for the financial system, and for signatories to the Principles for Responsible Investment (PRI).

The United Nations Conference on Trade and Development (UNCTAD) estimates that meeting the SDGs by 2030 will require US$5 trillion to US$7 trillion per year from the private sector.[9] The financial system’s role in shaping outcomes in line with the SDGs cannot only involve new capital, it will require investors to redirect existing capital and be good stewards of the entities they invest in.

When the six Principles were established in 2006, the preamble stated that applying the Principles could better align investors to the “broader objectives of society”.[10] In 2017 the PRI formalised the SDGs’ role in framing these societal objectives, committing to “enable real-world impact aligned with the SDGs”, and to contribute to “a prosperous world for all”.[11]

WHAT THE SDGS CAN DO FOR INVESTORS

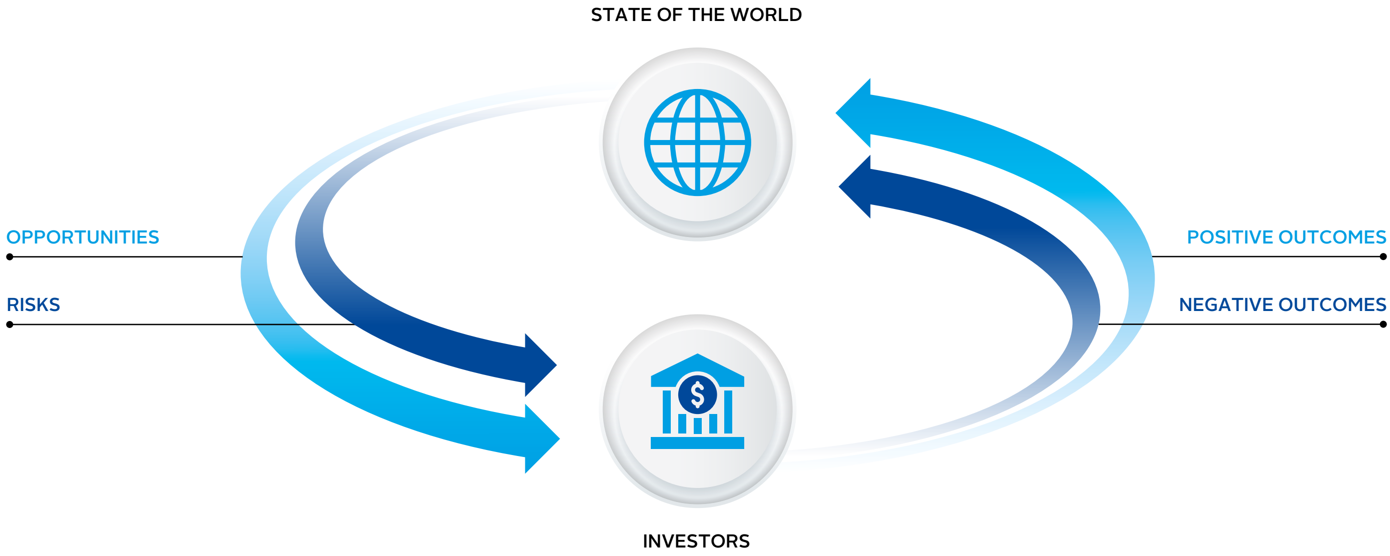
Investors have long been focused on why environmental, social and governance (ESG) issues are relevant for their portfolios. From an initial focus from the mid-1980s on avoiding investments in activities that would cause harm or were deemed unethical, in the 2000s responsible investment emerged with a broader focus, taking in not only screening, but also sustainability themed investments and the integration of ESG factors into core investment decision-making processes (collectively known as “ESG incorporation”[12]), alongside being active stewards of investees through engagement and voting.

However, expectations of investors from stakeholders – including beneficiaries, clients, governments and regulators – are shifting, driven by increased visibility and urgency around many issues – such as climate change, income inequality and human rights. The SDGs and the Paris Agreement demonstrate greater clarity from governments around their sustainability goals, and in turn the risks and opportunities created for investors, and the SDG-aligned outcomes that they can support. Several governments have also recognised that the SDGs can serve as a guide for responding to the COVID-19 pandemic: “Guided by the SDGs, we can redesign the power of community, society and global collaboration, to make sure that nobody is left behind.”[13]

Focusing on SDG-aligned outcomes, including through collective action, can also feed back into portfolio performance, and into the resilience of the financial system itself. There is a continuous feedback cycle between (ESG) risks and opportunities and (SDG-aligned) outcomes: ESG issues create risks and opportunities for investors, whose actions shape outcomes on the world, which feed back into portfolios in the form of ESG risks and opportunities, and so on (Figure 2).

8 https://www.ft.com/content/0c0eadc6-f739-11e9-bbe1-4db3476c5ff0
9 https://unctad.org/en/PublicationsLibrary/wir2014_en.pdf
10 https://www.unpri.org/pri/an-introduction-to-responsible-investment/what-are-the-principles-for-responsible-investment
11 https://www.unpri.org/pri/a-blueprint-for-responsible-investment
12 https://www.unpri.org/pri/an-introduction-to-responsible-investment/what-is-responsible-investment
13 https://ec.europa.eu/commission/presscorner/detail/en/AC_20_795

Figure 2: Continuous cycle of investors' SDG outcomes, the resulting state of the world, and ESG investment risks and opportunities



This is particularly true for "universal owners"[14] – large institutions that invest long-term in sufficiently diversified holdings across industries and asset classes that they effectively hold a slice of the overall market. For such investors, overall economic performance will influence the future value of their portfolios more than the performance of individual companies or sectors, incentivising them to support sustainable growth and well-functioning financial markets. A universal owner, and in turn their investment manager(s) and service provider(s), should view these goals holistically, seeking ways to reduce the company-level externalities that produce economy-wide losses, and ways to enhance positive, economy-wide outcomes. Further research is needed to understand if a focus on combining beta/macro/sectoral/cross-sectoral issues with shaping SDG outcomes reduces volatility and risks to economies, and leads to stronger risk-adjusted returns at the overall portfolio level.

In addition to understanding which potential financial risks and opportunities are likely to exist in (and in the transition to) an SDG-aligned world, a focus on SDG-related outcomes allows investors to:

- identify opportunities[15], such as through changes to business models, across supply chains and through new and expanded products and services;
- prepare for and respond to legal and regulatory developments[16], including those that may lead to asset stranding;
- protect their reputation and licence-to-operate (e.g. the trust of beneficiaries, clients and other stakeholders), particularly in the event of negative outcomes from investments;
- meet institutional commitments to global goals (including those based on client or beneficiaries' preferences), and communicate on progress towards meeting those objectives;
- consider materiality over longer time horizons, to include transition risks, tail risks, financial system risks, etc.;
- minimise the negative outcomes and increase the positive outcomes of investments.

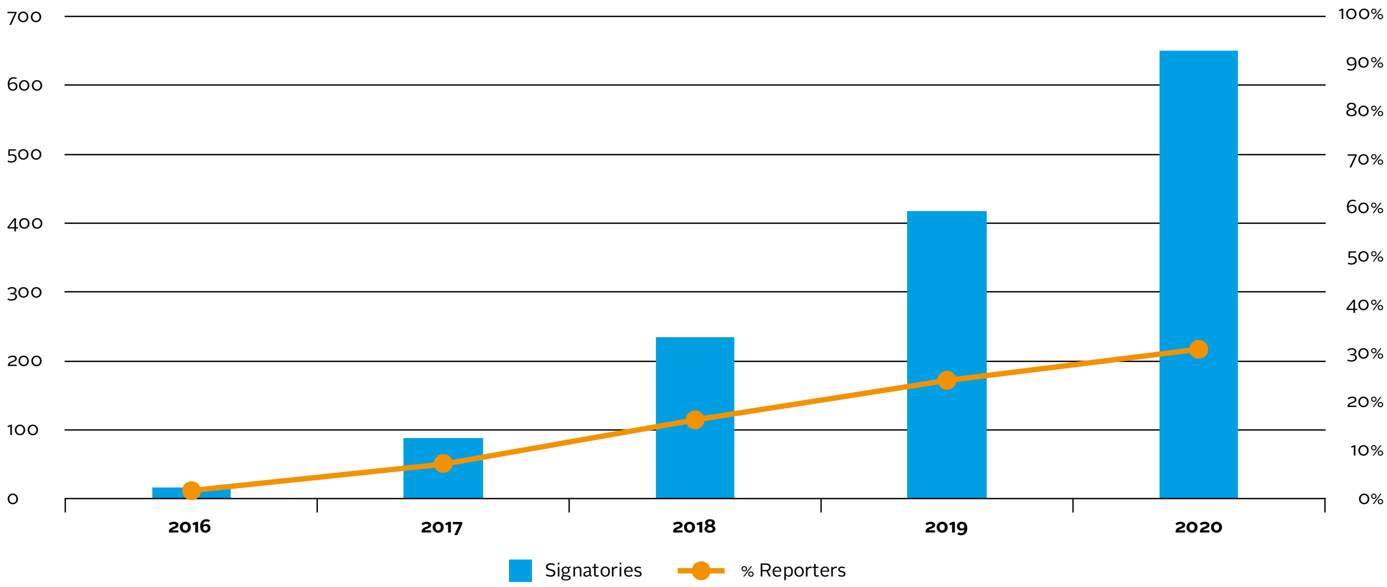
14 There has been discussion about and development of the universal owner approach since Monks and Minow first used the term (R.A.G. Monks and N. Minow, Corporate Governance (1995)). Other major research works include Saint Mary's College of California Universal Ownership: Exploring Opportunities and Challenges: Conference Report (2006) and R. Thamotheram and H. Wildsmith Increasing Long-Term Market Returns: Realizing the Potential of Collective Pension Fund Action - Corporate Governance: An International Review, Vol. 15 (2007), who emphasise the opportunities in asset owner collaboration.

15 https://www.unpri.org/sdgs/the-sdg-investment-case/303.article

16 Including new EU regulations on disclosure or outcomes, and support action toward mandatory human rights due diligence across several European countries.

As a result, a substantial and growing number of investors, including PRI signatories, are now looking beyond how the outside world impacts their portfolios, and seeking to understand and shape their portfolios' outcomes on the world. Many are doing this by making specific commitments to one or more of the SDGs (Figure 3).

Figure 3: Number of signatories (and percentage of reporters) mentioning SDGs in reporting to the PRI, 2016-2020[17]



Number of signatories referring to the SDGs: 17 (2016), 88 (2017), 234 (2018), 418 (2019), 650 (2020)
Number of reporters per year: 1073 ((2%) 2016), 1248 ((7%) 2017), 1449 ((16%) 2018), 1710 ((24%) 2019), 2099 ((31%) 2020)

17 Number of reporters per year: 1073 (2016), 1248 (2017), 1449 (2018), 1710 (2019)

HOW A FOCUS ON SDG-ALIGNED OUTCOMES GOES BEYOND ESG INCORPORATION

Although the increasingly mainstream approaches of ESG incorporation[18] may shape positive, real-world impact aligned with the SDGs, they do not get us as far as we need. (Even impact investing is limited, both due to being primarily focused on positive outcomes, and as it is typically implemented as a specific strategy in one part of the portfolio, rather than being used as a framework for shaping outcomes across the entire portfolio.)

A focus on shaping SDG outcomes involves broadening the approach from being an analysis of financially material ESG issues at an individual investee level, to also include a parallel analysis of the most important outcomes to society and the environment at a systems level (see Example: Clean water and sanitation). These issues and outcomes overlap to some extent, but not fully, and this is part of the gap that needs to close to achieve the SDGs by 2030.

Further analysis and case studies are needed to understand how investors might:

- select the investment with outcomes best aligned to the SDGs, where financial returns between investment opportunities are equal;
- seek alternative sources of return (e.g. different asset classes and products) that can provide more SDG-aligned outcomes, including through strategic asset allocation;
- focus on returns over a longer time horizon.

While some current legal and regulatory frameworks, and many modern fiduciary duties, require investors to consider how material ESG factors are incorporated into their investment decisions[19], most markets do not require investors to consider the reverse – how investment decisions affect ESG issues, nor the SDGs. Investors can engage companies, clients and beneficiaries on SDG outcomes to align investment mandates with contributing to the SDGs, as well as engage policy makers to align capital markets with contributing to the SDGs. *A Legal Framework for Impact*[20] will explore how investors can manage their fiduciary duties and impact within existing legal frameworks (*see Next steps*).

EXAMPLE: CLEAN WATER AND SANITATION

To illustrate the cycle of risks/opportunities and outcomes, we can look at an investor assessing an opportunity in a beverage company that produces water-intensive drinks and operates in a region under high water stress. The company sources water from a river basin that has been experiencing drought in the past two years, and there are other water users such as textile producers, farmers and local communities dependent on the water source.

If pursuing an ESG incorporation approach, an investor might only assess the immediate risks and conclude that the company has good governance systems, all the operating permits required, its products are in high demand and it has secured access to sufficient water sources. In this example, the investor takes the investment opportunity, which enables the company to continue or expand its production, causing further water stress and creating harmful effects on local communities and businesses. This in turn could create a feedback loop leading to a future investment risk – it could ultimately lead to increased CAPEX, OPEX, reputational risks and regulatory risks.

In an approach that also focuses on shaping real-world outcomes of the investment, this outcome on water stress would be something the investor assesses before it makes the investment decision and manages and monitors during the investment. In this case, understanding a specific SDG-related outcome not only contributes to the SDG of clean water and sanitation, it gives an early warning signal for a potential investment risk. The investor could still decide to make the investment, but engage the company with the aim of it becoming a net-zero user of water (i.e. adding the same amount of water back to the river basin as it is using), and engaging the regulator to better price water or to guarantee access for the communities within the basin.

Tightening regulation or rising water prices could also lead to this outcome-focused approach improving risk-adjusted investment performance over time.

The following existing outcome metrics can be used (SASB FB-AB-140a): (1) total water withdrawn, (2) total water consumed, (3) percentage of both water withdrawn and water consumed in regions with High or Extremely High Baseline Water Stress.

18 See definition on page 7
19 https://www.fiduciaryduty21.org/
20 https://www.unepfi.org/investment/legal-framework-for-impact/

A FIVE-PART FRAMEWORK FOR INVESTORS

This section:

- explains how all investor actions have outcomes in the real world – whether intended or not;
- outlines a framework of five parts from which investors wishing to deliberately shape outcomes, in line with the SDGs, can better understand how to do so;
- describes the actions that investors can take in each part of the framework;
- highlights existing initiatives, tools and data that investors can use.

All investor actions – investment decisions and the use of tools of influence – shape positive and negative outcomes in the world.

To support meeting the SDGs, investors must:

- understand the positive and negative outcomes from their investments and related activities;
- seek to shape those outcomes in line with the SDGs.

"Outcomes" can be identified and measured at the level of a particular asset, economic activity, company, sector, country or region. Progress can be assessed against recognised global sustainability performance thresholds and timeframes – including the SDG targets and indicators.

We describe "impact" as a change in outcome (i.e. an outcome shaped by an investor, in line with the SDGs).

INVESTOR ROLES IN OUTCOMES

It is important to distinguish between the different roles that investors can have in relation to outcomes.[21]

There are outcomes that an investor:

- has *caused* – through its own business activities (e.g. outcomes on its own employees);
- has *contributed* to – through a business relationship or investment activity (actions or omissions) that induces or facilitates an outcome from an investee company or project;
- is *directly linked* to – through the activities, products or services of an investee company or project.

While the investee company or project causing the outcome has responsibility, the investor – through its investments, and acting alone or in collaboration with others where appropriate – is in a position to use its leverage to influence the entity, with the aim of decreasing negative and increasing positive outcomes.

In practice the distinction between outcomes caused, outcomes contributed to and outcomes directly linked to is not always clear – there is a continuum between them.[22] Factors determining where on that continuum a particular instance may sit include: the extent to which an entity facilitated or incentivised outcomes from another, the extent to which an entity could or should have known about such outcomes and the quality of any mitigating steps it has taken to seek to prevent or address the outcomes. Activities includes both actions and omission to act.

21 See https://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf and https://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf

22 https://www.ohchr.org/Documents/Issues/Business/InterpretationGuidingPrinciples.pdf

The PRI proposes a five-part framework for investors that are seeking to understand the real-world outcomes of their investments, and to shape those outcomes in line with the SDGs (Figure 4).

1. IDENTIFY OUTCOMES

Investors individually identify and understand the *unintended*[23] outcomes from current investment activities.

2. SET POLICIES AND TARGETS

Investors individually set policies and targets for their intentional activities to shape important outcomes in line with the SDGs: reducing negative outcomes and increasing positive ones.

3. INVESTORS SHAPE OUTCOMES

Investors individually seek to increase positive outcomes, decrease negative outcomes and measure progress toward established targets.

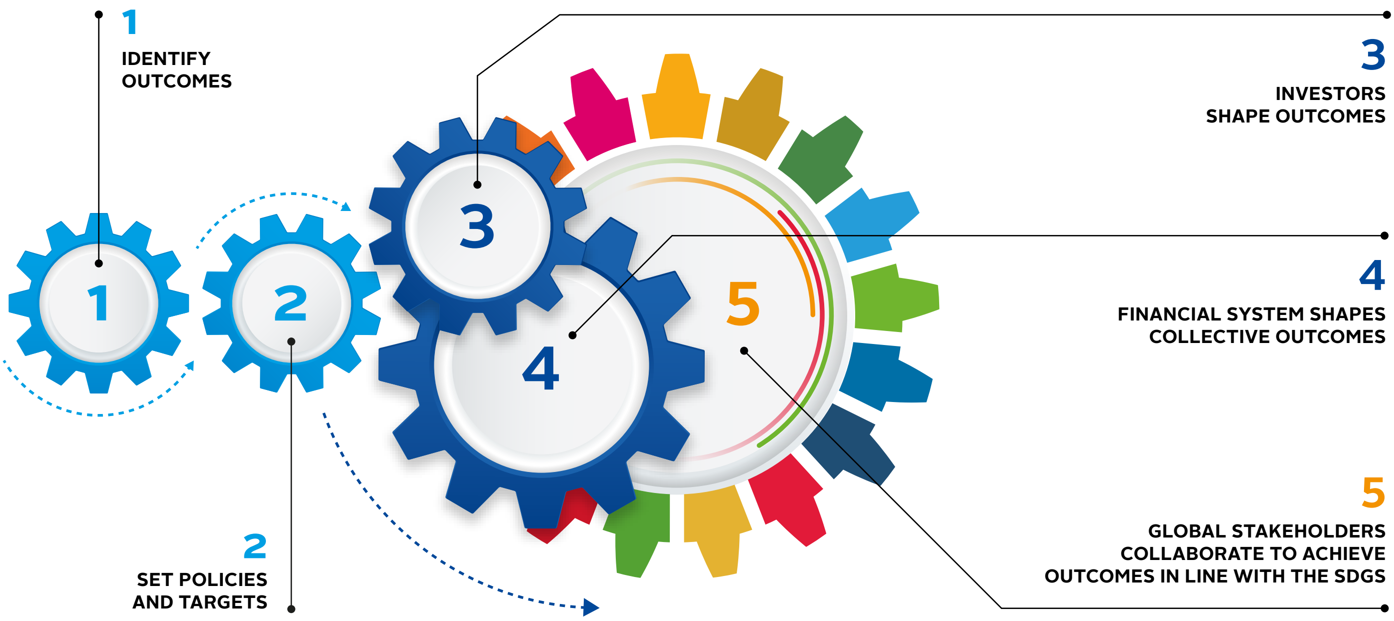
4. FINANCIAL SYSTEM SHAPES COLLECTIVE OUTCOMES

Investors, in aggregate and collectively, seek to increase positive outcomes, decrease negative outcomes and measure collective progress.

5. GLOBAL STAKEHOLDERS COLLABORATE TO ACHIEVE OUTCOMES IN LINE WITH THE SDGS

Investors work with broader stakeholders – including businesses, governments, academia, NGOs, consumers, citizens and the media – to globally achieve all SDGs.

Figure 4: Five-part SDG outcomes framework for investors



23 It is assumed that any current intended outcomes would already have been identified and understood (and based on existing policies and targets).

INVESTOR ACTIONS ACROSS THE FRAMEWORK

While the foundational work described in the first two parts of the framework will often provide the basis for actions taken in the subsequent parts, overall the framework does not rely on being followed in a particular order, and investors' ambitions and/or commitments may be better served by pursuing opportunities selected from across the framework than by working through one part at a time.

In addition, while investors may choose to start using the framework with a particular investment product (e.g. a private equity fund), to be able to drive SDG-aligned outcomes at the global level, most investors will need to progress to focusing on outcomes across their portfolios, including through collaboration with others.

The PRI distinguishes the following set of actions through which investors can shape outcomes in line with the SDGs (applicable to Part 3 and Part 4):

- **investment decisions** – using information on SDG-aligned outcomes in the investment decision-making process, including in portfolio construction, security selection and asset allocation, and/or in selecting, appointing and monitoring external managers/funds;
- **stewardship of investees** – using the right and/or position of ownership in an asset, individually or in collaboration with other investors, to influence the activity or behaviour of investees[24] or potential investees;[25]
- **engagement with policy makers and key stakeholders** – developing or influencing market standards and wider policies set by e.g. governments, regulators, multilateral financial organisations and stock exchanges, to enables investors to shape outcomes in line with the SDGs.

These actions, and resulting outcomes, can then be communicated through disclosure and reporting from individual investors, in aggregate across the financial system and at the global level.

Tools, metrics and data

Although more support for investors needs to be developed, there are already several relevant tools, metrics and data sets, and several approaches that can be useful for investors taking action across the framework (see *Appendix 1*). On issues where there is a heightened sense of urgency and more developed tools are already available (e.g. climate change), there are investors already setting policies and targets as described in Part 2 and undertaking actions described in Part 3 (see *Appendix 2*). For example, a fund with a strategy in place to reduce all negative human rights outcomes in portfolio companies is already working across Parts 2 (defining the strategy) and 3 (implementing it).

Actions in Part 4 and Part 5 require tools to assess progress across all SDG-related outcomes, at the financial system and global level. Given the urgency with which the SDGs must be achieved, investors must work with other key stakeholders to develop the tools and incentives needed (and monitor and measure progress against them).

24 While not enjoying equity investors' position (and legal rights) as owners of the entities in which they invest, fixed income investors are still important stakeholders, with clearly defined legal rights, and can use this position to engage with issuers.

25 In terms of engagement on systemic issues, a recent guide on coal strategy from the French asset management association (AFG) states that: "it is entirely possible to be engaged without being invested in the issuer". https://www.afg.asso.fr/en/speed-up-asset-management-companies-withdrawal-from-coal-afg-publishes-a-guide-and-recommendations/

PART 1: IDENTIFY OUTCOMES

All actions of investors – investment decisions and use of tools of influence – shape positive and negative outcomes in the world. Some may be unintended – some might also be unknown. Part 1 is about investors identifying and understanding the outcomes of their investments and of their own operations (whether caused by, contributed to, or linked to – *see Investor role in outcomes*). It applies to outcomes related to investments in public and private markets and through internal or external management – both within the existing investment portfolio and stewardship activities, and from potential new investments and investment processes.

Building on investors' most common current activities focused on the SDGs – mapping existing investments to the SDGs and determining the scale of investments in explicitly SDG-aligned activities – the next step involves identifying the positive and negative real-world outcomes related to investees' operations, products and services. It involves seeking to understand the outcomes aligned to specific SDGs, and those that cut across multiple goals.

ESG incorporation efforts can be a good starting point – while they will need to be broadened to also shape real-world outcomes (*see Example: Clean water and sanitation*), they can provide metrics and data, as well as lessons on putting in place the necessary organisational processes for identifying and understanding positive and negative outcomes. For example, to identify negative outcomes, investors can use existing screening tools from ESG service providers, such as portfolio screening tools for biodiversity, and tools and data to screen for breaches of the UN Global Compact's Principles.

In addition, there are a number of tools that may be useful for identifying (and in some cases measuring) outcomes, some of which are discussed further throughout this report, and which are listed in Appendix 1.

APG and PGGM have developed the Sustainable Development Investment (SDI) taxonomy[26], identifying investments which, based on their products and services, contribute to the achievement of the SDGs. The forthcoming SDI asset owner platform will provide company-specific data on how businesses relate their activities to the SDGs, using the SDI taxonomy, and in future will include metrics on the outcomes those companies have achieved, e.g. the number of people provided with access to financial services. By using artificial intelligence and big data, the platform can operate across a large number of investments.[27]

The *EU taxonomy for sustainable activities* has created performance thresholds (referred to as "technical screening criteria") to provide investors with a framework for identifying economic activities (and therefore companies) that are: a) making substantive positive contributions to climate change mitigation or adaptation, and b) avoiding significant harm to four other EU environmental objectives (pollution, waste and circular economy, water, biodiversity) – while also meeting minimum social safeguards (defined in reference to the UN Guiding Principles on Human Rights and the OECD guidelines). Financial products offered in the EU will be required to reference the taxonomy by December 2021 (with specific requirements depending on the type of fund).[28]

Other existing climate tools include portfolio carbon footprints (for Scope 1, 2 and 3 emissions, consistent with the Task Force on Climate-related Financial Disclosure (TCFD) recommendations) and forward-looking climate scenario analysis. In many parts of the world there are already data providers and commercial offerings to help investors report in line with the TCFD recommendations.[29] Though some are process-driven or focused on the risks to the investment portfolio only, the tools can also be used to identify and understand outcomes. The climate scenario analysis can, alongside stress testing, also be used to plot and explore ways to increase positive outcomes.

26 https://www.apg.nl/en/publication/sdi%20taxonomies/918

27 https://www.apg.nl/en/article/-Wereldwijd-%20SDI-Asset%20-Owner%20-Platform/1110

28 https://www.unpri.org/Uploads/e/p/k/briefingtaxonomypoliticalagreementdec2019_74471.pdf

29 For example, in December 2017, the UK-China Climate and Environmental Information Disclosure Pilot was established to report against the TCFD. https://www.unpri.org/download?ac=5664

Some stewardship service providers and investment managers have also started mapping their engagement activities to the SDGs, though in some cases this is still focused on tracking activities – such as number of meetings or discussions on a given SDG issue – rather than on shaping actual outcomes. Many tools and benchmarks are focused on investees' processes, which can imply that such activities lead to positive outcomes, but this is not necessarily the case. Key stakeholders within and beyond the financial system will need to work together to further develop and standardise metrics and data to measure outcomes, to then be used in benchmarks. The PRI will support these efforts through its *Driving meaningful data* programme (*see* [Next steps]).

From the policy perspective, the *EU's Regulation on sustainability-related disclosures in the financial services sector* requires financial institutions and financial advisors to publish a statement on how they consider investment decisions' principal adverse impacts on sustainability factors.[30] This is mandatory for firms with more than 500 staff, and operates on a comply-or-explain basis for others. For investors it includes disclosure on:

- policies on the identification and prioritisation of principal adverse sustainability impacts;
- a description of the principal adverse sustainability impacts, and of the actions taken;
- summaries of engagement policies;
- a summary of adherence to standards for due diligence and reporting, and where relevant, the degree of alignment with the Paris Climate Agreement.

Starting to identify and share information on outcomes of current portfolios and investment activities – negative and positive – will enable further learning and demonstrate the type of data (largely still lacking) and reporting tools needed from portfolio companies. Asset owners that use external managers should ask managers to report similarly, stimulating them to start identifying and understanding outcomes, and investing in the data and tools needed to do so.

30 https://www.unpri.org/Uploads/y/h/b/eu_sustainabilitydisclosures_2019_622816.pdf

PART 2: SET POLICIES AND TARGETS

Setting policies and targets moves the investor from identifying and understanding *unintended* outcomes towards taking *intentional* steps to shape outcomes.

The PRI proposes that investors set targets with the aim of:

- reducing important[31] negative outcomes associated with all SDGs;
- increasing important positive outcomes associated with all SDGs.

As outlined above, targeted outcome objectives can be set (and assessed) against recognised global thresholds and timeframes for sustainability performance – including the SDG targets and indicators.

As many outcomes are connected – e.g. climate change and water scarcity, food security and poverty – investors will have to consider outcomes across all investments and all SDGs holistically. Positive progress on one SDG could even result in negative outcomes on another SDG. For targeting negative outcomes, existing frameworks such as the UN Guiding Principles on Business and Human Rights (UNGPs) and the OECD guide *Responsible business conduct for institutional investors* set expectations for investors to identify and manage adverse outcomes (*see Example: Identifying and managing negative human rights outcomes*).

The framework for setting outcome objectives can be embedded in an institution's investment beliefs, or within its responsible investment policy (*see Appendix 3: Investor examples – CDC*). Identifying which SDG outcomes are most important could be informed by the insights learned from Part 1, or based on engagement with stakeholders – e.g. for a pension fund, with their beneficiaries (*see Appendix 3: Investor examples – AP2*).[32]

While several investors already establish targets, these tend to be at the activity level (e.g. x% invested in green bonds), not at the outcome level (e.g. emission intensity per unit of energy generated (g/kWh)). Setting targets can include targets for existing and new investments, whether internally or externally managed, public or private market and beneficiary-, board- or client-led.

An example of investors collaborating in setting targets is the UN-convened Net-Zero Asset Owner Alliance[33] – a group of asset owners that have committed to transition their entire portfolios to net-zero carbon emissions by 2050 to align with the Paris Agreement. The group has committed to regularly report on progress, including establishing intermediate targets every five years, in line with Paris Agreement Article 4.9.

Establishing policies and targets for outcomes can involve changes at different levels throughout the investment chain. In many cases, this would involve integrating SDG outcomes in the same way that ESG factors have been integrated within investment organisations (through guidance documents, tools, objectives, top-down commitment and training). For a pension fund, the starting point could be its strategic asset allocation; for a private equity manager it can be its internal portfolio management team, or asset class specific guidance sourced from third parties. For externally managed assets, assessment of the quality of policies and targets could be included in selection, appointment and monitoring processes.

Setting policies and targets for shaping outcomes can also change the metrics for successful engagement with portfolio companies – across their operations, supply chains and products and services. Although many investors have started mapping their stewardship activities to the SDGs,[34] very few have set (and published) specific outcomes-focused targets for those engagements. One of the most well-known outcomes-focused collaborative engagements is Climate Action 100+ (also relevant to Part 4). It has two traditional process-based objectives: a) board accountability and oversight of climate change risk and opportunities, b) enhancing climate-related financial disclosures in line with TCFD recommendations – and one outcome-focused objective: reductions in greenhouse gas emissions across value chains.[35]

31 An example of one approach to seeking to identify important negative outcomes can be found within the UN Guiding Principles on Business and Human Rights (UNGPs), which uses the term salience to define something that is so prominent or important, that it stands out conspicuously. For example, a company's salient human rights issues are those human rights that stand out because they are at risk of the most severe negative impact through the company's activities or business relationships. The concept of salience uses the lens of negative outcomes to people, not the business (see https://www.ungpreporting.org/resources/salient-human-rights-issues/). This approach could be applied to negative and positive outcomes, across all SDG goals and targets.

32 See for example: www.ipe.com/countries/netherlands/dutch-schemes-fine-tune-esg-investments-following-member-feedback/10027711.fullarticle

33 https://www.unepfi.org/net-zero-alliance/

EXAMPLE: IDENTIFYING AND MANAGING NEGATIVE HUMAN RIGHTS OUTCOMES

The United Nations Guiding Principles on Business and Human Rights[37] (UNGPs) set the expectations for businesses and investors on: respecting human rights, conducting proper due diligence to limit human rights risks and providing remedy for harm they cause or contribute to.

The UNGPs are referenced in the OECD guidance for multinational corporations, and the OECD has recently translated this into specific guidance for institutional investors.[38] This OECD guidance explains that investors are responsible for seeking to prevent and address negative human rights outcomes that they are connected to, i.e. human rights outcomes that they are causing, contributing to or directly linked to (*see Investor role in outcomes*). It discusses the role that investors can take in various asset classes, and in the selection, and stewardship, of investments. It describes the importance of focusing on situations where the risk of adverse outcomes is most significant – measured in terms of scale, scope and irremediable character.

The guidance outlines several practical steps and supporting measures to ensure due diligence by institutional investors is effective, including a number that align to this framework:

- identifying actual and potential negative outcomes within investment portfolios and potential investments (aligns to Part 1);
- embedding human rights outcomes into relevant policies and management systems for investors (aligns to Part 2);
- as appropriate, using leverage to influence investee companies causing negative outcomes on people, society and the environment to prevent or mitigate that outcome (aligns to Part 3);
- accounting for how adverse outcomes are addressed, by a) tracking performance of the investor's own performance in managing such risks and outcomes in its portfolio, and b) communicating results, as appropriate (aligns to Part 3);
- having processes in place to enable remediation in instances where an investor has caused or contributed to a negative outcome on people, society and the environment.

34 https://www.unpri.org/sdgs
35 http://www.climateaction100.org/
36 http://www.climateaction100.org/
37 https://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf
38 https://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf

PART 3: INVESTORS SHAPE OUTCOMES

In Part 3, investors seek to *shape* outcomes in line with the policies and targets set in Part 2, and report and communicate on progress against those objectives. Below we outline examples of how this can be done through each of the investor actions identified – investment decisions; stewardship of investees; engagement with policy makers and key stakeholders – and communicated through disclosure and reporting. Investors should prioritise which actions to use based on which can have the most leverage on their most important outcomes.

INVESTMENT DECISIONS

What role an investor plays in shaping SDG outcomes will be a function of the asset class(es) it invests in, the market(s) in which it operates (e.g. public vs private), its ownership share, its time horizon for investment and its size and resource capacity (*see also* Investor role in outcomes). For example, the ownership share and medium- and long-term horizon of private markets such as infrastructure[39] and private equity can give them considerable scope to shape outcomes.

The PRI's discussion paper on strategic asset allocation[40] proposes that asset owners could incorporate consideration of the SDGs into portfolio construction, with limited impact on risk/return expectations. Investors might also use tools such as the *EU taxonomy for sustainable activities* to design and implement investment products and strategies that focus on environmentally sustainable economic activities (*see more in* Part 1). The target allocations chosen should be accompanied by an approach to monitor the changes in specified outcomes against goals.

Investors with internal investment portfolios will have to develop (or source) frameworks, tools and data to enable investment staff to deliver in line with the policies and targets established in Part 2 (*see* *Appendix 3: Investor examples – Actis and Aviva*). This may also require new incentive structures, internal communications and training. This change management element can largely build upon existing programmes to mainstream the integration of ESG risks and opportunities within the organisation.

Enabling investors to consider outcomes across different asset classes, investment strategies (both passive and active) and financial products (e.g. ETFs) will require a range of different approaches, supported by guidance documents.

One of the most well-established examples of an approach that seeks to increase positive outcomes is impact investing. Impact investing can be undertaken from an impact-first or financial-first perspective, so long as the impact is achieved.

A range of impact investing products or strategies are available to investors, such as green bonds, listed equity impact strategies, micro-finance, green real estate, renewable energy infrastructure and impact venture capital funds.

For investors that use external managers or funds, Part 3 is about using the policies and targets developed in Part 2 in their selection, appointment and monitoring process – directly or in discussion with their investment consultants. This will include adding assessment criteria on changes in outcomes into request for proposals, and requiring external managers and investment funds to report on their progress. External managers and funds will need to develop approaches for translating changes in outcomes at individual investee companies or projects to a total portfolio, mandate or fund level, for ease of communicating to investors.

It is important to note that individual investors reallocating capital does not always shape outcomes in the real world – in some cases only changing which outcomes that particular investor is exposed to. For example, the screening out of certain portfolio companies because of their involvement with negative human rights issues changes the shareholders in that company rather than the outcomes from its activities. This is true unless it happens at a scale that can significantly influence the capital costs of the company (*see* *Part 4* *for more on collective action*).

STEWARDSHIP OF INVESTEES

Once stewardship targets have been set for specific outcomes – e.g. a living wage for workers in the supply chain of a clothing retailer, or adequate clean water and sanitation in a specific region – outcomes can be shaped through the current tools of active ownership: voting and engagement, including participating in collaborative strategies (*see* *Part 4*). Measuring performance against those targets is also similar to traditional measurement of stewardship activities, although outcomes-related data needs further development. Such engagement is not just confined to listed equity investments – it is equally relevant to fixed income and private equity, and to other asset classes such as real estate and infrastructure (*see* *Appendix 3: Investor examples – ACTIAM*).

The difference between stewardship objectives focused on outcomes and those focused on portfolio ESG risks and opportunities – or limited to processes for achieving outcomes – is described in more detail in the PRI's *Active ownership 2.0*.[41] This proposed approach prioritises the pursuit and achievement of positive real-world goals, and highlights that while resources, activity metrics and intermediate goals (e.g. corporate disclosure) are among the levers available to investors, these are not sufficient to deliver outcomes.

39 See upcoming PRI report: Bridging the gap: How infrastructure investors can shape SDG outcomes (due mid-2020)

40 https://www.unpri.org/asset-owners/strategic-asset-allocation

41 https://www.unpri.org/download?ac=9721

ENGAGEMENT WITH POLICY MAKERS AND KEY STAKEHOLDERS

Public policy critically affects the stability and sustainability of financial markets, and of social, environmental and economic systems. Public policy engagement by investors is therefore a natural and necessary extension of an investor's responsibilities and duties. In recent years, there has been a dramatic increase in the attention paid by policy makers to sustainability issues. Since the 2008 financial crisis there has been a surge in policy interventions, based on a growing realisation among regulators that the financial system can play an important role in meeting the global challenges they are working to address.[42] This is also reflected in the activities of PRI signatories, whose engagements with policy makers, regulators and standard setters increased from 44% of signatories in 2016 (1,073) to 61% in 2019 (1,710).[43]

Investors should engage with regulators and policy makers – in their home market and in any jurisdiction that's a significant part of their portfolios – on the wide range of regulatory or legislative developments that would improve outcomes. As outlined in Next steps, the PRI will support investors to focus on ESG issues that have systemic implications for market beta or the real economy. Examples include investor engagement with new government strategies such as the European Green Deal[44], and – in currently hard-to-reach countries, where the most progress is needed in achieving the SDGs – working with policy makers to establish the conditions necessary for investors to direct capital there.

DISCLOSURE AND REPORTING

There are several emerging tools, frameworks, metrics and data sets to support investors in tracking progress against the policies and targets set in Part 2, including against global thresholds and timelines. Some are outlined in Appendix 1, and for climate goals specifically, in Appendix 2. These efforts will need to scale up significantly for investors to be able to measure negative and positive outcomes comprehensively – for each separate SDG, and holistically across all SDGs.

Existing initiatives to develop such tools and metrics have emerged from the impact investing community, and are often focused on specific positive impact sectors, such as healthcare and social housing. There are also tools that address themes that cut across sectors, the two most developed themes being climate change mitigation and human rights. The tools and metrics provide guidance and concepts that can be a starting point for tracking progress at a portfolio level across a wide range of sectors.

The PRI's new Reporting Framework, launching in January 2021, will include questions on if and how signatories are seeking to shape outcomes, individually and collectively, and how progress is being measured against outcome objectives (*see also* Next steps).

42 https://www.unpri.org/pri/an-introduction-to-responsible-investment/what-is-responsible-investment#Regulation

43 https://www.unpri.org/Uploads/c/j/u/pripolicywhitepapertakingstockfinal_335442.pdf

44 https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

PART 4: FINANCIAL SYSTEM SHAPES COLLECTIVE OUTCOMES

Shaping outcomes in line with the SDGs at the financial system level takes place both through aggregating the actions of individual investors (i.e. aggregation of Part 3 activities), and from investors acting collectively – including alongside other financial system participants such as credit rating agencies, index providers, proxy advisors, banks, insurers and multilateral financial institutions.

Ultimately, lasting change in economic sectors or industries relies on changes in technology, regulation or consumer preferences that affect demand for products or services, but all of these can be influenced by the collective actions of investors working with others across the financial system – through their investment decisions and use of tools of influence.

INVESTMENT DECISIONS

The need for collective action on shaping outcomes is clear – as outlined in Part 3, although investment allocation strategies can shape what outcomes an investor is connected to, the real-world outcomes themselves are not always changed. This is particularly clear in screening strategies, where one investor not selecting a company or sector for its portfolio simply means that another one does, with limited impact on the world.

This can change however, if the shift in allocation decisions (and active ownership strategies) happens at scale, meaning companies are influenced to stop or diminish the activities or products with negative outcomes (and/or start/increase ones with positive outcomes). One such example, if implemented across the financial system, could be the UN-convened Net Zero Asset Owner Alliance (described in Part 2).

Other strategies include joint investments by actors across the financial system, such as blended finance vehicles where, for example: banks provide debt, pension funds provide equity and governments or supranational development banks provide first-loss guarantees. One outcomes-focused blended finance initiative is the Blended Finance Breakthrough Taskforce (BFBT) – established by the Business and Sustainable Development Commission (BSDC) – which has published a report that aims to expand the evidence base around the potential for blended finance to narrow the SDG funding gap.[45]

STEWARDSHIP OF INVESTEES

Universal ownership engagement (or beta engagement) – collective investor engagement with a large cohort of companies, enacted on sufficient scale to affect the overall market – will be crucial to shape systems-level outcomes. Climate Action 100+ is a key existing example (described in Part 2). More thinking on large-scale engagement can be found in the PRI's Active ownership 2.0[46]. (*Also see Appendix 3: Investor examples – Nomura*).

ENGAGEMENT WITH POLICY MAKERS AND KEY STAKEHOLDERS

Engagement with policy makers and regulators will need to be implemented collaboratively in order to be effective in lowering barriers to outcomes-focused policies and targets, and in enabling regulatory environments (in the financial system and beyond) that support SDG-aligned outcomes at scale. This will include requiring investors to work closely with participants from across the financial system.

Investors are already engaging with regulators and policy makers to create voluntary frameworks for shaping outcomes. Important developments under the EU Action Plan include the EU Green Bond Standard and voluntary low-carbon benchmarks. The EU Green Bond Standard aims to improve the disclosure of climate-related information and to facilitate the development of low-carbon indices, which can be used as benchmarks for low-carbon strategies.[47] Another example is the ASEAN Green Bond Standards.

On environmental SDGs, investors have engaged in the development of sustainable finance regulations including: in the EU (through the EU taxonomy for sustainable activities (described in Part 1), and the Regulation on sustainability-related disclosures in the financial services sector (see below)), France's Article 173[48] and emerging sustainable finance policy developments in Australia and Canada.[49] On the SDGs more broadly, investors could engage with countries on their voluntary national reviews, and call for country roadmaps for the SDGs or national infrastructure planning related to the SDGs.[50]

DISCLOSURE AND REPORTING

Investors can form coalitions to drive demand for the improved and expanded data sets that will be needed to monitor, measure and report on changes in systems-level outcomes. One example is the Global Real Estate Sustainability Benchmark (GRESB), initiated by a group of European pension funds, which has become the benchmark for ESG performance data for real estate investments. Another is TCFD, which has been an important initiative in the development of climate change metrics and targets.[51]

45 http://businesscommission.org/our-work/blended-finance-taskforce-for-the-global-goals
46 https://www.unpri.org/download?ac=9721
47 https://www.unpri.org/sustainable-financial-system/explaining-the-eu-action-plan-for-financing-sustainable-growth/3000.article
48 France's Article 173 strengthens mandatory carbon disclosure requirements for listed companies and introduces carbon reporting for institutional investors.
49 https://www.unpri.org/Uploads/c/j/u/pripolicywhitepapertakingstockfinal_335442.pdf
50 https://www.unglobalcompact.org/take-action/events/1639-sdg-country-plans-a-roadmap-to-private-investment
51 https://www.fsb-tcfd.org/wp-content/uploads/2019/06/2019-TCFD-Status-Report-FINAL-053119.pdf

PART 5: GLOBAL STAKEHOLDERS COLLABORATE TO ACHIEVE OUTCOMES IN LINE WITH THE SDGS

No one set of actors will achieve the SDGs in isolation. All stakeholders across the finance sector, businesses, governments, academia, civil society, the media, individuals and their communities must act collectively to ultimately achieve the SDGs.

Necessary elements include programmes to connect supply and demand of investments at scale, and collaboration on tools to contextualise outcomes data in the global science- and norms-based thresholds required to achieve the SDGs.

This is not an area in which investors are used to engaging. It will involve creating collaborations and coalitions with stakeholders not typically thought of as partners.[52]

One example of such a collaboration is the Financial Sector Commission on Modern Slavery and Human Trafficking, a public-private partnership between: the governments of Liechtenstein, Australia and the Netherlands; the United Nations University; private sector institutions (including asset owners and investment managers), civil society organisations and foundations. The resulting Finance Against Slavery and Trafficking (FAST) initiative provides a collective action framework for the whole financial sector (including its service providers) to accelerate action to end modern slavery and human trafficking.[53]

Another example is the "Deep Track" in the *Dutch pension funds agreement on responsible investment*, which has been developed by pension funds, NGOs, labour unions and the Dutch government. The parties will work together in engaging selected portfolio companies to mitigate and/or remediate adverse human rights and labour rights outcomes. Engagement targets are selected on human rights and labour rights issues that "pension funds encounter in their investment practice and which they cannot resolve themselves and that could potentially be resolved through cooperation between the parties".[54]

The investment community will need to receive insights, data and tools that match the global societal and planetary thresholds. These can be used to work top-down to the needed outcomes at the level of the asset owner, investment manager and investee entity – and vice versa, bottom-up.

For monitoring performance against the global goals, top-down tools that are already being or have been developed by other stakeholders are a good starting point and can be supplemented or amended with data from tools listed in Appendix 1. Tools developed by policy makers can be such a starting point, including the SDG Tracker[55], UN Environment's Emissions Gap report[56] and the global stocktake process within the Paris Agreement.

52 See e.g. https://www.weforum.org/agenda/2019/12/davos-manifesto-2020-the-universal-purpose-of-a-company-in-the-fourth-industrial-revolution/

53 https://www.fastinitiative.org/

54 www.imvoconvenanten.nl/en/pension-funds/convenant

55 www.SDG-Tracker.org

56 https://www.unenvironment.org/interactive/emissions-gap-report/2019/

NEXT STEPS: PRI SUPPORT FOR SIGNATORIES

This report is only the beginning in bringing together thinking on ESG risks and opportunities with thinking on the potential to shape SDG outcomes. The scale of the challenge will require working with others across the finance sector, as well as with other key stakeholders. The PRI will assist signatories seeking to shape outcomes in line with the SDGs – across the proposed framework, for each of the investor actions – as well as supporting disclosure and reporting. Subsequent guidance on each action could focus on improving transparency and involvement in collaboration, all with the objective of shaping real-world outcomes.

ACROSS THE FRAMEWORK

Building on the investor examples in Appendix 2, the PRI will publish a series of case studies on investing in line with SDGs outcomes. These case studies will focus on a diverse set of examples across asset classes, investor actions and parts of the framework – highlighting approaches taken by investors of different roles, sizes, jurisdictions and methods of investment.

As well as deepening understanding of what investors are doing at an individual investee level, case studies (and further research – including through the PRI's Academic Network) could include a parallel analysis (including considering objectives) of the most important outcomes to society and the environment at the systemic level. Research could also be undertaken to deepen understanding of whether a focus on combining beta/macro/sectoral/cross-sectoral issues with shaping SDG outcomes reduces volatility and risks to economies, and leads to stronger risk-adjusted returns at the overall portfolio level.

The PRI will look to support investors to focus on specific key issues that have systemic implications for market beta or the real economy, such as climate change and human rights. This will include working through a range of other initiatives and channels, as has been outlined for climate change in Appendix 2.

Finally, the PRI will look into developing working groups of signatories (including asset owners, investment managers and service providers) seeking to shape outcomes in line with the SDGs, to support sharing of best practice and to develop consensus on how to address common challenges.

INVESTMENT DECISIONS

The PRI will help signatories to understand opportunities to use their investment decisions to support increasing positive outcomes and decreasing negative outcomes (Parts 3 and 4). This will include guidance to support selection, appointment and monitoring, and for direct investing across asset classes.

STEWARDSHIP OF INVESTEES

The PRI is developing a programme of work (Active ownership 2.0)[57] to build on existing stewardship practices and expertise by moving beyond a focus on processes and interests of individual investors, to a focus on outcomes and common goals.

ENGAGEMENT WITH POLICY MAKERS AND KEY STAKEHOLDERS

The PRI's existing tools[58] and work programme for investor engagement in public policy will inform, or help to support, shaping SDG outcomes – particularly in Parts 3 and 4 of our framework. In addition, in 2019, UNEP FI and the PRI initiated *A Legal Framework for Impact*[59], a project to explore existing legal frameworks in eleven jurisdictions to analyse: a) the extent to which asset owners can prioritise SDG-aligned outcomes, including where this may lead to a negative effect on investment return; b) how investment managers can or should address such outcomes if their investment mandate does not mention them.

57 https://www.unpri.org/download?ac=9721
58 https://www.unpri.org/download?ac=325
59 https://www.unepfi.org/investment/legal-framework-for-impact/
60 https://www.unpri.org/annual-report-2019/delivering-our-blueprint-for-responsible-investment/sustainable-markets/drive-meaningful-data-throughout-markets
61 https://www.unpri.org/Uploads/w/k/m/pri_ra_consultation_results_2020_final_301104.pdf

DISCLOSURE AND REPORTING

Harmonising sustainability performance reporting across the industry

The next phase of the PRI's work on *Driving meaningful data*[60], will include supporting the development of an end-to-end sustainability reporting system that cohesively characterises the risks, opportunities and sustainability performance of corporates and investors, against global thresholds and timeframes – including the SDG targets and indicators.

To do this, the PRI will collaborate to improve the specification, consistency and supply of decision-useful sustainability information, and support the development of appropriate criteria that evolves sustainability-related reporting and disclosure.

Revising the PRI's own Reporting Framework

Following consultation with signatories in 2019 and 2020 on revising the PRI Reporting Framework, and consultation on a draft of this paper in 2020, the PRI will include an initial set of questions on outcomes in the pilot year of the new Reporting Framework in 2021.[61]

The new Reporting Framework will, in the 'core' section (questions that are mandatory to answer, and are assessed), include a small number of questions about policies on shaping real-world outcomes and processes used for identifying outcomes (reflecting Parts 1 and 2 of this framework). Additional questions on outcomes will be included in the 'plus' section (questions that are voluntary to answer and are not assessed), which will focus on how signatories are seeking to shape outcomes, individually and collectively, and how progress is being measured against outcomes objectives (reflecting Parts 2-5 of this framework).

APPENDIX 1: TOOLS ACROSS THE FIVE-PART FRAMEWORK

Visit the PRI website for a regularly updated list of free-to-use, globally applicable tools that may be relevant for identifying outcomes, and/or setting and tracking progress against outcome objectives.

SDG Resources

APPENDIX 2:
TOOLS (CLIMATE OUTCOMES)

Illustration of how various existing tools for investor action can be mapped against each part of the proposed framework, using climate as an example

<table>
<tr><th></th><th>INVESTMENT DECISIONS</th><th>STEWARDSHIP OF INVESTEES</th><th>ENGAGEMENT WITH POLICYMAKERS</th><th>DISCLOSURE AND REPORTING</th></tr>
<tr><td>1. Identify outcomes
Investors identify and understand the unintended outcomes from current investment activities</td><td colspan="4">▪ Task Force on Climate Related Financial Disclosure (TCFD) (including portfolio carbon footprinting Scopes 1-3, and forward-looking climate scenario analysis)
▪ EU Taxonomy for sustainable activities
▪ PRI Reporting Framework (including annual PRI Climate Snapshot)</td></tr>
<tr><td>2. Set policies and targets
Investors set policies and targets for their intentional activities to reduce negative outcomes and increase positive ones.</td><td colspan="4">▪ TCFD (investor disclosure of metrics and targets)
▪ Climate Action 100+ (includes clear objectives in investor engagement with companies such as greenhouse gas emissions reduction)
▪ Transition Pathway Initiative (TPI)
▪ UN Net Zero Asset Owner Alliance (will set targets to align portfolios to net zero by 2050)
▪ EU Taxonomy for sustainable activities</td></tr>
<tr><td>3. Investors shape outcomes
Investors individually seek to increase positive outcomes, decrease negative outcomes and measure progress toward established targets.</td><td colspan="4">▪ Paris Agreement Capital Transition Assessment (PACTA) tool
▪ IPR valuation data
▪ Other tools and initiatives under Parts 1 and 2 above are also relevant for Part 3</td></tr>
<tr><td>4. Financial system shapes collective outcomes
Investors collectively seek to increase positive outcomes, decrease negative outcomes and measure collective progress.</td><td colspan="2">▪ Tools and initiatives under Parts 1, 2 and 3 above are also relevant for Part 4</td><td>▪ Engagement of investors with:
▪ EU Action Plan
▪ EU Green New Deal
▪ Investor Agenda
▪ Green Bond Standards</td><td>▪ UN Climate Portal
▪ IPCC Emissions Gap Report
▪ Global Stocktake (2020)</td></tr>
<tr><td>5. Global stakeholders collaborate to achieve outcomes in line with the SDGs
Investors work with broader stakeholders – including businesses, governments, academia, NGOs, consumers, citizens and the media – to globally achieve all SDGs.</td><td colspan="4">▪ UNFCCC Paris Agreement
▪ SDG Goal 7 – Affordable and Clean Energy
▪ SDG Goal 12 – Responsible Production and Consumption
▪ SDG Goal 13 – Climate Action</td></tr>
</table>

APPENDIX 3: INVESTOR EXAMPLES

ACTIAM

Type of investor	Country	AUM
Investment manager	Netherlands	€63 billion

We have set an objective to contribute to the SDGs with our investments, however, not all investments clearly measure their impact. To improve SDG impact measurements and reporting, we engage investees by asking questions during issuer roadshows.

This has included encouraging regional development banks and other sub-sovereign issuers to follow the best practices of early movers such as the European Investment Bank, which provides the following impact/output metrics:

- annual carbon emissions of the project, including absolute emissions (gross emissions) and avoided emissions (relative emissions against the baseline);
- renewable energy capacity added (in MW);
- energy (heat and electricity) saved (in MWh);
- location of the projects (in the context of access to energy).

We also seek to test whether a given green bond makes a substantial and additional contribution to SDG 7. First, we ensure that the issuer reports on measurable impact across the three investable sub-goals:

- 7.1: Ensure universal access to affordable, reliable and modern energy services
- 7.2: Increase share of renewable energy
- 7.3: Double the global rate of improvement in energy efficiency

We then analyse whether the use of proceeds accelerates or follows the issuer's efforts to shift towards greener activities, by assessing whether the issuer defines quantified upfront hurdle rates or eligibility thresholds that go beyond national standards and regulations.

Where possible, we ask issuers to quantify and report on their impact in relation to the SDGs. However, to assess the impact on less quantified SDGs, we also use qualitative information from the issuer.

In early 2018, we engaged with an investee global financial services group on its contribution to SDG 7.3. Based on its definition of green buildings, we concluded that the risk of locking in weak energy efficiency performance levels was too great. The issuer responded positively to our request to include a more ambitious hurdle rate, committing to only finance projects with efficiency improvements of at least 30%. The issuer also agreed to finance green buildings that are in the top percentile of the local market, thereby aligning with market best practices.

A longer case study on ACTIAM's engagement work with green bond issuers is available on [the PRI website.]

ACTIS

Type of investor	Country	AUM
Investment manager	UK	AUM: US$12 Billion

The Actis Impact Score (AIS) is an in-house tool we developed to identify, measure and monitor the positive social and environmental outcomes of our investments. It allows us to compare across sectors and regions, e.g. evaluating the potential for positive outcomes from a renewable energy company in India, versus an educational investment in Africa. At the outset of any investment, we target a certain AIS to be achieved by exit. The AIS can be measured throughout the investment period. As well as the absolute impact score, the impact multiple – the increase in positive outcomes (impact) during our holding period – is a crucial measure for us to gauge the outcome performance of investments. Moreover, by aligning the AIS with the SDGs, this enables us to present the positive outcomes of our investment decisions using a common language.

From each investment we identify up to five positive outcomes for people or the planet. For each, we then:

- Assess the significance of the impacts to be achieved, in terms of depth and duration of the change in outcomes.
- Evaluate the number of people set to benefit from the investment, and how well-served they will be – e.g. changing outcomes for many marginalised, vulnerable or under-served people would score highly.
- Assess additionality, considering what level of outcome would occur anyway without our investment.
- We then add the scores and multiply by a factor according to whether outcomes are shaped by:
- a core business activity (x5) – e.g. a renewable energy investment reducing the carbon intensity of a grid;
- an ancillary business activity (x3) – e.g. a positive outcomes for people in the primary supply chain;
- a peripheral activity (x1) – e.g. the result of a charitable or philanthropic gesture.

Finally, we assess the risk of the intended impact (change in outcome) not happening. This is considered alongside the score when making investment decisions.

For example, we used the AIS to assess the change in outcomes generated in line with the SDGs through investment in a renewable energy platform in India – Ostro Energy – which focused on the construction of wind power and solar energy projects. Within four years of its inception, Ostro had signed long-term power purchase agreements (PPAs) totalling 1.1 gigawatts in states where 54% of power was generated from coal (of which 850MW was operational at the time of Actis' exit from the investment[62]). The company also created more than 4,500 jobs for Indian workers, with a strong emphasis on worker welfare, and made further investments in local community projects, such as to improve drinking water.

These measurable outcomes of the project – as calculated by the AIS – were mapped to the SDGs prior to Actis' exit in 2018. For newer investments, we are reviewing impact scores on an annual basis in order to give a clear indication of progress – or not – towards the initial outcomes forecast. If the business in underperforming, we seek to correct that alongside the deal team and management. Given that our intended outcomes are closely aligned with the business case, investments that are underperforming on outcomes are typically underperforming commercially, and so corrective actions are usually implemented in collaboration with the deal team.

62 https://vimeo.com/328685850; https://www.act.is/media/2733/empea-ostro-case-study.pdf; https://www.windpowermonthly.com/article/1460951/renew-power-acquires-ostro-energy

63 https://www.ap2.se/globalassets/hallbarhet-agarstyrning/manskliga-rattigheter/report-on-human-rights-2019-according-to-ungprf.pdf

ANDRA AP FONDEN (AP2)

Type of investor	Country	AUM
Asset owner	Sweden	SEK381.3 billion[63]

Since 2016, we have been engaged in a project to enhance the integration of human rights issues in our investment decisions (focusing on listed global equities), assisted by Shift (an expert on the UN Guiding Principles on Business and Human Rights (UNGPs)). We manage most of this asset class quantitatively, taking small holdings in a large number of portfolio companies that are active across the globe in different sectors. The diversity of the holdings was both a driver and a key challenge for establishing a clear idea of the risks across the asset class.

Our analysis sought to identify the negative human rights outcomes that would be common to sectors in which portfolio companies operate. We also looked at whether portfolio companies operated in a particular context or region considered highly vulnerable to human rights abuses, and whether the companies had instituted policies and processes for managing these risks.

In determining the severity of potential human rights outcomes, special attention was paid to the scale, scope and irremediable character of those outcomes. For example, risks in an industry with wide-ranging problems such as the use of slave labour would be assessed as severe, both in terms of the scale and the scope of the negative outcomes. Activities where vulnerable groups such as women, children, minorities or indigenous peoples might be adversely affected were also deemed severe (and therefore would be prioritised).

One insight from this process was the challenges that arose in prioritising the identified negative human rights outcomes (potential or existing): most of the sectors we analysed were assessed as having potential severe negative human rights outcomes, including 40 sub-sectors, but there was limited data available on those outcomes at a company level.

As a result of the findings from the first analysis, we aim to develop an in-house quantitative data model that can provide a more adequate and complete picture of negative human rights outcomes. Information, that AP2 can then use to decide which outcomes to prioritise. The model will systematically analyse and monitor specific issues, such as how the risk of child labour is changing in different sectors and countries over time.

AVIVA INVESTORS

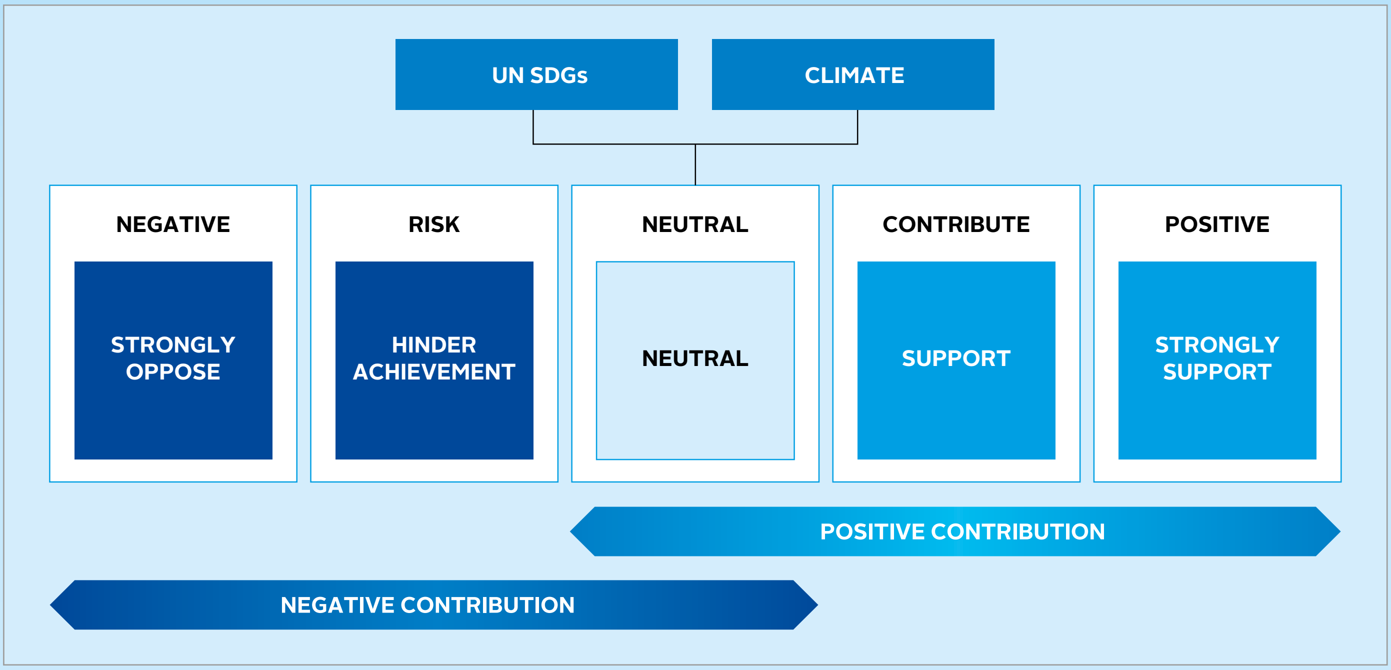
Type of investor	Country	AUM
Investment manager	UK	US$424 billion

Our real assets business uses the SDGs as a framework to assess whether a project contributes positively toward environmental and social outcomes. The responsible investment team apply an ESG-balanced scorecard approach to analyse proposed transactions, complemented by an impact overlay to consider a project's potential contribution to the SDGs (per the figure below). The team works closely with origination and investment teams to apply this framework, which will ultimately support decisions by the investment committee.

As an example, we were considering financing a European utility, whose main business is supplying localised energy, with a strong focus on efficiency improvements. The company had a roadmap for reducing the carbon footprint of its operations, but still supplied energy generated from coal (albeit this exposure was declining).

Before investing, we wanted additional assurance that the company would adhere to its decarbonisation plans, so we imposed an ESG-specific covenant onto an infrastructure debt issuance, prohibiting the building of any new coal plants and including tight limits on transaction activity linked to coal (e.g. acquiring any company or business that is in the process of building any coal plants). Reporting obligations were also included in the agreement, ensuring that we are kept up-to-date with progress of the decarbonisation programme.

Figure 5: Developing impact model to align ESG Social/Development



CAISSE DES DÉPÔTS AND CONSIGNATIONS (CDC)

Type of investor	Country	AUM
Asset owner	France	€430 billion

In 2019 we initiated a group-wide project to assess and increase our business units' contribution to the SDGs.

Our goals were to:

- pilot how each unit implements and accounts for our new corporate mission: "reducing social and territorial inequalities";
- better articulate financial, strategic and sustainability management processes.

The project is structured around an SDG-balanced scorecard – an action plan for each business unit to improve its contributions. These are defined as intentional actions implemented to improve each unit's positive impact, or reduce its negative impact, on one or more SDG targets.

The scorecard has been defined through a bottom-up materiality analysis to reflect the diversity of our activities and their impacts. With the assistance of the responsible investment team, each unit first rated the positive and negative impacts of their activities on the different SDG targets, and then identified potential actions that could be implemented to improve them. Based on this mapping, each unit drew up its action plan by using three types of criteria: real economy impact; contribution to operational efficiency; strategic alignment.

The resulting SDG scorecards for each business unit were consolidated at Group level into:

- "priority SDGs", where the ambition is to improve the impact through close integration into management processes (SDGs 4, 7, 8, 9, 10, 11 and 13);
- "significant SDGs", which are significant for some activities and require close monitoring to ensure the impact does not worsen (SDGs 3, 5, 12, 15 and 17).

Depending on the business unit and SDG target, action may take different forms, including:

- strengthening due diligence;
- prioritising an issue in the shareholder engagement program;
- increasing thematic allocation;
- integration into corporate management policy (e.g. HR, facility management).

As an example, for the priority SDG on climate change (SDG 13), our action plan is focused on increasing allocations that support the transition to a low-carbon economy, strengthening our fossil fuel policy (exclusion, analysis and engagement), aligning portfolios' carbon footprints reduction targets with the target of net zero emission in 2050 and achieving carbon neutrality across our own scope 1 & 2 emissions. Each unit has specific actions in place to implement these policies in line with their activities and mandates.

The overall group scorecard is approved by the executive board and integrated into strategic planning. The SDG taskforce is now defining processes and indicators to enable the board to monitor implementation, with the aim of defining associated performance targets by 2021.

NOMURA ASSET MANAGEMENT

Type of investor	Country	AUM
Investment manager	Japan	US$494 billion

To contribute to SDG 3 – the goal of ensuring healthy lives and promoting well-being for all at all ages – we are focused on supporting target 3.3: ending the epidemics of AIDS, tuberculosis, malaria and other communicable diseases by 2030.

The largest global HIV drug makers not only invest billions of dollars to develop ever more effective pharmaceutical solutions, but also make significant investments and commitments towards ensuring broad access to those solutions. "Access" ranges from donating patents, to patent pools (allowing generic drug manufacturers to produce patented drugs to distribute in developing economies at vastly reduced prices), to directly donating drugs and funding patient access programmes.

To track an investee company's contribution to reducing global mortality rates from HIV, we monitor the following metrics:

- patients receiving HIV treatment in low/middle income countries;
- investment in R&D.

We are also a co-lead investor (since September 2019) on a 98-investor collaborative engagement on access to medicine. The Access to Medicine Foundation supports broadening access strategies, expanding the number of drugs covered under voluntary licensing agreements and increasing the number of countries covered.

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The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

More information: www.unpri.org

The PRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact.

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

More information: www.unepfi.org

United Nations Global Compact

The United Nations Global Compact is a call to companies everywhere to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues embodied in the Sustainable Development Goals. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate practices. Launched in 2000, it is the largest corporate sustainability initiative in the world, with more than 8,800 companies and 4,000 non-business signatories based in over 160 countries, and more than 80 Local Networks.

More information: www.unglobalcompact.org