Does Allan Gray incorporate the United Nations' Sustainability Development Goals into analysis, engagement and reporting?

The 2030 Agenda for Sustainable Development ("the Agenda"), formulated and adopted by the United Nations, provides a blueprint for creating peace and prosperity for people and the planet. The Agenda sets out 17 objectives – the Sustainable Development Goals (SDGs) – reflecting the economic, social and environmental dimensions of sustainable development.

While the Agenda recognises the eradication of poverty as the greatest global challenge, the SDGs cover a number of other pertinent issues, such as climate action, affordable and clean energy, gender equality and responsible consumption and production. The SDGs and the 169 more granular associated targets came into effect on 1 January 2016 to guide action over a 15-year period.

Sustainable Development Goals

1. End poverty in all its forms everywhere
2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture
3. Ensure healthy lives and promote well-being for all at all ages
4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
5. Achieve gender equality and empower all women and girls
6. Ensure availability and sustainable management of water and sanitation for all
7. Ensure access to affordable, reliable, sustainable and modern energy for all
8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
9. Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation
10. Reduce inequality within and among countries
11. Make cities and human settlements inclusive, safe, resilient and sustainable
12. Ensure sustainable consumption and production patterns
13. Take urgent action to combat climate change and its impacts
14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development
15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
17. Strengthen the means of implementation and revitalise the Global Partnership for Sustainable Development

We recognise the value of the SDGs as a common language and global consensus of the critical and systemic challenges facing society, and we applaud the efforts made towards delivering an ambitious global development agenda.

We accept that any undertaking of such ambitious scope will likely not satisfy everyone. There are simply too many political views to balance. However, we cannot ignore the Agenda's serious shortcomings, such as 1) the tension that exists between the economic and environmental objectives, 2) its non-hierarchical structure which frustrates prioritisation, and 3) the unrealistic pace of economic growth that would be needed to finance the necessary interventions, reducing the Agenda to an aspirational manifesto rather than a practically achievable development plan.

From an asset manager's point of view, we see the SDGs used in primarily three ways:

- Companies mapping their activities against the SDGs
- Third-party providers tagging companies based on their main business activities (e.g. for the inclusion of companies in SDG-aligned indices or funds)
- SDG alignment informing the investment decisions or ownership activities of investors and asset managers

There is some benefit to companies considering how they contribute to the SDGs in terms of focusing their sustainability efforts. For example, Sasol prioritises four SDGs in its sustainability strategy: creating decent work and economic growth, responsible consumption and production, climate action and strategic partnerships towards achieving the goals.

However, the objectives are broadly framed, such that most businesses can map at least some of its activities against the SDGs. For example, one of the leading tobacco companies maps its activities to all SDGs, whereas one could argue that these "positives" are overshadowed by the very nature of its primary business. As another example, any company can claim alignment to SDG 8 by virtue of employing people, which raises questions around the usefulness of the framework in this context.

We have seen instances of SDGs being used to add a veneer of sustainability to existing activities rather than being used to inspire new strategies in pursuit of sustainability. Indeed, we see so-called "rainbow washing" – exaggerated claims of impact or virtue signalling with reference to the SDGs – as one of the most pertinent examples of deceptive ESG reporting.

Unlike frameworks specific to the investment industry, the SDGs were not designed as a responsible investment tool. There are no classification guidance, disclosure requirements or technical specifications for measurement. The SDG tagging of companies is a subjective exercise, not unlike the production of ESG ratings (refer to ESG FAQs - Ratings). We take note of a general lack of balance, with a focus on SDG-positive activities without the necessary disclosure around uncertainty or areas of concern.

In terms of our investment process, we do not aim to align our investment decisions and ownership activities to the SDG framework. We are not impact investors and do not manage portfolios with particular development goals in mind. We also do not analyse how every company in the portfolio reports its SDG achievements against our assessment of such. Instead, we follow a risk-based approach to ESG whereby we focus our research and engagement efforts on issues that have the largest potential impact on our clients' portfolios or where we are most able to influence change.

We do not explicitly map our engagements or voting activity to the SDGs. We prefer a bottom-up approach to identifying risks rather than relying on the SDGs as a template framework. We consider after-the-fact categorisation of stewardship activities by SDG for reporting purposes as a highly subjective exercise.

Although we do not align our activities to the SDGs, we have invested in companies that we think are fulfilling important societal objectives and present investment opportunities through innovation, such as Transaction Capital, which finances the underserved minibus taxi market in South Africa, or Curro and ADvTECH, who help to make private schooling more affordable in the context of a struggling South African public education system.

How the SDGs can help

This does not mean that we are dismissive of the SDGs in general. They offer a comprehensive frame of reference to governments and development agencies and can also play an important role in the context of sustainability finance as the most credible articulation of developmental focus areas.

For example:

- The SDGs can be advanced through the development of innovative financial instruments that focus on any of the 174 targets underlying the SDGs. In such cases, target outcomes should be defined and measurable.
- The SDGs offer a helpful point of departure for the development of more formal taxonomies for sustainability activities, such as the Green Finance Taxonomy, which offers a classification system that enables impactful environmental investment. Stricter guidance in terms of the activities that qualify should help to address the proliferation of mislabelling.
- SDG tagging can be done in a responsible manner, whereby SDG claims are limited to those that are meaningful and relevant to the main activities of the company and balanced by offsetting behaviour and the risk of adverse outcomes. Similarly, SDG funds have a responsibility to disclose the fullness of impact, as opposed to a selection of aligned activities in isolation.

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