



Guillaume Mascotto, American Century Investments

Guillaume Mascotto is American Century Investments' vice president and head of ESG and investment stewardship. Prior to joining American Century Investments, he was vice president, ESG credit research at Pacific Investment Management Company (PIMCO) responsible for analysing and integrating ESG risk factors into PIMCO's credit research process.

Alpha with impact: Effective impact investing

Guillaume Mascotto

A central component of effective impact investing is that investors do not need to make a binary distinction between impact and returns. Some asset managers, like American Century, offer a double-impact proposition: to invest in companies that fuel change by contributing to the United Nations' Sustainable Development Goals (SDGs) while directly supporting life-saving research and contributing to the global fight against cancer.

Providing investment solutions geared toward the SDG goals is a natural extension of the impact asset managers create through a unique business model such as our own. With over 40% of dividends distributed to the Stowers Institute for Medical Research, clients directly support lifesaving research and contribute to the global fight against cancer.

The impact process

Central to this is the development our own Impact Generation Framework to ensure every investment made is based on a demonstrable financial business case and a quantifiable impact on society and/or the environment.

This framework, which draws on the Theory of Change, seeks to achieve positive change through two impact mechanisms:

1. Enabling growth by investing in companies with current or projected net-positive impact
2. Encouraging improvement through active engagement with companies.

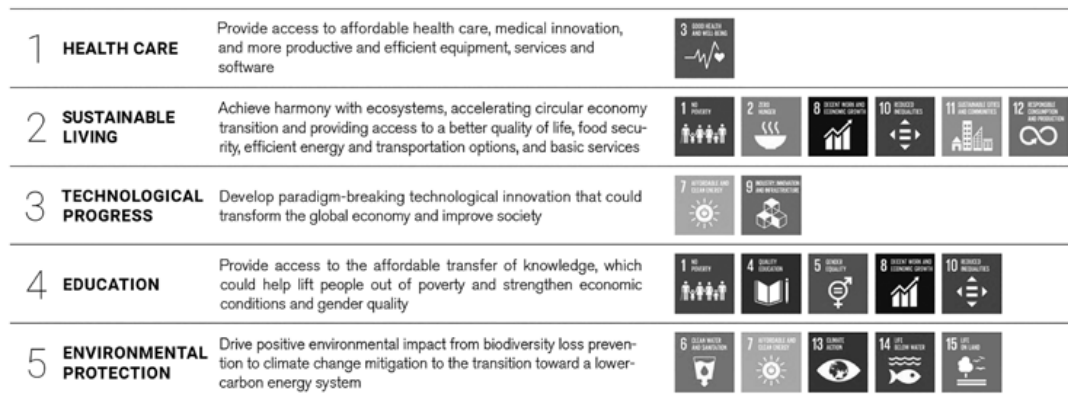
The framework consists of five impact themes, each with their own subset of factors. Each theme is mapped directly according to the UN SDGs so investors can see how individual securities are linked to sustainability.

To ensure proper SDG alignment, we reference the Sustainable Development Investments taxonomy developed by Dutch pension investors PGGM and APG.¹ The taxonomy provides our portfolio managers with guidance when determining whether a company addresses one or more of the SDGs.

Additionally, analysts may utilise a variety of resources, including mapping tools and direct company engagement to further validate SDG alignment:

- **Environmental protection:** Solutions that drive positive environmental impact from the prevention or remediation of biodiversity loss to the mitigation of carbon, toxic air emissions and other hazardous releases to the transition toward a lower-carbon energy system.

Figure 1. Impact generation framework



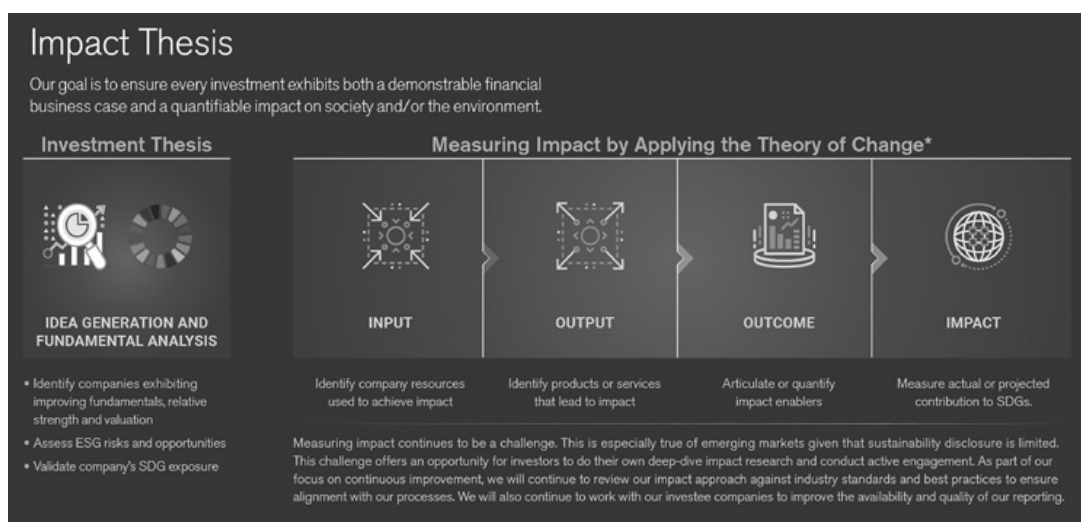
Source: American Century Investments



The quote

Providing investment solutions geared towards the SDG goals is a natural extension of the impact asset managers create.

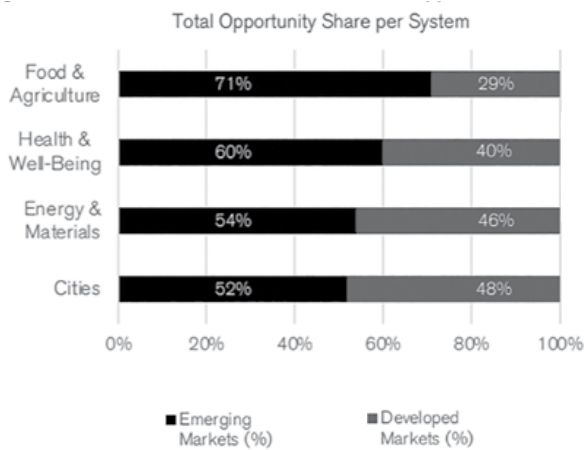
Figure 2. Impact thesis



Source: American Century Investments

- **SDG Goals:** *Affordable and Clean Energy (7), Climate Action (13), Clean Water (6), Life on Land (15), Life under Water (14).*
 - **Healthcare:** Access to affordable healthcare, medical innovation, and more productive and efficient equipment, services and software.
 - **SDG Goals:** *Good Health and Well-Being (3)*
 - **Sustainable living:** The use of advanced technology to address urbanisation in harmony with our ecosystems, accelerating the transition to a circular economy and providing urban and rural populations access to a better quality of life, food security, efficient energy and transportation options, and basic services.
 - **SDG Goals:** *Sustainable Cities and Communities (11), Responsible Consumption and Production (12), Decent work and Economic Growth (8), Reduced Inequalities (10), Zero Hunger (2), No Poverty (1).*
 - **Education:** Access to the affordable transfer of knowledge, which can help lift people out of poverty and strengthen economic conditions and gender equality.
 - **SDG Goals:** *Quality Education (4), Decent work and Economic Growth (8), Reduced Inequalities (10), Gender Equality (5).*
 - **Technological progress:** Interconnected to the other four themes, this focuses on the development of paradigm-breaking technology that could improve society.
 - **SDG Goals:** *Industry, Innovation and Infrastructure (9), Affordable and Clean Energy (7).*
- To avoid “impact washing”, our impact framework does not permit investing in companies that are in violation of the UN Global Compact principles and that are on the exclusion list recommended by the Council on Ethics of the Norwegian Government Pensions Fund Global.

Figure 3. More than half of SDG investment opportunities are in EM



Source: Business & Sustainable Development Commission. Better Business, Better World, January 2017

Candidates for portfolio addition must exhibit improving fundamentals and accelerating growth characteristics alongside current or projected revenue stream alignment with one or more SDG goals underpinning these themes. Each company is then evaluated to ensure potential to risks to impact are identified and adequately managed, using our proprietary ESG scoring system.

We then quantify the impact we expect companies to have. Where we cannot identify an appropriate metric, engagement with management is made to confirm a company's SDG alignment and monitor progress toward SDG impact.

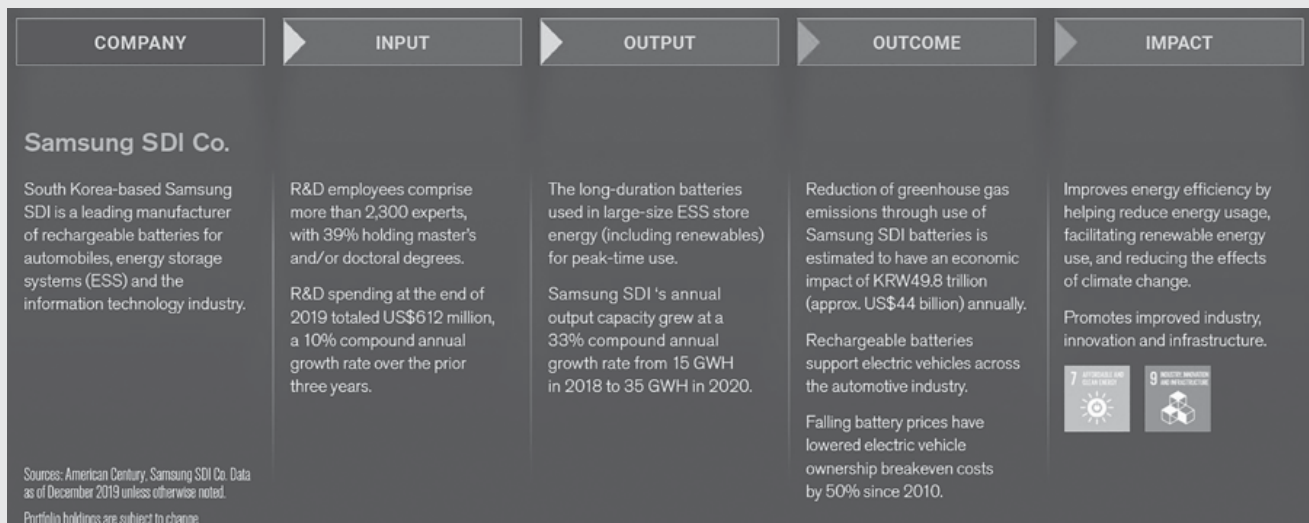
Our process culminates in an impact thesis for each company that explains current or projected SDG alignment in combination with the company's fundamental growth profile.

Impact is also measured by the portfolio's allocation per impact theme and alignment with corresponding SDG goals as well as by an impact thesis which justifies the actions/solutions each portfolio holding brings to SDG issues.

Why impact investing in emerging markets

Relative to developed markets, emerging markets (EMs) have a greater need for investments in infrastructure, technological innova-

Impact investing case study: Samsung SDI Co.



Our impact framework integrates material ESG factors into bottom-up investment analysis. We use a proprietary ESG scoring system to generate quality ESG scores based on various quantitative and qualitative ESG indicators that are sector-specific and derived from reported and third-party data.

Environmental and social: Samsung SDI's intention to introduce the Closed-Loop System by installing a waste battery take back system is encouraging, since this demonstrates alignment with the circular economy theme. The company is investing in innovations including 5G communication, IoT, smartphone wearables and augmented/virtual reality as well as goods that demand eco-friendly and high-efficiency operations (such as electric bicycles). It is also expanding the research base of secondary batteries. As a result, despite an increase in GHG intensity, we remain positive

on the environmental pillar trend. As per best practices, Samsung SDI Quality Management Policy is in compliance with ISO 9001, IATF 16949. Samsung SDI requires that suppliers comply with the Supplier Code of Conduct and works to establish transparency and equitability in non-financial risks. Although the company is flagged for a controversy regarding its supply chain allegedly allowing child labor in cobalt mining, the company appears to be bolstering its supply chain oversight and management.

Governance: We disagree with MSCI's overly severe assessment of company's governance practices which penalises SDI for accounting risk (far-fetched in our opinion) and lack of disclosure on exec comp (no say on pay required in Korea). Samsung SDI's board of directors is 57% independent, above our 51% threshold, with an independent audit committee.

tion and educational improvements. Living standards in some EM nations are among the lowest in the world—socioeconomic, gender and income inequalities can be profound. The region is also more vulnerable to environmental and health-related issues, such as pandemics and rare diseases. All these conditions make investing with an SDG focus in emerging markets especially relevant.

With large and growing populations, some of which are experiencing great wealth and equality disparities, EM companies have greater potential to benefit from growth generated by realising the positive impact the SDGs intend to achieve. Attaining the SDGs could therefore serve as a fundamental driver of growth in corporate revenues and earnings. In turn, these could drive returns from equities and other assets.

By investing with the intention of helping advance the SDGs, investors can play a critical role in creating a more inclusive society. According to the Business and Sustainable Development Commission, more than half the value of the global goals' business opportunities are in developing countries. EM represents the lion's share of opportunities across the food and agriculture, cities, energy and materials, and health and wellbeing systems. A notable portion of these opportunities lie in China, India and other countries in Asia.

Advancing the SDGs in EM also represents the potential to create millions of new jobs across these four systems. SDG investing could create \$12 trillion or more in market opportunities and up to 380 million jobs by 2030, with nearly half of these new jobs in EM cities.² **FS**

Notes

1. <https://www.pggm.nl/en/press/us-1-trillion-asset-owner-platform-launches-solution-for-identifying-sdg-investments/>

2. Business & Sustainable Development Commission. *Better Business, Better World*, January 2017.