

Hermes EOS response to recommendations for SDG disclosure - A consultation paper

Via Email

Dear Ms. Adams,

Hermes Investment Management is an asset manager with a difference. Our purpose is helping beneficiaries retire better by providing world class active investment management and stewardship services. We focus on holistic returns – outcomes for our clients that go far beyond the financial – and consider the impact our decisions have on society, the environment and the wider world. Our stewardship team, Hermes EOS, is one of the world's leading engagement resources, advising on £634 billion behalf of institutional investors (as at 30 September 2019). The views expressed in this communication are those of Hermes EOS and do not necessarily represent the views of all clients.

The SDGs provide a common purpose and language for investors and companies to work together on externally agreed objectives. Indeed, we view the SDGs as a 'universal lens' which investors, companies and stakeholders across society and including the global environment can share in finding solutions which lead to meaningful and measurable outcomes for the world's biggest challenges. They also provide a clear timeframe in which change needs to take place, helping to set targets and create a greater sense of urgency.

This allows us to have more robust engagement discussions, with an opportunity to engage along value chains in both goods and services sectors. It opens the door to conversations in different parts of the business and different stages of product lifecycles, as well as potentially with suppliers or customers.

We broadly welcome the recommendations set out in your consultation and we would add the following points:

- 1) We believe that one of the shortfalls with current reporting is that most companies map their existing work to the SDGs. We think one of the opportunities reporting frameworks present is to trigger change by using the goals and encouraging companies to identify untapped market opportunities presented by the SDGs.

Through our engagement, we encourage companies to view the SDGs as a framework to identify untapped market potential, and indeed, to use it as a strategic reference for exploring opportunities with meaningful social or environmental value creation. There has been substantial research and analysis done to demonstrate, by sector and SDG, the specific business opportunities available through pursuing the SDGs. Accordingly, we would like to see companies using this as an opportunity to access new customers or offer new products and services to existing customers. It may also give businesses the chance to reflect on whether their business models could deliver benefits in a manner which drives social and environmental value through how they operate, in addition to the products or services they provide.

- 2) We are concerned that companies may use the SDGs to frame their positive environmental and social impacts attractively whilst failing to acknowledge that the bulk of their business activity, revenues or product volumes are still incompatible with the aims of the SDGs. For example, the automotive sector may have considerable 'climate action' contributions which it can quantify and validate, even if the majority of its manufactured vehicles still contribute to fossil fuel demand and considerable local air pollution and congestion. Therefore, we believe SDG achievement should be stated relative to the entire volume, turnover, or throughput of a business – such as the proportion of overall product sales, proportion of materials procured, etc. We worry that businesses that produce excellent SDG-based measures and disclosures for only a subset of their businesses could earn an undeserved reputation of being leading contributors to social and environmental progress. We believe businesses need to be transparent and honest about the scale of positive impact.
- 3) If the paper is meant to be used by companies globally, it may be useful to provide best practice examples from outside Europe. We tend to see that reporting in the US, for example, is less robust than its European peers, so it may be useful to include an example from a US based company. We think Citibank does a good job of its SDG reporting, as it sets clear targets and outlines the additional activity it is undertaking in direct response to the SDGs.
- 4) We think that partnerships are critical to achieving the goals and that the most forward thinking companies will invest in developing the relationships with other private and public sector organisations.

Thank you for the opportunity to comment and please do let me know if you would like to discuss any of the above.

Kimberley Lewis
Hermes EOS