

2023

UN SUSTAINABLE DEVELOPMENT GOALS METHODOLOGY

Janus Henderson Global Sustainable Equity Strategy



Introduction

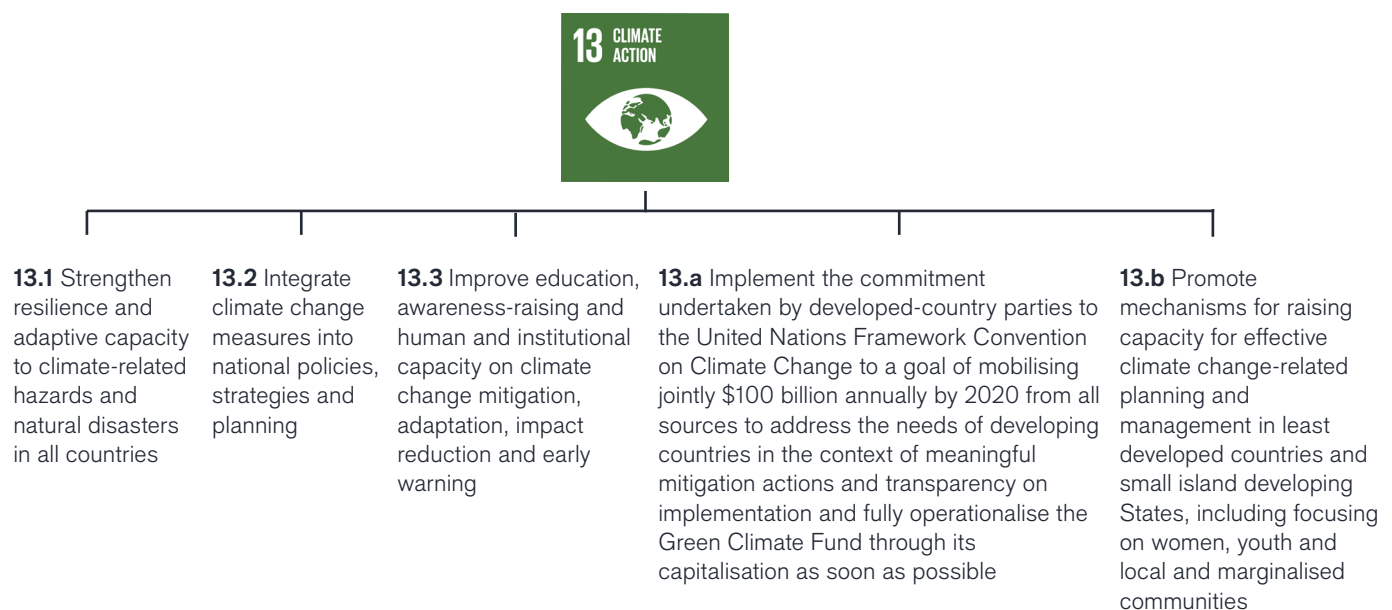
The UN Sustainable Development Goals (SDGs) call on companies everywhere to advance sustainable development through the investments they make, the solutions they develop and the business practices they adopt.



Background

The 17 sustainable development goals are broken down into 169 targets which cover products/services, operations and charitable endeavours. Each goal is multi-faceted and two seemingly different targets can often be combined in a single goal.

To illustrate this, climate action (goal 13) emphasises the need to improve education which may at first appear incongruous with tackling climate change. Upon closer inspection however, the need for improved education and awareness around mitigation, adaption and impact reduction is an essential step in taking action against climate change over a long term horizon.



The first challenge is **interpretation** of the goals and the targets.

Each of the 17 goals are created to be integrated and indivisible, global in nature and universally applicable. According to the SDG Compass¹ the indivisible nature of each goal means that a company cannot successfully meet these goals with discrete business practices that address individual targets. A company must, instead, show evidence of practices towards each goal across the entirety of the company's product and operations. Our methodology uses data about the company's

- **Products/services**
- **Operations**
- **Charitable endeavours**

The interpretation of each goal is subjective and, in order to maintain a consistent view of each goal that closely matched the vision of the UN, we consulted the UN Global Compact toolkit. This is a collection of documents which provide greater clarity on business engagement with the UN SDGs.



TOOLKIT - Business engagement with the SDGs



One of the key documents used to establish our methodology was **Business Reporting on the SDGs: an analysis of the goals and targets**, which outlines how a business can contribute to each sustainable development goal. The document contains a list of potential business actions that can contribute to a target (also including what does not contribute to a target), potential gaps and indicators. Most importantly, the document outlines where to find the necessary information within company reports to begin the analysis of our portfolio holdings.

We have also used the document IRIS+ and the SDGs to identify impact performance measurement towards the SDGs. The document produced by the Global Impact Investing Network (GIIN) shows alignment between IRIS+ Core Metrics Sets and the UN SDGs.

Methodology

We assessed every aspect of a company against the list of applicable business actions according to the **Business Reporting on the SDGs: An Analysis Of The Goals And Targets**. We used the list of disclosures to identify the relevant sources of publicly disclosed information and we used IRIS+ and the SDGs to identify the impact performance measurements (where applicable) for each target assessed.

Where applicable, we applied the following thresholds:

- we did not include any product or service that contributed to less than 30% of the company's total revenue
- we did not include any operations that contributed to less than 50% of products.

Setting these thresholds ensured that we maintained a conservative and consistent approach across all holdings.

¹ Developed by GRI, the UN Global Compact and the World Business Council for Sustainable Development (WBCSD), the SDG Compass provides guidance for companies on how they can align their strategies as well as measure and manage their contribution to the realisation of the SDGs.

Case Study: Microsoft

To demonstrate this methodology, we have broken down our assessment of Microsoft as of 31 December 2019 against goal 13, target 13.1.

Target 13.1 – Microsoft

Possible relevant business action	Met?	Disclosure by company	Impact Measurement collected
Identifying risks and opportunities caused by climate change. Investing in environmental protection and improving the resilience to environmental hazards and resource scarcity throughout operations and the supply chain. Developing and implementing corporate adaptation goals and strategies that are aligned with public adaptation efforts and also address community risks in the business' operating locations.			
Disclosing greenhouse gas (GHG) emission data and material climate risk information through adequate disclosure initiatives.	✓	Microsoft's completed Carbon Disclosure Project (CDP) report. The company requires Tier 1 suppliers to do the same. This is communicated on the CDP's website and in Microsoft's Corporate Social Responsibility Report.	<ul style="list-style-type: none"> CDP Disclosure Average tCO₂e emitted per US\$1M
Setting science-based GHG reduction targets in line with the goals of the Paris Agreement (as aggressive, timely reduction of greenhouse gases is the safest way to bring adaptation costs down).	✓	Microsoft set a verified science-based target of 1.5°C. This is communicated on sciencebasedtargets.org	
Setting an internal price on carbon to redirect own investments towards renewable energy, adaptation projects and relevant research & development (R&D), and/or reducing greenhouse-gas emissions.	✓	Microsoft has set an internal carbon tax of \$15/metric ton and covers all scope 1 and 2 emissions, plus scope 3 travel emissions. In July 2020 the company introduced its internal carbon tax to cover its scope 3 emissions. This is communicated on Microsoft's website.	
Improving the efficiency and climate resiliency of operations.			
Working with suppliers to improve supplier sustainability management and prevent supply chain interruptions or delays due to climate change.			
Taking part in technology transfer projects supported by national governments and international organisations to help provide climate mitigation and adaptation technologies to developing countries.			

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Case Study: Microsoft

An example of the UN SDG analysis is shown below for Microsoft as of 31 December 2019.

This analysis was performed for every company in the portfolio. For concision we have shown only one example per goal and this does not represent the full analysis for Microsoft.



Target 1.2

By 2030, reduce at least by half the

proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions.

Microsoft ensures that suppliers cover workers' social insurance and contractual and legal requirements for payment of compensation.

The company also requires Tier 1 suppliers to provide workers with career development and related opportunities.



Target 2.4

By 2030, ensure sustainable

food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality.

Microsoft proactively mitigates climate change impact and destruction of biodiversity through the following:

- Microsoft through AI for Earth partnerships with scientific organisations and NGOs.
- \$1billion climate innovation fund.



Target 3.9

By 2030, substantially reduce

the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination.

Microsoft has implemented proactive policies to reduce and minimise hazardous substances in manufacturing operations, products, and packaging. A review of the composition of chemicals used by suppliers has assured no use of Microsoft restricted chemicals per Microsoft specifications.

The company requires proper sanitation and healthful living and canteen conditions for workers. This includes ensuring Tier 1 factories have appropriate on-site medical services and training, and requiring factories and contracted suppliers to implement effective occupational safety and health (OSH) programmes.



Target 4.4

By 2030, substantially

increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship

During the 2019-2020 school year, over 21,000 students in the US and British Columbia, Canada had access to AP Computer Science (CS) courses thanks to tech professionals who volunteer with the Microsoft Philanthropies TEALS Programme. Almost 75,000 students have had access to CS courses since the programme's inception in 2009. The programme includes:

- Coaching on career development through ongoing manager connections.
- Customised manager training to enhance coaching and mentoring skills.
- New employee orientation covering a range of topics including company values, culture, and Standards of Business Conduct.



Target 5.4

Recognise and value unpaid care

and domestic work through the provision of public services, infrastructure and social protection policies and the promotion of shared responsibility within the household and the family as nationally appropriate

Microsoft offers comprehensive parental benefits to support families. This includes 12 weeks of parental leave, regardless of gender, at 100% pay; health and wellness benefits; enhanced fertility benefits; and 150 hours of subsidised backup care per year.



Target 6.4

By 2030, substantially

increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity

Microsoft is improving water efficiency through the assessment of water consumption and intensity, employing water saving technology or processes, and conducting water awareness campaigns, in all areas of operations, but particularly in water-stressed areas.

Supplier social & environmental affairs (SEA) audits are used to confirm supplier's water management programmes which include water monitoring, water conservation, wastewater treatment and water contamination prevention. This allows Microsoft to assess the supplier's programme to address the risk and help drive improvement in water protection and conservation.



Target 7.3

By 2030, increase substantially the

share of renewable energy in the global energy mix. By 2030, double the global rate of improvement in energy efficiency

Microsoft has committed to be carbon negative by 2030. As part of this commitment, by 2025, the company intends to shift to 100 percent supply of renewable energy, meaning that it will have power purchase agreements for green energy contracted for 100 percent of carbon emitting electricity consumed by all its data centres, buildings, and campuses.



Target 8.4

Improve progressively,

through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-year framework of programmes on sustainable consumption and production, with developed countries taking the lead

Microsoft works with its partners to develop hardware and software that increases computing power while reducing energy consumption. Illustrating these improvements, the Surface Pro, using Windows, has become so energy efficient to operate that the customer-use phase of each device now accounts for a smaller portion of its overall GHG emissions than the manufacturing phase (assuming three years of use). The company has sustainable procurement policies and a supplier code of conduct. All new suppliers are screened using social criteria.

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Case Study: Microsoft



Target 9.5

Enhance scientific research,

upgrade the technological capabilities of industrial sectors in all countries, in particular developing countries, including, by 2030, encouraging innovation and substantially increasing the number of research and development workers per 1 million people and public and private research and development spending

AI for Good initiative seeks to combine Microsoft's technology and AI expertise with the talent of groups around the world to solve humanitarian issues and create a more accessible and sustainable world.

- AI for Earth
- AI for Humanitarian Action
- AI for Accessibility
- AI for Cultural Heritage



Target 10.2

By 2030, empower and promote the

social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

Microsoft has focused on inclusive hiring for people with disabilities. The company's disability hiring opens doors to candidates across the ability spectrum from apparent disabilities to nonapparent—such as mental health and neurodiversity—through role creation, accommodations, trainings, and outreach.

Microsoft has also committed to designing products that are inclusive for those with disabilities such as:

- Immersive Reader: a tool designed to improve reading regardless of age or ability.
- Dictate: a function within Microsoft's software that turns the user's speech into text.
- Read Aloud: a function within Microsoft's software that reads the text to the user (useful for those with dyslexia)



Target 12.2

By 2030, achieve the sustainable

management and efficient use of natural resources

Microsoft has mapped key raw materials that travel through a complex and global upstream supply chain to identify and prioritise areas of risk. The company proactively reduce materials used for products and packaging. For new programmes in 2019, Microsoft reduced the weight of primary packaging by 14.4 percent and decreased packaging-related (GHG) emissions by 11.3 percent. Incorporated recycled and sustainable content into devices and packaging and implemented recycling during production and at end of life.



Target 13.1

Strengthen resilience and

adaptive capacity to climate-related hazards and natural disasters in all countries

Microsoft minimises use of materials and reports GHG emissions and climate data annually with the Carbon Disclosure Project (CDP). The company requires Tier 1 suppliers to do the same.



Target 14.1

By 2025, prevent and significantly

reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution

Microsoft evaluates and monitors factory drain lines for corrective actions to ensure proper wastewater treatment and reuse of greywater to eliminate pollution of waterways by contract suppliers. Suppliers are required to implement corrective actions.

The company builds the capabilities of contract suppliers to implement protective pipeline/storage tank design and chemical spill prevention, control, and disposal methods to prevent drainage of hazardous substances into storm drains.



Target 15.1

By 2020, ensure the conservation,

restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements

Microsoft has banned the use of any packaging materials originating from old growth forests. It uses recycled paperboard materials and/or virgin paper from sustainable forests.



Target 16.3

Promote the rule of law at the national

and international levels and ensure equal access to justice for all

Factory workers are empowered to advocate their legal rights in factory governance through an organised workforce. Microsoft also requires supplier factories to implement processes to establish management/worker dialogs.



Target 17.17

Encourage and promote effective

public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships

Microsoft continues to grow its partnership with PACT to address child labour in the Democratic Republic of the Congo (DRC). The company has enabled Fair mined certification for artisanal and small-scale miners working with other organisations through the Alliance for Responsible Mining (ARM).

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