



Implementing the Sustainable Development Goal 12



The Stewart Investors Sustainable Funds Group supports the Sustainable Development Goals (SDGs). The full list of SDGs can be found on the [United Nations website](#).

‘Earth Overshoot Day’, the day humanity has depleted all resources that our planet is capable of renewing for a whole year¹, occurs earlier every year that goes by. In 2019 it was 29 July, while in 1970 it was 29 December.²

In 2017, global material consumption amounted to 92.1 billion tons, a 254% increase from 1970, and is projected to grow to an astounding 190 billion tons by 2060 if we do not make drastic changes.³ Our appetite for consumption not only tests the physical boundaries of what our planet is capable of, but also contributes to climate change, the extinction crisis, waste and pollution. Given these trends, we are faced with the urgent challenge of avoiding unnecessary resource use, reducing waste, and reusing and recycling all valuable materials.

In the areas of sustainability and responsible investing, often plagued by vague jargon and greenwashing⁴, the United Nations Sustainable Development Goals (SDGs) provide a clear and vital framework around which investors and the broader business community can unite to achieve a collective goal of cleaner business practices. One goal which many investors and businesses are placing emphasis on is SDG 12: Responsible Consumption and Production. The goal calls for, among other things, energy and resource efficiency,

minimisation of waste generation, environmentally-friendly infrastructure, and sustainable and fair jobs. Simply put: “doing more and better with less.”⁵

One concept that is often synonymous with the SDG 12 is the circular economy, which is a process that deviates from our traditional model of ‘take-make-waste’ to one that is regenerative, seeing waste and pollution as a fundamental design flaw. Since 80% of a product’s environmental impact can be calculated during the design stage, keeping materials in use and allowing natural systems to regenerate are vital to achieving circularity.⁶ An example of circular business model innovation is at Interface⁷, pivoting from traditional to modular carpets made from reclaimed materials, closing the loop and achieving carbon neutrality across their entire life cycle.⁸



The birth of the circular economy cannot be traced to one specific date, but applications to modern systems gained prominence in the late 1970s.⁹ One such idea, designed by Michael Braungart and Bill McDonough, treats all material within a given process as either technological or biological nutrients.¹⁰ Essentially, waste is regarded as food in these closed-loop systems.

Since the 1970s, the circular economy philosophy has gained momentum and is now regarded as key to future sustainable development, particularly in relation to the SDG 12.

Although internal design processes are crucial to eliminating waste and pollution, collaboration across industries will also be necessary. Unilever is redesigning their plastic packaging to ensure that they halve the amount of virgin materials used, and collect and process more plastic than they sell.¹¹ Through direct investment and partnerships in waste processing, the use of recycled plastics in their products, and producer responsibility schemes, Unilever is aiming to strengthen the market for recycled plastics and boost innovation in the packaging industry.¹² This initiative relates to the SDG sub-target 12.5, which calls for reduction of waste generation through prevention, recycling and reuse. By encouraging manufacturers, recyclers, and consumers to increase recycling rates, their efforts contribute to securing a stable and certified supply of recycled raw materials across geographical locations.

An example of a company experiencing tailwinds in the circular economy space is Brambles, a supply-chain logistics company that is operating the world's largest pool of reusable pallets, crates and containers.

By sourcing 99.7% of their wood from certified suppliers, they are regenerating stocks of raw materials and boosting demand for sustainable forest products. As a result of their share and reuse model, 1.7 million trees and 1.3 megatonnes of wood and plastic waste have been saved.¹³ By reimagining their business model, Brambles embodies the SDG sub-target 12.5 through reducing pollution, keeping materials in the cycle, and regenerating natural resources.

There are other companies that provide supporting activities for their customers, indirectly contributing towards the shift to global responsible consumption and production. Ansys is a software-based company that supports the SDG 12 through real-world engineering simulation software applicable to a wide range of industries, including the electrification of vehicles, mining and wastewater. Through the software, customers are able to virtually test the performance of products and processes, energy efficiency, greenhouse gas emissions, and water usage without having to create physical prototypes.¹⁴ For instance, the company New Wind used Ansys' software to create a more aesthetically pleasing energy source for urban areas, whose tree-like wind power generator design captures wind in specially-crafted plastic 'leaves.'¹⁵



Source: <https://www.ansys.com/about-ansys/advantage-magazine/volume-x-issue-3-2016/turning-a-new-leaf>

Through a move from hardware to software-based design, Ansys contributes indirectly to the SDG sub-targets 12.5 and 12.2, contributing to the sustainable management of natural resources. Our conversations with management suggest their technology reduces development time nine-fold and overall product cost four-fold, reinforcing the case for why sustainable business practices, propelled by innovation and good management, will perform better than non-sustainable counterparts in the long term.

Today's efforts to reverse and prevent climate change are largely focused on renewable energy. Though this is significant in tackling around 55% of greenhouse gas emissions, the remaining 45% of emissions demand a fundamental shift in the systems and processes in place for the consumption and production of goods.¹⁶

Transformations are complex and often affect an entire value chain. Concepts like the circular economy and the targets embedded within the SDG 12 are important investment considerations and offer valuable insight into company and management quality.

Developing an understanding of product life cycles and recognising “hot spots” where the greatest improvements can be made, or where potential hidden risks lie, can help investors avoid value traps and identify companies positioned to benefit from sustainability.

Investors play a critical role in achieving long-term value and circularity through stewardship and engagement. Innovations like those being undertaken by Unilever are more likely to succeed when backed by engaged, long-term shareholders.

Investors are able to encourage businesses and the investment industry to prioritise sustainable development in alignment with the SDGs. They have the ability to influence the management of companies, including through dialogue around Environmental, Social and Governance (ESG) reporting, sharing of best practices, and encouragement. To help mobilise capital towards circular economy efforts, investors can suggest areas of improvement, such as product innovation, upscaling initiatives, business model innovation and the development of markets for secondary materials.¹⁷

By rewarding companies who prioritise sustainability and the circular economy, long-term investors provide an alternative voice to the sometimes misleading and often short-term market noise.

If we are to reduce the strain we put on our planet and reverse the trend of ‘Earth Overshoot Day’, we must seriously reconsider the ways we consume and produce. As Paul Polman said, “Climate change is sometimes misunderstood as being about changes in the weather. In reality, it is about changes in our very way of life.”

Hanna Ranstrand

Intern

Stewart Investors Sustainable Funds Group

¹ Source: <https://www.overshootday.org/>

² Source: <https://www.overshootday.org/newsroom/past-earth-overshoot-days/>

³ Source: <https://sustainabledevelopment.un.org/sdg12>

⁴ The process of conveying a false impression or providing misleading information about how a company’s products are more environmentally sound.

⁵ Source: <https://www.un.org/sustainabledevelopment/sustainable-consumption-production/>

⁶ Source: https://www.ellenmacarthurfoundation.org/assets/downloads/Completing_The_Picture_How_The_Circular_Economy_Tackles_Climate_Change_V3_26_September.pdf

⁷ For illustrative purposes only. Companies mentioned herein may or may not form part of the holdings of Stewart Investors.

⁸ Source: https://www.interface.com/SEA/en-SEA/campaign/climate-take-back/carbon-neutral-floors-en_SEA

⁹ Source: <https://www.ellenmacarthurfoundation.org/circular-economy/concept/schools-of-thought>

¹⁰ As footnote 9.

¹¹ Source: <https://www.unilever.com/sustainable-living/reducing-environmental-impact/waste-and-packaging/rethinking-plastic-packaging/>

¹² As footnote 11.

¹³ Source: https://www.brambles.com/Content/cms/sustainability-2019/Sustainability_Review_2019.pdf

¹⁴ Source: <https://www.ansys.com/about-ansys>

¹⁵ Source: <https://www.ansys.com/about-ansys/advantage-magazine/volume-x-issue-3-2016/turning-a-new-leaf>

¹⁶ Source: https://www.ellenmacarthurfoundation.org/assets/downloads/Completing_The_Picture_How_The_Circular_Economy_Tackles_Climate_Change_V3_26_September.pdf

¹⁷ As footnote 16.

Important information

This document has been prepared for general information purposes only and is intended to provide a summary of the subject matter covered. It does not purport to be comprehensive or to give advice. The views expressed are the views of the writer at the time of issue and may change over time. This is not an offer document, and does not constitute an offer, invitation, investment recommendation or inducement to distribute or purchase securities, shares, units or other interests or to enter into an investment agreement. No person should rely on the content and/or act on the basis of any matter contained in this document.

This document is confidential and must not be copied, reproduced, circulated or transmitted, in whole or in part, and in any form or by any means without our prior written consent. The information contained within this document has been obtained from sources that we believe to be reliable and accurate at the time of issue but no representation or warranty, express or implied, is made as to the fairness, accuracy or completeness of the information. We do not accept any liability for any loss arising whether directly or indirectly from any use of this document.

References to “we” or “us” are references to Stewart Investors. Stewart Investors is a trading name of First Sentier Investors (UK) Funds Limited, First Sentier Investors International IM Limited and First Sentier Investors (Ireland) Limited. First Sentier Investors entities referred to in this document are part of First Sentier Investors, a member of MUFG, a global financial group. First Sentier Investors includes a number of entities in different jurisdictions. MUFG and its subsidiaries do not guarantee the performance of any investment or entity referred to in this document or the repayment of capital. Any investments referred to are not deposits or other liabilities of MUFG or its subsidiaries, and are subject to investment risk including loss of income and capital invested.

Past performance is not a reliable indicator of future results.

Reference to specific securities (if any) is included for the purpose of illustration only and should not be construed as a recommendation to buy or sell. Reference to the names of any company is merely to explain the investment strategy and should not be construed as investment advice or a recommendation to invest in any of those companies.

Hong Kong and Singapore

In Hong Kong, this document is issued by First Sentier Investors (Hong Kong) Limited and has not been reviewed by the Securities & Futures Commission in Hong Kong. In Singapore, this document is issued by First Sentier Investors (Singapore) whose company registration number is 196900420D. This advertisement or publication has not been reviewed by the Monetary Authority of Singapore. Stewart Investors is a business name of First Sentier Investors (Hong Kong) Limited. Stewart Investors (registration number 53310114W) is a business division of First Sentier Investors (Singapore).

Australia

In Australia, this document is issued by First Sentier Investors (Australia) IM Limited AFSL 289017 ABN 89 114 194 311 (FSI AIM). Stewart Investors is a trading name of FSI AIM.

United Kingdom

This document is not a financial promotion. In the United Kingdom, this document is issued by First Sentier Investors (UK) Funds Limited which is authorised and regulated in the UK by the Financial Conduct Authority (registration number 143359). Registered office: Finsbury Circus House, 15 Finsbury Circus, London, EC2M 7EB, number 2294743.

European Economic Area (“EEA”)

In the EEA, this document is issued by First Sentier Investors (Ireland) Limited which is authorised and regulated in Ireland by the Central Bank of Ireland (registered number C182306) in connection with the activity of receiving and transmitting orders. Registered office: 70 Sir John Rogerson’s Quay, Dublin 2, Ireland, number 629188.

Middle East

In certain jurisdictions the distribution of this material may be restricted. The recipient is required to inform themselves about any such restrictions and observe them. By having requested this document and by not deleting this email and attachment, you warrant and represent that you qualify under any applicable financial promotion rules that may be applicable to you to receive and consider this document, failing which you should return and delete this e-mail and all attachments pertaining thereto.

In the Middle East, this material is communicated by First Sentier Investors (Singapore).

Kuwait

If in doubt, you are recommended to consult a party licensed by the Capital Markets Authority ("CMA") pursuant to Law No. 7/2010 and the Executive Regulations to give you the appropriate advice. Neither this document nor any of the information contained herein is intended to and shall not lead to the conclusion of any contract whatsoever within Kuwait.

UAE - Dubai International Financial Centre (DIFC)

Within the DIFC this material is directed solely at Professional Clients as defined by the DFSA's COB Rulebook.

UAE (ex-DIFC)

By having requested this document and / or by not deleting this email and attachment, you warrant and represent that you qualify under the exemptions contained in Article 2 of the Emirates Securities and Commodities Authority Board Resolution No 37 of 2012, as amended by decision No 13 of 2012 (the "Mutual Fund Regulations"). By receiving this material you acknowledge and confirm that you fall within one or more of the exemptions contained in Article 2 of the Mutual Fund Regulations.

United States of America

In the United States, this document is issued by First Sentier Investors International IM Limited, as SEC registered investment adviser. Stewart Investors is the trading name of First Sentier Investors International IM Limited. This material is solely for the attention of institutional, professional, qualified or sophisticated investors and distributors who qualify as qualified purchasers under the Investment Company Act of 1940 (hereafter the "1940 Act"), as accredited investors under Rule 501 of SEC Regulation D under the US Securities Act of 1933 ("1933 Act"), and as qualified eligible persons as defined under CFTC Regulation 4.7. It is not to be distributed to the general public, private customers or retail investors.

Other jurisdictions

In other jurisdictions where this document may lawfully be issued, this document is issued by First Sentier Investors International IM Limited which is authorised and regulated in the UK by the Financial Conduct Authority (registration number 122512). Registered office 23 St. Andrew Square, Edinburgh, EH2 1BB number SC079063.

Contact details

Edinburgh

23 St Andrew Square
Edinburgh EH2 1BB
United Kingdom
t. +44 (0) 131 473 2900

London

Finsbury Circus House
15 Finsbury Circus
London EC2M 7EB
United Kingdom
t. +44 (0) 207 332 6500

Singapore

58 Duxton Road
2nd & 3rd Floor
Singapore 089522
t. +65 680 59670

Sydney

Suite 10, Level 3
13 Hickson Road
Dawes Point
Sydney NSW
Australia 2000
t. +61 2 8274 8000

info@stewartinvestors.com
stewartinvestors.com