SDG\(^1\) Analytics for Investor Portfolios

Aligning Investments with Sustainability Goals

In 2015, the United Nations developed a blueprint for achieving peace and prosperity for people and the planet by 2030 in the form of 17 global goals and 169 targets for sustainable development. Bridging the estimated $2-3 trillion SDG-financing gap requires private sector assistance.\(^2\) Trucost’s SDG Analytics quantitatively measure the SDG alignment of a company’s products and services, allows investors to benchmark companies against each other in terms of their SDG performance, and offers portfolio-level metrics to measure risk exposure and SDG-alignment.

SDG alignment where it matters most

When comparing the top SDGs reported from companies, Trucost found that corporate reporting is often misaligned with SDG risk exposure.\(^3\) Analyzing the SDG exposure of the S&P 500\(^{®}\), Trucost found the most reported SDGs to be Good Health and Well-Being (SDG 3), Decent Work and Economic Growth (SDG 8), and Responsible Consumption and Production (SDG 12), while the highest risk exposure related to financial secrecy (SDG 17: Partnership for the Goals), land pollution and deforestation (SDG 15: Life on Land), and water overconsumption and pollution (SDG 6: Clean Water and Sanitation). Data analysis is an essential component for understanding SDG risk and positive impact across a company’s operations and supply chains.

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1. Sustainable Development Goal

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3,500 companies covered, covering the total S&P LargeMid Cap Universe and representing 83% global market cap*

464 product and service types across over 164+ positive impact categories (aligned with the SDG Taxonomy)

189 countries covered across 45 SDG risk exposure metrics

* Coverage as of December 2019
Understanding Trucost’s Analysis for SDG Integration

Positive Impact

Trucost evaluates the positive impact on the SDGs related to revenue based on a two-step process:

1. **SDG-Aligned Revenue**: Evaluating the share of revenue derived from products, services, and technologies that contribute to SDGs. SDG-aligned revenue is determined according to the Trucost SDG Positive Impact Taxonomy, which is a database of products and services that align with specific SDG targets.

2. **SDG Additionality**: Weighting SDG-aligned revenue based on the level of need for solutions to the SDGs in the company’s key markets. Trucost applies an SDG Impact weighting to reflect the additional benefit, or SDG Additionality, associated with delivering products and services in those geographies where they are most needed.

### SDG Investor Heatmap

The SDG Investor Heatmap indicates the percentage of overlap between a portfolio’s current coverage and where SDG investment is needed most. SDG need is determined by the SDG Index developed by the Sustainable Development Solutions Network. Trucost analyzes a portfolio’s geographic reach and investment volume, and provides the overlap between current investment and SDG need.

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SDG Risk Exposure

A company’s SDG performance is specific to industry and the geographic distribution of its value chain — where it sources its materials and sells its products. Trucost’s SDG-Extended Multiregional Input-Output Model (SDGI-O) analyzes the economic flows and associated baseline exposure to SDG-related risks across countries and sectors globally. Trucost assesses a company’s risk exposure from direct and indirect risks on the SDGs (such as greenhouse gas emissions in the supply chain) or the risk that a company may be dependent on practices and activities that conflict with the SDGs (such as child labor or underpayment of wages). Trucost has identified 45 unique metrics linked to the 17 SDGs that aim to represent corporate exposure to each SDG.

SDG Exposure Metrics

<table>
<thead>
<tr>
<th>SDG 1: No Poverty</th>
<th>• Poverty • Fair Wage</th>
<th>• Indigenous Rights*</th>
</tr>
</thead>
<tbody>
<tr>
<td>SDG 2: Zero Hunger</td>
<td>• Undernutrition</td>
<td>• Agriculture Practices^</td>
</tr>
<tr>
<td>SDG 3: Good Health and Well-Being</td>
<td>• Communicable Disease • Non-Communicable Disease • Healthcare Access</td>
<td>• Air Pollution* • Land and Water Pollution*</td>
</tr>
<tr>
<td>SDG 4: Quality Education</td>
<td>• Education Access</td>
<td></td>
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<tr>
<td>SDG 5: Gender Equality</td>
<td>• Gender Equity*</td>
<td></td>
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<tr>
<td>SDG 6: Clean Water and Sanitation</td>
<td>• Water Consumption • Water Pollution</td>
<td></td>
</tr>
<tr>
<td>SDG 7: Affordable and Clean Energy</td>
<td>• Energy Access^ • Renewable Energy Access</td>
<td>• Energy Consumption*</td>
</tr>
<tr>
<td>SDG 8: Decent Work and Economic Growth</td>
<td>• Forced Labor and Modern Slavery • Labor Rights • Occupational Health and Safety • Freedom Association • Financial Services Access^</td>
<td>• Economic Development in Least Developed Countries • Waste • Sustainable Tourism^</td>
</tr>
<tr>
<td>SDG 9: Industry, Innovation and Infrastructure</td>
<td>• Research and Development Investment</td>
<td>• Energy Consumption* • Material Footprint*</td>
</tr>
<tr>
<td>SDG 10: Reduced Inequalities</td>
<td>• Indigenous Rights* • Gender Equality*</td>
<td>• Migrant Worker Rights</td>
</tr>
<tr>
<td>SDG 11: Sustainable Cities and Communities</td>
<td>• Housing Access • Disaster Risk</td>
<td>• Air Pollution Impact</td>
</tr>
<tr>
<td>SDG 12: Responsible Consumption and Production</td>
<td>• Material Footprint* • Air Pollution* • Land and Water Pollution*</td>
<td>• Sustainability Reporting • Sustainability Awareness</td>
</tr>
<tr>
<td>SDG 13: Climate Action</td>
<td>• Climate Change Vulnerability and Adaptation Readiness</td>
<td>• Greenhouse Gas Intensity*</td>
</tr>
<tr>
<td>SDG 14: Life Below Water</td>
<td>• Marine Pollution</td>
<td>• Overfishing^</td>
</tr>
<tr>
<td>SDG 15: Life On Land</td>
<td>• Land Pollution</td>
<td>• Deforestation</td>
</tr>
<tr>
<td>SDG 16: Peace, Justice and Strong Institutions</td>
<td>• Corruption and Bribery • Child Labor</td>
<td>• Rule of Law • Governance and Transparency</td>
</tr>
<tr>
<td>SDG 17: Partnerships for the Goals</td>
<td>• Fair Share Taxation</td>
<td>• Partnerships for the Goals</td>
</tr>
</tbody>
</table>

* indicates metrics that apply to multiple SDGs
^ indicates metrics applicable to selected sectors
Integrate SDG Metrics into Portfolio Analysis

Positive Impact
Identify SDG alignment within a portfolio as a percentage and total amount of SDG-aligned revenue for SDG positive impact.

Portfolio-level Metrics
- % of revenue alignment with the SDGs (revenue or market cap-weighted)
- % of revenue alignment with the SDGs (revenue or market cap-weighted) adjusted for country level “need”
- % of “additionality” provided by portfolio towards achieving the SDGs
- Positive impact intensity contribution across portfolio

SDG Risk Exposure
Quantify SDG-related impacts in a standardized and scalable way with risk exposure scores from 0-100 (100 having the highest risk exposure to SDG-related risks).

Portfolio-level Metrics
- Top risk exposure SDGs
- SDG risk intensity contribution (%)
- SDG risk exposure related to operations and SDG risk exposure related to direct suppliers (Tier 1)

SDG Investor Heatmap
Determine the percentage of geographic overlap of a portfolio’s SDG-aligned investment and the geographies where SDG investment is needed the most. Darker blues indicate largest intensity of SDG needs (left chart) and largest intensity of SDG-aligned revenue generated by an example portfolio (right chart).

For Illustrative Purposes Only. Source: Trucost SDG Analytics.

For Illustrative Purposes Only. Source: SDG Index by SDSN (2019)
BEYOND THE BINARY
Corporate Venturing and the Sustainable Development Goals

What the SDGs Mean to Investors

Benefit from Applying Trucost’s SDG Analytics

Identify positive impacts of companies in portfolio analysis

The SDG Analytics help identify which investments are “SDG-aligned” as well as provides a quantitative indication of which geographies are most in need of this type of investment.

Integrate SDG considerations in the portfolio process

By standardizing positive and negative alignment on the SDGs within a portfolio, investors have a standardized, scalable way to incorporate SDG considerations into their decision-making.

Report the impact of funds in an SDG-aligned way

Successful SDG investment depends on accurate reporting where positive impacts can be quantified, tracked and assessed. To support this, the SDG Analytics enhances portfolio analytics to measure the performance of SDG data within portfolios. This provides an evidence-based approach for fund managers to report the positive impacts of their portfolios.
About Trucost

Trucost is part of S&P Global. A leader in carbon and environmental data and risk analysis, Trucost assesses risks relating to climate change, natural resource constraints, and broader environmental, social, and governance factors. Companies and financial institutions use Trucost intelligence to understand their ESG exposure to these factors, inform resilience and identify transformative solutions for a more sustainable global economy. S&P Global’s commitment to environmental analysis and product innovation allows us to deliver essential ESG investment-related information to the global marketplace.

For more information, visit www.trucost.com.

About S&P Global

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