

'SDG FUNDAMENTALS' – A SOLUTION TO MEASURE THE ALIGNMENT OF COMPANY REVENUE WITH THE SDGS

OVERVIEW

The *SDG Fundamentals* dataset enables investors to understand how their portfolios align or misalign with the 17 United Nations Sustainable Development Goals (SDGs) and their targets. It does this by analysing the revenue that (company) issuers generate from their products and services.

Developed in a collaboration between Matter and BNP Paribas Asset Management, the dataset provides detailed alignment and misalignment figures across all 17 SDGs, offering investors insights at both the individual SDG level (e.g., SDG 3) and the specific target level (e.g., SDG 3.3), for both individual entities and the entire portfolio.

The methodology and dataset have been developed based on the following principles :

DETAILED ANALYSIS: We have mapped 8 000 products and services to an SDG Taxonomy based on expert analysis of the SDG metadata

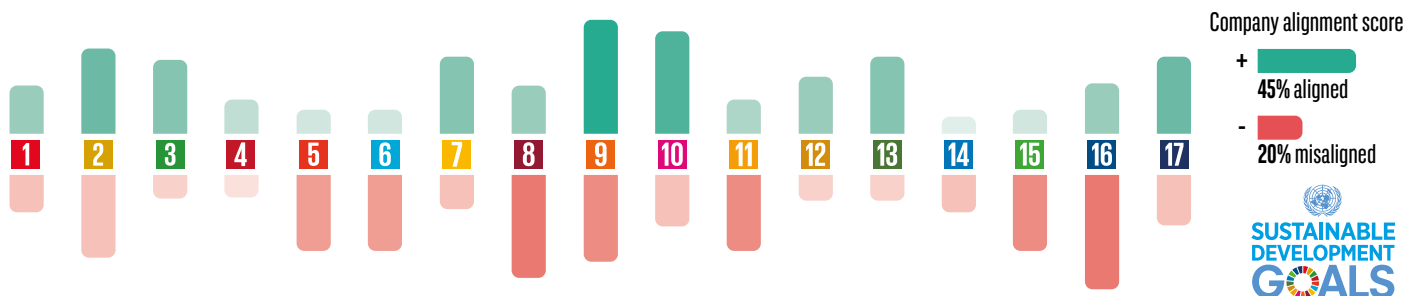
GRANULAR AND TRANSPARENT: With 108 datapoints per company, the output provides a detailed picture of a company's SDG profile and includes positive and negative impacts per SDG

NUANCED IMPACT PROFILES: Activities are mapped to all relevant SDGs at the target level to provide portfolio managers with nuanced profiles

BROAD COVERAGE: The dataset contains almost 60 000 issuers; we believe estimation models can close any remaining gaps in coverage

CONSERVATIVE: Our model is conservative and purpose-built for Sustainable Investment definitions in the context of EU regulation and robust Environmental, Social and Governance (ESG) integration in general

Figure 1: Creative visualisation of SDG Fundamentals dataset



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WHY DID WE DEVELOP SDG FUNDAMENTALS?

It is becoming increasingly important to enhance the breadth and quality of data that enables an assessment of the alignment between investments and the SDGs.

1. The SDGs: A social, environmental, and investment imperative

Achieving the SDGs is a global priority, and we believe the investment industry must play a key role. Beyond the moral imperative, the SDGs offer unique opportunities for forward-thinking investors.

The 17 UN SDGs represent the nearest thing humanity has to a roadmap for building a sustainable future. They lay out ambitious goals to address inequality, end poverty and hunger, combat climate change and biodiversity loss, and drive economic growth. However, it is estimated that achieving the SDGs by 2030 will require annual investments of USD 5 to 7 trillion¹. We believe this scale of funding demands the involvement of the private sector, especially the investment industry. Simultaneously, investing in the SDGs could unlock opportunities worth USD 12 trillion and create 380 million jobs annually by 2030².



2. Regulatory changes: Making SDG investing essential

As investment regulations evolve, SDG data is becoming increasingly critical for investors. Regulators are placing greater emphasis on defining what constitutes a 'sustainable investment,' both within and beyond the EU Taxonomy. As a result, investors are starting to recognise the potential of SDG data as a key factor in identifying sustainable investment opportunities.

DEVELOPMENT AND METHODOLOGY OF 'SDG FUNDAMENTALS'

BNPP AM and Matter have created the 'SDG Fundamentals' dataset using a three-step approach.

STEP 1 - DEVELOP A TAXONOMY³ OF SDG-RELATED ACTIVITIES ('SDG FRAMEWORK ACTIVITIES')

The SDGs were originally not designed as an investor-focused framework; many of the goals relate to qualitative and intangible targets, often intended for guiding government policies. Therefore, the first step in creating the 'SDG Fundamentals' dataset was to define which aspects of the SDGs are relevant for corporate action. Through an iterative process, experts from BNP Paribas Asset Management and Matter identified specific those SDG targets that are most relevant to investors:

"SDGs for which the targets and indicators can be impacted through products and services that already exist in the market".

Using this definition, we assess whether a company's products and services can affect each of the 17 SDGs. 'SDG Fundamentals' provides alignment data on each of the 17 SDGs as well as at an aggregate level.

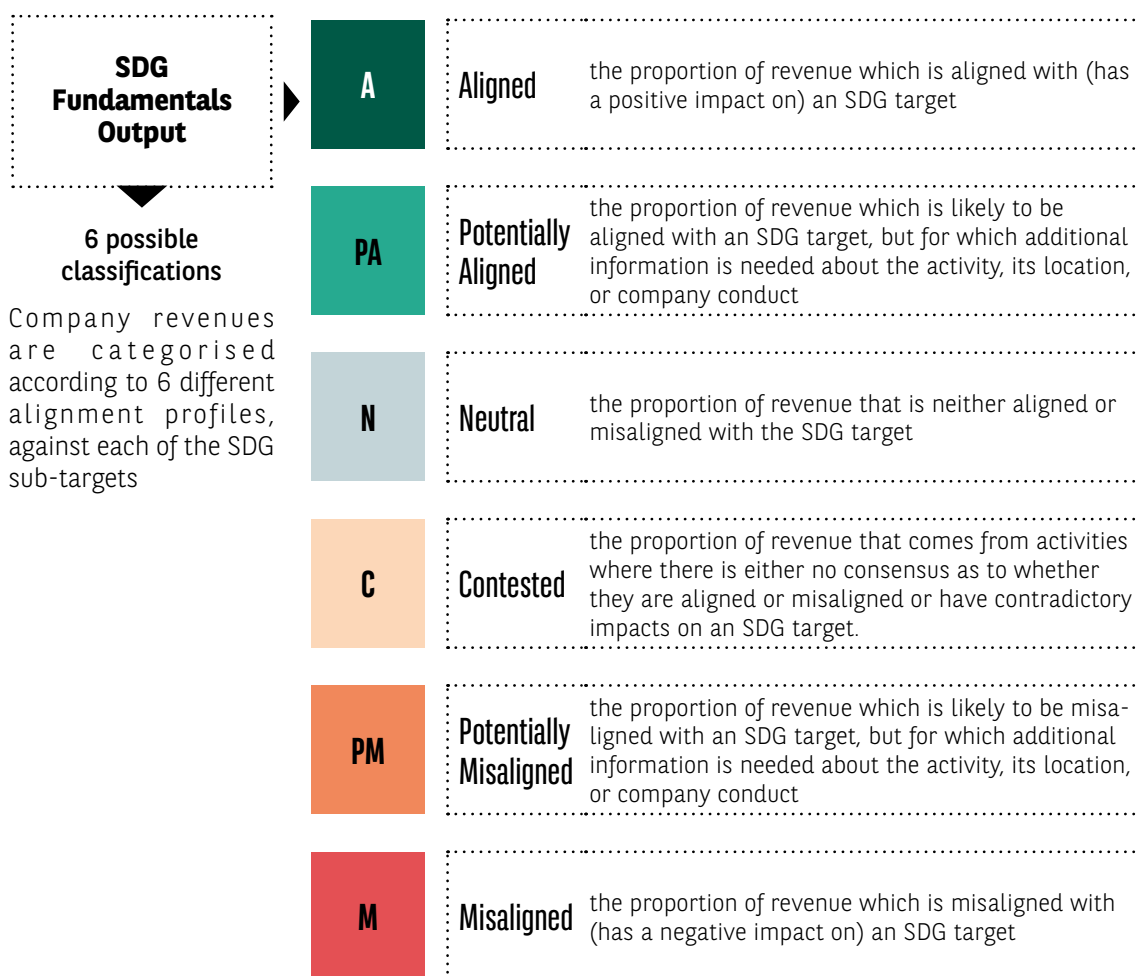
To ensure clarity on how different business activities relate to the SDGs, 'SDG Fundamentals' is closely aligned with the specific targets and quantitative indicators set out for the SDGs, rather than grouping them thematically. The 17 SDGs contain a total of 169 targets; through detailed analysis, we identified 96 targets that are theoretically relevant to both companies and investors. Once these targets were selected, the next step was to define a framework of eligible (mis)aligned activities applicable to each SDG target. The result is a framework of about 700 activities which have been classified in five alignment categories in relation to the individual SDGs and their targets.

¹ UN Environmental Programme Finance Initiative - [SDGs and Impact](#)

² United Nations - [The Sustainable Development Agenda](#)

³ Taxonomy in its literal sense, that is 'classification'. This is not to be confused with the EU Taxonomy.

Furthermore, by default, SDG Framework activities are considered to have a ‘neutral’ direction for SDG targets they do not map to, whereby the activity is neither aligned nor misaligned to the target. Therefore, *SDG Fundamentals* operates a total of six (6) possible alignment categories as described below.



The main difference between **Neutral** and **Contested** is that **Neutral** concludes that from a revenue perspective, the economic activity has neither a positive nor a negative impact on the SDGs. In contrast, **Contested** refers to either a positive or negative impact, but there is insufficient information to decide the direction. The possibility of the activity being either **Aligned** or **Misaligned** is also what sets it apart from **Potentially Aligned**. Given the availability of sufficient information, **Potentially Aligned** could be either **Aligned** or **Neutral**, but never **Misaligned**.



An example of how activities are categorised

The economic activity of *Transport -- public transport -- land-based* is considered **Contested** under SDG target 9.2 - "By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities". It can be either **Aligned** or **Misaligned** depending on the type of fuel used. If fossil fuel based, it is considered Misaligned, while an alternative fuel base would be considered **Aligned**. It is important to note is that the category Contested does not refer to whether there are different opinions regarding the impact of this activity, but rather that *more* information is required for a definitive conclusion. Once that information is available, it can be categorised as either **Aligned** or **Misaligned**.

Additionally, an economic activity may be **Aligned** with one SDG target, while being **Misaligned** with another. In the graphic below, *Energy utilities, generation -- non-renewable (developing country focus)* contributes to SDG target 1.4 "to enhance access to basic services". It is misaligned with SDG target 7.2 on renewable energy. By keeping both alignment and misalignment with different targets transparent in the output, the dataset offers both nuance and granularity.

Energy utilities, generation -- non-renewable (developing country focus)

ALIGNED



1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as **access to basic services**, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance

MISALIGNED



7.2 By 2030, **increase substantially the share of renewable energy** in the global energy mix

STEP 2 - MAP POTENTIAL REVENUE STREAMS TO THE SDG FRAMEWORK

'SDG Fundamentals' uses the FactSet Hierarchy, a dataset with one of the most granular revenue breakdowns. The hierarchy contains data across more than 60 000 issuers, mapping their revenue to about 8 070 'sector pathways'.

Via an iterative and collaborative process between the sustainability teams at BNP Paribas Asset Management and Matter, these pathways were mapped against the SDG Framework Activities. The result is an understanding of how each of the pathways relates (or does not relate) to each of the SDGs and their targets.

STEP 3 - ANALYSIS

By mapping the revenue data from more than 60 000 companies to the SDG Framework Activities, 'SDG Fundamentals' enables investors to understand how companies in their portfolio relate to the SDGs, split across six different categories, and available both at the individual and aggregate SDG levels. The aim of 'SDG Fundamentals' is, as far as possible, to build an understanding of which activities are Aligned and Misaligned, thereby minimising the need for the categories 'Potentially Aligned' and 'Potentially Misaligned'.

This provides investors with unparalleled granular insights into how companies they invest in align or misalign with the UN SDGs, at the most fundamental level: their products and services.

This data can then be aggregated at the portfolio level, so investors can understand the broader exposure of their investments to the SDGs.

USE CASES

'SDG Fundamentals' has multiple potential applications throughout the investment process:



Regulatory compliance

increasingly, regulations are calling for data for which the SDGs can serve as a suitable proxy, such as on a substantial contribution to environmental or social objectives



ESG integration into investment processes

e.g., identifying sustainable thematic tailwinds or headwinds to inform investment decisions



Exclusion/identifying risks

potentially identifying revenues that are misaligned to sustainable themes with a financially material impact



Investment stewardship

engaging with companies to drive positive change on sustainable development priorities



Development of new thematic/impact products

that are tilted towards one or several SDGs. This could be relevant in the creation of Article 9 products under the Sustainable Finance Disclosure Regulation (SFDR).

SFDR SUSTAINABLE FINANCE DISCLOSURE REGULATION – 'SUSTAINABLE INVESTMENT' DEFINITION

The dataset has been built to be able to drill down, unpack and explain where alignment results come from, including which revenue streams, SDG activity, and SDG targets are driving the results. This type of transparency is critical for datasets used in regulatory processes and reporting.

The SFDR defines 'sustainable investments' as investments 1) having an environmental or social objective; 2) doing no harm; and 3) having good governance.

BNPP AM has integrated five main building blocks into its [definition of sustainable investments](#) which are considered to be core components for qualifying whether a company is sustainable. **We use the 'SDG Fundamentals' dataset for one of these building blocks.**

Under this framework, an issuer is considered sustainable if more than 20% of its revenues align with the SDGs and less than 20% of its revenues misalign with the SDGs based on the 'SDG Fundamentals' dataset.



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VIEWPOINT



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