

SDG Mapping: an Overview of Providers

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This report by Pensions for Purpose gives an overview of firms who are providing SDG mapping services to pension funds. A detailed directory of each firm's methodology and capability is also available: this is offered to pension funds only, along with consultancy time from Karen Shackleton, for a fixed fee.

Background

Earlier this year, we invited firms to contact us if they were able to map a pension fund's portfolio to the United Nations Sustainable Development Goals (the SDGs), as a result of our working with pension funds seeking to articulate a set of responsible investment beliefs. For some, the next step is to assess how well their existing portfolios already map to a set of SDG goals that they would like to prioritise in their fund going forward.

The detailed analysis was undertaken by an Associate of Pensions for Purpose, Naureen Khan, and we are extremely grateful for the many hours of work that she completed, to bring this report to fruition.

15 firms responded to our Request for Information and these firms have been included in our analysis. We also spoke to several framework providers. A further five firms agreed to a virtual meeting with us to discuss their capability but did not submit the Request for Information by the deadline requested. We also had several enquiries after the deadline, which means that we are likely to update this research over time as more providers make themselves known to us.

Key findings

- There were four groups of providers offering SDG mapping: fund managers, consultants, specialist analytics firms and framework providers.
- There was a wide variation in the methodologies used by providers to map portfolios to the SDGs. Some focus purely on revenue-mapping, whilst others consider the governance and operations of the underlying companies as well.
- All providers were able to map to listed equities, 75% were able to map fixed income portfolios, but only 40% had that capability in private assets.
- Two-thirds of the firms said they would map to all 17 goals. Others excluded goals that were harder to map to, such as SDG 16 (Peace, Justice and Strong Institutions) and SDG 17 (Partnerships for the Goals).
- Length of experience in SDG mapping was, on the whole, limited. Pricing of services was variable, with a wide range in sample pricing quotes for a £500m pension fund portfolio. We expect pricing to become more competitive as experience grows and as more firms begin to offer this capability.
- Reporting tends to range from a simple listing of the SDG alignment in the portfolio to more visual spider charts.
- The challenges that were most frequently mentioned were around quality of data, mapping financial data to all the SDGs, private markets and taking negative contributions into account.

Not all SDG mapping firms are equal

It became apparent early on that different providers have different capabilities, and different perspectives. We decided to group them into four main categories. Pension funds may wish to consider these different groups before embarking upon a search for an SDG mapper.

Fund managers: many fund managers now have the capability to run SDG mapping on their own portfolios. Some also have the ability to work with their existing clients and even potential new investors, to map wider portfolio including assets not directly managed by them. Some of the larger fund management houses were collating SDG-related data from a multitude of external and internal sources, with the aim of delivering enhanced SDG-focused services and investment solutions to clients.

Positives:

- A low-cost solution (many do this as a goodwill exercise for their existing clients)
- A good understanding of company fundamentals, what drives performance and how to invest in a way that aligns with the SDGs
- Some use external providers' data and then enhance this with their own insights and analysis
- Useful for funds that want detailed analysis on individual holdings (e.g. for engagement purposes)

Negatives:

- Less appropriate to request investment strategy advice once the mapping exercise is complete
- Breadth of coverage likely to be limited to their existing investments
- Competitors may be unwilling to share holdings data with them

Consultants: within the consultant category, the SDG mapping service was usually tied to a bigger strategic advice package to clients around ESG or impact investing. Many used external, specialist data firms to feed into this advice. Generally, this group scored best in terms of breadth of coverage although, for some, their actual experience of mapping client portfolios was still relatively limited.

Positives:

- Able to help the pension fund interpret data and formulate an investment strategy – understand pension funds' strategy requirements
- Breadth of coverage – using data from different providers and bringing their own insights
- Comprehensive reporting – could be useful for external communications with members/interested parties such as action groups

Negatives:

- Likely to be the most expensive option
- Experience in SDG mapping may be more limited
- May not provide the same level of granular detail as the fund managers

Specialist analytics firms: these were firms who specialised in analysing the underlying data that feeds into SDG mapping. These niche service providers had also expended considerable effort in developing capabilities or research modules for their client base. Not surprisingly, these firms had a good understanding of the underlying data and how it related to the SDGs, plus robust methodologies, but were less likely to work with a pension fund to interpret results and advise on strategy. Having said that, some had excellent reporting capabilities and were unconflicted in terms of providing this service to a pension fund.

Questions to ask your fund manager

- Do you provide SDG mapping for a pension scheme's wider portfolio?
- Which asset classes can you map to SDGs?
- Do you charge an additional fee for this service?

Questions to ask your consultant

- Are you able to map both listed and unlisted assets to the SDGs?
- How much would you charge for this service?
- Which external data providers do you use to complete your analysis?
- Do you supplement this with your own analysis/insights?

Positives:

- Generally had high quality methodologies
- Capable of providing detailed analysis
- Impartial and independent
- Across all the providers, these firms had some of the best-in-class SDG reporting (output) for pension funds
- One of the most experienced groups in SDG mapping
- Likely to be a medium-cost solution

Negatives:

- Coverage was not always comprehensive – many firms limit their analysis to listed assets only
- Not able to advise on investment strategy and generally do not work with a pension fund to help them interpret results
- Generally, more likely to have contracts with fund managers or consultants than pension funds

Framework providers: there are some prominent global initiatives around SDG mapping which are working towards a common SDG framework to link private sector investments or related projects/activities to the SDGs. Some of these global frameworks are open-source and some more exclusive, either to a specific group or accessible for a certain fee. Many of the providers in other groups referenced these global frameworks or were adapting them to inform their own analysis. This group of providers would potentially be suitable for consideration by very large in-house pension funds or local authority pools looking to undertake their own, bespoke SDG mapping.

Positives:

- A low-cost solution
- Can be tailored to the individual pension fund's needs
- May be worth considering by larger pension funds

Negatives:

- More resource-intensive to set up and monitor
- May require additional purchases of source data
- Not suitable for smaller pension schemes

Questions to ask your data specialist

- Which asset classes can you map to the SDGs?
- How much would you charge for this service?
- Do you offer help or advice interpreting the output from your analysis?

Questions to ask your framework provider

- Is your framework open source?
- Do you charge to access your framework?
- Can your framework be applied to all asset classes, both listed and unlisted?

Methodologies vary considerably

The methodology used by different organisations ranged from being mainly qualitative to more quantitative in nature. Given that the central task is to align private sector financial activity to macro policy and development goals, across most of the methodologies there is some degree of subjective input. The majority of providers analyse revenues/products and services in their mapping process, but a number mentioned that they took the operations/governance of the company itself into account. A handful also mentioned that they incorporated forward-looking views, to take account of changes that would be likely to have a positive impact on SDG alignment.

The main aim was to connect the underlying companies in the investment portfolios to the SDG yardsticks: 17 strategic goals, 169 targets and 240 indicators. Many providers commented that it was difficult to link some of these yardsticks to measurable financial activity. Two-thirds of the firms said they would map to all 17 goals. Others excluded goals that were harder to map to, such as SDG 16 (Peace, Justice and Strong Institutions) and SDG 17 (Partnerships for the Goals).

Pension funds would be advised to consider this carefully when speaking to providers, by establishing what percentage of the goals and the underlying indicators fell out of their mapping process.

Another consideration was whether a company's product and services contributed negatively to the SDG goals and how this was done. Whilst most providers took negative contributions into account, how this fed through to the total portfolio level varied across providers. For example, some rejected companies completely from their mapping analysis if they negatively contributed to an individual SDG goal. Others balanced positive and negative contributions to derive more of a net score.

What is important to note is that the methodology was bespoke for all the firms that we talked to. No two firms were using identical data or processes to map their portfolios. What this means is that, whilst there is likely to be some commonality in terms of the ultimate SDGs that portfolios map to, using different firms' methodologies will lead to different output in terms of the perceived degree of alignment. This makes it difficult for a pension fund to compare its own results with another fund using a different provider. It also argues in favour of sticking with the same provider if the pension fund is looking to report on progress over time as it introduces a more sustainable investment approach.

Questions to ask about methodology

- To what extent is your SDG mapping process quantitative vs qualitative?
- Which SDGs are you able to map to and which fall out of the process?
- How are you attributing revenues to the SDGs?
- What other metrics are you looking at, to assess impact, besides revenues?
- Does your SDG methodology capture both positive & negative impact? If yes, how does it capture and report on that?

Data coverage and data sources varied significantly

All the providers that we spoke to could offer SDG mapping in listed equities to some extent. Three-quarters could also map to listed corporate bonds. Private assets were more challenging but 40% were able to do this to some degree and one provider specialised in mapping private funds.

For the fund managers, whilst all of them were able to map all the companies in their own portfolios, only two firms were able to map wider portfolios for their pension fund clients.

Providers sourced their data from a wide selection of firms including Bloomberg, Sustainalytics, MSCI and ISS.

Reporting has scope to improve further

This is an area that is continuing to evolve, and some firms even declined to send us sample reports. We found that reporting tended to be along the lines of:

- (a) A percentage alignment of the portfolio to the SDGs
- (b) A list of the SDGs that the portfolio was aligned to
- (c) A ranking of the component parts of the portfolio in terms of alignment
- (d) A spider chart visually plotting the portfolio against the SDG goals.

Pricing and tenure of experience

As is often the case, there was a reluctance to share information on pricing without knowing the detail of a specific mandate. Those who were prepared to respond on this, offered a wide range in their pricing quote, for (a) pension scheme's £500 million equity portfolio and (b) a £500 million portfolio of equities, fixed income and private markets portfolios. Pension funds are certainly advised to 'shop around' when engaging a firm to undertake SDG mapping.

It became clear that, the tenure of experience in SDG mapping, for the majority of firms, was limited. This is to be expected, given that this is a new area, but pension funds should ask for live examples of mapping exercises that have already been undertaken for clients.

Challenges faced by SDG mapping providers

Robust and accurate data was a common challenge facing firms. They also talked about the difficulty of mapping financial data to all the SDGs, and how to take negative contributions into account. The challenge of mapping to private market asset classes was also discussed.

What became clear was that this is a fast-moving area, data-intensive and requiring subjective input along the way.

Conclusion

This is a fast-developing space, with an increasing number of providers all using different methodologies. This makes it difficult for a pension fund to assess which firm is right for them. Hopefully, this analysis (along with our more detailed directory) will go part-way to making this process a little easier.

For more information

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