

BlackRock

Sustainable Investing

Integrating the
UN SDGs in Investments

July 1, 2021

Executive summary

Defined as “a universal call to action to end poverty, protect the planet and improve the lives and prospects of everyone, everywhere” and adopted by all United Nations Member States in 2015, the Sustainable Development Goals (UN SDGs) are part of the 2030 Agenda for Sustainable Development¹. They comprise 17 goals the world must collectively achieve by 2030.

The UN SDGs provide a set of common targets for all countries to accomplish in a global partnership. While countries are accountable for their progress, the private sector holds the key to unlock the world’s ability to deliver on the goals. Investors and asset owners are becoming increasingly aware of the UN SDGs as a framework for sustainable investing and are looking to understand their relevance to investment decisions.

In this paper, we explore how the UN SDGs can be viewed through the lens of financial materiality and used for building strategies that seek to invest in the transition towards a more sustainable and equitable world. We also outline the way UN SDGs can sharpen our understanding of environmental, social and governance (ESG) factors that are financially material to companies and how these might evolve over time.

Incorporating the UN SDGs in an investment strategy still poses several challenges. The first one is measurement of the alignment of investments to the UN SDGs. The second is the misconception that this framework is at odds with long-term financial performance and thus fit for limited impact-oriented allocations only, rather than for broad sustainable investment strategies.

Our research unveils a significant overlap between the UN SDGs and company indicators that are material to long-term financial performance, which denotes the additional value the UN SDGs can likely deliver to complement the broader integration of ESG factors in investment decisions. Indeed, our mapping of the 980 financially material sustainability indicators identified by Sustainability Accounting Standards Board (SASB) to the 242 UN SDG country indicators has unveiled a match as high as 70%. The matching level was especially high in the **Environment, Business Model & Innovation, and Human Capital** categories, which are directly relevant to the climate change, responsible production and consumption, sustainable construction, and waste management goals.

As the world mobilizes towards the achievement of the Paris climate goals to limit global warming to well below 2°C relative to pre-industrial levels, policy makers realise that no transition will be possible without considering its social implications, as carbon pricing mechanisms and the physical consequences of climate change magnify individual and regional inequalities. The breadth of the UN SDGs encompasses all these dimensions.

As for climate change, the cost of not achieving the UN SDGs is greater than the cost of action. The socio-economic impact of global burdens the UN SDGs address is a significant risk for the world’s growth prospects (see Figure 1).

By contrast, achieving the UN SDGs can open up significant growth opportunities:

According to the Business and Sustainable Development Commission², achieving the UN SDGs opens up some USD 12 trillion of market opportunities in the four economic systems examined, including: food and agriculture, cities, energy and materials, and health and well-being. These represent around 60 percent of the real economy and are critical to delivering the UN SDGs.

























This total economic benefit of implementing the UN SDGs could be 2-3 times bigger if captured across the whole economy and accompanied by much higher labour and resource productivity.

SASB Materiality Map: <https://materiality.sasb.org/>

UN Sustainable Development Goals: <https://sdgs.un.org/goals>

Figure 1: Estimated cost of inaction associated with selected UN SDGs

Current and projected costs of inaction as share of global GDP

	Gender equality	18.5%	P		Illiteracy	1.6%	C
	Biodiversity loss	11.0%	C		Renewable energy use	1.1%	P
	Violence and armed conflicts	10.6%	C		Antimicrobial resistance	1.1%	P
	Local air pollution	5.3%	C		Toxic air emissions	1.0%	P
	Corruption	5.0%	C		Energy efficiency	1.0%	P
	Malnutrition	4.0%	C		Safe water	0.9%	C
	Work-related hazards	3.9%	C		Sustainable construction	0.5%	C
	Illicit financial flows	3.6%	C		Water scarcity	0.4%	P
	Food waste	3.3%	C		Climate risk in mortgage underwriting	0.4%	P
	Alcohol	2.9%	C		EU soil degradation	0.3%	C
	Climate change	2.2%	P		Access to water and sanitation	0.3%	C
	Tobacco	1.8%	C		Road accidents	0.1%	P

C = Current P = Projected

Source: Estimated and current cost data taken from: Gender equality – McKinsey&Company, September 2015; Biodiversity loss – OECD, May 2019; Violence and armed conflicts – Global Peace Index, June 2020; Local air pollution – Philip J Landrigan, November 2016; Corruption – Secretary-General António Guterres, September 2018; Malnutrition – Global Panel, July 2016; Work-related hazards – European Agency for Safety and Health at Work, September 2017; Illicit financial flows – United Nations Office on Drugs and Crime, October 2011; Food waste – Food and Agriculture Organization of the United Nations, 2014; Alcohol – Thavorncharoensap, M., Teerawattananon, Y., Yothasamut, J. et al., November 2009; Climate change – OECD, November 2015; Tobacco – Mark Goodchild, Nigar Nargis, Edouard Tursan d'Espaignet, January 2017; Illiteracy – World Literacy Foundation, March 2018; Renewable energy use – International Renewable Energy Agency, January 2016; Antimicrobial resistance – The World Bank, September 2016; Toxic air emissions – OECD, June 2016; Energy efficiency – The European Commission, July 2017; Safe water – Lixil, September 2016; Sustainable construction – The European Commission, September 2015; Water scarcity – The World Bank, 2016; Climate risk in mortgage underwriting – The World Bank, October 2016; EU soil degradation – European Innovation Partnership, February 2012; Access to water and sanitation – World Health Organization, 2012; Road accidents – Chen S, Kuhn M, Prettnner K, Bloom DE, September 2019. Full details on the sources included in endnotes. For illustrative purposes only. There is no guarantee that any forecast made will come to pass.

The cost associated with biodiversity loss alone in the period from 1997 to 2011 is estimated at USD 10-31 trillion per year, or 11 to 36% of global GDP, according to the Organisation for Economic Co-operation and Development(OECD) report prepared for the G7 summit³. Biodiversity loss through land-cover change and land degradation is a direct consequence of lack of progress against SDG 14 (Life Below Water) and SDG 15 (Life on Land) and undermines other global challenges linked to human health (SDG 3), climate change mitigation and adaptation (SDG 13), and water and food security (SDG 6 and 2). These links illustrate that UN SDG targets cannot be addressed in a vacuum and should be treated as a network instead. The UN SDGs are deeply interconnected and a lack of progress on one goal can hinder progress on others.

The measurement challenge

Challenges to measuring alignment

01

Relevance

The UN SDGs have been written by policy makers not by investors – therefore the goals, targets and indicators are considered from a country and governmental standpoint rather than a company one.

02

Completeness

To reach the UN SDGs, targets have been set based on additional investment (and deficit) for countries to achieve their specific goals. Organizations need to demonstrate net positive contribution on all the goals, on both their outputs and their operations.

03

Prioritization

For companies, not all UN SDGs are material and not all contributions are impactful.

Focus on UN SDGs that are relevant to corporates

Some SDG targets have limited relevance to corporates

Some SDG targets are only relevant for a certain sector

Some aspects are not yet measured at corporate level

Understand how companies can add or detract UN SDGs

Beware of cherry picking of goals

Do not look only at one aspect of a company's activities (output)

Do not claim additionality in SDG contribution when there is none

Prioritization

Capture the aspects on which corporates are most impactful

Incorporate potential preferences or focus on specific UN SDGs

If not defined, consider UN SDGs that need more urgent action

In order to overcome the three measurement challenges, we have explored a scarcely explored route: the intersection and resonance between the UN SDG country targets and the material ESG indicators for corporates.

UN SDGs through the financial materiality lens

We believe companies that understand their overall impact on the environment and society and align their business and operations with the UN SDGs will have the potential to become market leaders. Those that fail to adapt will likely face more pressure from regulators and the reputational repercussions of inaction.

Investors with experience in integrating ESG factors in their investment processes understand that not all factors are equally material across their portfolio holdings. The same is true for the UN SDGs as susceptibility to future regulatory pressure and market opportunities across different issues will vary across businesses. Understanding how the UN SDGs overlap with material ESG factors could enhance the prioritisation of UN SDG-related indicators to consider in an ESG-integrated strategy.

Asset owners who seek to contribute towards the social goals reflected in UN SDGs seek to understand where there is material financial resonance, to find the link between SDG-focused investing and long-term financial return.

Our mapping of the UN SDGs to the SASB set of sector-specific ESG material indicators can help investors develop an understanding of the extent to which the UN SDGs may shape forward looking levels of materiality of corresponding ESG drivers, and prioritise them in their SDG strategies.

What are the SASB indicators?

The Sustainability Accounting Standards Board is an independent non-profit organisation whose mission is to develop and disseminate sustainability accounting standards that help public corporations disclose material, decision-useful information to investors. Founded in 2011⁴, it has developed industry specific sets of indicators to ease comparison and benchmarking. The SASB framework is the result of a rigorous process which includes evidence-based research, broad stakeholder participation, public transparency, and independent oversight. The current SASB materiality map⁵ comprises a total of 980 ESG materiality indicators, accounting for 26 sustainability-related business issues, or “General Issue Categories”, across 11 sectors and 77 industries. These sector-specific indicators signify when a sustainability issue is likely to be material for companies in the given industry.

The UN Department of Economic and Social Affairs has prescribed targets and underlying performance indicators that translate the objectives of each of the seventeen goal into actions. We are therefore able to draw a link between the UN SDGs and financial materiality, by linking the sector-specific SASB indicators to the SDG country indicators.

Why choose SASB for the materiality assessment?

Our research aims to explore the financial materiality of the UN SDGs with a sector-differentiated lens. We therefore chose to use the SASB framework as the base for our mapping. The SASB framework is the only global and sector-specific framework that focuses on financial materiality (materiality from the perspective of the investor). Other global frameworks tend to focus on both financial and broader stakeholder materiality, such as the Global Reporting Initiative (GRI) referential, as well as the Non-Financial Reporting Directive (NFRD) / Corporate Sustainability Reporting Directive (CSRD) initiative in the EU.

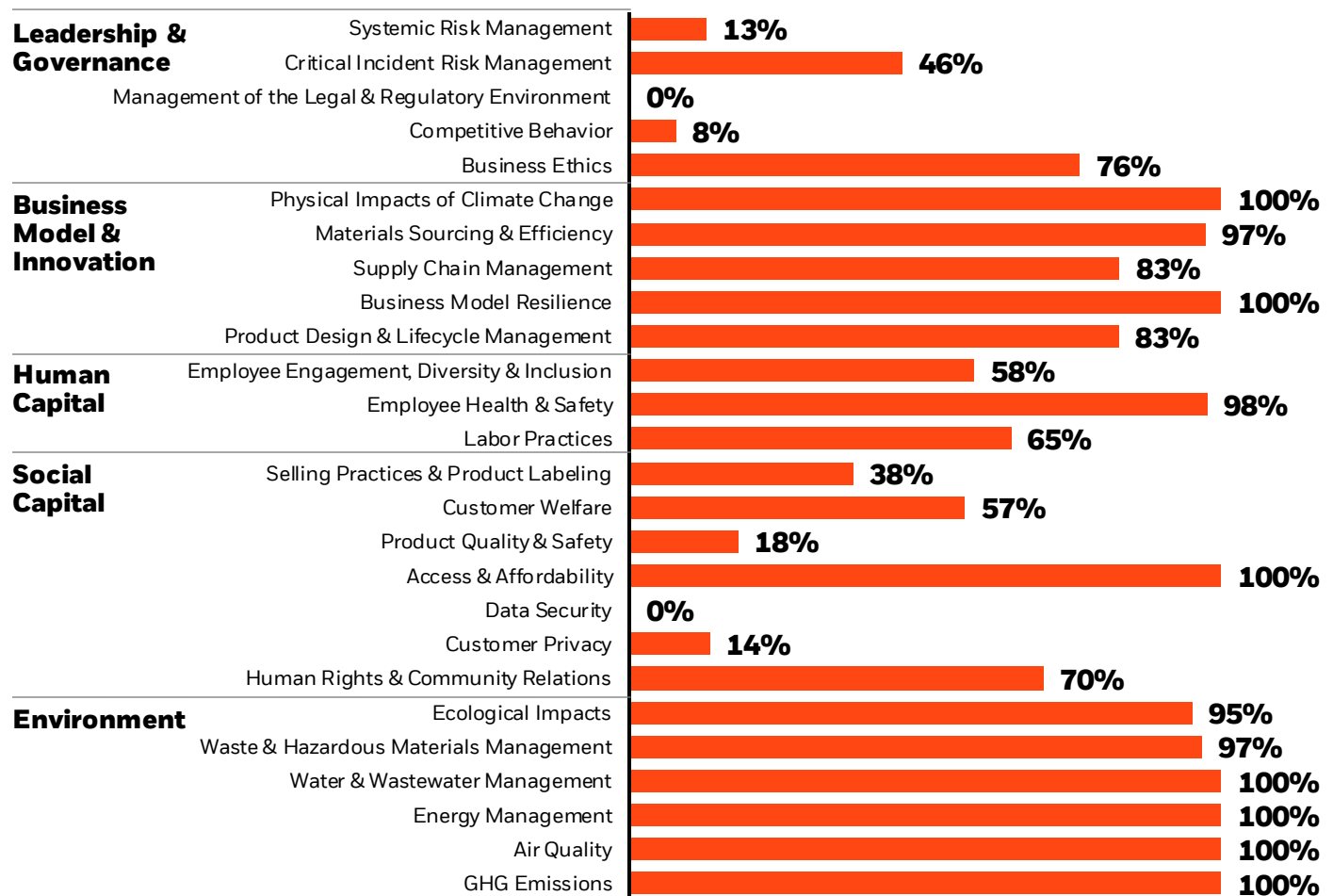
The UN SDGs are closely tied to financial materiality

The proposed connection between the UN SDGs and financial performance is evidenced in our hand mapping of the UN SDG country indicators to the SASB materiality indicators. We find a high match of around 70%, with 687 out of the 980 SASB indicators corresponding to at least one of the 242 UN SDG indicator.

The UN SDGs were designed to be advanced and tracked at the country-level, so naturally we wouldn't expect all issues underpinning the UN SDGs to be applicable to companies. To better understand the exact translatability of the SDG country-level targets and indicators to issues that are relevant and material to the private sector, we analyse the connection between the 26 SASB sustainability categories and the UN SDGs (see Figure 2). Unsurprisingly, the dimensions that have the highest correspondence between material company indicators and the UN SDGs are Environment, Business Model & Innovation, and Human Capital, with six of the categories having a full match at 100%. Here the sustainability issues are a direct reflection of sustainable development goals, such as climate change, responsible production and consumption, sustainable construction, and waste management. Where we see a very low correspondence between the UN SDGs is in company leadership and governance, and to some extent social capital. In this instance, while these issues are material to company long-term performance, they do not tie back directly to the advancement of the UN SDGs.

Figure 2: The SASB categories have a high correspondence with the UN SDGs

Percentage of SASB materiality indicators mapped to UN SDG indicators per SASB Category



Source: BlackRock Sustainable Investing, with data from UN Sustainable Development Goals, SASB as of 31 May 2021. The SASB Materiality Map comprises of 5 Dimensions that are further expanded into the 26 Categories shown in this graph. These 26 Categories are represented by 679 unique company indicators. The indicators are 'activated' across 77 Industries where there is a material connection between the company indicator and financial performance for the given Industry. This results in 980 total pairs of company indicators and industries, 687 (or 70%) of which can be linked to the UN SDGs. This graph illustrates the proportion of the 980 indicators that correspond to at least one UN SDG country indicator, split across the corresponding SASB Categories.

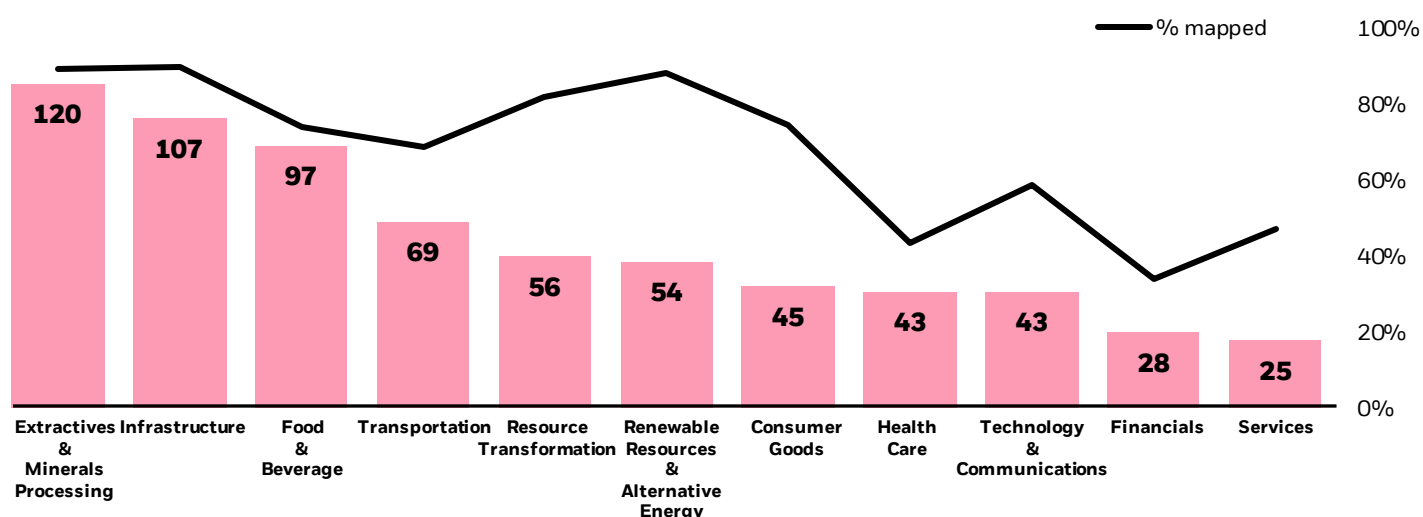
UN Sustainable Development Goals: <https://sdgs.un.org/goals> SASB Materiality Map: <https://materiality.sasb.org/>.

Using SASB's materiality matrix, we also look at how the materiality of the UN SDGs varies across the Sustainable Industry Classification System (SICS) sectors (see Figure 3). The sectors with the highest match of material indicators linked to the SDG country indicators are Extractives Minerals Processing and Infrastructure. The leading UN SDGs for these sectors are Clean Water and Sanitation (SDG 6), Affordable and Clean Energy (SDG 7), Climate Action (SDG 13), and Decent Work and Economic Growth (SDG 8). This is largely due to these sectors' high correspondence with material indicators under the Environment and Business Model & Innovation categories, which tells us that the performance indicators linked to these UN SDGs will be particularly pertinent to the financial performance of these sectors.

On the other end of the spectrum, Financials and Services have a very low match of under 50% as the majority of material indicators sit under the Social Capital, Human Capital and Leadership & Governance categories which have a low correspondence to the UN SDGs. That said, these sectors still have some material indicators under Peace, Justice and Strong Institutions (SDG 16), such as professional integrity and duty of care, and Climate Action (SDG 13), such as monetary risk of climate change and integration of ESG issues in investing decisions.

Figure 3: The UN SDGs are highly material for 3 sectors

Sum of SASB materiality indicators mapped to SDG targets per SICS sector



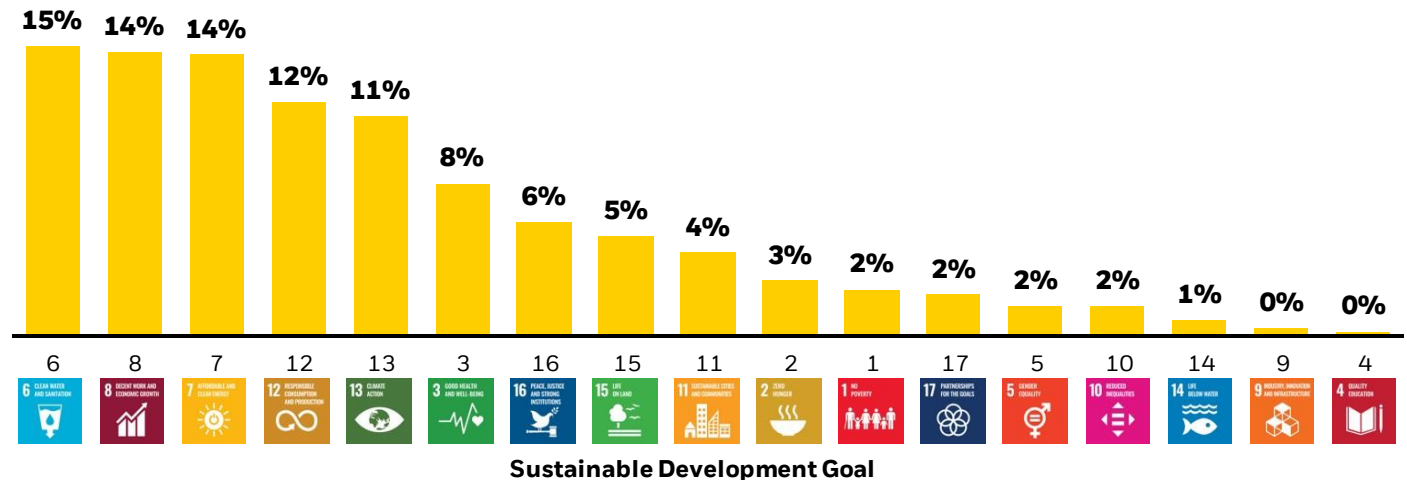
Source: BlackRock Sustainable Investing, with data from UN Sustainable Development Goals, SASB as of 31 May 2021. The SASB Materiality Map assesses material company indicators across the 11 SICS sectors, that are further expanded into 77 Industries. The 679 unique SASB company indicators are 'activated' across 77 Industries where there is a material connection between the company indicator and financial performance for the given Industry. This results in 980 total pairs of company indicators and industries, 687 (or 70%) of which can be linked to the UN SDGs. This graph illustrates the total number and proportion of the 980 indicators that correspond to at least one UN SDG country indicator, split across the corresponding SICS Sectors.

UN Sustainable Development Goals: <https://sdgs.un.org/goals>. SASB Materiality Map: <https://materiality.sasb.org/>.

Aggregating this mapping to the UN SDG level (see Figure 4), we find that four of the goals constitute over half of all SASB materiality indicators mapped to the SDG country indicators: Clean Water and Sanitation (SDG 6), Decent Work and Economic Growth (SDG 8), Affordable and Clean Energy (SDG 7) and Responsible Consumption and Production (SDG 12). This is largely due to the high correspondence with the Environment, Business Model & Innovation, and Human Capital SASB categories, and it underpins the significance of considering operational integrity and externalities, and not only products and services, when evaluating a company's impact on society and the environment. How a company manages its use of water resources, the energy it consumes and its duty of care towards its workforce are all factors that could not only be material to long-term financial performance, but also have the potential to advance or detract from the world's progress on the UN SDGs.

Figure 4: Four UN SDGs account for the majority of all SASB materiality indicators

Percentage of SASB materiality indicators per UN SDG



Source: BlackRock Sustainable Investing, with data from UN Sustainable Development Goals, SASB as of 31 May 2021. The SASB Materiality Map comprises 679 unique company indicators. That are 'activated' across 77 Industries where there is a material connection between the company indicator and financial performance for the given Industry. This results in 980 total pairs of company indicators and industries, 687 (or 70%) of which can be linked to the UN SDGs. Some company indicators can be attributed to more than one UN SDG, resulting in total pairings of SASB indicators to UN SDG goals of 717. This graph illustrates the proportion of the 717 indicator pairings belonging to the corresponding UN SDGs.

UN Sustainable Development Goals: <https://sdgs.un.org/goals>. SASB Materiality Map: <https://materiality.sasb.org/>.

While the private sector is intrinsically linked to the achievement of the UN SDGs, countries have the ultimate responsibility to drive change within their borders and activate global cooperation efforts. The success of the Sustainable Development Agenda relies on governments taking action to set standards and regulation that enable and incentivise change.

We anticipate that the global mobilization towards the goals will result in policy decisions that are likely to increase the cost of negative externalities, such as the cost of water, pollution, carbon taxes and other carbon pricing mechanisms, polluter-pays principles, and take-back schemes, and set higher standards of corporate behaviour (e.g. worker protection). Beyond the integration of current material ESG factors in investment decision making, understanding the resonance between these factors and the UN SDGs can thus provide investors with an additional understanding of the direction of travel on prospective materiality.

Reaching the UN SDGs also mean considering company sustainability practices

Impact strategies which target companies that seek to deliver positive social and environmental outcomes through their products and services have formed an essential part of the SDG-oriented sustainable landscape. However, as our understanding of the links between the UN SDGs and the private sector evolves, we find increasing evidence that the impact a company has through its business operations can also play an important role in accelerating or hampering progress.

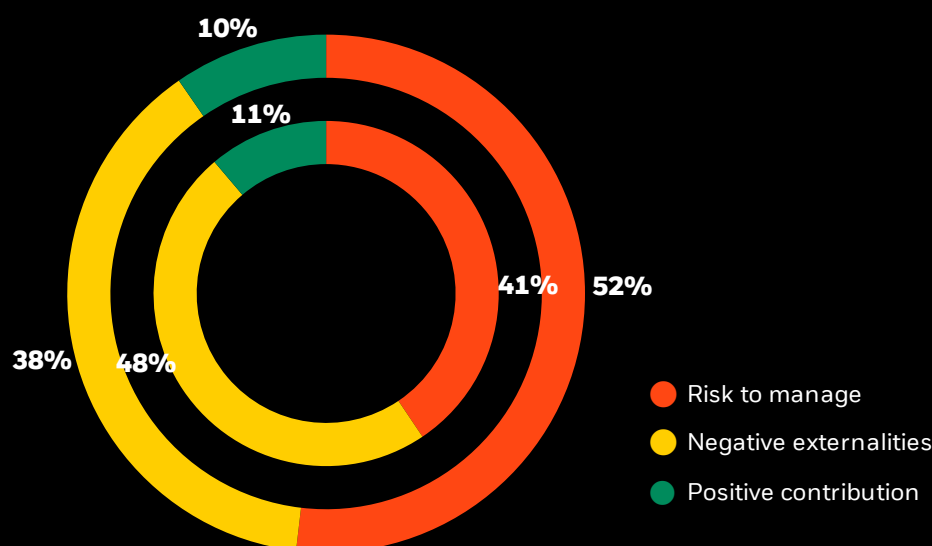
We have categorised the SASB framework material indicators into three types that differentiate between positive contributions, negative externalities, and risk management (see Figure 5). Of the 980 total material indicators, the majority pertain to company risk management and the minimization of negative externalities, such as greenhouse gas emissions and resource use. Positive contributions that are material to the business cases, mostly business opportunities, represent only 10% of the indicators list.

The subset of SASB indicators that match the relevant UN SDGs are even more geared towards negative externalities which represent 48% of all coupled indicators (10% more compared to the full set of indicators). Risk management and positive contribution indicators represent the remaining 41% and 11% of the list respectively.

Figure 5: UN SDG SASB-relevant indicators mostly tackle negative externalities

SASB indicators per type

(outer circle: all SASB indicators, inner SASB/UNSDG matching indicators)



Source: BlackRock Sustainable Investing, with data from UN Sustainable Development Goals, SASB as of 31 May 2021.

UN Sustainable Development Goals: <https://sdgs.un.org/goals>. SASB Materiality Map: <https://materiality.sasb.org/>.

Therefore, the integration of the UNSDGs as a sustainable objective magnifies the need to measure all aspects of a company's output and operations, whether they are positive or negative.

Out of the SASB/UN SDG matching indicators linked to a negative corporate impact, two thirds concern four goals in particular:

- SDG 6: Clean Water and Sanitation,
- SDG 7: Affordable and Clean Energy
- SDG 12: Responsible Consumption and Production
- SDG 13: Climate Action

Of those negative impact indicators, 28% pertain to energy and climate related impact, 21% to water use or water pollution, and 17% to waste and recycling. Those three areas are thus most likely to gain in financial materiality in the coming years, and be the most actionable way to achieve the goals through a change in corporate practices.

Integrating the UN SDGs in investments

As we have seen, the UN SDGs have strong links with financial materiality. On top of thematic investment opportunities, the management of negative externalities will become increasingly important to reducing material ESG risks. We can also expect regulatory pressures and market sentiment to continue to change in favour of the UN SDGs translating to a reallocation of capital flows and changes in the materiality of ESG factors.

Investors are seeking to understand how their portfolios are aligned with the UN SDGs to identify potential exposure to future regulatory, reputational and financial risks. While there is no consensus on a universal approach to report on UN SDG alignment, several methodologies have emerged that share some common thinking, particularly regarding measuring thematic or revenue alignment. However, they are differentiated by their distinct approach to recording negative externalities, operational alignment and additionality.

Measuring UN SDG alignment

Companies can contribute to the UN SDGs through their output and their operations. These contributions do not necessarily translate into impact in the real-world, so investors should be cautious when interpreting and quantifying companies' links to the UN SDGs. We propose that companies can be aligned or misaligned to the UN SDGs across two key aspects:

Thematic alignment	<p>Focus on the revenue a company derives from products and services that align with the UN SDGs</p> <p>Most relevant for integrating UN SDGs as a theme</p>
Operational alignment	<p>Focus on the alignment across the full value chain of a company's operations</p> <p>Most relevant for incorporating a sustainability objective and to measure overall portfolio performance and alignment with UN SDGs and complement the revenue approach</p>

Thematic alignment focuses on how the company's products and services align to the UN SDGs. This link between company output and sustainable development goals doesn't always exist so strategies built on thematic alignment may find that the investment universe is more limited.

For fundamental active investment strategies, we believe a manual mapping of the alignment to the UN SDGs is the best way to measure thematic exposure. This hand mapping bases on the analysis of the company's product and services and how they align with a specific UN SDG country target.

For broad investment universes or systematic strategies, relying on less granular analysis from data providers is a possible first-step proxy. For example, the MSCI's UN SDG Alignment⁶ methodology explores both sides of alignment through its 'Product Alignment' and 'Operational Alignment' assessments. Based on this assessment, we find that around 36% of the constituents in the MSCI All Country World Index (ACWI)⁷ have positive product alignment to at least one Goal as of May 2021. However, only 33% have no negative product alignment to any of the other goals (see Figure 6.a).

Operational alignment can be additive to thematic alignment measurement by providing a more holistic assessment of a company's alignment to the UN SDGs throughout its entire supply chain. There is also more scope for companies to advance the goals through effective operations, for example by using only renewable energy or promoting diverse and fair employment practices. Based on the MSCI ACWI Index (see Figure 6.b), 43% of constituents have positive operational alignment to at least one goal and no operational misalignment to any of the other goals. Overall, only 13% of the index have positive product alignment to at least one goal and no negative product or operational alignment to any other goal.

Figure 6: MSCI SDG Alignment Assessment for constituents of MSCI All Country World Index

Market value (%) alignment to each of the UN SDGs

Figure 6.a: MSCI SDG Product Alignment

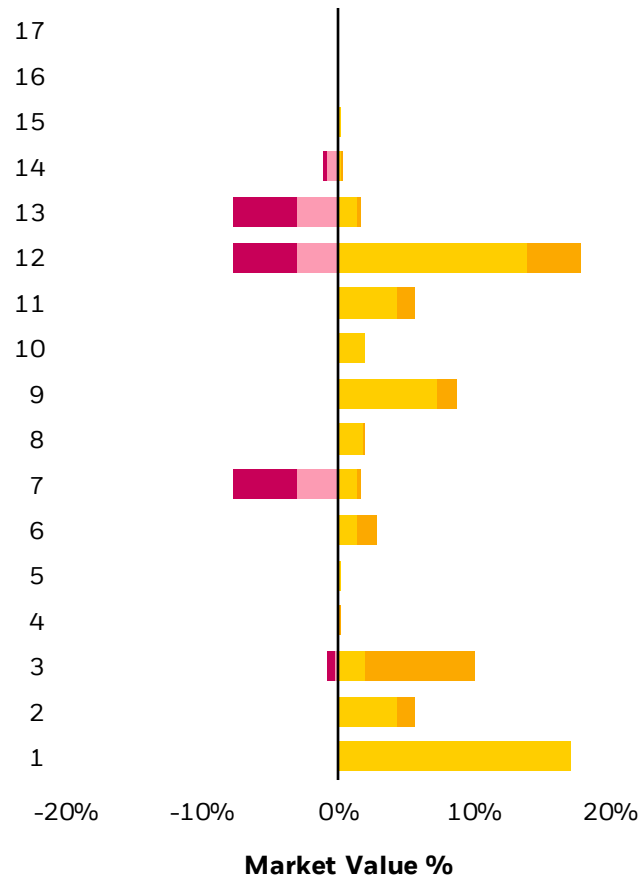
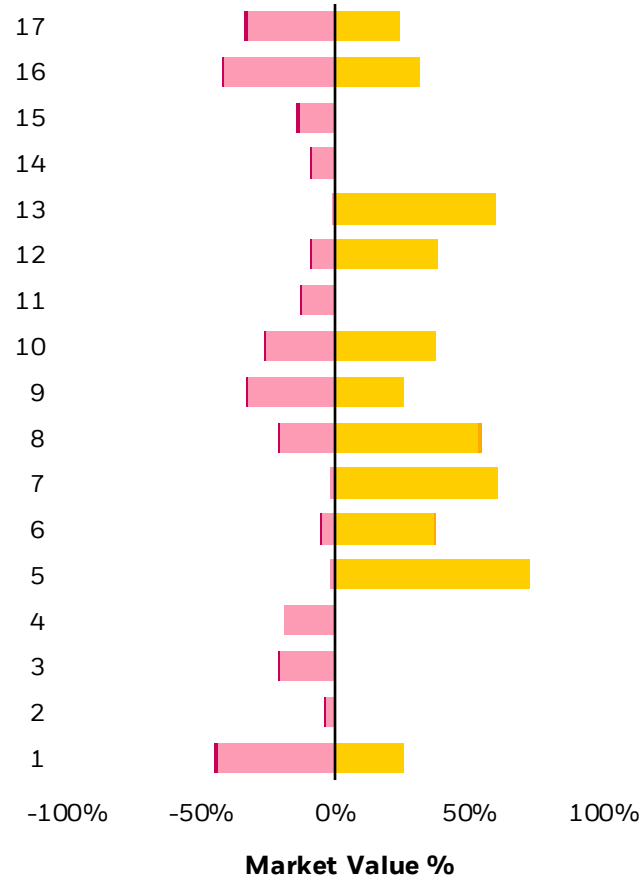


Figure 6.b: MSCI SDG Operational Alignment



■ Strongly Misaligned ■ Misaligned ■ Aligned ■ Strongly Aligned

Source: BlackRock Sustainable Investing, with data from MSCI on MSCI All Country World Index and MSCI SDG Alignment data as of 31 May 2021. This graph illustrates the proportion of Market Value that is Strongly Aligned, Aligned, Misaligned and Strongly Misaligned in the MSCI All Country World Index, split across the corresponding UN SDGs according to MSCI's Product Alignment and Operational Alignment assessments.

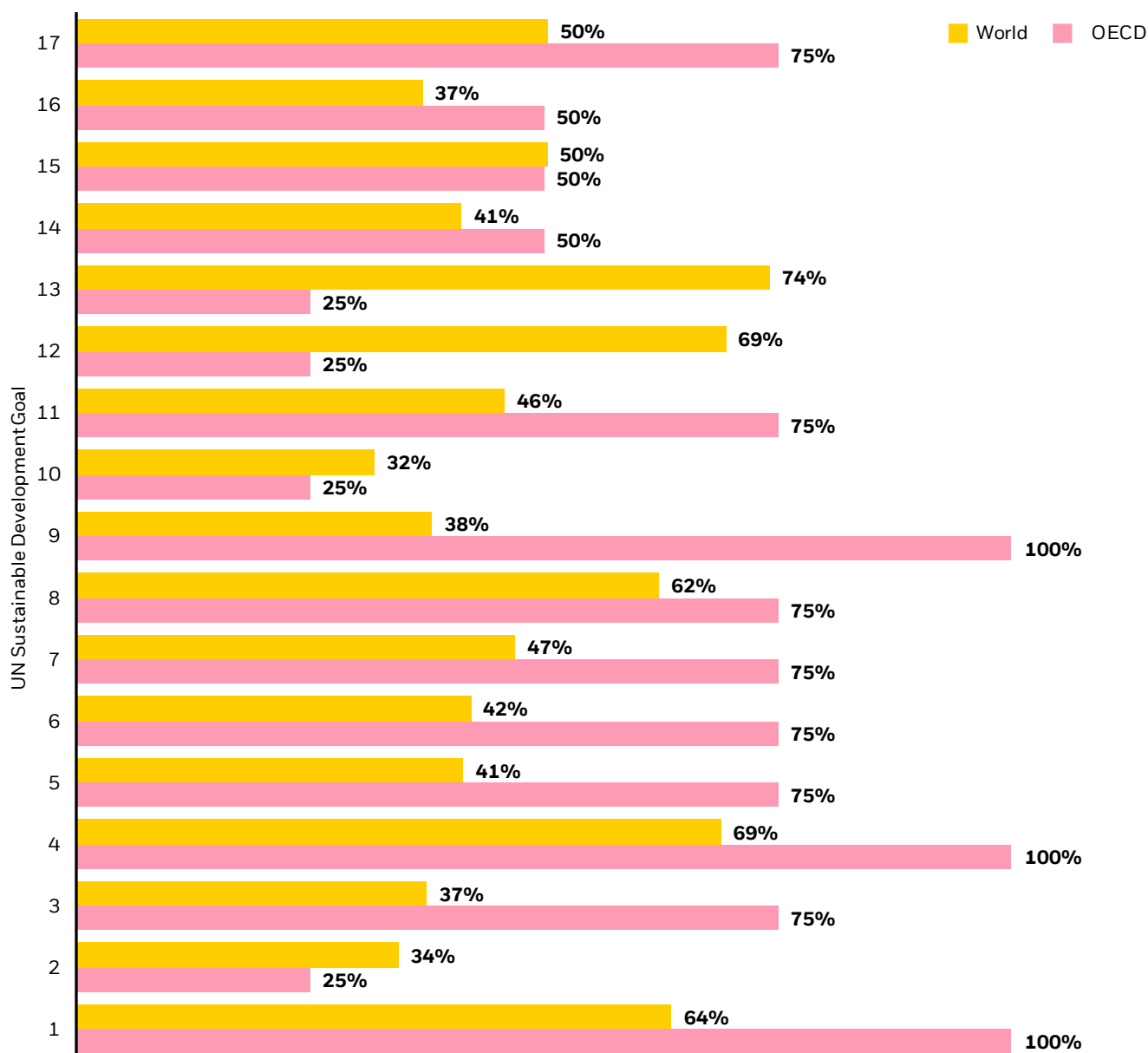
At its simplest, alignment can be measured by taking public information on business involvement, exposures, performance and controversies and linking it to the specific targets underpinning each SDG. This can be useful for reporting absolute alignment at the portfolio level as a guide to key exposures, but it is not very useful for informing investments.

To make the alignment measure more decision-useful, it can factor in sector relevance and additionality to the advancement of the UN SDGs. As we have seen, there is a strong connection between the UN SDGs and financial materiality which varies across sectors. This information equips investors with the ability to differentiate amongst companies which are more exposed to future risks and opportunities.

Similarly, we believe investors that seek to contribute or gain exposure to the advancement of the UN SDGs will find information on the additionality of their investments essential. The Sustainable Development Solutions Network (SDSN) tracks global progress towards the achievement of the UN SDGs and produces the SDG Index and Dashboards⁸. From the Sustainable Development Report 2020, we can gain some insight on how the world is progressing with each UN SDG (see Figure 7). Reduced Inequalities (SDG 10) has lowest average progress by the world overall at 32%, followed closely by Zero Hunger (SDG 2) at 34%, and Peace, Justice and Strong Institutions (SDG 16) and Good Health and Well-Being (SDG 3) at 37%. This information can help impact investors prioritise the UN SDGs that are the farthest away from being achieved, or otherwise identify which UN SDGs offer the most investment growth opportunity. The dashboards can further draw out regional variations and opportunities, for example OECD countries are lagging behind the world average in Good Climate Action (SDG 13) and Responsible Consumption and Production (SDG 12), so there may be more growth opportunities for companies in OECD countries aligned to these UN SDGs.

Figure 7: UN Sustainable Development Goals Progress

Average country progress to achieving each SDG (100% for full target achieved)







Source: BlackRock Sustainable Investing, with data from Sustainable Development Report 2020. The report rates each country across each SDG as either 'SDG achievement', 'Challenges remain', 'Significant challenges remain', and 'Major challenges remain' which we have translated into percentages of 100%, 75%, 50%, and 25% respectively. For the world estimate, the weighted average for each SDG and each country is aggregated using country population in 2020.

UN SDG Investing

UN SDGs in impact and thematic investing

We believe that the UN SDGs have the potential to deliver value to not only impact investments, but also wider ESG-focused strategies that can benefit from the historic opportunity to accelerate the global transition towards the goals. At BlackRock, we are developing investment solutions that integrate the sustainable objective of the UN SDGs. These solutions span from bond to equity strategies, including both thematic (nutrition, circular economy, sustainable energy) and global impact strategies.

An example of a theme relevant to the UN SDGs is the Circular Economy. The circular economy encapsulates the global shift from a linear take-make-use-waste economy to one in which goods are recycled, shared, re-used and/or used for longer to design waste out of the system. It thus provides alignment with targets linked to UN SDG 12 Responsible Consumption and Production.

SDG	Investable Exposure
 <ul style="list-style-type: none"> 11.2 Access to safe, affordable and sustainable transport systems 11.5 Reduce impact of disasters 	<ul style="list-style-type: none"> Waste management Landfill Reduction Shared infrastructure
 <ul style="list-style-type: none"> 12.5 Reduce waste 12.4 Management of chemicals and wastes throughout their life cycle and reduce the release into the environment 12.2 Sustainable management and efficient use of natural resources 	<ul style="list-style-type: none"> Recycling and reuse Sharing / Customer to Customer platforms Leasing business models
 <ul style="list-style-type: none"> 13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries 	<ul style="list-style-type: none"> Reduced emissions Shift away from single use plastic packaging
 <ul style="list-style-type: none"> 14.1 Reduce marine pollution 14.7 Increase the economic benefits from sustainable use of marine resources 	<ul style="list-style-type: none"> Waste reduction Reverse collection infrastructure

Source: BlackRock Sustainable Investing, with data from UN Sustainable Development Goals as of 31 May 2021.

UN Sustainable Development Goals: <https://sdgs.un.org/goals>.

Aside from investment growth opportunities, the UN SDGs also provide a framework for assessing company exposure to future regulatory, reputational and financial risks. As we have seen, these risks can be material to long-term financial performance, so they offer information that could be valuable and become the focus of an ESG-integrated strategy's investment decision-making and risk management practices.

From our sector-level analysis of the MSCI ACWI Index (see Figure 8), Healthcare and IT appear to be well positioned to advance the UN SDGs from a product perspective by delivering essential services that directly correspond to the sustainable objectives, however they are also among the most susceptible to operational misalignments. Here, investors can use the operational alignment information as a guide to identify companies that are lagging their peers and may be more susceptible to future risks. Utilities and Energy have the most exposure to product misalignments with the UN SDGs primarily due to the historic nature of their businesses, although they have among the lowest occurrences of misalignments from an operational perspective. This can be an indication of companies seeking to improve their operations and even invest resources into switching towards a more sustainable business model.

Figure 8: MSCI SDG Alignment Assessment for constituents of MSCI All Country World Index

Market value (%) alignment across sectors

Figure 8.a: MSCI SDG Product Alignment

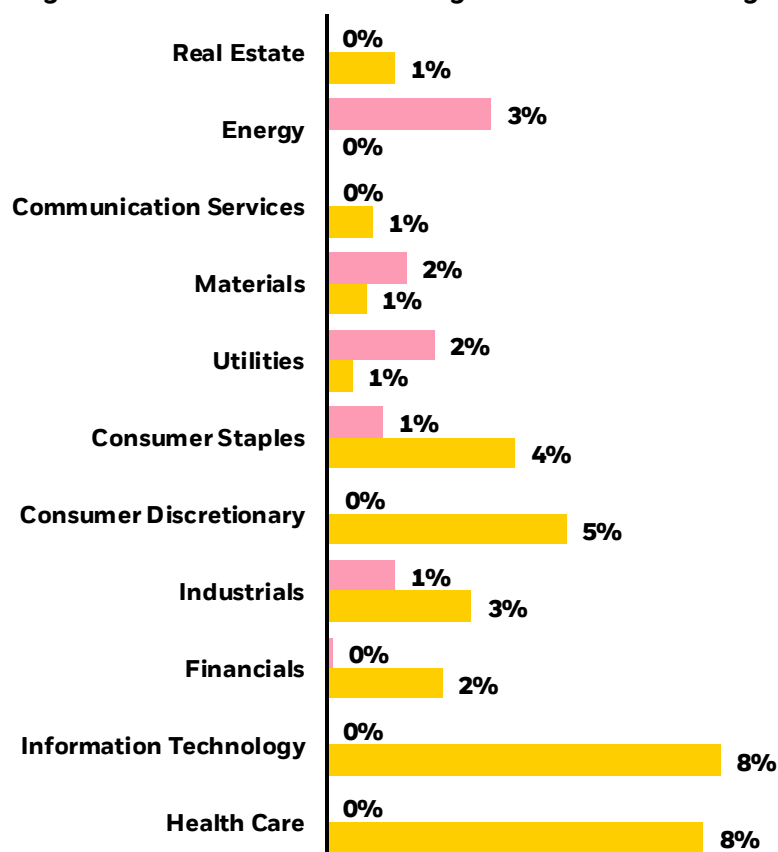
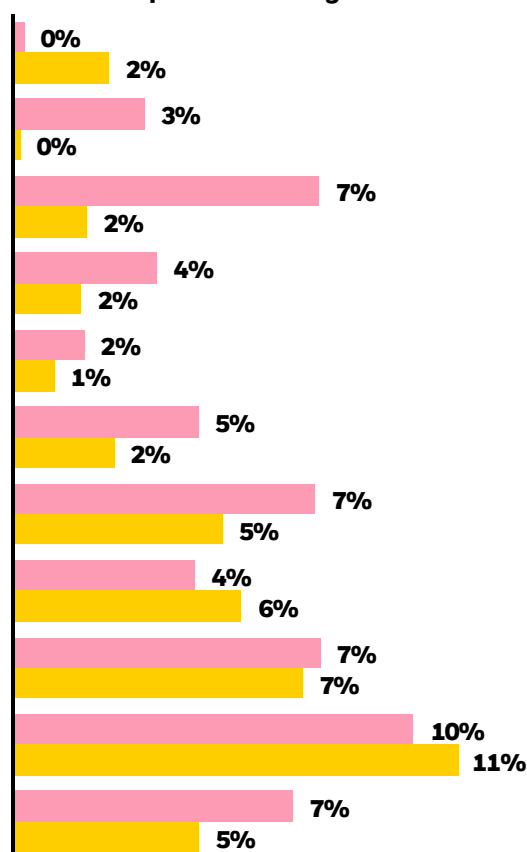


Figure 8.b: MSCI SDG Operational Alignment



■ Misaligned or Strongly Misaligned on at least one SDG

■ Aligned or Strongly Aligned on at least one SDG and not Misaligned or Strongly Misaligned on any other SDG

Source: BlackRock Sustainable Investing, with data from MSCI on MSCI All Country World Index and MSCI SDG Alignment data as of 31 May 2021. This graph illustrates the proportion of Market Value that is either 1) Misaligned or Strongly Misaligned to at least one SDG, or 2) Aligned or Strongly Aligned on at least one SDG and not Misaligned or Strongly Misaligned on any other SDG, in the MSCI All Country World Index, split across the corresponding Global Industry Classification Standard (GICS) Sectors according to MSCI's Product Alignment and Operational Alignment assessments.

UN SDGs as a sustainable objective

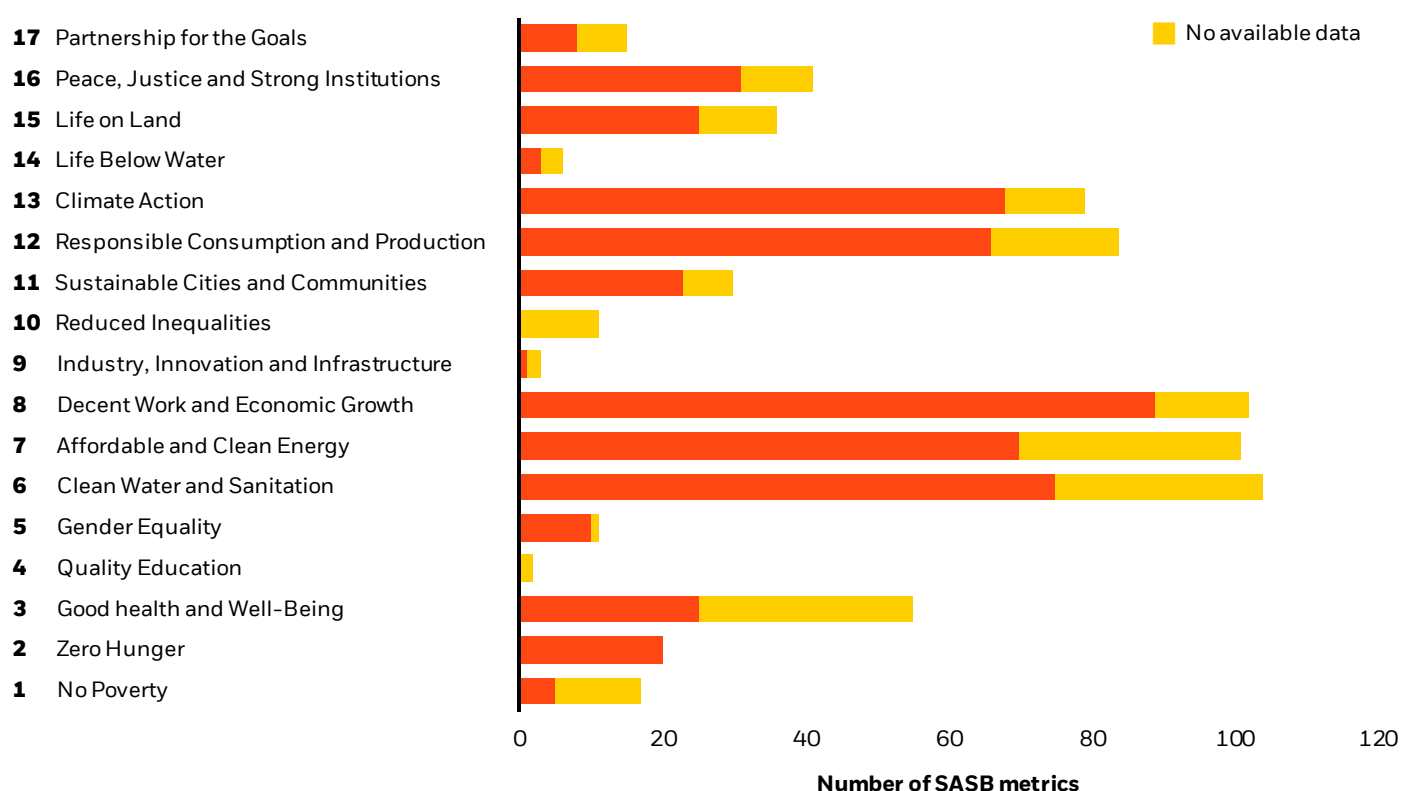
On top of thematic exposure, UN SDGs can also translate into a sustainable objective based on both assessment of product and services alignment and adding operational alignment using ESG key performance indicators (KPI) that are relevant to the goals. This involves setting a threshold of aggregated UN SDG alignment from a revenue perspective and an operational alignment perspective.

Engaging for enhanced disclosure and long-term value creation

Our mapping of material SASB indicators to the UN SDGs reveals gaps in company disclosure of material key performance indicators (see Figure 9). Specifically, we did not find any company data to help inform the relevant SASB indicators under Goals 4 and 10, while Goals 1, 3 and 9 are missing more than 50% of relevant data. The SASB Sectors with the most missing relevant company data are Extractives & Minerals Processing, Infrastructure, and Healthcare. The SASB Dimensions with the most missing relevant company data are Business Model & Innovation (majority from Product Design & Lifecycle Management), Environment (majority from Ecological Impacts) and Social Capital (majority from Access & Affordability).

Figure 9: Mapping SASB to the UN SDGs reveals key gaps in company disclosures

Number of SASB metrics linked to the UN SDGs that can be informed using available company disclosures data



Source: BlackRock Sustainable Investing, with data from UN Sustainable Development Goals, SASB as of 31 May 2021. The SASB Materiality Map comprises 679 unique company indicators. That are 'activated' across 77 Industries where there is a material connection between the company indicator and financial performance for the given Industry. This results in 980 total pairs of company indicators and industries, 687 (or 70%) of which can be linked to the UN SDGs. Some company indicators can be attributed to more than one UN SDG, resulting in total pairings of SASB indicators to UN SDG goals of 717. This graph illustrates the number of the 717 indicator pairings that can be informed using available company disclosures data, split across the corresponding UN SDGs.

UN Sustainable Development Goals: <https://sdgs.un.org/goals>. SASB Materiality Map: <https://materiality.sasb.org/>.

As the UN SDGs grow in prevalence, it will become increasingly important for companies to improve their transparency on issues pertaining to the goals, particularly where the information is linked to financial materiality. While regulatory for ces may introduce some requirements for companies to improve their disclosures and management of their social and environmental impact, we believe that direct engagement can be a powerful tool for driving this change.

BlackRock engages with companies on a range of issues, including board composition, executive compensation, sustainable business practices and corporate reporting. We believe sustainability is core to value creation for our clients, and we have engaged thousands of companies on climate and sustainability-related issues over the years. BlackRock Investment Stewardship evaluates corporate governance and business practices at the companies we invest in on behalf of our clients against our published global principles⁹, as well as our market-specific voting guidelines..

Investors are increasingly asking for more fulsome information on how companies are managing climate-related risks and opportunities. Thus, we have been engaging with companies regarding the need to enhance disclosure of climate risks and their plans and actions to transition their business models to be successful in a low-carbon economy. We also engage on other business relevant sustainability risks and opportunities and how they are reported. These disclosures are essential for analyzing a company's approach and progress. They also help investors to make informed voting decisions through which we signal support for or encourage further progress on a company's governance and sustainable business practices. As set forth in BlackRock Investment Stewardship's sustainability reporting position paper¹⁰, BlackRock advocates for more widespread and standardized sustainability reporting. Until a global set of standards is established, we will, in our engagements with companies and the broader stewardship ecosystem, continue to advocate for corporate sustainability reporting aligned with the four pillars of the framework developed by the Task Force on Climate-related Financial Disclosures, supplemented by industry-specific, financially material metrics like those developed by SASB. We will continue to keep our position under review, taking into consideration regulatory developments and corporate practice. Where a company is already reporting to another standard, such as the Global Reporting Initiative, we ask that they identify the financially material environmental and social metrics reported. The goal is that companies globally provide consistent, financially material information that is relevant to investment decision-making and comparable within each industry. Such reporting supports investors like BlackRock make better informed capital allocation decisions and stewardship engagement.

Alongside advocating for greater disclosures, we believe that there is significant intersection between many of the topics that we discuss with companies and aspects of those UN SDGs in which the private sector has a role to play¹¹. BlackRock's stewardship activities aim to advance our clients' economic interests and support companies in delivering long-term sustainable financial performance. In this way, we seek to help our clients, the true owners of these companies, meet their long-term financial goals.

Conclusion

As the world embarks on the transition to a net zero economy, the necessity of adopting a fair and equitable pathway is stronger than ever. As a guidepost of global social and environmental objectives, the UN SDGs are a key for investors to grasp the interdependencies between financial and sustainable performance. We believe a similar frame of thinking can be applied to the UN SDGs as we do for climate change, interpreting the regulatory risks linked with achieving the UN SDGs as 'transition risks' and the risks of not achieving them as 'physical risks'.

It is increasingly recognised that companies can contribute or detract from the UN SDGs through not only their products and services, but also through their operations. Measures of holistic alignment equip investors with useful information on their exposure to SDG-related themes and gives them the ability to differentiate amongst investments which are more exposed to future risks and opportunities.

We also believe impact strategies will need to look beyond a company's positive contribution to the goals. As the overlap between SASB and the UN SDGs has shown, corporate issuers' management of negative social and environmental externalities today may become more and more material in the future as countries progress towards achieving the goals.

Therefore, integrating the UN SDGs is relevant for long-term investors to not only align their strategies with sustainable objectives, but also to incorporate associated risks and opportunities into their broader ESG integration strategy. The strong links between material ESG issues and the UN SDGs shine a light on the interdependence of people, planet and financial performance.

In this context, the integration of material ESG risks and externalities can provide critical acceleration to the UN SDGs and opens up the opportunity to magnify the contribution of private actors, beyond impact investment strategies.

At BlackRock, we provide our investment teams with tools to integrate the UN SDGs in their solutions and prioritise engagements to help enhance corporate disclosures and awareness on the topics that matter most both for companies' long-term financial prospects and for the goal achievement.

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Appendix

Opening new growth prospects

Reaching the UN SDGs relies on the world's collective effort to come together and direct capital towards their achievement. Regulators, industry bodies and asset owners are embracing the UN SDGs and are heightening their scrutiny over the impact companies have on the environment and society. The growing popularity of the UN SDGs among investors has been instrumental in the latest wave of asset managers striving to create investment solutions that embed the objective of a positive UN SDG contribution, as more and more asset owners¹² set the ambition to align their investment strategy with the goals and actively reallocate assets towards their achievement.

Younger investors who are more conscious of current socio-economic issues are also calling for pensions and savings to be invested more sustainably. The UN SDGs will be a major driver in broadening the reach of sustainable finance for individual investors.

In our view, not only will the achievement of the UN SDGs help create better financial futures and financial prospects for all, it will also contribute to the significant reallocation of capital - including public spending- to sustainability¹³, which will create a structural growth engine for companies that provide solutions to reach them. Investors are waking up to the idea that investing in line with the UN SDGs could lead to enhanced investment performance through corporate exposure to these new high-growth business opportunities.

Research from our Global Impact Team observes a growing momentum in the public equities space for impact investments - i.e those made with the intention to generate positive, measurable social and environmental impact alongside a financial return¹⁴. This means the majority of its products and services must address a need that is unlikely to be fulfilled by others (such as competitors or governments), thereby creating a genuine impact. Impact companies have had twice the sales growth compared to companies in global equities.

When we take a step back and look at what impact businesses are providing, they are helping to address essential needs like access to affordable housing, healthcare services, education and job training, financial inclusion, safety and security, and protection of our environment – needs that often correspond to those set forth in the UN Sustainable Development Goals. The world's great problems are vast, and demand for innovative, scalable solutions outstrip supply, providing a structural growth tailwind to impact businesses. Investing in impact companies provides exposure to these structural growth stories.

Not all UN SDG country-level criteria translate into actionable company contributions

The UN SDGs were designed for country goal setting, so intuitively not all targets will translate into actionable company contributions. Despite the high match with the SASB materiality framework, the paired indicators tend to be concentrated around only a few SDG targets (see Figure A.2). In fact, we find that only 47 of the 242 UN SDG country indicators are paired with at least one SASB indicator.

The goals with the lowest correspondence to SASB indicators at less than 15% are:

Goal 17: Partnerships to Achieve the Goals

The pinnacle of this goal is global partnership and cooperation to strengthen resource mobilization and means of implementation for sustainable. Companies may be able to help facilitate progress to some extent, for example by increasing access to technology and innovation, however the success of this goal requires ownership and involvement at the country-level.

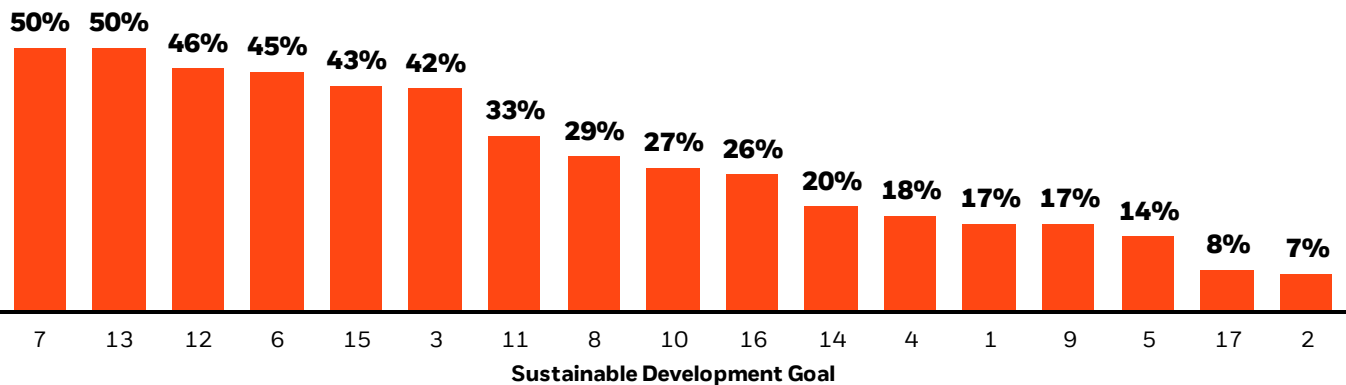
Goal 5: Gender Equality

Outside equal remuneration and presence in managerial position, this goal tackles a broad set of topics, such as domestic violence, forced marriage and reproductive rights, which fall outside of the scope for company involvement.

Goal 2: Zero Hunger

While companies can be held accountable for sustainable agricultural practices, targets linked to alleviating hunger and malnutrition for the population, correcting trade restrictions in the world agricultural markets and ensuring the proper functioning of food commodity markets fall within the remit of global governments.

Figure A.2: Some UN SDGs have very low level of SASB translation
Percentage of UN SDG targets matched to SASB materiality indicators



Source: BlackRock Sustainable Investing, with data from UN Sustainable Development Goals, SASB as of 31 May 2021. The 17 UN SDGs comprise of 242 country-level performance indicators that can help policymakers track progress on each of the Goals. Our analysis finds that 67 of the 242 (28%) UN SDG indicators can be linked to 687 of the 980 (70%) SASB indicators. This graph illustrates the proportion of the 242 UN SDG indicators that can be linked to at least one SASB indicator, split across the corresponding UN SDGs.

UN Sustainable Development Goals: <https://sdgs.un.org/goals> SASB Materiality Map: <https://materiality.sasb.org/>.

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