

SUSTAINABLE FINANCE DISCLOSURE REGULATION SOLUTIONS

Meet SFDR compliance requirements with end-to-end ESG Research solutions and our PAI Data Solution.



THE REGULATION

Part of the EU Action Plan, the Sustainable Finance Disclosure Regulation (SFDR) raises the bar for transparency and accountability in investment management, introducing new rules for how investment managers need to incorporate and disclose ESG risks. The regulation sets standards for classifying funds as “grey”, “light green”, or “dark green”, requiring changes to product documentation and marketing materials, with strict reporting requirements for “green” funds. Specifically, investment managers have to start reporting on safeguards put in place to ensure portfolio companies comply with global standards, such as the UN Guiding Principles on Business and Human Rights. They are also required to disclose how their investments may negatively impact sustainability factors or the “Principal Adverse Impacts” (PAIs) of their investments using the regulator’s language.



HOW WE CAN HELP

Full compliance with all the SFDR requirements demands a comprehensive set of ESG research solutions, a key part of which is the PAI Data solution. Sustainalytics’ PAI Data Solution enables investors to consider the PAIs in their investment decisions and supports reporting requirements. This solution complements our existing suite of research products and services that are already very well aligned to the SFDR requirements to manage ESG risk and mitigate negative stakeholder impacts. Sustainalytics’ client advisory teams can advise you on finding the right mix of research solutions to meet your organization’s compliance needs.

SFDR Research Solutions

Sustainalytics offers a full suite of ESG research solutions that can help clients meet SFDR requirements. In addition to our existing research that is well aligned to the regulation, our clients benefit from our company- and fund-level data packages specific to SFDR and the PAIs.

COMPANY-LEVEL DATA

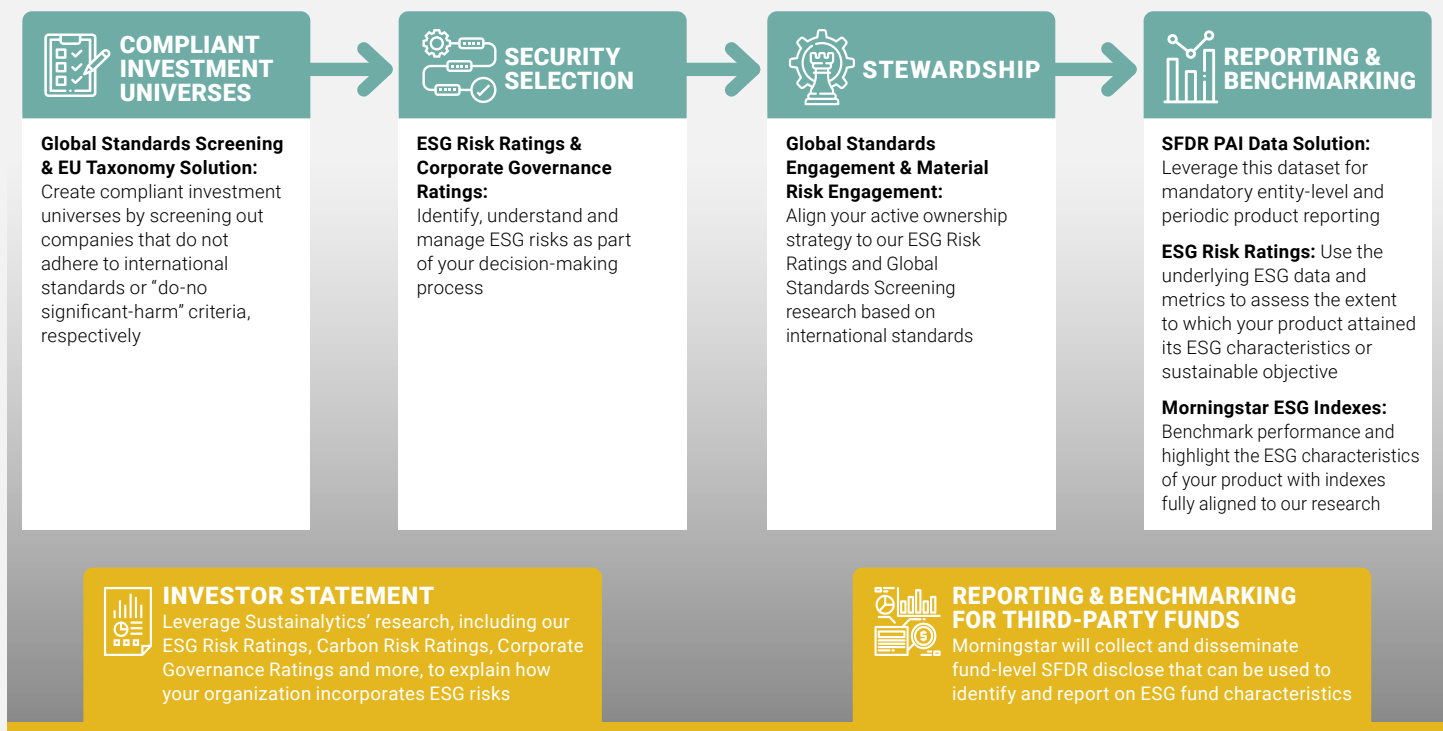
- **PAI Data Solution:** Data packages with all of the mandatory corporate and sovereign PAIs, and a growing number of voluntary PAIs.
- **Compliance with SFDR:** Supported with our research such as Impact Metrics, Sustainable Products, Global Standards Screening, Controversies Research, ESG Risk Rating.

FUND-LEVEL DATA

- Morningstar will collect and disseminate EU ESG Fund Type information, such as Article 8 & 9 flags, and key data points from SFDR compliant ESG prospectuses.
- Users of third-party funds, such as advisors and fund-of-funds, can utilise Morningstar's market leading 'Full Holdings' database to look through funds to their underlying exposures. This gives the user PAI assessments on the underlying securities, thereby aligning with the regulation's requirements for entity level disclosures to be calculated using security level data.

Example: Serving investors' SFDR needs across the investment value chain

The right product mix will depend on the investor's strategy and the desired ESG characteristics of relevant funds. For example, funds that exclude tobacco companies would also benefit from our Product Involvement research, not listed below. The example simply illustrates some of the main use cases. Please contact our client advisors to find the best-suited mix of research solutions to meet your organization's needs.



Why Choose Morningstar Sustainalytics as Your SFDR Partner?



A Coherent and Consistent Approach to ESG Across the Investment Value Chain

From the creation of compliant investment universes to security selection and stewardship, Sustainalytics has developed a comprehensive set of ESG research solutions designed to be complementary and consistent in the way ESG is assessed.



A Strong Foundation of Established, High-Quality Research

Sustainalytics has a comprehensive portfolio of market leading ESG research solutions that are already very well aligned to the SFDR's requirements to, for example, manage ESG risk and stakeholder impact.



Alignment Between Company and Fund Data

Morningstar's fund-level solutions leverages Sustainalytics' company-level research ensuring consistency.



A Range of Portfolio Reporting Solutions To Match Your Needs

Self-Service: Upload portfolios to our online platform Global Access and run them on demand.

Managed-Service: Submit your portfolios for Sustainalytics to match and aggregate on a regular schedule.

End-to-End Service: Morningstar's Portfolio Analytics Service is an at-scale option that incorporates fund look through, for a large number of portfolios at a frequency of choice. Includes the ability to customize ESG factsheets to communicate the sustainability of your portfolio to clients or to support internal monitoring.

Morningstar Publishing System (MPS) offers pre-built reports for SFDR Disclosure documents and custom built sustainability factsheets, by leveraging Morningstar Sustainalytics data.

Use Cases

Regulatory Reporting

- Report on adverse impacts at the entity or product level
- Use data within regulatory reporting templates (e.g. EET)

Portfolio Construction and Product Creation

- Leverage PAI Data Solution as an input into portfolio construction
- Mitigate adverse impacts ex ante

Stewardship

- Engage poor performers within your portfolio
- Mitigate adverse impacts of your investments over time

Portfolio Management and Monitoring

- Leverage the PAI Data Solution to monitor adverse sustainability impacts of your portfolio
- Use the data to improve the positioning of your portfolios over time
- Identify best and worst performers in terms of adverse impacts

Monitoring Adverse Impacts at the Entity Level

- Monitor the adverse impacts across your entire book of investments (for relevant asset classes)
- Mitigate adverse impacts of your book of investments over time

Summary of SFDR Entity and Product Level Disclosure Requirements

SCOPE	WHAT TO DISCLOSE	WHERE TO DISCLOSE	WHO SHOULD DISCLOSE
All investment products	Describe how material ESG risks are integrated into risk policies (or why they are not)	Websites, pre-contractual information, marketing communication	All financial entities
	Explain how PAIs are considered (or why they are not)	Websites, pre-contractual information	Compulsory for financial entities with more than 500 employees and holding companies Entities with fewer than 500 employees are to disclose on a comply or explain basis
Article 8 "light green" funds Funds with ESG characteristics or some sustainable investment objectives Article 9 "dark green" funds Funds that primarily have sustainable investment objectives	Additional disclosure requirements: <ul style="list-style-type: none"> • How the stated sustainability characteristics or objectives are met • Planned and actual allocation to "sustainable investments" • The use of an ESG benchmark for reporting is expected to become market practice 	Pre-contractual information, websites, periodical reports, marketing communication	All financial entities

SFDR DISCLOSURE TYPE	RELEVANT ESG DATA AND SOLUTIONS
Entity level policy disclosures	
<ul style="list-style-type: none"> Sustainability risk policies 	ESG Risk Ratings, Country Risk Ratings, Carbon Risk Ratings, Material Risk Engagement
<ul style="list-style-type: none"> Policies to identify and address adverse sustainability impacts 	PAI data solution, Global Standards Screening, Global Standards Engagement, Thematic Engagement
Entity-level PAI disclosures	Sustainalytics PAI Data Solution
Initial product-level pre-contractual disclosures	
<ul style="list-style-type: none"> Transparency on the promotion of environmental and social characteristics (article 8) 	ESG Risk Ratings, Corporate Governance Research & Ratings, Carbon Solutions, Controversies research, Product Involvement, Global Standards Screening, Impact Metrics, Engagement Services, Morningstar ESG Indexes
<ul style="list-style-type: none"> Transparency on meeting sustainability investment objectives (article 9) 	EU Taxonomy Solution, Impact Metrics
<ul style="list-style-type: none"> Transparency of the integration of sustainability risks (all products) 	ESG Risk Ratings, Country Risk Ratings, Carbon Risk Ratings, Material Risk Engagement
<ul style="list-style-type: none"> Sustainable Investments 	SFDR Sustainable Investments Mapping, Guidance Document & screening tools
Disclosures in periodic reports and on websites	
<ul style="list-style-type: none"> Disclosures on the product's investment strategy and periodic reporting 	ESG Risk Ratings, Corporate Governance, Carbon Solutions, Global Standards Screening, Controversies Research, Product Involvement, Sustainalytics EU Taxonomy Solution, Impact Metrics

Learn More About Sustainalytics

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