Sustainable Development Goals

Federated Hermes

What are the Sustainable Development Goals?

In 2015, the United Nations Member States created the Sustainable Development Goals (SDGs), a set of 17 specific goals which seek to realize the human rights of all and achieve specific objectives such as gender equality (SDG 5), decent work and economic growth (SDG 8), climate action (SDG 13) and more. Within the SDGs there are 169 targets with 231 indicators that drive progress and measure success. For example, one target within SDG 8 is to substantially increase the number of youth engaged in employment, education or job training. An indicator of success or failure in meeting that target is measured by the proportion of youth (aged 15 to 24 years) who are employed or actively involved in either education or job training. The SDGs are integrated and indivisible, while balancing three primary dimensions of sustainable development: economic growth, social inclusion and environmental protection. In 2015, the UN Conference on Trade and Development (UNCTAD) estimated that achieving the SDGs will require between $5 and $7 trillion annually until 2030. A more recent study conducted in 2021 by the Organization for Economic Cooperation and Development (OECD) estimated that the impact of the COVID-19 pandemic increased a previously estimated funding gap from $2.6 trillion to $4.2 trillion per year.

The Sustainable Development Goals

1. No poverty
2. Zero hunger
3. Good health and well-being
4. Quality education
5. Gender equality
6. Clean water and sanitation
7. Affordable and clean energy
8. Decent work and economic growth
9. Industry, innovation and infrastructure
10. Reduced inequalities
11. Sustainable cities and communities
12. Responsible consumption and production
13. Climate action
14. Life below water
15. Life on land
16. Peace, justice and strong institutions
17. Partnerships for the goals

Not FDIC Insured • May Lose Value • No Bank Guarantee

Federated Hermes

Why did the UN develop the SDGs?

The UN created the SDGs in 2015 to address the causes of poverty and the universal need for development. In 2015, an estimated 1 billion people were living below the international poverty line of $1.90 a day—the World Bank's measure for poverty. The SDGs build on the success of their predecessors, the Millenium Development Goals (MDGs), and aim to go further to end poverty and achieve economic growth, social inclusion and environmental protection.

The UN established the SDGs through an exceptionally inclusive process—with governments, businesses, investors, civil society and citizens involved from inception. This inclusive process enabled the UN to generate a thorough and democratic set of goals and a definitive framework for sustainable development. Every country is expected to work towards achieving the SDGs.

Why do the SDGs matter to investors?

Governments are introducing regulations and incentives to promote SDGs. Companies are adopting more sustainable business practices and seeking to innovate to deliver sustainable products and services. Investors can participate with governments and companies on this journey.

- **The SDGs provide a timely opportunity** to reshape the trajectory of lives globally for the better and create new market opportunities.
- **Integrating the SDGs into investment decisions** supports opportunities for long-term value creation, aligns investors with the broader needs and objectives of society and can benefit the environment as a whole.
- **The SDGs serve as a list of salient Environmental, Social and Governance (ESG) factors** that investors should consider as part of their fiduciary duty.
- **Meeting the SDGs could be a primary driver** of future economic growth, thereby providing opportunities for companies to boost revenues and earnings, and therefore the valuations of equities and other assets.
- **The adoption of the SDGs could force** a portion of currently external costs, such as environmental damage and social upheaval, into companies' accounts, which would further integrate ESG risk into corporate balance sheets and provide a clearer risk framework for investors.
- **The clear risk framework provided by the SDGs** can help investors avoid businesses with unsustainable risks, that compromise their long-term revenues.
- **The SDGs help investors identify companies** that are embracing sustainability with the goal of boosting profitability.
- **Investors can implement** investment strategies that target the SDG themes and sectors.
- **The SDGs can align with ESG analysis** to help identify companies with material revenue exposure to products and services that assist in overcoming challenges in society, thereby managing risk and return potential.
- **The SDGs do not restrict the range of investments available** to investors, as an increasing number of companies are reporting their exposure to the SDGs.

Sources

"UN Sustainable SDGs," published by UN PRI; "What do the UN Sustainable Development Goals mean for investors?" published by the PRI, UNEP.

Finance Initiative and UN Global Impact as at December 2016; and "Within investor reach? The UN Sustainable Development Goals," published by Hermes Investment Management April 2017.

"SDG Investment Trends Monitor," published by UNCTAD, April 2019.

"Fiscal Policy and Development: Human, Social, and Physical Investments for the SDGs," published by IMF, January 2019.

There is no guarantee that any type of investment approach will be successful.

Terminology such as "ESG integrated", "sustainable" or "impact", among other terms, is not uniformly defined across the industry. Investment managers may understand and apply ESG factors in different ways, and that the role those factors play in investment decisions also varies. Therefore, we recommend investors understand the role of ESG factors in a strategy to ensure that approach is consistent with their investment objectives. Like any aspect of investment analysis, there is no guarantee that an investment strategy that considers ESG factors will result in performance better than or equal to products that do not consider such factors. Investing and making buy and sell decisions that emphasize ESG factors carries the risk that, under certain market conditions, the fund or strategy may underperform those that do not incorporate such factors explicitly into the decision-making process. The application of ESG criteria may affect exposure to certain sectors or securities and may impact relative investment performance depending on whether such sectors or securities are generally in or out of favor in the market.

G85020-14 (10/23)
Federated Securities Corp.

FederatedHermes.com/us
© 2023 Federated Hermes, Inc.