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The Emergence of Sustainable Development Goals

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In September 2015, 193 countries came together to ratify a set of 17 Sustainable Development Goals (SDGs) to serve as a roadmap towards a more sustainable future for the world. This effort was the first time that public (governments, agencies and policy-setting organizations like the United Nations) and private (companies, foundations and individual/institutional investors) organizations formally united to take on some of the most pressing challenges facing the world and find a path towards solving them by 2030.

What are the Sustainable Development Goals?

The SDGs are a set of 17 challenges that address issues like poverty, education, climate action and equality and were designed to draw from public and private capital while establishing specific goals and success metrics. This provides a common framework that empowers everyone to take part in the SDG effort, with data and measurement that can be translated into investable themes that both individual and institutional investors can embrace.

How the SDGs are different from prior efforts

In the year 2000, the United Nations established the Millennium Development Goals (MDGs), comprised of eight goals that focused on key issues facing the developing world. The MDGs helped governments and aid organizations direct their energy and resources to address specific needs. While much progress was made against issues like disease and nutrition, many challenges still remained. These goals were developed without thought to incorporating private sources of financing and were primarily a way to help direct global aid to developing world recipients.

The SDGs development provided an integrated framework. These 17 broad, interrelated sustainability goals are supported by clearly defined measurement requirements and success metrics. The goals are global—inclusive of emerging and developing countries—as are the sources of solutions. This fosters worldwide innovation and idea sharing directed at creating a sustainable future. And with an eye to engaging private capital, SDGs were designed with an openness to scaling and monetizing sustainability solutions. It is this new approach that creates the opportunity for investors to get involved.

Power of private capital in sustainable development

The inclusion of businesses and investors around the world brings more resources to bear than would be possible without private sector partnership. The United Nations

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estimates that it will take between $5 and $7 trillion annually to achieve all 17 SDGs, compared to a global annual development assistance that peaked at $142 billion in 2016.[1] By utilizing the power of the private sector, more of the sustainability goals can be realized and more of the innovation that the SDGs spur can be brought to market.

Beyond providing the liquidity needed to address the SDGs, the private sector makes it easier for expertise and capital to reach the places it is needed most. Companies and investors seek out opportunities in the market and can deploy resources faster than governments or non-governmental organizations (NGOs).

SDGs are creating opportunity for investors

The issues that the SDGs focus on are not new. What is new is how they help companies and investors organize investment in sustainable products and services with a framework of common, measurable goals. Their global focus also helps companies identify innovations, such as clean water technologies or affordable healthcare delivery technologies, thus creating new investment opportunities.

The Business and Sustainable Development Commission looked at the SDGs through the lens of “investability” and identified a number of ways that investors could direct investment dollars in a meaningful and commercially viable way while also helping achieve one or more of the SDGs, for example:

- Buildings account for around one-third of the total energy consumption across the world and more than half of electricity demand. Investment in more efficient heating and cooling technology and switching to efficient lighting and other electrical appliances could potentially offer returns to investors and building owners while also helping reduce CO_2 emissions from power generation.[2]
- Using internet-enabled medical sensors and technologies like wearable patches, doctors can monitor patient health remotely and diagnose preventable conditions before they become a problem. Investment in technologies like this can help drive down the cost of treating chronic illness while also expanding access to healthcare services to those in rural or developing areas.[2]
- Preventable loss accounts for an estimated quarter of food waste, much of it happening between harvest and sale. Investment in technologies that can help reduce waste and speed transport to market can potentially help not only create profit for investors, but also help small farmers improve their livelihoods and make more food available to people across all levels of society.[2]

A key feature of the SDGs is that they come with 169 targets that investors can use to map the impact of investments to the 17 SDGs. So, while the 17 SDGs are high level in many ways, these targets should allow for more effective implementation and measurement for investors. The SDGs also align with larger trends in industry and among institutional and individual investors, who are more and more likely to be incorporating environmental, social and governance (ESG) factors into their business and investing decision making. The challenges that the SDGs highlight provide companies a roadmap to help them navigate risks they may face in the future—risks that may prove material across industries or regions. In the future, external costs of doing business that are not accounted for today, such as CO_2 emissions or pay inequality, may be forced into company accounts through social, regulatory or consumer pressure.[3] The SDGs help focus investor attention on sustainability topics and empower them to make proposals that force greater accountability among corporations, their boards and executives.

Many experts believe that new laws and regulations will continue to come into force, supporting more sustainable business practices. Companies that embrace the SDGs are more likely to stay ahead of current trends towards sustainability and may also be helping mitigate risks of future negative shocks to their business model or practices.

And investors themselves are seeking out SDG-aligned investments. When surveyed, **88% of investors said they "were willing to target SDG-aligned investments as long as they could achieve market-level investment outcomes over the long run."**[4]

As investors focus on societal objectives as well as performance metrics, they will exert increasing pressure on companies to adopt more sustainable practices, which supports better long-term performance benefiting the company, its shareholders and society at large. The SDGs are helping provide the framework and a "Rosetta Stone" that enables investors to translate the sustainable outcomes of their investments. This will drive innovation and investment and empowers individual investors to be part of this movement.

INVESTORS ARE INCREASINGLY FOCUSED ON SUSTAINABILITY

Investors who own well-diversified portfolios effectively own a small part of the global markets. This approach helps mitigate company-specific risk, but also means that future returns are dependent on the positive performance of the overall global economy. Institutional investors are very focused on how their holdings in global firms are indirectly exposed to risks like climate change or lack of water that can have a negative impact on their portfolio performance. In fact, organizations like the Financial Stability Board have begun to help investors by identifying these external factors that pose a systemic risk to the economy and therefore company performance. It is factors like these that the SDGs have been designed to address.

Individuals can take a cue from institutional investors and also take steps to encourage sustainable business practices. In doing so, they may be able to potentially improve their long-term returns by reducing their exposure to these systemic risks. There is a growing consensus that historic business practices that pose high external costs, such as environmental pollution or social burdens, are no longer sustainable and may in fact provide lower and more volatile investment performance in the future.

Our approach to creating impact

Bank of America uses its capital to invest in a range of initiatives that support our Firm's strategy of responsible growth that returns value to the business, customers and shareholders. We are committed to unlocking the necessary financing and investment to address the broad themes of the SDGs, including affordable housing, clean water and sanitation, sustainable energy, education and healthcare. These investments help to support economic growth and can result in more sustainable jobs, development and projects as well as drive innovation.

As part of the company's third environmental commitment, the bank will mobilize an additional $300 billion in capital by 2030 supporting its Environmental Business Initiative. This goal will bring Bank of America's total commitment to more than $445 billion since 2007, when the company issued its first Environmental Business Initiative. More broadly, Bank of America deployed more than $50 billion that impacted a key subset of the SDGs in 2018 alone.

By deploying its own capital, the Bank hopes to encourage development banks, as well as institutional and private equity investors to co-invest, driving greater capital flows and resulting in higher investment levels than could be expected from development alone.

TALK TO YOUR ADVISOR

From focused ESG investments, to thematic investments that align to the spirit of the SDGs, you have a choice in how you may want to create impact in your portfolio. Talk to your advisor about your impact goals and how you can harness the power of your portfolio to pursue doing well while also doing good.

Endnotes

[1] Niculescu, Mara. "Impact Investment to Close the SDG Funding Gap." UNDP, 13 July 2017, www .undp. org/content/undp/en/home/blog/2017/7/13/What-kind-of-blender-do-we-need-to-finance-the-SDGs-.html.

[2] Better Business, Better World 2016 Report. Available for download at: http: // report. businesscommission. org/report.

[3] PWC/PRI *The SDG Investment Case*, 2017.

[4] MSCI *The State of Investing for SDG Impact Through Public Equities*, 2018.

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