

2025 Outlook on sovereign sustainability journey

A global quest to Sustainable Development Goals



The importance of (re)focusing on the UN Sustainable Development Goals

Investors looking ahead to how the world will develop in 2025 can immediately identify a range of challenges, from cooling economic growth to rising geopolitical tensions. While assessing financially material risks is a key part of making sound financial decisions, it is equally critical to evaluate global development through the lens of long-term sustainability.

In the world fractured by wars, populism and economic uncertainties, shared prosperity and security face greater risks than a reasonable investor may consider on a daily basis. Long-term trends in national development are not confined to single nations; they often have ripple effects on the broader global community, disrupting critical areas such as food supply, energy security and strategic infrastructure.

Fortunately, a robust framework exists for evaluating progress on key long-term indicators: the United Nations Sustainable Development Goals (UN SDGs). These 17 global objectives, adopted in 2015 by all UN member states, were designed to address the world's most pressing social, economic, and environmental challenges. The SDGs aim to promote peace, prosperity, and sustainability while ensuring no one is left behind. Importantly, they recognize that progress in one area often depends on progress in others, emphasizing that the global challenges are interconnected. These goals are part of the 2030 Agenda for Sustainable Development, which serves as a roadmap for building a better and more equitable future.

Since the adoption, the UN SDGs became widely known and utilized as a guiding framework by different levels of governments, businesses, investors and active citizens worldwide. The 17 goals - or their subset - have been incorporated into anything from governments' budget plans and municipalities' agendas to pension fund policies and investment strategy targets.

Graph 1: Average SDG scores for the world in 2024



Equally weighted based on 167 countries with reported data. The objective for each goal is to achieve 100. Source: Aegon Asset Management, SDG Index Dashboard

Despite the widespread recognition of the importance of the sustainable development framework, progress toward the UN Sustainable Development Goals has fallen short of expectations. In the 2024 SDG progress report, the UN Secretary-General stated that we are “severely off-track to achieve the 2030 Agenda”¹. Over the past five years, the world has faced significant challenges - from the pandemic to geopolitical shifts - that have hindered progress toward a sustainable future. As a result, the coming years will be crucial for bringing the world back on track toward achieving the SDGs.

We believe that tracking the momentum of the UN SDGs is essential for long-term investors. On the one hand, the framework acts as a critical roadmap, identifying opportunities for impactful investments where they are the most needed. On the other hand, it exposes major challenges that could materially influence economic, political and social developments in different countries. For investors seeking to align their portfolios with long-term sustainable trends, incorporating such research in their strategic asset allocation can result in a more efficient combination of financial and non-financial outcomes.

¹SDG Progress Report (2024), United Nations General Assembly Economic and Social Council

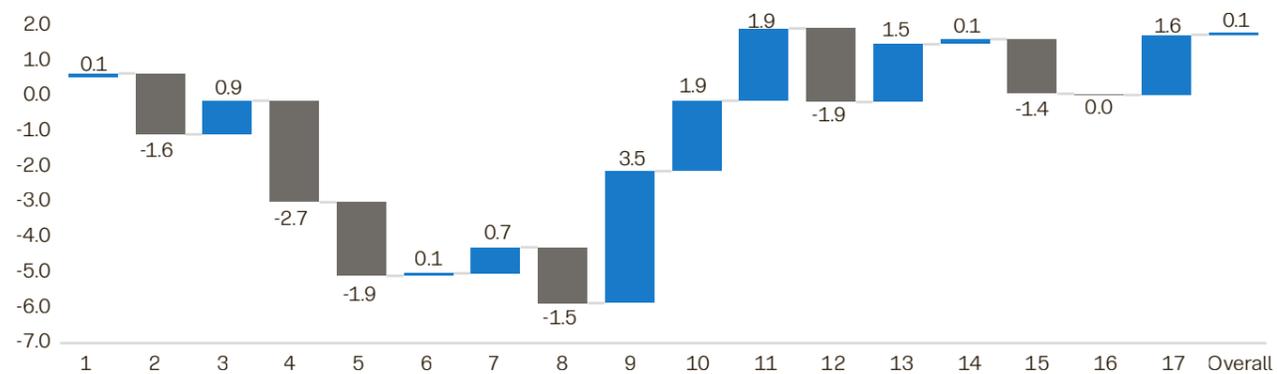


Reviewing SDG momentum over the past year

At Aegon Asset Management, we use the UN SDGs as the foundation for assessing the sustainable profiles of sovereign states. We believe that countries scoring higher under the framework are better positioned to withstand potential pressures from social or environmental disruptions, ultimately delivering benefits for their own citizens and for bondholders.

We closely monitor annual changes in the SDG progress and incorporate this analysis for an individual assessment of different countries under our internal sustainable framework. We base the assessment on over 100 indicators related to the 17 SDGs, using the methodology developed by the Sustainable Development Solutions Network (SDSN) and Bertelsmann Stiftung, endorsed by the UN. Their rigorous research work is extremely helpful in defining clear metrics and translating each SDG into a target score of 100, making it easier to take stock on where each country stands in its journey toward achieving the sustainable goals.

Graph 2: Change in score per each of SDGs between 2023 and 2024.



Blue colour reflects increase, grey colour reflects decrease in SDG scores. Source: Aegon Asset Management, SDG Index Dashboard

In the latest data update, we observed that the overall average progress across the global was nearly flat. However, there was a clear divergence in momentum across different goals. Additionally, progress varied significantly between regions and income groups, as defined by the World Bank². At a high level, there were positive improvements in goals traditionally linked to economic growth, such as building resilient infrastructure, sustainable industrialization and fostering innovation (SDG 9), reducing income inequality (SDG 10) and making cities safer and more inclusive (SDG 11). With global economic growth being sustained in 2024, many countries have seen improvements in these SDGs.

While economic growth serves as an important driver of progress on many sustainable indicators, it often comes at the environmental costs or masks some of the underlying social problems. Recognizing negative momentum in certain SDGs is important for identifying early signs of long-term trends that could hinder sustainable development of a country.

²World Bank divides all countries in four income groups based on the GNI per capita. For more details, see <https://datahelpdesk.worldbank.org/knowledgebase/articles/378832-what-is-the-world-bank-atlas-method>

Deterioration in scores observed across all groups of countries

Some sustainable development challenges are so pervasive that nearly every government in the world must prioritize addressing them. Globally, three SDGs showed the most significant regression over the past year, underscoring the urgent need for national policy changes.



Quality education (SDG 4) - the UN refers to SDG 4 as “enabler” for many other SDGs - a fair assessment given that quality education and lifelong learning opportunities are critical drivers of the economic growth and innovation. Education also plays a vital role in reducing unemployment, crime and income inequality. Yet, despite the significant steps forward earlier in the 21st century, many countries are now backsliding in key areas such as minimum proficiency levels, teachers’ availability and access to training opportunities. Out of all 17 goals, SDG 4 experienced the largest year-on-year decline worldwide in 2024. Even in high-income countries, which generally score well on SDG 4, there is evidence of negative momentum. Without careful government attention, education systems risk facing long-term challenges that could have far-reaching consequences for sustainable development.



Gender inequality (SDG 5) - according to the UN, many women continue to struggle with equal participation in society, facing violence and limited control over their reproductive health. In some developing countries, women lack access to education or political rights, hindering their ability to contribute to societal and economic progress. In developed nations, despite significant progress in reducing discrimination, governments need to further encourage women to participate in the labor market, especially in the face of slowing economic growth and aging populations. To address gender inequality, governments may need to take significant steps such as covering the costs of reproductive healthcare, providing subsidies for childcare, and implementing fair conditions for maternity and paternity leave. However, many countries already face high debt burdens, making such policy interventions and societal shifts even more challenging.



Responsible consumption and production (SDG 12) - the UN emphasized that unsustainable consumption and production patterns are major drivers of climate change and ongoing biodiversity loss. Developed countries tend to score poorly on this SDG due to high levels of consumption per capita, leading to increased amounts of electronic and plastic waste, as well as significant air pollution and nitrogen emissions from productions and imports. In developing nations, good scores on SDG 12 often start to deteriorate when disposable incomes rise, leading to increased consumption and waste generation. Government policies and public finance play a crucial role in enabling circular economy, reducing toxic emissions and fostering innovations in sustainable manufacturing.

Focus points for developed countries

Developed countries tend to have high scores on many sustainable indicators, but there are several outliers where these countries underperform. We focus on SDGs where the high-income countries saw negative momentum in 2024.



Zero hunger (SDG 2) – this goal is typically associated more strongly with the developing countries given the name, but besides food security it also encompasses improving nutrition and promoting sustainable agriculture, making it a critical focus for developed countries. For high-income countries, indicators such as the use of hazardous pesticides and nitrogen management often push the scores on SDG 2 down. One of the main contributors to the negative momentum is the growing prevalence of obesity in many Western countries, which can lead to long-term health risks for entire populations. Governments need to be able to recognize harmful practices in the food industries and prioritize investments in making healthy, nutritious food more affordable. These efforts are vital for building sustainable food systems.



Life on land (SDG 15) – this SDG is about promoting the sustainable use of terrestrial ecosystems and halting biodiversity loss. While many developed countries have made significant progress in recent decades by increasing the size of protected areas important to biodiversity, as well as improving protection for rare species, their consumption patterns often have adverse effects on biodiversity in other nations. By outsourcing production to other, usually less developed countries, wealthy nations have effectively shifted problems such as deforestation and air pollution abroad. Recognizing these spillover effects is important for addressing the global challenges of climate change and biodiversity loss. The UN called on all nations to intensify their commitments on this SDG, emphasizing that biodiversity serves as a life-supporting system for humanity.



Partnership for goals (SDG 17) – the UN underscores the importance of international cooperation for achieving the SDGs. Global partnership is expected to cover areas of finance, trade, technology and data. However, momentum on this goal has weakened in the face of escalating geopolitical tensions. A decline in support to the UN-based multilateralism made it more difficult to achieve collective progress towards the sustainability. Developed countries, with their higher GDP per capita and historical responsibility for many of today's climate emergencies, are expected to lead on this goal. Despite the geopolitical tensions, high income countries are encouraged to continue cooperating on sustainable development initiatives and to support low-income countries in their efforts to address environmental and social challenges.

Critical challenges for emerging economies

Developing countries face a distinct set of challenges compared to high-income peers, often revolving around meeting basic needs and expanding economic opportunities. Given the starting point, emerging countries face a longer road to achieving many of the SDGs. However, on certain indicators – particularly those related to environment and responsible consumption – these countries must focus on preserving what they already have. We highlight the set of the most common issues among the low- and low-middle income countries.



No poverty (SDG 1) – the objective of this goal is to end poverty in all its forms everywhere. Poverty is formally defined as lack of material resources, but is often associated with malnourishment, vulnerability to violence, and limited access to healthcare and sanitation. There was strong global progress in reducing poverty rates since 2000, however, the pandemic and subsequent disruptions since 2020 have stalled the progress, with low-income countries struggling to recover as quickly as the rest of the world. Given the limited fiscal room in many of the less developed countries, the UN stated that achieving SDG 1 by 2030 “appears increasingly out of reach”. Global cooperation, as well as resolution of violent conflicts, is a prerequisite for renewed progress in ending poverty globally.



Good health and well-being (SDG 3) – this goal is aimed on promoting healthy lives for all people at all ages. However, there are significant regional disparities in health outcomes, with low-income countries struggling to catch up with more developed nations, especially after the global pandemic. In many regions, access to essential healthcare remains limited, and there is a slowing momentum in reducing maternal mortality and premature deaths from noncommunicable diseases. Governments must prioritise making healthcare universally assessable while promoting healthy habits and preventive care. Without urgent action, progress toward SDG 3 risks to stagnate.



Peace, justice and strong institutions (SDG 16) – the goal is centered around the idea that the peaceful and inclusive society is a cornerstone for achieving the sustainable development. However, recent years have seen an alarming increase in violent conflicts and more displaced people around the world. Global commitment to ending violence is required to help low-income countries to go back to the stable and peaceful development. At the national level, governments must make steps to reduce corruption, protect independent journalism and address crime. By building accountable and inclusive institutions and providing citizens with access to equal justice, countries can benefit from shared contribution toward the sustainable society.

Assessing governments on SDG implementation

Since their adoption in 2015, the UN Sustainable Development Goals have been positioned as a clear and actionable commitment for all UN members states. However, national support to the SDGs varies significantly across countries. Assessing new government policies and historical progress from the SDG perspective is a multifaceted but rewarding process.

The 2030 Agenda for Sustainable Development encourages countries to conduct regular Voluntary National Reviews (VNR), which serves as a follow-up and monitoring mechanism on governments' commitments to SDGs. Out of 193 member states, 190 countries performed at least one national level VNR between 2015 and 2024, with Haiti, Myanmar, and the United States being notable exceptions. While performing the voluntary self-assessment on SDGs can be seen as a proxy for government commitment to the framework, the increasing number of VNRs has not had a strong relationship to the broad sustainable progress.

Some governments incorporated SDGs in their national budgets, which represents a stronger commitment to the sustainable development. Based on the SDSN assessment³ of 74 countries across different regions and income groups, only 27 governments made a reference to SDG in their national budget, either in a form of a section or budget line or as an overarching narrative. To generate meaningful progress on SDGs, governments need to translate the politically expressed support towards the framework into the long-term investments and budgetary priorities. A well-structured alignment of national budgets with SDG targets can pave the way for credible, measurable progress.

At Aegon Asset Management, we assess the sustainability alignment of sovereigns based on their historical SDG performance across more than 100 SDG-related indicators, as well as their government's ability to manage sustainability risk by incorporating forward-looking assessment.

This assessment is used to determine the investable universe of sustainable sovereign debt strategies. We define a "sustainable sovereign issuer" as a country that is making substantial progress toward achieving the UN SDGs due to effective policymaking, and that demonstrates the capacity to manage risks that threaten sustainable development. Our philosophy is rooted in the belief that investing in sustainable countries help support and advance their sustainable development by providing capital that can - and will - be directed toward meaningful progress.

For investors seeking to consider both financial returns and sustainable outcomes of their investments, selecting government bonds based on sustainability strength of an issuer can prove to be beneficial over the long term. We believe that countries that strive to develop sustainably are better positioned to exhibit resilience in the face of climate change and social instability.

³SDSN 2023 Survey of Government Efforts for the SDGs (February 2023)



How 2025 will shape the course until 2030

The start of 2025 presents a mixed outlook for global progress toward the UN SDGs. Headwinds to globalisation and to multilateral cooperation threaten to derail the achievement of the 2030 Agenda for Sustainable Development. The success of individual countries in meeting sustainable objectives will largely depend on how global trends unfold over the coming year.

1. Geopolitics - negative impact. The change of the US administration marks another significant turn to less globalisation and more protectionism on a global scale. While the trend of shifting regional powers began earlier, the arrival of president Trump introduces a new wave of uncertainty for existing military and economic alliances. Ongoing conflicts around the world continue to hinder peaceful cooperation, causing significant humanitarian suffering and economic losses. The risk of the escalating trade war between the US and China, along with its spillover effects on other regions, could intensify hostile rhetoric and even increase the risk of physical confrontations. As more governments focus on reshaping global infrastructure and increase in defence spending, progress on the SDGs is likely to take a backseat, potentially stalling the global momentum in SDGs.

2. Economic growth - distinct impact per region. Sustainable economic growth is an important driver for achieving SDGs, as it fosters decent employment opportunities and promotes more equitable outcomes in society. While the OECD forecasts global GDP to grow 3.3% in 2025⁴, increasing uncertainties could derail these projections. Income inequality remains a persistent global challenge, with minor improvements and even negative trends observed in some developed countries. The pandemic aftermath and a period of high inflation have put focus on low- and middle-income households, many of which require government support through, for example, reduced tax burdens. However, high public debt and a potential increase in unemployment could jeopardize

the inclusive economic growth. On the other hand, an upside surprise in economic growth could improve sustainable outcomes across several of SDGs. At the same time, growth in an irresponsible manner in some regions could negatively impact sustainable goals, particularly in relation to environmental factors.

3. International organizations - positive impact. The role of multinational institutions, most notably the United Nations, is extremely important at a time when individual governments are increasingly turning inward and, in some cases, are unable or unwilling to engage in constructive dialogue with their neighbors or even historical allies. Despite the existing criticism towards some of the international organizations, they bring undeniable value from fostering global cooperation and advancing sustainable development. Many development banks, ranging from major institutions like the World Bank and European Investment Bank to smaller regional entities, place sustainable development at the core of their mandate. These institutions channel their budgets and expertise into supporting sustainable objectives, from improving access to essential services in low-income communities to providing funding to small business owners across the globe. Despite scepticism from some national authorities toward global institutions, the SDSN estimated that 90% of the world population live in countries with moderate to high support for UN-based Multilateralism⁵. This was assessed based on the range of indicators, including ratification of major UN treaties, voting patterns at the UN

General Assembly, participation in conflicts, and contributions to the UN budget. Individual countries are not in a position to achieve peace or climate security on their own. International organisations play a vital role in uniting nations and helping the world to stay on track to achieve the sustainable goals.

⁴OECD Economic Outlook, Volume 2024 Issue 2

⁵Sachs, J.D., Lafortune, G., Fuller, G. (2024). The SDGs and the UN Summit of the Future. Sustainable Development Report 2024

Conclusion

The UN Sustainable Development Goals (SDGs) play a crucial role in coordinating global efforts to address social and environmental challenges facing the world today. In combination with the economic and institutional goals, the framework encompasses the most vital issues that affect every country and individual. This year will be pivotal in determining the feasibility of achieving the 2030 Agenda for Sustainable Development.

The SDGs were established to tackle critical problems such as poverty, hunger, inequality, poor access to education and healthcare, climate change, and environmental degradation. By setting clear targets and fostering international cooperation, the SDGs provide an exceptional framework to unite governments, organizations, and individuals in the shared mission of creating a sustainable future for generations to come.

We believe that investors, alongside business leaders and policymakers, have a responsibility to promote and actively contribute to the achievement of SDGs. It is essential to ensure that short-term actions do not compromise long-term sustainable development. Therefore, we remain committed to encouraging the adoption of the SDGs in government policies and a stronger focus on sustainability in investment and business decisions.

SUSTAINABLE DEVELOPMENT GOALS



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