The case for sustainable investing

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Key Takeaways

- The financial benefits of investing in sustainability are likely to grow as the global economy shifts towards this trend.
- Technological advancements are making sustainability more feasible and profitable.
- Climate change, resource scarcity, and social unrest pose significant threats to business continuity and profitability, Companies that focus on sustainability can better navigate these risks.

- Related Products WisdomTree Global Sustainable Equity UCITS ETF - USD Acc Find out more

The case for investing in sustainability is compelling and leverages market trends such as regulatory changes, evolving consumer preferences, and technological innovations, which can drive long-term, resilient growth, leading to potentially superior financial performance. As the global economy shifts towards sustainability, the financial benefits of investing in this trend will likely grow, making it an increasingly attractive strategy for forward-thinking investors.

Capturing themes

Governments worldwide are increasingly adopting regulations that promote sustainable business practices. For instance, the European Union's Green Deal1 aims to make Europe climate-neutral by 20502, which would have a material impact on companies across various sectors. In the United States, the SEC has been enhancing disclosure requirements related to climate risks3. The direction of travel of these changes in regulatory environments creates a competitive edge for companies that proactively integrate sustainability into their operations, potentially enhancing their market position and investor performance.

Consumer behaviour is also materially shifting towards sustainability. A 2023 Nielsen report highlights that 69% of shoppers say that sustainability has become more important to them over the last two years4. This trend is particularly strong among younger generations, who prioritise ethical consumption and are set to dominate future economic activity. Companies adapting to these preferences by adopting sustainable practices can gain brand loyalty, increase market share, and drive higher revenue growth.

Furthermore, technological advancements can make sustainability more feasible and profitable. Innovations in areas such as renewable energy, electric vehicles, and green building materials are reducing costs and opening new markets. For instance, the cost of solar panels has decreased by 89% over the past decade, making it highly competitive with traditional fossil fuel energy sources5. Investors in companies leading these technological advancements stand to benefit from significant growth potential as these technologies continue to be adapted and become mainstream6.

Favourable outcomes

What about investment returns? There is growing evidence that sustainable companies often outperform their less sustainable peers. A 2023 study by Morningstar found that sustainable funds have consistently outperformed traditional funds over the past five years7. Similarly, a 2022 report by MSCI highlighted that companies with high sustainability scores exhibited higher returns on equity and lower cost of capital. These findings help challenge the misconception that sustainability compromises financial performance.

The case for sustainable investment is not just about market opportunity; it also helps mitigate various risks. Climate change, resource scarcity, and social unrest pose significant threats to business continuity and profitability, and companies focusing on sustainability may be better positioned to navigate these risks. For example, firms investing in direct access to renewable energy reduce their exposure to volatile fossil fuel prices8. Additionally, sustainable supply chain practices can prevent disruptions and enhance resilience. This proactive risk management contributes to more stable and predictable financial performance, which is attractive to investors seeking reliable returns9.

The United Nations Sustainable Development Goals (UN SDGs)

The UN SDGs represent a global consensus on humanity's most pressing challenges. They are 17 interconnected goals designed to address global challenges and present a unique and coherent framework for investing in sustainability. By integrating these goals into investment strategies, investors align themselves with priorities that are supported by governments, international organisations, and civil society. This alignment can enhance the credibility and legitimacy of investment portfolios, attracting like-minded stakeholders and investors. Moreover, it positions investors to capitalise on policy shifts and regulatory changes that support sustainable development, thereby reducing risks associated with regulatory non-compliance and enhancing long-term investment stability.

The UN SDGs highlight many areas needing significant investment and innovation, presenting opportunities for growth. Goals related to clean energy (Goal 7), sustainable cities (Goal 11), and responsible consumption and production (Goal 12) are particularly relevant in this context. Companies that develop solutions to address these goals may be better positioned to experience growth driven by increasing demand for their products and services, and investors who can identify and invest in these companies early can expect to benefit from resulting capital appreciation. Additionally, sectors aligned with the SDGs often attract subsidies, grants, and other forms of financial support, enhancing their growth prospects.

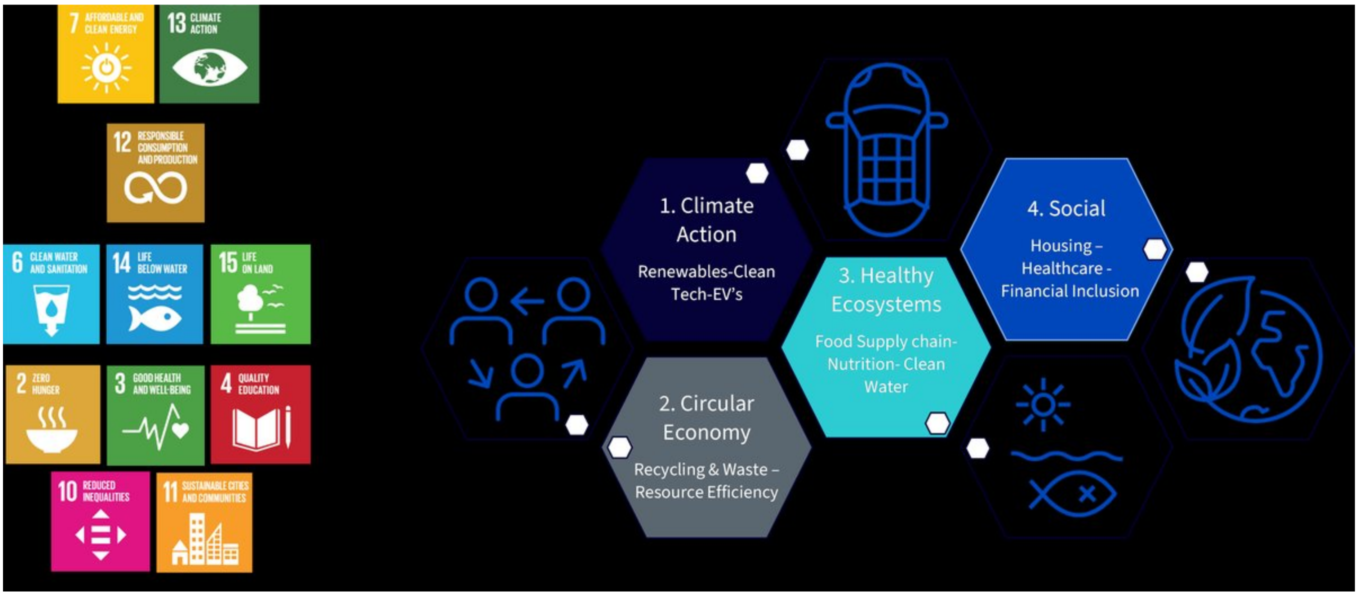
Aligning investment to the UN SDGs encourages a long-term investment perspective that aligns well with the goals of patient capital. Investing in companies committed to sustainable practices, which require long-term planning and investment, investors can benefit from more stable and enduring financial returns arising from long-term value creation.

Incorporating the UN SDGs into an investment process is not just a socially responsible choice but can be a financially prudent and advantageous one. It aligns investments with global priorities, enhances risk management, uncovers growth opportunities, meets market demand for sustainability, and supports long-term value creation. As the world continues to grapple with complex challenges, investors who align their investments with UN SDGs can help contribute to a more sustainable future while benefitting financially.

Providing a strategic framework for sustainable investment

The Solactive WisdomTree Global Sustainable Equity UCITS Index ("Index") seeks to generate positive, measurable environmental and social outcomes alongside a competitive financial return. The Index holds companies that contribute positively to one or more of the UN SDGs that provide solutions for protecting the climate, environment, and society.

The strategy uses a pillar-based approach to convert 11 SDG's into four investible pillars:



This pillar-based approach provides diversification across various sustainability-related themes while sophisticated portfolio construction promotes desirable factor exposures within the fund and includes controls for unwanted active exposures. This passively managed, systematic investment process targets financial return and sustainability and is classified as an Article 9 financial product under SFDR regulation.

The WisdomTree Global Sustainable Equity UCITS ETF (WSDG) seeks to track the performance (before fees and expenses) of the Index to provide access to companies from developed markets that positively contribute to social and or environmental objectives. The strategy allows for limited deviation from the

Global Developed markets benchmarks and thereby represents a ‘dark-green’ alternative for a core equity allocation. For investors looking to tap into the future of sustainable finance, WSDG represents not only a financial opportunity but also promotes a more sustainable, responsible investment ethos.

1 European Commission, 2021. The European Green Deal.
2 European Union, 2022. Fit for 55 Package.
3 U.S. Securities and Exchange Commission, 2022. Proposed Rules to Enhance and Standardize Climate-Related Disclosures.
4 Nielsen, 2023. Sustainability report.
5 International Energy Agency, 2022. Renewable Energy Market Update.
6 World Economic Forum, 2023. The Future of Sustainable Supply Chains.
7 Morningstar, 2023. Sustainable Funds Landscape Report.
8 International Renewable Energy Agency, 2023. Renewable Power Generation Costs in 2022.
9 Rockefeller, 2022. ESG and Financial Performance: Uncovering the Relationship by Aggregating Evidence from 1,000 Plus Studies Published between 2015 – 2020.

Important Risks Related to this Article

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