WisdomTree Renewable Energy UCITS ETF has SFDR Article 9 status. What does that mean and why is it important?

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Our recently launched WisdomTree Renewable Energy UCITS ETF (WRNW) is consistent with Article 9 under the European Union (EU) Sustainable Finance Disclosure Regulation (SFDR). WRNW is our second Article 9 fund and follows the launch of WisdomTree Recycling Decarbonisation UCITS ETF (WRCY) in 2022.

As the world faces pressing environmental and social challenges, the need for sustainable finance has become increasingly evident. The SFDR is a crucial step taken by the EU to encourage sustainable investments and create a more transparent financial system. One of the key aspects of this regulation is Article 9, which plays a pivotal role in defining and promoting environmentally and socially conscious investments. In this blog, we will delve into the SFDR, explore the distinction between Articles 8 and 9, shed light on the requirements for obtaining an Article 9 status, illustrate how WRNW achieves it, and discuss why it matters to investors.

Understanding the SFDR

Introduced in March 2021, the SFDR is a regulatory framework that aims to align financial markets more closely with sustainability objectives and boost the flow of capital towards investments with positive environmental and social impacts. The SFDR enhances transparency and comparability by obliging financial market participants and advisers to disclose the environmental and social characteristics of their investment products within a consistent framework.

Article 8 vs Article 9: the distinction

The SFDR categorises sustainable investment products based on their characteristics and objectives. Article 8 reflects products that promote environmental or social outcomes indirectly without specifically targeting sustainability as their primary goal. In contrast, Article 9 designates products with explicit sustainability objectives and features intending to have a positive impact on these objectives.

The features and significance of Article 9

- Clear sustainable goals: Article 9 lays down stringent criteria for sustainable investment products, ensuring they genuinely contribute to environmental and social objectives. Investors seeking products with a clear commitment to sustainability can rely on those classified under Article 9.

- Transparency and accountability: Article 9 mandates enhanced disclosure requirements, demanding transparency from financial institutions regarding how their products achieve sustainability goals. This empowers investors to make informed decisions, promoting accountability and avoiding greenwashing.

- Risk mitigation: investing in sustainable assets has the potential to reduce long-term risks. By adhering to Article 9 standards, investors can support projects and companies that prioritise sustainable practices, reducing exposure to environmentally or socially detrimental activities.

The WisdomTree Renewable Energy UCITS ETF (WRNW)

WRNW has a sustainable investment objective in the growth of renewable energy which contributes to the environmental objective of mitigating climate change. The exchange-traded fund (ETF) tracks the WisdomTree Renewable Energy Index (the Index) which picks companies primarily involved in the renewable energy value chain. This includes technologies and solutions which aim to develop renewable sources of energy including wind, solar, green hydrogen, as well as others.

The screening criteria implemented by the index also determines that the companies selected do no significant harm to the fund's sustainable investment objective. The index applies numerous screens to achieve this objective. For example, the index excludes companies that fall within the bottom 5% based on their greenhouse gas intensity (GHG intensity) from the universe of renewable energy value chain companies. GHG intensity is the total carbon dioxide equivalent GHG emissions per company's total revenues in million USD.

Numerous other ESG (environmental, social, governance) screens are also applied. Among the screens which support the strategy's environmental goals are[1]:

1. Maintaining a live universe of companies that belong to the renewable energy value chain. Each company is then classified into 5 categories (raw materials, manufacturing, applications, enablers, and emerging technologies), partitioned into 32 sub-sectors.
2. Each sub-sector within the value-chain receives a score based on the three factors:
   a.Size (10%)
   b.Exposure (50%)
   c.Growth (40%)
3. Each company in the universe receives an intensity rating based on its revenue exposure to each sub-sector. This intensity rating ultimately influences the weight of the companies in the final portfolio.

The application of these expert and ESG screens allows the index to maintain purity of exposure to the renewable energy theme. Most of the portfolio weight is allocated to companies that have more than 50% revenue exposure to the renewable energy value chain, highlighting a strong exposure to pure-play companies, thereby maintaining the strategy's focus on its sustainable objectives.

Source: WisdomTree, Wood Mackenzie, FactSet, Bloomberg. As of 31 May 2023. Each company's revenue exposure and intensity score are estimated by Wood Mackenzie as of 30 September 2022 as part of the last rebalance of the WisdomTree Renewable Energy Index in October 2022. You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.

Conclusion

The SFDR and its Article 9 play a pivotal role in driving sustainable investments and ensuring transparency in the financial industry. It is a rigorous framework for environmental performance. By adhering to Article 9 standards, investors can not only make choices that align with their values but also contribute to a greener and socially responsible future.

Sources

[1] Source: WisdomTree, July 2023. For a full list of all exclusions, see the index methodology.

Important Risks Related to this Article

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