The case for sustainable investing

Published 11 June 2024

Irish Life Investment Managers Limited

Irish Life Investment Managers Limited

Irish Life Investment

Irish Life Investment Managers Limited

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.

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.

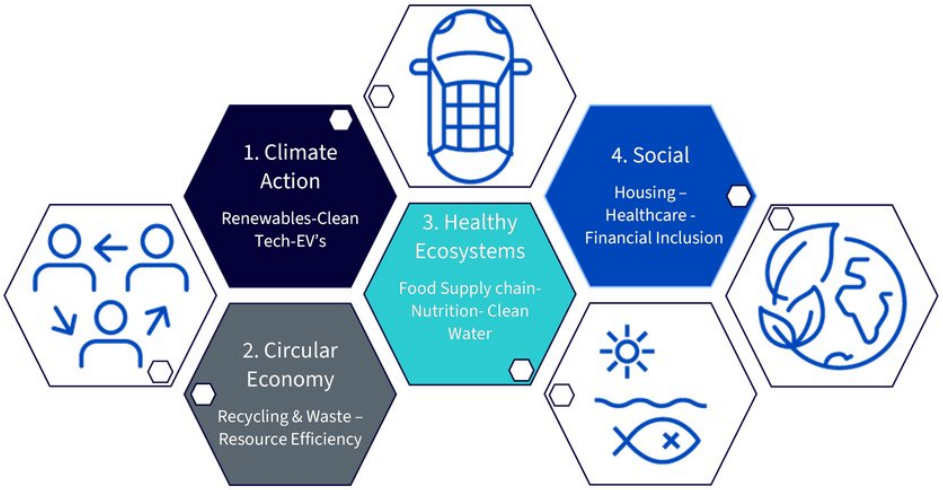
Incorporating the UN SDGs into an investment process is not just a socially responsible choice but can be a financially prudent and advantageous one. It aligns investments with global priorities, enhances risk management, uncovers growth opportunities, meets market demand for sustainability, and supports 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

IMPORTANT INFORMATION

Marketing communications issued in the European Economic Area ("EEA"): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as "WisdomTree" (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and affer seeking independent investment, tax and legal advice. These products may not be available in your market or suitable for you. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment.

An investment in exchange-traded products ("ETPs") is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks.

The information contained in this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information in this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes.

This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this

document, WisdomTree does not warrant or guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.

This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements.

WisdomTree Issuer ICAV

The products discussed in this document are issued by WisdomTree Issuer ICAV (“WT Issuer”). WT Issuer is an umbrella investment company with variable capital having segregated liability between its funds organised under the laws of Ireland as an Irish Collective Asset-management Vehicle and authorised by the Central Bank of Ireland (“CBI”). WT Issuer is organised as

an Undertaking for Collective Investment in Transferable Securities (“UCITS”) under the laws of Ireland and shall issue a separate class of shares ("Shares”) representing each fund. Investors should read the prospectus of WT Issuer (“WT Prospectus”) before investing and should refer to the section of the WT Prospectus entitled 'Risk Factors' for further details of risks associated with an investment in the Shares.

WisdomTree Global Sustainable Equity UCITS ETF (WSDG)

Solactive AG ("Solactive") is the licensor of Solactive WisdomTree Global Sustainable Equity UCITS Index (the "Index"). The financial instruments that are based on the Index are not sponsored, endorsed, promoted or sold by Solactive in any way and **Solactive makes no express or implied representation, guarantee or assurance with regard to:** (a) the advisability in investing in the financial instruments; (b) the quality, accuracy and/or completeness of the Index; and/or (c) the results obtained or to be obtained by any person or entity from the use of the Index. Solactive reserves the right to change the methods of calculation or publication with respect to the Index. Solactive shall not be liable for any damages suffered or incurred as a result of the use (or inability to use) of the Index.

Notice to Investors in Switzerland – Qualified Investors

This document constitutes an advertisement of the financial product(s) mentioned herein.

The prospectus and the key investor information documents (KIID) are available from WisdomTree's website: **https:** //www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports

Some of the sub-funds referred to in this document may not have been registered with the Swiss Financial Market Supervisory Authority ("FINMA"). In Switzerland, such sub-funds that have not been registered with FINMA shall be distributed exclusively to qualified investors, as defined in the Swiss Federal Act on Collective Investment Schemes or its implementing ordinance (each, as amended from time to time). The representative and paying agent of the sub-funds in Switzerland is Société Générale Paris, Zurich Branch, Talacker 50, PO Box 5070, 8021 Zurich, Switzerland. The prospectus, the key investor information documents (KIID), the articles of association and the annual and semi-annual reports of the sub-funds are available free of charge from the representative and paying agent. As regards distribution in Switzerland, the place of jurisdiction and performance is at the registered seat of the representative and paying agent.

For Investors in France

The information in this document is intended exclusively for professional investors (as defined under the MiFID) investing for their own account and this material may not in any way be distributed to the public. The distribution of the Prospectus and the offering, sale and delivery of Shares in other jurisdictions may be restricted by law. WT Issuer is a UCITS governed by Irish legislation, and approved by the Financial Regulatory as UCITS compliant with European regulations although may not have to comply with the same rules as those applicable to a similar product approved in France. The Fund has been registered for marketing in France by the Financial Markets Authority (Autorité des Marchés Financiers) and may be distributed to investors in France. Copies of all documents (i.e. the Prospectus, the Key Investor Information Document, any supplements or addenda thereto, the latest annual reports and the memorandum of incorporation and articles of association) are available in France, free of charge at the French centralizing agent, Societe Generale at 29, Boulevard Haussmann, 75009, Paris, France. Any subscription for Shares of the Fund will be made on the basis of the terms of the prospectus and any supplements or addenda thereto.

For Investors in Malta: This document does not constitute or form part of any offer or invitation to the public to subscribe for or purchase shares in the Fund and shall not be construed as such and no person other than the person to whom this document has been addressed or delivered shall be eligible to subscribe for or purchase shares in the Fund. Shares in the Fund will not in any event be marketed to the public in Malta without the prior authorisation of the Maltese Financial Services Authority.

For Investors in Monaco: This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.