Future outlook

Staying the course

One of the features of the sustainability investing market in recent years has been the huge growth in regulation. New reporting requirements from the EU – and shortly in the UK too – have certainly increased workloads. While we have questioned the value of some of these requirements, we do broadly welcome the new regulation. In particular, we think that the UK's Sustainability Disclosure Requirements (SDR) will help clarify the different types of sustainability investment products already available. With a regulatory stamp of approval, we think the market will actively embrace the different flavours of sustainability investments. This will create space for the various blends and combinations to more directly meet differing client needs and appetites.

At the same time, underlying markets have been volatile for WHEB's strategy and for others aiming to deliver positive impact through listed equities. Expectations about the level of interest rates remained a market preoccupation throughout 2023. High interest rates have had a clear negative impact on investor appetite for the mid-sized growth-oriented businesses that WHEB tends to hold in our investment strategies. This has been compounded by dwindling interest in sustainability investing by many asset managers. After decades in the margins, sustainability investing enjoyed its place in the sun through the first two years of this decade. However sustainability was much less prominent in 2023. Instead, alongside interest rates the dominant narrative was – and still remains –the rise of artificial intelligence (AI). This served to turbocharge the performance of the 'mega-tech' businesses like Amazon and Nvidia which we do not believe offer a positive impact on sustainability.

The environmental and healthcare markets in which we invest have their own cycles. These have been particularly volatile in recent years. European heat pump and residential solar sales went from 'hero' after energy prices spiked following Russia's invasion of Ukraine to 'zero' in 2023 as interest rates started to bite. Similarly, healthcare markets have also experienced unprecedented volatility. Sales of diagnostic kits, ventilators and vaccines skyrocketed during the COVID pandemic saving countless lives. But this also led to a decline in sales as the pandemic passed.

We are confident that these markets will return to rude health. We are equally convinced that investor appetite for sustainability investing will also return. The 'ESG tourists' – asset managers that stampeded into that sustainability market just a few years ago – are now packing their bags. Data reported in late January showed that at least US$10 billion had been withdrawn from ESG-focused funds in 2023.[1]

Meanwhile, we plan on staying the course and remain focused on sustainability impact investing. No doubt the tourists will eventually return as markets cycle back in favour of the impactful companies that we continue to support. By then regulatory standards will be higher and early adopters will be established and striving to deliver even stronger social and environmental impacts.

1. https://citywire.com/new-model-adviser/news/great-esg-backlash-green-fund-outflows-in-billions/a2435240

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