WHITEPAPER

Sustainable Equity Universe Deep dive

Russell Investments

Abstract

This paper analyses the characteristics and performance dynamics of the Sustainable Equity Manager Universe. Drawing on a decade of data, it examines how fundamental, regional, style, and risk characteristics vary across strategy types, and how these structural features drive dispersion in realized returns.

Our findings show that sustainable equity portfolios are far from homogeneous. While aggregate biases, such as tilts toward Growth, Europe and lower-carbon sectors, can create meaningful deviations from traditional benchmarks and contribute to medium-term performance swings, these effects are neither uniform nor unavoidable. Instead, outcomes are shaped by a combination of strategy design, factor exposure, and manager skill.

Ultimately, we find that sustainable equities remain a compelling long-term investment opportunity. However, realising excess returns requires a deliberate approach that acknowledges the universe's structural skews and uses diversification and manager selection to harness them rather than be constrained by them.

Introduction

Sustainable investing aims to achieve competitive financial returns while supporting positive environmental, social and governance outcomes. Within public equities, this includes a wide spectrum of approaches, from diversified fundamental strategies that integrate ESG considerations into security selection to more focused thematic and impact-oriented strategies.

In this paper and at Russell Investments, we define the **Sustainable Equity Manager Universe** as Global, long-only equity strategies which have dual performance and explicit sustainability objectives. These may involve integrating ESG factors into stock selection, allocating to companies that enable the energy transition, or targeting outcomes aligned with frameworks such as the UN Sustainable Development Goals.

Our investment teams have been researching, evaluating and selecting sustainable equity strategies for more than 15 years. Over that time, the universe has evolved from a narrow collection of environmental and values-based funds into a broad and increasingly sophisticated opportunity set with distinct investment philosophies, factor exposures, and risk profiles. This evolution has expanded investor choice but also increased the importance of understanding the investment outcomes expected from different approaches.

This paper sets out to explore the following:

- The composition of the opportunity set
- Common investment tilts or “fundamental biases”
- Risk characteristics
- Performance trends and manager selection

Across these dimensions, a consistent theme emerges: sustainable equity strategies often display structural characteristics that can influence medium-term returns, both positively and negatively. Yet these effects can be effectively managed. When combined through thoughtful multi-manager portfolio construction and supported by skilled manager selection, sustainable strategies can provide balanced exposures, reduce unwanted biases, and help investors capture long-term opportunities associated with the global sustainability transition.

Key findings

1. **On average, sustainable strategies are structurally biased and higher risk than traditional peers; however, risk and exposures vary widely across sub-groups.**

   There are clear aggregate tilts across the sustainable equity universe, including overweights to Growth, Europe, and transition-linked sectors, and underweights to Energy. As a result, sustainable strategies typically exhibit higher active risk relative to traditional peers.

   However, this masks substantial variation across sub-groups. Differences between Growth, Value, Thematic, Impact and Quant strategies create opportunities to reduce risk and manage style, regional and sector exposures through thoughtful multi-manager portfolio construction.

2. **Long-term performance remains competitive despite recent cyclical headwinds.**

   Sustainable equity strategies have delivered ten-year returns broadly in line with traditional peers, with comparable median performance and similar long-term dispersion patterns.

   Recent underperformance has been driven primarily by market regimes that favoured factors and regions under-represented in many sustainable portfolios — such as US mega-cap growth, Value, and Energy. These conditions are cyclical rather than structural, reinforcing that sustainable strategies can remain competitive over full market cycles when evaluated over an appropriately long horizon.

3. **Manager skill and complementarity are critical to capturing excess returns.**

   Performance dispersion across sustainable equity managers is wide, reflecting differences in investment approaches, sustainability integration but also investment skills. The strategies with the strongest long-term outcomes tend to share common traits: experienced investment teams, consistent commitment to sustainability, robust fundamental research, and disciplined portfolio construction.

   Combining managers with complementary styles and sustainability approaches can help reduce concentration risks, smooth style cycles, and improve the consistency of returns across market environments.

1. The composition of the opportunity set

The dataset for this paper comprises of **150+ sustainable equity strategies** with explicit sustainable objectives**.** While the overall analysis spans a ten-year period, not all strategies have a full decade of continuous history. To ensure sufficient transparency and consistency, we include only those strategies with at least the four most recent quarters of data in our systems. All results are constructed using rolling or time-consistent measures to maintain comparability across different inception dates and market environments.

We classify these strategies into three categories based on their sustainable objectives and investment approach: **Broad**, **Thematic**, and **Impact**. Broad equity strategies integrate general ESG considerations across diversified portfolios; impact strategies target measurable environmental or social outcomes alongside financial returns; and thematic strategies focus on specific sustainability themes such as clean energy, climate adaptation or resource efficiency. Each category is further divided into two to three sub-groups to reflect the diversity within each. We base these classifications on robust views of each strategy's investment philosophy and implementation; however, they remain inherently subjective and are not intended to be exhaustive.

Exhibit 1: Product by categories and sub-categories

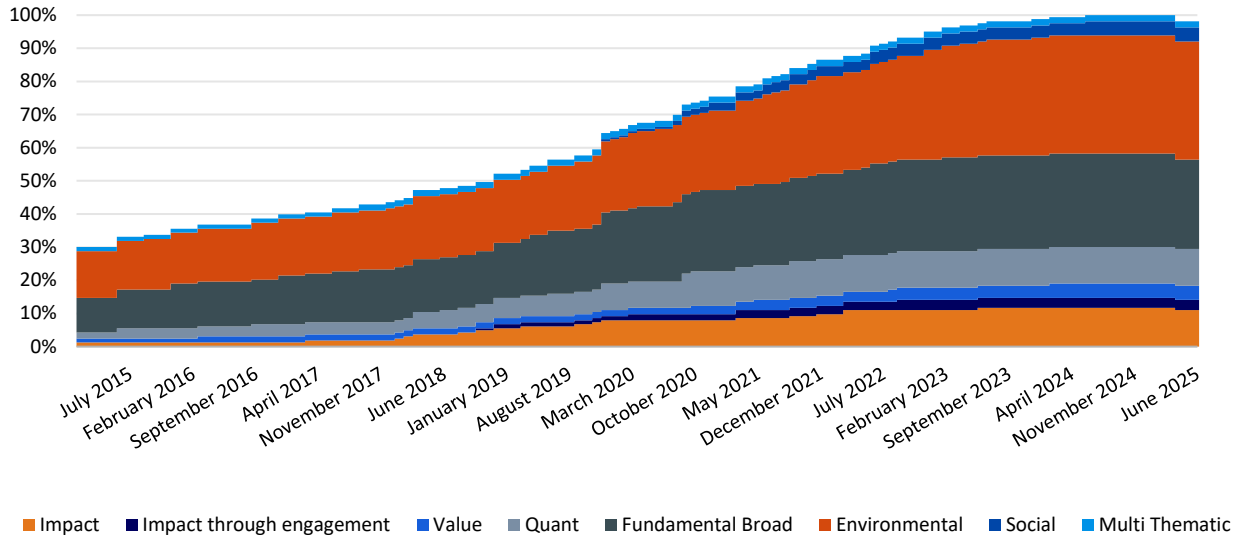
Category		% of the universe
Broad		**43%**
	Fundamental Core/Growth	28%
	Quantitative and Low risk	11%
	Fundamental Value	4%
Thematic		**43%**
	Environmental	36%
	Multi Thematic	2%
	Social	4%
Impact		**14%**
	Impact	11%
	Impact through engagement	3%
TOTAL		**100%**

Source: Russell Investments, as of 30 June 2025
*Notes: These groups are not exhaustive. These were compiled by Russell investments based on similarities between groups and can be subjective and subject to change in the future.

The universe remains largely concentrated in Fundamental Core/Growth ("Core/Growth") (28%) and Environmental (36%) strategies, but the breadth of available approaches is expanding, and other solutions now make up 36% of the total opportunity set up from 18% in 2015. Notably, over the past decade, we have observed the emergence of fundamental value biased ("Value") strategies, now 4% of the universe, and Quantitative active and low risk strategies (grouped as "Quant") amounting to 11% of tracked strategies. **Together, these developments signal a maturing and more nuanced ecosystem, where sustainability objectives are expressed across a broader set of investment architectures rather than concentrated in a handful of environmental themes**.

This broadening of the universe is born out of investors' increasing demand for the asset class and the significant improvement in sustainable data quality and availability which has reduced the barriers to entry. It has important implications for investors. First, the emergence of Value, Quant and more differentiated Impact approaches provides a far richer toolkit for portfolio construction, making it easier to balance sector, regional and factor exposures that were once concentrated in a handful of environmental and growth-oriented strategies. As a result, sustainable allocations are now less exposed to the cyclicality of thematic and small-cap growth markets, helping to smooth performance across different regimes. At the same time, the greater variation in approaches amplifies dispersion across managers, elevating the importance of rigorous manager selection and a clear understanding of process quality and sustainability integration. Ultimately, this expanded architecture gives investors greater flexibility to build sustainable portfolios that meet their objectives without inheriting unintended style or sector concentrations, enabling more resilient and balanced long-term allocations.

Exhibit 2: Evolution of universe composition over time



Source: Russell Investments, as of 30 June 2025. Note: Metrics relative to the MSCI World Index.

For the purposes of the analysis, the remainder of this report focuses primarily on five sub-groups: Impact, Thematic, Broad – Value, Broad – Core/Growth, and Broad – Quant. The differentiation in approach and the size of these sub-groups allow for more robust and significant observations.

2. Common investment tilts or “fundamental biases”

Across the sustainable equity universe, portfolio exposures differ meaningfully from broad market benchmarks. These tilts arise from structural features of sustainable investing – including the avoidance of carbon-intensive or controversial industries, a preference for regions with stronger ESG regulation and disclosure, or an emphasis on innovative, growth-oriented companies and industries. While these patterns are evident at the aggregate level, exposures vary considerably across the Broad, Impact, and Thematic groups.

Although many investors are aware of common sustainable investing biases, fewer appreciate the extent of variation within the universe or the implications this has for performance, risk management and portfolio construction. Understanding these underlying tilts is essential for interpreting medium-term behaviour and building balanced sustainable allocations.

Key takeaways:

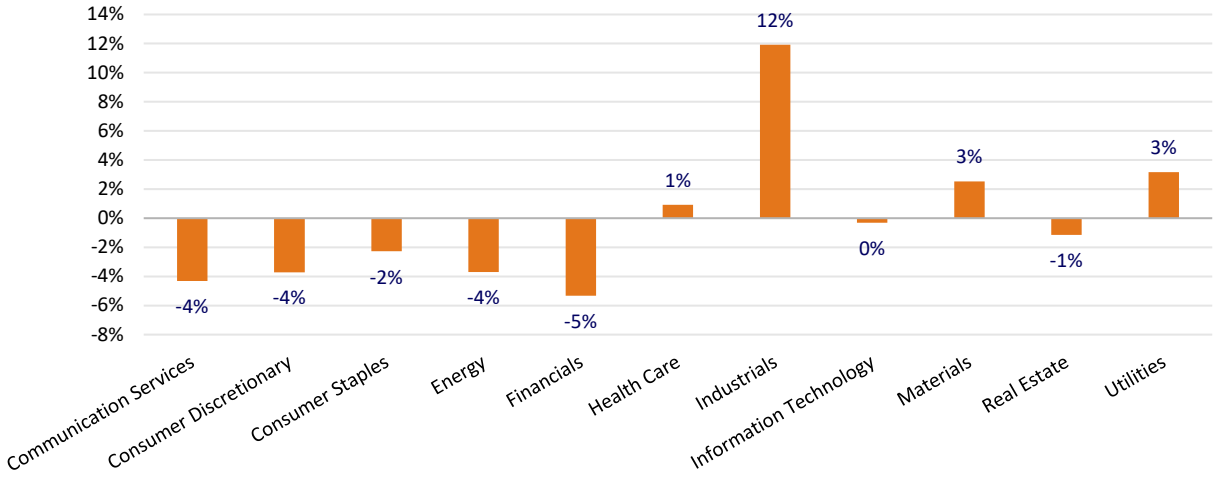
- **2. A. Sectors and Industries:** Sustainable strategies typically overweight Industrials, Materials, and Utilities, these tilts are largely driven by Thematic strategies, while Broad and Impact strategies can offer wider and more balanced sector exposures.
- **2. B. Regions:** Overall, Sustainable strategies typically have a European overweight and a US underweight. Thematic and Impact strategies also tend to overweight Emerging Markets. Quantitative strategies show comparatively small regional deviations.
- **2. C. Style:** Sustainable strategies generally display Growth and Small-Cap tilts, which are amplified in Thematic and Impact strategies. Value strategies naturally tilt towards the Value factor, while Core/Growth strategies are typically associated with a Quality tilt. Quant strategies, in contrast, show limited style biases and a more balanced exposure profile.

2.A. Sector and Industry Biases

At the aggregate level, strategies within the universe tend to favour companies supporting or benefiting from the transition to a more sustainable economy. This results in pronounced sector tilts – for instance, an average overweight to Industrials (12%) and an underweight to Energy (-4%) over the past three year which are further amplified at the industry level.

However, these high-level exposures tell only part of the story. Sector and industry positioning varies widely across strategy groups, creating meaningful differences in both the direction and magnitude of active weights. This variation provides genuine opportunities to combine strategies in ways that offset concentrated exposures and improve diversification.

Exhibit 3: Universe sector tilts (3Y average)

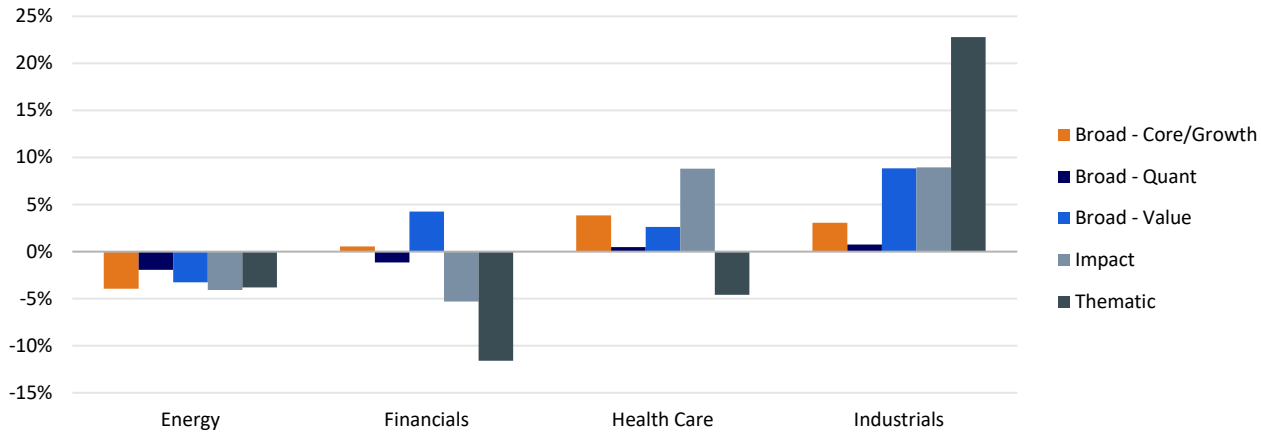


Source: Russell investments, as of 30 June 2025. Note: Metrics relative to the MSCI World Index.

While the universe shows consistent directionality in Industrials (overweight) and Energy (underweight), sector positioning varies considerably elsewhere.

- **Industrials**: The overweight is primarily driven by Thematic strategies, especially environmental strategies focused on clean energy, infrastructure, and related supply chains. Within the industrial sector there is broad industry representation with the notable exception of *Aerospace & Defence* which is seen as controversial by most managers.
- **Energy**: The underweight is broad-based across all groups, reflecting widespread avoidance or exclusion of fossil-fuel extraction and combustion activities.
- **Financials**: While the universe overall is underweight Financials, Value strategies stand out with a meaningful (+4%) overweight, consistent with their investment philosophy. This is driven by the significant overweight to *Banks* and *Insurance*.

Exhibit 4: Diversity in sub-group sector biases (3Y average)

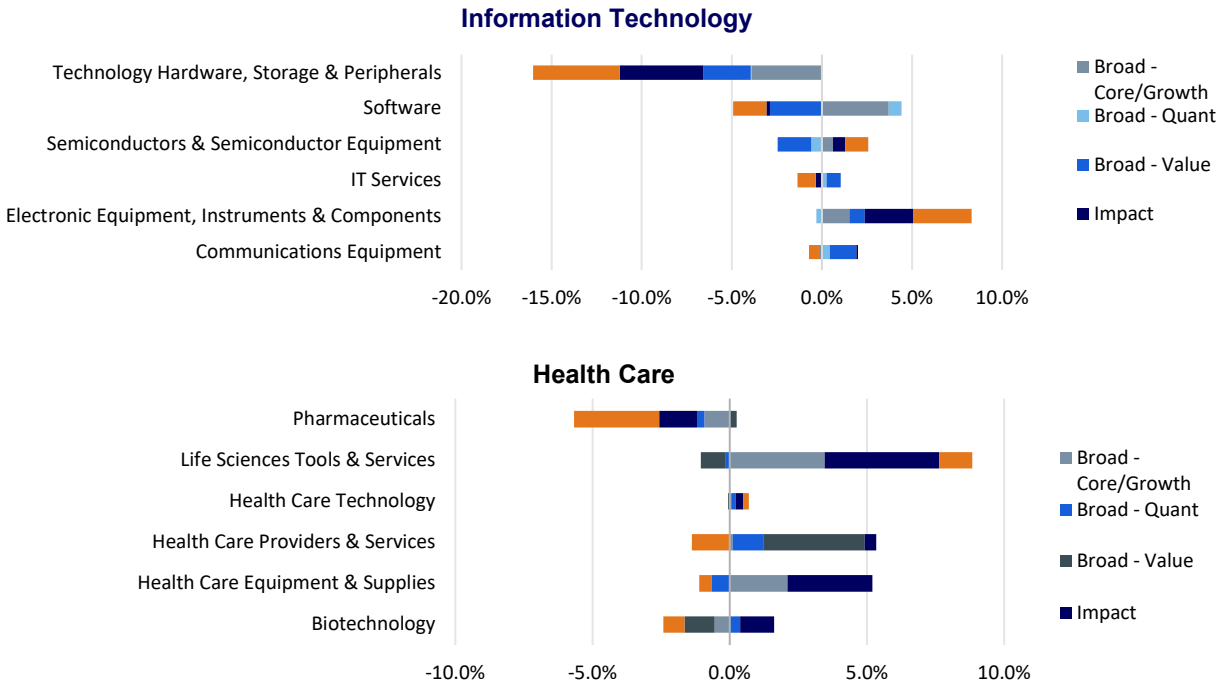


Source: Russell investments, as of 30 June 2025. Note: Metrics relative to the MSCI World Index.

At the industry level, there are notable nuances within some sectors, as seen in Exhibit 5:

- **Health Care:** The modest aggregate overweight of 1% to Health Care masks notable differences at the industry level. *Life Sciences Tools & Services* are a significant overweight, especially in Core/Growth and Impact strategies. In contrast, *Pharmaceuticals* is consistently underweight. Value strategies stand out as they display the opposite (albeit modest) industry biases highlighting Value's differentiated perspective within the sector.
- **Information Technology (IT)**: IT represents the second largest portion of total allocation at an aggregate level, (closely after industrials), and industry level positioning reflects real nuances within the opportunity set. There is a consistent underweight to *Technology Hardware, Storage & Peripherals*, alongside an overweight to *Electronic Equipment, Instruments & Components* for most groups. *Semiconductors & Semiconductor Equipment* and *Software* emerge as the most debated industries within IT. Value strategies are the most underweight, choosing to emphasise valuation whereas some of their growth peers continue to see further earnings acceleration.

Exhibit 5: Sub-group industry biases for the Health Care and Information Technology sectors (3Y average)



Source: Russell investments, as of 30 June 2025. Note: Metrics relative to the MSCI World Index.

Magnitude of biases (Exhibit 6)

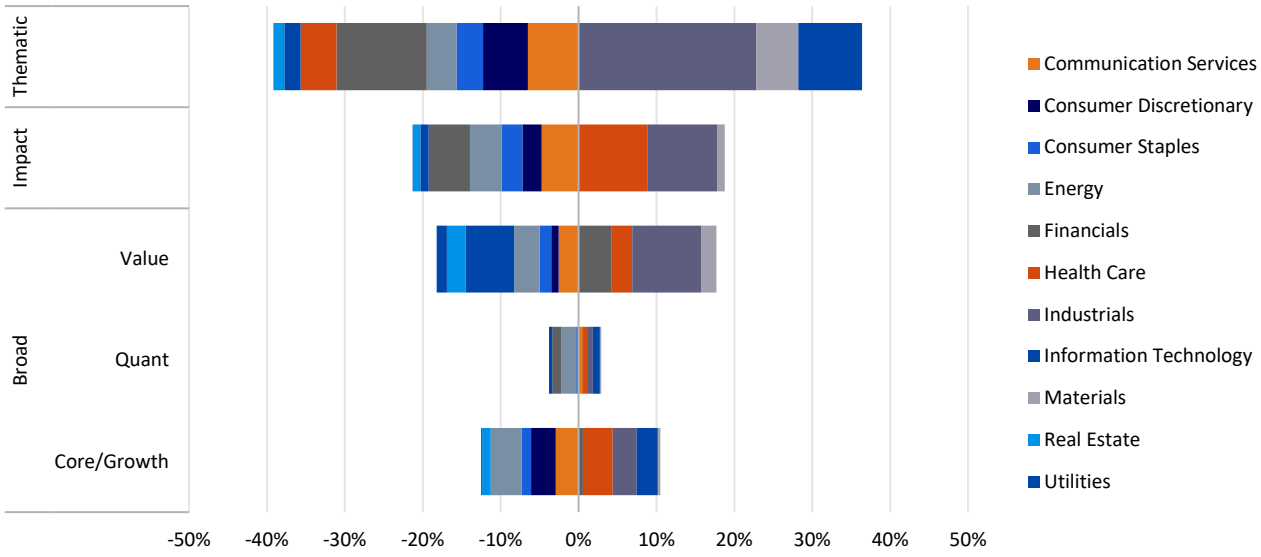
Thematic strategies display the most pronounced sector deviations, with combined over- and underweights reaching 30–40% in some cases.

- Environmental strategies show a +23% overweight to Utilities and a –12% underweight to Financials, strongly influencing aggregate universe results.
- Core/Growth strategies generally remain within ±3% of benchmark weights.
- Quant strategies demonstrate minimal active sector positions — typically less than 1%, with the exception of a modest –2% underweight to the Energy sector.

Taken together, these dynamics illustrate that sector risk in sustainable portfolios is highly dependent on strategy selection, not merely sustainability objectives.

These sector tilts matter because they meaningfully influence performance through the cycle. Investors allocating to sustainable strategies must therefore balance thematic sector concentrations with more benchmark-aligned approaches to avoid unintended cyclical risk and improve the consistency of returns.

Exhibit 6: Magnitude of sector biases by sub-group (3Y average)

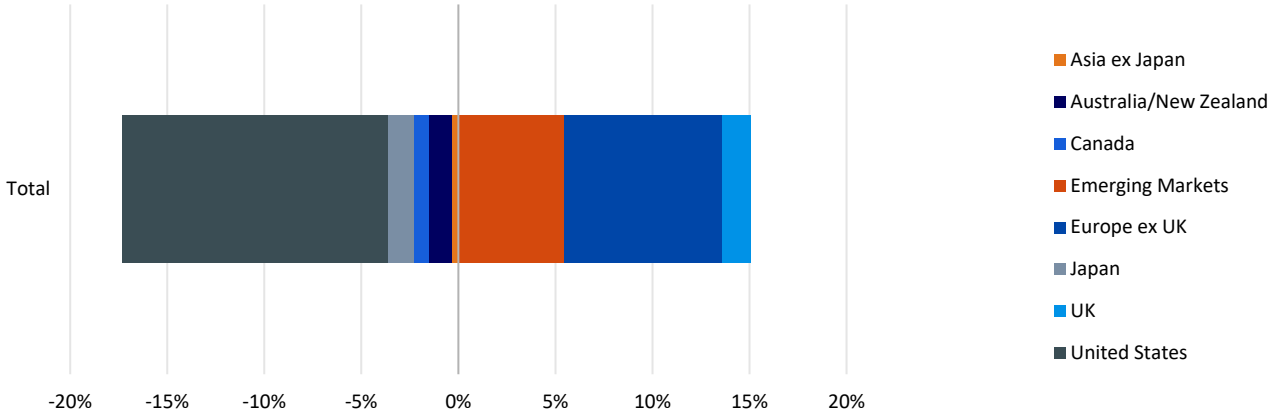


Source: Russell investments, as of 30 June 2025. Note: Metrics relative to the MSCI World Index.

2.B. Regional Biases

Sustainable strategies show a clear **overweight to Europe**, reflecting a preference for companies subject to stronger regulatory frameworks and higher standards of ESG disclosures. The U.S. underweight is equally consistent, linked to sector composition and weaker reporting requirements.

Exhibit 7: Universe regional biases (3Y average)



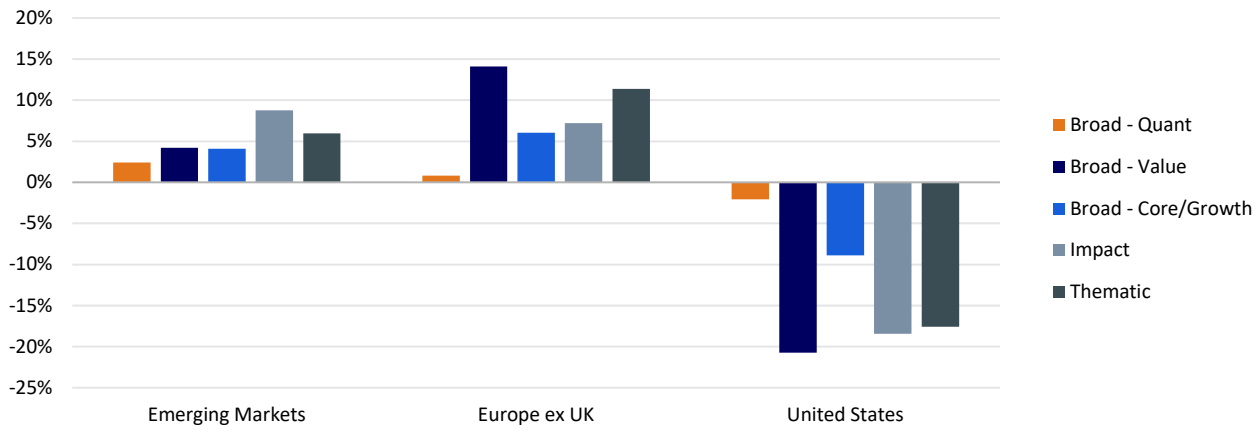
Source: Russell investments, as of 30 June 2025. Note: Metrics relative to the MSCI World Index.

Despite these aggregate patterns, regional deviations vary meaningfully across strategy types:

- Value, Environmental and Impact strategies generally show the largest deviations relative to the benchmark, whereas Core/Growth and Quant strategies tend to remain closer to benchmark weights.
- Value strategies tilt the most towards Europe and away from the US driven by their preference for cheaper companies but also the higher standards of ESG disclosure and of transparency.
- Impact strategies tilt most to Emerging Markets due to their focus on social outcomes and transition finance. Environmental thematic managers also lean into EM, where renewables and green infrastructure are expanding quickly.
- Managers display smaller deviations in allocations to regions like Japan, the UK, Canada, Asia ex-Japan, and Australia; however, these are modest (+/-3%) compared with the ones shown in Exhibit 7.

These patterns highlight that regional risk in sustainable portfolios is not uniform across the universe. Instead, it varies meaningfully by strategy type and is highly sensitive to manager philosophy.

Exhibit 8: Sub-group regional biases (3Y average)



Source: Russell investments, as of 30 June 2025. Note: Metrics relative to the MSCI World Index.

For portfolio construction, these regional skews imply that sustainable allocations may behave differently from global equity benchmarks during periods of US outperformance or EM weakness. Combining managers with differing regional profiles helps mitigate this concentration risk and stabilises geographical exposure

2.C. Styles Biases

Style exposures represent another important dimension of structural bias. At the universe level, portfolios are generally overweight the Growth factor and underweight the Value factor. This reflects a tendency to avoid potentially undervalued companies facing ESG-related controversies while favouring firms aligned with long-term structural growth drivers such as clean energy, technology innovation and social impact.

Exhibit 9: Universe style biases

Sectors	Z-Score (3 Yr Average)
Growth	0.188
Value	-0.255

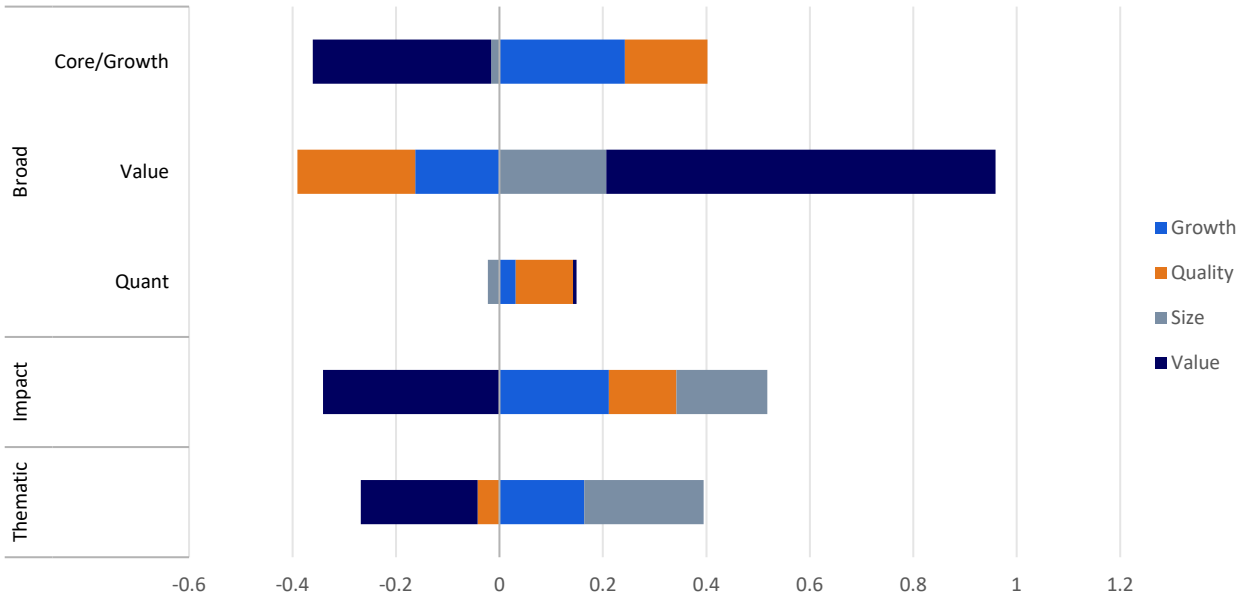
Source: Russell Investments, as of June 2025

Within this aggregate, sub-groups behave very differently:

- Thematic and Impact strategies exhibit a small-cap bias, reflecting their emphasis on emerging innovators and "future winners" of the energy and sustainability transition. These exposures offer high growth potential but increase volatility and stock-specific risk. Core/Growth and Quant strategies show minimal size bias and, in some cases, a slight preference for large-cap companies.
- Value strategies, as expected, is the only segment which is consistently overweight Value and underweight Growth.
- Quality exposures also differ: Value and Environmental groups have the largest underweights, while Core/Growth group strategies exhibit notable Quality tilts, reflecting their emphasis on financially robust companies with strong governance.

These factors help explain why sustainable strategies can behave differently across market cycles — especially when Value, Low Volatility, or Large-Cap US Growth factors dominate.

Exhibit 10: Sub-group style tilts (3Y *average*)



Source: Russell Investments, as of 30 June 2025. Note: Metrics relative to the MSCI World Index.

Conclusion:

Taken together, the sector, regional, and factor analyses confirm that while the sustainable equity universe displays clear structural tilts at the aggregate level, there is significant variation beneath the surface. These differences across Broad, Thematic, Impact and Quant strategies create meaningful opportunities for diversification and balanced portfolio design.

Thematic strategies tend to show the most pronounced biases — particularly in sector and factor exposures — whereas Core/Growth and Quant strategies remain more closely aligned with the benchmark and therefore offer stabilising characteristic. Thoughtfully combining managers across these groups can help offset concentrated biases, improve risk balance, and achieve a more resilient exposure to the sustainable equity opportunity set.

3. Risk characteristics

Sustainable equity strategies typically exhibit higher tracking error than their traditional peers. To examine this, we compare the Sustainable Universe with the Traditional Universe, defined as global long-only equity strategies.

The differences between these two universes stem from distinctive investment approaches. Together, these structural features contribute to greater dispersion in manager outcomes. Understanding these sources of this risk is essential for constructing balanced, diversified sustainable portfolios.

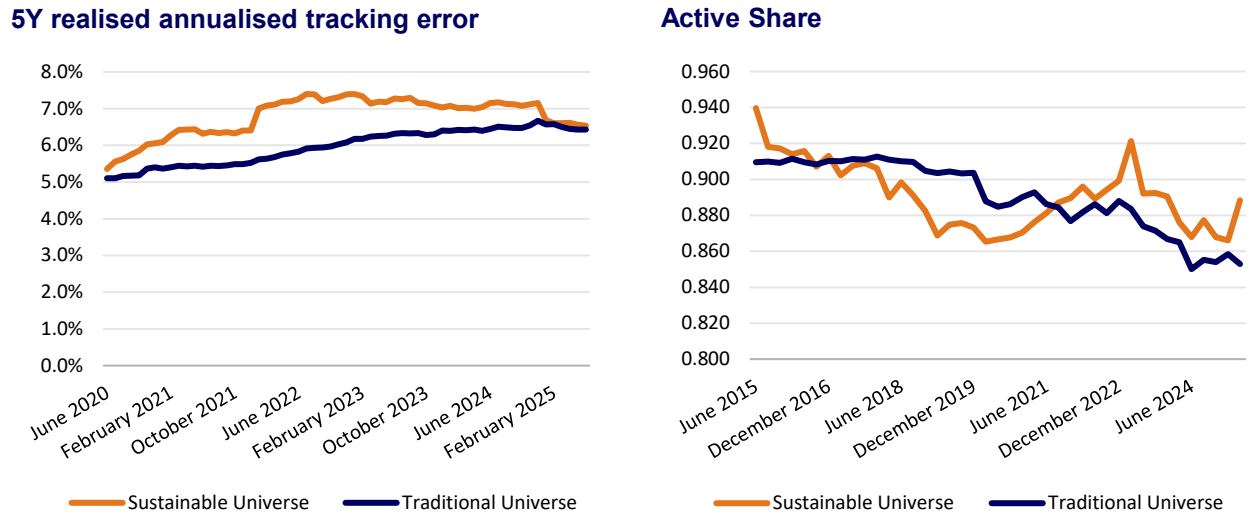
Key takeaways:

- **3. A. Overall risk:** Sustainable strategies generally display **higher total risk and tracking error than traditional strategies**, reflecting greater deviation from benchmarks weights and making a multi-manager approach well suited to balance the additional risks associated with sustainable investing
- **3. B. Risk decomposition:** Approximately half of total risk is stock-specific, the remainder is attributable to style and industry risks. For Thematic strategies the stock specific risk represents a smaller share, with style and industry factors playing a larger role.
- **3. C. Variation:** Risk profiles differ widely across sub-groups. Environmental and Impact strategies show the highest volatility and tracking error, whereas Quant strategies remain the most stable, providing a useful tool for risk management at the portfolio level.

3.A. Overall risk and tracking error

Sustainable equity managers consistently exhibit higher overall risk compared to traditional managers, reflecting greater deviations from benchmark sector, regional and factor exposures. As shown in Exhibit 11, both ex-ante and ex-post tracking error are persistently higher for the sustainable universe, indicating that these strategies maintain more pronounced active positions. As a result, their performance tends to be more sensitive to shifts in market conditions strengthening outcomes when their tilts are rewarded and amplifying headwinds when they are not.

Exhibit 11: Sustainable and Traditional Universe risk characteristics



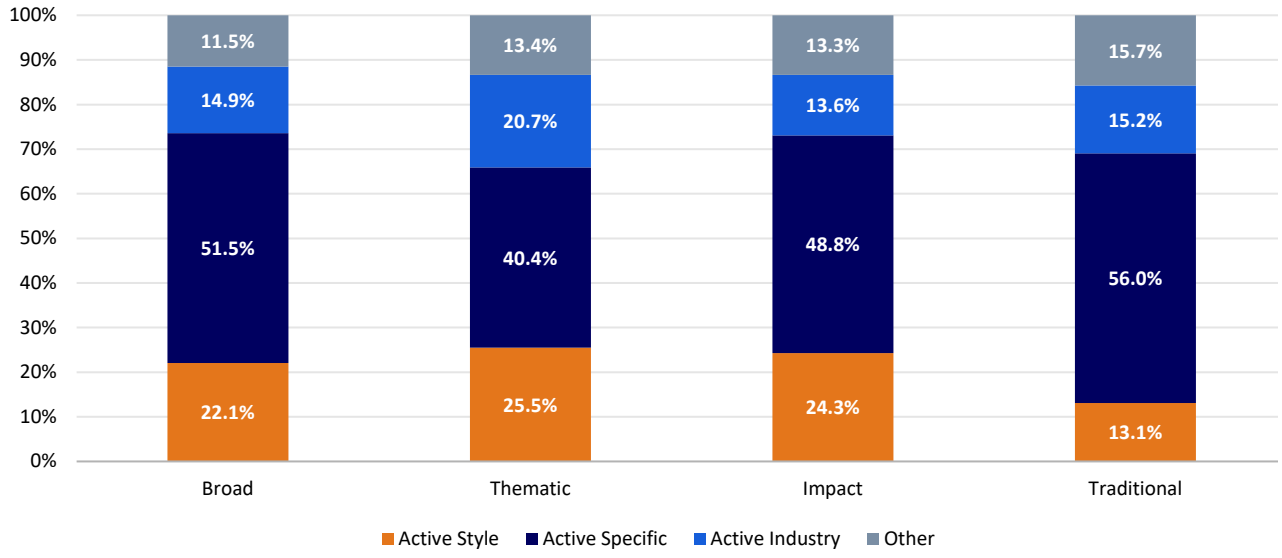
Source: Russell Investments, as of 30 June 2025. Note: Metrics relative to the MSCI World Index

3.B. Risk decomposition

In terms of risk decomposition, sustainable strategies derive roughly half of their total risk from stock-specific factors, while around 35–45% stems from style and industry exposures. This reflects the narrower investable universe and the structural tilts inherent in sustainable investing.

Thematic strategies, in particular, show higher share of risk driven by style and industry risk, linked to their high allocation to Industrials, Materials, and Utilities, combined with their small cap factor tilt. We expect these portfolios to be more sensitive to market volatility and shifts in the economic environment.

Exhibit 12: Risk Decomposition of the Universe by group (3Y average)

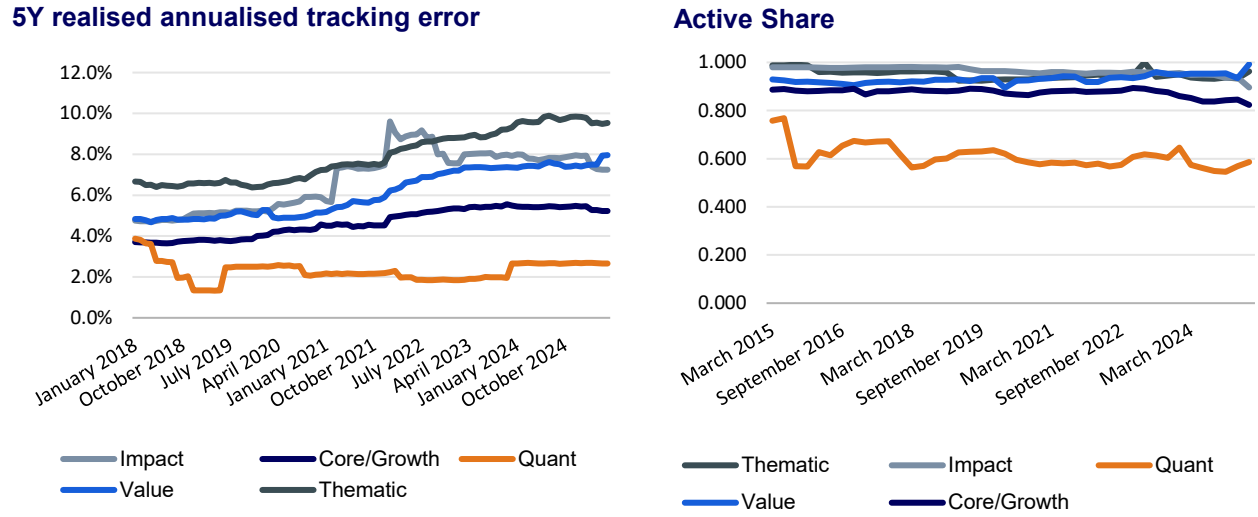


Source: Russell Investments, as of 30 June 2025. Analysis conducted using Russell Risk Model.

3.C. Variation across sub-groups

When looking across sub-groups (Exhibit 12), there is substantial variation in risk profiles. The Environmental and Impact strategies have the highest tracking error and active share, while the Quant group exhibits the lowest levels. The latter offers a compelling risk-management tool within sustainable portfolios. By design, these strategies minimise active bets and maintain tighter benchmark alignment, which can help balance out the higher volatility and concentration risk found elsewhere in the sustainable universe.

Exhibit 13: Sustainable sub-group risk characteristics



Source: Russell Investments, as of 30 June 2025. Note: Metrics relative to the MSCI World Index.

Key Finding 1: On average, sustainable strategies are structurally biased and higher risk than traditional peers; however, risk and exposures vary widely across sub-groups.

There are clear aggregate tilts across the sustainable equity universe, including overweights to Growth, Europe, and transition-linked sectors, and underweights to Energy. As a result, sustainable strategies typically exhibit higher active risk relative to traditional peers.

However, this masks substantial variation across sub-groups. Differences between Growth, Value, Thematic, Impact and Quant strategies create opportunities to reduce risk and manage style, regional and sector exposures through thoughtful multi-manager portfolio construction.

Conclusion:

While sustainable investing is typically associated with higher risk, these exposures can be effectively managed through thoughtful portfolio diversification and deliberate portfolio construction. Where appropriate, the inclusion of quantitative strategies can serve as a useful tool to mitigate unintended concentrations and balance risk across factor, sector and regional dimensions.

4. Performance trends and manager selection

Performance across sustainable equity strategies varies meaningfully over time, reflecting not only diversity in investment preferences and processes but also in manager skill and implementation. While periods of relative underperformance often coincide with market phases favouring Value and Low Volatility factors, the long-term data indicate that skilled managers within the sustainable strategies remain competitive with traditional peers. Importantly, the wide dispersion of outcomes across and within sub-groups underscores the role of active decision-making – from stock selection to sustainability integration. This creates opportunities for investors to capture manager alpha through multi-manger portfolio design to improve consistency of returns and deliver a more stable risk profile across market cycles.

Key takeaways:

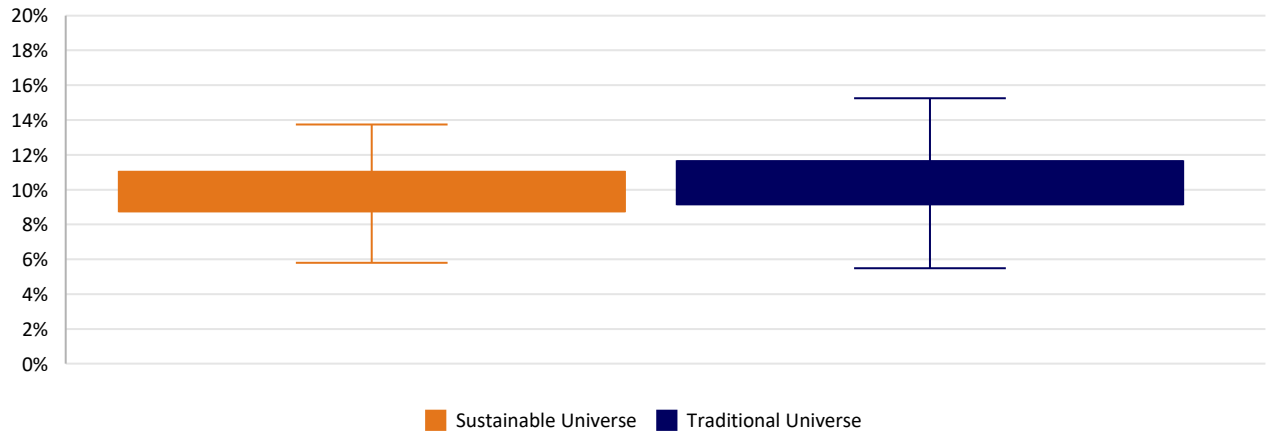
- **4. A. Long term:** Sustainable strategies generally display **higher total risk and tracking error than traditional strategies**, reflecting greater deviation from benchmarks weights and making a multi-manager approach well suited to balance the additional risks associated with sustainable investing
- **4. B. Medium term:** Approximately half of total risk is stock-specific, the remainder is attributable to style and industry risks. For Thematic strategies the stock specific risk represents a smaller share, with style and industry factors playing a larger role.
- **4. C. Diversity:** Risk profiles differ widely across sub-groups. Environmental and Impact strategies show the highest volatility and tracking error, whereas Quant strategies remain the most stable, providing a useful tool for risk management at the portfolio level.
- **4. D. Manager selection:** Identifying strategies with above average team experience, strong commitment to the asset class and superior sustainability integration is key to delivering stronger performance over the full cycle.

4.A. Long term performance remains in line with traditional peers.

Over the past 10 years, sustainable equity strategies have delivered performance broadly in line with traditional peers. The median sustainable strategy sits within just 20 basis points of the MSCI World Index, and the significant overlap between the interquartile ranges of sustainable and traditional universes demonstrates that sustainable strategies remain competitive over full market cycles.

However, the distribution of returns reveals an important insight: the sustainable universe shows tighter clustering around the median, while the traditional universe exhibits wider tails. This reflects the broader diversity of styles and philosophies in the traditional universe, but also highlights that sustainable strategies, particularly those with disciplined processes, tend to express more consistent exposures.

Exhibit 14: Spread of product 10Yrs annualised returns



Source: Russell Investments, as of 30 June 2025
Note: Sustainable sample size = 58, Traditional universe sample size = 297.The box-and-whisker plot provides a visual summary of performance dispersion across strategies. The box captures the interquartile range (from the 25th to the 75th percentile), showing where the middle 50% of the strategies' returns lie. The horizontal line inside the box represents the median return for each universe, while the whiskers extend to show the farthest datapoint within 1.5 times the interquartile range, consistent with Tukey's boxplot methodology.

Key Finding 2: Long-term performance remains competitive despite recent cyclical headwinds.

Sustainable equity strategies have delivered ten-year returns broadly in line with traditional peers, with comparable median performance and similar long-term dispersion patterns.

Recent underperformance has been driven primarily by market regimes that favoured factors and regions under-represented in many sustainable portfolios — such as US mega-cap growth, Value, and Energy. These conditions are cyclical rather than structural, reinforcing that sustainable strategies can remain competitive over full market cycles when evaluated over an appropriately long horizon.

This consistency, however, comes with trade-offs. A deep dive through a factor lens into historical performance (Exhibit 15) reveals that as expected, sustainable strategies tend to outperform in environments favouring Small Caps and Growth companies and underperform consistently and meaningfully in Value and Low Volatility environments. Over a full cycle, these rotations tend to offset one another, producing long-term performance closely aligned with traditional peers — while rewarding managers with skill in navigating structural biases.

The data in the table below divides the 120 months of the trailing ten-year period into style categories, with each count representing the total number of months a style was the best performing:

Exhibit 15: Monthly performance of sustainable universe across different style environments over the 10 years ending in June 2025

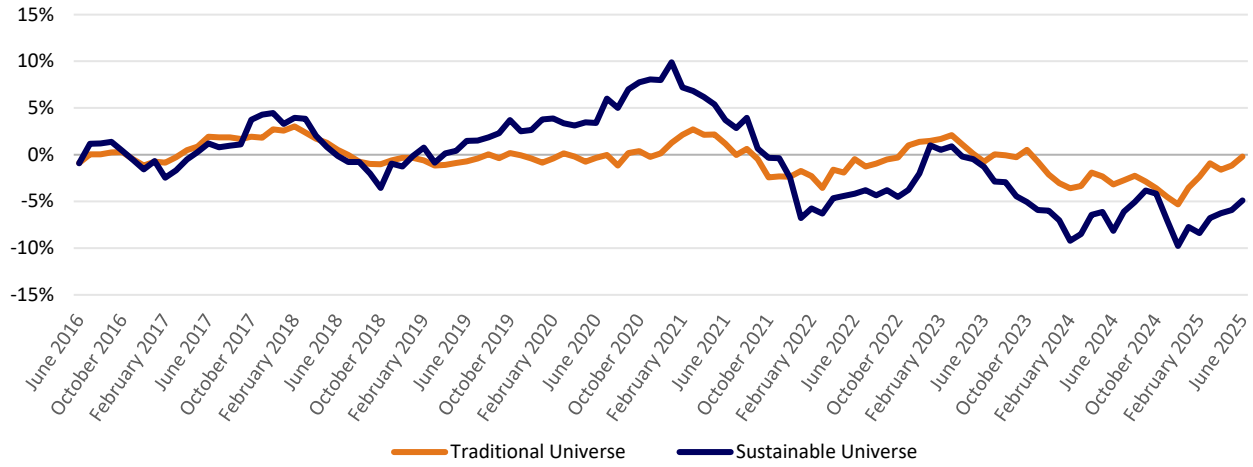
Sustainable universe		Hit rate[1]	average excess versus index
Best style *	**# of months**		
Growth	27	63%	0.21%
Small cap	13	77%	0.62%
Momentum	15	53%	-0.15%
Quality	13	62%	-0.01%
Low volatility	25	32%	-0.38%
Value	27	30%	-0.35%
TOTAL	**120**	**49%**	**-0.06%**

Source: Russell Investments, as of 30 June 2025
* Monthly style ranking is based on the performance of Russell factor portfolios (RFP) which are factor portfolios based on Russell's factor definitions
[1] Hit rate measures the percentage of months with positive excess return in those environments

4.B. Medium term performance headwinds are mostly down to universe biases.

While the sustainable universe remains competitive over the long term, it has faced notable challenges over the last four years. In the 2019–2021 period, performance was bolstered by low interest rates, flows into smaller cap, growth-oriented assets, and a collapse in oil prices. Subsequent years saw a reversal in the factors and sectors that sustainable strategies typically favour.

Exhibit 16: Median 1 Year Rolling Annualised Arithmetic Excess Returns, relative to MSCI World Index



Source: Russell Investments, as of 30 June 2025

The median sustainable manager underperformed the MSCI World by 5.1% annualised over the last four years. This is consistent with the universe's structural tilts, as shown in the table below:

- persistent underweight to Large-Cap US Growth (especially the "BATMMAAN "),
- underweight to Value-oriented sectors such as Energy and Financials, and
- overweight to Europe and Small Caps, both of which lagged during the period.

These effects were further exacerbated by macroeconomic shifts: rising interest rates and a strong US dollar favoured large-cap, cash-generative US companies while pressuring more transition-aligned, capex-intensive sectors.

One should note that some of these headwinds also affected traditional active strategies.

Exhibit 17: 4 Year annualised index performance (30 June 2021 - 30 June 2025)

	Median sustainable manager (UW/OW)	4 year excess return against msci world index
4-year annualised return	4.53%	9.59%
Sectors:		
Energy	UW	+5.93%
Financials	UW	+4.17%
Health Care	OW	-6.97%
Industrials	OW	+1.17%
Regions:		
US[1]	UW	+0.78%
Europe[2]	OW	-1.17%
Emerging Markets[3]	OW	-8.69%
Market Cap:		
Small Cap[4]	OW	-6.12%
BATMMAAN[5]	**UW**	**+10.35%**

Source: Russell Investments, as of 30 June 2025.
Note: UW = Underweight, OW = Overweight.
1 Russell 1000 index. 2 MSCI Europe Index. 3 MSCI Emerging Markets Index. 4 MSCI World Small Cap Index, 5 Broadcom, Apple, Tesla, Meta, Microsoft, Amazon, Alphabet, Nvidia.

Recent performance can also be examined through the lens of style leadership. The data in the table below (Exhibit 18) divides the 48 months of the trailing four-year period into style categories, with each count representing the total number of months a style was the best performing.

Low Volatility and Value — environments where sustainable strategies typically underperform — accounted for nearly 50% of monthly leadership in the 2021–2025 period, while Small Size leadership, a condition that typically favours sustainable strategies, occurred only 3 out of 48 months.

Exhibit 18: Sustainable universe performance by style leadership (30 June 2021 - 30 June 2025)

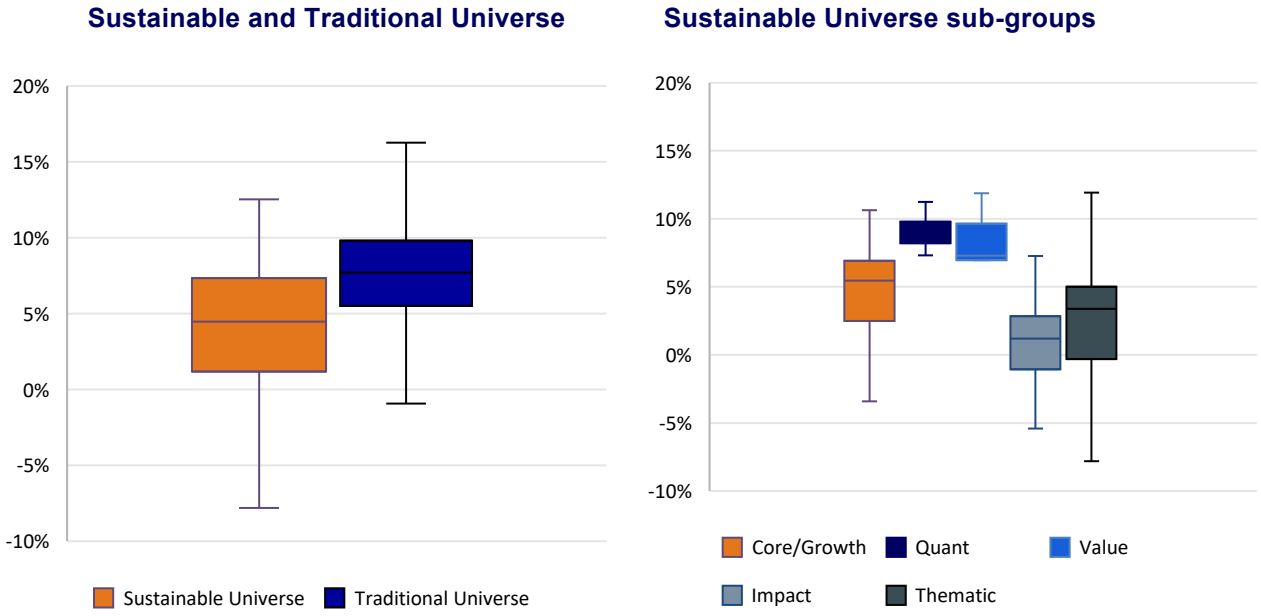
Leading style	# of months where the style lead	Months where the style lead as a % of total months
Growth	10	20.80%
Size	3	6.30%
Momentum	6	12.50%
Quality	6	12.50%
Low volatility	12	25.00%
Value	11	22.90%
Growth	10	20.80%
TOTAL	**48**	**100.00%**

Source: Russell Investments, as of 30 June 2025

Exhibit 19 provides a more granular view of recent performance outcomes, illustrating that the aggregate underperformance masks significant dispersion across sustainable strategy types.

Quantitative and Value-oriented sustainable strategies delivered notably stronger median returns, with tighter distributions. In contrast, Thematic and Impact strategies exhibit wider dispersion and lower medians, reflecting both their greater exposure to unfavourable style dynamics and higher risk.

Exhibit 19: Spread of product 4Yrs annualised returns (as of 30 June 2025)



Source: Russell Investments, as of 30 June 2025

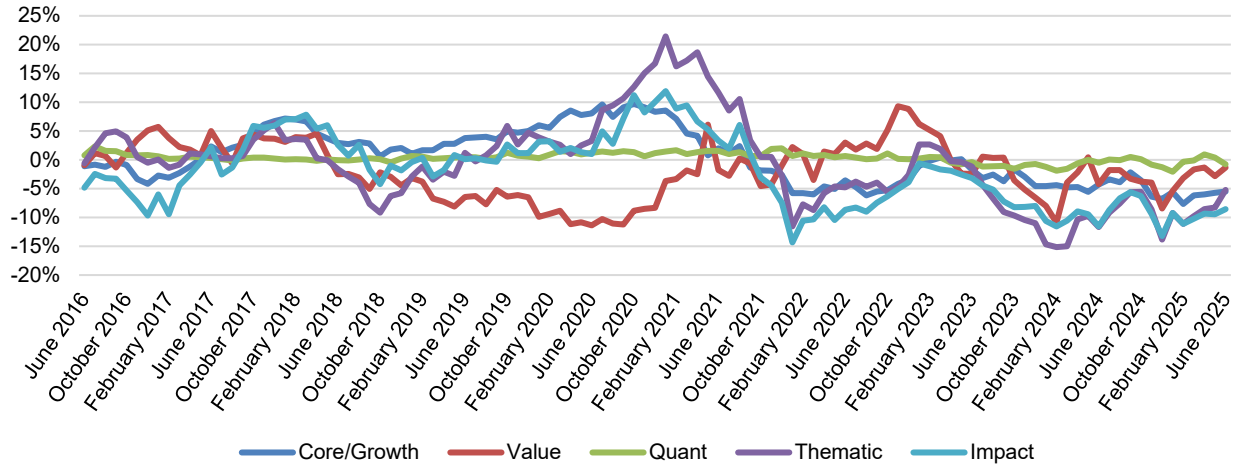
Note: Sample sizes: Core/Growth = 44, Quant = 19, Value = 6, Impact = 21, Thematic = 59, Sustainable Universe = 151, Traditional Universe = 432. The box-and-whisker plot provides a visual summary of performance dispersion across strategies. The box captures the interquartile range (from the 25th to the 75th percentile), showing where the middle 50% of the strategies' returns lie. The horizontal line inside the box represents the median return for each universe, while the whiskers extend to show the farthest datapoint within 1.5 times the interquartile range, consistent with Tukey's boxplot methodology.

The central conclusion: recent headwinds did not affect sustainable strategies uniformly; it varied based strategies' portfolio construction and investment approaches. As such, aggregate universe-level performance, does not fully capture the underlying dynamics within the opportunity set. Over the period and going forward, diversification *within* sustainable equities—across styles, philosophies, and implementation techniques— is critical in mitigating headwinds and to capturing excess returns over a full market cycle.

4.C. Leveraging the breadth in the opportunity set is important to maintain consistency in returns

Performance trends have varied meaningfully across sub-groups over time. This variation highlights the importance of combining different strategy types, as dispersion creates opportunities to balance exposures and achieve more stable returns through different market environments.

Exhibit 20: Median 1 Year Rolling Annualised Arithmetic Excess Returns, relative to MSCI World Index



Source: Russell Investments, as of 30 June 2025.

The contrast between Quant and Thematic strategies illustrates this point.

Quant managers follow a more benchmark-aware, systematic approach, enabling them to act as stabilising components within portfolios. However, these strategies may contribute less to real-world sustainability outcomes due to more limited active ownership and stewardship activities. Their processes integrate financial and ESG factors algorithmically, which enhances risk control but provides less direct influence on corporate behaviour. This distinction matters for investors seeking both sustainable outcomes and portfolio resilience: Quant strategies help stabilise exposures but should not be relied upon as primary vehicles for stewardship-driven impact.

By contrast, Thematic strategies, in this case primarily Environmental, typically generate stronger sustainability outcomes by allocating to companies directly positioned to benefit from the transition. These approaches are often more concentrated, resulting in greater cyclicality and higher volatility. However, this concentration also creates upside potential that is less common within Quant strategies.

In Exhibit 20, we analyse how different strategy types perform across market environments. As expected, the Universe tends to outperform in Growth and Small-Cap markets, however, several sub-groups also generate strong relative returns in Quality, Value and Low-Volatility regimes. For example, a sustainable Value strategy can deliver attractive, low-correlation excess returns while driving measurable transition impact by allocating capital to, and actively engaging with, critical but controversial sectors essential to decarbonisation.

This reinforces the potential to achieve consistent excess returns through a diversified allocation.

Exhibit 21: Average monthly excess returns by factor and sustainable strategy, relative to the MSCI World Index

		Sustainable Equity Universe	Sustainable Equity Universe Sub-Groups				
			Core/Growth	Quant	Value	Thematic	Impact
Factor	Growth	0.21%	0.29%	-0.06%	-0.74%	0.34%	0.37%
	Size	0.62%	0.26%	0.10%	0.34%	1.20%	0.64%
	Momentum	-0.15%	0.17%	-0.07%	-0.78%	-0.36%	-0.13%
	Quality	-0.01%	0.49%	-0.03%	-0.96%	-0.37%	0.06%
	Low volatility	-0.38%	-0.08%	0.14%	-0.12%	-0.81%	-0.60%
	Value	-0.35%	-0.71%	-0.06%	1.20%	-0.06%	-0.84%

Source: Russell Investments, as of 30 June 2025

In essence, the diversity within the sustainable universe provides investors with a toolkit for managing style and market conditions. Building a balanced allocation across sub-groups enhances portfolio resilience, offering both participation in upside markets and protection in more challenging periods while remaining aligned with investors' sustainability beliefs and objectives.

4.D. Commitment to sustainability, experience and skills matter

The top performers over 10 years are managers with long-standing commitments to sustainability, often among the earliest entrants in this space. Their depth of expertise in the opportunity set, better understanding of ESG risks manifest financially, and robust processes for integrating sustainability insights into investment decision-making appears to give them an edge over some newer participants.

These managers also tend to demonstrate firm-level alignment around sustainability objectives. Why does this matter? When an asset manager genuinely believes in the long-term relevance of sustainability -- and allocates experienced portfolio managers, research resources, and ESG specialists to these strategies -- the result is typically a more coherent and resilient investment process. Notably, all five top-performing strategies are led by portfolio managers with decades-long, experience in sustainability and investment management overall.

A second shared feature among the leaders is their integration of ESG as a quality or risk lens, rather than as a purely exclusionary screen. Sustainability analysis is embedded into assessments of business durability, management quality, and risk control, helping distinguish high-quality companies from the rest. Across these managers, investment approaches tend to target structural, sustainable growth drivers—renewable energy, energy efficiency, stakeholder capitalism, and resource transition—even in strategies with a value tilt.

Certainly, we must acknowledge the effect of survivorship bias as many firms with low commitment to the asset class have closed their strategies over this volatile period. Nonetheless, the consistency of outcomes across long-tenured managers with deep sustainability expertise suggests that **commitment and experience remain meaningful drivers of excess returns** over the investment cycle.

Exhibit 21 illustrates this pattern, with the example of the top five long-term performers which are managers that combine deep experience, clear sustainability intent and well-resourced research platforms.

Exhibit 22: Top 5 strategies in 10Yrs Annualised Returns

Strategy	Group	Sub-group	10 yrs annualised excess returns *
Strategy A	Thematic	Environmental	2.5%
Strategy B	Broad	Core/Growth	1.4%
Strategy C	Broad	Core/Growth	1.2%
Strategy D	Broad	Core/Growth	1.1%
Strategy E	**Broad**	**Core/Growth**	**0.7%**

Source: Russell Investments, as of 30 June 2025
* MSCI World Index 10 yrs absolute annualised returns: 11.2%

A closer look at some of these strategies (Strategy A and E) highlights the components commonly found in successful approaches. For example:

Strategy A was launched as boutique in 2007 by its two portfolio managers, driven by a conviction that purposeful bottom-up capital allocation can play a meaningful role in addressing climate change. Their combined 40 years of experience investing in environmental solutions is distinctive and enables them to engage with — and selectively invest in — companies that many peers exclude due to superficially weaker ESG metrics. This approach underpins a highly differentiated, value-oriented investment outcome.

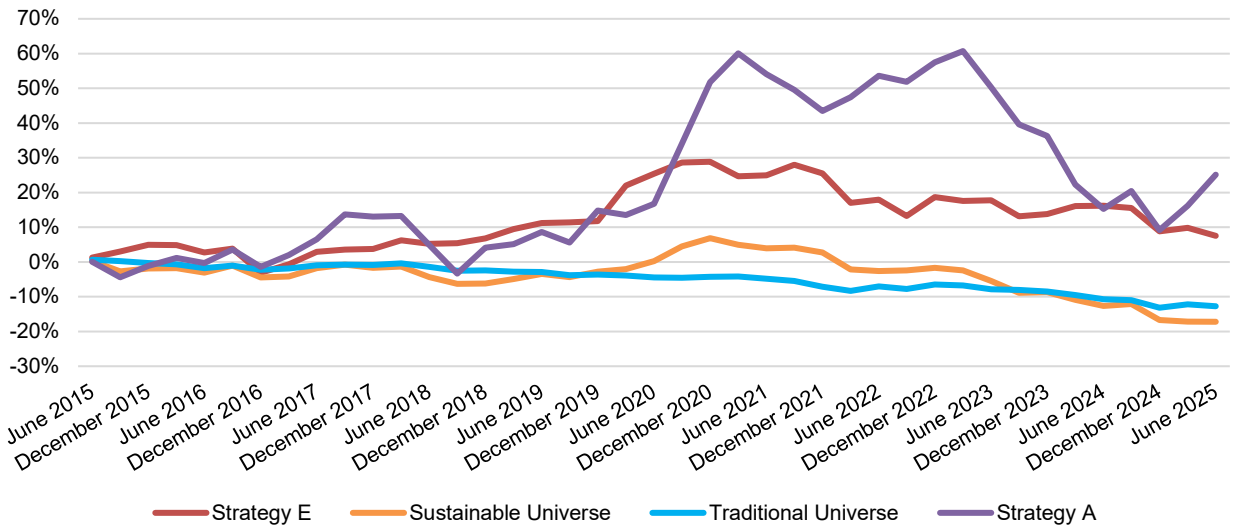
Originally resource-constrained, Strategy A was acquired in 2021 by a large institutional investor and long-standing client, providing the team with the platform and resources to institutionalize the strategy and scale assets to $2.5 billion.

Unlike Strategy A, Strategy E follows a growth at a reasonable price approach wherein Sustainability is thoughtfully integrated through a combination of thematic idea generation, superior integration into research and direct company engagements. The portfolio is consistently aligned with the UN SDGs but has also delivered superior long-term returns against sustainable and traditional peers alike.

Strategy E is managed by a firm, founded in 2012 as a sustainability specialist, now managing nearly $40 billion across public and private sustainable strategies. The portfolio is led by an experienced PM with more than 25 years in the field, supported by seasoned co-managers and an analyst team with dedicated sustainability expertise. by 2 experienced (20+ years) co-PMs. The firm continues to invest into its analytical and sustainable capabilities, and the PM team is supported by a team of 8 dedicated analysts and 2 sustainability specialists providing deep and broad research coverage.

Identifying good managers requires more information than these brief details, but superior experience, resources, and a clear selection set are some of the attributes that are typical of successful strategies.

Exhibit 23: Geometric active cumulative return for Strategy E and A, traditional and sustainable universes relative to the MSCI World Index (2015-2025)



ZSource: Russell Investments, as of 30 June 2025

Key Finding 3: Manager skill and complementarity are critical to capturing excess returns.

Performance dispersion across sustainable equity managers is wide, reflecting differences in investment approaches, sustainability integration but also investment skills. The strategies with the strongest long-term outcomes tend to share common traits: experienced investment teams, consistent commitment to sustainability, robust fundamental research, and disciplined portfolio construction.

Combining managers with complementary styles and sustainability approaches can help reduce concentration risks, smooth style cycles, and improve the consistency of returns across market environments.

Conclusion:

Long term expected returns for sustainable equity strategies are similar to those of traditional peers; however, performance volatility may require a patient, long-term allocation, thoughtful diversification, and a focus on superior investment propositions.

Conclusion

The sustainable manager universe is both structurally distinct and highly internally diverse. While aggregate deviations in style, sector and regional exposures are evident, these broad patterns mask a wide range of underlying investment philosophies, risk profiles and performance dynamics. This heterogeneity reinforces that there is no single model of successful sustainable investing. Rather, outcomes depend on how each manager translates sustainability intent into investment practice -- resulting in approaches that may appear correlated yet often deliver meaningfully different outcomes.

Ultimately, the analysis confirms that manager skill and selection remain decisive in achieving excess returns within sustainable equity investing. For investors, this underscores the importance of selective implementation – constructing a multi-manager portfolio that balances complementary styles while taking into account the biases of the opportunity set with deep understanding manager skill and sustainability integration. When designed thoughtfully, such portfolios can help smooth style cycles, mitigate risk, and deliver resilient long-term outcomes – all while saying aligned with investors' sustainability objectives. In essence, sustainable equity investing rewards those who recognise its diversity, manage its structural nuances and select managers with the experience and capabilities to deliver through full market cycles.

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