

Hymans Robertson Investment Services (HRIS)

Sustainable related investing: Three questions you may get from your clients

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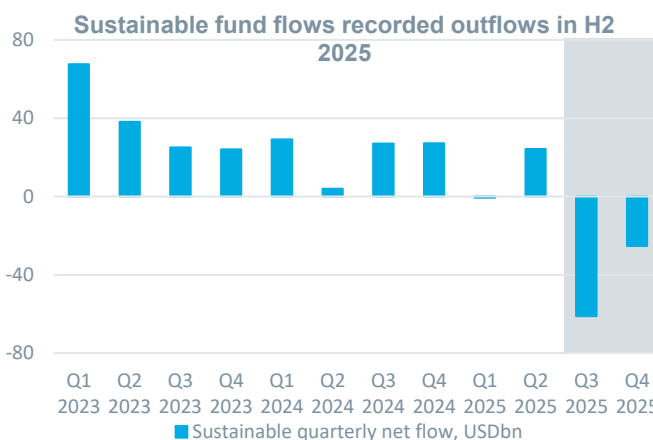
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Sustainable related investing¹ has faced several challenges in recent years. These include a changing political backdrop (most notably in the US) and disappointing performance relative to non-responsible investment strategies. Against this backdrop, advisers are increasingly being asked questions about the role and future of sustainable related portfolios. Below we set out our perspective on three of the most common client questions.

What’s happened in this area of the market?

Key themes across many sustainable related portfolios include:

Negative geopolitical developments: During the 2024 US election campaign, President Trump’s “drill, baby, drill” messaging clearly signalled opposition to many environmental and climate-focused policies. Since taking office, this has been followed by concrete actions, including withdrawal from the Paris Climate Agreement. At the same time, several US states have pursued legal action against large asset managers under antitrust laws, alleging that excessive emphasis has been placed on non-financially material environmental, social and governance (ESG) considerations. We have also seen growing geopolitical uncertainty making increases in defence spending and more focus on forms of security e.g. food and energy seem more likely.



Source: Morgan Stanley, Morningstar, February 2026

Despite strong headline interest, allocations have eased. Morgan Stanley’s 2026 survey of more than 2,000 global investors found that 92% express some interest in sustainable investing. However, the survey also shows that average portfolio allocations to sustainable strategies have edged down over the past year. Consistent with this, fund-flow data (see chart) indicate that sustainable strategies experienced net outflows in the second half of the year, driven by investors in both Europe and North America.

Performance headwinds relative to non-sustainable focused portfolios: From an investment returns perspective, strong performance from energy and defence-related stocks has acted as a headwind for many sustainable related portfolios, which typically underweight these sectors. Based on Morningstar’s MPS universe, average performance for sustainable portfolios looks to be around 2–3% per annum lower than the broader market over the past one and three years, although returns have varied meaningfully across different investment offerings.

¹ In this paper we are using the term “Sustainable related” as a catch all to cover areas including (but not limited to) responsible, sustainable, ethical and impact related investing. We acknowledge that each of these areas of investment can differ considerably.

What does this mean for sustainable related investment portfolios?

In the **short term**, the ongoing fallout from geopolitical events are likely to remain key influences on investor sentiment. It may be the case that aspects such as rising oil prices and defence spending continue to act as a headwind for sustainable related portfolios.

Taking a **longer-term** view, the picture is more mixed. Many of the longer-term positive trends in favour of sustainability related portfolios remain in place (for example, energy security and resource scarcity). However, other longer-term trends, such as continued geopolitical uncertainty mean that factors such as defence spending could persist for many years to come.

What should investors do now?

As a first step, investors should revisit why they invested in a sustainable-related portfolio in the first place and consider whether their underlying views or beliefs have changed.

Step	If client's objectives have changed	If client's objectives remain unchanged
1	Revisit the role sustainability plays in the portfolio	Reaffirm confidence in the existing investment approach
2	Consider alternative implementations	Understand extent to which performance has been driven by the sustainability criteria within the mandate, as opposed to broader investment market movements and decisions taken
3	Options may include: <ul style="list-style-type: none">• More traditional portfolios• Pragmatic responsible investment approaches (e.g. restrictions and limitations rather than blanket exclusions, reflecting the uncertainty surrounding the future as outlined above)	Assess whether the current provider remains fit for purpose

Summary

While it is unclear whether recent performance headwinds for sustainable-related portfolios will persist, clarity around objectives, beliefs and implementation should help investors ensure their portfolios, and the extent to which sustainable-related activities are reflected in the investment approach, remain aligned with their desired outcomes.

If you have any questions relating to this paper, please contact your local Relationship Director.



William Marshall
Chief Investment Officer
william.marshall@hymans.co.uk

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