Morgan Stanley

INSTITUTE FOR SUSTAINABLE INVESTING

Sustainable Signals

INSTITUTIONAL INVESTORS 2025

Key Takeaways for 2025

We surveyed more than nine hundred institutional investors, covering both asset owners and asset managers, to understand their current thoughts around sustainable investing.

Most investors remain positive on the outlook

Half of survey respondents have had sustainable investing programs for at least five years, rising to over two thirds among the largest firms by assets or AUM. Most remain positive on the outlook: 86% of asset owners expect to increase allocations to sustainable investments in the next two years, and 79% of asset managers expect AUM to grow. Key motivations include strong financial performance.

External factors are causing concern, but sustainability is firmly embedded

2025 respondents were much more likely to rate a range of potential concerns about sustainable investing as "very significant," averaging 38% compared to 25% in 2024. Data remains the top concern, followed closely by regulatory and political uncertainty. Even allowing for these concerns, sustainability is firmly embedded: both asset managers and asset owners see it as a differentiator, and as important to managing investment risk.

Climate adaptation and resilience is growing in prominence

Over 75% of investors expect physical climate risks to impact asset prices in the next five years, echoing the Sustainable Signals—Corporates 2025 survey finding that 60% of companies anticipate a negative impact on operations over the same period. Climate adaptation solutions to mitigate these challenges now rank third in investors' top priority areas, with a particular focus on data and analytics, water infrastructure and grid resilience.

Investors remain focused on emissions-related solutions across regions

Energy efficiency and renewable energy are the top two investment priorities for investors across all three regions, similar to last year. Climate adaptation ranks third, up from sixth in 2024, followed by companies' approaches to inclusion, which was named a top five priority for at least 20% in each region.

About the Sustainable Signals Series

This report is led by the Morgan Stanley Institute for Sustainable Investing ("Institute") and presents results from an online survey of asset owners and asset managers conducted by Dynata LLC on behalf of the Institute. This report is the latest in the "Sustainable Signals" series, which is designed to identify global market trends in sustainable investing. It is the third edition of combined survey data from asset owners and asset managers under the umbrella of "institutional investors." The 2025 survey is directly comparable to the second edition in 2024, but not to the first edition in 2022, where a different survey vendor was used.

From August 28 to September 23, 2025, a sample of 664 asset owners and 303 asset managers were surveyed across North America, Europe and Asia Pacific for a global total of 967 institutional investors. Unless otherwise specified, "institutional investors" refers to combined responses from both asset owners and asset managers.

TERMINOLOGY

The following definition was provided to respondents:

"Sustainable investing" is the practice of making investments in companies or funds that aim to achieve market-rate financial returns while considering positive social and/or environmental outcomes.

METHODOLOGY

In line with prior year methodology, respondents had to respond that their firm currently practices or plans to practice sustainable investing to qualify. Views from this group may not be representative of institutional investors overall.

DATA SOURCE

The source for all charts is the survey, unless otherwise indicated. For more information on the sample profile and quotas, please see page 19.

CONTACT US

For any questions related to the report, please reach out to the Institute for Sustainable Investing team at **globalsustainability@morganstanley.com**.

To get insights like this report delivered to your inbox, subscribe to the Institute for Sustainable Investing's newsletter.

SIGN UP

TABLE OF CONTENTS

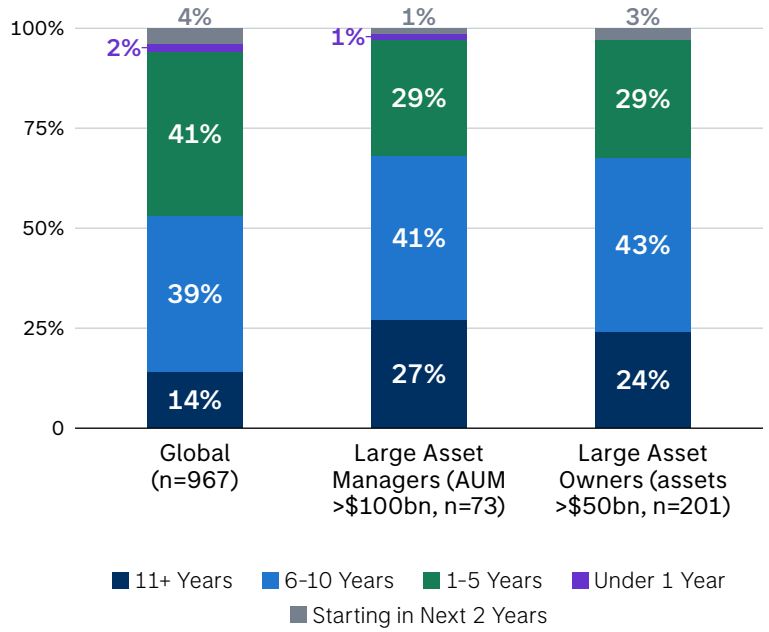
Allocations and Outlook

Most investors remain positive on the outlook for the next two years

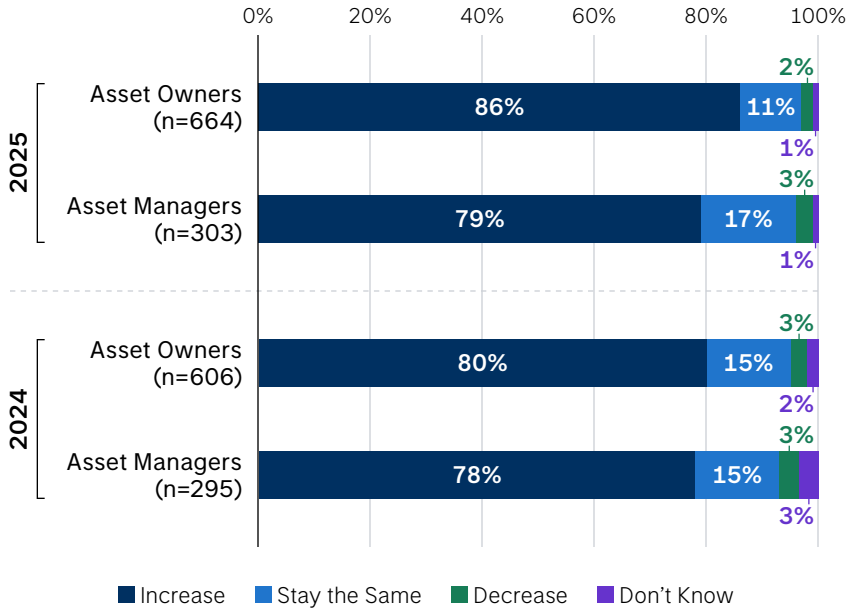
The majority of our survey respondents are well established in sustainable investing: 94% have had a sustainable investing program for at least a year.* Just over half have been pursuing it for more than five years, rising to more than two thirds for the largest institutional investors (asset owners with >$50bn in assets; asset managers with >$100bn in AUM).

In the next two years, 86% of asset owners expect the proportion of their assets in sustainable funds to increase. This is six points higher than in 2024, with only small variations by asset size. For asset managers, 79% anticipate an increase in AUM in sustainable funds, one point higher than in 2024, with small asset managers (84%) most likely to expect AUM to rise.

How long has your sustainable investing program existed?



Excluding investment performance, how do you expect the proportion of your assets/AUM in sustainable funds to trend over the next two years?



Source: Morgan Stanley Institute for Sustainable Investing, November 2025. Data as of September 23, 2025.
*To qualify for all three editions of the Sustainable Signals—Institutional Investors surveys, respondents had to be practicing sustainable investing or have plans to do so.

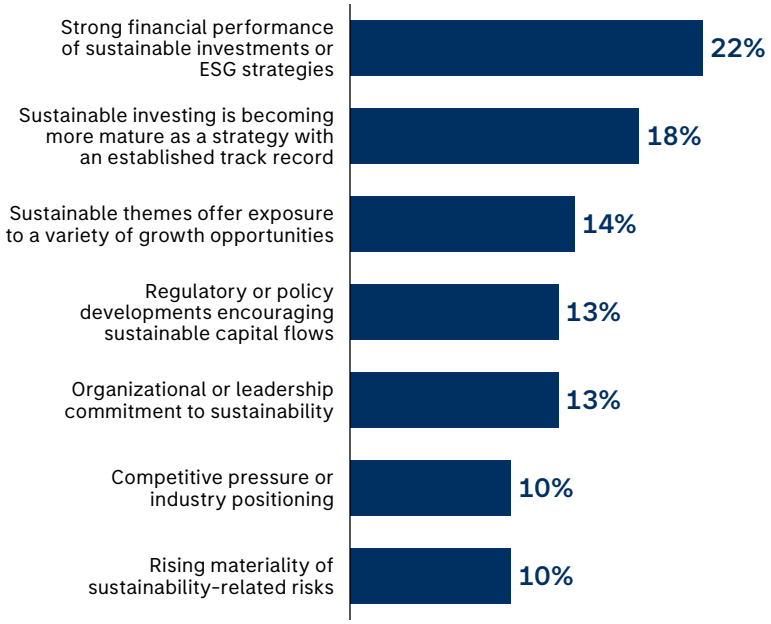
Asset owners plan to increase allocations primarily due to performance and track record

When asked why they plan to increase their allocation to sustainable investments, 22% of asset owners cite strong financial performance as their top reason, followed by 18% motivated by an increasingly established track record.

For asset managers, growth in AUM is expected to come from existing clients increasing their allocations (42% strongly agree), with further potential for new mandates (39%) and from first-time allocations.

What is the top reason you expect to increase your asset allocation for sustainable investing over the next two years?

Asset Owners who expect sustainable allocations to increase (n=570)



Why do you expect to see an increase in AUM (excluding investment performance) for sustainable investing over the next two years?

Asset Managers who expect sustainable AUM to increase (n=239)

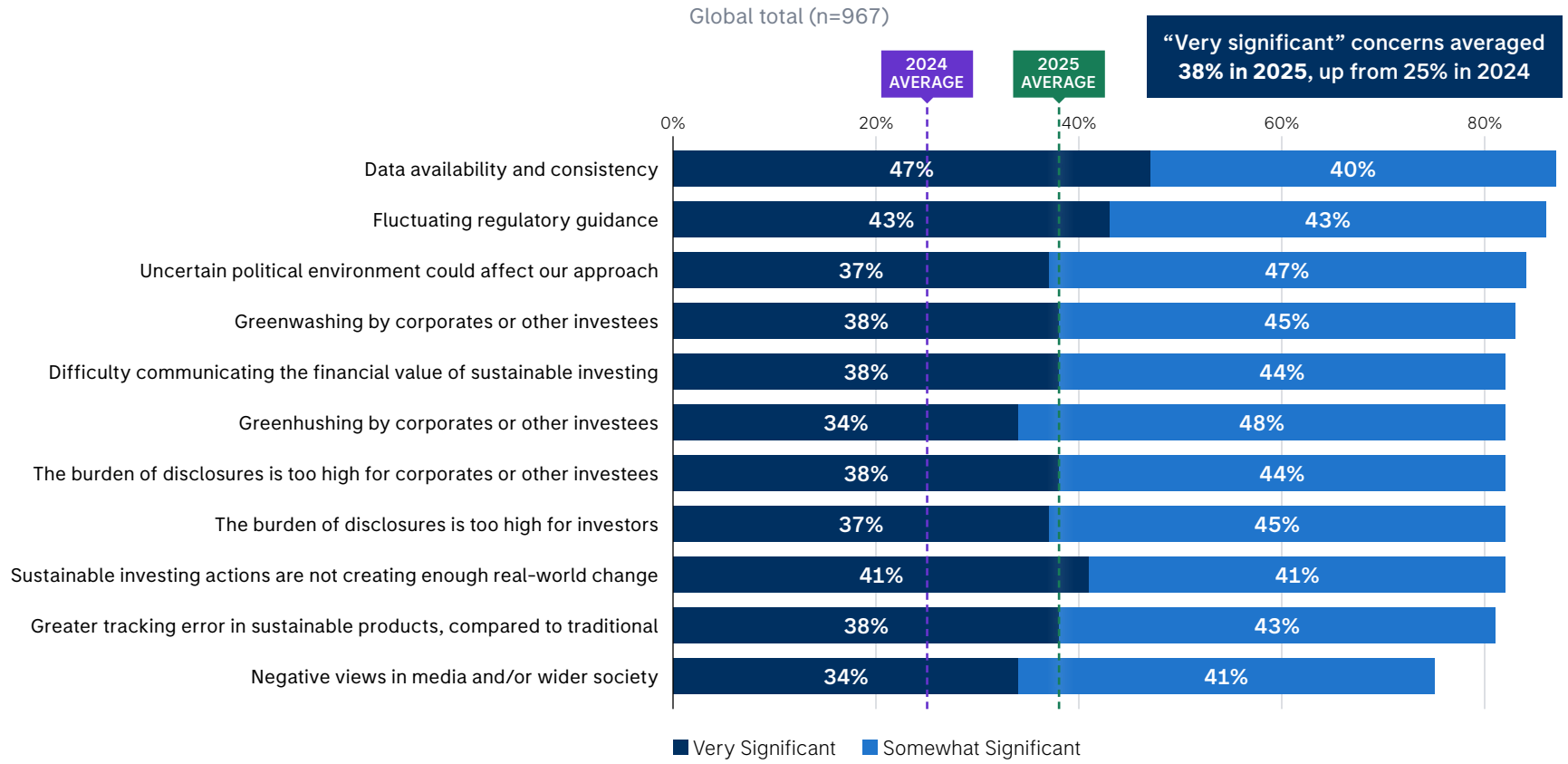
Source: Morgan Stanley Institute for Sustainable Investing, November 2025. Data as of September 23, 2025.

Concerns and Investment Risk Management

External factors are causing more concern this year

In 2025, respondents were more likely to rate a range of concerns as very significant, averaging 38% compared to 25% across the same list in 2024. Data availability and consistency remains the most significant issue, followed by regulatory and political uncertainty. A lack of real-world change resulting from sustainable investing actions is rated a little above the average for very significant concerns, at 41%. When investors were asked to name their top concern, a lack of real-world change moves up the list to third (14%), behind data (15%) and regulatory uncertainty (14%).*

Please rate the following potential concerns about sustainable investing.

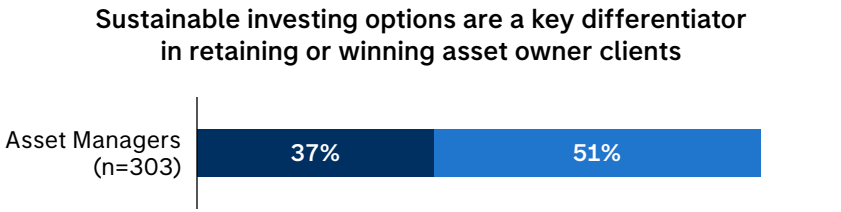


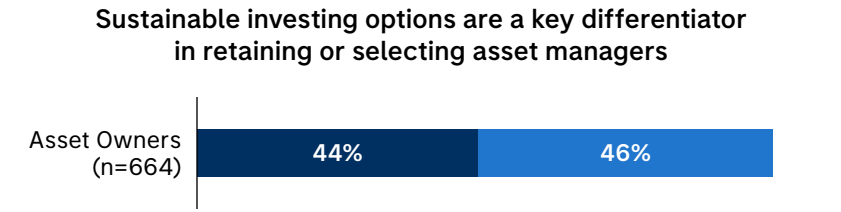
Source: Morgan Stanley Institute for Sustainable Investing, November 2025. Data as of September 23, 2025.
*See pages 15-17 for top concerns by region.

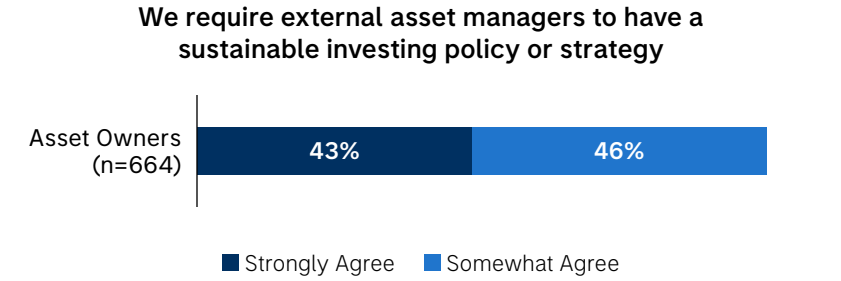
Sustainability is firmly embedded as a differentiator and for managing investment risk

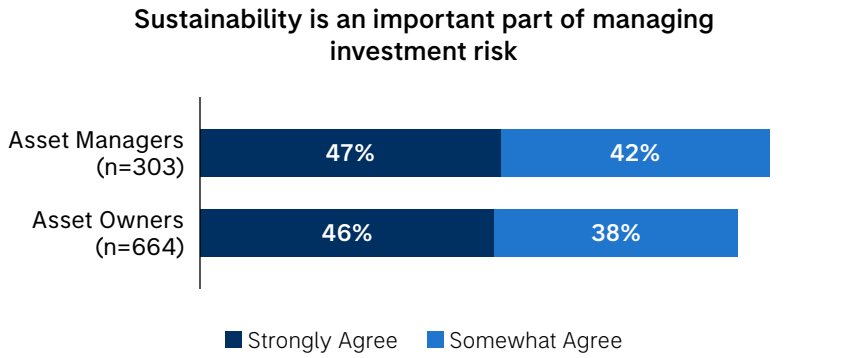
Both asset managers and asset owners see sustainable investment options as a key differentiator when awarding or winning mandates. Many asset owners say that they require asset managers to have a sustainable investing policy or strategy.

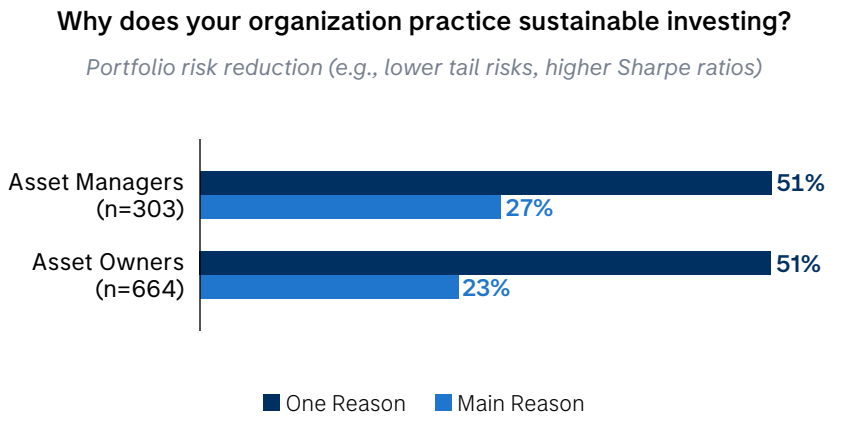
Over 80% of both groups also see sustainability as an important part of managing investment risks, with around a quarter naming portfolio risk reduction as the main reason for practicing sustainable investing.











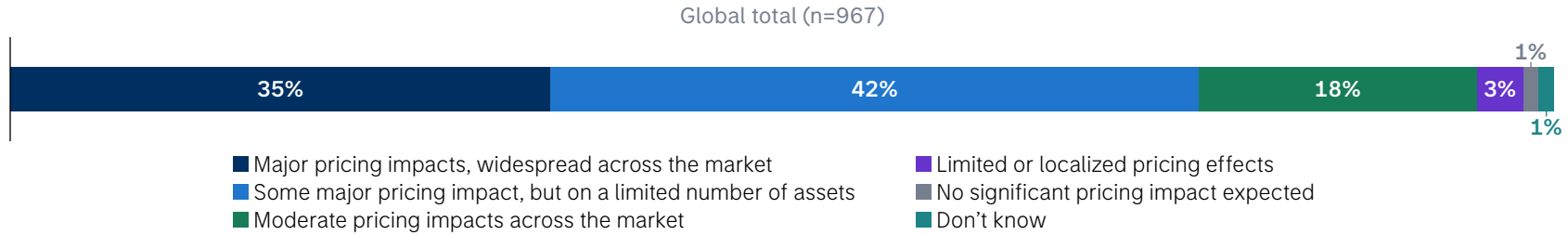
Source: Morgan Stanley Institute for Sustainable Investing, November 2025. Data as of September 23, 2025.

Climate Adaptation and Resilience

More than 75% of institutional investors expect physical climate risks to have a major impact on asset prices in the next five years

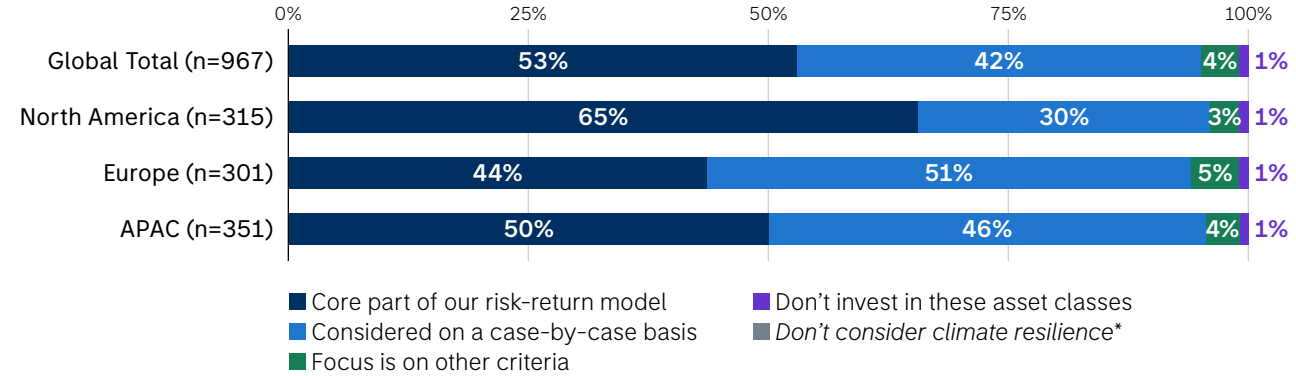
The Institute's Sustainable Signals—Corporates 2025 survey found that around 60% of companies anticipate negative impact from physical climate risks in the next five years. Investors echo this concern: more than 75% expect a major impact on asset prices over the same time period. Just over a third believe the pricing impact will be widespread across the market, while 42% see the impact as limited to a smaller subset of assets.

To what extent do you expect climate-related physical risks to affect asset prices in the next five years?



Climate resilience is particularly prominent when investing in physical assets such as infrastructure or real estate. Globally, half of investors say that it is a core part of their risk-return model for these investments (rising to 65% in North America), with an additional 42% considering it on a case-by-case basis.

How important is climate resilience when evaluating potential investments in infrastructure or real estate?



Source: Morgan Stanley Institute for Sustainable Investing, November 2025. Data as of September 23, 2025.
*This had zero responses across all three regions.

Climate adaptation is becoming a more prominent investment theme

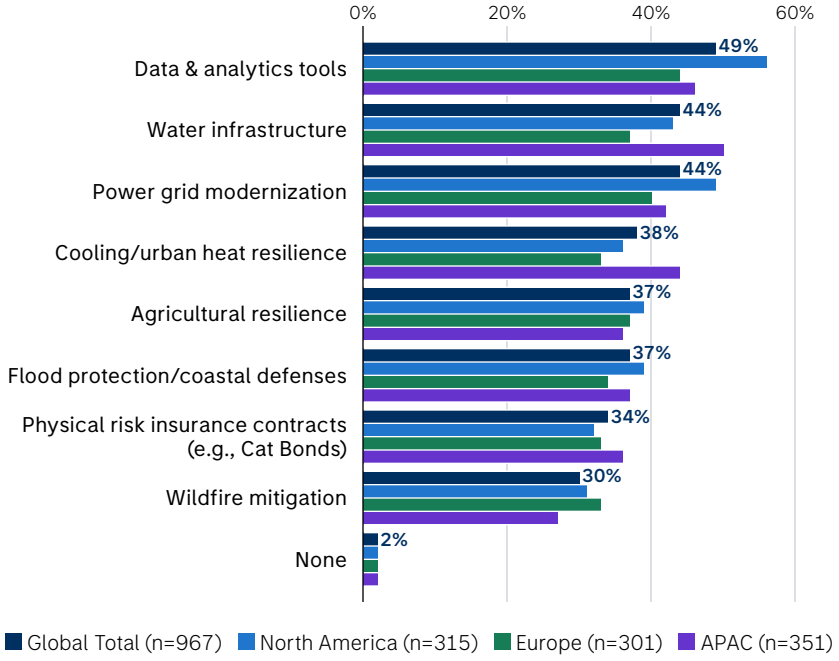
Globally, investors rank climate adaptation third on the 2025 list of priority sustainability solutions, up from sixth in 2024. Just under a quarter place it in their top five priorities, at 23%, just behind renewable energy (30%) and energy efficiency (28%).*

Top solutions for climate adaptation investments over the next three years are data and analytics, water infrastructure and grid modernization.

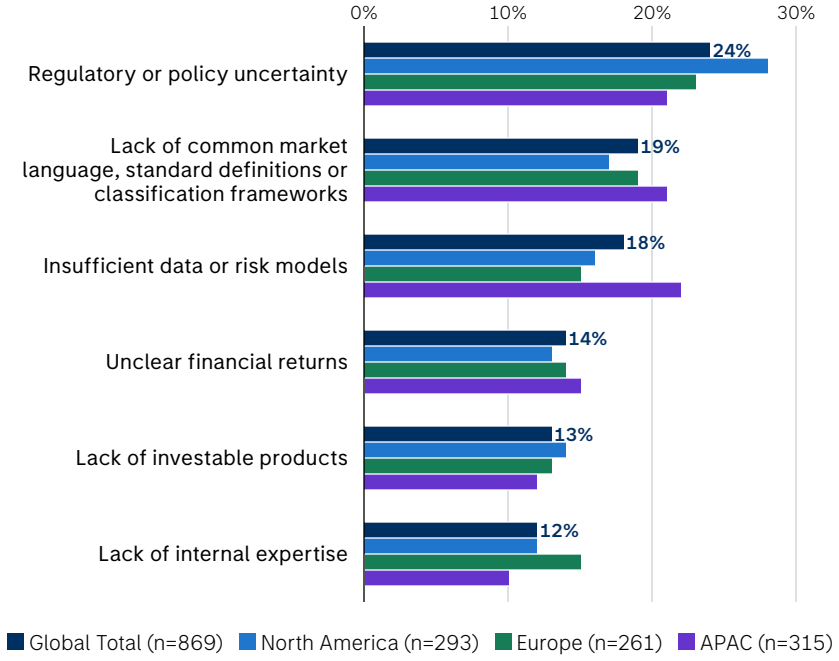
Barriers to investing in climate adaptation include policy uncertainty, lack of common language and frameworks, and insufficient risk models.

What solutions are you prioritizing for climate adaptation investments over the next 1-3 years?

Select all that apply



What is the top barrier to investing in climate adaptation and resilience?**



Source: Morgan Stanley Institute for Sustainable Investing, November 2025. Data as of September 23, 2025.
*See pages 15-17 for investment priorities by region, and page 22 for a full list. **Those investing in climate adaptation, and selecting barriers.

Regional Trends

NORTH AMERICA

THEMES

Energy tops the list of themes in North America. Renewables and energy efficiency are both top five priorities for 30%, with energy storage close behind at 24%. Inclusion is also prominent, third on the list at 25%. Unlike other regions, climate adaptation has not moved up the list from 2024.

OUTLOOK

90% of North American asset owners expect to increase the proportion of their assets in sustainable strategies in the next two years, a little ahead of other regions. Key drivers are a more established track record (top reason for 24%) and strong financial performance (22%). Asset managers in the region are more likely than the global average to expect growth, at 85%, driven by increased allocations and new mandates from asset owners.

TOP CONCERNS

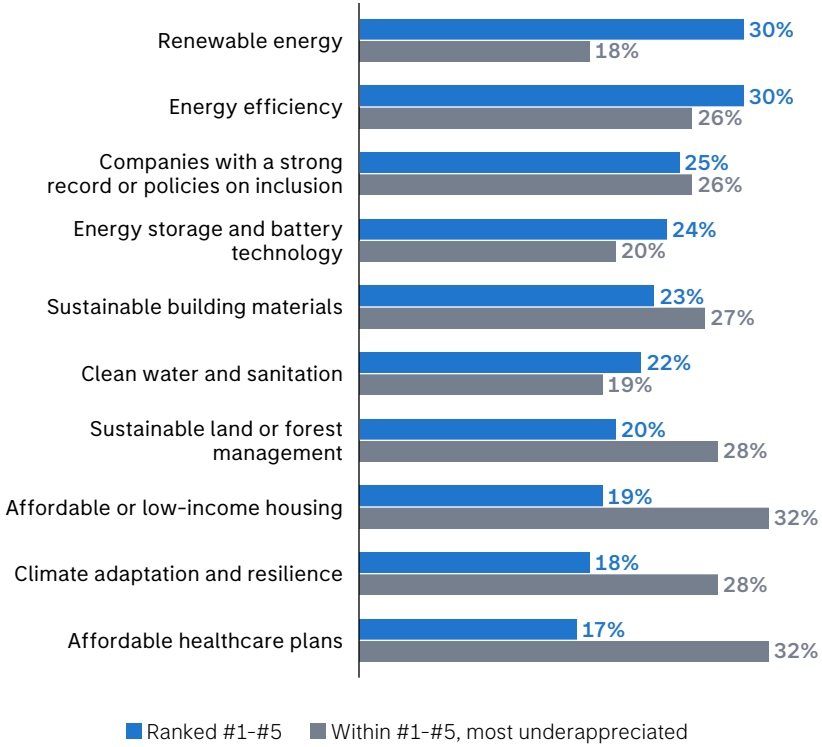
What is your top concern about sustainable investing?

North America (n=315)

Specific solutions, top 10 of those ranked #1-#5 in North America

Assuming investment opportunities were available, please select your top five priorities

Of your top five priorities, please select the one you think is most underappreciated by the market



Source: Morgan Stanley Institute for Sustainable Investing, November 2025. Data as of September 23, 2025. Respondents were asked to select their top five priorities, ranked from #1 to #5, from a list of more than 30 specific investment solutions similar to the list used in 2024 (full list page 22). Within their top five, they were then asked to select the one most underappreciated by the market. Note that the "underappreciated" element of this question was asked differently in 2024, so the "underappreciated" responses are not comparable.

EUROPE

THEMES

European investors are also focused on energy. More than a quarter place efficiency and renewables in their top five priorities. Climate adaptation is third, moving up five places from 2024. Inclusion has also gained in importance, with 20% placing it in their top five priorities.

OUTLOOK

82% of European asset owners plan to allocate more assets to sustainable investments. Top reasons to increase allocation include policy support (22%), as well as established track record and strong returns (both 20%). Asset manager growth expectations are around in line with the global average, at 80%; first-time allocations to sustainable investing are seen as a more likely source of growth than in other regions.

TOP CONCERNS

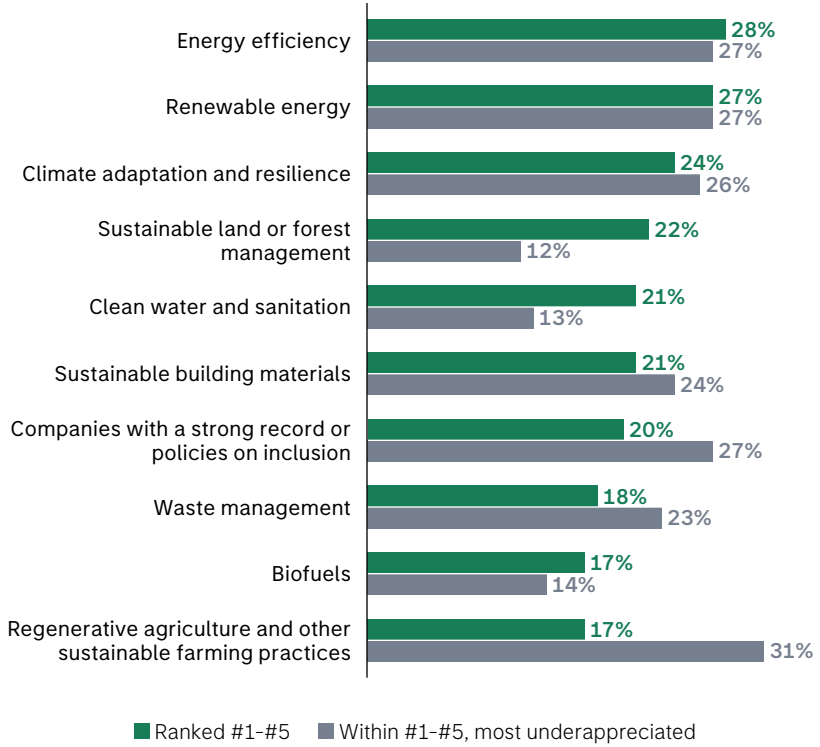
What is your top concern about sustainable investing?

Europe (n=301)

Specific solutions, top 10 of those ranked #1-#5 in Europe

Assuming investment opportunities were available, please select your top five priorities

Of your top five priorities, please select the one you think is most underappreciated by the market



Source: Morgan Stanley Institute for Sustainable Investing, November 2025. Data as of September 23, 2025. Respondents were asked to select their top five priorities, ranked from #1 to #5, from a list of more than 30 specific investment solutions similar to the list used in 2024 (full list page 22). Within their top five, they were then asked to select the one most underappreciated by the market. Note that the "underappreciated" element of this question was asked differently in 2024, so the "underappreciated" responses are not comparable.

APAC

THEMES

In APAC, the top two themes are renewable energy (31% place in their top five), followed by energy efficiency (26%). These were also the top two in 2024, while climate adaptation moves up one place to third. Inclusion ranks fifth in APAC, at 24%.

OUTLOOK

85% of APAC asset owners expect to allocate more to sustainable options, driven by strong financial performance (31% cite as their top reason to increase). Asset managers are less likely to expect sustainable AUM to grow (72%, vs 79% globally). Those not expecting growth note challenges around reporting and verification.

TOP CONCERNS

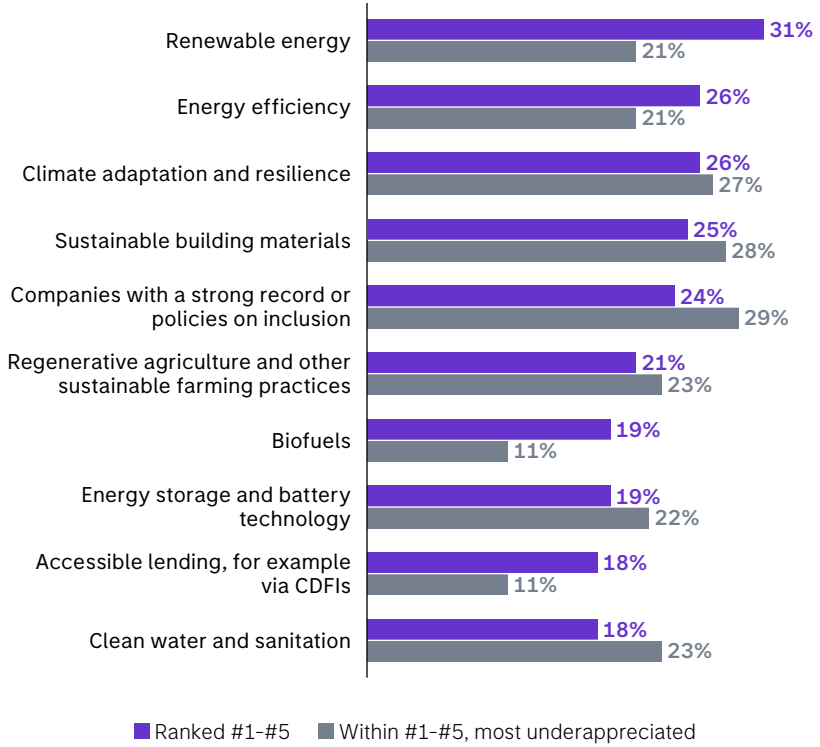
What is your top concern about sustainable investing?

APAC (n=351)

Specific solutions, top 10 of those ranked #1-#5 in APAC

Assuming investment opportunities were available, please select your top five priorities

Of your top five priorities, please select the one you think is most underappreciated by the market



Source: Morgan Stanley Institute for Sustainable Investing, November 2025. Data as of September 23, 2025. Respondents were asked to select their top five priorities, ranked from #1 to #5, from a list of more than 30 specific investment solutions similar to the list used in 2024 (full list page 22). Within their top five, they were then asked to select the one most underappreciated by the market. Note that the "underappreciated" element of this question was asked differently in 2024, so the "underappreciated" responses are not comparable.

Sample Design

Sample Design

QUALIFIERS

To qualify, respondents had to:

- Self-identify their organization as asset managers or asset owners. Respondents answered "How would you describe your organization?" with "Asset Owner — Endowment / Foundation," "Asset Owner — Family Office," "Asset Owner — Insurance," "Asset Owner — Pension Fund — Corporate," "Asset Owner — Pension Fund — Government," "Asset Owner — Pension Fund — Other," "Asset Owner – Sovereign Wealth Fund," "Asset Owner — Asset Allocator / OCIO" or "Asset Manager."
- Respond that their organization currently offers or invests in sustainable investments or plans to.
- Confirm that they are familiar with their organization's investment strategy and decision making.

QUOTAS

Seeking a broad range of responses, the survey design set a number of quotas for asset owner type, investable assets (asset owner) and AUM (asset manager), which applied both globally and for each region. These are set out in the table on the following page.

COUNTRIES

- **North America:** United States (n=229), Canada (n=45), Mexico (n=41).
- **Europe:** Austria (n=5), Belgium (n=91), France (n=44), Finland (n=5), Denmark (n=4), Germany (n=25), Ireland (n=8), Netherlands (n=11), Norway (n=4), Spain (n=41), Sweden (n=14), Switzerland (n=1), United Kingdom (n=48).
- **APAC:** Australia (n=3), Mainland China (n=77), Hong Kong SAR (n=7), India (n=72), Japan (n=99), Malaysia (n=22), New Zealand (n=1), Philippines (n=20), Singapore (n=24), Taiwan (n=26).

Source: Morgan Stanley Institute for Sustainable Investing, November 2025. Data as of September 23, 2025.

Sample Design

	GLOBAL	NORTH AMERICA	EUROPE	APAC
Total	967	315	301	351
RESPONDENT TYPE		**Quota 67/33 Asset Owner / Asset Manager**		
Asset Owner	664	215	205	244
Asset Manager	303	100	96	107
ASSET OWNER TYPE				
Endowment/Foundation	115	44	37	34
Family Office	81	29	32	20
Insurance	219	73	66	80
Pension Fund — Corporate	139	43	45	51
Pension Fund — Government	37	6	14	17
Pension Fund — Other	9	4	3	2
Sovereign Wealth Fund	49	8	5	36
Asset Allocator / OCIO	15	8	3	4
ASSET OWNER INVESTABLE ASSETS		**Quota >10% Large, <50% Small**		
Large >$50bn	201	56	61	84
Mid-Size	245	79	76	90
Small <$1bn	218	80	68	70
ASSET MANAGER AUM		**Quota >10% Large, <50% Small**		
Large >$100bn	73	25	27	21
Mid-Size	89	25	25	39
Small <$10bn	141	50	44	47

Source: Morgan Stanley Institute for Sustainable Investing, November 2025. Data as of September 23, 2025.

Appendix

Appendix

FULL LIST OF SUSTAINABILITY SOLUTIONS REFERENCED ON PAGES 13, 15, 16, 17

Assuming investment opportunities were available, please select your top five priorities from the following specific topics by ranking them 1-5, with 1 being the top priority.

Global total (n=967)

SPECIFIC SOLUTION	% RANKING IN TOP FIVE	SPECIFIC SOLUTION	% RANKING IN TOP FIVE
Renewable energy (e.g., solar and wind)	30%	Nature-based solutions	14%
Energy efficiency	28%	Plastic alternatives	14%
Climate adaptation and resilience (e.g., flood defenses, cooling equipment)	23%	Accessible lending, for example via CDFIs	14%
Companies with a strong record or policies on inclusion	23%	Access to higher education (e.g., college)	14%
Sustainable building materials (e.g., low-carbon concrete, green steel)	23%	Companies with founder(s) who may have experienced systemic barriers to accessing capital	13%
Clean water and sanitation	20%		
Sustainable land or forest management	20%	Developing healthcare workers skills	13%
Energy storage and battery technology	19%	Conservation	13%
Regenerative agriculture and other sustainable farming practices	18%	Declining birthrate & depopulation (new products and services)	12%
Biofuels, including Sustainable Aviation Fuel (SAF)	16%	Hydrogen, including fuel cells	12%
Affordable healthcare plans	16%	Low-carbon/alternative protein	11%
Waste management	16%	Nuclear power	11%
New healthcare products or treatment methods	16%	Nursing services (Childcare, Nursing Care)	11%
Affordable or low-income housing	15%	Access to primary and secondary schooling	11%
Aging population (new technologies and services)	15%	Broadening access to vaccines	10%
Carbon capture and storage	14%	Green ammonia	9%

Source: Morgan Stanley Institute for Sustainable Investing, November 2025. Data as of September 23, 2025.

Disclosures

This material was published in November 2025 and has been prepared for informational purposes only and is not a solicitation of any offer to buy or sell any security or other financial instrument or to participate in any trading strategy. This material was not prepared by the Morgan Stanley Research Department and is not a Research Report as defined under FINRA regulations. This material does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it.

Morgan Stanley Smith Barney LLC and Morgan Stanley & Co. LLC (collectively, "Morgan Stanley"), Members SIPC, recommend that recipients should determine, in consultation with their own investment, legal, tax, regulatory and accounting advisors, the economic risks and merits, as well as the legal, tax, regulatory and accounting characteristics and consequences, of the transaction or strategy referenced in any materials. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Morgan Stanley, its affiliates, employees and Morgan Stanley Financial Advisors do not provide tax, accounting or legal advice. Individuals should consult their tax advisor for matters involving taxation and tax planning, and their attorney for matters involving legal matters.

Past performance is not a guarantee or indicative of future performance. Historical data shown represents past performance and does not guarantee comparable future results. Certain statements herein may be "forward-looking statements" within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are not historical facts or statements of current conditions, but instead are based on management's current expectations and are subject to uncertainty and changes in circumstances. These statements are not guarantees of future results or occurrences and involve certain known and unknown risks, uncertainties and assumptions that are difficult to predict and are often beyond our control. In addition, this report contains statements based on hypothetical scenarios and assumptions, which may not occur or differ significantly from actual events, and these statements should not necessarily be viewed as being representative of current or actual risk or forecasts of expected risk. Actual results and financial conditions may differ materially from those included in these statements due to a variety of factors. Any forward-looking statements made by or on behalf of Morgan Stanley speak only as to the date they are made, and Morgan Stanley does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statements were made. Because of their narrow focus, sector investments tend to be more volatile than investments that diversify across many sectors and companies.

Certain portfolios may include investment holdings deemed Environmental, Social and Governance ("ESG") investments. For reference, environmental ("E") factors can include, but are not limited to, climate change, pollution, waste, and how an issuer protects and/or conserves natural resources. Social ("S") factors can include, but are not limited to, how an issuer manages its relationships with individuals, such as its employees, shareholders, and customers as well as its community. Governance ("G") factors can include, but are not limited to, how an issuer operates, such as its leadership composition, pay and incentive structures, internal controls, and the rights of equity and debt holders. You should carefully review an investment product's prospectus or other offering documents, disclosures and/or marketing material to learn more about how it incorporates ESG factors into its investment strategy.

ESG investments may also be referred to as Sustainable investments, impact aware investments, socially responsible investments or diversity, equity, and inclusion ("DEI") investments. It is important to understand there are inconsistent ESG definitions and criteria within the industry, as well as multiple ESG ratings providers that provide ESG ratings of the same subject companies and/or securities that vary among the providers. This is due to a current lack of consistent global reporting and auditing standards as well as differences in definitions, methodologies, processes, data sources and subjectivity among ESG rating providers when determining a rating. Certain issuers of investments including, but not limited to, separately managed accounts (SMAs), mutual funds and exchange traded-funds (ETFs) may have differing and inconsistent views concerning ESG criteria where the ESG claims made in offering documents or other literature may overstate ESG impact. Further, socially responsible norms vary by region, and an issuer's ESG practices or Morgan Stanley's assessment of an issuer's ESG practices can change over time.

Portfolios that include investment holdings deemed ESG investments or that employ ESG screening criteria as part of an overall strategy may experience performance that is lower or higher than a portfolio not employing such practices. Portfolios with ESG restrictions and strategies as well as ESG investments may not be able to take advantage of the same opportunities or market trends as portfolios where ESG criteria is not applied. There is no assurance that an ESG investing strategy or techniques employed will be successful. Past performance is not a guarantee or a dependable measure of future results. For risks related to a specific fund, please refer to the fund's prospectus or summary prospectus.

Investment managers can have different approaches to ESG and can offer strategies that differ from the strategies offered by other investment managers with respect to the same theme or topic. Additionally, when evaluating investments, an investment manager is dependent upon information and data that may be incomplete, inaccurate or unavailable, which could cause the manager to incorrectly assess an investment's ESG characteristics or performance. Such data or information may be obtained through voluntary or third-party reporting. Morgan Stanley does not verify that such information and data is accurate and makes no representation or warranty as to its accuracy, timeliness, or completeness when evaluating an issuer. This can cause Morgan Stanley to incorrectly assess an issuer's business practices with respect to its ESG practices. As a result, it is difficult to compare ESG investment products.

The appropriateness of a particular ESG investment or strategy will depend on an investor's individual circumstances and objectives. Principal value and return of an investment will fluctuate with changes in market conditions.

For more information about the Morgan Stanley Institute for Sustainable Investing, visit **morganstanley.com/sustainableinvesting**.

CRC 4925996 11/2025