

Morgan Stanley

INSTITUTE FOR SUSTAINABLE INVESTING



Sustainable Reality

Positive returns offset outflows during 2H 2025

Key takeaways for FY 2025



AUM in Sustainable funds rose to \$4.13 trillion

Sustainable funds’ assets under management (AUM) reached a new global high of \$4.13 trillion at the end of December 2025, +4.0% from June 2025, according to Morningstar data. However, Sustainable funds now only represent 6.5% of total AUM, down from 6.8% in June 2025 and below the peak of 7.2% in June 2023.



Outflows from Sustainable funds, Traditional funds saw inflows

In the second half of 2025, Sustainable funds saw outflows of -\$86.4 billion, or -2.4% of prior year-end AUM, more than offsetting inflows from the first half. Europe-domiciled Sustainable funds saw outflows in 2H 2025 for the first time, at -\$76.4 billion, mostly driven by assets being reallocated from pooled sustainability funds to bespoke sustainability mandates which are not covered in the Morningstar database. However, even aside from this, Sustainable funds still recorded small outflows in the second half. In contrast, Traditional funds saw consistent inflows throughout the year, with 2H 2025 flows totalling +2.3% of prior year-end AUM.



Sustainable returns slightly below Traditional peers, driven by geographic exposure

In 2H 2025, Sustainable funds recorded median returns of +5.3%, just behind Traditional peers at +5.5%. Sustainable funds outperformed in most investment areas, but the group is relatively more exposed to Global and Europe investment areas than Traditional peers, and these geographies saw weaker returns in the period. However, Sustainable funds continued to provide modestly more downside protection, with 89% of funds delivering positive returns in 2H 2025 compared to 84% of Traditional funds.

About the Sustainable Reality Series

TRACKING AUM, FLOWS AND PERFORMANCE FOR SUSTAINABLE FUNDS

Sustainable Reality is a long-running series from Morgan Stanley’s Institute for Sustainable Investing. It uses Morningstar data to track AUM, flows and performance for Sustainable funds in comparison to Traditional funds across a universe of 110,000 global funds.

For the first time, Sustainable Reality also includes some data on private markets to complement the existing analysis. This uses PitchBook data to track AUM and fundraising activity for Impact funds.

TERMINOLOGY

“Sustainable” and “Traditional” use Morningstar’s definitions.

MEDIAN RETURNS

We refer to median returns, both because of the very wide range of potential outcomes common for investment funds, but also to reflect the likelihood of an individual investor selecting a fund that achieves the return. Returns are shown in USD terms.

METHODOLOGY

For the full [methodology](#), see page 20.

PRIVATE MARKETS DATA

PitchBook identifies over 5,000 private market funds which its analysts view as making Impact investments.

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

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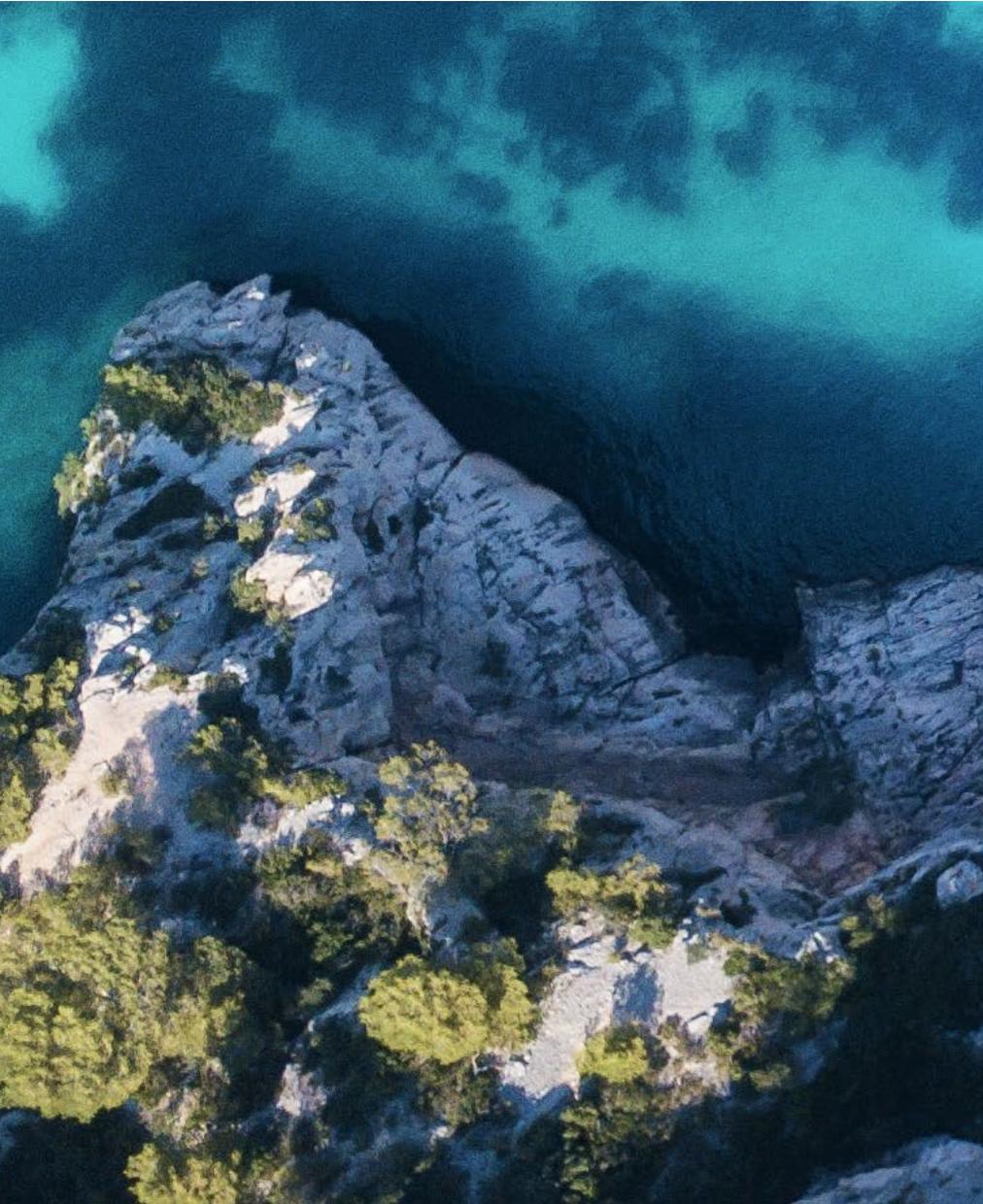
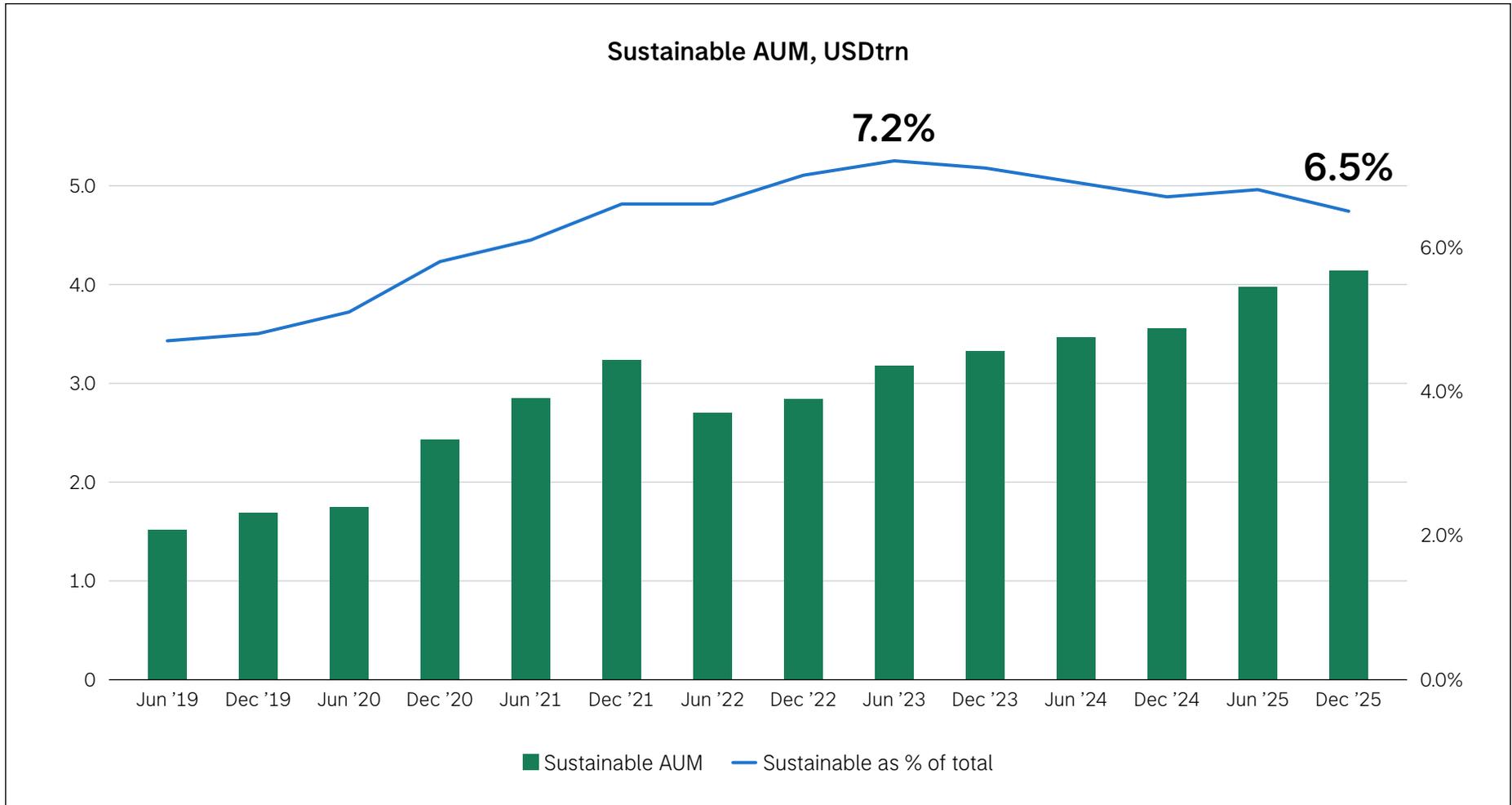


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AUM in Sustainable funds grew to \$4.13 trillion

AUM in Sustainable funds grew to a record high of \$4.13 trillion by the end of December 2025, +4.0% from June 2025 and +16.3% year-over-year. This represents 6.5% of total AUM, down from 6.8% at the end of June 2025.* The ongoing decline as a proportion of total AUM is mainly driven by stronger net inflows into the Traditional fund universe.



Source: Morgan Stanley Institute for Sustainable Investing analysis of Morningstar data as of February 5, 2026. Note that all datapoints are restated based on the current period classification, which can result in small changes to prior period numbers.

*The September 2025 edition of Sustainable Reality put Sustainable fund AUM at \$3.92 trillion, 6.7% of prior year-end AUM.

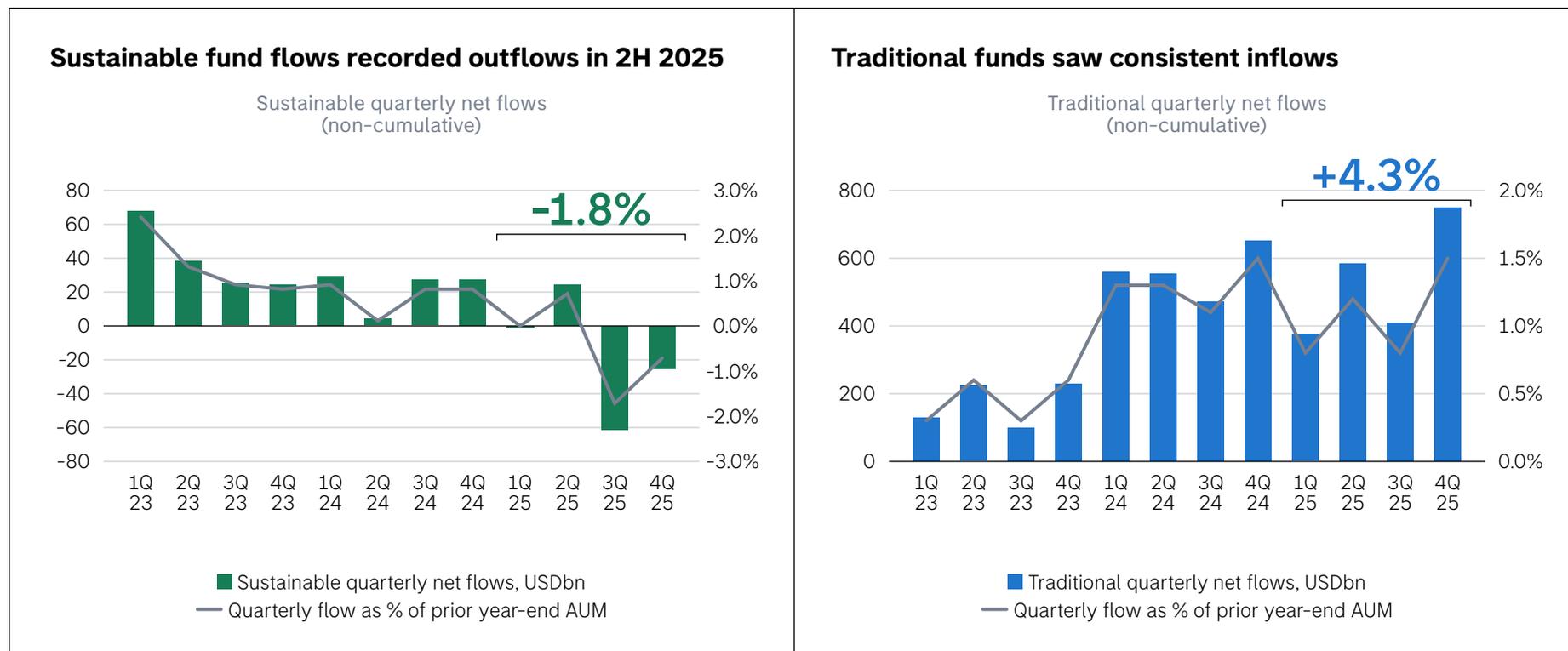
Sustainable funds saw outflows in 2H 2025, tracking behind Traditional peers

In 2H 2025, Sustainable funds saw outflows of -\$86.4 billion, or -2.4% of prior year-end AUM, more than offsetting first half inflows of \$23.6 billion (following some revisions higher*). For 2025 overall, Sustainable funds saw outflows of -\$62.8 billion, or -1.8% of prior year-end AUM.

Morningstar notes that the majority of the 2H outflows relate to UK-based funds where asset owners reallocated from pooled funds to bespoke sustainability mandates with the same asset managers.

As Morningstar’s database does not cover bespoke mandates, these changes register as outflows.** However, even excluding this activity, Sustainable funds still recorded outflows in the second half, according to Morningstar.

Traditional funds recorded net inflows in all four quarters to leave FY 2025 flows at +4.3% of prior year-end AUM.



Source: Morgan Stanley Institute for Sustainable Investing analysis of Morningstar data as of February 5, 2026.

*The prior edition of Sustainable Reality, based on Morningstar data as of August 6, 2025, put 1H 2025 inflows at \$16.0 billion.

**See [Global Sustainable Fund Flows: Q4 2025 in Review | Morningstar](#), February 3, 2026.

Europe outflows largely driven by reallocation, North America flows remained negative

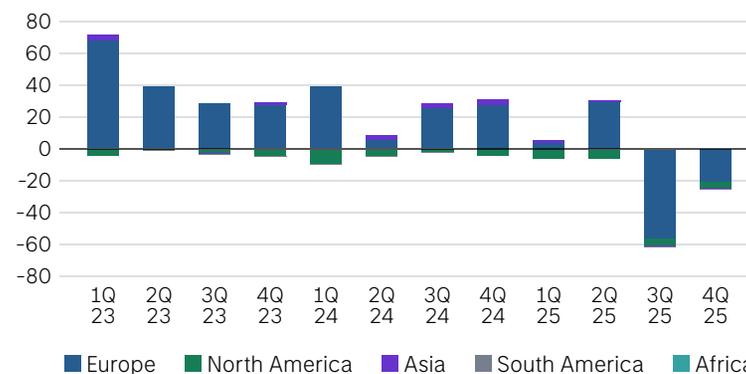
Europe-domiciled Sustainable funds accounted for most of the outflows in 2H 2025 (-\$76.4 billion). This marks the first instance of outflows in Europe-domiciled Sustainable funds, although Morningstar notes that almost all of the Europe-domiciled outflows relate to assets being reallocated from pooled funds to bespoke mandates.*

Sustainable funds domiciled in North America saw net outflows for the twelfth and thirteenth consecutive quarters since Q4 2022 (-\$3.9 billion in Q3 and -\$3.8 billion in Q4).

Only Asia-domiciled Sustainable funds had net inflows in 2H 2025, at +0.6% of prior year-end AUM, ahead of Europe at -1.4% and North America at -5.6%.

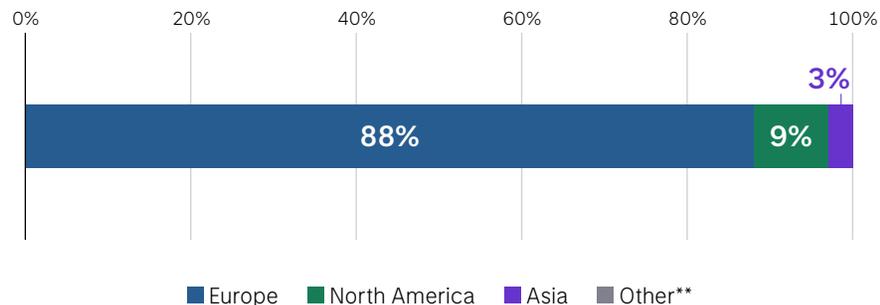
Europe drove most of the 2H 2025 outflows

Sustainable fund quarterly net flow by region of domicile, USDbn



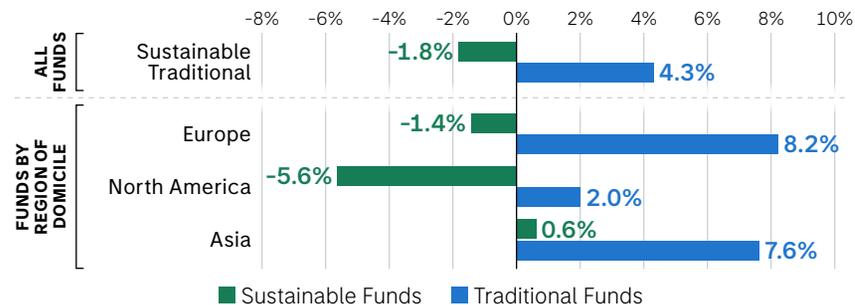
88% of Sustainable AUM is Europe-domiciled

Sustainable AUM by domicile, Dec 2025



Asia-domiciled flows were strongest relative to AUM

FY 2025 net flows as a % of prior year-end AUM



Source: Morgan Stanley Institute for Sustainable Investing analysis of Morningstar data as of February 5, 2026.

*See [Global Sustainable Fund Flows: Q4 2025 in Review | Morningstar](#), February 3, 2026.

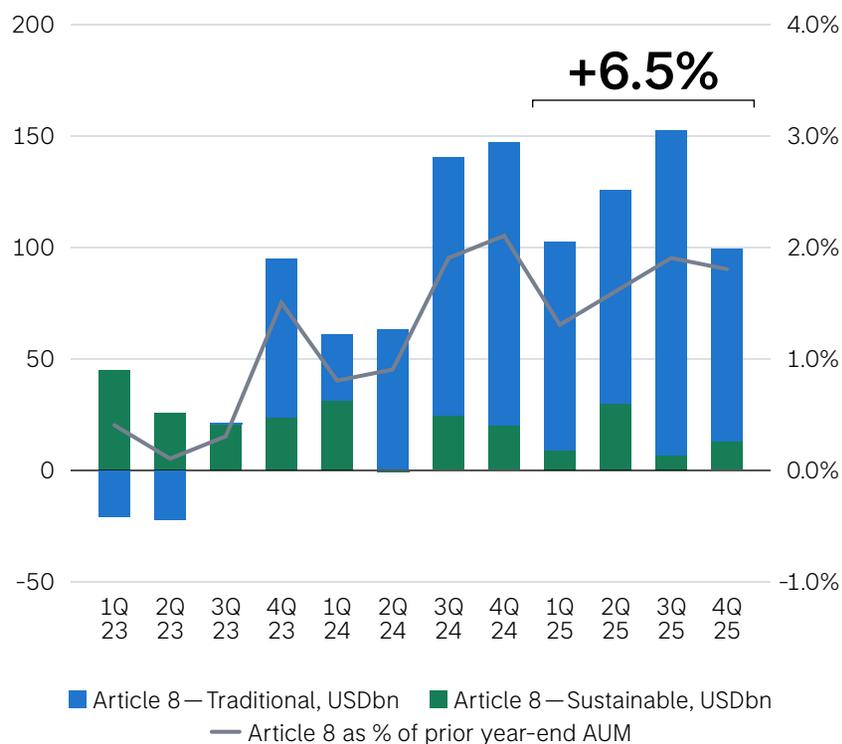
**Other includes South America and Africa, which account for 0.08%/0.01% of AUM respectively. Note that a fund can be domiciled in one region but invest globally or in another region. Investment area refers to the latter.

Article 8 funds saw inflows, outflows continued for Article 9 funds

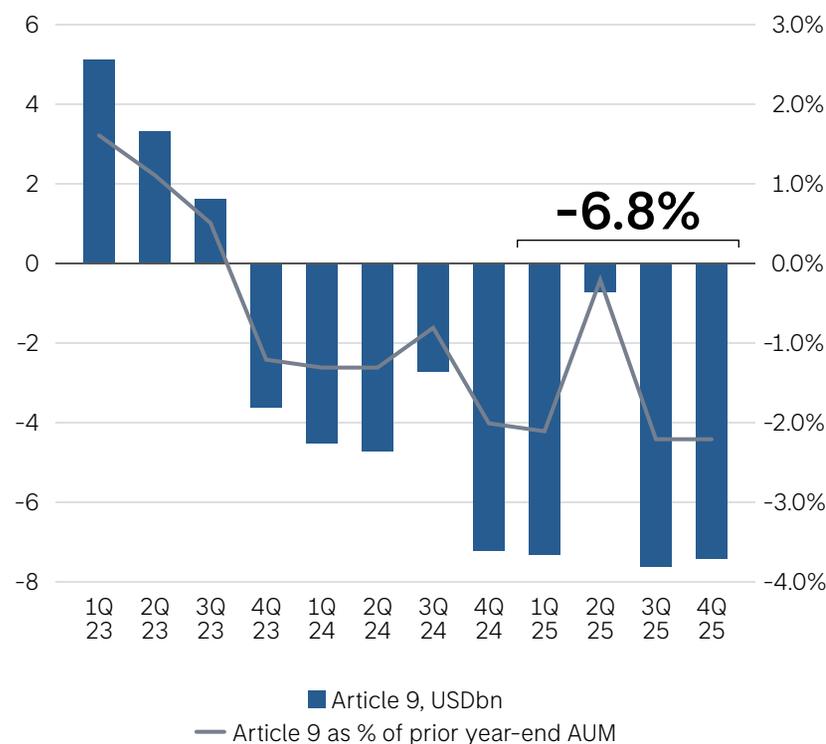
In 2025, Article 8 funds saw inflows of \$527.8 billion, or +6.5% of prior year-end AUM. This was mostly driven by Article 8 funds classified as Traditional by Morningstar, while Article 8 funds classified as Sustainable accounted for \$57.8 billion of the total (2.7% of prior year-end AUM).

Article 9 funds saw outflows of -\$23.0 billion in FY 2025, -6.8% of prior year-end AUM. This marks nine straight quarters of outflows for Article 9 funds.

Article 8 quarterly net flows (non-cumulative)



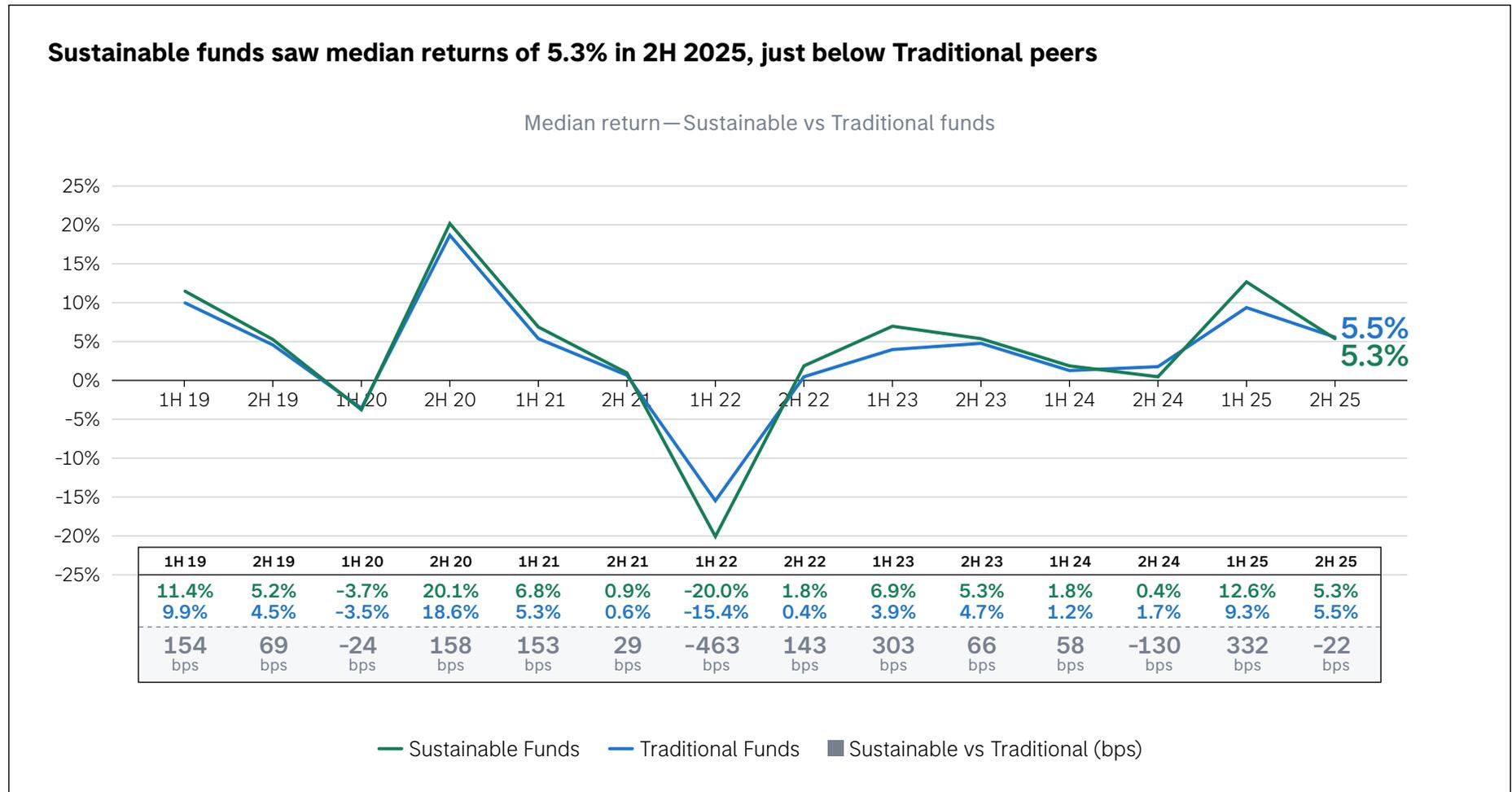
Article 9 quarterly net flows (non-cumulative)



Source: Morgan Stanley Institute for Sustainable Investing analysis of Morningstar data as of February 5, 2026. See page 14 for a full definition of Article 8 and Article 9 funds.

Median Sustainable fund return of +5.3% for 2H 2025, just below Traditional funds at +5.5%

After recording double-digit returns in the first half, outperforming Traditional funds, the median return for Sustainable funds slowed in 2H 2025 with a median return of +5.3%, slightly below Traditional peers at +5.5%. As in prior periods, relative performance was mainly influenced by Sustainable funds’ over-indexing to Global and Europe investment regions, which in 2H 2025 recorded weaker returns than other geographies.

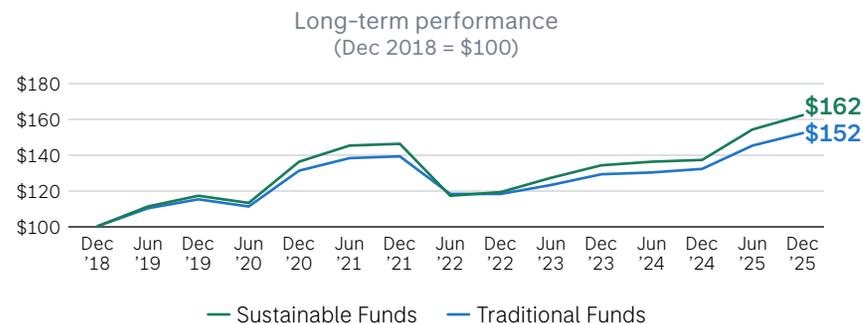


Source: Morgan Stanley Institute for Sustainable Investing analysis of Morningstar data as of February 5, 2026.

Downside deviation and long-term returns

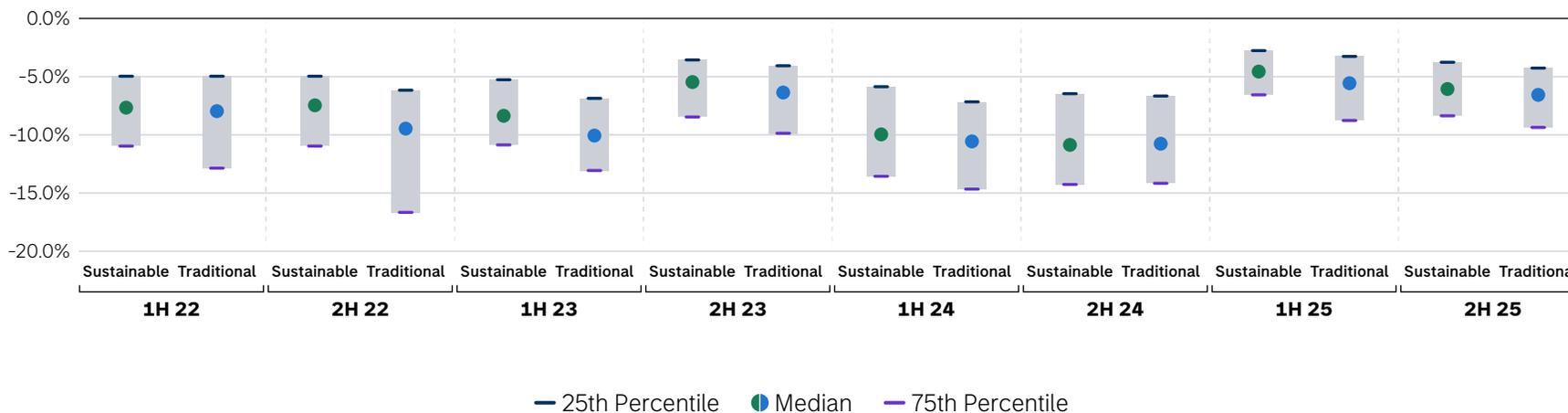
Downside deviation is a measure of the likelihood of negative returns in a set of funds in the period. A lower number means a higher likelihood of negative returns against a chosen benchmark, here the S&P 500. For 2H 2025, downside deviation was -6.0% for Sustainable Equity funds and -6.5% for Traditional Equity funds, meaning that Traditional funds had slightly greater potential for relative losses, even though median fund returns were similar.

\$100 invested in Dec 2018 would be \$162 today, at median Sustainable fund returns



Downside deviation measures the likelihood of negative returns against a chosen benchmark

Downside deviation, equity funds



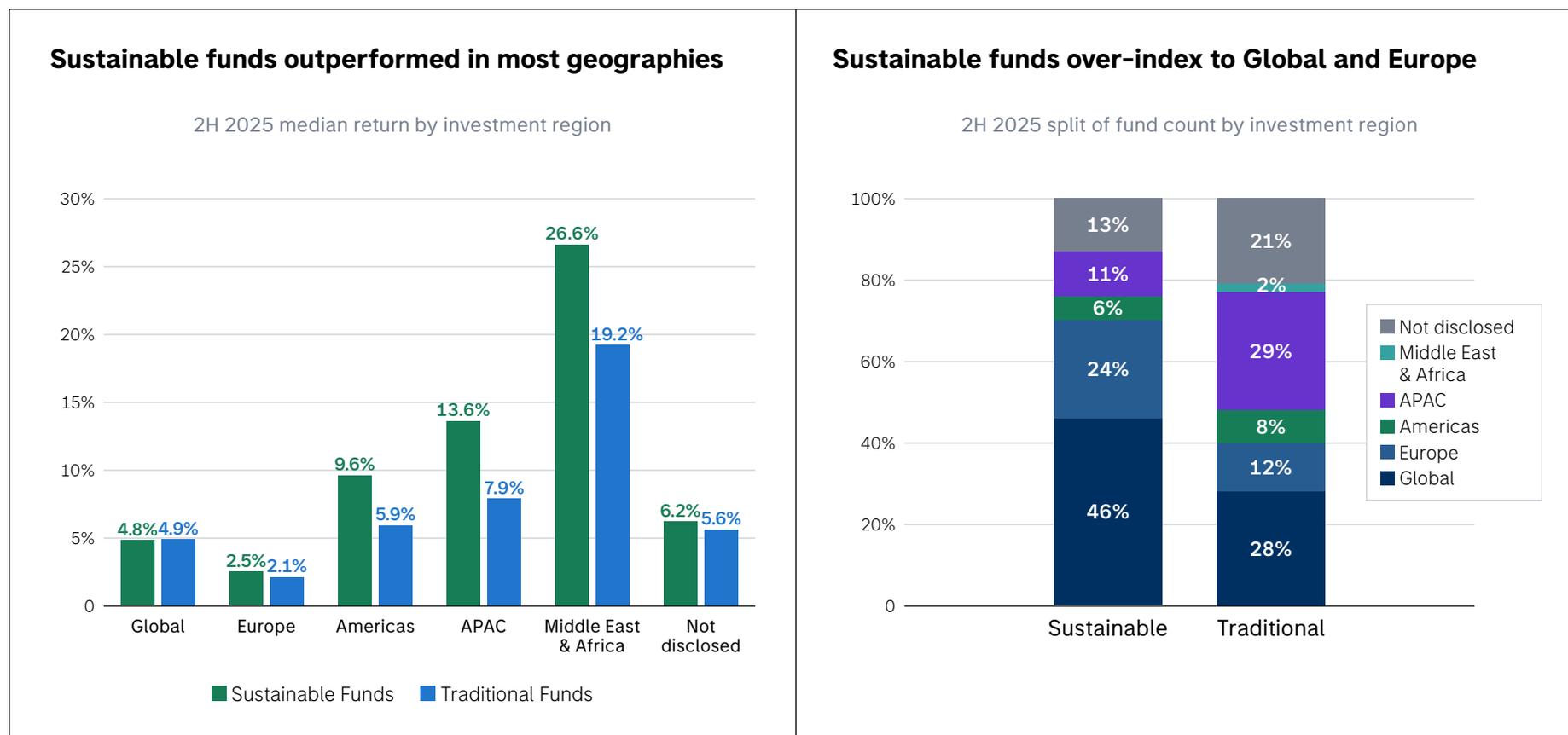
Source: Morgan Stanley Institute for Sustainable Investing analysis of Morningstar data as of February 5, 2026. Past performance is no guarantee of future results.

Sustainable funds outperformed in most geographic areas during 2H 2025, but over-index to weaker regions

On a regional basis, Sustainable funds performed well compared to their Traditional counterparts. Those with a global investment mandate saw returns of 4.8%, just behind Traditional funds at 4.9%. In all other regions, Sustainable funds outperformed Traditional funds by between +40bps (in Europe) to +741bps (in MEA) during 2H 2025.

However, 70% of Sustainable funds are investing in Europe or Global assets, compared to just 40% for Traditional funds.

With these two regions generating the lowest returns during 2H 2025, Sustainable funds overall slightly underperformed Traditional funds during this period.



Source: Morgan Stanley Institute for Sustainable Investing analysis of Morningstar data as of February 5, 2026. Note: bps stands for basis points; 10bps is 0.1%. The Sustainable Reality series shows returns in U.S. dollar terms, so currency volatility may also have had an influence.

Sustainable funds underperformed across all asset classes

In a reversal from 1H 2025, Sustainable funds underperformed across all asset classes in the second half of the year, partly driven by geographical mix.

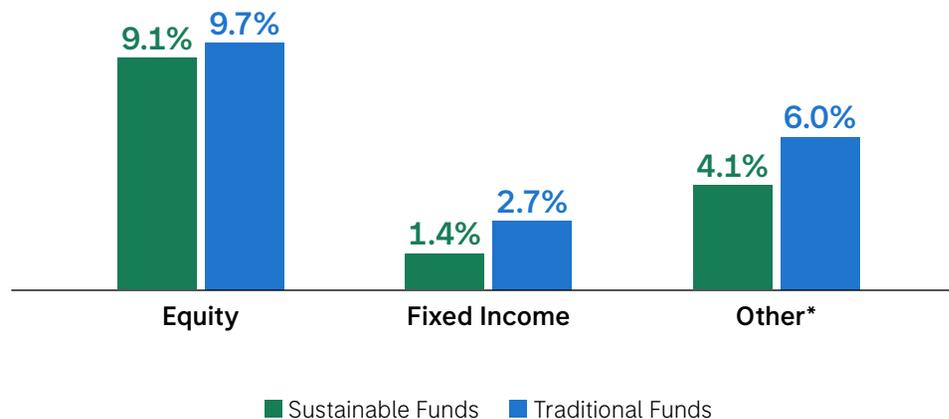
Equities: Sustainable funds underperformed Traditional peers by -67bps, delivering a median return of +9.1% compared with Traditional funds at +9.7%.

Fixed income: Sustainable funds saw a decline in returns, dropping from +14.0% in 1H 2025 to +1.4% in 2H 2025, 130bps below Traditional fixed income funds at +2.7%.

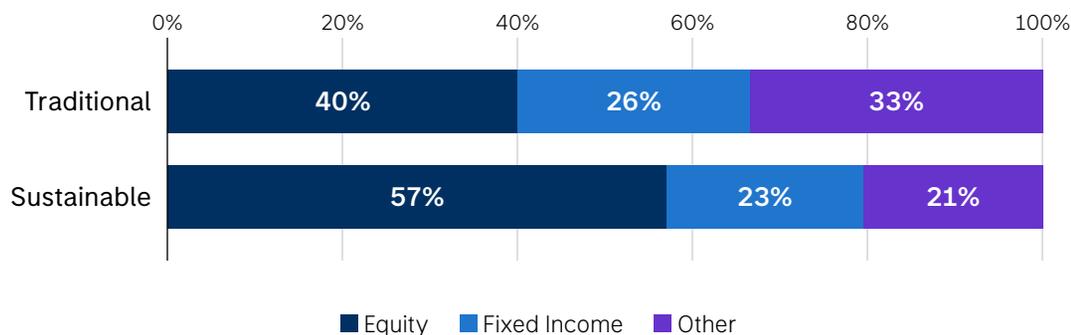
“Other” funds: (Multi-asset, property, commodities and alternatives), Sustainable funds generated median returns of +4.1%, underperforming Traditional funds at +6.0%.

Sustainable funds saw the strongest returns in equities

2H 2025 median return by asset type



Split of fund count by asset class, 2H 2025

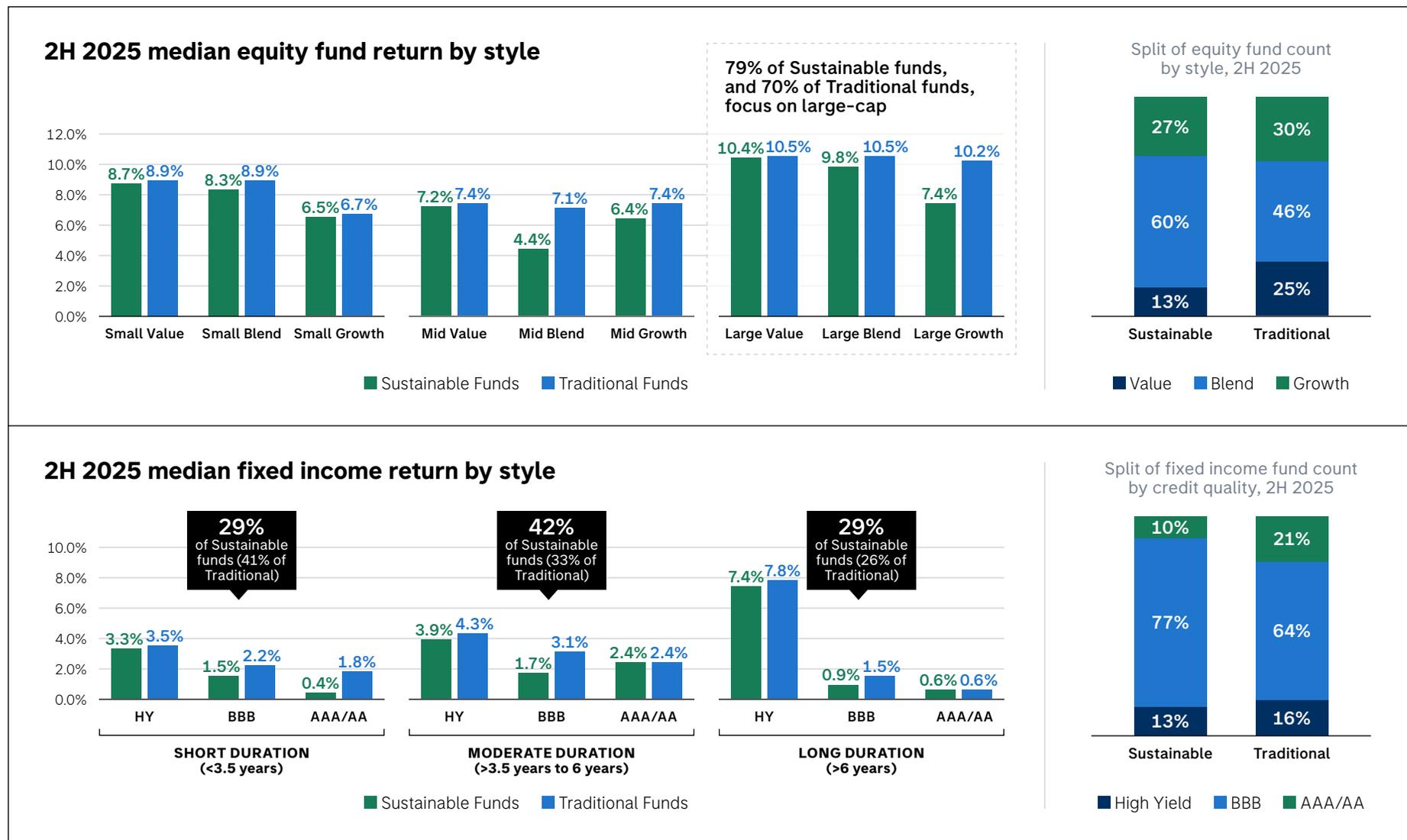


Source: Morgan Stanley Institute for Sustainable Investing analysis of Morningstar data as of February 5, 2026.

*Other includes multi-asset, property, commodities and alternative fund types.

Equity and fixed income returns by style

Relative exposures to fund styles have influenced Sustainable fund returns in the past, but not materially in 2H 2025.



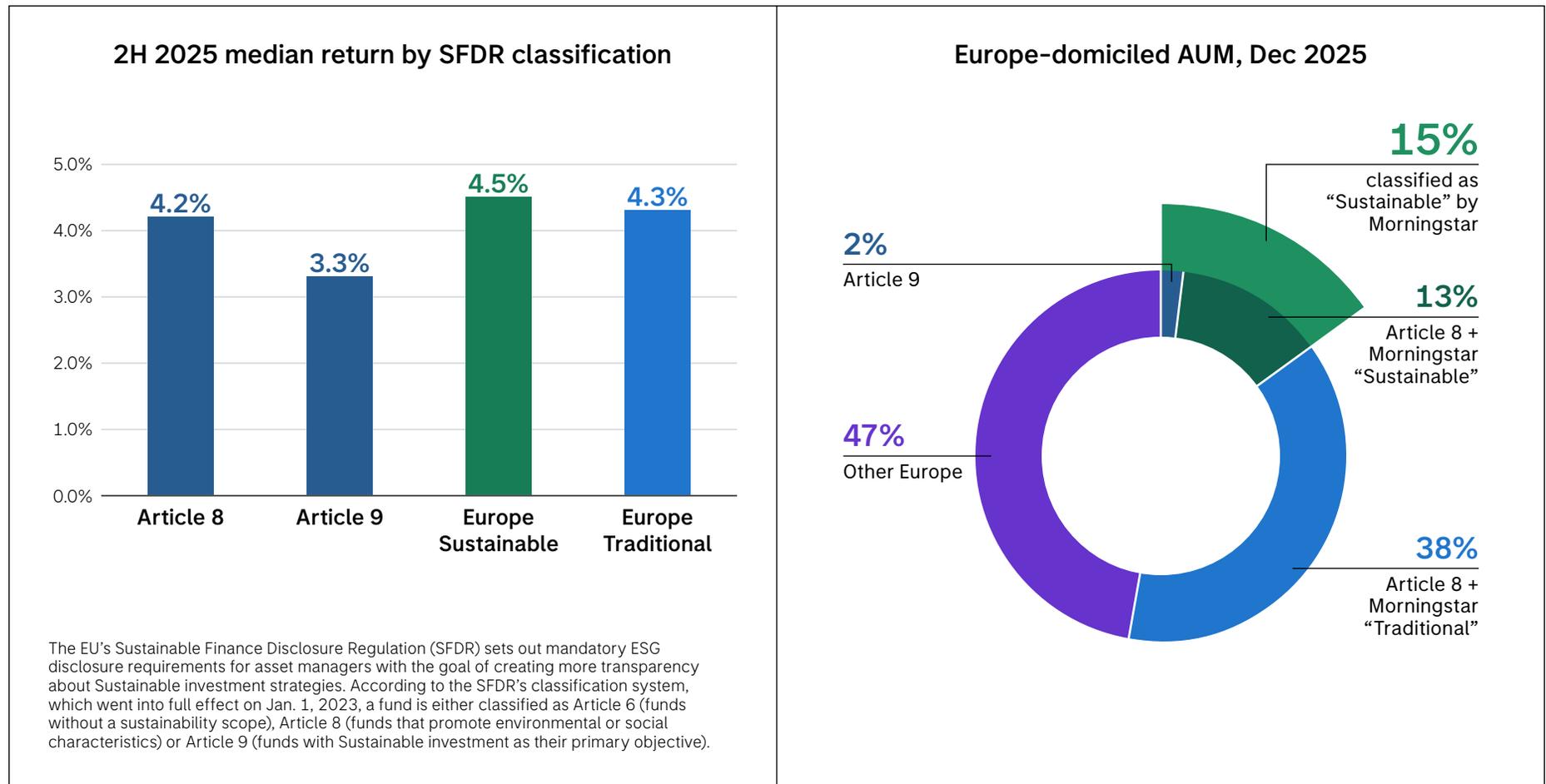
Source: Morgan Stanley Institute for Sustainable Investing analysis of Morningstar data as of February 5, 2026. Morningstar classifies bond funds by the average credit rating of the portfolio.

Analyzing performance for Europe-domiciled funds

Europe-domiciled Sustainable funds saw a median return of 4.5% in 2H 2025, outperforming Traditional peers at 4.3%. Article 8 funds delivered a median return of +4.2%, and Article 9 funds saw a median return at +3.3%.

Over half of AUM domiciled in Europe is classified as Article 8 (51% of total Europe AUM) or Article 9 (2% of total), with the remainder under Article 6.

All Article 9 AUM, and 26% of Article 8 AUM, are classified as “Sustainable” by Morningstar, suggesting that 15% of Europe-domiciled AUM fall under Morningstar’s Sustainable classification.



Source: Morgan Stanley Institute for Sustainable Investing analysis of Morningstar data as of February 5, 2026.

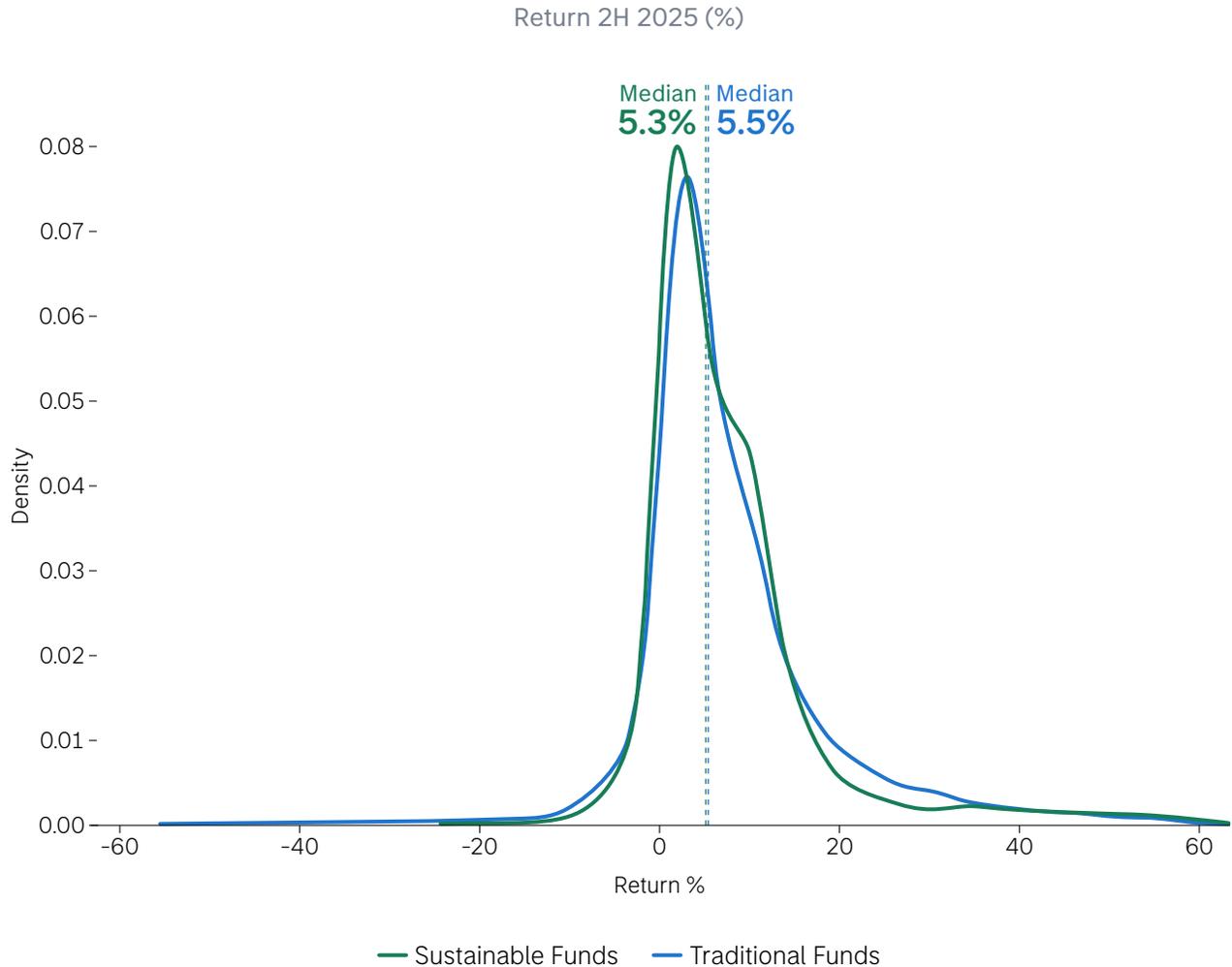
89% of Sustainable funds had positive returns in 2H 2025

89% of Sustainable funds delivered positive returns in the second half of 2025, compared to 84% of Traditional funds. Investors had a higher likelihood of choosing a fund with positive returns within the Sustainable universe.

Both curves have long tails, with the best performing funds reaching +60% in return and the lowest at nearly -60%. These long tails present a very wide range of fund performance outcomes with extremes that can disproportionately influence average returns, making them a less reliable indicator for the returns investors may achieve across a selection of funds.

The "Sustainable Reality" series uses median fund returns as the primary metric without any weighting to account for different fund sizes. Median is the more appropriate return value given the non-normal distribution of the entire universe of fund return. The median value also better represents the likelihood of an investor selecting a fund and achieving that specific return value.

Density chart of Sustainable and Traditional fund returns



Source: Morgan Stanley Institute for Sustainable Investing analysis of Morningstar data as of February 5, 2026.



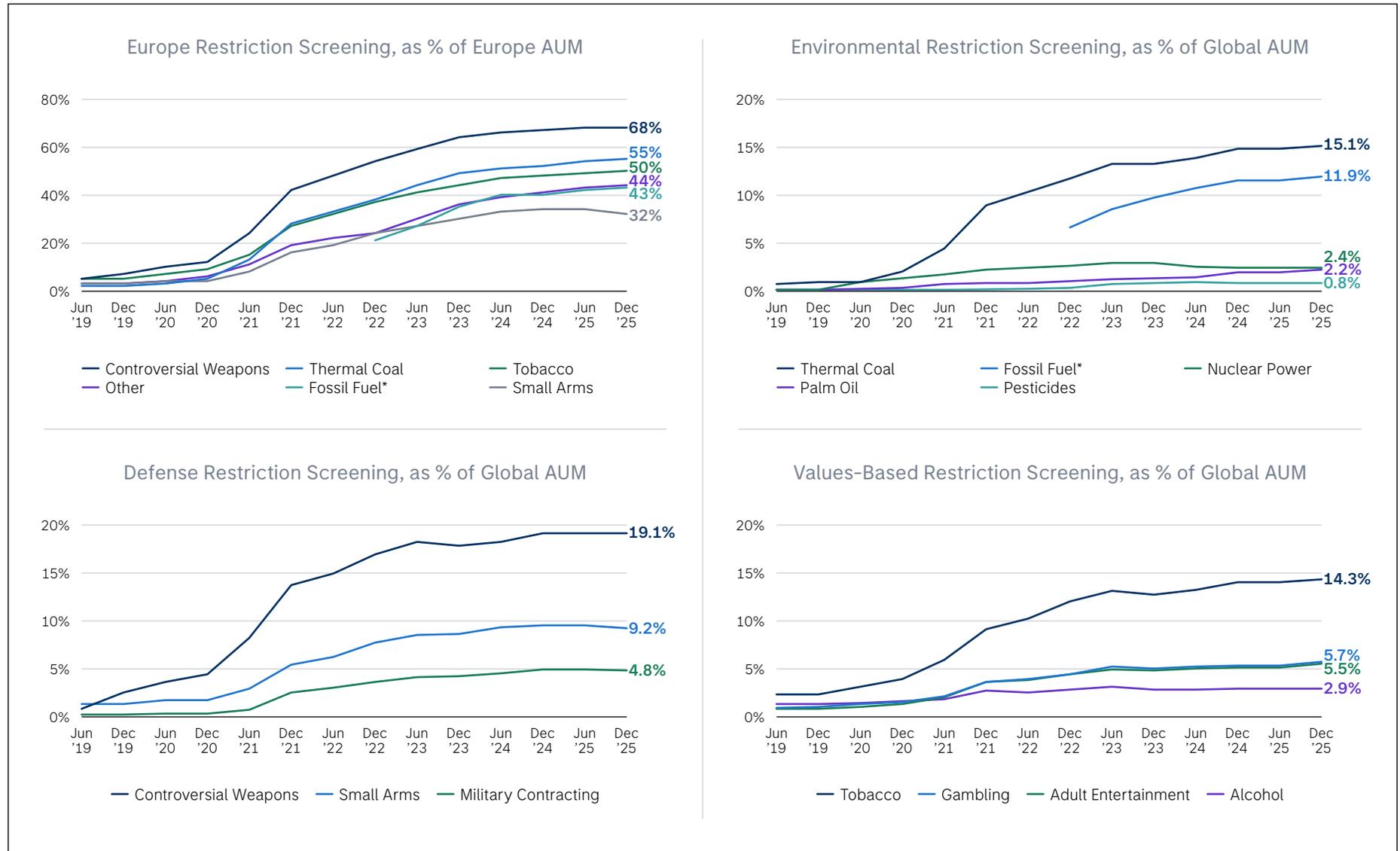
Restriction screening

RESTRICTION SCREENING AT DECEMBER 2025	GLOBAL AUM, \$bn	% Global AUM	EUROPE-DOMICILED AUM, \$bn	% Europe AUM	NORTH AMERICA-DOMICILED AUM, \$bn	% North America AUM	ASIA-DOMICILED AUM, \$bn	% Asia AUM
Controversial Weapons	14,191	19.1%	13,466	68.0%	388	0.9%	335	3.6%
Thermal Coal	11,253	15.1%	10,915	55.1%	233	0.5%	103	1.1%
Tobacco	10,683	14.3%	9,909	50.1%	402	0.9%	371	4.0%
Other*	9,318	12.5%	8,782	44.4%	339	0.8%	193	2.1%
Fossil Fuel	8,861	11.9%	8,535	43.1%	243	0.6%	82	0.9%
Small Arms	6,853	9.2%	6,346	32.1%	322	0.8%	185	2.0%
Gambling	4,239	5.7%	3,876	19.6%	234	0.5%	125	1.3%
Adult Entertainment	4,122	5.5%	3,850	19.4%	157	0.4%	115	1.2%
Military Contracting	3,573	4.8%	3,350	16.9%	160	0.4%	63	0.7%
Alcohol	2,179	2.9%	1,849	9.3%	229	0.5%	96	1.0%
Nuclear Power	1,769	2.4%	1,623	8.2%	109	0.3%	36	0.4%
Palm Oil	1,635	2.2%	1,590	8.0%	26	0.1%	19	0.2%
Genetically Modified Organisms	721	1.0%	702	3.5%	16	0.0%	4	0.0%
Pesticides	617	0.8%	612	3.1%	4	0.0%	0	0.0%
Animal Testing	305	0.4%	244	1.2%	40	0.1%	20	0.2%
Fur and Specialty Leather	240	0.3%	236	1.2%	3	0.0%	2	0.0%
Abortion	176	0.2%	106	0.5%	69	0.2%	2	0.0%

Source: Morgan Stanley Institute for Sustainable Investing analysis of Morningstar data as of February 5, 2026.

*Other includes any factors not covered by the named exclusions, for example companies with operations in countries whose governments pose human rights concerns.

Restriction screening over time



Source: Morgan Stanley Institute for Sustainable Investing analysis of Morningstar data as of February 5, 2026.
 *Fossil fuel was introduced as a separate category starting in December 2022.

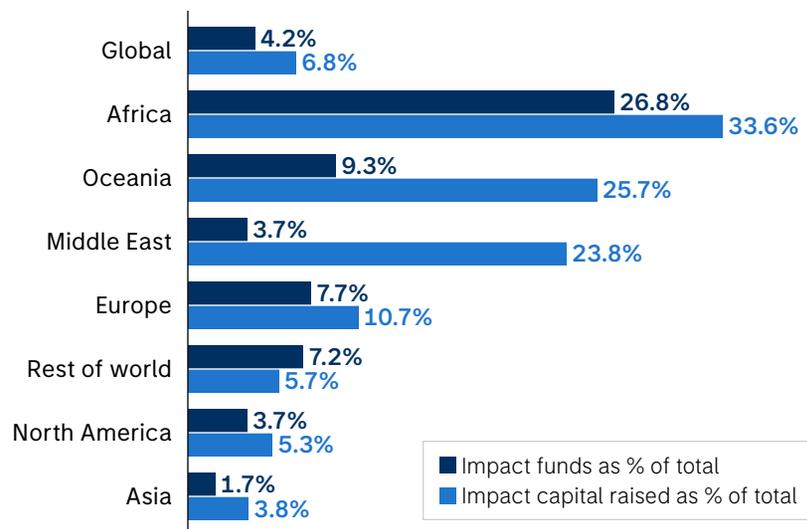
Impact funds account for 6.8% of private capital raised since 2008

Private markets have a greater emphasis on Impact investing, compared to public markets where funds may also approach sustainable investing using restriction screening or ESG integration. This reflects differences in ownership structure, the greater potential for smaller, earlier stage companies to be pure plays on one solution and more concentrated fund holdings.

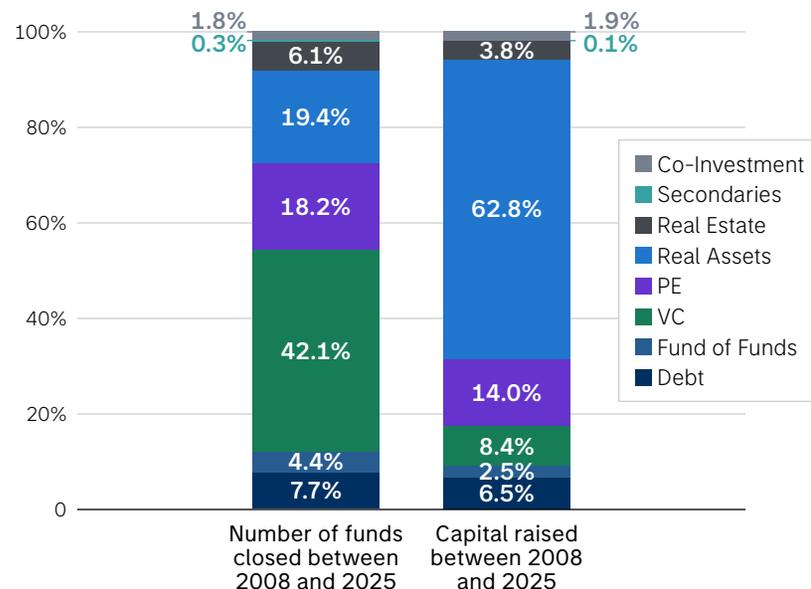
According to PitchBook analysis, funds with an Impact goal alongside financial returns make up 4.2% of the number of funds closed between 2008 and 2025. In terms of capital raised over the same period, this rises to 6.8%. North America and Europe account for more than 80% of Impact capital raised, although other regions have a higher proportion of Impact funds in private markets.

Venture capital funds account for the largest number of Impact funds, at 42.1% of Impact funds closed since 2008. Real asset funds are by far the largest category by value, accounting for over 60% of capital raised, as infrastructure funds tend to be much larger than others.

Impact as share of total private market funds/ capital raised, 2008–2025



Impact fund count and capital raised by fund class

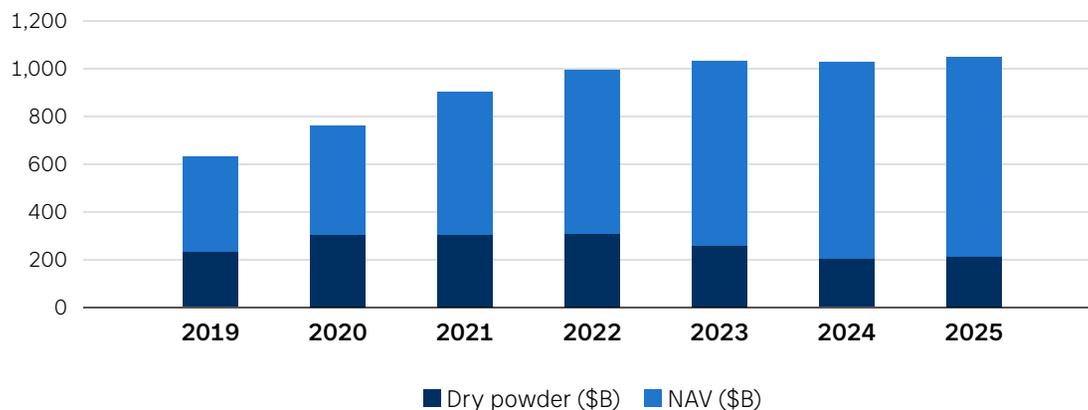


Source: PitchBook, published December 24, 2025. Note that the cited data has not been reviewed by PitchBook analysts and may be inconsistent with PitchBook methodology.

Impact AUM in private markets is over \$1 trillion

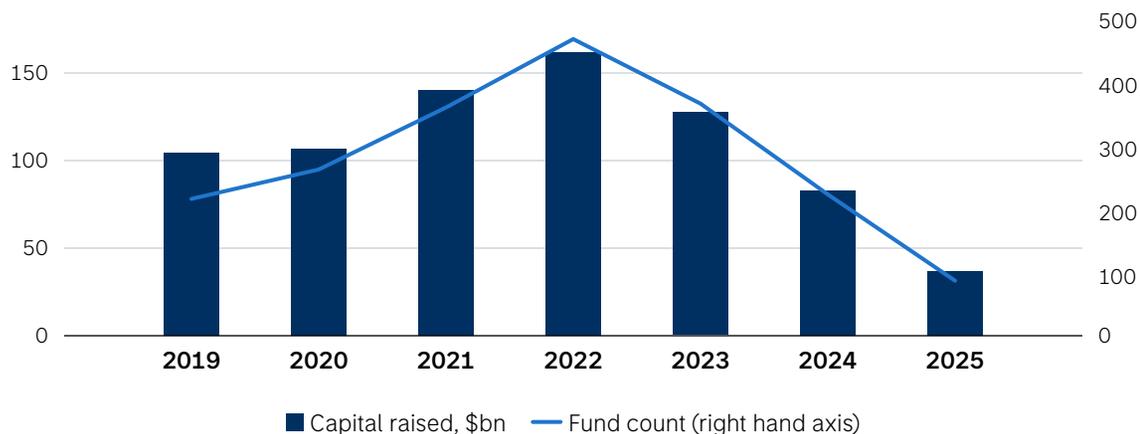
AUM in Impact funds, based on PitchBook’s analysis, reached over \$1 trillion in 2025 with just over \$200 billion in dry powder and the remainder Net Asset Value (NAV). Much of this AUM is captured in the Global Impact Investing Network’s 2024 estimate of AUM in impact investing at \$1.6 trillion,* suggesting that a significant proportion of impact investing AUM is in private market strategies.

AUM in private capital Impact funds, \$bn



Current data puts capital raised for Impact funds at \$82.6 billion in 2024 and \$36.7 billion in 2025, both well down on the 2022 peak of \$161.4 billion. This partly reflects slower fundraising activity from 2021/2022 highs in private markets overall, but is also driven by data collection, as PitchBook notes that annual fundraising figures are often revised materially higher over subsequent years.

Impact fundraising activity in private markets



Source: PitchBook, published December 24, 2025. Note that the cited data has not been reviewed by PitchBook analysts and may be inconsistent with PitchBook methodology.

*Sizing the Impact Investing Market 2024 – The GIIN, October 2024.

Methodology

This report is part of the Morgan Stanley Institute for Sustainable Investing's 'Sustainable Reality' series, which assesses the historical performance of Sustainable funds against Traditional funds over a specific timeframe using Morningstar data. This report analyzes performance for January 1, 2025 – December 31, 2025.

The fund universe for this analysis includes closed-end funds, exchange-traded funds and open-end funds, taking the oldest share class, and excludes feeder funds, funds of funds and money market funds. In total, this analysis covered approximately 110,000 funds globally. This analysis takes each fund's sustainability classification as of June 30 (for 1H editions) or December 31 (for full year editions). While the parameters for including a fund do not change, taking the fund's classification at the most recent date means that universe of funds can change for each edition. All historical datapoints are restated based on the current period classification.

Morningstar classifies a fund as Sustainable if "...in the prospectus or other regulatory filings it is described as focusing on sustainability, impact investing, or environmental, social or governance (ESG) factors. Funds must claim to have a sustainability objective, and/or use binding ESG criteria for their investment selection. Funds that employ only limited exclusions or only consider ESG factors in a non-binding way are not considered to be a Sustainable investment product."

Sustainable funds are those classified 'Sustainable' by Morningstar, which can differ from the newer, and still broad, European Sustainable Finance Disclosure Regulation (SFDR) Article 8 and Article 9 definitions. Over 99% of Article 9 funds are also classified as Sustainable by Morningstar, while this only applies for around 30% of Article 8 funds. Traditional funds are those classified as 'Not Sustainable' by Morningstar.

Morningstar's calculation of total return is expressed in percentage terms and is determined each month by taking the change in monthly net asset value, reinvesting all income and capital-gains distributions during that month and dividing by the starting net asset value (NAV). All returns figures refer to median returns, as in prior Sustainable Reality iterations, and are shown in US dollar terms.

There can be a time lag of weeks or months in funds reporting data to Morningstar, notably for Asia-domiciled funds. Some figures from prior periods are revised to reflect the latest disclosures. Where this is material to prior analysis, the impact is noted in the text. Prior period figures could also be subject to modest revisions in the future. Data in this report were collected on February 4th, 2025. Older editions of Sustainable Reality have looked at regional data based on the fund's domicile. As with the February 2024 edition, this report retains this breakdown and separately adds data based on a fund's investment area. For example, a fund could be domiciled in Europe but invest in global assets.

Disclosures

This material was published in March 2026 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.

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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.

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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.

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