Morgan Stanley

INSTITUTE FOR SUSTAINABLE INVESTING

Sustainable Signals

INSTITUTIONAL INVESTORS 2026

Key takeaways

We surveyed nine hundred institutional investors, six hundred asset owners and three hundred asset managers, to understand current views around sustainable investing.

Expectations for AUM growth moderate

Over 80% of institutional investors expect their allocations to sustainable investments to increase over the next two years, seeking exposure to growth opportunities and reflecting the rising materiality of sustainability-related risks. But these expectations are more modest than in 2025: only 2% of asset owners and 4% of asset managers expect allocations to rise by more than ten percentage points, down from around one-fifth.

Concerns have eased, and sustainability remains central to managing investment risk

Concerns about sustainable investing, including greenwashing, tracking error and regulatory requirements, are less pronounced in 2026: One-quarter (27%) rated a range of potential concerns “very significant,” on average, down from 38% in 2025 and similar to 2024 levels. Both asset owners and asset managers say sustainable investing options are a differentiator; two-thirds say portfolio risk reduction is a reason to pursue the practice.

Climate adaptation and responsible AI are key themes

Globally, 59% of respondents aim to address climate adaptation and resilience as a theme, just ahead of climate mitigation (52%). While almost 90% say assessing physical impacts of climate change on portfolios is challenging, most expect climate-related risks to influence asset prices within the next five years. At the same time, two-thirds of investors incorporate responsible AI into sustainable investing strategies, seeing relevance across themes, and spending most time on governance considerations for corporate AI adopters.

Some regional differences on outlook and concerns, although thematic priorities remain similar

In North America and APAC, over three-quarters anticipate growth in sustainable AUM, with the remainder expecting allocations to hold around current levels. In Europe, over 90% expect allocations to rise, targeting exposure to growth opportunities. Conversely, European respondents are more likely to rate concerns very significant, averaging around one-third and little changed on last year, while both North America and APAC see concerns easing across most topics. Thematic priorities follow similar patterns across regions, with climate adaptation and climate mitigation the most common themes.

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 iResearch 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 fourth edition of combined survey data from asset owners and asset managers. The 2026 survey is directly comparable to the 2024 and 2025 editions, using sample matching across two vendors, but not to the first edition in 2022 which was not matched.

From August 24 to October 1, 2026, a sample of 600 asset owners and 300 asset managers were surveyed across North America, Europe and Asia Pacific for a global total of 900 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 24.

CONTACT US

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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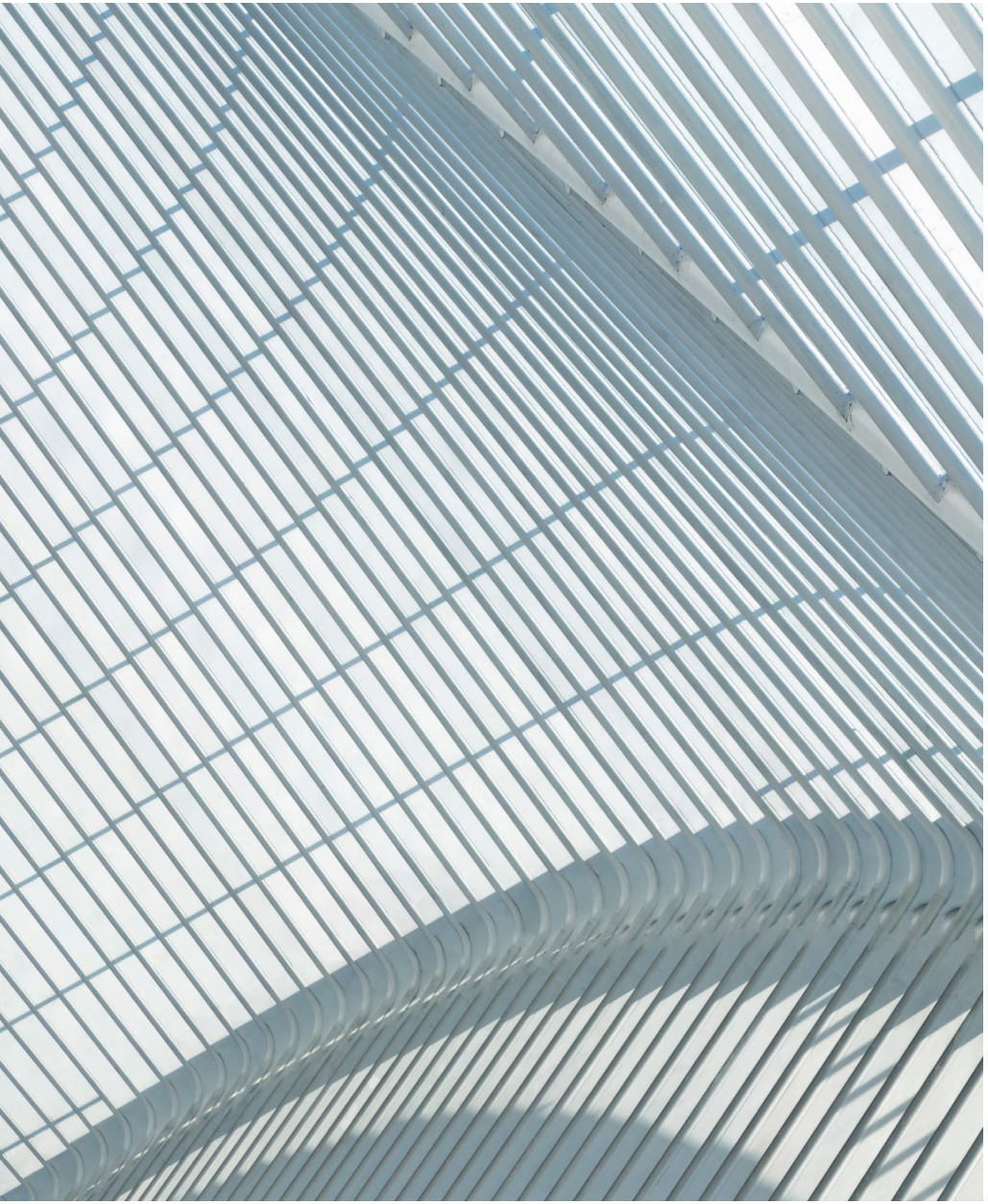
SIGN UP



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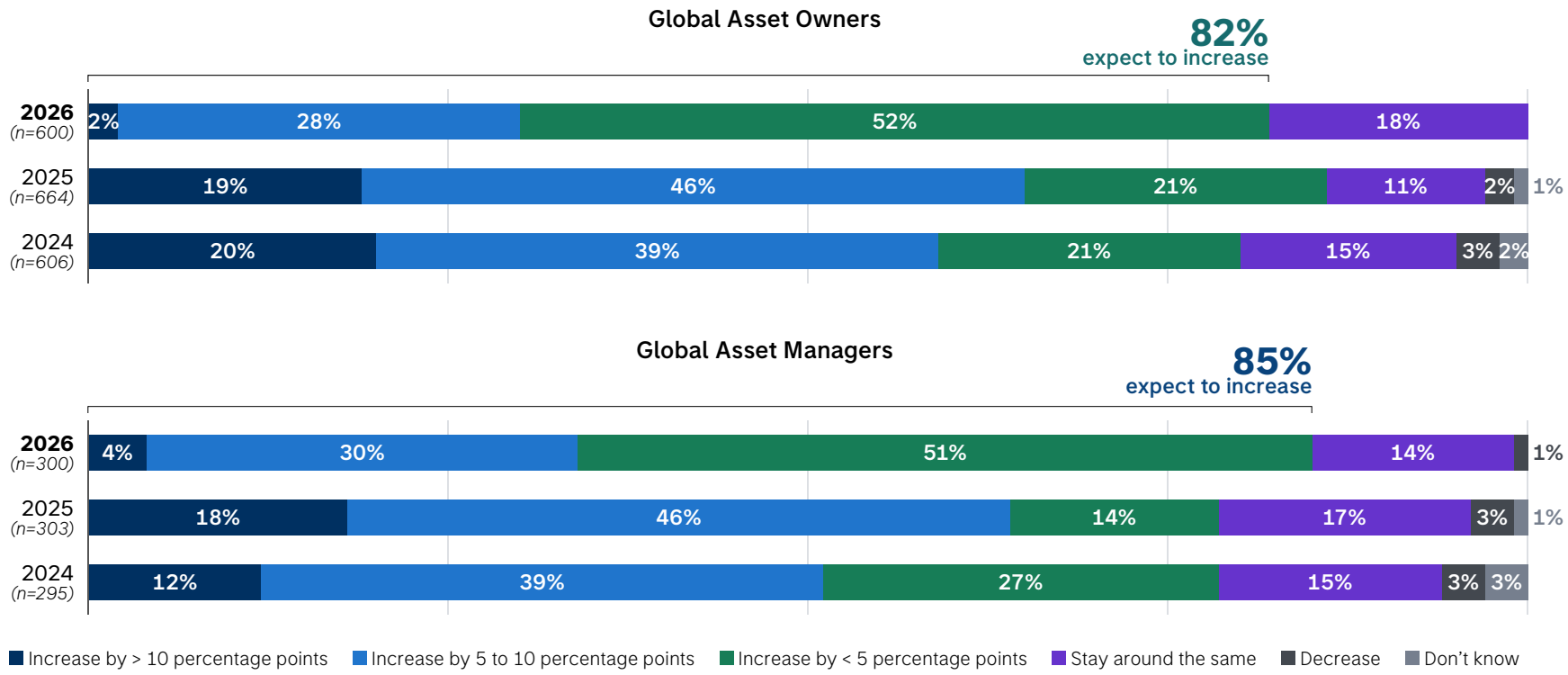
Allocations and Outlook

Expectations for rising allocations remain, but have moderated

Over the next two years, 82% of asset owners and 85% of asset managers expect to increase the proportion of assets allocated to sustainable strategies. This headline number is similar to 2025 and 2024, but expected rates of growth are more modest: only 2% of asset owners, and 4% of asset managers, expect allocations to rise by more than ten percentage points, down from around one-fifth in 2025. Respondents in Europe are most likely to expect allocations to increase, at over 90%. Around one-quarter of those in North America, and one-fifth of those in APAC, expect allocations to remain the same.* Very few expect any decrease, as in prior years.

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



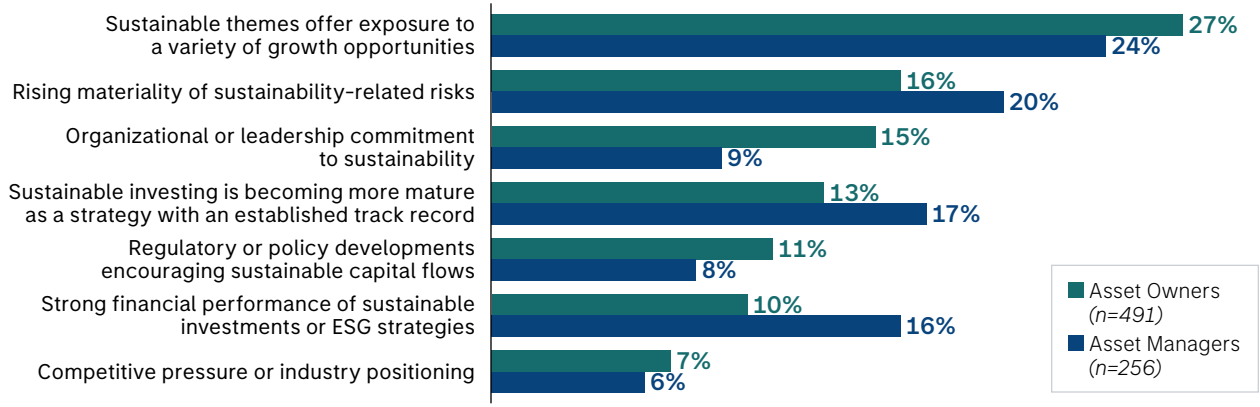
Source: Morgan Stanley Institute for Sustainable Investing, October 2026. Data as of October 1, 2026.
*See pages 21-23 for regional detail.
**To qualify, respondents had to be practicing sustainable investing or have plans to.

Plans to increase allocations reflect both growth opportunities and increasingly material risks from sustainability

For asset owners, the top reason for allocating more assets to sustainable investing is exposure to growth opportunities (27%), followed by the rising materiality of sustainability-related risks. This is a shift in emphasis from 2025, where financial performance and a more established track record were the key drivers.

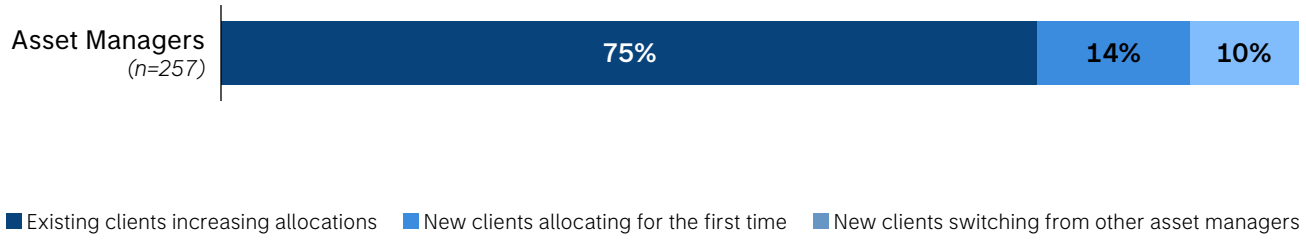
What is the top reason you expect to allocate more assets and/or see growth in AUM (excluding investment performance) for sustainable investing over the next two years?

Those who expect allocations to increase



Asset managers* largely agree, although track record and financial performance of sustainable investments are cited more frequently. This group largely expects growth to be driven by existing clients increasing their allocations, at 75%, ahead of first-time allocations (14%) and new mandates (10%).

What do you see as the most likely source of growth in AUM for sustainable investing?



Source: Morgan Stanley Institute for Sustainable Investing, October 2026. Data as of October 1, 2026.
*This question was phrased differently for asset managers in the 2025 edition, so year-over-year comparisons are not meaningful.

Bespoke mandates are seen as particularly beneficial for assets following sustainable strategies

More than 40% of externally managed assets in sustainable strategies are not in pooled funds today, but are held with asset managers in bespoke mandates or separately managed accounts (SMAs).

Asset owners name greater control over investment strategy as the main advantage of using bespoke mandates (35%), followed by the ability to time disposals (32%). More than half (61%) of asset owners see bespoke mandates as more beneficial for sustainable assets than traditional ones.

Among global asset owners:

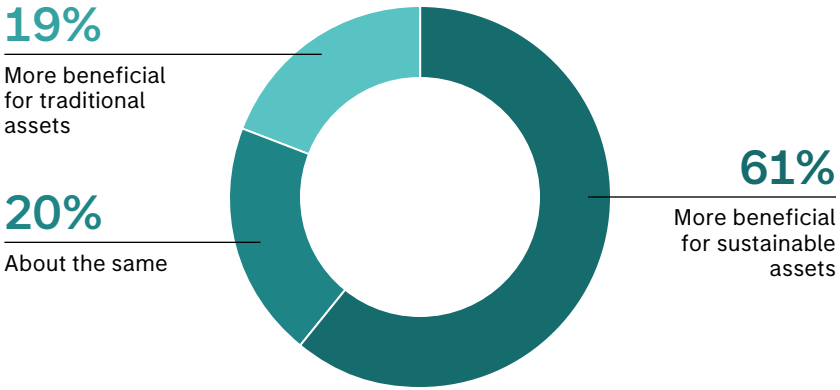
41% of externally managed assets in sustainable strategies are held in bespoke mandates/ SMAs, on average

76% say this proportion has increased in the past two years

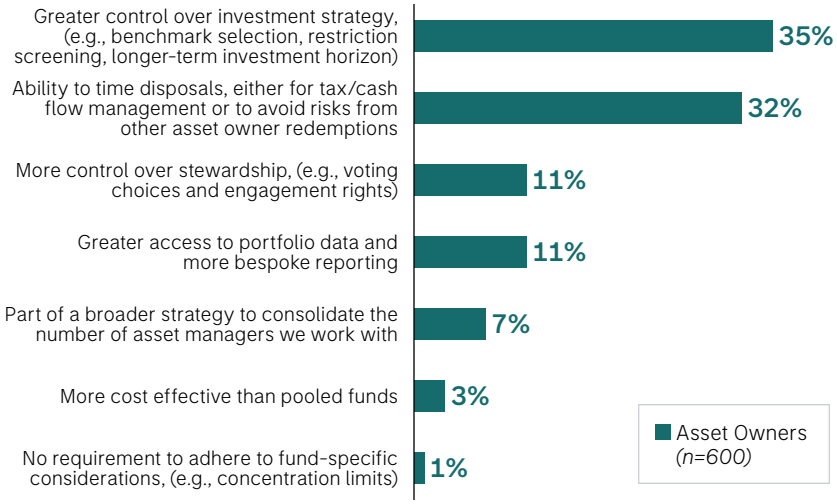
86% expect this to increase in the next two years

How do you view the benefits of bespoke mandates for assets following sustainable strategies, compared to traditional strategies*?

Global Asset Owners (n=600)



What do you see as the main advantage to asset owners of allocating assets following sustainable strategies to bespoke mandates / SMAs?



Source: Morgan Stanley Institute for Sustainable Investing, October 2026. Data as of October 1, 2026.
*Assuming comparable asset values.

Concerns and Risk Management

Concerns have eased compared to last year

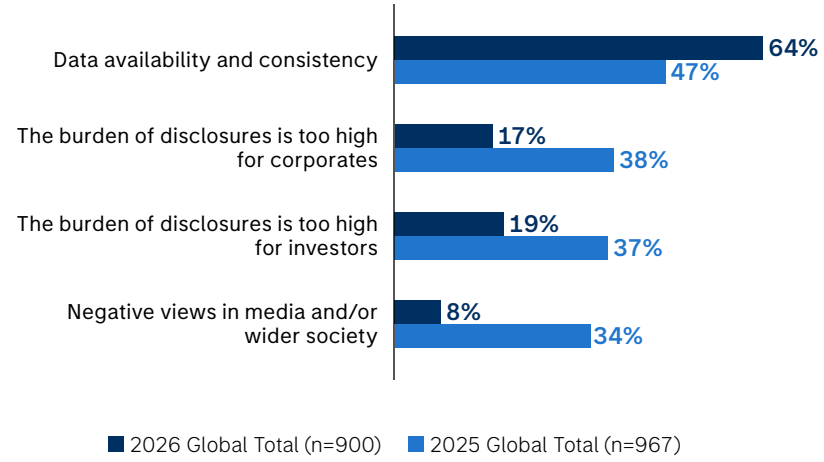
Respondents in 2026 are less likely to rate potential concerns as very significant, averaging 27% compared to 38% across the same list in 2025. This decline is mostly driven by respondents in North America and APAC, with Europe largely unchanged.

Globally, only one issue has become more pressing: Two-thirds (64%) now rate data availability and consistency as a very significant concern, up from 47% in 2025.

Other concerns have eased: Just 8% now rate negative views in media and/or wider society very significant, from 34% in 2025. There is also much less concern about disclosures as a burden.

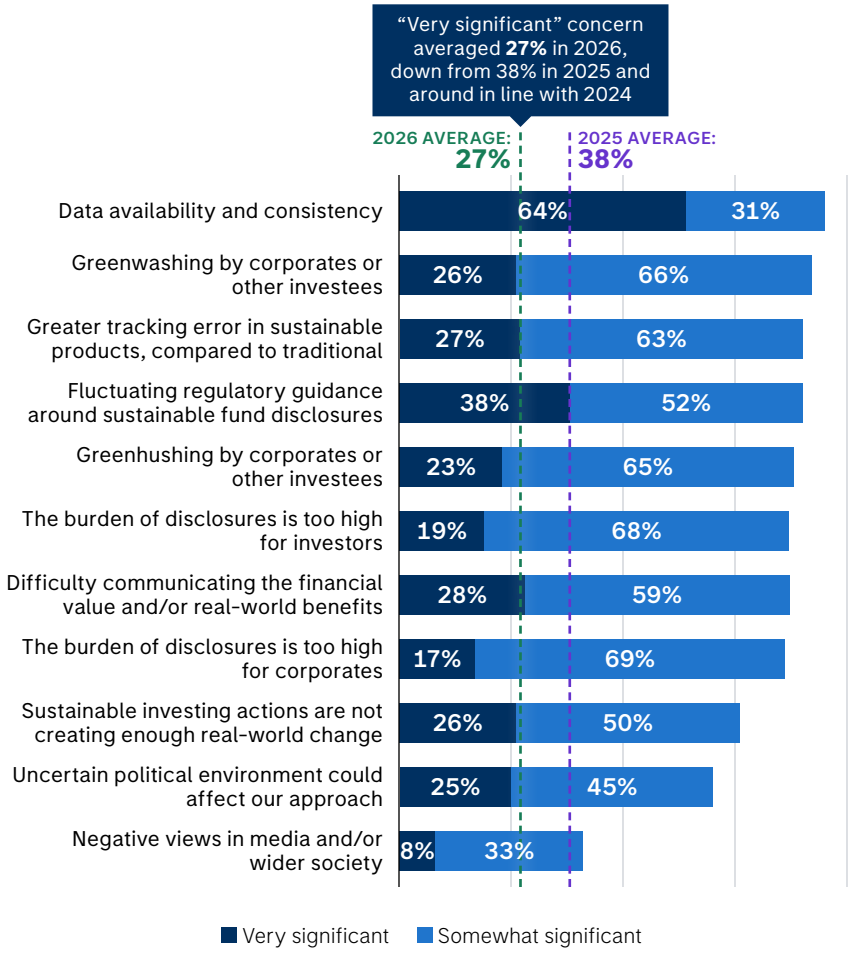
Please rate the following potential concerns about sustainable investing

% rating very significant



Please rate the following concerns about sustainable investing

Global total (n=900)



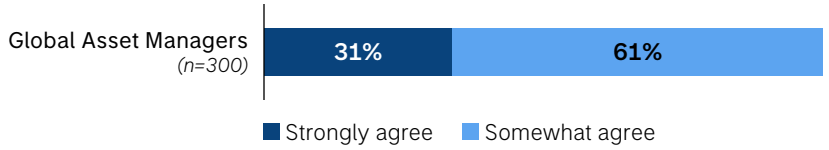
Source: Morgan Stanley Institute for Sustainable Investing, October 2026. Data as of October 1, 2026.

Sustainability remains a differentiator, and a key part of managing investment risk

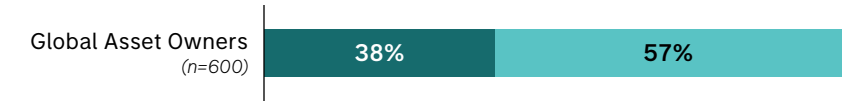
When awarding or winning mandates, over 90% of asset owners and asset managers see sustainable investment options as a key differentiator, similar to 2025 responses. More than 80% of asset owners require external managers to have a sustainable investing policy or strategy, again similar to the previous year.

Over 90% say that sustainability is important in managing investment risk. This is up from over 80% in 2025, although those strongly agreeing moderated from over 40% last year to over 30% this year. Two-thirds say portfolio risk reduction is one reason to practice sustainable investing, up from half in 2025, with around one-fifth naming this their main reason, down from around one-quarter.

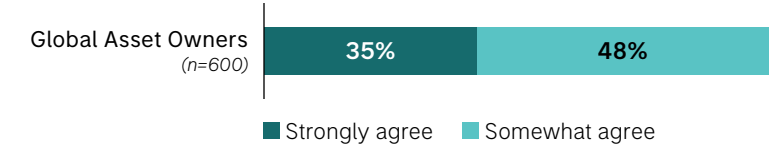
Sustainable investing options are a key differentiator in retaining or winning asset owner clients



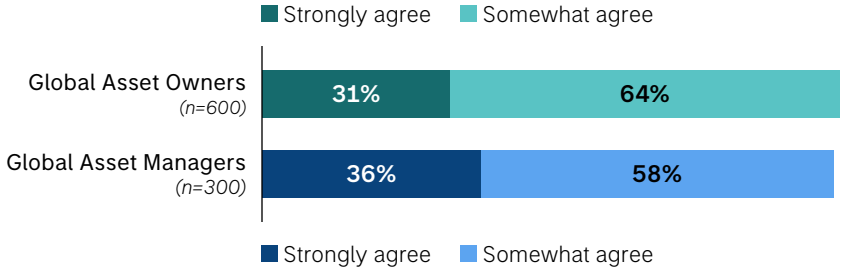
Sustainable investing options are a key differentiator in retaining or selecting asset managers



We require external asset managers to have a sustainable investing policy or strategy

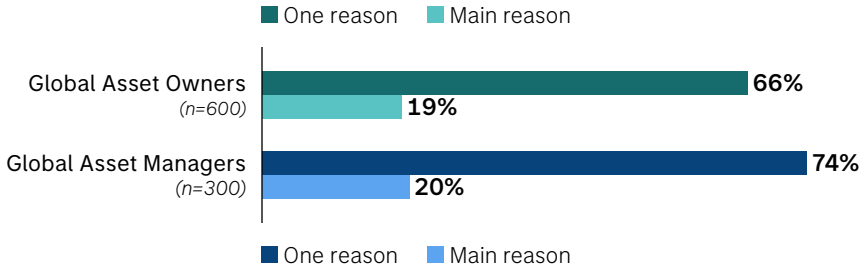


Sustainability is an important part of managing investment risk



Why does your organization practice sustainable investing?

Portfolio risk reduction, e.g., lower tail risks, higher Sharpe ratios



Source: Morgan Stanley Institute for Sustainable Investing, October 2026. Data as of October 1, 2026.

Themes and Approaches

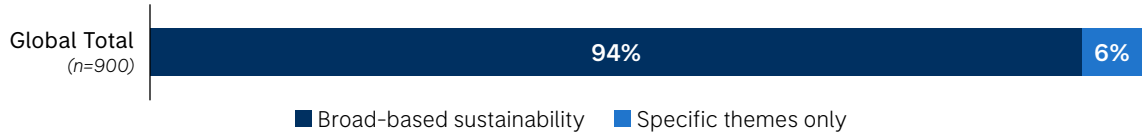
Most respondents take a broad approach to sustainable investing themes, considering both environmental and social topics

This year, the survey asked about institutional investors' thematic priorities.*

- A purely thematic focus is rare: Almost all respondents (94%) pursue broad-based sustainability.
- Two-thirds (67%) cover both environmental and social themes.
- Among the specific themes, climate adaptation (59%) and climate mitigation (52%) are the most common across all three regions.

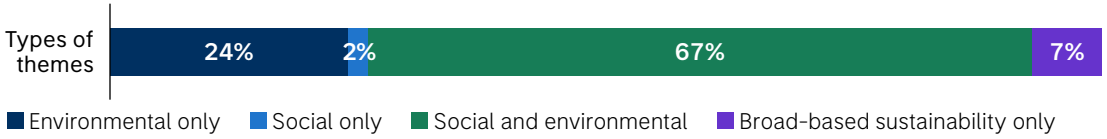
Which of the following sustainable themes* do you aim to address as part of your sustainable investment practice?

Select all that apply



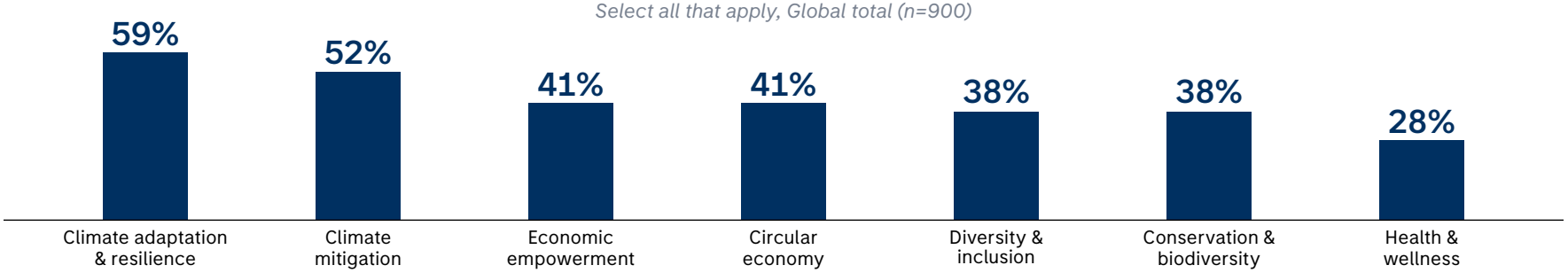
Types of sustainable investing themes addressed

Global total (n=900)



Which of the following sustainable themes* do you aim to address as part of your sustainable investment practice?

Select all that apply, Global total (n=900)



Source: Morgan Stanley Institute for Sustainable Investing, October 2026. Data as of October 1, 2026.

*Respondents could select all that applied from broad-based sustainability and seven environmental and social themes. See page 26 for full definitions. "Other" and "None of these" were offered as options, but had responses <1% so they are not shown here. This is a shorter list than in prior years, aligning with the approach taken in our Individual Investor survey.

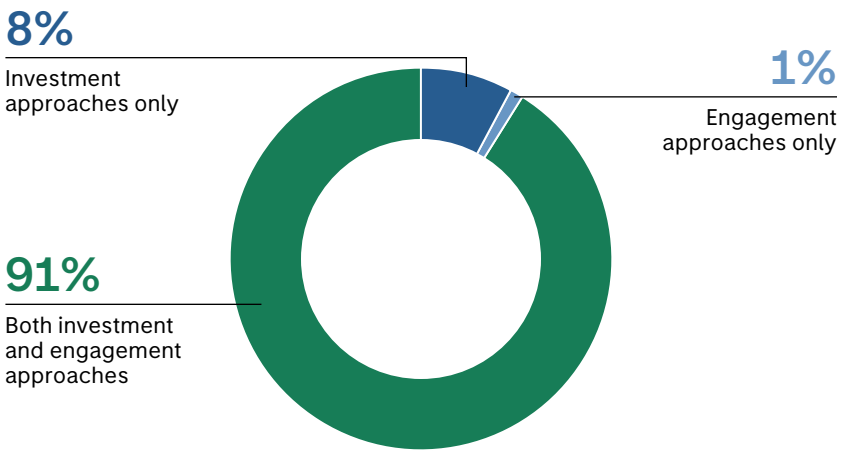
Over 90% use engagement approaches alongside investment approaches

For each sustainable investing theme selected, respondents were asked which investment and engagement approaches they use.* For broad-based sustainability:

- ESG integration is the most common investment approach, at 75%.
- There are similar levels of adoption for all three engagement approaches (57-64%).
- 91% of respondents use at least one engagement approach alongside an investment approach.

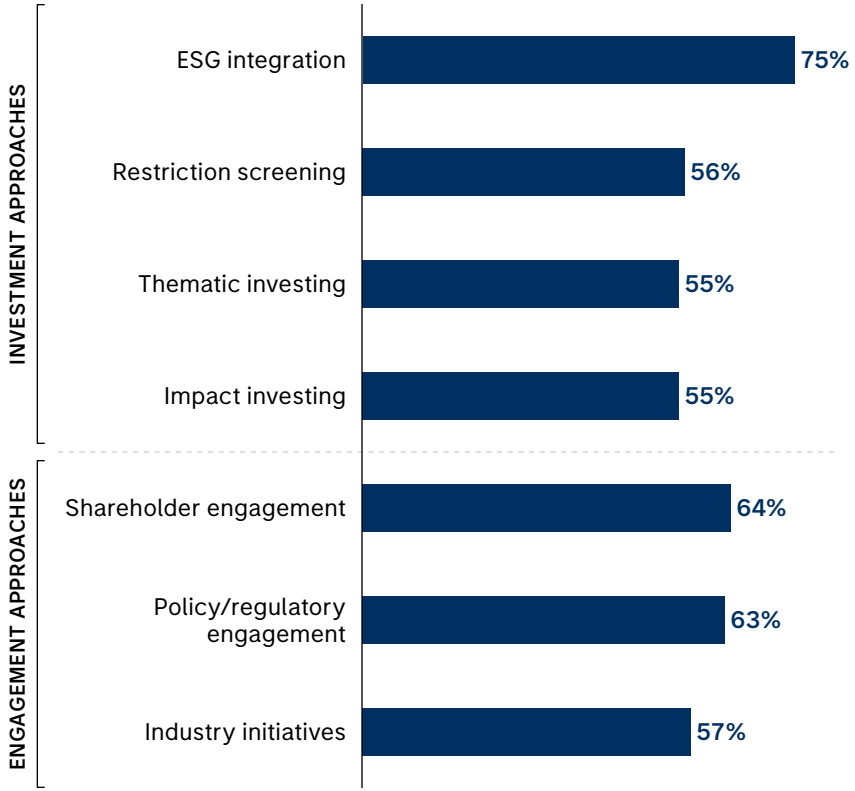
Types of approaches used to address sustainable investing themes

Broad-based sustainability, Global total (n=849)



For broad-based sustainability, what approaches* do you commonly take?

Those pursuing this theme, Global total (n= 849)



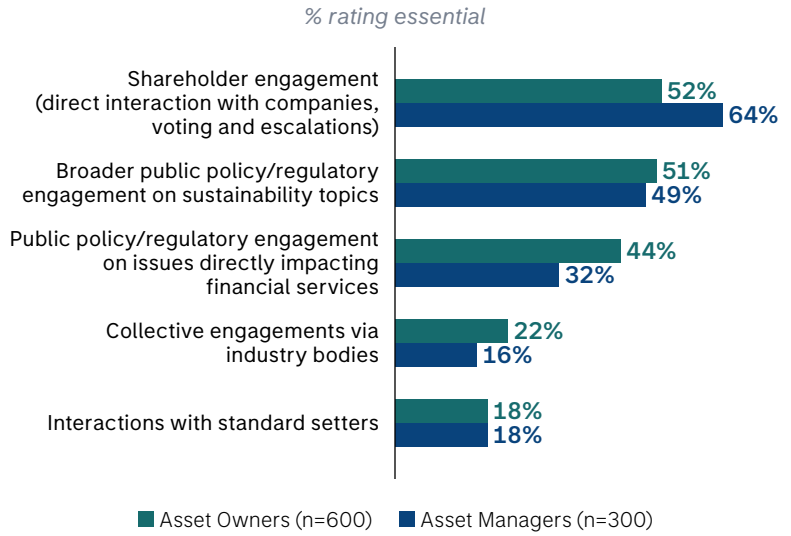
Source: Morgan Stanley Institute for Sustainable Investing, October 2026. Data as of October 1, 2026.
*See page 26 for full definitions.

Shareholder engagement focuses on fewer, deeper interactions

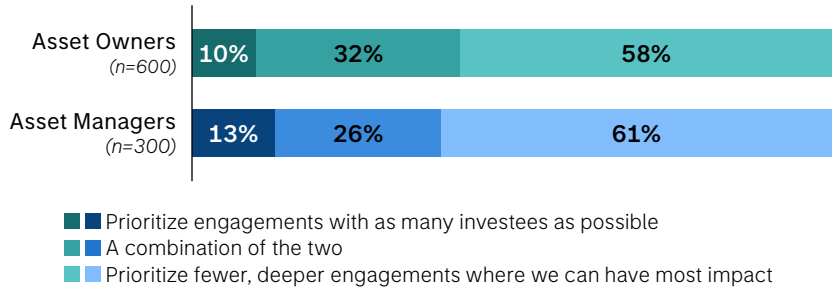
Across engagement approaches, both asset owners (52%) and asset managers (64%) are most likely to see shareholder engagement as essential. More than half of respondents (58% of asset owners, 61% of asset managers) say they allocate most time to fewer, deeper interactions with companies, and private, direct engagement is seen as most impactful, with over 60% of both groups rating this very effective.

How would you rank the effectiveness of the following shareholder engagement approaches?

How do you view the following stewardship activities as part of your sustainable investing practice?



How does your firm generally think about allocating time to shareholder engagement?



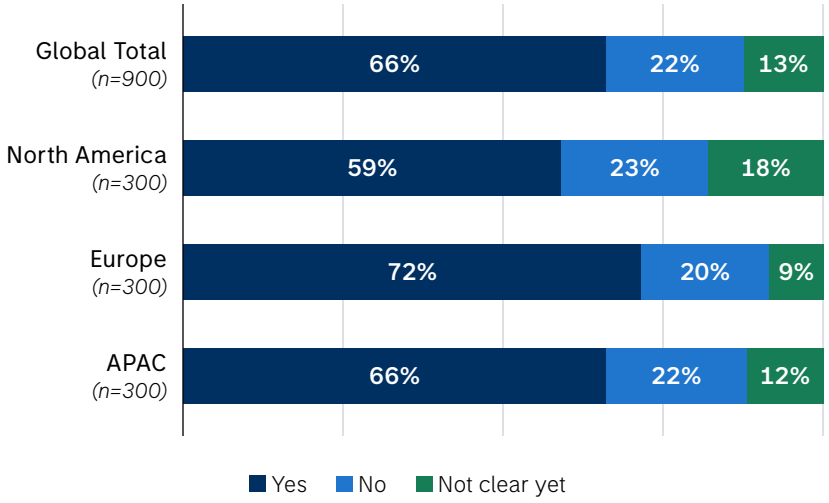
Source: Morgan Stanley Institute for Sustainable Investing, October 2026. Data as of October 1, 2026.

Many consider responsible AI part of their sustainable investing practice, with relevance across themes

Two-thirds (66%) of respondents consider responsible AI part of their sustainable investing strategy, rising to 72% of respondents in Europe and falling to 59% of respondents in North America.

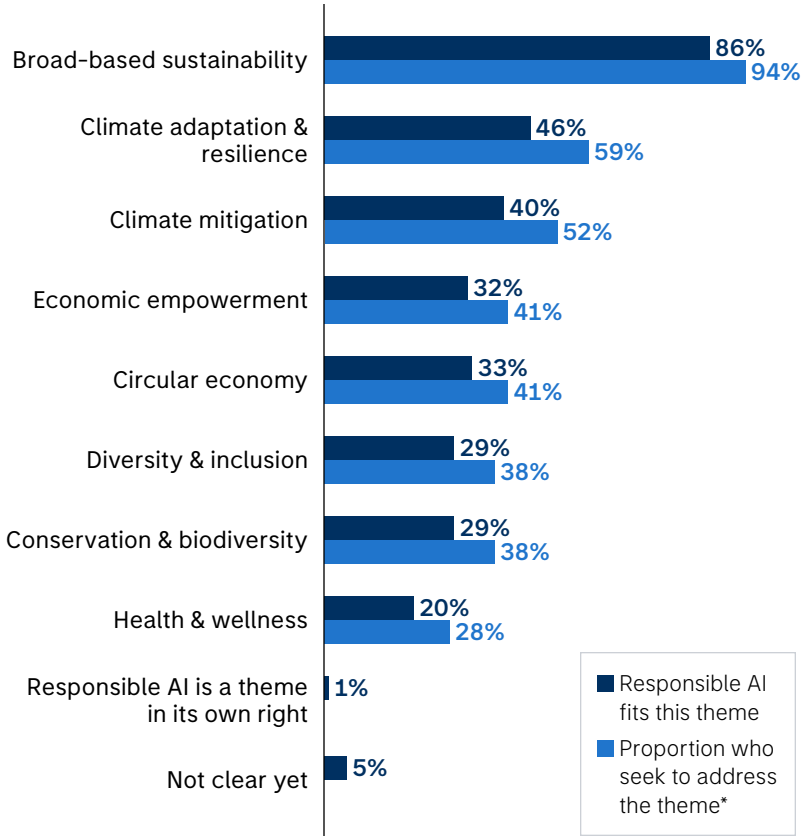
Almost all (94%) see responsible AI as part of other sustainable investment themes, rather than a topic in its own right. Over 80% consider it as part of addressing broad-based sustainability, with responses for specific themes largely mirroring the proportion that seek to address each topic.

Does your firm consider responsible AI as part of your sustainable investing strategy?



Which of the following sustainable investing themes does responsible AI fit into?

Global total (n=900)



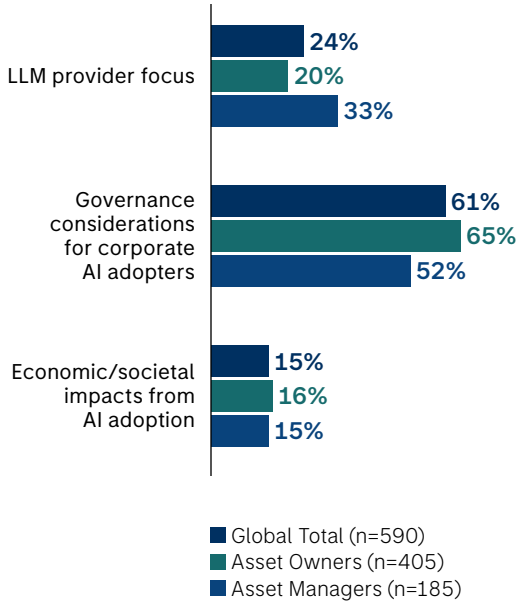
Source: Morgan Stanley Institute for Sustainable Investing, October 2026. Data as of October 1, 2026.
*Full question for these responses shown on page 13.

Governance around corporate AI adoption is top of mind for sustainable investors

Across responsible AI, respondents say they are spending most time on governance considerations for corporate AI adopters (61%), including board oversight and capabilities, policies and cybersecurity. Others focus on social and environmental topics for large language model (LLM) providers (24%), or economic impacts of AI adoption (15%).

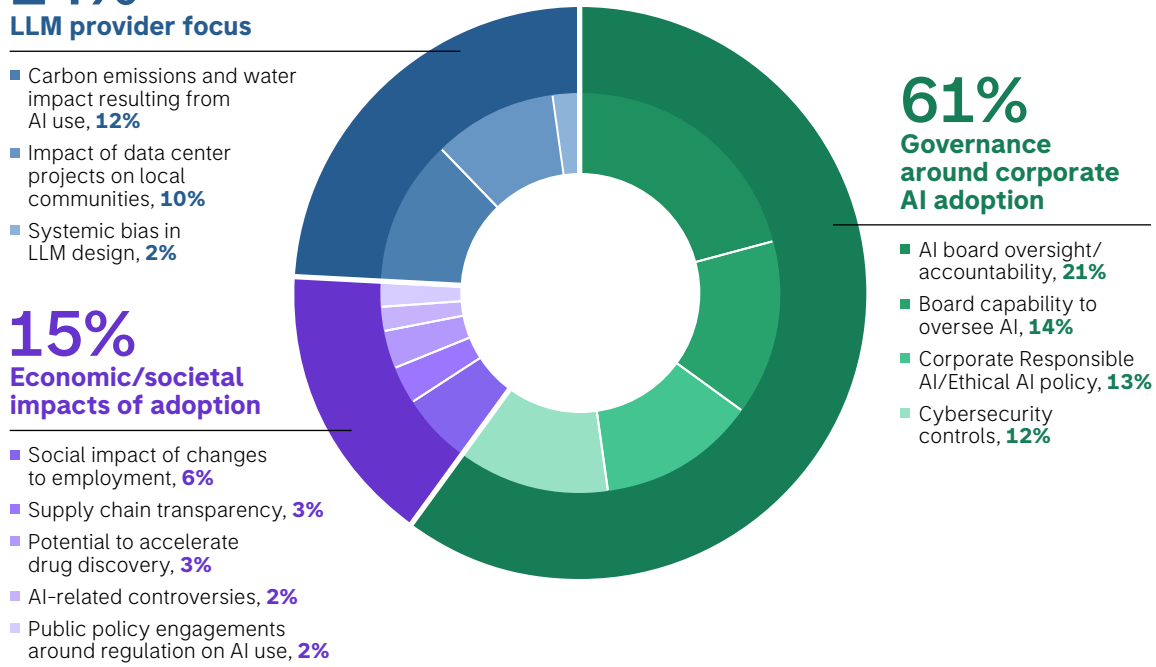
Which of these topics around responsible AI is your firm currently spending most time on, as part of your sustainable investment strategy?

Those considering responsible AI part of sustainable investing



Which of these topics around responsible AI is your firm currently spending most time on, as part of your sustainable investment strategy?

Those considering responsible AI part of sustainable investing, Global total (n=590)



Source: Morgan Stanley Institute for Sustainable Investing, October 2026. Data as of October 1, 2026. Numbers may not sum due to rounding.

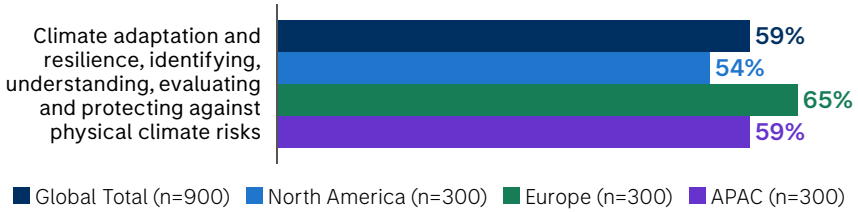
Climate adaptation tops the list of specific investment themes

Globally, 59% of respondents say they aim to address climate adaptation and resilience in their sustainable investment practice, led by Europe at 65%. This makes it the top specific theme in 2026, ahead of climate mitigation (52%).

Specific solutions that investors are prioritizing include data & analytics tools (81%), power grid modernization (73%) and water infrastructure (56%). 2026 responses on some specific solutions are notably higher than in 2025, which could indicate greater focus from investors, increasing availability of solutions, or both.

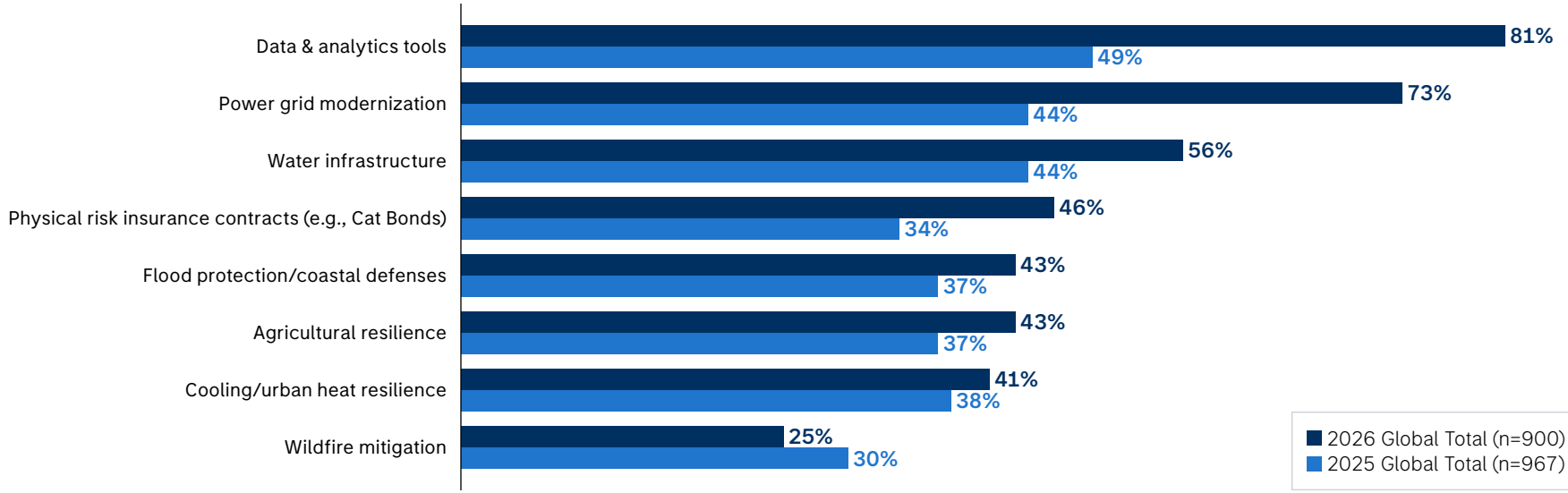
Which of the following sustainable themes do you aim to address as part of your sustainable investment practice?

Select all that apply



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

Select all that apply



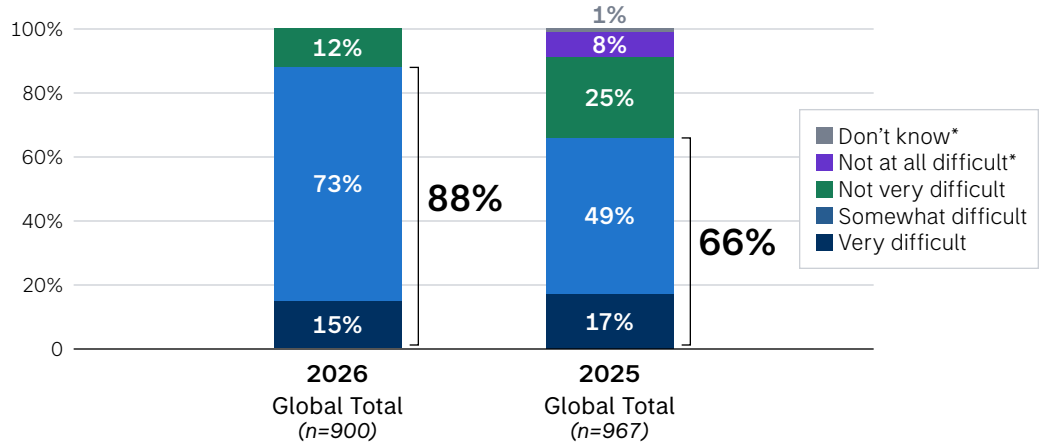
Source: Morgan Stanley Institute for Sustainable Investing, October 2026. Data as of October 1, 2026.

It is difficult to assess the impact of physical climate risks; most investors anticipate some effect on asset prices

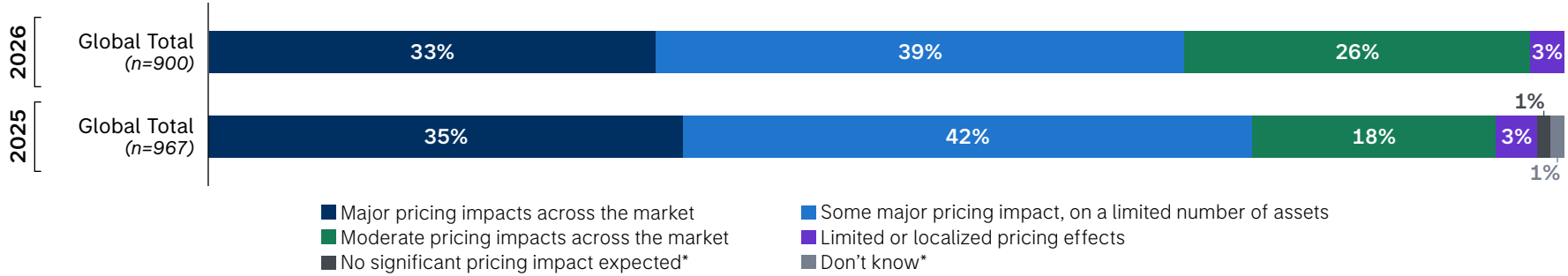
Almost 90% of respondents say that it is difficult to assess the impact of physical climate change on their assets, up from 66% in 2025. Accessing high-quality localized data is a key barrier (48% say this is their top challenge), followed by uncertainty around climate models (19%) and limited internal expertise or tools (18%).

Despite these difficulties, most respondents expect physical climate risks to impact asset prices in the next five years. One-third see major pricing impacts across the market, while 39% anticipate major pricing impact on a limited number of assets.

How difficult is it for your organization to assess the long-term physical impacts of climate change (e.g., flooding) on your assets or portfolio?



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



Source: Morgan Stanley Institute for Sustainable Investing, October 2026. Data as of October 1, 2026.
*Not at all difficult / Don't know, and No significant impact / Don't know had zero responses in 2026.

Regional Trends

North America

OUTLOOK

Three-quarters (77%) of respondents in North America expect to increase their allocation to sustainable investments. One-quarter (23%) expect to maintain current levels: of which 20% say their long-term sustainability goals are already reflected, while a further 20% cite uncertainty about market direction.

THEMES AND APPROACHES

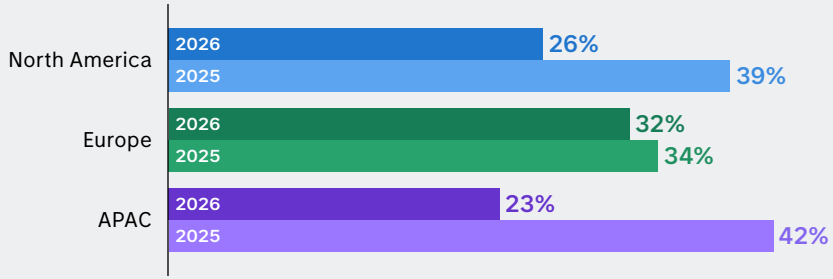
Thematic priorities in North America weight climate adaptation (54%) and climate mitigation (53%) around even, unlike Europe and APAC where climate adaptation leads. Shareholder engagement is more commonly used: 69% compared to 61%/62% in Europe/APAC.

CONCERNS

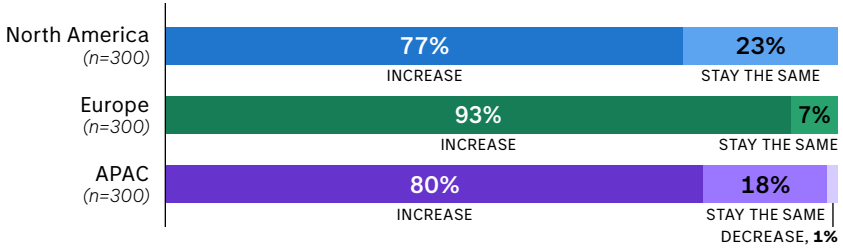
Data availability leads concerns in North America as for elsewhere, although at 57% the proportion rating this very significant is around ten points lower than the other regions. On all other topics, very significant concern ratings declined from 2025 levels.

Please rate the following potential concerns about sustainable investing

% rating very significant, average across 11 options



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

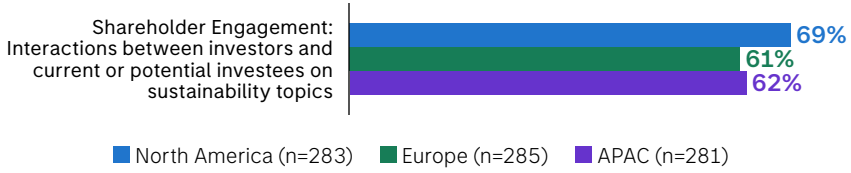


REASONS TO EXPECT ALLOCATIONS TO STAY THE SAME

Those expecting allocations to stay the same, % selecting as top reason	**North America** *(n=70)*
Current allocation reflects our long-term sustainability goals	**20%**
Uncertainty around ESG-related regulations and market direction	**20%**
Reporting or regulatory requirements are too onerous	**13%**

For broad-based sustainability, what approaches do you commonly take?

Those who address this theme



Source: Morgan Stanley Institute for Sustainable Investing, October 2026. Data as of October 1, 2026.

Europe

OUTLOOK

European respondents have higher expectations for growth in sustainable allocations: Over 90%, compared to around three-quarters in North America and APAC. Key drivers are exposure to growth opportunities and rising materiality of sustainability-related risks.

THEMES AND APPROACHES

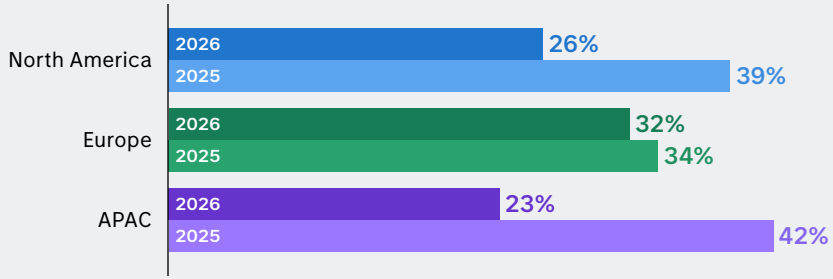
Two-thirds (65%) of European respondents seek to address climate adaptation & resilience, while half (50%) target climate mitigation. Circular economy is almost as prominent (48%). Almost three-quarters (72%) consider responsible AI as part of their sustainable investing strategy.

CONCERNS

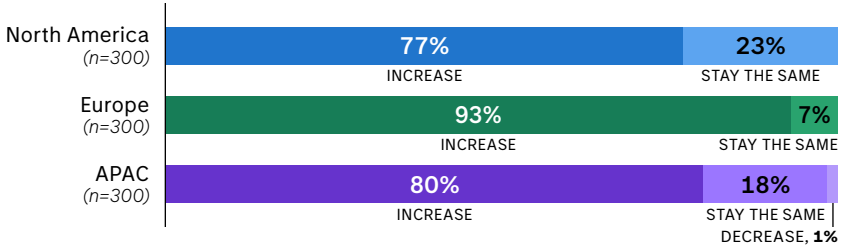
Data availability is the top concern in Europe, with 69% rating this very significant, up 30 points from 2025. Concern about media perception declined sharply, as for other regions, but overall European respondents still note concerns around 2025 levels. One-quarter (27%) see disclosures required of investors as a very significant challenge, nearly double the rate in North America and APAC (both 14%).

Please rate the following potential concerns about sustainable investing

% rating very significant, average across 11 options

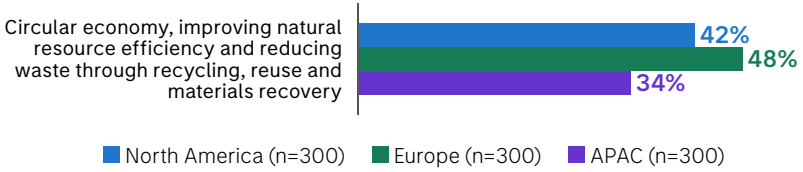


Excluding investment performance, how do you expect the proportion of your assets/your AUM in sustainable funds to trend over the next two years?

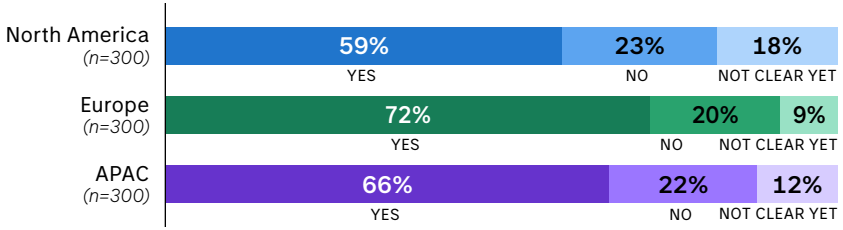


Which of the following sustainable themes do you aim to address as part of your sustainable investment practice?

Select all that apply

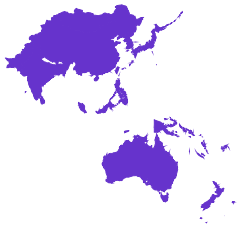


Does your firm consider responsible AI as part of your sustainable investing strategy?



Source: Morgan Stanley Institute for Sustainable Investing, October 2026. Data as of October 1, 2026. There are not enough responses from European investors expecting allocations to stay the same for the results to be meaningful.

APAC



OUTLOOK

In APAC, 80% expect to increase their allocation to sustainable investments. Just under one-fifth (18%) expect allocations to stay the same: Key reasons include difficulties launching new products due to resource constraints (22%), as well as limited new adopters (22%).

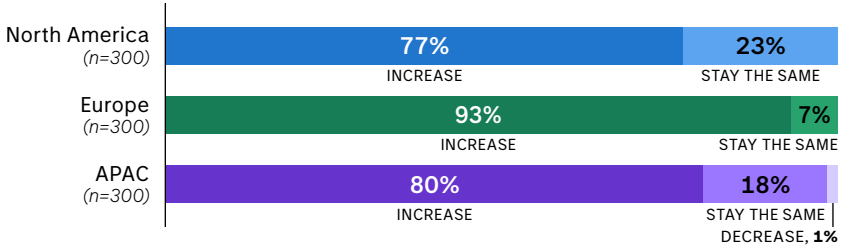
THEMES AND APPROACHES

More than half of APAC respondents seek to address climate adaptation & resilience (59%) and climate mitigation (52%). Economic empowerment is close behind at 48%, ahead of 40% in North America and 37% in Europe.

CONCERNS

Rates of seeing concerns as very significant declined the most in APAC, to 23% in 2026, on average, from 42% in 2025. Data availability is the only area where concerns rose, up 15 points to 66%, while the belief that disclosure requirements are too burdensome for both investors and corporates declined by almost 30 points, to 14% for both groups.

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

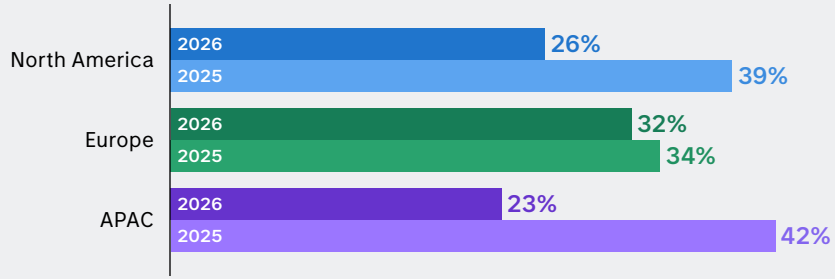


REASONS TO EXPECT ALLOCATIONS TO STAY THE SAME

Those expecting allocations to stay the same, % selecting as top reason	**APAC** *(n=55)*
It is difficult to launch new sustainable investing products due to personnel or other resource constraints	22%
Those who are interested have already allocated their assets	22%
Reporting or regulatory requirements are too onerous	15%

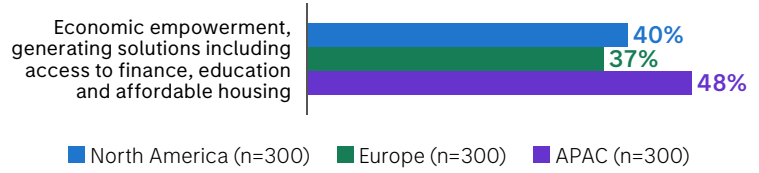
Please rate the following potential concerns about sustainable investing

% rating very significant, average across 11 options



Which of the following sustainable themes do you aim to address as part of your sustainable investment practice?

Select all that apply



Source: Morgan Stanley Institute for Sustainable Investing, October 2026. Data as of October 1, 2026.

Sample Design and Terminology

Sample design

QUALIFIERS

To qualify, respondents had to:

- Self-identify their organization as asset managers or asset owners.
- 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 or AUM, which applied both globally and for each region.

COUNTRIES

- **North America:** United States (n=132), Canada (n=120), Mexico (n=48).
- **Europe:** Austria (n=10), Belgium (n=15), France (n=36), Finland (n=13), Denmark (n=12), Germany (n=42), Ireland (n=11), Netherlands (n=28), Norway (n=9), Spain (n=20), Sweden (n=20), Switzerland (n=32), United Kingdom (n=52) .
- **APAC:** Australia (n=45), Mainland China (n=30), Hong Kong SAR (n=27), India (n=21), Japan (n=93), Macau SAR (n=6), Malaysia (n=12), New Zealand (n=12), Philippines (n=13), Singapore (n=33), Taiwan (n=8).

	GLOBAL	NORTH AMERICA	EUROPE	APAC
Total	900	300	300	300
RESPONDENT TYPE		**Quota 67/33 Asset Owner / Asset Manager**		
Asset Owner	600	190	210	200
Asset Manager	300	110	90	100
ASSET OWNER TYPE				
Endowment/Foundation	83	32	30	21
Family Office	80	30	30	20
Insurance	185	59	60	66
Pension Fund — Corporate	104	24	40	40
Pension Fund — Government	90	30	30	30
Pension Fund — Other	18	5	10	3
Sovereign Wealth Fund	26	3	5	18
Asset Allocator / OCIO	14	7	5	2
ASSET OWNER INVESTABLE ASSETS		**Quota >25% large, <50% small**		
Large >$50bn	200	65	75	60
Mid-Size	220	65	75	80
Small <$1bn	180	60	60	60
ASSET MANAGER AUM		**Quota >25% large, <50% small**		
Large >$100bn	110	50	30	30
Mid-Size	84	20	27	37
Small <$10bn	106	40	33	33

Source: Morgan Stanley Institute for Sustainable Investing, October 2026. Data as of October 1, 2026.

Descriptions of themes and approaches

The 2026 edition uses a shorter list of sustainability themes than in previous years, aligning with the 2026 Individual Investor survey. We also asked about approaches to addressing these themes for the first time. Both sets of questions are new for 2026, so prior-year comparisons are not available.

Themes

Broad-based sustainability, advancing a range of environmental and social topics

ENVIRONMENTAL THEMES

Climate Mitigation: Advancing solutions to address climate change and the transition to a less carbon-intensive economy

Climate Adaptation and Resilience: Identifying, understanding, evaluating and protecting against physical climate risks

Conservation & Biodiversity: Protecting land and marine ecosystems through conservation, sustainable agriculture and responsible natural resource use

Circular Economy: Improving natural resource efficiency and reducing waste via recycling, reuse and materials recovery

SOCIAL THEMES

Economic Empowerment: Generating solutions including access to finance, education and affordable housing

Diversity & Inclusion: Promoting diversity in leadership, employee engagement, fair and safe workplaces, and empowering women and girls

Health & Wellness: Supporting long-term health outcomes through nutrition, disease treatment, and product safety

Approaches

INVESTMENT APPROACHES

Restriction Screening: Managing exposures by intentionally avoiding investments based on specific criteria

Environmental, Social, & Governance (ESG) Integration: Proactively considering ESG criteria alongside financial analysis

Thematic Investing: Pursuing strategies that address sustainability trends, such as clean energy, water, agriculture, community building

Impact Investing: Seeking to make investments that intentionally generate measurable positive social and/or environmental outcomes

ENGAGEMENT APPROACHES

Shareholder Engagement: Interactions between investors and current or potential investees on sustainability topics

Policy/Regulatory Engagement: Interactions between investor and governments, regulators or standard setters on sustainability topics

Industry Initiatives: Diverse and emerging manager programs, industry associations

Source: Morgan Stanley Institute for Sustainable Investing, October 2026. Data as of October 1, 2026.

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- Climate / Carbon Emissions
- Climate, Environmental and Social Risk Management
- Community Engagement
- Corruption & Bribery
- Ethics & Business Conduct
- Financial & Economic Inclusion
- Human Rights
- Nature and Biodiversity
- Supply Chains
- Workforce (including wellness and inclusion practices)
- Shareholder Engagement
- Waste

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 sustainability factors into its investment strategy.

Sustainability considerations may include, but are not limited to, environmental factors (e.g., climate change, biodiversity), social factors (e.g., human capital, data privacy, diversity & inclusion), and governance factors (e.g., board oversight, business ethics, risk management). 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 sustainability factors into its investment strategy.

Sustainable investments may also be referred to as impact aware investments, socially responsible investments, Environmental, Social and Governance ("ESG") investments, or diversity and inclusion ("D&I") investments. It is important to understand that sustainability definitions and criteria used within the industry can vary, and ESG ratings of the same subject companies and/or securities can vary among different ESG ratings providers for several reasons including, 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 sustainability criteria, and the sustainability claims made in offering documents or other literature may overstate sustainability impact. As a result, it is difficult to compare sustainable investment products. Further, socially responsible norms vary by region, and an issuer's sustainability practices or Morgan Stanley's assessment of an issuer's sustainability practices can change over time.

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Investment managers can have different approaches to sustainability 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 sustainability 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.

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This can cause Morgan Stanley to incorrectly assess an issuer's business practices with respect to its sustainability practices. As a result, it is difficult to compare sustainable investment products.

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