Futurists paint striking and sometimes divergent pictures of the world in 2050. On the one hand, technology should empower us to harness scarce resources more efficiently than ever; major diseases may be eradicated; and people are likely to live longer, healthier lives. On the other hand, the world’s population is expected to rise to more than nine billion people; intense competition for food, water and energy could ensue; and economic inequalities may intensify, increasing the risk of political unrest.

These prognostications may sound remote, but they depict a world that is just 36 years away—a time frame short enough to affect anyone who is raising young children, planning for retirement, attending school or just beginning a career.

At Morgan Stanley, we believe that the global challenges we face in the decades ahead pose critically important questions not only for society at large but also for each of us as individuals, citizens, parents, business leaders and policymakers. And for our clients, these challenges are likely to present significant implications for their financial goals and investment decisions. How do we ensure that the demand curves of the future do not spell a world of intensifying resource scarcity, economic inequality and ecological damage? How will people live, and economies grow, within the planet’s carrying capacity—without taking an unacceptable toll on our values, security and quality of life? What will prosperity look like in the more populous world of our children and grandchildren? These questions drive the work of Morgan Stanley’s Institute for Sustainable Investing.
**DEFINING SUSTAINABILITY**

We define sustainability as a commitment to economic, social, and environmental well-being for both the present and the future, balancing society’s needs today with the demands of tomorrow. Sustainability encompasses behaviors, processes, tools and technologies that can be perpetuated and replicated in ways that achieve economic, social or environmental benefits. We see sustainable investing as the practice of mobilizing capital to businesses that engage in these behaviors and practices. This vision of sustainability can be advanced through global capital markets and the investors who drive them.

**The Macroeconomic Case for Sustainable Investing**

By 2050, the world’s population is projected to increase by as much as 30 percent. The economic implications are vast: In the space of a few decades, there may be two billion additional consumers of the same essential, yet finite, resources. And demand for these resources is expected to rise at an even faster rate, as people everywhere strive for higher living standards. We can therefore expect global demand curves to start shifting upward in dramatic fashion—for instance, global demand for food, water and energy is projected to increase by 35, 40 and 50 percent, respectively, as soon as 2030. Meanwhile, vital services and infrastructure—like sanitation, housing, transportation, health care, and energy transmission networks—will need to keep up with our growing numbers, requiring tens of trillions of dollars of investment.

We will also need to address the strains that we already place on our planet. For instance, to keep global temperatures from rising by more than 2°C—the threshold that scientists and world leaders agree we must not cross in order to avoid adverse ecological, economic and social consequences—an average of $1 trillion per year in additional clean energy investment is needed through 2050.

**Sustainability: The Investment Opportunity**

Through the lens of sustainable investing, we can see the challenges of tomorrow as a profound opportunity for private-sector innovation and investment, fueled by the capital that flows through the equity and debt markets. Indeed, there may be significant global business opportunities for companies that integrate sustainability into their strategies, services and products. Attempts to quantify the value of these business opportunities for the energy, forestry, water, metals, food, agriculture, health and education sectors have led to estimates on the order of $3 trillion to $10 trillion annually by 2050, or up to 4.5 percent of the world’s projected gross domestic product at mid-century. Whether it is low-carbon air travel, vertical farming in high-rise structures, or zero-waste buildings and cities, businesses and entrepreneurs have the potential to create products and services that enable a more populous planet to thrive within its carrying capacity, transforming the way we live.

Sustainable investing is a powerful way to mobilize capital toward this vision, and it takes many forms: For example, a mutual fund investing in companies developing technology to improve the quality and efficiency of our water supplies; an exchange-traded fund replicating an index with smart grid infrastructure stocks; or a private equity vehicle targeting solar and wind renewable power projects around the world. Another timely example is the green bond market. Green bonds have all the characteristics of traditional fixed income products, but their proceeds are directed toward projects tackling climate change—such as wind energy, mass transportation and waste reduction. Issuance of green bonds grew to approximately $10 billion in 2013 from $1.3 billion in 2012 as the pool of green bond issuers expanded from sovereign agencies to major corporations. At the Institute for Sustainable Investing, we seek to draw on such successes and identify, through product innovation and thought leadership, new opportunities to match sustainability-minded businesses and investors.

**Scoping the Sustainable Investing Market**

The appetite for sustainable investing products and strategies has grown markedly within the past two decades. In the US, professionally managed assets invested in sustainability-oriented strategies increased more than fivefold from 1995 to 2012, reaching $3.74 trillion, or 11 percent, of total US assets under management. By 2012, more than one-fifth of all assets under management incorporated environmental, social or governance (ESG) criteria as assessed by the United Nations-supported Principles for Responsible Investment (UN PRI). Created in 2006, the UN PRI make up a voluntary framework for incorporating environmental, social and governance issues into investment practices.
At the level of the individual investor, generational trends may also lend support to the field of sustainable investing. For instance, members of the Millennial Generation—those born after 1982—have identified the improvement of society as the primary purpose of business. These investors are among the beneficiaries of the $40 trillion wealth transfer that is expected to flow from Baby Boomers to their successors in the coming decades.

Despite these signs of progress, sustainable investing is in the early stages of realizing its potential. Today, most of the $13.6 trillion in global assets invested according to sustainable investing principles fall into the category of values alignment—a strategy that avoids investing in companies whose core business activities do not meet the investor’s social or environmental standards. This is an important piece of the equation, as shareholders vote with their investment dollars for the industries and companies they choose to support. However, there are also more direct and proactive ways for investors to achieve positive impact, and the Institute seeks to mobilize capital toward those approaches as well. For example, there is ESG integration, the explicit inclusion of environmental, social and governance factors by portfolio managers into financial analysis; sector exposure, which targets themes or assets specifically related to environmental or social sustainability; and impact investing, which focuses on investments in business models that specifically seek to solve social or environmental problems. We believe that these strategies can potentially provide both risk mitigation and long-term value creation.

The Ingredients for a Vibrant Sustainable Investing Market

For sustainable investing to become a truly mainstream investment style, there must be a sufficiently broad range of financial products and strategies to support investment along this continuum. A number of other conditions must be met as well. Businesses that are pioneering solutions to our global challenges must have capital to grow and expand; portfolio managers and product specialists must have access to data and insight about these businesses; financial advisors must have the knowledge and resources to help their clients achieve their sustainability goals; and sustainable investing products must enable investors to understand the positive impacts that their capital has achieved.

The Institute for Sustainable Investing seeks to support these conditions. Morgan Stanley’s Investing with Impact Platform, established in 2012, helps Wealth Management clients align their investments with their values. The Institute for Sustainable Investing has committed to work to increase total client assets through the Investing with Impact Platform to $10 billion over the next five years by helping to create new products and strategies. By setting this goal, we seek not only to empower sustainability-minded investors but also to drive capital to sustainability-minded businesses. With access to capital, such businesses can grow, expand and tap the equity and debt markets to fuel further innovation—thus providing investors more opportunities to achieve the positive impact they seek.
Conclusion
The defining global challenges of our time spring from the fact that both our natural and public resources are limited. At the Institute for Sustainable Investing, we believe that private investment capital can support the pursuit of economic and social progress within the Earth’s limits. The Institute focuses on investment products and strategies that aim to generate positive impacts for society and the environment as well as attractive financial returns. Through sustainable investing, investors may support and complement the critical efforts of philanthropists and policymakers to catalyze positive change. Sustainable investing seeks to provide strategies, products and solutions that help investors realize their vision of a better world.

To learn more about the Institute for Sustainable Investing, please visit www.ms.com/sustainableinvesting
To contact the Institute, email sustainability@morganstanley.com

Sources:
1 United Nations Department of Economic and Social Affairs/Population Division (2004): "World Population to 2300."
7 Source: Bloomberg, Morgan Stanley.
10 "Professional service providers" refers to organizations serving asset owners and/or investment managers. (Source: Principles for Responsible Investment.)
11 Principles for Responsible Investment.
14 The universe of ESG issues is very wide, but some examples include chemical pollution and waste management (environmental); child labor and access to medicine (social); and business ethics and environmental and social business strategy. (Source: Principles for Responsible Investment.)

This material has been prepared for informational purposes only. It 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 & Morgan Stanley & Co. LLC ("Morgan Stanley") recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a Morgan Stanley Financial Advisor. The appropriateness of a particular investment or strategy will depend on an investor’s individual circumstances and objectives. This material contains forward looking statements and there can be no guarantee that they will come to pass. Information contained herein is based on data from multiple sources and Morgan Stanley makes no representation as to the accuracy or completeness of data from sources outside of Morgan Stanley.

Investors should carefully consider the investment objectives and risks as well as charges and expenses of a mutual fund/exchange traded fund before investing. To obtain a prospectus, contact your Financial Advisor or visit the fund company’s website. The prospectus contains this and other information about the mutual fund/exchange traded fund. Read the prospectus carefully before investing.

An investment in an exchange-traded fund involves risks similar to those of investing in a broadly based portfolio of equity securities traded on exchange in the relevant securities market, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in stock prices. The investment return and principal value of ETF investments will fluctuate, so that an investor’s ETF shares, if or when sold, may be worth more or less than the original cost.

The investor should note that funds that invest exclusively in one sector or industry involve additional risks. The lack of industry diversification subjects the investor to increased industry-specific risks.

Private Equity Investments:
• Often are speculative and include a high degree of risk. Investors could lose all or a substantial amount of their investment.
• Are suitable only for long-term investors willing to forgo liquidity and put capital at risk for an indefinite period of time.
• May be highly illiquid—there is no regulated secondary market for private funds, and there may be restrictions on redemptions or assigning or otherwise transferring investments in private funds.
• Are not subject to the same regulatory requirements as mutual funds. These investments typically are not required to provide periodic pricing or valuation information to investors.
• Include complex tax structures, tax inefficient investing and delays in distributing important information.
• Involve limited transparency with respect to, among other characteristics, fund holdings and investments.

Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally, the longer a bond’s maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer.

This article was written with assistance from Sandra Noonan.