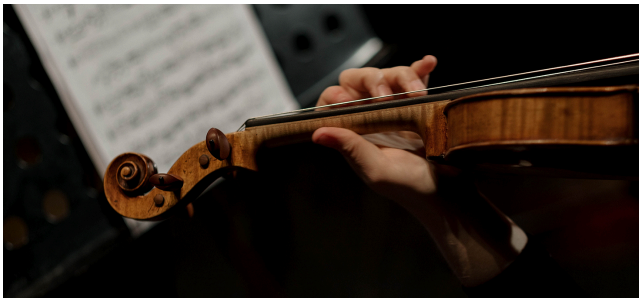
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Strategic: Go sustainable

Go sustainable

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- **Why?** 1) Sustainable investing can deliver competitive returns and alignment with sustainability goals. 2) Energy affordability, security of supply, and permitting will be central policy and investment issues in 2027, creating investment opportunities. 3) We favor diversification across asset classes and exposure to private impact investments (subject to their unique risks).



Electrification, energy security, climate adaptation, and infrastructure investment continue to create commercially durable opportunities across public and private markets. Source: Pexels_cottonbro

Sustainable investing remains a strategic way for investors to pursue competitive returns while aligning portfolios with environmental or social objectives. Looking into 2027, however, the opportunity is becoming broader and more complex. The transition is no longer driven only by conventional climate policy. It increasingly reflects the interaction of artificial intelligence, electrification, energy security, industrial policy and the need for more resilient infrastructure.

CIO's three Transformational Innovation Opportunities, *Artificial intelligence*, *Power and resources*, and *Longevity*, are closely connected to this transition. AI could improve productivity and resource efficiency, while advances in health care can support longer and healthier lives. At the same time, the rapid build-out of AI infrastructure is increasing demand for electricity, data centers, transmission networks, cooling systems and critical materials. This creates opportunities across the AI and power value chains, but also introduces important constraints and trade-offs, including energy affordability, grid reliability, water availability and the allocation of infrastructure costs.

We expect global AI-related investment to rise from around USD 1.0tr in 2026 to USD 1.4tr in 2027. Much of the data-center capacity planned for 2027 is already approved, ordered or under construction, providing reasonable near-term visibility. Beyond 2027, however, the durability of the investment cycle will increasingly depend on financing conditions, permitting, access to power and grid connections, and ultimately whether AI-related revenues can support the scale of infrastructure spending. Investors should therefore distinguish between established businesses with visible orders and proven execution and more speculative projects dependent on continuing capacity shortages or rising valuations.

The energy transition is broadening

The electrification of industry, transport and heating is combining with AI-related demand to increase pressure on power systems. CIO projects around USD 32tr of global electrical-infrastructure spending over the next decade, covering generation, grids, storage and critical minerals. Some of the most attractive opportunities may emerge in areas where capacity is hardest to expand and supply constraints are most persistent, including high-voltage equipment, transformers, grid automation, energy storage, power-management systems and selected critical materials.

This broadens the sustainable-investing opportunity beyond renewable generation alone. Solar and wind capacity will remain important, but investment will also be required in transmission and distribution, storage, efficiency, dispatchable power and system resilience. Nuclear energy can form part of this mix because it provides reliable, lower-emissions electricity. However, its potential benefits need to be weighed against high upfront capital requirements, lengthy development timelines, waste-management and safety considerations, and significant project-execution risk.

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Affordability is increasingly becoming as important as availability. The US midterm results highlighted voter concern about energy costs and the effect of large electricity users on household bills. A central question for 2027 will be whether large-load facilities such as data centers are required to fund the incremental generation, storage and grid capacity they need. The emerging principle that large loads should "pay their own way" could protect consumers and grid reliability, while favoring developers and operators able to secure credible power arrangements.

Permitting reform could further reshape the opportunity set. Faster environmental reviews, clearer decision timelines, stronger regional planning and more durable permits could reduce development delays and improve project certainty across energy technologies. Combined with an "all-of-the-above" approach to energy policy, such reforms could support investment across renewables, storage, transmission, nuclear and other lower-carbon infrastructure even when the policy rationale is framed around affordability, reliability and energy security rather than climate objectives alone.

Sustainable investing in infrastructure

Infrastructure is supported by three structural trends: digitalization, decarbonization, and deglobalization. Digitalization is increasing demand for data centers, fiber and electricity. Decarbonization requires renewable generation, storage and modernized grids. Deglobalization and energy-security concerns are encouraging investment in domestic power systems, manufacturing capacity, transportation and supply chains.

For sustainability-focused investors, diversified core and core-plus infrastructure can provide broad exposure to these trends through operational assets with relatively visible and, in many cases, contractual or regulated cash flows. More targeted allocations to renewable generation, transmission, grids and storage can complement this exposure by providing a clearer link to decarbonization objectives and the growing need for reliable electricity infrastructure.

The trade-off is that diversified infrastructure portfolios may also include conventional energy, transportation or data-center assets and therefore offer less direct climate exposure. Pure-play renewable strategies can provide stronger alignment with decarbonization objectives, but returns may be more sensitive to power prices, regulation, weather conditions, permitting, financing costs and construction execution. Selectivity therefore remains critical. Investors should weigh sustainability alignment against asset quality, cash-flow visibility and valuation, particularly where elevated data-center valuations and higher financing costs increase the risk of overpaying for development-stage assets.

How to build sustainable portfolios

All major asset classes offer sustainable options, which historically have shown similar return characteristics to traditional investments, though risk characteristics differ particularly for alternatives. We believe that the longer-term performance of diversified sustainable investing strategies will be driven more by investment fundamentals and the economic environment than by politics.

Sustainable investors can put money to work depending on their intentions and objectives.

Equity options include the following:

1. Strategies that predominantly invest in equities of issuers and assets providing solutions to sustainability or climate transition challenges;
2. Engagement equity strategies that predominantly invest in equities of issuers demonstrating better operational sustainability or climate transition performance relative to peers;
3. Strategies that look to generate progress by investing in equities of issuers that have potential to show improved sustainability or climate transition performance over time;
4. Alignment strategies where equity fund managers actively engage with issuers with the aim of driving progress on sustainability or climate transition-related topics.

Fixed income options include:

1. Strategies that predominantly invest in bonds of issuers demonstrating better operational sustainability or climate transition performance relative to peers;
2. Strategies where bond fund managers actively engage with issuers with the aim of driving progress on sustainability or climate transition-related topics;
3. Strategies that invest predominantly in bonds issued by multilateral development banks, such as the World Bank, directly or via managed solutions. Proceeds are directed with the intent to generate positive environmental or social impact through development finance;
4. Thematic fixed income strategies that invest predominantly in bonds that finance environmental or social projects and activities, as well as a transition process toward stronger sustainability credentials (including green, social, sustainable and sustainability-linked bonds);
5. Municipal bond strategies that invest predominantly in municipal bonds whose proceeds are designated to fund projects with social or environmental objectives;

6. Strategies that invest predominantly in securitized bonds like mortgage-backed securities where the underlying pools meet social or environmental criteria;
7. Emerging markets finance strategies that predominantly comprise fixed income and currency solutions to provide private funding in emerging markets and support the efforts of development finance institutions.

In alternatives, we believe impact investments in climate technology that aim to help companies meet their decarbonization commitments reduce overall greenhouse gas emissions and drive the overall transition to a low-carbon economy represent a significant investment opportunity.

Nonetheless, private market investors need to consider risks related to leverage, defaults and portfolio concentration. Private market investments also require a tolerance for illiquidity and typically involve less transparency and more limited investor control over underlying holdings than public market investments.

Some investors may seek impact investing, a subset of investment solutions, where investors actively fund or engage with investments to generate measurable, verifiable, positive environmental or social impact alongside competitive financial returns.

Appendix

Non-traditional asset classes are alternative investments that include hedge funds, private equity, private credit, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. **An investment in an alternative investment fund is speculative and involves significant risks.**

Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund and should consider an alternative investment fund as a supplement to an overall investment program.

In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

- **Hedge Fund Risk:** There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, "junk bonds," derivatives, distressed securities, non-U.S. securities and illiquid investments.
- **Managed Futures:** There are risks specifically associated with investing in managed futures programs. For example, not all managers focus on all strategies at all times, and managed futures strategies may have material directional elements.
- **Real Estate:** There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.
- **Private Equity:** There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
- **Private Credit:** There are risks specifically associated with investing in private credit. This could include losses stemming from defaults on loans, which in significant adverse circumstances could result in a substantial loss of investment.
- **Foreign Exchange/Currency Risk:** Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer's "home" currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a U.S. investor.

Global asset class preferences definitions
The asset class preferences provide high-level guidance to make investment decisions. The preferences reflect the collective judgement of the members of the House View meeting, primarily based on assessments of expected total returns on liquid and commonly known indices, House View scenarios, and analyst convictions over the next 12 months.
Absolute view
Attractive: We consider this asset class to be attractive. Consider opportunities in this asset class.
Neutral: We do not expect outsized returns or losses. Hold longer-term exposure.
Unattractive: We consider this asset class to be unattractive. Consider alternative opportunities.
Note: For equities, we have a five-tier rating system with two additional preferences. When equities are included with the other asset classes in the three-tier rating system, we collapse "Most Attractive" with "Attractive" and "Least Attractive" with "Unattractive."
Most Attractive: We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.
Least Attractive: We consider this asset class to be among the least attractive. Seek more favorable alternatives opportunities.
Relative preferences
For the multi asset view, we also include relative preferences to help investors compare between items.
Preferred: We view this item more favorably than others within its asset class.*
In line: We see this item similarly to others within its asset class.*
Least preferred: We view this item less favorably than others within its asset class.*
*In the case of cross-asset, compared to other asset classes.
Note: The tactical asset allocation (TAA) positioning of our different investment strategies may differ from these views due to factors including portfolio construction, concentration, and borrowing constraints.

Appendix

Risk information
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