Sustainable Investing Trends for 2026

NORTHERN TRUST
ASSET MANAGEMENT

As 2026 begins, a heightened focus on security — an interconnected dynamic that transcends traditional boundaries — is profoundly influencing the world, and inevitably the sustainable investing landscape. Security, in this context, encompasses more than just asset protection; it reflects the growing recognition that resilient systems are foundational to long-term value creation and societal well-being. We see three security pillars emerging as central considerations for investors seeking sustainable outcomes: climate resilience, resource constraints and defense.

These three pillars align with a key long-term investment theme, **The Global Shift to Self-Reliance**, discussed in our 2026 Capital Market Assumptions (CMA), and will be drivers of opportunity and risk for all investors looking ahead.

Climate Resilience is important to global investors, but the fragmented policy landscape and a lack of real-world decarbonization present several challenges. Adapting to and mitigating the impacts of climate change, in an era of increasing volatility, means asset owners are revisiting how they are integrating climate metrics into their investment decisions and measuring progress.

A critical aspect of **Resource Constraints** is energy sovereignty, pushing many countries to increase reliable access to clean and affordable energy, and self-determine net-zero goals and glidepaths. The sustainable water and agricultural systems required to feed growing economies and global populations amid shifting environmental conditions are also driving global attention to resource independence. This theme builds on perspectives from our 2025 outlook — emphasizing reliability and access as both material risks and opportunities for global markets.

Security and Resilience, both in terms of physical infrastructure and cybersecurity, are vital to safeguard nations and businesses against evolving threats. Aerospace & Defense industry growth combined with national security investments growing in a variety of countries, particularly in Europe, brings newfound attention to weapons exclusion policies in certain funds. This theme builds on our perspective, company engagements, and conversations with global investors, about the growth potential for traditional defense considering current geopolitical dynamics, as well as the emerging risks associated with rapid technology proliferation.

In addition to **The Global Shift to Self-Reliance**, each of these themes is shaped by the macro trend of technology innovation in the form of artificial intelligence (AI),[1] which is in turn informed by each of our themes. A major challenge for investors is the increasingly divergent regulatory and policy environment, which negatively impacts their ability to navigate these themes and make long-term investment decisions. Read further as we explore these conundrums in more detail and how they are shaping investors' priorities, risk assessments, and opportunities for innovation along with our expectations on how these themes will evolve this year.

[1] Source: Sarby, N., Koch, D. Stewardship in Focus: Artificial Intelligence. January 2026.

Field Notes: A Practitioner's Lens on Climate Risk

The UN climate talks at COP30 in Brazil led to a deal that made no commitment to fossil fuel phase-out, despite progress on adaptation finance and Just Transition. Global economic and population growth, combined with fragmented policies and financing gaps, make real-world decarbonization increasingly challenging.

This disorderly transition scenario fosters a market environment in which companies' long-term planning capabilities are significantly hindered — impacting investors' ability to properly value risk and opportunities. Conversely, clean energy technologies are becoming cheaper and more abundant, a trend we believe will accelerate the global energy transition, opening new avenues for investors in renewables, electrification, and supporting infrastructure. These misaligned market and policy signals can foster market volatility. A key theme for climate investors is pragmatism — how can they manage climate-related risks, meaningfully decarbonize and capitalize on market opportunities; and what is a realistic implementation strategy?

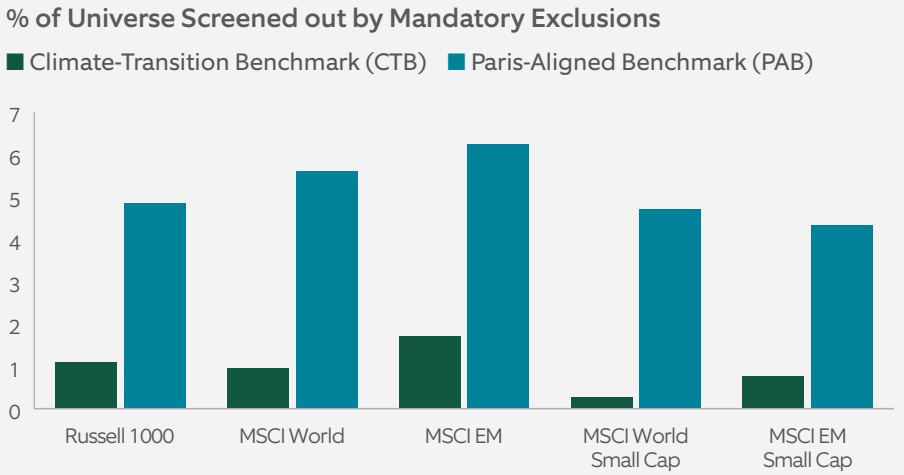
Engage or Divest

Investor strategies are evolving in response to these realities, in part shaped by regulation. From an investment perspective, layering new mandatory screens[2] on the Energy and Utilities sectors ultimately leads to increased active risk in portfolios, reinvigorating the age-old debate about the relative effectiveness of divestment versus investment backed by targeted climate engagement. Within the European Union (EU), mandatory screens from the Paris-Aligned Benchmarks (PAB) regulation are now integrated into both the European Securities and Markets Authority (ESMA) Naming Guidelines and the Sustainable Finance Disclosure Regulation (SFDR) 2.0 proposal — **Exhibit 1** shows the impact of these screens when applied to common equity indices.

From a portfolio outcomes perspective, investment remains the preferable choice, despite the reduction of previous climate commitments in the energy sector. Climate-related risks may have material implications for long-term value creation of portfolio companies, and we believe engagement on mid- and long-term decarbonization strategy disclosure, along with quantifying the principal actions to deliver against climate targets continues to be an important approach. At companies where we regard climate risk to be financially material to either business risk or opportunity, we utilize research and engagement as key components within our assessment of how the company is managing these aspects. Changes in the U.S. market that may limit shareholders from filing climate resolutions are likely to impact the number of such proposals in 2026. While some investors prefer immediate divestment, we see a trend of utilizing divestment as a risk management tactic when purposeful stewardship actions stall.

EXHIBIT 1

Impact of Mandatory EU Exclusions on Common Equity Universes



Sources: MSCI ESG Research, Northern Trust Asset Management. Data as of November 30, 2025.

In general, CTB screens take out around 1% of most universes while the full PAB list takes out around 5%. This is slightly higher in Emerging Markets.

[2] CTB screens include (a) companies involved in any activities related to controversial weapons; (b) companies involved in the cultivation and production of tobacco; (c) companies that benchmark administrators find in violation of the United Nations Global Compact (UNGC) principles or the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises.
PAB screens include the CTB screening criteria plus (d) companies that derive 1% or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite; (e) companies that derive 10% or more of their revenues from the exploration, extraction, distribution or refining of oil fuels; (f) companies that derive 50% or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels; (g) companies that derive 50% or more of their revenues from electricity generation with a GHG intensity of more than 100g CO_2 e/kWh.

Questioning Current Frameworks and Methodologies

Energy markets have been volatile for the past few years,[3] a trend we expect to continue. As real-world decarbonization hasn't kept pace with the Paris Agreement, investors are revisiting decarbonization plans. A popular approach for aligning a portfolio with net zero objectives are the EU-regulated PABs.[4] Recent data indicates that the original Paris Agreement 1.5°C target now requires a much more ambitious decrease of around 20% yoy; [5] the 7% yoy (global) level would lead to around 2°C. In research conducted in 2025, MSCI and NTAM stress tested the portfolio implications of a continued 7% target, finding, under the assumption of no real-world decarbonization, when applied to a broad benchmark there would be an increased, but still manageable level of active risk. Given this, investors are looking to "transition" funds. Within the EU, investors are looking to "Climate Transition Benchmarks", akin to PABs though with a subset of the exclusions. In other regions such as the U.K. (with the recently introduced "Sustainability Improvers" label) investors are focusing on investment and progress-tracking of investee companies. There is also the regional nuance that must be considered when applying decarbonization beyond developed markets to emerging markets countries, where governments must consider the pace of growing populations and are often looking beyond 2050 for their own Net Zero targets.

Scope 3 data represents a critical source of transition risk for investee companies, while also suffering from weak estimation approaches and underreporting, particularly in certain sectors. Last year, we proposed a Scope 3 integration framework for portfolios focusing on sectoral materiality.[6] This practical approach stresses the importance of understanding estimation methodologies and how they interact with other traditional financial metrics.

Given the complexity of technologies required to decarbonize, addressing risks and opportunities by sector can assist in better assessing decarbonization, especially in hard to abate sectors. Investors are also trying to think through how to move past the traditional focus list and take an individualized look towards harder to abate sectors to increase their decarbonization efforts. For example, the cement industry recognizes the role it needs to play in decarbonizing the economy as 'the combined absolute emissions of the cement sector are higher than any country aside from China and the U.S.[7] It is therefore important for investors to understand the feasibility of companies switching to renewable energy in clinker production and making use of innovative technologies, such as carbon capture. Conscious of the need to understand how any climate-related integration works within a portfolio, NTAM published recent papers showcasing how a benchmark-relative decarbonization can be achieved with relatively limited corresponding active risk,[8] as well as how this approach holds over time (in contrast to achieving uplifts on traditional metrics such as ESG Ratings).[9]

The Path Forward

Investor understanding of climate risk as financially material has rapidly improved over recent years, evidenced in the proliferation of available data and tools. However, investors are continuing to evaluate tactics to enhance their decarbonization goals. Newer measures of climate risk, including Climate Value-at-Risk (CvaR), Net Present Value (NPV) Impact, and Implied Temperature Rise (ITR) are increasingly used to assess physical and transition risks and associated costs. Whilst there are a range of use cases for this information, these are highly modelled and could still benefit from improvements in data gaps and quality. Investment vehicles and frameworks have leaned heavily on backward-looking frameworks leveraging past emissions, but it is critical that investors gain an understanding of forward-looking risk. Investors are beginning to look at a shorter time horizon, with some integrating Network for Greening the Financial System (NGFS) short-term scenarios. These scenarios incorporate the impact of regional weather events on global gross domestic product (GDP) and associated financial stress from delaying the green transition. Utilizing shorter term scenarios may help close the gap between long-term projection and the realities of the pace of transition.

Ultimately, the Sustainable Investing landscape in 2026 demands strategies that are regionally nuanced, sector-specific, and grounded in forward-looking risk analysis. Engagement, flexibility and resilience will define success as investors navigate a volatile transition. This is particularly true in certain corners of the investment markets. For example, we can expect in some markets continued record growth in financing for climate related projects via green bond issuance. We also anticipate the potential for opportunities for emerging and developing economies (EMDEs) to mobilize capital to reach climate goals. Recent reports from COP 30 indicate approximately US$1.3 trillion in annual clean energy investment is needed in EMDEs by 2035.[10] Investors should ground themselves in a risk-centric mindset when it comes to climate and frame their climate investment philosophy within the context of a compensated risk assessment utilizing data inputs from benchmarks, short- and long-term scenario analysis and regional and sector specific data where appropriate.

[3] Source: Feás, E. and I. Tapia. "The volatility of energy prices and its effect on industry," El Instituto Elcano Royal Institute. March 20, 2025. [4] The integration framework behind this mandates fossil fuel exclusions, as well as a 50% carbon intensity reduction vs. the parent benchmark as well as 7% year-over-year self-decarbonization. Notably, since end 2024, the mandatory decarbonization also covers Scope 3 emissions. [5] PWC. Net Zero Economy Index 2024. As of September 2024. [6] Source: Dinershteyn, V., Rumyin, I., and M. Vidojevic. Making Scope 3 Work: How Investors Can Navigate Complexity and Manage Climate Risk. Northern Trust Asset Management Sustainable Insights. March 2025. [7] Source: Licaj, E. and G. Sherman. Concrete solutions: Decarbonizing cement and concrete across the value chain. WEF. September 10, 2025. [8] Source: Zymali, P., Dhall, A., Vidojevic, M., and J. Eisenhardt. Carbon Misconceptions: Clarifying the Impact of a Net Zero Commitment on Equity Portfolios. The Journal of Impact and ESG Investing v6(2) Winter 2025. October 15, 2025. Also available here. [9] Source: Chourasia, K., Rumynin, I., Van Vliet, B., and M. Vidojevic. The Evolving Impact of ESG Ratings on Portfolio Outcomes. Northern Trust Asset Management Sustainable Investing Insights. November 2025. [10] Source: Strinati, C., Barron, M. and B. Naran. The Clean Energy Equity Investment Gap. Climate Policy Initiative and Glasgow Financial Alliance for Net Zero (GFANZ). November 14, 2025.

Running on Empty: Navigating Resource Constraints

Resource stress is a defining challenge for investors in 2026, as demands on grid infrastructure, water, land, biodiversity and critical minerals are under increased pressure. These demands will continue to increase as global real GDP is projected to grow by 3.1% and the population is projected to hit 8.5 billion by 2030.[11] Rising resource nationalism and accelerating clean energy demand amplify volatility and valuation risk. Meanwhile, AI power demand and electrification intensify reliability needs, making resource stress a first-order financial risk. Balancing innovation, demand growth and resource constraints creates a conundrum. Commodity pricing is likely to increase amidst the race for resources, particularly rare earth elements (REE). Access limitations exacerbated by other challenges, like drought, in 2026 are likely to lead to volatility and potential disruptions in food supply. Geopolitical drivers including conflict, tariff negotiations and competition are heating up — as pointed out in our 2026 CMA this could lead to resource stockpiling and price insensitive/inelastic buyers — and could result in lower GDP growth and inflationary pressure on energy and REEs. For sustainable investors, this puts pressure on decarbonization goals as REEs are critical inputs into renewable energy supply chains. In the U.S., AI energy demand, policy changes, and utilizing liquid natural gas export/purchase as a lever in tariff negotiations are all likely to impact carbon emissions in 2026 and beyond.

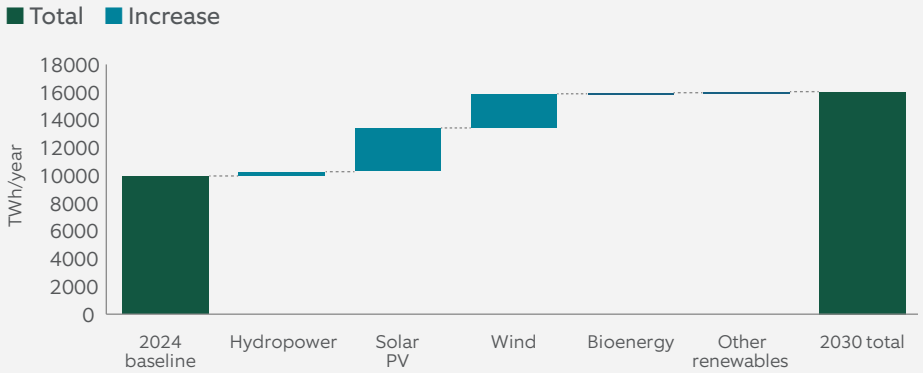
Energy Constraints

Focusing on the global energy system, a historic shift is underway. It is possible that tariffs and geopolitical risks involving Venezuela, Russia, and Iran are likely to drive supply chain disruptions, pricing uncertainty and volatility.[12] Oil prices have decoupled from inflation, and alternative energies, like solar, are now benefiting from increased efficiencies and reduced levelized cost of energy (LCOE). Electrification demands are projected to hit a new high of 29,000 terawatt-hours (TWh) in 2026, with electricity growing more than twice as fast as total energy demand, driven in large part by projected data center needs.[13] Global renewables supplies will continue to grow, as shown in **Exhibit 2**. Despite this, growth of renewables will still move more slowly than is needed to support the growth in demand. Roughly 60% of U.S. data center power demand is projected to be met by natural gas generation through 2030, increasing global CO_2 levels by 215–220 million tons.[14] This analysis on sourcing is based on availability and risk management outweighing LCOE, and mirrors conversations we conducted with energy analysts in the second half of 2025. In addition to the stress of growing energy demand, costs of energy will be another pain point .[15] Affordability will be a key theme across the midterm elections in the U.S., driven in part by increased residential electricity costs, a result of concentrated energy consumption from data centers. We expect policy makers across many states will focus on providing cost relief.

EXHIBIT 2

Renewable Energy Growth Trajectory

Global renewable power generation and change by technology, 2024 and 2030



Source: IEA Renewables 2025.

Renewables power generation is projected to increase substantively by 2030 from a 2024 baseline

[11] Sources: International Monetary Fund (IMF). World Economic Outlook. IMF Datamapper. As of October 2025; United Nations (UN), Department of Economic and Social Affairs, Population Division (2015). Population 2030: Demographic challenges and opportunities for sustainable development planning (ST/ESA/SER.A/389). [12] Source: Iseav, I. "Tariffs, Turbulence and Tightropes: The Next Chapter in Global Energy Investment," Observer, October 16, 2025. [13] Source: International Energy Agency (IEA). Electricity Mid-Year Update 2025. IEA/Paris. July 30, 2025. [14] Source: Goldman Sach Research. AI/Data Center Power Demand: The 6Ps driving growth and constraints. October 13, 2025. [15] Source: "Today in Energy" May 14, 2025.

Natural Resource Constraints

Natural resource constraints are disrupting supply chains, raising costs and amplifying regulatory and reputational risks in a variety of sectors. Water scarcity is a mainstream risk across sectors, from agriculture to tech. Large scale hydropower growth in the energy grid is dependent on weather conditions. Droughts and water stress are negatively impacting production and will likely hinder hydropower potential in water stressed markets looking ahead.

China commands the lion's share of the REE value chain, from mining to the production of key intermediate products and critical inputs for high-growth industries. Multiple REEs, including copper, lithium and nickel, are necessary inputs for solar panels and wind turbines, and will continue to represent a key area of international competition and volatility in the renewables sector. If the China–U.S. trade framework is successful, it should provide some relief to REE supply chain disruptions; however, it is likely that companies dependent on REEs will allocate capital expenditures towards development and diversification of sourcing in South America or Asia Pacific.

Similarly, deforestation largely driven by agriculture threatens energy, food and water security. The ability to analyze and quantify the risks associated with natural capital loss has improved over recent years, as datasets aligned with the UN Ad Hoc Technical Expert Group (AHTEG) indicators grow in availability and quality. This framework fine-tunes the biodiversity data available to investors and will continue to improve data quality in the market going forward. Improved biodiversity data can help inform both public and private sectors of a clearer picture of exposures, finance gaps and future opportunities. Later this year we will launch a framework for assessing biodiversity to analyze these exposures. NTAM stewardship employs a two-pronged approach to address climate change and nature-related risks and opportunities in portfolios, including bottom-up, data driven assessments with a targeted stewardship strategy. Building a common framework will also support the integration of natural capital risks into valuation models. We see efforts to enhance a global baseline on natural capital reporting by the International Sustainability Standards Board and the Taskforce for Nature-Related Financial Disclosures as an important step in this process.

Resource Efficiency: Separating Leaders From Laggards

Necessity is the mother of invention, and we anticipate the markets to reward companies that maximize resource efficiency.[16] These efficiencies can position issuers to better navigate supply chain disruptions, additional costs and tariffs while simultaneously supporting long-term societal and economic benefits through reducing reliance and pressure on nature. Companies that utilize these resources more efficiently tend to have better operational efficiency and better margins.[17] However, capturing these efficiencies varies by industry.

Looking at the Metals & Mining industry as an illustrative example, we can determine leaders and laggards in their use of water resources. Chile is responsible for almost a quarter of the world's copper production,[18] a REE utilized in electrical wiring and renewable energy. Production is largely concentrated in the north of the country, which experiences significant and persistent droughts. Mining is a heavily water intensive process, and drought poses significant production challenges in this sector. The OECD projects that the costs associated with losses and damages from water stress will increase at an annual rate of 3%–7.5%.[19] As these costs increase sharply, companies that invest in desalination, water recycling and other efficiencies measures will likely be better positioned to manage these risks and avoid volatility and disruptions. It is also important to understand that water risk goes beyond environmental impacts and investors should keep a critical eye on social impacts of mining. This may include associated water quality issues related to microplastics, and forever chemicals, quantity issues related to overuse of the aquifer and the impacts on local populations, as well as employee health and safety concerns.

[16] Resource efficiency means achieving maximum economic value while minimizing the use of natural resources and reducing waste. [17] Sources: Heyns, G., 2012. Resource Efficiency and Shareholder Value: Investment Returns from Forward Thinking Companies. Thinking Ahead 41 (August), 58-65; Leung, W. S., Barwick-Barrett, M., & Evans, K. P. (2014). Resource Efficiency and Firm Value. Frijns, B., Margaritis, D., & Psillaki, M. (2012). Firm efficiency and stock returns. Journal of Productivity Analysis, 37(3), 295-306. [18] Source: International Trade Administration. Chile Country Commercial Guide: Mining. November 24, 2025. [19] Source: OECD. 2025. Global Drought Outlook: Trends, Impacts and Policies to Adapt to a Drier World, OECD Publishing, Paris, https://doi.org/10.1787/d492583a-en.

Shifting Perspectives: Rethinking Security and Resilience

Security and resilience are driving policy plans in the G20, as many countries increase attention to defense spending, energy security, immigration reforms and other resilience measures.[20] In 2025, North Atlantic Treaty Organization (NATO) allies made commitments to invest 5% of GDP annually on core defense requirements and defense- and security-related spending by 2035, a significant increase from the previous commitment of 2% of national GDP. Against this backdrop, European Aerospace & Defense stocks surged in the first half of 2025.[21] Markets in 2026 are likely to continue to be sensitive to national security actions. We anticipate government defense spending to persist given ongoing geopolitical conflicts in a variety of locations. Aerospace & Defense as an industry is likely to benefit from these tensions, as are the tech companies that focus on cybersecurity and AI. Across the market, we expect ongoing volatility as these international conflicts evolve.

Growth in the Aerospace & Defense industry combined with safety concerns in a variety of countries, particularly in Europe, brought newfound attention onto the exclusionary policies of sustainable funds, particularly weapons. We expect a lack of consensus on how investors will react to these changing considerations. During 2025, we proactively engaged clients to discuss perspectives around weapons screens. Unsurprisingly, based on overall sentiment, the feedback we received was mixed.

While the consensus amongst our clients to maintain restrictions on companies involved with controversial weapons and civilian firearms was clear, investor perspectives on conventional military weapons were more nuanced. Certain clients exhibited a strong preference to maintain conventional weapons restrictions, while others were interested in allowing investment in European conventional weapons manufacturers due to the geopolitical discussions regarding national security. This perspective is aligned with the recent EU Commission and the U.K.'s Financial Conduct Authority (FCA) notices confirming that investments in defense stocks are compatible with their respective sustainable finance frameworks and that these investments should be assessed on a case-by-case basis as with other sectors.[22]

Regular engagement with our clients allows us the critical opportunity to understand their views and perspectives. Several interesting points were raised during conversations, which reveal certain underlying dynamics surrounding weapons within the context of sustainable investing:

- **Regional perspectives are impacting investor sentiment:** Compared to other common screening topics such as tobacco or thermal coal, where the risks are consistently perceived across geographies, a notable variation is emerging across regions with regards to weapons. We identified that while some clients strongly reject inclusion, others exhibited different degrees of interest, either through a home-country bias or Europe-domiciled companies at large. The key takeaway here is that national security justification is inherently dependent on geography. Furthermore, there is a tendency for investors to seek alignment with their own national governments on this topic, particularly on topics such as nuclear weapons.
- **Perspectives on individual companies:** Certain clients had strong company views, deeming some to be more high risk compared to others for a variety of reasons, including production of specific types of weapons or historical links to controversies.
- **General agreement on controversial weapons:** Whilst there is a shift in perceptions on conventional weapons, there is still general agreement on the ongoing need to screen out controversial weapons. Looking ahead, we anticipate investors formulating more nuanced views on what constitutes a "controversial" weapon. The base definition tended to be weapons explicitly outlawed by international treaty (landmines, cluster bombs and biological/chemical weapons), which aligns with the EU's Principal Adverse Impacts definition.[23] However, depending on the data provider used, "controversial" can also include things like nuclear weapons, white phosphorus, blinding lasers, and non-detectable fragments. There is investor appetite for more granularity from data providers on the impact of different weapons screening categories, as some of the nuance is lost in current weapon and producer classifications.

[20] Source: Government of Canada. G20 South Africa Summit: Leaders' Declaration. November 23, 2025; European Commission. ""Commission unveils the White Paper for European Defence and the ReArm Europe Plan/Readiness 2030," Press Release, March 18, 2025. [21] Source: FactSet; MSCI Europe Aerospace and Defense Index (USD). Data as of November 28, 2025. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index. Past performance is not indicative of future results. [22] Source: European Commission. Commission Notice on the application of sustainable finance framework and the Corporate Sustainability Due Diligence directive to the defense sector. Brussels. 2025; UK FCA. "Our position on sustainability regulations and UK defence," Press Release. November 3, 2025. [23] Source: EU Commission Delegated Regulation (EU) 2022/1288. As of April 6, 2022.

In 2026, we anticipate a continued lack of consensus from investors around whether weapons manufacturers should be integrated into their sustainable investing mandates. As more funds and strategies include defense in equity portfolios, investors are likely to seek additional insights. An investor group has started to develop a framework for sustainable defense. [24] Furthermore, we anticipate investors will also utilize ESG ratings to analyze the practices and risk management of the companies themselves. Historically, the defense sector has exposure risk to issues related to corruption, procurement practices and regulatory compliance arrangements or failures. Other risks include product malfunctions and the high carbon emissions associated with weapons production.

As illustrated in **Exhibit 3**, we see a positive trend in ESG scores over the last 15 years (a higher number represents lower ESG risk). Concurrently, ESG scores of Aerospace & Defense companies declined during this period. Adding these names into the investable universe may impact the overall ESG ratings profile of a given portfolio; an interesting trend that does not imply improved ESG risk management capabilities in the sector.

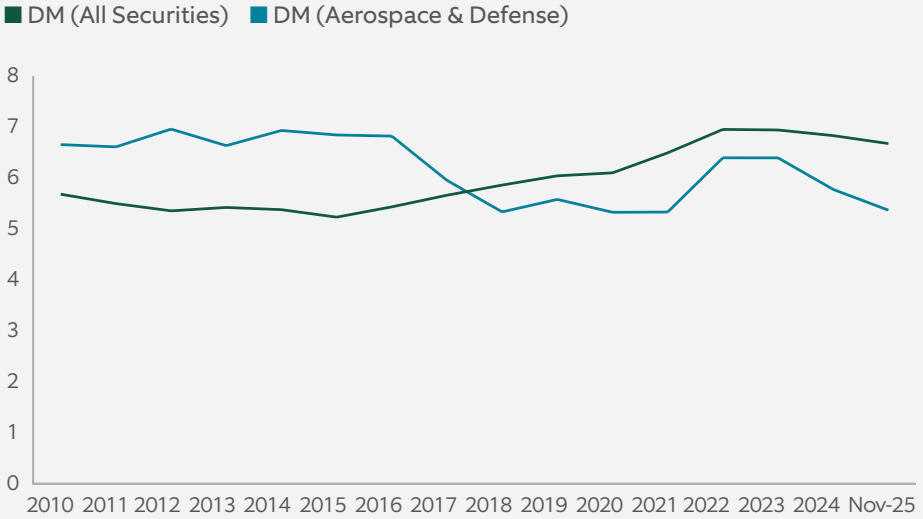
Furthermore, of the 30 MSCI World Index companies currently classified as Aerospace & Defense, half have either an Orange or Yellow MSCI Controversy Flag,[25] implying a notable degree of severity. These controversies are often related to bribery or product safety (i.e., airplanes), but there are several instances of company involvement in conflicts with a high risk of human rights violations.

The global policy and security landscape is likely to be dominant themes over the course of 2026. We anticipate investors will take a stronger look at risks associated with the social implications of weapons and technologies developed outside the traditional Aerospace & Defense sector, including at companies in the tech sector producing drones, facial recognition technology and AI. Investors should expect companies to have clear AI and cybersecurity risk frameworks/guiding principles, overseen by cross-functional management. These frameworks should include robust cybersecurity and data privacy measures, regular system audits and stress testing, ISO certifications and adequate cybersecurity insurance.

EXHIBIT 3

Moving In Opposite Directions

Weighted Average of All ESG Scores in MSCI World Index vs. Weighted Average of Aerospace & Defense Industry ESG Scores



Sources: MSCI ESG Research, Northern Trust Asset Management. Data as of November 30, 2025.

ESG Ratings for Aerospace & Defense companies have decreased in an era of enhanced risk management practices.

[24] Source: Webb, D. "Investor group working on principles for responsible defence investment," *Responsible Investor*, November 7, 2025.

[25] Note: Companies are rated as Red, Orange, Yellow, Green. For more info on scoring and methodology, see: MSCI Controversies and Global Norms Methodology. As of October 2025.

Conclusion

Sustainable Investing is being redefined by an intensified focus on national self-reliance and a fragmented policy landscape increasingly focused on consistent access to resources.

As a result, investors are increasingly recognizing that robust, secure systems are essential for both mitigating risk and capturing long-term value. Interestingly, however, as the policy landscape diverges on topics like climate, we see investors grappling with the evolving risk landscape. Changing investor views on traditional weapons opens doors to new opportunities but also to a revised portfolio profile. For investors navigating this complex environment, we anticipate perspectives not only to evolve, but to become more bespoke, resulting in growing demand for customized strategies, and interest for expression of custom views through both portfolio construction and stewardship. By integrating these security considerations into investment strategies thoughtfully, stakeholders can build risk-adjusted portfolios that drive positive environmental and social outcomes while enhancing resilience. The convergence of these security imperatives signals a new landscape, where addressing global vulnerabilities represents a strategic necessity in a rapidly changing world.

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NORTHERN TRUST

ASSET MANAGEMENT

Northern Trust Asset Management is a global investment manager that helps investors navigate changing market environments in efforts to realize their long-term objectives. Entrusted with $1.4 trillion in assets per Q4 data,* we understand that investing ultimately serves a greater purpose and believe investors should be compensated for the risks they take — in all market environments and any investment strategy. That's why we combine robust capital markets research, expert portfolio construction and comprehensive risk management in an effort to craft innovative and efficient solutions that seek to deliver targeted investment outcomes.

Consistent with our view that investors should be compensated for the risks they take, evaluating companies' performance using sustainability criteria can enhance our forward-looking view of risks and opportunities.

We believe material sustainability factors can provide insights into risks that may affect a company's future financial viability and clients' long-term risk-adjusted investment returns. When managed well, they can position a company for success and when mismanaged, they can result in significant risks. This analysis, considered alongside material traditional risk factors, can bolster our ability to future-fit portfolios and grow clients' capital.

Learn More

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* Assets under management as of December 31, 2025.

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