



# Global Sustain Fund

Global Sustain is a high-conviction, ESG-integrated global equity portfolio seeks to be strong on engagement, light on carbon and built on quality. We use bottomup fundamental analysis and actively engage with company management to identify material ESG risks to the stability of long-term returns. We also seek well-governed companies that lead the way on social and environmental matters to drive consumer and stakeholder engagement. The Fund has a robust carbon-related screening policy and filtering process to exclude carbon-intensive sectors. It also excludes contentious sectors whose core business activity involve Adult Entertainment, Alcohol, Civilian Firearms, Gambling, Tobacco and Weapons.



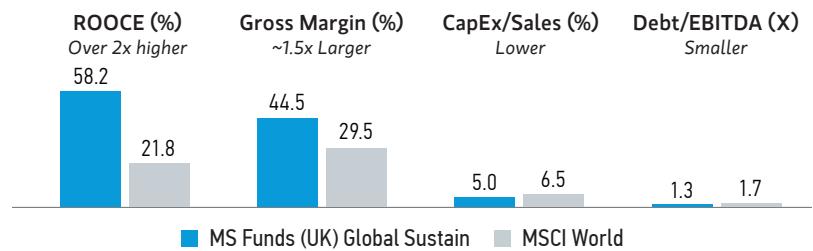
## Sustainability Rating™



The Morningstar Sustainability Rating as of August 31, 2023 is not based on fund performance and is not equivalent to the Morningstar Rating. The Morningstar® Low Carbon Designation™ helps investors identify low-carbon funds.

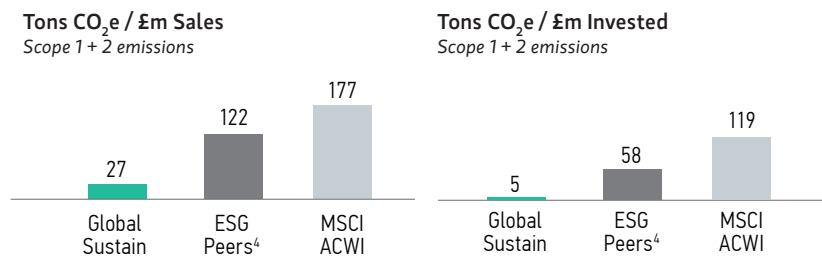
### High Quality Investing<sup>1</sup>

ESG is integrated without relaxing our quality criteria. The result is a portfolio of high quality compounders that meet stringent criteria for high, sustainable returns on operating capital.



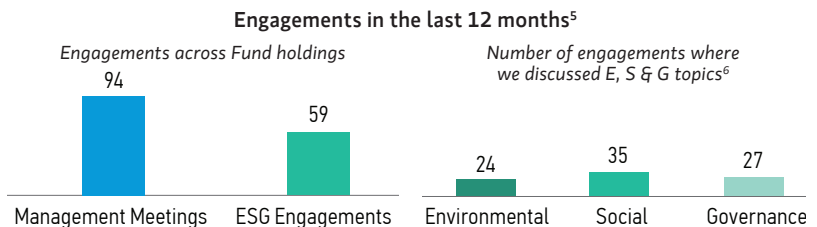
### Light on Carbon<sup>2,3</sup>

Global Sustain seeks to achieve a lower carbon intensity than the MSCI ACWI through its focus on capital light businesses and exclusion of carbon-intensive sectors. The portfolio has a carbon footprint 85% lower (Scope 1 and 2 emissions) than MSCI ACWI per £1m sales, and 96% lower per £1m invested.



### Active Engagement

The team has engaged directly with management on material issues of sustainability and governance for over 20 years.



<sup>1</sup> Quality ratios are historical. ROOCE (Return on Operating Capital Employed) = EBITA (Earnings Before Interest, Taxes and Amortization) / PPE (Property, Plant, Equipment) + Trade working capital (excludes goodwill). ROOCE, Gross Margin, Capex/Sales, and Net Debt to EBITDA use last reported ex-Financials data. Characteristics are calculated using the underlying companies in the Global Sustain Fund. Data as of 30 September 2023. Updated quarterly.

<sup>2</sup> Trucost data as of 30 September 2023 for the Morgan Stanley Funds (UK) Global Sustain Fund. Updated quarterly.

<sup>3</sup> Trucost defines a portfolio's carbon intensity as the carbon emissions (Scope 1 and 2) of a portfolio per £1 million invested or per £1 million of portfolio companies' sales. The portfolio-level statistics show the weighted average carbon intensity (WACI). For further information on restrictions, please refer to the Fund's Restriction Screening Policy. Global Sustain seeks to achieve a greenhouse gas (GHG) emissions intensity

that is significantly lower than that of the reference universe (which is defined, only for the purposes of comparing GHG emissions intensity, as companies of the MSCI AC World Index).

<sup>4</sup> 30 largest global equity investment funds from FactSet and Morningstar databases with ESG, Environmental or Ethical focus, as defined by Morningstar, and where ESG considerations are reflected in the name of the fund.

<sup>5</sup> The International Equity team defines an engagement as an interaction with senior management or non-executive board member. Engagements may also be those with companies' investor relations and/or sustainability teams. Data from 1 July 2022 - 30 June 2023. Updated semi-annually.

<sup>6</sup> Total count of ESG topics is higher than total number of ESG engagements as more than one topic may be discussed in a meeting.

## Exclusionary Screening of the Investment Universe

### GREENHOUSE GAS (GHG) EMISSIONS INTENSITY CRITERIA EXCLUSIONS

The investment team excludes any company:



With any tie to fossil fuels<sup>7</sup>, or assigned to the following: Construction Materials, Energy, Metals & Mining, Utilities (excluding Renewable Electricity and Water Utilities)<sup>8</sup>.



For which GHG emissions intensity estimates are not available and/or cannot be estimated.



The remaining issuers are ranked according to their GHG emissions intensity. Those with the highest intensity are excluded.

### SECTOR/INDUSTRY EXCLUSIONS<sup>9</sup>

The team also excludes any company:



Whose core business activity involves adult entertainment, alcohol, civilian firearms, gambling, tobacco and weapons.

### CONTROVERSIAL WEAPONS

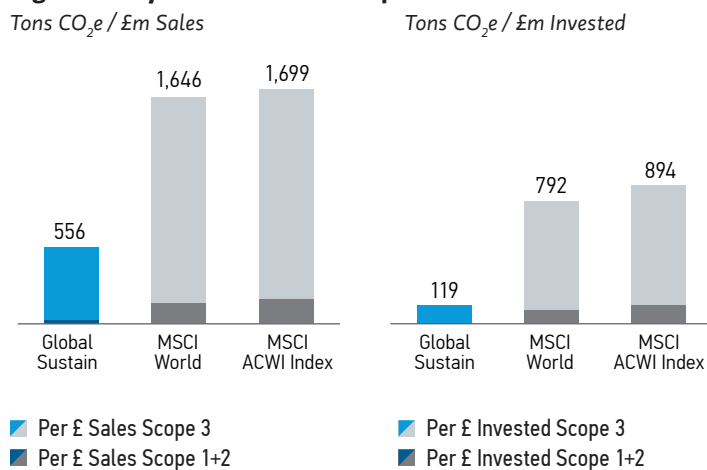


The Fund will not invest in any company with any tie to controversial weapons.

## Global Sustain is Carbon Light

While Scope 3 emissions – indirect emissions relating to the supply chain (upstream) and customers’ logistics and product use emissions (downstream) – are harder to quantify and companies have limited direct control over them, many companies are trying to better understand and report on their full value chain emissions. Taking all three scopes into account, the portfolio is 67% lower than MSCI ACWI per £1m sales, and 87% lower per £1m invested.

### Significantly lower carbon footprint than the index<sup>10</sup>

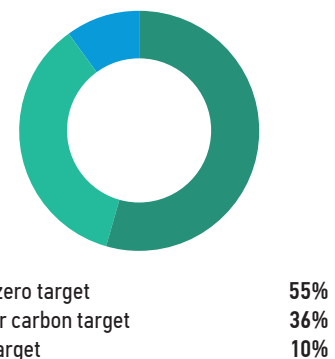


## ...and Getting Lighter

The team has analysed the greenhouse gas (GHG) reduction targets of companies in the portfolio and engages with management to better understand their strategies to achieve their targets – as well as encouraging those without targets to adopt them.

### 90% of portfolio holdings have carbon emission reduction targets<sup>11</sup>

Global Sustain, % companies



<sup>7</sup> Companies with a tie to fossil fuels (thermal coal, oil and gas), in particular reserve ownership, related revenues and power generation.

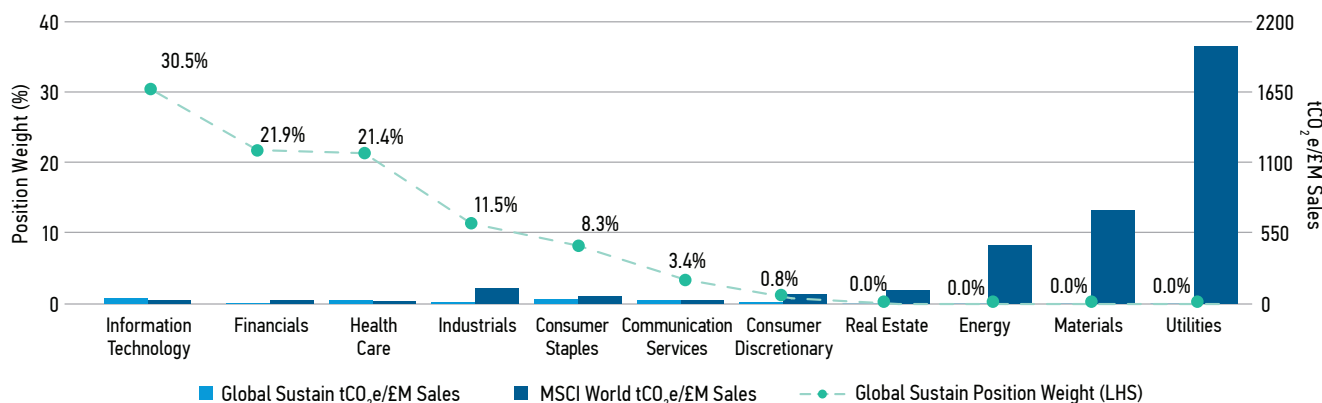
<sup>8</sup> Utilities (excluding Renewable Electricity and Water Utilities), including any company whose core business activity involves nuclear power generation and/or nuclear power trading.

<sup>9</sup> Further details can be found in the Global Sustain Restriction Screening Policy on [www.msimg.com](http://www.msimg.com).

<sup>10</sup> Data as of 30 September 2023 for the Morgan Stanley Funds (UK) Global Sustain Fund. Updated quarterly. The portfolio-level statistics show the weighted average carbon intensity (WACI).

<sup>11</sup> MSIM Research as of 30 September 2023. Due to rounding, values may not sum to 100.

### Global Sustain excludes the most carbon intensive sectors<sup>12</sup>



### Active Portfolio Manager Led Engagement

As active managers with a long-term investment horizon, we believe we are well positioned to engage with management on material ESG topics and encourage companies towards better practices.

#### Our engagement record in the last 12 months<sup>13</sup>

328

Management engagements on ESG issues

1,663

Resolutions voted on across all our strategies

108

Times we disagreed with ISS recommendations

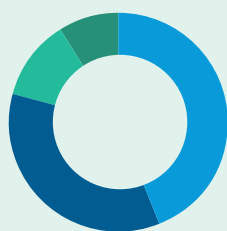
154

Times we voted against management recommendations

#### Topics addressed during our engagements for Global Sustain in the last 12 months<sup>14</sup>

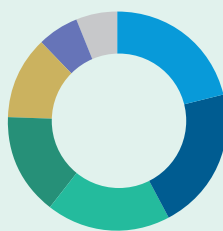
The following diagrams show the number of E, S, and G engagements by topic.

##### Environmental



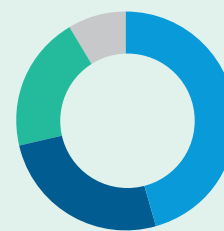
- Decarbonisation 15
- Biodiversity/Ecological Impacts 12
- Circular Economy 4
- Physical Impacts of Climate Change 3

##### Social



- Diverse & Inclusive Business 7
- Product Quality & Safety 7
- Data Security & Privacy 6
- Other 5
- Supply Chain Management 4
- Pay Equity 2
- Workforce Well-being 2

##### Governance



- Executive Compensation 16
- Sustainability Governance & Oversight 9
- Board Structure & Composition 7
- Other 3

<sup>12</sup> Source: MSCI, Morgan Stanley Investment Management, Trucost. Data as of 30 September 2023. Updated quarterly. The Morgan Stanley Funds UK Global Sustain Portfolio excludes the following sectors/industries: Construction Materials, Energy, Metals & Mining, and Utilities (excluding Renewable Electricity and Water Utilities)

<sup>13</sup> Data shown is for the 12-month period from 1 July 2022 to 30 June 2023 across all strategies. Data updated semi-annually.

<sup>14</sup> Data shown is for the 12-month period from 1 July 2022 to 30 June 2023 for companies held in the Morgan Stanley Funds (UK) Global Sustain Fund. Total count of ESG topics is higher than total number of ESG engagements as more than one topic may be discussed in a meeting. Data updated semi-annually.

## Diligent Attention to Proxy Voting Responsibilities

During the 12-month period from 1 July 2022 to 30 June 2023 we voted at 42 meetings and on 683 proposals for the companies held in Global Sustain. Overall, we voted against management in 11% of cases. The most common reasons for voting against management were related to remuneration, board structure and proposals related to social and environmental issues.

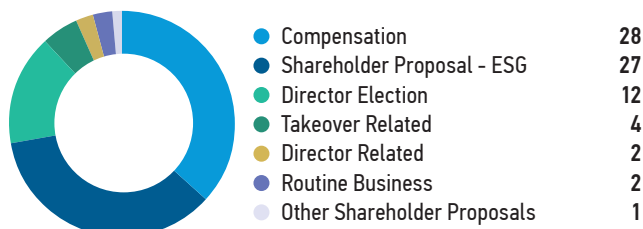
### Proxy voting overview – Global Sustain<sup>15</sup>

(12 months from 1 July 2022 to 30 June 2023)

Total number of meetings held	42
Total proposals voted	683
% votes in favour of management	89%
% votes against management	11%
% votes did not vote	0%
% meetings with at least one vote against management	83%

Source: ISS Proxy Exchange; MSIM

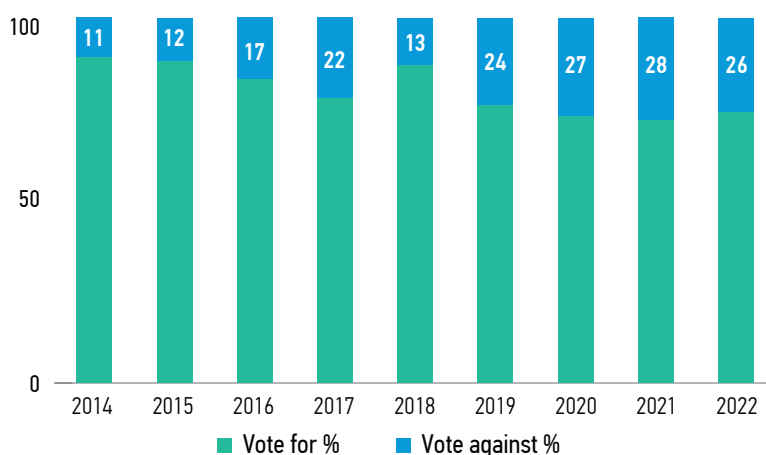
### Votes against management by topic<sup>16</sup>



### Pay X-Ray

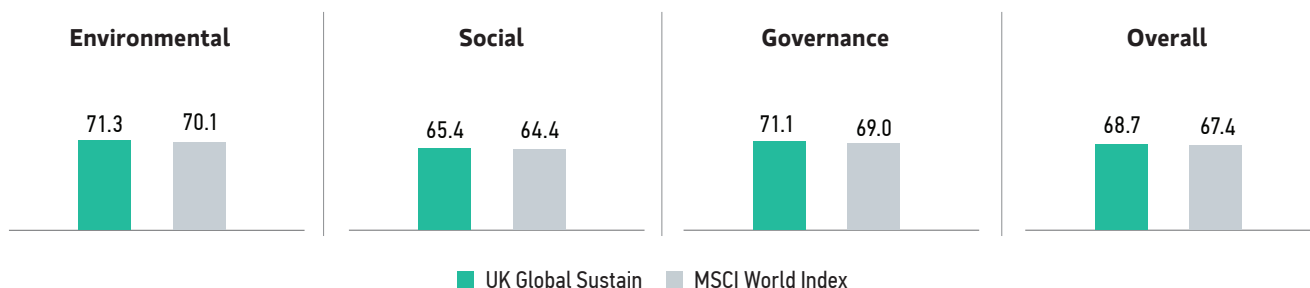
The Pay X-Ray is our proprietary scoring tool used to better compare company pay plans, facilitate team discussions and inform our voting approach across all of our holdings. This enhancement to our process has led to an increase in votes against management over time.

### Votes on management say-on-pay proposals<sup>17</sup>



### Sustainability Scores<sup>18</sup>

We examine ESG risks and opportunities on a case-by-case basis for the companies we hold, without seeking to meet overall portfolio targets or ratings of external data providers. We provide scores here as reference for those who use them.



<sup>15</sup> Due to rounding, values may not sum to 100. Data updated semi-annually.

<sup>16</sup> Expressed as a percentage of total votes against management.

<sup>17</sup> Any remuneration-related proposals. Data updated annually.

<sup>18</sup> Source: Sustainalytics, Morgan Stanley Investment Management. Data as of 30 September 2023.

## Risk Considerations

The risk and reward category shown is based on historic data.

- Historic figures are only a guide and may not be a reliable indicator of what may happen in the future.
- As such this category may change in the future.
- The higher the category, the greater the potential reward, but also the greater the risk of losing the investment. Category 1 does not indicate a risk free investment.
- The fund is in this category because it invests in company shares and the fund's simulated and/or realised return has experienced high rises and falls historically.
- The fund may be impacted by movements in the exchange rates between the fund's currency and the currencies of the fund's investments.

This rating does not take into account other risk factors which should be considered before investing, these include:

- The fund relies on other parties to fulfill certain services, investments or transactions. If these parties become insolvent, it may expose the fund to financial loss.
- Sustainability factors can pose risks to investments, for example: impact asset values and increased operational costs.
- There may be an insufficient number of buyers or sellers which may affect the funds ability to buy or sell securities.
- Investment in China A-Shares via Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connect programs may also entail additional risks, such as risks linked to the ownership of shares.
- Past performance is not a reliable indicator of future results. Returns may increase or decrease as a result of currency fluctuations. The value of investments and the income from them can go down as well as up and investors may lose all or a substantial portion of his or her investment.
- The value of the investments and the income from them will vary and there can be no assurance that the Fund will achieve its investment objectives.
- Investments may be in a variety of currencies and therefore changes in rates of exchange between currencies may cause the value of investments to decrease or increase. Furthermore, the value of investments may be adversely affected by fluctuations in exchange rates between the investor's reference currency and the base currency of the investments.

**DEFINITIONS: Capital expenditures (CapEx)** are funds used by a company to acquire, upgrade, and maintain physical assets such as property, plants, buildings, technology, or equipment. CapEx is often used to undertake new projects or investments by a company. Making capital expenditures on fixed assets can include repairing a roof, purchasing a piece of equipment, or building a new factory. This type of financial outlay is made by companies to increase the scope of their operations or add some economic benefit to the operation.

**INDEX INFORMATION: The MSCI All Country World Index (ACWI)** is a free float-adjusted market capitalization weighted index designed to measure the equity market performance of developed and emerging markets. The term "free float" represents the portion of shares outstanding that are deemed to be available for purchase in the public equity markets by investors. The performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends. **The MSCI World Net Index** is a free float adjusted market capitalization weighted index that is designed to measure the global equity market performance of developed markets. The term "free float" represents the portion of shares outstanding that are deemed to be available for purchase in the public equity markets by investors. The performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends. The index is unmanaged and does not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

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