This annual report by the Global Opportunity team discusses our HELP & ACT framework to integrate ESG within the investment process, the carbon footprint of the portfolios, company engagement examples, participation in collaborative initiatives and Morgan Stanley Investment Management policies.

The Global Opportunity team’s investment process integrates analysis of sustainability with respect to disruptive change, financial strength and environmental and social externalities and governance (also referred to as ESG). We view ESG as a component of quality and consider the valuation, sustainability and fundamental risks inherent in every portfolio position.

In the five years since we published ESG and the Sustainability of Competitive Advantage in 2017, we have continued to innovate and evolve our process. We developed a proprietary framework called HELP & ACT to employ a holistic approach to ESG within our company quality assessment by analyzing potential impacts to humanity’s health, environment, liberty and productivity and corporate governance measures to ensure agency, culture and trust. HELP & ACT is designed to reduce complexity of analysis by distilling a multitude of potential ESG criteria to the material factors that may condition a company’s ability to sustain competitive advantage over the long-term.

<table>
<thead>
<tr>
<th>WE CARE HOW COMPANIES HELP &amp; ACT</th>
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<tbody>
<tr>
<td><strong>Health:</strong> Improve humanity’s quality and duration of life</td>
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<tr>
<td><strong>Environment:</strong> Protect the planet and its inhabitants</td>
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<td><strong>Liberty:</strong> Human rights, equality, freedom and privacy</td>
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<td><strong>Productivity:</strong> Improve our knowledge of how the universe works to make our lives better within it</td>
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<td><strong>Agency:</strong> Skin in the game and incentives to work on behalf of long-term shareholders</td>
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<tr>
<td><strong>Culture:</strong> Encourage a culture of innovation, adaptability and shared values</td>
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<tr>
<td><strong>Trust:</strong> Reliability of financial statements and management</td>
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1 The Global Opportunity team is led by Kristian Heugh in Asia and manages highly differentiated, concentrated portfolios that invest across geographies, sectors and market capitalizations. Our strategies are available on a global, regional and customizable basis and seek long-term capital appreciation by investing in high quality companies that the investment team believes are undervalued at the time of purchase.
Each Global Opportunity team investor is responsible for integrating ESG by applying the HELP & ACT framework within our quality assessment, proxy voting and engaging with portfolio companies. Our investors primarily source information from discussions with company management and public disclosures, supplemented by various research resources.

As bottom-up investors, we do not outsource ESG analysis to third-party providers of sustainability ratings that produce scorecards ranking companies versus industry peers. Based on our analysis, such ESG ratings are derived from dozens of metrics and hundreds of ESG data points, thus such approaches may reward corporate issuers with high rates of disclosure rather than businesses with sound operational performance. In our view, ESG ratings approaches risk leading investors to inconsistent and misleading conclusions. Therefore, we deem disclosure rates to be of lesser importance than potential material risks to company fundamentals.

Our quality assessment identifies the key ESG-related opportunities and risks for each prospective investment based on materiality to the long-term fundamental drivers of the business. Using HELP & ACT, our investors analyze potential impacts to humanity’s health, environment, liberty and productivity, and governance measures to ensure agency, culture and trust, framed by a set of questions applied consistently across companies.

In company engagements, our investors typically discuss topics specific to each business, such as how an e-commerce platform is implementing a sustainable packaging initiative to reduce waste, how a semiconductor firm is investing in offshore wind power to achieve carbon reduction projects, or how a bank’s products and services address financial inclusion in developing economies. Examples of general questions we typically ask company management teams include:

- What is your most material ESG opportunity?
- What is your most material ESG risk?
- How are management incentives aligned with shareholders?

Within the developing markets, where rule of law and corporate governance standards can be lower than advanced economies, additional due diligence steps are necessary. Risks stemming from corruption, political instability, governance and accounting issues must be thoroughly investigated. For developing market companies, we typically commission a full due diligence report, including a background check on company management, board directors and cross-holdings, court and tax filings, and local language press to assess governance risk.

HELP & ACT is informed by the Sustainable Development Goals (SDGs) adopted by the United Nations in 2015, comprised of 17 goals and 169 targets to be achieved by 2030 with the aim “to end poverty, protect the planet, and ensure prosperity for all.”

Source: United Nations The content of this publication has not been approved by the United Nations and does not reflect the views of the United Nations or its officials or Member States. See https://www.un.org/sustainabledevelopment/sustainable-development-goals for more details on the Sustainable Development Goals.
Carbon Footprint

Our portfolios typically have less than half of the carbon footprint\(^2\) and intensity\(^3\) of benchmark indices. This is a result of our view that renewables such as solar will likely disrupt value for fossil fuel companies as costs become more competitive based on our disruptive change research. Many of our portfolio companies have made significant investments in renewable energy to transition to lower carbon intensive operations. The lower carbon intensity of our portfolios is also due to our view that there is a negative externality that is not reflected in the income statements of high-emitting companies. In addition, our preference for lower capital intensity industries skews away from carbon-intensive businesses such as utilities, coal, oil and gas.

As of December 31, 2021, our portfolios have been “fossil-free” since 2013 and did not hold coal, oil or gas companies involved in the extraction of fossil fuel reserves.

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\(^2\) Carbon footprint refers to Scope 1 (direct emissions) and Scope 2 (indirect emissions from purchased electricity) greenhouse gas emissions measured in tonnes CO\(_2\)e per million U.S. Dollars invested.

\(^3\) Carbon intensity refers to Scope 1 (direct emissions) and Scope 2 (indirect emissions from purchased electricity) greenhouse gas emissions measured in tonnes CO\(_2\)e per million U.S. Dollars revenue.
Engagement With Portfolio Companies

Our research has identified both ESG opportunities as well as risks that may diminish the investment thesis and resulted in the sale of (or decision not to invest in) a company’s securities. Over the course of 2021, we engaged with several portfolio companies on various topics, including:

FINANCIAL INCLUSION AND RISK MANAGEMENT IN BANKING

We engaged with the board and management of a private sector bank in India to discuss financial inclusion, employee safety and risk management practices across the bank. To promote inclusive growth, the bank has opened over 21 million low cost customer deposit accounts enabled by its network of branches, channel partners and technology deployment. The bank has also provided microfinance loans to over 8 million women to help achieve financial independence, a large proportion of which are first-time borrowers in India. In addition, the bank developed 30 skill academy centres across the country that have provided free training to over 160,000 underprivileged youth to help them find employment, as well as self-employment training institutes that have trained more than 100,000 individuals, 60% of which are women. Since the onset of the pandemic, safety has been another critical areas of focus. The bank has adopted a safe and healthy work environment with remote working solutions. Employees affected by COVID-19 are provided with medical care through virtual consultations, quarantine facilities and vaccination. The bank has also launched digital platforms by promoting a cashless ecosystem and enabling digital access to connect customers and serve their needs. Finally, management increased its focus on sustainable lending practices to ensure strong growth in high quality funding and risk adjusted returns to reduce risk of lower quality loans during period of slower economic growth. This has enabled steady improvement in balance sheet strength and profitability in recent years and helped the bank manage the impact of the pandemic without significant disruption.

ECONOMIC EMPOWERMENT IN PAYMENTS SOLUTIONS

We engaged with management of a provider of consumer finance and payments solutions to discuss corporate governance, culture and financial inclusion. Our discussion emphasized the importance of fairness, transparency and empathy as key elements of corporate culture. The company’s services empower people by building tools that shorten the distance between having an idea and making a living from it. The company serves under-banked communities and enables small businesses to participate in the economy by helping small merchants accept digital payments. Providing lending as needed is especially important as 70% of small businesses do not receive the funding they want, per the company. Last year, the company provided USD 850 million in Paycheck Protection Loans to 80,000 businesses with an average loan size of USD 11,000. The company’s wallet has helped under-banked customers gain access to the financial system by providing them with the ability to receive, spend and invest funds. Finally, the firm has taken action on climate by setting a goal to reach net carbon zero by 2030 while committing capital to help accelerate renewable energy adoption in the bitcoin mining ecosystem.

SUSTAINABLE CONSUMPTION AND WORKING CONDITIONS IN E-COMMERCE

We engaged the CEO and CFO of an e-commerce platform in Korea to discuss ESG initiatives including human capital management and sustainable packaging. Management acknowledged the need to improve public relations efforts to address negative publicity and correct false allegations in the media after initial public offering. The company has started to share more of its positive impacts on society, especially in relation to worker benefits, employment opportunities and enabling small- and medium-size enterprises (SMEs). The company points to the platform it provides for SMEs to sell products online that has become the leading creator of private jobs in the country, supporting SDG8: to promote decent work and economic growth. The company is the only major logistics company that directly employs 100% of its full-time delivery drivers with an industry-leading 5 day work week with insurance, benefits and a minimum of 15 days paid leave from day one of employment, which compares favorably to the rest of the market that hires the vast majority of drivers as third-party contractors with 6 day work weeks with no insurance, benefits nor paid leave. The company’s unique logistics network coverage supports SDG12: responsible consumption and production as delivery drivers typically visit the same neighborhood multiple times per day, eliminating disposable packaging and deploying re-useable eco-bags that are collected and re-used after each delivery. This also enables frictionless returns as users can simply tap a button on the app, leave the item outside their door for pick up, thereby eliminating the need to pack the item into a box. The company has also eliminated cardboard boxes in over 75% of parcels by re-engineering the end-to-end fulfillment process and is exploring electric vehicle (EV) options for delivery trucks that fits its criteria.
RESOURCE EFFICIENCY IN BEVERAGES

We engaged a leading beverages company in China to discuss how the company’s resource efficiency, human capital management and leadership succession tie to its long term corporate strategy. The group committed to improving resource efficiency through measures to decrease weight of packaging materials through product packaging design and material selection process. Launched in 2019, the group’s recycling programme focuses on glass bottles that are cleaned, disinfected and reused. Glass bottles comprise over 70% of volumes, with the remainder aluminium cans, and represent a material input to cost of goods sold. Therefore, the programme pursues SDG12: responsible consumption and production and has the potential to materially reduce resource and input costs in support of long term margin expansion. The group also reuses 100% of materials generated by the brewing process, including dried distiller’s grains and waste yeast, generating economic value of RMB 260 million. The group has also invested in human capital by raising employee salaries to narrow the gap with regional competitors while also aligning bonuses to growth in volume. In addition, the group continues to focus resources on identifying and investing in talented employees better equipped to drive a premiumization strategy.

RENEWABLE ENERGY TRANSITION IN SEMICONDUCTORS

We engaged the management of semiconductor manufacturing company in Taiwan to discuss sustainability priorities. The company recently committed to achieve net zero carbon emissions by 2040 in alignment with SDG13: climate action after becoming the world’s first semiconductor company to join the RE100 initiative committing to 100% renewable energy consumption across global operations by 2050. Due to limited capacity of renewables in Taiwan, the company has worked closely with the government to build out SDG7: affordable and clean energy. For example, in 2020 the company signed the world’s largest offshore wind power purchasing agreement totaling 920 MWh capacity. The company targets an increase in purchasing to achieve renewable energy consumption of 25% in fabrication plants and 100% of non-fab operations. Additionally, the company has implemented over 460 energy-savings measures totaling conservation of 500 GWh across its manufacturing operations in 2020 and targets cumulative 5,000 GWh of energy savings between 2016 and 2030. The company also highlights the significant power consumption savings from use of its semiconductors. For every 1 KWh of energy consumed in production, the world has achieved 4 KWh of energy conversation.

NO TOBACCO

Our portfolios have not invested in companies involved in the manufacture of cigarettes and other tobacco products for several years. Our analysis has concluded that the competitive advantage of tobacco producers is not sustainable as the healthcare costs of treating cancer and other smoking-related noncommunicable diseases are externalized upon society and, therefore, tobacco companies are generally over-monetized while reliant on pricing growth due to declining unit volumes. Key targets of SDG3: good health and well-being include 3.4 “reduce by one third premature mortality from noncommunicable diseases” by 2030 and 3.a “strengthen the implementation of the World Health Organization Framework Convention on Tobacco Control (WHO FCTC) in all countries” to reduce tobacco use. Over seven million people die annually as a result of tobacco use (Source: WHO FCTC). Tobacco manufacturers’ profits totaled $30 billion in 2020 (Source: FactSet, MSCI), equivalent to approximately $4,300 per life lost.
Global Change Strategy

We launched the Global Change Strategy in July 2020 in partnership with a large client in Japan to meet increased client demand for sustainable investments in high quality companies with strong ESG alignment that can create shared value and long-term capital appreciation.

Global Change employs a holistic approach to sustainability by identifying investment opportunities in businesses that are innovating to positively impact humanity’s health, environment, liberty and productivity in alignment with the United Nations Sustainable Development Goals (SDGs).

The strategy seeks long-term capital appreciation by investing globally in high quality companies with sustainable competitive advantages and long-term growth that creates value. The investment team seeks to maximize long-term returns by investing in businesses with strong ESG alignment while restricting businesses operating in industries with material environmental and social externalities and/or corporate governance risk.

Restrictions may include, but not be limited to, companies whose primary business involvement is the production of fossil fuels (extraction of coal, oil and gas), alcohol, gambling, tobacco and weapons, as well as companies with state ownership exceeding 20%.

Global Change builds upon the same quality emphasis and price discipline of the core global, international and regional strategies managed by the Global Opportunity team.

Total proposals voted for Global Opportunity team strategies in 2021

16,310
TOTAL PROPOSALS VOTED IN 2021

94%
VOTES WITH MANAGEMENT

6%
VOTES AGAINST MANAGEMENT


MSIM SUSTAINABLE INVESTING

MSIM describes its approach to integrating ESG in the investment process and active ownership in our:

- Sustainable Investing Policy
- Engagement & Stewardship Principles and
- Proxy Voting Policy & Procedures

MSIM has established an internal ESG governance framework, led by a Sustainability Council composed of senior management leaders, portfolio managers and investment analysts. In addition, the council is supported by MSIM’s Global Stewardship team, which is dedicated to proxy voting, engagement and ESG integration, and Morgan Stanley’s Institute for Sustainable Investing.

MSIM is a signatory to the Principles for Responsible Investment (“PRI”), the Hong Kong Stewardship Code and the Japan Stewardship Code and participates in several industry initiatives, including, but not limited to the Sustainability Accounting Standards Board (“SASB”) Investor Advisory Group. MSIM promotes the acceptance and implementation of the PRI through research, thought leadership, industry events and conferences. Internally, MSIM promotes the Principles by providing ESG training opportunities and resources to investors. For more information, please see MSIM’s PRI Transparency Report.
Risk Considerations:

There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by the portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing in this portfolio. Please be aware that this portfolio may be subject to certain additional risks. In general, equities securities' values also fluctuate in response to activities specific to a company. Investments in foreign markets entail special risks such as currency, political, economic, market and liquidity risks. The risks of investing in emerging market countries are greater than risks associated with investments in foreign developed countries. Privately placed and restricted securities may be subject to resale restrictions as well as a lack of publicly available information, which will increase their illiquidity and could adversely affect the ability to value and sell them (liquidity risk). Derivative instruments may disproportionately increase losses and have a significant impact on performance. They also may be subject to counterparty, liquidity, valuation, correlation and market risks. To the extent that the Strategy invests in a limited number of issuers (focused investing), the Strategy will be more susceptible to negative events affecting those issuers and a decline in the value of a particular instrument may cause the Strategy's overall value to decline to a greater degree than if the Strategy were invested more widely. China Risk. Investments in securities of Chinese issuers, including A-shares, involve risks associated with investments in foreign markets as well as special considerations not typically associated with investments in the U.S. securities markets. Investments in China involve risk of a total loss due to government action or inaction. Additionally, the Chinese economy is export-driven and highly reliant on trade. Adverse changes to the economic conditions of its primary trading partners, such as the United States, Japan and South Korea, would adversely impact the Chinese economy and the Portfolio's investments. Moreover, a slowdown in other significant economies of the world, such as the United States, the European Union and certain Asian countries, may adversely affect economic growth in China. An economic downturn in China would adversely impact the Portfolio's investments. Risks of Investing through Stock Connect. Any investments in A-shares listed and traded through Stock Connect, or on such other stock exchanges in China which participate in Stock Connect is subject to a number of restrictions that may affect the Portfolio's investments and returns. Moreover, Stock Connect A shares generally may not be sold, purchased or otherwise transferred other than through Stock Connect in accordance with applicable rules. The Stock Connect program may be subject to further interpretation and guidance. There can be no assurance as to the program's continued existence or whether future developments regarding the program may restrict or adversely affect the Portfolio's investments or returns. ESG Strategies that incorporate impact investing and/or Environmental, Social and Governance (ESG) factors could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. As a result, there is no assurance ESG strategies could result in more favorable investment performance.
IMPORTANT INFORMATION

There is no guarantee that any investment strategy will work under all market conditions, and each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market.

A separately managed account may not be appropriate for all investors. Separate accounts managed according to the particular Strategy may include securities that may not necessarily track the performance of a particular index. A minimum asset level is required.

For important information about the investment managers, please refer to Form ADV Part 2.

The views and opinions and/or analysis expressed are those of the author or the investment team as of the date of preparation of this material and are subject to change at any time without notice and may not be representative of some SMAs managed under this strategy due to differing investment guidelines or client restrictions. The information contained in this material is not intended to be a complete description of all securities, products or services offered.

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