This annual report by the Global Opportunity team discusses ESG integration within the investment process, the carbon intensity of the portfolios, company engagement, participation in collaborative initiatives and relevant Morgan Stanley Investment Management policies.

**ESG and the Sustainability of Competitive Advantage**

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. As bottom-up investors, we do not apply top-down ESG positive/negative screens to a benchmark. Nor do we utilize ESG scorecards from third parties which rank companies versus industry peers. In other words, ESG in isolation is not a principal driver of our investment thesis; it is but one important component of our quality assessment.

Our ESG analysis focuses on a company’s ability to sustain competitive advantage over the long term. Areas assessed include environmental management to minimize negative externalities, reduce consumption of energy, water and other resources and mitigate costs thereby improving profitability; social factors such as consumer product safety, human capital management, supply chain management and regulatory impacts; and governance issues such as management incentives, capital allocation, independent boards with diverse perspectives and transparent accounting.

For more information on how the Global Opportunity team integrates sustainability in its investment decision-making, please see:

**ESG and the Sustainability of Competitive Advantage**

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.
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.

Incorporating ESG-related potential risks and opportunities within an investment process is about ensuring long-term stewardship of capital. Over extended time horizons, we believe that ESG risks are more likely to materialize and externalities not borne by the company are more likely to be priced into the value of securities. Therefore, we continue to innovate and evolve our process and believe that integrating ESG within our investment analysis improves the risk and reward profile of client portfolios.

### Carbon Intensity

Our portfolios typically have less than half of the weighted average carbon intensity 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.

The representative accounts for the Asia Opportunity, Developing Opportunity, Established Opportunity, Europe Opportunity, Global Change, Global Opportunity and International Opportunity strategies held no coal, oil or gas companies involved in the extraction of fossil fuel reserves and no holdings in the utilities sector.

The International Advantage strategy held no coal, oil or gas companies involved in the extraction of fossil fuel reserves and had limited exposure to the utilities sector.

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**Portfolio carbon intensity is typically <50% of the index**

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>Carbon Intensity (t CO2e per million U.S. Dollars in sales)</th>
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<tbody>
<tr>
<td>Global Change</td>
<td>24</td>
</tr>
<tr>
<td>MSCI AC World Index</td>
<td>155</td>
</tr>
<tr>
<td>Developing Opportunity</td>
<td>52</td>
</tr>
<tr>
<td>MSCI Emerging Markets Index</td>
<td>260</td>
</tr>
<tr>
<td>Asia Opportunity</td>
<td>233</td>
</tr>
<tr>
<td>MSCI AC Asia ex Japan Index</td>
<td>233</td>
</tr>
<tr>
<td>Global Opportunity</td>
<td>45</td>
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<tr>
<td>MSCI AC World Index</td>
<td>155</td>
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<tr>
<td>International Opportunity</td>
<td>67</td>
</tr>
<tr>
<td>MSCI AC World ex USA Index</td>
<td>65</td>
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<tr>
<td>Established Opportunity</td>
<td>65</td>
</tr>
<tr>
<td>MSCI World Index</td>
<td>61</td>
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<tr>
<td>Europe Opportunity</td>
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<tr>
<td>MSCI Europe Index</td>
<td>164</td>
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<tr>
<td>International Advantage</td>
<td>164</td>
</tr>
<tr>
<td>MSCI AC World ex USA Index</td>
<td>99</td>
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Source: Morgan Stanley Investment Management, Carbon Disclosure Project, MSCI ESG Research LLC. Data as of December 31, 2020. For illustrative purposes only and subject to change without notice.
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 2020, we engaged with several portfolio companies on various topics, including:

LEADERSHIP TRANSITION, TECHNOLOGY RISK MANAGEMENT AND FINANCIAL INCLUSION IN BANKING

We engaged with management of a leading private sector bank in India to discuss corporate governance, sustainability and financial inclusion. Our governance discussion emphasized the importance of a long-term value creation mindset as part of the new CEO selection process to ensure continuity of success under the previous CEO. We discussed technology risk management and measures taken to operate sustainably in compliance with regulatory requirements. Over the year, the company increased capacity multifold to address the regulator’s concerns after multiple technology outages due to high user traffic across its digital platform. Furthermore, we also exchanged views on the opportunity to serve rural populations and increase financial inclusion across India. The bank has expanded branches in rural areas, representing over half of the bank’s 5,000 branches, while also leveraging technology to provide access to banking services to a broader population. As a result, growth in rural loans outpaced the overall balance sheet in recent years. The company also partnered with Common Service Centres (CSCs) setup by the government to provide access points for delivery of digital services such as government services and utilities. There are over a quarter million active CSCs across India which represent a substantial opportunity as rural customers can easily open bank accounts and secure loans such as micro finance. Technology-enabled partnerships expand the company’s addressable market through last mile credit delivery at lower cost while supporting faster growth in rural economies. Lastly, the company’s sustainability reporting emphasizes stakeholder inclusiveness and sustainability context and materiality. The company demonstrates alignment with the U.N. Sustainable Development Goals through voluntary reporting via the Global Reporting Initiative and Carbon Disclosure Project.

SUSTAINABILITY STRATEGY AND MANAGEMENT INCENTIVES IN ENTERPRISE SOFTWARE

We engaged the Independent Lead Director and General Counsel of an enterprise software-as-a-service company to discuss alignment of its management incentives and sustainability strategy. The company outlined its executive compensation plans with a focus on performance-based links to strategic targets including net new average contract value, subscription revenue growth, operating margins and total shareholder return. A performance oriented culture supports the firm’s ability to attract and retain talent in a hyper competitive market and we noted strong employee retention and low turnover compared to industry peers. The company also discussed the importance of culture including encouraging cross-functional interaction, organizing out-of-work activities to break down departmental silos, and mission-driven product development such as workflow apps for COVID-19 and vaccine distribution. Sustainability priorities include (i) leveraging a platform to help customers achieve sustainability goals such as lowering energy consumption, (ii) diversity, inclusion and belonging and (iii) enhancing ESG disclosure. As a software firm, the company has focused human capital initiatives on gender diversity, pay equity and increasing underrepresented minorities while adding diversity of perspective and consumer knowledge to the Board of Directors. Following initial measurement and disclosure of its carbon footprint, the company initiated plans to introduce a science-based target to reduce carbon emissions as well as enhanced disclosure and reporting on impact.

CULTURE, DIVERSITY AND INCLUSION, AND SUSTAINABILITY STRATEGY AT AN AUDIO STREAMING PLATFORM

We engaged a leading audio streaming platform to discuss culture, diversity and inclusion, and sustainability strategy. The company’s unique culture of innovation was forged as a disruptor negotiating with record labels under intense competitive pressures. The company views diversity and inclusion as efforts to unlock the potential of human creativity and has established teams focused on Diversity & Belonging and Trust & Safety. The audio platform’s extensive audience reach is viewed as a vehicle for promoting cross-cultural understanding through music and podcasts. By curating educational content on climate science and the environment, and using its sorting algorithm to elevate diverse creator voices, the platform can amplify new differentiated content that can drive user engagement, thereby extending the platform’s moat. The company’s key stakeholders include both listening audience and content creators, and the company recognizes the need for thoughtful content moderation as music and podcasts include both user-generated and professionally produced content. The company has been focused on sustainability from day one and has focused on the energy efficiency of vendor data centers in the cloud and powered over 83% of its main office locations with renewable sources of electricity generation.
CARBON EFFICIENCY AND DRIVER WELL-BEING IN RIDE-BOOKING AND FOOD DELIVERY

We engaged the Head of ESG Strategy of a global ride-booking and food delivery platform on how the company is elevating above its previously self-described reputational deficit by differentiating with a strategic sustainability practice. A materiality assessment identified key focuses for the business including driver well-being, carbon efficiency and diversity and inclusion, as well as a more holistic approach to reporting. The company recognizes that there are many benefits to the network from compensating and treating drivers and delivery people well, especially given regulatory scrutiny. When surveyed, drivers overwhelmingly prefer a contractor status, which promotes economic empowerment and flexibility of working hours; loyal drivers thus increase network liquidity and lower wait times for customers. Ride-booking is more carbon efficient than traditional self-operated driving given the vast majority of pollutants is produced in the first minute after starting an internal combustion engine. We believe that there is opportunity for market share gains and higher endgame penetration as consumer awareness of the carbon efficiency of ride-booking versus driving has the potential to shift consumer behavior to the platform.

TOBACCO

The Fund(s) have not invested in consumer staples 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 overmonetized while reliant on pricing growth due to declining unit volumes.

Total proposals voted for Global Opportunity team strategies in 2020

<table>
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<tr>
<th>TOTAL PROPOSALS VOTED IN 2020</th>
<th>VOTES WITH MANAGEMENT</th>
<th>VOTES AGAINST MANAGEMENT</th>
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<tr>
<td>12,245</td>
<td>92%</td>
<td>8%</td>
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MSIM Sustainable Investing
MSIM’s approach to sustainability is led by a Sustainability Council comprised of cross-functional leaders who oversee MSIM’s sustainability strategy, resourcing and processes. The Sustainability Council is supported by MSIM’s Sustainability team, a group of dedicated ESG professionals that oversees proxy voting, implements sustainability strategy and governance processes, works with MSIM’s investment teams on enhancements to ESG investment integration practices, and produces sustainability data, tools and research in support of investment teams.

Proxy Voting
MSIM views proxy voting as an integral part of the investment process, ownership oversight and ESG integration. All proxy voting decisions are made in-house based on collaboration between members of the investment team and the Global Stewardship team, and in line with the principles addressed in our proxy voting policy. Our proxy voting policy reflects our ESG approach and principles, and indicates that voting decisions are based on the in-depth knowledge of our investment teams and the governance expertise of the Global Stewardship team, and that we do not automatically support management recommendations. Our proxy voting policy also states that we consider environmental and social shareholder proposals on a case-by-case basis and that we generally support such proposals that aim to enhance useful ESG disclosure. The Global Stewardship team provides clients with proxy voting records relating to votes held and voted on their behalf.

Collaboration and Reporting
MSIM is a signatory of the U.N. Principles for Responsible Investing ("UNPRI"), the UK Stewardship Code, the Japan Stewardship Code, and the Hong Kong Stewardship Code. MSIM also participates in the Sustainability Accounting Standards Board (SASB) Investor Advisory Group. In addition, Morgan Stanley is a member of the Global Impact Investing Network, the Ceres Investor Network and supports the Task Force on Climate-Related Financial Disclosures (TCFD). We view our involvement in these initiatives as opportunities to stay abreast of industry developments and best practices, which help us to continually refine our ESG approach.

For more information about Sustainable Investing at MSIM, please see:
ESG Approach and Principles
Engagement and Stewardship Principles
Proxy Voting Policy and Procedures
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. 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.

DEFINITIONS

"ESG" investment: Environmental Social and Governance based investment

is an investment approach which takes explicit account of the environmental, social and corporate governance aspects of all proposed investments.

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