

Morgan Stanley

INVESTMENT MANAGEMENT

Morgan Stanley Funds (UK) 2021 Assessment of Value

Measuring How We Have Delivered Value



Message from the Board

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THE FUND UMBRELLA

Morgan Stanley Funds (UK)

THE FUNDS

Developing Opportunity
Global Brands Equity Income
Global Brands
Global Sustain
Sterling Corporate Bond
US Advantage

THE AUTHORISED CORPORATE DIRECTOR

Morgan Stanley Investment Management (ACD) Limited
25 Cabot Square
Canary Wharf London
E14 4QA, UK

Dear Investor,

With any collective investment scheme, the question of value is always central. Any investor needs to be confident that they are receiving good value for the costs associated with their investment. This is especially true with actively managed investments.

We have long conducted internal assessments to ensure that our investment offerings are competitive. For this report, we have followed the Assessment of Value requirements of the Financial Conduct Authority (FCA). The information in this report therefore can be directly compared to the information in other firms' annual Assessment of Value reports.

Based on a wide-ranging assessment of the major factors affecting the cost and quality of your investment, we have concluded that, on the whole, each fund delivered value to its investors over the report period (1 October 2019 – 30 September 2020). This conclusion is based not only on our own data and analysis but on broader industry data, insights and analysis.

We create our funds with investors in mind. Over the coming year we anticipate creating several new funds we believe will be of interest to our investors and will help bring us closer to achieving cost benefits for investors. We encourage you to explore our website www.morganstanley.com/im, which contains a range of information — about markets and trends, our approach to investing, the strategies of our funds, available share classes, and how to find further resources. We welcome comments about the site and our products.

Above all, we thank you for investing with us.

Respectfully,

The Board of Morgan Stanley Investment Management (ACD) Limited



Findings at a Glance

The table below shows each fund's results in the 7 categories of evaluation as well as its overall rating. The categories and findings are described more fully on the following pages. Descriptions of the categories are as follows:

1 **QUALITY OF SERVICE**

The range and quality of services provided to the funds and to investors.

2 **GENERAL COSTS**

What investors pay for the services they and the funds receive.

3 **ECONOMIES OF SCALE**

Any reductions in investor costs made possible by growth of the funds' total assets.

4 **COMPARABLE SERVICES**

What Morgan Stanley charges other products for comparable services.

5 **COMPARABLE MARKET RATES**

What the funds pay for services compared to what other funds are paying.

6 **CLASSES OF SHARES**

Whether all investors are in the most appropriate share class.

7 **PERFORMANCE**

Whether each fund has met its stated investment objective.

| | GLOBAL BRANDS | GLOBAL BRANDS EQUITY INCOME | GLOBAL SUSTAIN | STERLING CORPORATE BOND | US ADVANTAGE | DEVELOPING OPPORTUNITY |
|-------------------------|---------------|-----------------------------|----------------|-------------------------|--------------|------------------------|
| Quality of Service | ● | ● | ● | ● | ● | ● |
| General Costs | ● | ● | ● | ● | ● | ● |
| Economies of Scale | ● | ● | ● | ● | ● | ● |
| Comparable Services | ● | ● | ● | ● | ● | ● |
| Comparable Market Rates | ● | ● | ● | ● | ● | ● |
| Classes of Shares | ● | ● | ● | ● | ● | ● |
| Performance | ● | ● | ● | ● | ● | N/A |
| Overall | ● | ● | ● | ● | ● | ● |

KEY ● Delivering value ● Delivering value but monitoring required ● Not delivering value; action required



Results that Apply Across All Funds

Quality of Service

FOCUS

The range and quality of services provided to the funds and to investors.

FINDING

All funds are serviced to a high standard.

In this assessment we looked at:

- The services provided by the Authorised Corporate Director (ACD), the Investment Manager and the firms the ACD have selected to provide critical services to the Fund, such as the Depository and Transfer Agency
- How we engaged and communicated with investors during 2020
- The continuity of our service during the COVID 19 crisis

Executive and management functions are performed by seasoned professionals. The Board of the ACD includes a number of independent directors, and all directors have extensive investment industry experience and together bring a broad diversity of viewpoints and expertise. The Board meets at least 4 times a year and its members are fully engaged in their responsibilities (for an example of this, see "Our Evaluation Process" on page 7).

Fund assets are managed by teams of industry professionals led by portfolio managers with an average of 25 years of experience. Each fund is regularly reviewed by an investment oversight team that is independent of the investment managers and is responsible for ensuring that strategies are being

implemented as intended and in response to changing market dynamics.

A dedicated Sustainability Team is responsible for implementing MSIM's sustainability business efforts, governance processes and supporting investment teams with ESG investment integration practices and the launch of sustainable funds.

Where services have been delegated, all service providers are leading companies in their specialised areas and have demonstrated a satisfactory quality of service. The operations of these service providers are overseen by a UK-based team from Morgan Stanley Investment Management whose leaders have an average of 20 years of experience.

Investors have access to substantial information through our website, periodic webinars and social media, and can contact our dedicated distribution teams for further information.

The COVID 19 pandemic saw both employees and service providers transition to working from home. This was accomplished without any disruption to services.

We are pleased to report that we received no investor complaints during the report period.

General Costs

FOCUS

What investors pay for the services they and the funds receive.

FINDING

The fees and charges are appropriate for the size and complexity of the funds.

In this assessment we looked at:

- Considered each charge paid by the funds, including payments for critical services
- Benchmarked material costs against others in the market
- Reviewed the governance and oversight of expenses

Costs for investors are comprised of the investment management charge, the administration charge, the depository charge and operating expenses.



Economies of Scale

FOCUS

Any reductions in investor costs made possible by growth of the funds' total assets.

FINDING

To date, no such reductions have been achieved, but costs on all funds are capped to ensure that what investors pay is fair and reasonable.

Although the funds have the potential to attain economies of scale that may result in lower ongoing fees, in the absence of such economies of scale each fund is subject to expense caps. These caps effectively mean that the ACD subsidises the funds out of its own resources, thereby ensuring that investor fees are fair and reasonable whether economies of scale have been achieved or not.

The ACD regularly monitors fund costs on both an absolute and competitive basis, and uses its analysis to determine where to set the fee caps.

Comparable Services

FOCUS

What Morgan Stanley charges other products for comparable services.

FINDING

Overall, service fees are equivalent to what other Morgan Stanley products pay.

To make this assessment, we reviewed internal products that have similar investment objective, investment policies and similar assets under management. Where cost factors were different (for example,

different service levels, fee structures, operational requirements or regulatory costs), we adjusted for those differences in order to compare on an equal basis.

Comparable Market Rates

FOCUS

What the funds pay for services compared to what other funds are paying.

FINDING

Overall, share classes are paying competitive rates for services and are priced competitively for investors; the fee caps have kept investor costs fair and reasonable.

We looked at the difference between the annual fees and charges the share classes paid to service providers and those paid by comparable shares in a representative peer group of UK-registered funds. In making our comparisons we took into consideration investment style and objective, type of share class (retail vs. institutional), and whether the fund is actively managed.

In general, we found that the fees being paid to service providers are in line with the industry average with one exception, which we took as an action point to review over the next reporting period.



Results for Specific Funds

Classes of Shares

FOCUS

Whether all investors are in the most appropriate share class.

FINDING

Overall, investors are in the most beneficial share class for which they qualify.

This assessment involved reviewing every investor in the official shareholder register, determining if they were eligible to be in a different class, and then calculating whether the class they are currently in is the most appropriate, taking into account the conditions set out in the prospectus and the asset and activity patterns of the investor.

We identified one investor for which a different class would be more beneficial, and we took timely action to ensure the shareholder would have access to that class.

Performance

FOCUS

Whether each fund has met its stated investment objective.

FINDING

All equity funds performed in line with their investment objectives; Sterling Corporate Bond Fund marginally underperformed the benchmark referenced in its investment objective.

To assess performance, we considered each fund's investment objective, its absolute performance, and its performance against benchmarks and a peer group. All assessments were made using net performance (performance after all fees have been deducted).

The performance tables below show average annual returns for 1, 3 and 5 years. The column "vs bmk" shows how far above or below its benchmark a class has performed over the stated period. "N/A" indicates the class has not been in existence long enough to report performance for the stated period. The benchmark for Sterling Corporate Bond Fund is a target benchmark. For all other funds, the benchmarks shown are for comparison purposes only. In all cases, the benchmark shown represents the performance of securities that may be comparable to the fund's performance.

Developing Opportunity Fund

The fund aims to grow your investment over 3 to 5 years.

This fund launched only two months before the end of the report period, resulting in a track record that is too short to permit any meaningful conclusions to be drawn.

Annualised Returns

| Class | 1Y | vs BMK | 3Y | vs BMK | 5Y | vs BMK |
|-------|-----|--------|-----|--------|-----|--------|
| F Acc | N/A | N/A | N/A | N/A | N/A | N/A |
| I Acc | N/A | N/A | N/A | N/A | N/A | N/A |

Global Brands Equity Income Fund

The fund aims to provide regular income and to grow your investment over 5 to 10 years.

The fund is on track to meet its investment objective. All share classes outperformed the fund's comparison benchmark — the MSCI World Net Index (GBP) — over 1 and 3 years (the longest period currently available for the fund) and generated income for investors

Annualised Returns

| Class | 1Y | vs BMK | 3Y | vs BMK | 5Y | vs BMK |
|-------|------|--------|-------|--------|-----|--------|
| F Acc | 8.05 | 2.81 | 12.81 | 3.73 | N/A | N/A |
| I Acc | 7.68 | 2.44 | 12.48 | 3.40 | N/A | N/A |
| I Inc | 7.72 | 2.48 | 12.49 | 3.41 | N/A | N/A |

Past performance is not a reliable indicator of future results. Returns may increase or decrease as a result of currency fluctuations. All performance data is calculated NAV to NAV, net of fees, and does not take account of commissions and costs incurred on the issue and redemption of shares. The sources for all performance and Index data is Morgan Stanley Investment Management.



Performance

FOCUS

Whether each fund has met its stated investment objective.

FINDING

All equity funds performed in line with their investment objectives; Sterling Corporate Bond Fund marginally underperformed the benchmark referenced in its investment objective.

Global Brands Fund

The fund aims to grow your investment over 5 to 10 years.

The fund met its investment objective. Both share classes outperformed the fund's comparison benchmark — the MSCI World Net Index (GBP) — over 1, 3 and 5 years.

Annualised Returns

| Class | 1Y | vs BMK | 3Y | vs BMK | 5Y | vs BMK |
|-------|------|--------|-------|--------|-------|--------|
| I Acc | 9.90 | 4.66 | 14.96 | 5.88 | 17.65 | 3.62 |
| I Inc | 9.91 | 4.67 | 14.97 | 5.89 | 17.65 | 3.62 |

Global Sustain Fund

The fund aims to grow your investment over 5 to 10 years.

The fund is on track to meet its investment objective. Both share classes outperformed the fund's benchmark — the MSCI World Net Index (GBP) — over 1 year (the longest period currently available for the fund).

Annualised Returns

| Class | 1Y | vs BMK | 3Y | vs BMK | 5Y | vs BMK |
|-------|-------|--------|-----|--------|-----|--------|
| F Acc | 12.66 | 7.42 | N/A | N/A | N/A | N/A |
| F Inc | 12.26 | 7.43 | N/A | N/A | N/A | N/A |
| I Acc | 12.49 | 7.25 | N/A | N/A | N/A | N/A |
| I Inc | 12.50 | 7.26 | N/A | N/A | N/A | N/A |

Sterling Corporate Bond Fund

The fund aims to provide income while also growing your investment by outperforming, net of fees, the ICE BofAML Sterling Non-Gilts Index (GBP) over 1 to 3 years.

Past performance is not a reliable indicator of future results. Returns may increase or decrease as a result of currency fluctuations. All performance data is calculated NAV to NAV, net of fees, and does not take account of commissions and costs incurred on the issue and redemption of shares. The sources for all performance and Index data is Morgan Stanley Investment Management.

The fund provided a positive return to investors but underperformed its benchmark. The ACD directed an in-depth review of the fund and determined that the underperformance was due to market conditions unfavorable to the fund's strategic approach. The review established that the fund is being managed to meet its investment objective and that the investment process remains robust overall, with the fund continuing to offer value to investors. The ACD will continue to monitor the fund's strategy, process and performance.

Annualised Returns

| Class | 1Y | vs BMK | 3Y | vs BMK | 5Y | vs BMK |
|-------|------|--------|------|--------|------|--------|
| F Acc | 3.89 | 0.02 | 4.34 | -0.36 | 5.24 | -0.26 |
| F Inc | 3.89 | 0.02 | 4.34 | -0.36 | 5.24 | -0.26 |
| I Acc | 3.72 | -0.15 | 4.19 | -0.51 | 5.13 | -0.37 |
| I Inc | 3.73 | -0.14 | 4.18 | -0.52 | 5.12 | -0.38 |

US Advantage Fund

The fund aims to grow your investment over 3 to 5 years.

The fund is on track to meet its investment objective. Both share classes outperformed the fund's comparison benchmark — the S&P 500 w/Income (GBP) — over 1 and 3 years (the longest period currently available for the fund).

Annualised Returns

| Class | 1Y | vs BMK | 3Y | vs BMK | 5Y | vs BMK |
|-------|-------|--------|-------|--------|-----|--------|
| F Acc | 47.43 | 37.67 | 29.50 | 15.82 | N/A | N/A |
| I Acc | 46.98 | 37.22 | 29.11 | 15.43 | N/A | N/A |

FOR MORE INFORMATION

All documents listed below are available on our website morganstanley.com/im.

COSTS

- Descriptions of investment management, administration and depositary fees: [prospectus](#).
- Actual costs for most recent year: [Key Investor Information Document](#) (calendar year), [Annual Report](#) (report period/accounting year).

PERFORMANCE

- Performance of a specific share class: [fact sheet](#) (past 10 calendar years: per year, average, cumulative), [Key Investor Information Document](#) (past 5 calendar years), [Annual Report](#) (report period/accounting year).

SERVICES

- Name and address of each current service provider and what the provider does: [prospectus](#).



Our Evaluation Process

How the Board Conducted its Assessment

As Board members of Morgan Stanley Investment Management (ACD), we have always taken a keen interest in fund performance and pricing. Delivering sound investor value is essential for the funds to remain competitive. More than that, these same issues go to the heart of our fiduciary duty to fund investors.

For this, our second Annual Assessment of Value, we remained engaged throughout the process. To begin with, we ensured that the actions from last year's assessment were completed, notably the merger of A shares into the less expensive I shares.

For each of the FCA's 7 prescribed assessment criteria we oversaw and reviewed specific analysis that was developed using methodologies we approved as adequately responding to the regulatory requirements. In many cases the internal findings and discussions ranged well beyond these requirements.

A key aspect of the process is that it affords us ongoing opportunities, as a Board or as individual Directors, to critique and challenge the information and analyses presented to us. Both the independent and the affiliated Directors took advantage of this opportunity at one time or another. Final authorisation of this report, including decisions taken on action points, required the formal approval of the Board.

If you have questions or comments about this report, feel free to contact us through the website www.morganstanley.com/im.

Diane Hosie
Executive Director & CEO

Tim Cornick
Independent Non-Executive Director

Andy Mack
Independent Non-Executive Director

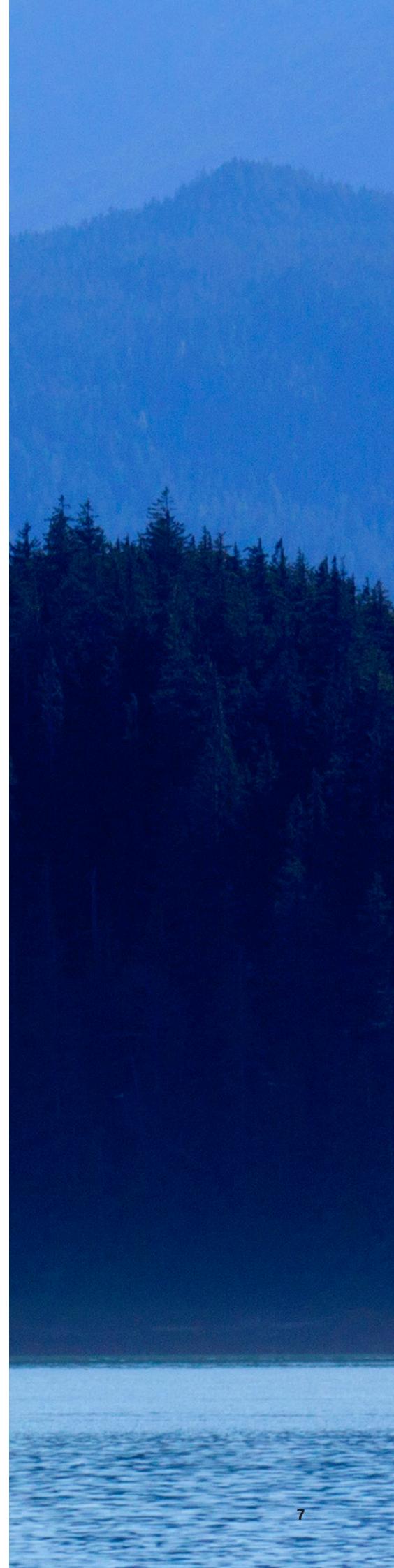
Simon Ellis
Independent Non-Executive Director

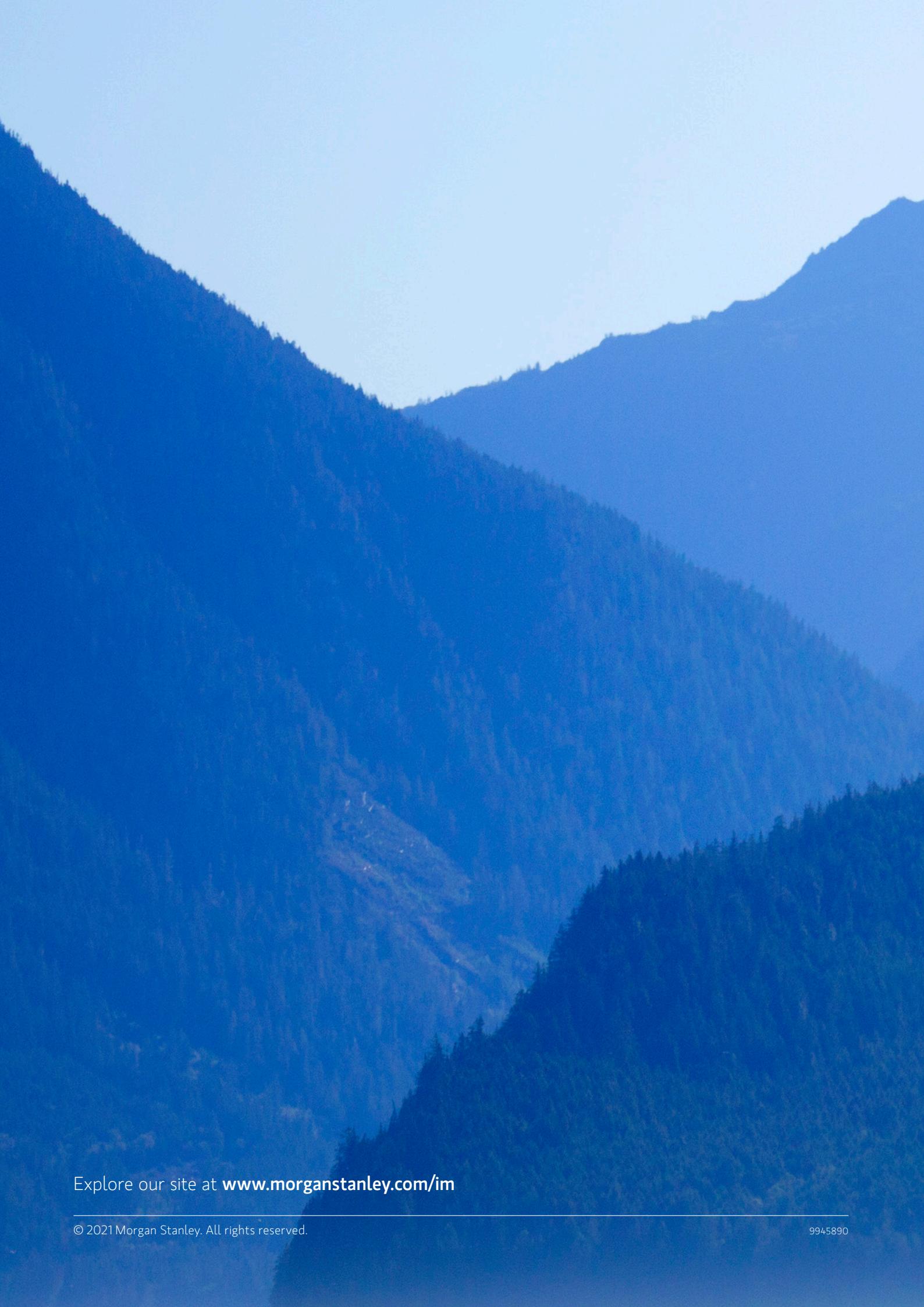
Jayne Rogers
Executive Director

Jacqueline James
Executive Director

Actions agreed by the Board

- Review service provider fees and seek to renegotiate those found to be higher than the industry average.
- Review the Sterling Corporate Bond Fund's strategy, process and performance and continue to monitor them throughout the subsequent report period.





Explore our site at www.morganstanley.com/im