Morgan Stanley

INVESTMENT MANAGEMENT

ESG Policy for Global Equity

INTERNATIONAL EQUITY | 2023

ESG Integration Approach

When integrating Environmental, Social, and Governance "ESG" analysis into our investment process, we explicitly focus on material ESG risks and opportunities and their effect on the sustainability of future returns on operating capital. This is because we believe companies with sustainably high long-term returns on operating capital should outperform. ESG considerations are a fundamental part of the investment and risk assessment process. Good governance and the ability to lead the way on social and environmental issues can also be a positive force for company success.

We believe that seeking to understand how ESG factors may impact long-term sustainable returns has to be rooted in company-specific analysis. Companies within industries may have different starting points in terms of addressing their specific material ESG challenges and opportunities. Where ESG factors have been identified as material, we look for incremental improvement in the relevant ESG factors.

As part of our research process, we use our proprietary ESG scorecard – the Material Risk Indicator (MRI) to explicitly document our evaluation of the ESG factors relevant to the sustainability of returns for our investments. The MRI supplements the existing qualitative and quantitative outputs of our research process.

We do not outsource our ESG analysis. The team's portfolio managers incorporate ESG considerations into their fundamental research and portfolio construction. Our Head of Sustainable Outcomes reviews and contributes to ESG strategy for the team, liaises with Morgan Stanley, MSIM and external ESG resources, contributes additional sustainability expertise to the investment debate and our engagement with companies, has introduced external specialist research resources and co-ordinates ESG matters for the team. Our Head of ESG Research works closely alongside investment team members, focusing on the analysis of thematic materials and relevant ESG issues which can supplement the investment team's fundamental and ESG analysis of a company. He also works on company engagement topics and liaises with MSIM's Global Stewardship team as necessary.

COMPANY- AND INDUSTRY-SPECIFIC ESG FACTORS

For each company, we attempt to identify both Industry-specific ESG factors (Portfolio Manager/analyst determined) and key universal ESG factors (team agreed). Given our high-quality focus, there are unlikely to be more than one or two material ESG risks for a given company. These risks are for the Portfolio Manager/analyst to determine, and there is the expectation of consistency across companies within the same industry (i.e. we expect the ESG factors identified in assessed companies will typically be the same within the same industry).

We determine the main industry-specific ESG factors in the same manner we conduct all research: we read companies' annual reports and sustainability reports, we engage with company management, we review third-party research including controversy analysis.

KEY UNIVERSAL ESG FACTORS

These represent the key universal ESG factors that we consider when assessing companies, and which are the most relevant given our high quality approach to investing. Analysts are expected to examine each factor for the company they are researching and to address their relevance for that company. Key universal ESG factors include, among others Greenhouse Gas (GHG) emissions, diversity and data security/privacy. The universal risks are not static; ESG factors may be added or removed as relevant over time.

ESG OPPORTUNITIES

ESG factors can also present an opportunity for companies to improve returns on operating capital employed. For example, software and services companies offering technology solutions for decarbonisation and/or waste reduction may experience positive growth in sales and/or profits.

ADDRESSING IDENTIFIED RISKS AND OPPORTUNITIES

Many of the risks that we consider when assessing a company can be categorised as ESG risks. The nature of ESG factors can make it challenging to quantify their impact. As such, we apply a range of methods to reflect the outcome of our ESG analysis in the portfolio. We may be able to quantify the impact of some concerns, reflecting these in our upside/downside analysis, but other risks may not be able to be modelled. In managing any ESG risk, we use our usual tools for managing risk: we may target the company for specific shareholder engagement, increase our cost of capital, limit the position size, or simply decide not to invest in a company.

The purpose of our ESG analysis is to identify the key ESG factor for the company in question. If a material opportunity exists, then it is documented in the same way as a material risk.

Having evaluated the different factors, we establish an overall ESG grade for each company. The assigned grade reflects, among other things, the number of material concerns and/or opportunities identified by the team.

Engagement

We have engaged directly with companies on issues material to the sustainability of returns on operating capital for over 20 years. We believe active managers running concentrated portfolios are well positioned to explore material ESG risks as well as opportunities and to engage directly with companies and their boards as they arise. Our engagements may act to reinforce the conviction we have in an investment case, or encourage caution in our consideration of the company as suitable for our portfolios. They have three key purposes: assessment of materiality of specific ESG issues relevant to companies and their strategies to address these issues, monitoring of progress and encouraging companies towards better practices. In the case of the latter, based on our in-depth understanding of the stock, we will go into the engagement with specific objectives and track the company's response – for example, we look for improved disclosure, behaviour change, and target-setting. Dialogue with companies on issues can take years and require multiple engagements. As long-term shareholders, we believe that engagement is a marathon and not a sprint. Accordingly, our engagement approach is aligned to our long-term investment approach.

Voting

We do not outsource proxy voting. MSIM has retained research providers to analyze proxy issues and to make vote recommendations on those issues. While we are aware of the recommendations of one or more research providers, we are in no way obligated to follow such recommendations. The investment team votes proxies in a prudent and diligent manner and in the best interest of our clients, consistent with the objective of maximizing long-term investment returns.

We consider how to vote on proposals related to social and environmental issues on a case-by-case basis by determining the relevance of social and environmental issues identified in the proposal and their likely impact. We generally support proposals that if implemented would enhance useful disclosure.

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 value of securities owned by the portfolio will decline. 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 strategy. Please be aware that this strategy may be subject to certain additional risks. Changes in the worldwide economy, consumer spending, competition, demographics and consumer preferences, government regulation and economic conditions may adversely affect **global franchise companies** and may negatively impact the strategy to a greater extent than if the strategy's assets were invested in a wider variety of companies. In general, **equity securities'** values also fluctuate in response to activities specific to a company. Investments in **foreign markets** entail special risks such as currency, political, economic, and market risks. Stocks of **small- and mid-capitalisation companies** carry special risks, such as limited product lines, markets and financial resources, and greater market volatility than securities of larger, more established companies. The risks of investing in **emerging market countries** are greater than risks associated with investments in foreign developed markets. **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. **Illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk). **Non-diversified portfolios** often invest in a more limited number of issuers. As such, changes in the financial condition or market value of a single issuer may cause greater volatility. **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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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 Strategy include a number of securities and will not necessarily track the performance of any index. Please consider the investment objectives, risks and fees of the Strategy carefully before investing. A minimum asset level is required.

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

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