Morgan Stanley

INVESTMENT MANAGEMENT

Morgan Stanley Funds (UK)

Global Balanced Sustainable Fund

ESG Methodology

SOLUTIONS & MULTI ASSET | GLOBAL BALANCED RISK CONTROL TEAM | APRIL 2022

MARKETING COMMUNICATION

This ESG methodology document should be read in conjunction with the Morgan Stanley Funds (UK) Global Balanced Sustainable Fund Risk Control Restriction Screening Policy and the Prospectus

ESG Methodologies

Relevant sustainability indicators used to measure the environmental or social characteristics of the product;

The Investment Adviser will take into account the long-term global warming objectives of the Paris Agreement. To reach this environmental objective the Investment Adviser's ESG integration process has two distinct climate tilts: 1) stock-specific and 2) sector-specific.

For the stock-specific, the Investment Adviser creates – for all 11 GICS sectors within each regional equity market – individual baskets that tilt towards the top quartile ESG and low-carbon transition leaders. For the sector-specific, the Investment Adviser aggregates the sector baskets subject to an overall carbon budget, aligned with a science-based climate trajectory subject to tracking error.

The Investment Adviser will also allocate 5% to 30% of the Fund for investment in assets with a measurable positive social or environmental impact (based on the Investment Adviser's methodology), alongside a competitive long term financial return. These investments can be held directly through equity or Fixed Income Securities, or indirectly through collective investment schemes.

The Investment Adviser has selected sustainability indicators to assess, measure and monitor environmental and social characteristics. The table below specifies the sustainability indicators, the detail of the metric, permitted threshold and data sources:

No.	Environmental and Social Characteristic	Sustainability indicator	Metric	Methodology	Data sources
1	Climate Change	Climate Change Score	Low Carbon Transition Score is a company level score designed to identify potential leaders and laggards by holistically measuring companies' exposure to and management of risks and opportunities related to the low carbon transition. Companies with higher Low Carbon Transition score are more aligned with the Low Carbon Transition compared to the companies with lower scores	Tilt towards the top quartile low-carbon transition leaders within each sector in each region, subject to other considerations and constraints	MSCI
2	Climate Change	Carbon emission	Tilt towards lower carbon intensive sectors within each region using emissions over EVIC, subject to overall carbon budget and tracking error constraint	Tilt towards lower carbon intensive sectors within each region using emissions over EVIC, subject to overall carbon budget and tracking error constraint	MSCI
3	Environmental, Social and Governance	ESG Ratings	The ESG Rating is designed to measure a company's resilience to long-term, industry material environmental, social and governance (ESG) risks.	Tilt towards the top quartile ESG rated companies within each sector in each region, subject to other considerations and constraints	MSCI

Data

In undertaking the above analysis and restrictions screening, the Investment Team supplements its own analysis with data from third parties such as MSCI. The Investment Team will bear the costs in relation to the use of third-party data.

RISK CONSIDERATIONS

Past performance is not a guarantee of future performance. The value of the investments and the income from them can go down as well as up and an investor may not get back the amount invested. 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.

The Asset Allocation strategies provide the Investment Adviser with wide discretion to allocate between different asset classes. From time to time, the Asset Allocation may have significant exposure to a single or limited number of fixed income or equity asset classes. Accordingly, the relative relevance of the risks associated with equity securities, Fixed Income Securities and

derivatives will fluctuate over time.
Funds that specialise in a particular region or market sector are more risky than those which hold a very broad spread of investments. Where portfolio concentration is in one sector it is subject to greater risk and volatility than other portfolios that are more diversified and the value of its shares may be more substantially affected by economic events in the real estate industry.

Investments in derivative instruments carry certain inherent risks such as the risk of counter party default and before investing you should ensure you fully understand these risks. Use of leverage may also magnify losses as well as gains to the extent that leverage is employed.

These investments are designed for investors who understand and are willing to accept these risks. Performance may be volatile, and an investor could lose all or a substantial portion of his or her investment.

- The value of bonds are likely to decrease if interest rates rise and vice versa.
- The value of financial derivative instruments are highly sensitive and may result in losses in excess of the amount invested by the Sub-Fund.
- Issuers may not be able to repay their debts, if this happens the value of your investment will decrease. This risk is higher where the fund invests in a bond with a lower credit rating.
- The fund relies on other parties to fulfil certain services, investments or transactions. If these parties become insolvent, it may expose the fund to financial loss.
- There may be an insufficient number of buyers or sellers which may affect the fund’s ability to buy or sell securities.
- Commodity investments can change significantly and quickly in value as a large variety of factors affect them.
- There are increased risks of investing in emerging markets as political, legal and operational systems may be less developed than in developed markets.

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