

Sustainable Fixed Income Opportunities Fund

FIXED INCOME | GLOBAL FIXED INCOME | DECEMBER 2020

A fund which combines a comprehensive approach to sustainability with an active, flexible approach to investing by identifying the best ideas within the global fixed income universe.

Combining Value with Values

The Fund employs a dynamic approach to define an eligible universe that has superior sustainability characteristics, on a sector-by-sector basis and across developed and emerging countries' sovereign issuers, and selects securities from that universe with a focus on positive sustainability contributions.

The objectives of this top-down selection process are to:

- Reduce exposure to material ESG risk and negative sustainability impacts, through restriction screening of controversial sectors such as weapons, tobacco and some fossil fuels, as well as international norms violations;
- Tilt the portfolio in favour of the 80% strongest sustainability performers across corporates, by sub-sector, and sovereigns; and
- Contribute to positive outcomes based on key sustainability themes, with a particular focus on low carbon intensity.

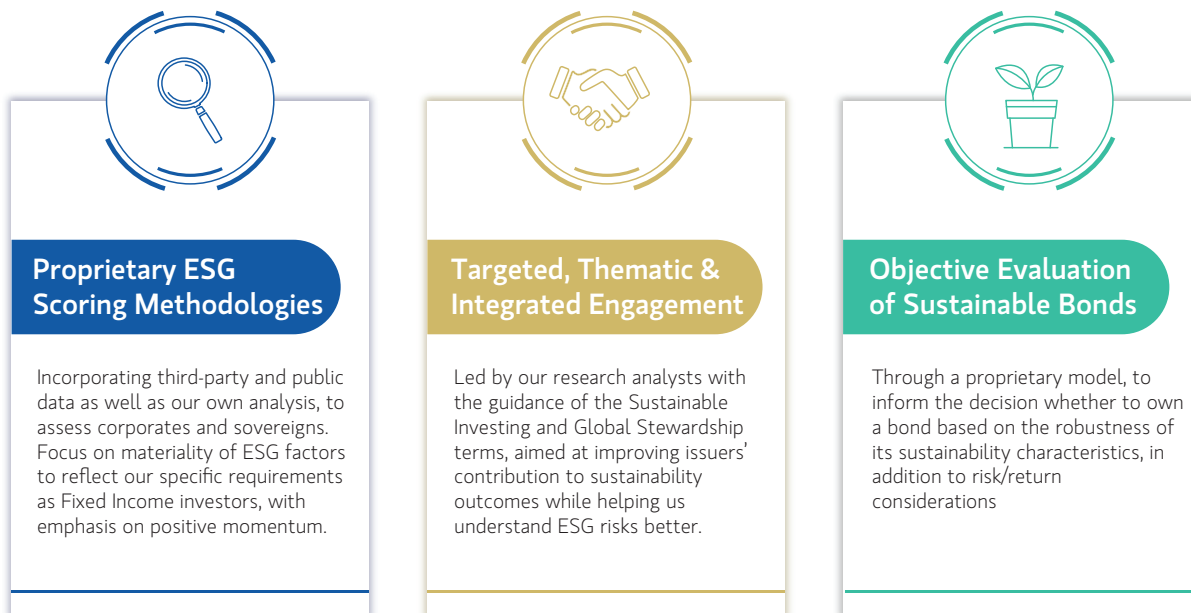
We Consider the Entire Universe of Fixed Income, Through a Sustainability Lens



The information presented above represents how the investment team generally applies their investment processes under normal market conditions.

Delivering the Best of our Proprietary Bottom-Up ESG Analysis & Processes

The top-down processes described above are supported by the full range of the MSIM FI team's bottom-up analysis and processes from our Sustainable Investing Toolkit:



Note: The information presented above represents how the investment team generally applies their investment processes under normal market conditions.

We believe the time to be passive has passed

In today's environment, the low levels of yields and the risk of higher interest rates make for a challenging backdrop for global fixed income investors. The impact of the pandemic and the consequent increase in idiosyncratic risks mean that investors need to select investments with care. We believe that a passive or benchmark driven approach to investing in fixed income may be sub-optimal in this environment as investors could bear too much duration risk or have exposure to sectors and companies that they do not like. Hence, an active and flexible investment strategy may be a better alternative, and stand to outperform a passive approach.

An Active Approach

An active, flexible strategy avoids the limitations of tracking a benchmark and has the ability to consider the widest potential opportunity set within the global fixed income universe. This approach provides investors with the capability to own the best sectors throughout the market cycle.

The MS Funds (UK) Sustainable Fixed Income Opportunities Fund adopts an active, flexible approach and pursues an attractive yield and total return over a three to five year horizon, focusing on absolute return and risk-adjusted return rather than a level of tracking error.

Rigorous Active Management

We believe that a truly active approach requires flexible asset allocation between each segment of the market. Our investment decisions discount geographic and sector limitations; we are not driven by a benchmark. This allows the Fund to focus on delivering consistent uncorrelated returns from various sources of Alpha – which also reduces directional risk. Our experienced Asset Allocation team uses macroeconomic analysis and fundamental research to identify the best areas of the fixed income markets. The advantage of a flexible approach is that the portfolio has no "home bias" and if we determine that a particular segment of the market offers little or no value, we do not have to own it.

The MS Funds (UK) Sustainable Fixed Income Opportunities Fund allocates across a wide variety of fixed income asset classes. Each sleeve of the portfolio is then populated with the best individual investment ideas; we only select investment opportunities that we believe offer the most compelling fundamental case and valuation prospects. Our flexible approach to portfolio positioning enables us to adjust market exposure as the macroeconomic backdrop changes, striving to generate returns from a broad range of investment opportunities. The Fund will invest at least 50% in investment grade bonds. After hedging, a maximum of 20% of the Fund will be exposed to non-sterling currencies.

Experienced Investors

The MS Funds (UK) Sustainable Fixed Income Opportunities Fund is managed by the Global Fixed Income Team, an experienced team of fixed income investors. The Fund fully leverages the expertise of our well-resourced research teams dedicated to each segment of the fixed income universe, combined with the specialist knowledge of our Sustainable Investing team.

Differentiators

1. Comprehensive Sustainable Investing Approach

The portfolio combines a positively ESG-tilted investment universe based on proprietary models with a top-down thematic and impact-driven focus on decarbonisation and the SDGs for security selection.

2. Active Global Approach

Our investment decisions discount geographic and sector limitations; we are not driven by a benchmark.

3. Flexible Asset Allocation

We believe that a truly active approach requires rotation between the segments of the market as the cycle evolves.

4. Expertise in Sub Asset Classes

The portfolio is populated with the best individual investment ideas in each segment of the market, selected by our rigorous analysis.

5. Depth & Capacity

Allows the team to analyse and execute trades, both implementation and liquidation, across the global fixed income universe.

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