Morgan Stanley

INVESTMENT MANAGEMENT

Morgan Stanley Funds (UK) Global Balanced Sustainable Fund

Impact Investment Methodology

MARKETING COMMUNICATION | **GLOBAL BALANCED RISK CONTROL TEAM** | APRIL 2022

The purpose of this document is to describe the Global Balanced Risk Control team's approach to impact investment by providing an overview of our impact investment methodology. This policy applies to the Morgan Stanley Funds (UK) Global Balanced Sustainable Fund.

1. Our Multi-Asset Definition of Impact Investment

Impact Investments are investments made with the intention to generate positive, measurable social and/or environmental impact alongside a financial return. The Global Balanced Risk Control (GBaR) team's definition of "Impact Investment(s)" is aligned with that of the Global Impact Investing Network (GIIN).[1] The team focus on investments that generate a measurable, positive environmental and social impact alongside a financial return.

2. Our Impact Themes

Our Impact Investments are guided by four overarching themes representing the key challenges to achieving an environmentally sustainable and socially inclusive future: two key Environmental Themes: Climate and Natural Capital, and two Social Themes: Basic Needs and Empowerment. The themes are applicable across asset classes.

This Impact Investment framework is informed by our own research and other internationally accepted impact frameworks. On the following page, we have indicated our themes, examples of sub-themes and corresponding U.N. Sustainable Development Goals (SDGs).

3. Our Multi-Asset Approach to Impact Investment

The Morgan Stanley Funds (UK) Global Balanced Sustainable Fund aims to allocate 5% to 30% to impact investment opportunities according to the definition above.

Currently, we select best-in-class (both internal or third-party) Impact Investment funds to gain exposure to impact opportunities. The team leverages our long-standing manager selection process and experience gained since 2009. The due diligence framework involves qualitative and quantitative analyses, aimed at providing thorough fund assessments, complemented by a third-

[1] https://thegiin.org/impact-investing/need-to-know/

	SOCIAL		ENVIRONMENTAL	
OVERARCHING THEMES	BASIC NEEDS	EMPOWERMENT	CLIMATE	NATURAL CAPITAL
EXAMPLES OF KEY SUB-THEMES	• Healthcare • Affordable Housing • Sanitation • Nutrition	• Education • Financial Inclusion • Digital Divide • Diversity & Inclusion	• Energy Efficiency • Renewable Energy • Green Buildings	• Waste & Resource Management • Pollution Control • Water • Sustainable Agriculture and Forestry • Biodiversity

U.N. SDG

A list and further description of the SDGs can be found at www.un.org/sustainabledevelopment/sustainable-development-goals for more details on the Sustainable Development Goals.

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party opinion from an established consultant. In addition, the team applies additional considerations to Impact Investments:

1. **INTENTIONALITY:** We seek to identify managers who have the explicit intention of contributing to environmental and/or social solutions through their investments, by aligning to the impact themes described above, alongside a financial return.
2. **PURITY:** We seek to identify funds that target businesses deriving the majority of their revenue from products and services aimed at addressing environmental or social challenges as defined above.
3. **REPORTING:** We seek to identify managers who are committed to measuring and reporting on the social and environmental performance of their funds, ensuring transparency.
4. **DIVERSIFICATION:** We make sure the funds we invest in are well diversified, within both the Impact Investment allocation and the broader portfolio context.

4. Reporting on Impact

It is our intention to maintain Impact Investment exposure, as described above, and to select funds and, where relevant, securities, based on the described approach. The reporting considerations mentioned above aim to ensure that impact measurement is central to our Impact Investments. Given the lack of applicable harmonised reporting frameworks, we currently rely on the fund managers to decide how to best measure the nonfinancial performance of their funds, and to continue developing impact measurements and participate achieve agreement with the wider industry.

The GBaR team monitors market developments to inform our Impact Investment definition and approach, as well as market developments of impact metrics. This includes internal enhancements such as a quantitative tool to monitor our Impact Investments. We aim to make this available to investors as data become available, and to integrate such data in a future version of this methodology.

The following is a list of funds we currently invest in and links to their latest annual Impact Reports:

FUND NAME	ANNUAL REPORT LINK
Wellington Global Impact Fund	2020 Impact Report
Impax Environmental Markets Fund	2020 Impact Report
KBI Water Fund	Available to investors upon request
Ballie Gifford Positive Change Fund	2020 Impact Report
Lyxor Green Bond ETF	2021 Impact Report

As of 31 March 2022.

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.

The views and opinions provided here are of the investment management team. These are not the views of the firm as a whole.

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