

## Morgan Stanley Investment Management Global Balanced Sustainable Strategy

# Impact Investment Methodology

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CUSTOMISED SOLUTIONS | GLOBAL BALANCED RISK CONTROL TEAM | March 2023

### MARKETING COMMUNICATION

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 Global Balanced Sustainable Strategy.

#### 1. Our multi-asset definition of impact investing

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)<sup>1</sup>. 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 UN Sustainable Development Goals (SDGs).

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<sup>1</sup> [www.thegiin.org/impact-investing/need-to-know/](http://www.thegiin.org/impact-investing/need-to-know/) Accessed 12 May 2022, the Global Impact Investing Network.

	ENVIRONMENTAL				SOCIAL			
	CLIMATE		RESOURCE MANAGEMENT		BASIC NEEDS		EMPOWERMENT	
Issues addressed by portfolio's impact investments	<ul style="list-style-type: none"> <li>Energy Efficiency</li> <li>Renewable Energy</li> <li>Green Buildings</li> </ul>	<ul style="list-style-type: none"> <li>Waste &amp; Resource Management</li> <li>Pollution</li> <li>Water</li> <li>Sustainable Agriculture and Forestry</li> </ul>	<ul style="list-style-type: none"> <li>Healthcare</li> <li>Affordable Housing</li> </ul>	<ul style="list-style-type: none"> <li>Education</li> <li>Financial Inclusion</li> <li>Inequality</li> <li>Digital Divide</li> </ul>				
Aligned with many of the UN's SDGs <sup>(1)</sup>	 	 	 	 				
	 	 	 	 				

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

The content of this publication has not been approved by the United Nations and does not reflect the views of the United Nations or its officials or Member States.

### 3. Our Multi-Asset Approach to Impact Investment

The Morgan Stanley Global Balanced Sustainable Strategy 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 analysis, aimed at providing thorough fund assessments, complemented by a third-party opinion from an established consultant. In addition, the team applies additional considerations to Impact Investments:

- 1. Intentionality:** We seek to identify managers which 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 that 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, both within the Impact Investment allocation, but also within 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 it is best to measure the non-financial 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 for this to be made available to investors as data become available and to integrate such data in a future version of this methodology.

This represents how the portfolio management team generally implements its investment process under normal market conditions. Individual funds and client accounts operating within the strategy may have specific ESG related goals and restrictions that affects ESG integration. Please refer to governing documents of individual vehicles to understand their binding ESG criteria. Portfolio holdings and results may vary due to specific investment restrictions and guidelines both related and unrelated to ESG.

The weights represent typical ranges and are not a maximum number. The portfolio may exceed this from time to time due to market conditions and outstanding trades.

#### **RISK CONSIDERATIONS**

Diversification does not eliminate the risk of loss.

There is no assurance that the Strategy will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by the portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. 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 portfolio. Please be aware that this strategy may be subject to certain additional risks. **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 favour in the market. As a result, there is no assurance ESG strategies could result in more favourable investment performance. There is the risk that the Adviser's **asset allocation methodology and assumptions** regarding the Underlying Portfolios may be incorrect in light of actual market conditions and the Portfolio may not achieve its investment objective. Share prices also tend to be volatile and there is a significant possibility of loss. The portfolio's investments in **commodity-linked notes** involve substantial risks, including risk of loss of a significant portion of their principal value. In addition to commodity risk, they may be subject to additional special risks, such as risk of loss of interest and principal, lack of secondary market and risk of greater volatility, that do not

affect traditional equity and debt securities. **Currency fluctuations** could erase investment gains or add to investment losses. **Fixed-income securities** are subject to the ability of an issuer to make timely principal and interest payments (credit risk), changes in interest rates (interest-rate risk), the creditworthiness of the issuer and general market liquidity (market risk). In a rising interest-rate environment, bond prices may fall and may result in periods of volatility and increased portfolio redemptions. In a declining interest-rate environment, the portfolio may generate less income. **Longer-term securities** may be more sensitive to interest rate changes. **Equity and foreign securities** are generally more volatile than fixed income securities and are subject to currency, political, economic and market risks. Equity values fluctuate in response to activities specific to a company. Stocks of **small-capitalization 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. **Exchange traded funds (ETFs)** shares have many of the same risks as direct investments in common stocks or bonds and their market value will fluctuate as the value of the underlying index does. By investing in exchange traded funds ETFs and other **Investment Funds**, the portfolio absorbs both its own expenses and those of the ETFs and Investment Funds it invests in. Supply and demand for ETFs and Investment Funds may not be correlated to that of the underlying securities. **Derivative instruments** can be illiquid, may disproportionately increase losses and may have a potentially large negative impact on the portfolio's performance. A **currency forward** is a hedging tool that does not involve any upfront payment. The use of **leverage** may increase volatility in the Portfolio. **Diversification** does not protect you against a loss in a particular market; however, it allows you to spread that risk across various asset classes.

## 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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