

**Sustainable investment** means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852 establishing a list of **environmentally sustainable economic activities**. That Regulation does not lay down a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

**Product name:** Global Brands Fund  
**Legal entity identifier:** ZGXTXPGVP03JQIVJJ255

Environmental and/or social characteristics

Does this financial product have a sustainable investment objective?

Yes

No

☐

It will make a minimum of sustainable investments with an environmental objective: \_\_%

☐

in economic activities that qualify as environmentally sustainable under the EU Taxonomy

☐

in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy

☐

It will make a minimum of sustainable investments with a social objective: \_\_%

☒

It promotes Environmental/Social (E/S) characteristics and while it does not have as its objective a sustainable investment, it will have a minimum proportion of 10% of sustainable investments

☐

with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy

☒

with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy

☒

with a social objective

☐

It promotes E/S characteristics, but will not make any sustainable investments



## What environmental and/or social characteristics are promoted by this financial product?

The fund promotes the environmental characteristic of climate change mitigation by excluding investments in: (i) companies with any tie to fossil fuels; and (ii) companies in certain other energy intensive sectors. For the avoidance of any doubt, the fund does not seek to make investments that contribute to climate change mitigation within the meaning of the EU Taxonomy.

In addition, the fund considers social characteristics by applying binding exclusions on: (i) companies whose core business activity involves weapons or civilian firearms; and (ii) that have any tie to controversial weapons.

In addition, the fund commits to invest a proportion of its assets in companies classified as sustainable investments through an assessment comprising three tests (as per SFDR).

The fund has not designated a reference benchmark for the purpose of attaining its environmental or social characteristics.

Further details on the binding exclusions applied by the fund may be found under section “*What investment strategy does this financial product follow?*”.

### What sustainability indicators are used to measure the attainment of each of the environmental or social characteristics promoted by this financial product?

**Sustainability indicators** measure how the environmental or social characteristics promoted by the financial product are attained.

#### 1. Environmental characteristics

Compliance with the environmental exclusionary screens is measured by the exclusionary criteria and the percentage of the fund's investments which breach the exclusionary screens.

#### 2. Social characteristics

Compliance with the social exclusionary screens is measured by the exclusionary criteria and the percentage of the fund's investments which breach the exclusionary screens.

#### 3. Sustainable investments

Compliance with the sustainable investment commitment is measured by the percentage of the fund's investments which are classified as sustainable investments and the attainment of the fund's minimum commitment.

### What are the objectives of the sustainable investments that the financial product partially intends to make and how does the sustainable investment contribute to such objectives?

As noted above, the fund commits to invest a proportion of its assets in companies classified as sustainable investments through an assessment comprising three tests (as per SFDR).

The positive contribution to an environmental or social objective test applied by the investment manager seeks to ensure that companies classified as sustainable investments are classified based on their net positive alignment with the UN SDGs. This is primarily determined using net alignment scores obtained from third-party data providers.

The UN SDGs include environmental (e.g. SDG 13: Climate Action) and social (e.g. SDG 3: Good Health and Well-Being) objectives. The third-party data providers' net alignment scores indicate whether companies in the providers' coverage universe have a net positive alignment with each of the UN SDGs through their products and services (e.g. a healthcare company's essential medical products may be positively aligned with SDG 3: Good Health and Well-Being) and/or their operational alignment (e.g. a company with a robust carbon reduction plan may be positively aligned with SDG 13: Climate Action). More information on the UN SDGs can be found at: <https://www.undp.org/sustainable-development-goals>. The investment manager recognises that the UN SDGs were written by Governments for Governments and therefore data that seeks to align corporate actions to the SDGs will not be perfectly representative.

In first instance, the investment manager classifies a company as having a positive contribution to an environmental or social objective as simultaneously meeting three criteria using the third-party data: 1) having

a net positive aggregate alignment score across all the SDGs; 2) having sufficient net positive alignment with at least one individual SDG; and 3) not having a material net mis-alignment with any of the SDGs.

In limited cases, and where it is satisfied that it is appropriate to do so based on its internal research, engagement with the company and/or other data sources, the investment manager may treat a company as failing or passing its positive contribution test, contrary to the position indicated by the third-party SDG net alignment scores. The investment manager may do this when, for example, it considers the third-party SDG net alignment data to be out of date or incorrect.

● ***How do the sustainable investments that the financial product partially intends to make, not cause significant harm to any environmental or social sustainable investment objective?***

The do no significant harm (“DNSH”) test applied by the investment manager seeks to ensure that companies classified as sustainable investments do not cause significant harm to any of the mandatory, SFDR-defined principal adverse impact (“PAI”) indicators. This is primarily determined using data obtained from third-party providers.

— *How have the indicators for adverse impacts on sustainability factors been taken into account?*

**Principle Adverse Impacts** are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption, and anti-bribery matters.

In the first instance, the fund uses data from third-party providers to assess the mandatory PAI indicators. The fund may use reasonable proxies for those PAIs for which the investment manager considers that the data is not widely or reliably available (currently these are the ‘Unadjusted gender pay gap’, ‘Activities negatively affecting biodiversity sensitive areas’ and ‘Emissions to water’ PAI indicators). These proxies will be kept under review and will be replaced by data from third-party providers when the investment manager determines that sufficiently reliable data has become available.

To determine whether significant harm is caused, initial thresholds for each mandatory PAI indicator are generally set in one of the following ways:

- For binary indicators (e.g. ‘Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises’), a binary pass/fail test is applied;
- For indicators based on quantifiable numerical data (e.g. ‘GHG intensity of investee companies’), the initial threshold set by the investment manager is based on either:
  - A relative level where the worst performers within the broader investable universe (which is limited to issuers for which data is available, subject to the exceptions noted below), are deemed to fail the initial test; or
  - An absolute level where companies which perform above/below a defined level (as appropriate) are deemed to fail the initial test.

For each mandatory PAI indicator, where data is not available, a company is deemed to fail the initial test and cannot be classified as a sustainable investment. However, in cases where the third-party data provider determines that a particular PAI indicator is not meaningful given the nature or the industry of the company, and therefore does not provide data on that PAI indicator, the company is deemed to pass the initial test on the basis that the company’s activities are unlikely to be causing significant harm to the environmental or social theme covered by that PAI indicator. The investment manager will keep the third-party data providers’ ‘not meaningful’ assessment under periodic review.

In limited cases, and where it is satisfied that it is appropriate to do so based on its internal research, engagement with the company and/or other data sources, the investment manager may treat a company as failing or passing its DNSH test, contrary to the position indicated by the third-party data. The investment manager may do this when, for example, it considers the third-party data to be out of date or incorrect, or where the investment manager considers that a company is taking appropriate and credible remedial actions to rectify its failings on a PAI, subject to the investment manager’s ongoing review and tracking of the company’s remedial actions.

As part of its long-term investment approach, the investment manager seeks to engage with companies to encourage them towards better ESG practices and to minimise or mitigate the principal adverse impacts of their activities on a materiality basis (i.e. if the investment manager considers a particular PAI indicator to be potentially financially material to the long-term sustainability of high returns on capital).

— *How are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprise and the UN Guiding Principles on Business and Human Rights? Details:*

As part of the investment manager's DNSH test, companies will not be classified as sustainable investments if they fail to comply with the themes and values promoted by the OECD Guidelines for Multinational Enterprises or the UN Global Compact, or if they lack processes and compliance mechanisms to monitor compliance with the themes and values promoted by these global norms.

As noted above, the assessment is based on information obtained from third-party data providers or, where the investment manager considers it appropriate, internal research, engagement with the company and/or other data sources.

The investment manager uses the OECD Guidelines for Multinational Enterprises and the UN Global Compact as reasonable proxies.

*The EU Taxonomy sets out a "do not significant harm" principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific EU criteria.*

The "do no significant harm" principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

*Any other sustainable investments must also not significantly harm any environmental or social objectives.*



## Does this financial product consider principal adverse impacts on sustainability factors?

☒ **Yes**

☐ **No**

The mandatory PAI indicators in the SFDR rules are considered by the investment manager (in the manner set out above) for the purposes of classifying some of the fund's investments as sustainable investments.

In addition, the environmental and social characteristics promoted by the fund incorporate consideration of the following PAIs through binding exclusions:

- PAI indicator 4: exposure to companies active in the fossil fuel sector;
- PAI indicator 14: exposure to controversial weapons;

As noted above, as part of its long-term investment approach, the investment manager seeks to engage with companies to encourage them towards better ESG practices and to minimise or mitigate the principal adverse impacts of their activities on a materiality basis (i.e. if the investment manager considers a particular PAI indicator to be potentially financially material to the long-term sustainability of high returns on capital).

The fund will make information available on how it has incorporated the PAIs in its periodic report to investors.



## What investment strategy does this financial product follow?

The fund will seek to achieve its investment objective by investing primarily (at least 70% of total net assets) in equities of companies in the world's developed countries.

The fund may also invest, on an ancillary basis (up to 30% of total net assets), in equities of companies located in emerging markets, including China A-shares (through Stock Connect). The fund may invest up to 10% of its net assets in China A-shares (through Stock Connect).

**The investment strategy** guides investment decisions based on factors such as investment objectives and risk tolerance.

Investment in equities of companies may also include preference shares, debt securities convertible into common shares or preference shares, and other equity-related instruments.

The investment manager seeks to invest in a concentrated portfolio of high quality companies with sustainably high returns on operating capital and whose success the investment manager believes depends on intangible assets (for example, but not limited to, brand names, copyrights or methods of distribution) underpinning a strong business franchise.

As an essential and integrated part of the investment process, the investment manager assesses relevant factors potentially material to long-term sustainably high returns on operating capital including ESG factors and seeks to engage with companies as part of this. Subject to the fund's investment objective and its binding Article 8 characteristics (as explained below), the investment manager retains discretion over which investments are selected. Whilst ESG considerations are an integrated and fundamental part of the investment process, ESG factors are not the sole determinant of whether an investment can be made or a holding can remain in the fund's portfolio, but instead the investment manager considers potentially material risks or opportunities in any of the ESG areas which could potentially threaten or enhance the high returns on operating capital of a company.

The investment manager monitors business practices on an ongoing basis, through data on ESG controversies and standards screening that the investment manager sources from third party providers, including UN Global Compact violations, as well as its own engagement with companies and research. The investment manager reviews securities of issuers where it believes a significant breach of the above standards and principles has occurred and typically excludes such issuers where, after conducting our research and/or engagement, the investment manager believes the breach is material to the sustainability of returns on operating capital, poses significant financial and reputational risk and the issuer has not committed to appropriate remedial action. Such exclusions are determined by the investment manager in its discretion rather than by reliance on third party analysis. The analysis may be supported by third party ESG controversies analysis and business involvement metrics.

## **1. Environmental characteristics**

The fund promotes the environmental characteristic of climate change mitigation by excluding investments in any company that the investment manager determines:

- to have any tie to fossil fuels (such as oil, gas and coal) as defined by the investment manager's third-party data provider; or
- has been assigned the following sectors or industries under the MSCI Global Industry Classification Standards ("MSCI GICS"): energy, construction materials, utilities (excluding renewable electricity and water utilities), or metals and mining.

## **2. Social characteristics**

The fund considers social characteristics by applying the following binding screens:

- the fund's investments shall not knowingly include any company which has revenues above the thresholds defined by the investment manager (as set out below) related to the following business activities, classified by the investment manager's third-party data provider:
  - a. Civilian firearms: production, wholesale or retail of firearms and ammunition intended for civilian use (>10% revenue);
  - b. Weapons: production of conventional, biological or chemical, nuclear weapons and blinding laser, incendiary or non-detectable fragments weapons and related activities as defined by the third-party data provider (>10% revenue); or
  - c. Depleted uranium: production of depleted uranium weapons (>0% revenue) or through indirect ownership as defined by the third-party data provider.
- the fund shall also not invest in any company that has any tie to controversial weapons as defined by the investment manager's third-party data provider.

Investments that are held by the fund but become restricted because they breach the exclusionary criteria set out above after they are acquired for the fund will be sold. Such sales will take place over a time period to be determined by the investment manager, taking into account the best interests of the Shareholders of the fund.

Further to the above, the investment manager may, in its discretion, elect to apply additional ESG-related investment restrictions over time that it believes are consistent with its investment objectives. Such additional restrictions will be disclosed in the fund's SFDR Website Disclosure.

### 3. Sustainable investments

As noted above, the fund commits to invest a proportion of its assets in companies classified as sustainable investments through an assessment comprising three tests (as per SFDR):

- i. **good governance:** this test seeks to ensure that all companies are considered by the investment manager to follow good governance practices to be included in the fund's portfolio;
- ii. **do no significant harm:** this test seeks to ensure that companies classified as sustainable investments do not cause significant harm to any of the mandatory, SFDR-defined principal adverse impact indicators; and
- iii. **positive contribution to environmental or social objective:** this test seeks to ensure that companies classified as sustainable investments are classified based on their net positive alignment with the UN SDGs.

The fund is actively managed by the investment manager on an ongoing basis in accordance with its investment strategy. The investment process is subject to regular review, as part of a control and monitoring framework implemented by the investment manager and the management company. The investment manager's Compliance, Risk and Portfolio Surveillance teams collaborate with the portfolio management team of this fund to conduct regular portfolio/performance reviews and systemic checks to ensure compliance with portfolio investment objectives, investment and client guidelines, taking into account changing market conditions, information and strategy developments.

The environmental and social characteristics which the fund seeks to promote are incorporated within the investment guidelines and subject to ongoing monitoring by the investment manager. Morgan Stanley Investment Management's Portfolio Surveillance team also codes the investment guidelines into the firm's surveillance system. The Portfolio Surveillance team uses an automated process to monitor adherence to investment guidelines, including pre- and post-trade guideline monitoring and exception-based screening, and informs the portfolio management team of this fund of any possible guideline violations.

#### ● ***What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?***

The binding elements of the investment strategy are:

- The exclusionary criteria, which are used to select the investments to achieve the environmental and social characteristics promoted by the fund; and
- The fund's commitment to invest at least 10% of its assets in companies classified as sustainable investments.

#### ● ***What is the committed minimum rate to reduce the scope of the investments considered prior to the application of that investment strategy?***

Not applicable.

#### ● ***What is the policy to assess good governance practices of the investee companies?***

The investment process is focused on identifying high quality companies that can sustain their high returns on operating capital over the long term. Effective governance is important and governance criteria are therefore embedded within the investment process and considered as part of initial research and portfolio selection. Ongoing monitoring is facilitated through engagement with the company as well as by using, where appropriate, company data, third party data and governance-related controversy screens.

**Good governance** practices include sound management structures, employee relations, remuneration of staff and tax compliance.

As part of its assessment, in order to meet the SFDR regulatory requirements, the investment manager also has regard to third-party proxy indicators as considerations relating to four specific aspects of governance: sound management structures, employee relations, remuneration of staff and tax compliance. All companies in the fund are assessed against these indicators. A company has to be considered by the investment manager to have good governance practices overall to be included within the portfolio. In reaching this determination, the investment manager may take into account any remedial actions being undertaken by a company on a particular governance issue.

The investment manager also engages with companies on issues potentially material to the sustainability of company returns on operating capital. Direct engagement with companies on potentially financially material ESG risks and opportunities, and other issues, plays a role in informing the investment manager on the soundness of company management and whether it can maintain high returns on operating capital while growing the business over the long term. Dialogue with companies on engagement topics can be prolonged and require multiple engagements.



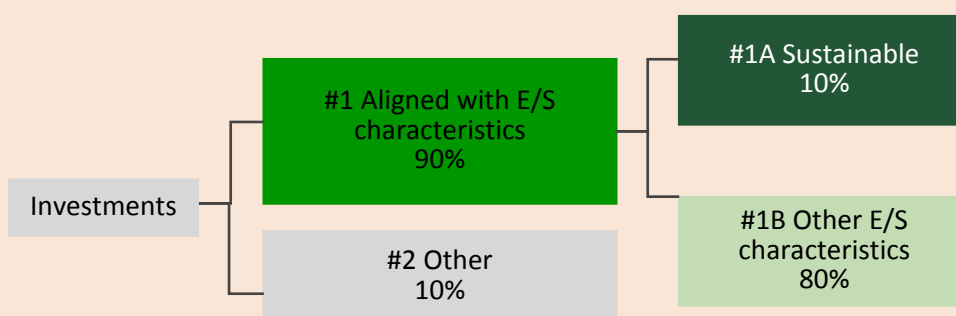
## What is the asset allocation planned for this financial product?

**Asset allocation** describes the share of investments in specific assets.

Taxonomy-aligned activities are expressed as a share of:

- **turnover** reflecting the share of revenue from green activities of investee companies
- **capital expenditure** (CapEx) showing the green investments made by investee companies, e.g. for a transition to a green economy.

- **operational expenditure** (OpEx) reflecting green operational activities of investee companies.



**#1 Aligned with E/S characteristics** includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

**#2 Other** includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

The category **#1 Aligned with E/S characteristics** covers:

- The sub-category **#1A Sustainable** covers sustainable investments with environmental or social objectives.
- The sub-category **#1B Other E/S characteristics** covers investments aligned with the environmental or social characteristics that do not qualify as sustainable investments.

The environmental and social exclusions are expected to apply to at least 90% of the portfolio. The investment manager anticipates that the remainder of the fund will be made up of investments held for ancillary liquidity, including cash and money market instruments, with this proportion not expected to comprise more than 10% of the fund's assets. No minimum environmental or social safeguards are applied to such investments.

Under exceptional circumstances, the percentage of the fund's assets that are made up of investments held for ancillary liquidity may temporarily fluctuate above the stated level for certain reasons including but not limited to market conditions or client inflows/outflows.

The fund also expects a minimum of 10% of its assets to be classified as sustainable investments. Among these, the fund expects a minimum of 1% of its assets to be classified as sustainable investments with an environmental objective and 1% as sustainable investments with a social objective which can both vary independently at any time.

All percentages are measured according to the value of the investments.

### ● **How does the use of derivatives attain the environmental or social characteristics promoted by the financial product?**

Not applicable.



## To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?

The fund does not commit to invest a minimum proportion of its assets in companies classified as sustainable investments with an environmental objective aligned with the EU Taxonomy.

To comply with the EU Taxonomy, the criteria for **fossil gas** include limitations on emissions and switching to renewable power or low-carbon fuels by the end of 2035. For **nuclear energy**, the criteria include comprehensive safety and waste management rules.

**Enabling activities** directly enable other activities to make a substantial contribution to an environmental objective.

**Transitional activities** are activities for which low-carbon alternatives are not yet available and among others, have greenhouse gas emission levels corresponding to the best performance.

● **Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy?**<sup>1</sup>

☐ **Yes:**



In fossil gas

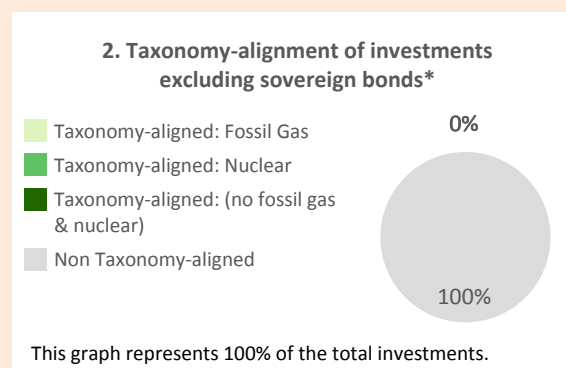
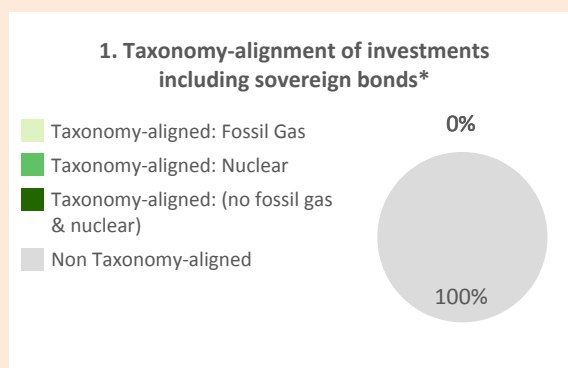


In nuclear energy



**No**

The two graphs below show in green the minimum percentage of investments that are aligned with the EU Taxonomy. As there is no appropriate methodology to determine the Taxonomy-alignment of sovereign bonds\*, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.



\* For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures.

## ● What is the minimum share of investments in transitional and enabling activities?

Although the fund commits to invest a minimum proportion of its assets in companies classified as sustainable investments, there is no commitment to a minimum share of investments in transitional and enabling activities.



## What is the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy?

A minimum of 10% of the fund's assets are expected to be invested in companies classified as sustainable investments. Among these, the fund expects a minimum of 1% of its assets to be classified as sustainable investments with an environmental objective and 1% as sustainable investments with a social objective which can both vary independently at any time.

<sup>1</sup> Fossil gas and/or nuclear related activities will only comply with the EU Taxonomy where they contribute to limiting climate change ("climate change mitigation") and do not significantly harm any EU Taxonomy objective – see explanatory note in the left-hand margin. The full criteria for fossil gas and nuclear energy economic activities that comply with the EU Taxonomy are laid down in Commission Delegated Regulation (EU) 2022/1214.



Are sustainable investments with an environmental objective that do not take into account the criteria for environmentally sustainable economic activities under the EU Taxonomy.



The EU Taxonomy does not comprehensively cover all industries and sectors, or even all environmental objectives. This financial product invests in companies classified as sustainable investments within sectors that may not be covered by the EU Taxonomy currently. Accordingly, the investment manager uses its own methodology to determine whether certain investments are environmentally sustainable in accordance with the SFDR sustainable investment test.



### **What is the minimum share of socially sustainable investments?**

As noted above, a minimum of 10% of the fund's assets are expected to be invested in companies classified as sustainable investments. Among these, the fund expects a minimum of 1% of its assets to be classified as sustainable investments with an environmental objective and 1% as sustainable investments with a social objective which can both vary independently at any time.



### **What investments are included under “#2 Other”, what is their purpose and are there any minimum environmental or social safeguards?**

This fund may hold cash and money market instruments for ancillary liquidity. These are included in the “#2 Other” category. No minimum environmental or social safeguards are applied to such investments.



### **Is a specific index designated as a reference benchmark to determine whether this financial product is aligned with the environmental and/or social characteristics that it promotes?**

Not applicable

**Reference benchmarks** are indexes to measure whether the financial product attains the environmental or social characteristics that they promote.



### **Where can I find more product specific information online?**

More product-specific information can be found on the website:

[https://www.morganstanley.com/im/publication/msinvf/regulatorypolicy/sfdrwebsite\\_msinvf\\_globalbrands\\_en.pdf](https://www.morganstanley.com/im/publication/msinvf/regulatorypolicy/sfdrwebsite_msinvf_globalbrands_en.pdf)