

## Appendix 9: Sustainable Finance Disclosure (unaudited)

### As at 31 December 2022

Periodic disclosure for the financial products referred to in Article 8, paragraphs 1, 2 and 2a, of Regulation (EU) 2019/2088 and Article 6, first paragraph, of Regulation (EU) 2020/852

**Product name:** Global Quality Fund

**Legal entity identifier:** 549300KY7ZHUESLHQ60

**Reference period:** 16 May 2022 to 31 December 2022

This Fund's classification as Article 8 under SFDR became effective on 16 May 2022

Unless stated otherwise, the values below have been calculated based on the Fund's investments as of 30 December 2022.

### Environmental and/or social characteristics

**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 include a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

#### Did this financial product have a sustainable investment objective?

- |   |   |
|---|---|
| <input type="checkbox"/> Yes  | <input checked="" type="checkbox"/> No  |
| <input type="checkbox"/> It made <b>sustainable investments with an environmental objective</b> : ____% <ul style="list-style-type: none"> <li><input type="checkbox"/> in economic activities that qualify as environmentally sustainable under the EU Taxonomy</li> <li><input type="checkbox"/> in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy</li> </ul> | <input checked="" type="checkbox"/> It <b>promoted Environmental/Social (E/S) characteristics</b> and while it did not have as its objective a sustainable investment, it had a proportion of 59.91% of sustainable investments <ul style="list-style-type: none"> <li><input type="checkbox"/> with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy</li> <li><input checked="" type="checkbox"/> with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy</li> <li><input checked="" type="checkbox"/> with a social objective</li> </ul> |
| <input type="checkbox"/> It made <b>sustainable investments with a social objective</b> : ____%   | <input type="checkbox"/> It promoted E/S characteristics, but <b>did not make any sustainable investments</b>   |

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### As at 31 December 2022 (continued)



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

#### To what extent were the environmental and/or social characteristics promoted by this financial product met?

During the reference period, the Fund promoted 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 considered 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, a proportion of the Fund's investments were classified as sustainable investments through an assessment comprising three tests, which included evaluating investee companies' (each, a "Company", together the "Companies") net positive alignment with the UN Sustainable Development Goals (SDGs).

There were no exceptions to the Fund's attainment of its environmental and social characteristics.

#### How did the sustainability indicators perform?

Sustainability Indicator	Indicator Threshold	2022 Portfolio Value
<b>Environmental Characteristics</b>		
<b>Exclusions:</b>		
<b>% of the Fund invested in companies which:</b>		
Have any tie to fossil fuels	0.00%	0.00%
Have been assigned any of the following sectors or industries under MSCI GICS: energy, construction materials, utilities (excluding renewable electricity and water utilities), or metals and mining	0.00%	0.00%
<b>Social Characteristics</b>		
<b>Exclusions:</b>		
<b>% of the Fund invested in companies which derive revenue from:</b>		
Civilian firearms (>10% revenue)	0.00%	0.00%
Weapons (>10% revenue)	0.00%	0.00%
% of the Fund invested in companies which have any tie to controversial weapons	0.00%	0.00%
<b>Sustainable Investments:</b>		
% of the Fund invested in companies classified as sustainable investments	10.00%	59.91%

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#### **What were the objectives of the sustainable investments that the financial product partially made and how did the sustainable investment contribute to such objectives?**

The companies that were classified as sustainable investments according to the SFDR rules met a set of tests including evidence of having positive contribution to environmental or social objectives which the Fund defines as being positively aligned with the UN Sustainable Development Goals ("SDGs"). The UN SDGs include environmental (e.g., Climate Action or Life on Land) and social (e.g. Good Health and Well-Being) objectives. In order to be classified as sustainable investments, the Fund's investments had a net positive alignment across the UN SDGs, either through their products and services (e.g. a health care company's essential medical products may be positively aligned with the Good Health and WellBeing SDG), or through business practices such as policies, actions and targets aimed at alignment with one or more of the SDGs (e.g. a company with robust carbon reduction plans may align with the Climate Action SDG by reducing its own emissions, switching to renewable energy or by seeking emission reductions in its value chain by engaging with suppliers and/or through product design).

The Investment Adviser classified a company as having positive contribution to an environmental or social objective as simultaneously meeting three criteria assessed using third-party data: 1) having a net positive aggregate alignment score across all the SDGs (i.e. scores measuring positive alignment to individual SDGs have to, in total, be greater than the total of any negative alignment scores), 2) having sufficient positive alignment (in the Investment Adviser's view) with at least one individual SDG and 3) not having any material mis-alignments on any of the SDGs.

In limited cases, and where it was satisfied that it was appropriate to do so based on its internal analysis (having regard to its engagements with the company or other data sources), the Investment Adviser treated an investment as passing its sustainable investment criteria, contrary to the position indicated by the third-party SDG alignment score. The Investment Adviser did this when, for example, it considered the third-party SDG alignment data to be out of date or incorrect based on the Investment Adviser's own engagement efforts or research.

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**Principal adverse impacts (PAI)** are the most significant negative impact of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

#### **How did the sustainable investments that the financial product partially made not cause significant harm to any environmental or social sustainable investment objective?**

The Investment Adviser applied a “do no significant harm” methodology to the sustainable investments of the Fund, in order to ensure that the sustainable investments of the Fund did not include: (1) investments causing significant harm to any of the relevant principle adverse impact (“PAI”) indicators for issuers which are mandatory for the Investment Adviser to consider under the EU Sustainable Finance Disclosure Regulation (“SFDR”) rules and which are relevant to the investment; or (2) investments which did not meet the minimum social safeguards set out in the EU SFDR rules.

#### **How were the indicators for adverse impacts on sustainability factors taken into account?**

The Fund gained data to assess the relevant PAI indicators from third-party providers as well as internal research.

To determine whether significant harm was caused, initial thresholds for each of the relevant mandatory PAI indicator were set.

Where data was not available, the investment was deemed to fail the initial test and was not regarded as a sustainable investment.

However, in cases where the third-party data provider determined that a particular PAI indicator was not meaningful given the nature or the industry of the issuer, and therefore did not provide data on that PAI indicator, the investment was deemed to pass the initial test on the basis that the investment’s activities are unlikely to be causing significant harm to the environmental or social theme covered by that PAI indicator.

Additionally, in certain instances, the outcome of the initial test was supplemented (as appropriate) by the Investment Adviser’s internal qualitative assessments on significant harm (having regard to other data sources and/or its engagements with the investment) on one or more PAIs.

As part of its long-term investment approach, the investment team also sought to engage with company management teams and boards to encourage companies towards better ESG practices.

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#### Were sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:

The Fund did not classify as sustainable investments:

- issuers that failed to comply with the themes and values promoted by the UN Global Compact or the OECD Guidelines for Multinational Enterprises (which incorporate the ILO Fundamental Principles); and
- issuers which lacked processes and compliance mechanisms to monitor compliance with the themes and values promoted by the UN Global Compact principles and OECD Guidelines for Multinational Enterprises (which incorporate the ILO Fundamental Principles).

In each case, this assessment was based on information obtained from third-party data providers and/or internal assessments.

*The EU Taxonomy sets out a “do no 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.*

Regulation requires that this document includes these statements. However, for the avoidance of doubt, this Fund has not and does not take into account the EU criteria for environmentally sustainable economic activities in the EU Taxonomy.



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

All the relevant mandatory PAI indicators in the SFDR rules were considered by the Investment Adviser (in the manner set out above) for the purposes of classifying some of the Fund's investments as sustainable investments.

PAIs were also considered with respect to the other investments of the Fund in the following manner:

- 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 (using third-party data with a methodology that complies with the SFDR definition);
- engagement and stewardship with issuers across all relevant mandatory PAI indicators in the SFDR rules (except on controversial weapons as they are excluded) on a materiality basis (i.e. if the Investment Adviser considers a particular PAI indicator to be materially relevant to the long-term sustainability of high returns on capital, or materially adversely impacted by the activities of the issuer).

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The list includes the investments constituting **the greatest proportion of investments** of the financial product during the reference period which is: 51.96%

### What were the top investments of this financial product?

Security	Sector	% Assets	Country
Microsoft Corp.	Information Technology	6.27%	United States of America
Visa, Inc. 'A'	Information Technology	5.47%	United States of America
Philip Morris International, Inc.	Consumer Staples	4.92%	United States of America
SAP SE	Information Technology	4.53%	Germany
Accenture plc 'A'	Information Technology	4.37%	United States of America
Danaher Corp.	Health Care	4.03%	United States of America
Thermo Fisher Scientific, Inc.	Health Care	3.93%	United States of America
Reckitt Benckiser Group plc	Consumer Staples	3.46%	United Kingdom
Becton Dickinson and Co.	Health Care	3.24%	United States of America
Intercontinental Exchange, Inc.	Financials	3.18%	United States of America
Abbott Laboratories	Health Care	3.09%	United States of America
Constellation Software, Inc.	Information Technology	2.80%	Canada
Baxter International, Inc.	Health Care	2.67%	United States of America



### What was the proportion of sustainability-related investments?

98.36% of the Fund's investments were aligned with the environmental and social characteristics of the Fund.

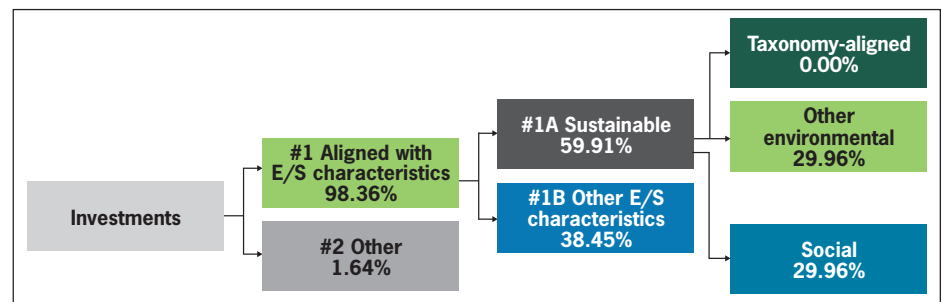
59.91% of the Fund's assets were invested in companies classified as sustainable investments which are further explained in the asset allocation diagram below.

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### As at 31 December 2022 (continued)

#### What was the asset allocation?

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



**#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 environmentally and socially sustainable investments.
- 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 Fund's methodology for classifying companies as sustainable investments includes an assessment based on alignment with the UN SDGs, which includes both environmental and social factors (as relevant) as set out above. The Fund does not classify its sustainable investments as having either an environmental objective or a social objective.

Solely for SFDR reporting purposes, the Investment Adviser has therefore equally divided the proportion of the Fund's assets invested in companies classified as sustainable investments into environmental and social categories in the questions below ("What was the share of sustainable investments with an environmental objective not aligned with the EU Taxonomy?" and "What was the share of socially sustainable investments?").

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#### In which economic sectors were the investments made?

Sector	% Assets
Information Technology	35.79%
Health Care	22.69%
Consumer Staples	16.94%
Financials	8.53%
Industrials	8.27%
Consumer Discretionary	3.69%
Communication Services	2.23%
Exploration, mining, extraction, production, processing, storage, refining or distribution, including transportation, storage and trade, of fossil fuels	0.00%

The table above only includes investments made by the Fund and excludes “other” assets held by the Fund such as cash and money market instruments for ancillary liquidity.



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

The Investment Adviser did not take account of the EU Taxonomy in its management of the Fund. Therefore, none of the Fund's assets that were invested in companies classified as sustainable investments have been assessed by the Investment Adviser as 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.

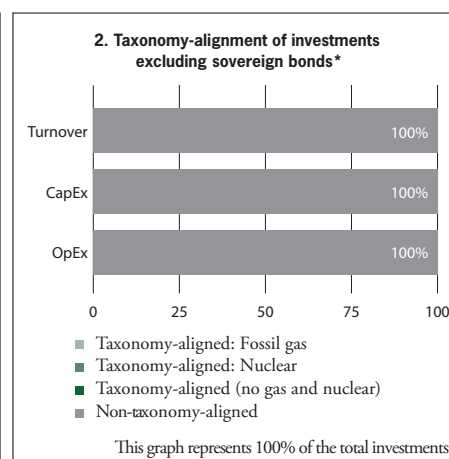
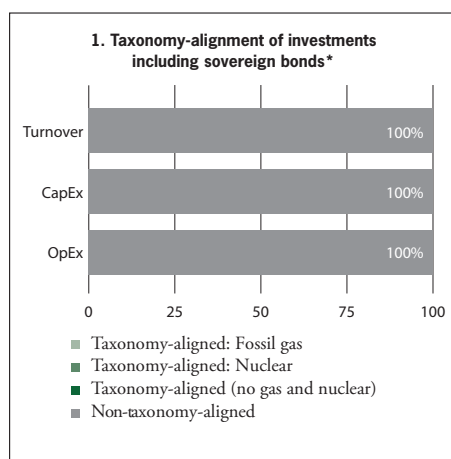
**Transitional activities are economic activities** for which low-carbon alternatives are not yet available and that have greenhouse gas emission levels corresponding to the best performance.

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

☐ Yes

☒ No

The graphs below show in green the percentage of investments that were 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.

<sup>1</sup> Fossil gas and/or nuclear activities will only comply with the EU Taxonomy where they contribute to limiting climate change ("climate change mitigation") and do no significant harm to 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 Commissions Delegated Regulation (EU) 2022/1214.

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Taxonomy-aligned activities are expressed as a share of:

- **turnover** reflects the “greenness” of investee companies today.
- **capital expenditure** (CapEx) shows the green investments made by investee companies, relevant for a transition to a green economy.
- **operational expenditure** (OpEx) reflects the green operational activities of investee companies.

### What was the share of investments made in transitional and enabling activities?

The Fund did not make any investments which the Investment Adviser assessed to be in transitional or enabling activities, according to the EU Taxonomy.



\*Sustainable investments with an environmental objective that **do not take into account the criteria** for environmentally sustainable economic activities under Regulation (EU) 2020/852.



### What was the share of sustainable investments with an environmental objective not aligned with the EU Taxonomy?

29.96% of the Fund's assets were invested in companies classified as sustainable investments with an environmental objective, which were not Taxonomy-aligned. The EU Taxonomy does not comprehensively cover all industries and sectors, or even all environmental objectives. Accordingly, the Investment Adviser used its own methodology to determine whether investments were sustainable in accordance with the SFDR sustainable investment test, and then invested in such assets for the Fund. The Fund does not take into account the criteria for environmentally sustainable economic activities under the EU Taxonomy.

As noted above in response to the question “What was the asset allocation?”, the Fund does not classify its sustainable investments as having either an environmental or social objective. Solely for SFDR reporting purposes, the Investment Adviser has equally divided the proportion of the Fund's assets invested in companies classified as sustainable investments into environmental and social categories.



### What was the share of socially sustainable investments?

29.96% of the Fund's assets were invested in companies classified as sustainable investments with a social objective.

As noted above in response to the question “What was the asset allocation?”, the Fund does not classify its sustainable investments as having either an environmental or social objective. Solely for SFDR reporting purposes, the Investment Adviser has equally divided the proportion of the Fund's assets invested in companies classified as sustainable investments into environmental and social categories.

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#### What investments were included under “other”, what was their purpose and were there any minimum environmental or social safeguards?

1.64% of the Fund’s investments were not aligned with the environmental or social characteristics of the Fund and have been included in the “other” category. They comprised cash and money market instruments for ancillary liquidity and they were not subject to any minimum environmental or social safeguards.



#### What actions have been taken to attain the environmental and/or social characteristics during the reference period?

During the reference period, the Investment Adviser applied the exclusions and assessed companies to classify them as sustainable investments or not. It also regularly monitored investments in the Fund according to the Fund’s environmental and social characteristics.

The Investment Adviser also engaged directly with companies on environmental and social issues material to the sustainability of returns. The investment process is focused on understanding the long-term viability of a company’s returns on operating capital and engagement with management plays a vital role in this. It informs them whether management can maintain these returns while growing the business over the long term. This includes direct engagement with companies and boards on material ESG risks and opportunities.

#### Data Limitations

In general, Morgan Stanley Investment Management uses a range of data sources and internal analysis as inputs into its ESG processes. This may include use of data sourced from third party data providers, including for making the disclosures in this report. Such data may be subject to methodological limitations and may be subject to data lags, data coverage gaps or other issues impacting the quality of the data. ESG-related information, including where obtained from third-party data providers, is often based on qualitative or subjective assessment, and any one data source may not in itself present a complete picture relating to the ESG metric that it represents. Minimal discrepancies may also arise in reported data on the Fund’s portfolio weightings where the Fund has made use of different underlying sources of holdings data to produce the disclosures included in the report. Morgan Stanley Investment Management takes reasonable steps to mitigate the risk of these limitations. However, it does not make any representation or warranty as to the completeness or accuracy of such data. Any such data may also be subject to change by the third party provider without notice. As such, Morgan Stanley Investment Management may choose to take such action (or inaction) based on any change in data provided by a third party data provider as it deems appropriate in the circumstances.

This report has been prepared based on the Fund’s portfolio holdings as of the date specified at the top of this document only (unless the context indicates otherwise). Unless otherwise indicated, the percentages included in this report have been measured according to portfolio weight, which is based on the market value of the investments in the Fund.