

## 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:** Japanese Equity Fund

**Legal entity identifier:** 549300Q8BUGJZ05GQE69

**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?

☐ Yes

☒ No

- ☐ It made **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 **promoted Environmental/Social (E/S) characteristics** and while it did not have as its objective a sustainable investment, it had a proportion of \_\_\_\_% 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 made **sustainable investments with a social objective**: \_\_\_\_%

- ☒ It promoted E/S characteristics, but **did not make any sustainable investments**

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

During the reference period, the fund met its environmental and/or social characteristics through the following:

##### ESG tilt:

The Fund promoted environmental and social characteristics by maintaining a higher ESG score at portfolio level than the MSCI Japan Index, according to a proprietary ESG scoring methodology developed by the Investment Adviser<sup>1</sup>.

The Investment Adviser monitored the attainment of the environmental and social characteristics promoted by the Fund by monitoring the Fund's ESG score against that of the MSCI Japan Index. The proprietary ESG scoring methodology developed by the Investment Adviser is based on external ESG data provided by third party vendors as well as the Investment Adviser's qualitative evaluation of investee companies. To determine the customized ESG score for a company, an industry-adjusted score, provided by a third-party data provider as determined by the Investment Adviser, is used as a quantitative base to reflect the company's ESG performance relative to the standards and performance of the company's industry peers. The Investment Adviser then adjusts this score based on their own qualitative assessment and expectations of how a company's ESG activities may improve corporate value, considering the following criteria:

- Attitude to Engagement;
- ESG Commitment;
- ESG Disclosure;
- Business Strategy including ESG;
- Business Risks from an ESG viewpoint; and
- Expectation for change.

The ESG scores of the Fund's investments are then aggregated at the portfolio level and monitored daily against the ESG score for the MSCI Japan Index, which may be subject to similar adjustment by the Investment Adviser based on its own qualitative assessment as described above.

##### Exclusions:

The Fund promoted:

- the environmental characteristic of contributing towards climate change mitigation by excluding companies involved in thermal coal mining and generation; and
- the social characteristic of avoiding investments in certain activities which can cause harm to human health and wellbeing.

The Fund also contributed to environmental and social themes by avoiding investments in issuers which experienced severe ESG controversies (and no appropriate remedial action had taken place), or which failed to adhere to certain international norms.

Further detail on the nature of these exclusions is set out in response to the question 'How did the sustainability indicators perform?'.

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

<sup>1</sup> Unless otherwise noted, references to the Investment Adviser refer to the Investment Adviser of the Fund and/or any Sub-Investment Advisers engaged for management of the Fund (as appropriate).

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

#### How did the sustainability indicators perform?

Sustainability Indicator	Indicator Threshold	2022 Indicator Value
<b>ESG Tilt:</b>		
Portfolio level ESG score which is higher than MSCI Japan Index (shown in the Indicator Threshold column)	7.15	7.19
<b>Exclusions:</b>		
<b>% Fund exposure to investee companies deriving revenue from:</b>		
Thermal coal mining and/or thermal coal power generation (>10% revenue)	0.00%	0.00%
Supply of key products necessary for production of tobacco products & tobacco manufacturing (>5% revenue)	0.00%	0.00%
Adult entertainment (>5% revenue)	0.00%	0.00%
Civilian firearms production (>5% revenue)	0.00%	0.00%
Gambling (>5% revenue)	0.00%	0.00%
<b>% of the Fund exposure to investee companies which:</b>		
Manufacture whole weapon systems, intended use components, or are a majority owner of, or majority owned by, controversial weapons company, including cluster munitions	0.00%	0.00%
<b>% Fund exposure to investee companies which breach International norms:</b>		
Experienced ESG controversies without remedial action	0.00%	0.00%
Failed to comply with UN Global Compact or ILO fundamental principles	0.00%	0.00%

*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 include 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.

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

The Fund considered the following principal adverse impacts (“PAI”) indicators on sustainability factors through the Fund’s exclusions:

- The Fund excluded companies which receive a certain percentage of their revenue from thermal coal mining and generation. The Fund therefore partly considers PAI indicator 4: exposure to companies active in the fossil fuel sector.
- The Fund excluded companies which have committed violations of the UN Global Compact principles and Organisation for Economic Cooperation and Development (“OECD”) Guidelines for Multinational Enterprises. The Fund therefore considers PAI indicator 10: violations of UN Global Compact principles and OECD Guidelines for Multinational Enterprises
- The Fund excluded companies which have any exposure to controversial weapons. The Fund therefore considered the PAI indicator 14: exposure to controversial weapons.

In addition, the Investment Adviser also engaged with companies on the following PAIs on a materiality basis (i.e., if the Investment Adviser considered a particular PAI indicator to be materially relevant to, or impacted by, the activities of the issuer):

- PAI indicator 1: GHG emissions;
- PAI indicator 2: carbon footprint;
- PAI indicator 3: GHG intensity of investee companies;
- PAI indicator 5: share of non-renewable energy consumption and production;
- PAI indicator 6: energy consumption intensity per high impact climate sector; and
- PAI indicator 13: board gender diversity.



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

The list includes the investments constituting **the greatest proportion of investments** of the financial product during the reference period which is: 50.30%

Security	Sector	% Assets	Country
Daiichi Sankyo Co. Ltd.	Health Care	5.47%	Japan
Hitachi Ltd.	Industrials	5.35%	Japan
Toyota Motor Corp.	Consumer Discretionary	5.22%	Japan
Mitsubishi Corp.	Industrials	4.95%	Japan
Mitsubishi UFJ Financial Group, Inc.	Financials	4.91%	Japan
Sony Group Corp.	Consumer Discretionary	4.73%	Japan
Dai-ichi Life Holdings, Inc.	Financials	4.21%	Japan
Resona Holdings, Inc.	Financials	3.50%	Japan
Nippon Telegraph & Telephone Corp.	Communication Services	3.17%	Japan
West Holdings Corp.	Utilities	3.08%	Japan
Mitsubishi Heavy Industries Ltd.	Industrials	2.92%	Japan
Ajinomoto Co., Inc.	Consumer Staples	2.79%	Japan

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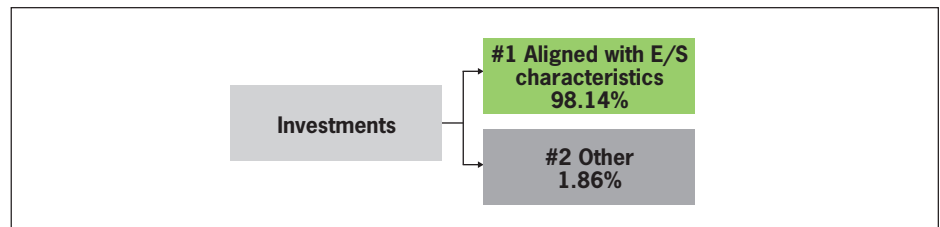
#### What was the proportion of sustainability-related investments?

98.14% of the Fund's investments attained the promoted environmental and social characteristics of the Fund. The remainder of the investments were investments for cash instruments held for ancillary liquidity and derivatives held for hedging purposes, which did not attain the promoted environmental or social characteristics and were not subject to any minimum environmental or social safeguards.

The Fund did not make any sustainable investments within the meaning of the Sustainable Finance Disclosure Regulation ("SFDR").

#### 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.

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

Sector	% Assets
Industrials	32.99%
Financials	18.90%
Consumer Discretionary	11.85%
Materials	8.13%
Health Care	5.47%
Utilities	5.17%
Consumer Staples	5.12%
Information Technology	4.13%
Communication Services	3.17%
Energy	1.95%
Real Estate	1.40%
Exploration, mining, extraction, production, processing, storage, refining or distribution, including transportation, storage and trade, of fossil fuels	13.60%

The table above only includes investments made by the Fund and excludes other assets held by the Fund such as cash and hedging instruments.

The Fund's exposure to fossil fuel related activities, as presented in the table above, captures issuers deriving any revenue from such activities as part of their business. This indicator is therefore has a broader scope when compared to the thermal coal mining exclusion applied as a binding characteristic to the Fund.

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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. None of the Fund's investments which promoted environmental characteristics have been assessed by the Investment Adviser as aligned with the EU Taxonomy during the reference period.



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.

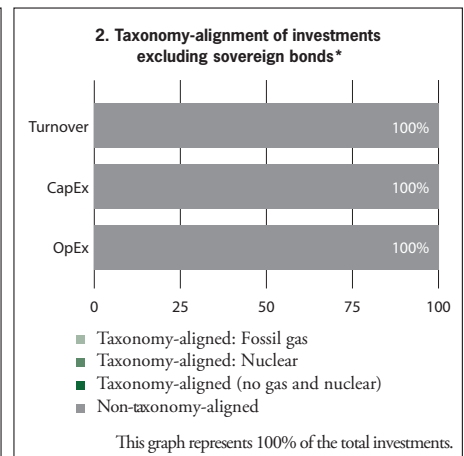
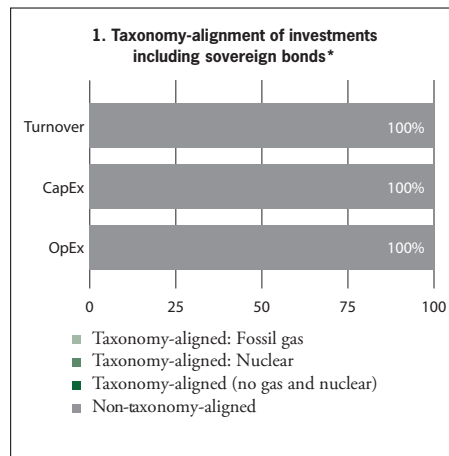
**Transitional activities** are economic activities for which low-carbon alternatives are not yet available and that have greenhouse gas emission levels corresponding to the best performance.

#### 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.



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

1.86% 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. These investments comprised cash instruments held for ancillary liquidity and derivatives held for hedging purposes, and they were not subject to any minimum environmental or social safeguards.

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

During the reference period, the Sub-Investment Adviser conducted engagements through dialogue on Business Strategy, Business Structures, Capital Structures, Corporate Governance, Proposals for General Meetings of Shareholders, and ESG issues.

The team focused on “Material ESG issues” which are common to all sectors as well as important issues that are material to individual companies. The Sub-Investment Adviser also conducted stewardship activities such as “Purpose-based dialogues” with companies in order to contribute to the enhancement of corporate value and sustainable growth of investee companies.

#### **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.