

Impact Outcomes

Market-based solutions for generating positive environmental and social impact

LILY TRAGER

Director of Investing with Impact
Morgan Stanley Wealth Management



What Inspires Us

- Elizabeth Corley was elected to [Morgan Stanley’s Board of Directors](#) bringing total women representation to 21% of the 14-person board.
- Morgan Stanley’s [Multicultural Innovation Lab](#), a tech-talent accelerator program committed to closing the gap in venture capital distributed to startups led by multicultural and women small business owners.
- *Human Flow*, a documentary by Ai Weiwei that explores the migration crisis around the world. Morgan Stanley hosted a screening and discussion with the International Rescue Committee and Participant Media to discuss the crisis and how we as global citizens can support resettled refugee families.

In the News

- Audrey Choi, Chief Marketing Officer and Chief Sustainability Officer, [discussed the role of business leadership in fostering inclusive growth](#) at the 25th annual BSR Conference, which brings together nearly 1,000 sustainable business experts from the private, nonprofit and public sectors.
- The Economist’s recent article, *Sustainable Investing Goes Mainstream*, features Audrey Choi.

Investing with Impact

At Morgan Stanley, we seek to provide investors with the tools and thought leadership to harness the power of their own capital and align value with values— from targeted asset allocation to full integration of impact objectives into investment portfolios. In this issue, we discuss themes and trends in sustainability, as well as our outlook for 2018.

Did You Know?



There are 17 UN Sustainable Development Goals (SDGs), but not all are readily investable.

Opportunity: MS & Co. Sustainability Research emphasizes revenue opportunity as the key determinant within its list of investable SDG targets. Our model portfolios and products enable investors to target companies that address the SDGs through their products, services and corporate practices.



The MSCI USA ESG Select Index performance, which overweights ESG leaders and underweights laggards, outperformed its non-ESG equivalent index in 2017.¹

Opportunity: We continue to see a positive relationship between corporate investment in sustainability and company performance. To this end, our platform offers high-conviction products that integrate material ESG factors in company analysis and portfolio construction.



Developed market companies without flexible working schemes have underperformed the MSCI All-Country World Index over the last six years.²

Opportunity: Flex working programs are an important factor impacting employee and company performance. MS & Co. Sustainability Research analyzes this and other factors to create ESG Valuation Summaries that provide deeper insight into investment holdings.

Sources: (1) Bloomberg, (2) MS & Co. Sustainability Research, *Lack of Flexible Working Programs Impact Performance*, November 2017.

Accessing the Opportunity: We offer a spectrum of investing approaches: Restriction Screening; Environmental, Social and Governance (ESG) Integration; Thematic Exposure and Impact Investing across 140+ mutual funds, separately managed accounts and exchange-traded funds as well as diversified portfolios.

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Research Spotlight: Key Sustainability Themes & Trends for 2018

Sustainable and impact investing assets continued to grow across asset classes, investment styles and geographies in 2017. In its 2018 Outlook, the MS & Co. Sustainability Research team has identified several key themes:

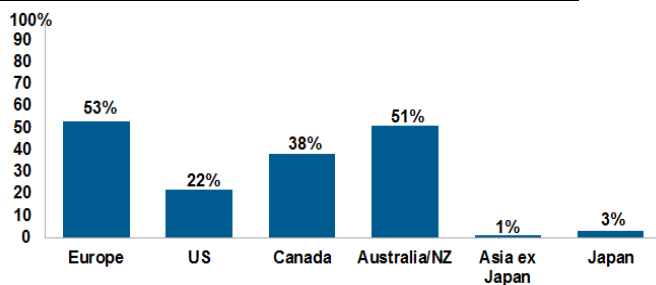
Varied momentum across regions indicates investable opportunities. Europe continues to dominate in terms of global sustainable and impact investing assets under management (AUM) with an emphasis on environmental, social and governance (ESG) integration within traditional investment strategies. North America also continues to focus on ESG integration, but with limited product development. Asia Pacific, Australia and New Zealand lead in terms of managed assets with a sustainability strategy (Exhibit 1).

Human Capital Management topics and issues, and their broader implications for a company’s performance, will continue to grow in significance amid the confluence of several cultural, demographic and technological trends. For example, company culture and efforts to promote employee wellbeing have been shown to impact operational effectiveness and share price. Similarly, diversity (multicultural and gender) has been linked to product and service innovation and better alignment with diverse customer bases.

Adoption of the United Nations Sustainable Development Goals (SDGs): Launched originally in September 2015 this set of 17 goals provides a universal framework and language for governments, philanthropists and now investors seeking to address key sustainability challenges, such as ending hunger and poverty, creating gender equality, and providing clean water for all. Investors will continue to play an integral role in advancing the SDGs by selecting companies whose products and services focus on solutions toward SDGs, especially around targets such as Good Health & Well-being, which has among the highest number of investable targets, according to MS & Co. Sustainability Research.

[LEARN MORE](#) | [Contact your Financial Advisor to invest your portfolio in line with sustainability and impact objectives, and for the full report *Key Sustainability Themes and Investing Trends for 2018* \(December 2017\).](#)

Exhibit 1: Sustainability AUM Relative to Total AUM



Source: Global Sustainable Investment Alliance, Morgan Stanley & Co. Research

From the Institute: What Role Do Corporations Play in Inclusive Growth?

Morgan Stanley’s Institute for Sustainability Investing produces informative analysis and curates opinions from across the firm, as well as external industry and issue experts to inform and empower sustainable investors. In its latest publication, *Inclusive Growth Drivers: The Anatomy of a Corporation*, the Institute highlights the role of corporations in today’s society, specifically, how decisions about their employees, products and services, operations and management impact society, as well as their own economic growth. Corporations are central to enabling inclusive growth globally—that is, in ensuring that economic growth benefits everyone. The Institute highlights four key areas where a corporation’s activities can impact inclusive growth:

Human Resources. Employee satisfaction, which is influenced by fair wages and benefits, job security, diversity and work-life balance, correlates with improved corporate performance, with knock-on effects for stock prices. With regard to workplace diversity, research has shown that greater diversity results in better cultural sensitivity, an improved grasp of the customer base, and improved corporate reputation.

Products and Services. A product’s design—including how it is marketed and priced—all influence inclusive growth. Studies show that developing affordable products for price-sensitive consumers, such as the 4.5 billion low-income people that make up the “bottom of the pyramid” around the world and who represent a combined spending power of \$5 trillion per year, can help firms improve their financial performance.

Operations Management. Companies seeking to create a more prosperous, secure, healthy and safe society can implement operational practices to protect their key stakeholders, including employees, customers, and suppliers. These practices can provide not only operational advantages, but also reputational ones. For example, there are a number of studies suggesting that socially responsible supplier selection can lead to increased revenue, sales growth, and market share.

Firm Management and Governance. More emphasis on the long-term business strategy can influence decisions around things like executive compensation, tax payments and practices, corporate social responsibility, and philanthropy. A focus on inclusive growth as a driver of short- and long-term business performance may also make a company more attractive to a greater mix of investors.

Examining a corporation’s approach to inclusive growth across the four areas outlined above could serve as another data point for sustainable and impact investors.

[LEARN MORE](#) | [Contact your Financial Advisor to stay informed on leading market analyses from the Institute and for the full report *Inclusive Growth Drivers: The Anatomy of a Corporation* \(October 2017\).](#)

Index Definitions

MSCI All-Country World Index: The Morgan Stanley Capital International (MSCI) All Country World Index (ACWI) is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets.

MSCI USA ESG Select Index is designed to target companies with positive environmental, social and governance (ESG) factors while exhibiting risk and return characteristics similar to those of the MSCI USA Index. The index is constructed through an optimization process that aims to maximize its exposure to ESG factors, subject to an expected tracking error of 1.8% and other constraints.

Risk Considerations

The returns on a portfolio consisting primarily of **environmental, social, and governance-aware investments (ESG)** may be lower or higher than a portfolio that is more diversified or where decisions are based solely on investment considerations. Because ESG criteria exclude some investments, investors may not be able to take advantage of the same opportunities or market trends as investors that do not use such criteria. The companies identified and investment examples are for illustrative purposes only and should not be deemed a recommendation to purchase, hold or sell any securities or investment products. They are intended to demonstrate the approaches taken by managers who focus on ESG criteria in their investment strategy. There can be no guarantee that a client's account will be managed as described herein.

International investing entails greater risk, as well as greater potential rewards compared to U.S. investing. These risks include political and economic uncertainties of foreign countries as well as the risk of currency fluctuations. These risks are magnified in countries with **emerging markets**, since these countries may have relatively unstable governments and less established markets and economies.

An investment in an **exchange-traded fund** involves risks similar to those of investing in a broadly based portfolio of equity securities traded on an exchange in the relevant securities market, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in stock and bond prices. Investing in an international ETF also involves certain risks and considerations not typically associated with investing in an ETF that invests in the securities of U.S. issues, such as political, currency, economic and market risks. These risks are magnified in countries with emerging markets, since these countries may have relatively unstable governments and less established markets and economies. ETFs investing in physical commodities and commodity or currency futures have special tax considerations. Physical commodities may be treated as collectibles subject to a maximum 28% long-term capital gains rates, while futures are marked-to-market and may be subject to a blended 60% long- and 40% short-term capital gains tax rate. Rolling futures positions may create taxable events. For specifics and a greater explanation of possible risks with ETFs, along with the ETF's investment objectives, charges and expenses, please consult a copy of the ETF's prospectus. Investing in sectors may be more volatile than diversifying across many industries. The investment return and principal value of ETF investments will fluctuate, so an investor's ETF shares (Creation Units), if or when sold, may be worth more or less than the original cost. ETFs are redeemable only in Creation Unit size through an Authorized Participant and are not individually redeemable from an ETF.

Investors should carefully consider the investment objectives and risks as well as charges and expenses of an exchange-traded fund and a mutual fund before investing. The prospectus contains this and other important information about the mutual fund. To obtain a prospectus, contact your Financial Advisor or visit the mutual fund company's website. Please read the prospectus carefully before investing.

Equity securities may fluctuate in response to news on companies, industries, market conditions and general economic environment.

Because of their narrow focus, **sector investments** tend to be more volatile than investments that diversify across many sectors and companies.

Asset allocation and diversification do not assure a profit or protect against loss in declining financial markets.

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