



Morgan Stanley Global Quality Fund

31 October 2021

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|---|--|--|--|
| Investment Manager | SG Hiscock & Company Limited & Morgan Stanley Investment Management (Australia) Pty Limited (MSIM) | APIR Morgan Stanley Global Quality Fund | ETL8936AU |
| | | Morgan Stanley Global Quality Fund (Hedged) | ETL5737AU |
| Inception Date | 29 June 2020 | Minimum initial investment | \$20,000 |
| Management costs | 1.18% p.a. | Buy / Sell Spread | +0.20% / -0.20% |
| Suggested minimum investment timeframe | 7 years + | Benchmark Morgan Stanley Global Quality Fund | MSCI World (Net) Index |
| | | Morgan Stanley Global Quality Fund (Hedged) | MSCI World (Net) Index – hedged to AUD |
| Distributions | Annually | No. of stocks | 35 – 55 stocks |

The Morgan Stanley Global Quality Strategy is a concentrated global equity strategy. The investment team believes that high-quality companies can generate superior returns over the long term. Such companies are typically built on dominant market positions, underpinned by powerful, hard to replicate intangible assets that can generate resilient, high, unlevered returns on operating capital and strong free cash flows. Other characteristics are recurring revenue streams, organic growth, pricing power and typically low capital intensity.

Performance# 31 October 2021

| Morgan Stanley Global Quality Fund | 1 mth % | 3 mth % | 6 mth % | 1 Year % | 3 Years pa% | 5 Years pa% | 7 Years pa% | Inception pa% |
|------------------------------------|---------|---------|---------|----------|-------------|-------------|-------------|---------------|
| Total Net Return | 0.93 | -0.61 | 8.81 | 20.48 | 15.20 | 15.73 | 14.68 | 14.84 |
| MSCI World (Net) Index in AUD | 1.62 | 1.58 | 11.87 | 31.29 | 15.94 | 15.75 | 13.80 | 14.72 |
| Excess return | -0.69 | -2.19 | -3.06 | -10.81 | -0.73 | -0.03 | 0.88 | 0.12 |

#Performance prior to 30 June 2020 is for the Global Quality Composite was created on July 31, 2013 and its inception date is June 30, 2013. This Composite is comprised of all separately managed accounts managed on fully discretionary basis according to the Global Quality strategy. This has been adjusted to reflect the fees of 1.18% pa for Morgan Stanley Global Quality Fund.

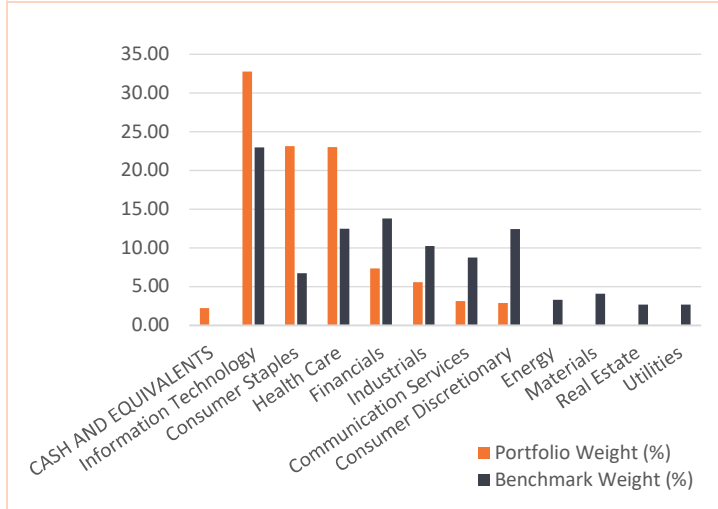
| Morgan Stanley Global Quality Fund (Hedged) | 1 mth % | 3 mth % | 6 mth % | 1 Year % | Inception % pa* |
|---|---------|---------|---------|----------|-----------------|
| Total Net Return | 4.66 | 1.89 | 6.23 | 27.22 | 20.61 |
| MSCI World (Net) Index – hedged to AUD | 5.32 | 4.10 | 9.57 | 39.45 | 30.87 |
| Excess return | -0.66 | -2.21 | -3.34 | -12.23 | -10.26 |

* Please note: the inception date for the Morgan Stanley Global Quality Fund (Hedged) (ETL5737AU) is 1 July 2020, with a start unit NAV price of \$1.0107. While the Morgan Stanley Global Quality Fund was seeded on 29 June 2020, the Hedged class was not invested until 1 July 2020. Past performance is not a reliable indicator of future performance

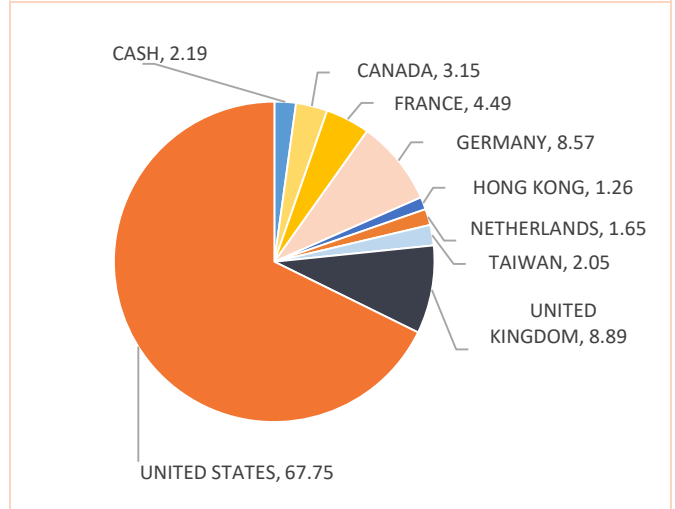
Top 5 Holdings

| Name | Sector | Percentage |
|------------------------------|------------------------|------------|
| Microsoft Corporation | Information Technology | 6.82% |
| Phillip Morris International | Consumer Staples | 5.67% |
| SAP SE | Information Technology | 4.52% |
| Accenture PLC - CL A | Information Technology | 4.33% |
| Reckitt Benckiser Group Plc | Consumer Staples | 4.26% |

Sector Allocation (% of Total Net Assets)



Country Allocation (% of Total Net Assets)



Investment Process - How We Identify Compounders

1 Identify high return companies

- High unlevered returns on operating capital employed (ROOCE)
- High gross margins (pricing power)
- Capital-light business models driving free cash flow (FCF) generation
- Strong balance sheet

2 Make sure returns are sustainable

- Ability to remain relevant through powerful intangible assets including brands and networks, sustaining high barriers to entry
- Returns sustainable against material threats or improvable through material opportunities, including Environmental or Social factors
- Dominant market shares helping to protect against new entrants
- Stable sales – often repeat business driving recurring revenues
- Geographic spread
- Steady organic growth and geographic spread

3 Confirm Management’s commitment to sustaining returns

- Focus on returns on capital rather than sales or EPS growth
- Capital discipline (reinvest at high returns or return the excess capital to shareholders)

- Commitment to innovation and investment in franchises
- Review management incentives
- Sound Governance structure
- Engagement on material issues or opportunities where relevant, including ESG factors

4 Valuation

- A focus on free cash flow, not accounting numbers
- FCF yield, DCF, EV/NOPAT (EV = Enterprise Value (Market Value plus Net debt. NOPAT = Net operating profit after tax)

Highlights

- We focus on investing in high-quality compounders with the potential to consistently compound shareholder wealth at superior rates of return over the long term.
- First-rate management is a key attribute of quality. We seek evidence of disciplined capital allocation and distribution practices, a coherent, effective and deliverable strategy and appropriate remuneration or incentive policies aligned with shareholders.
- We manage the risks that matter. We are patient investors.
- Our team is highly experienced. We have been investing in quality equities for over two decades.

For more information visit www.sghiscock.com.au

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