



## Morgan Stanley Global Sustain Fund

30 September 2021

<b>Investment Manager</b>	SG Hiscock & Company Limited & Morgan Stanley Investment Management (Australia) Pty Limited (MSIM)	<b>APIR</b> Morgan Stanley Global Sustain Fund	<b>ETL9199AU</b>
<b>Inception Date</b>	29 June 2020	Morgan Stanley Global Sustain Fund (Hedged)	<b>ETL5365AU</b>
<b>Management costs</b>	1.18% p.a.	<b>Minimum initial investment</b>	\$20,000
<b>Suggested minimum investment timeframe</b>	7 years +	<b>Buy / Sell Spread</b>	+0.20% / -0.20%
<b>Distributions</b>	Annually	<b>Benchmark</b> Morgan Stanley Global Sustain Fund	<b>MSCI World (Net) Index</b>
		Morgan Stanley Global Sustain Fund (Hedged)	<b>MSCI World (Net) Index – hedged to AUD</b>
		<b>No. of stocks</b>	25 – 50 stocks

The Morgan Stanley Global Sustain Fund offers a high-quality approach to ESG investing with a clearly defined process. The Strategy invests in high-quality companies at reasonable valuations that can sustain their high returns on operating capital over the long term. The portfolio has a low carbon impact and scores well on environmental, social and governance (ESG) factors as measured by third parties, such as MSCI ESG, relative to broad equity indices such as the MSCI World (Net) Index. The Strategy seeks to provide attractive long-term returns with less long-term volatility than the broader market.

## Performance# 30 September 2021

Morgan Stanley Global Sustain Fund	1 mth %	3 mth %	6 mth %	1 Year %	2 Years pa %	3 Years pa %	Inception pa %
Total Net Return	-3.14	4.60	12.37	15.31	11.81	13.62	16.64
MSCI World (Net) Index in AUD	-3.02	3.92	13.60	27.82	15.23	13.20	14.68
Excess return	-0.12	0.68	-1.23	-12.51	-3.42	0.42	1.96

#Performance prior to 30 June 2020 is for the Global Sustain Composite was created on April 30, 2018 and its inception date is April 30, 2018. This Composite is comprised of all separately managed accounts managed on fully discretionary basis according to the Global Sustain strategy. This has been adjusted to reflect the fees of 1.18% pa for Morgan Stanley Global Sustain Fund.

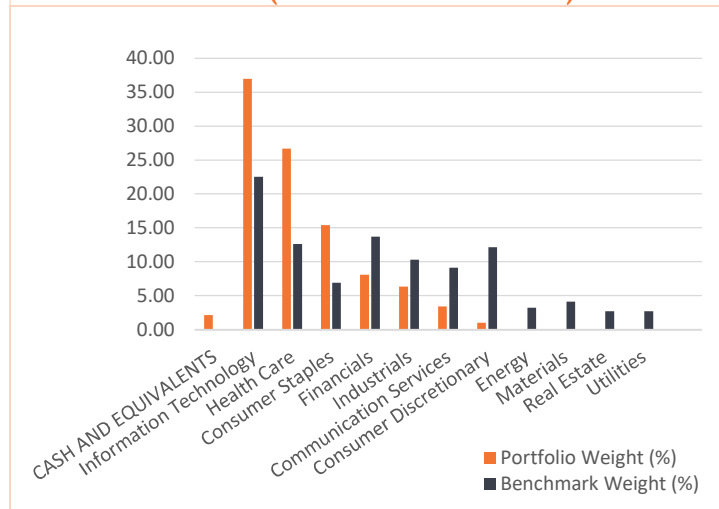
Morgan Stanley Global Sustain Fund (Hedged)	1 mth %	3 mth %	6 mth %	1 Year %	Inception pa %*
Total Net Return	-3.89	0.90	6.68	15.24	17.27
MSCI World (Net) Index – hedged to AUD	-3.73	0.57	8.19	28.33	27.87
Excess return	-0.16	0.33	-1.51	-13.09	-10.60

\* Please note: the inception date for the Morgan Stanley Global Sustain Fund (Hedged) (ETL5365AU) is 1 July 2020, with a start unit NAV price of \$1.0133. While the Morgan Stanley Global Sustain 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

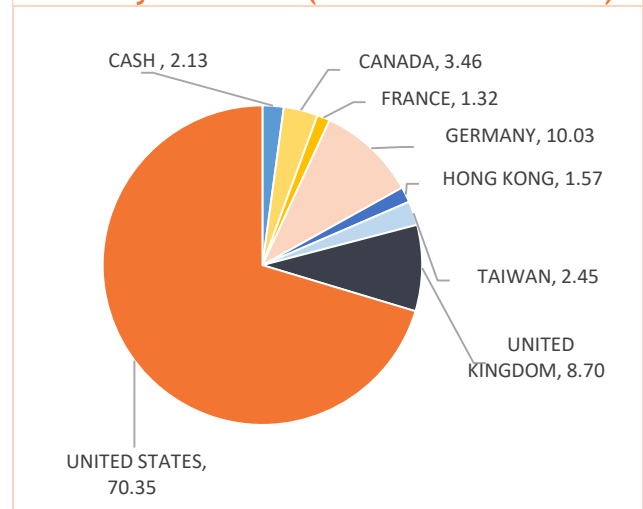
## Top 5 Holdings

Name	Sector	Percentage
Microsoft Corporation	Information Technology	7.44%
Visa Inc-Class A Shares	Information Technology	5.25%
SAP SE	Information Technology	5.07%
Reckitt Benckiser Group Plc	Consumer Staples	4.95%
Accenture PLC - CL A	Information Technology	4.65%

## Sector Allocation (% of Total Net Assets)



## Country Allocation (% of Total Net Assets)



## Investment Process - How We Identify Compounders

## 1 Identify high return companies (post exclusions)

- 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
- Exclude tobacco, alcohol, adult entertainment, gambling, civilian firearms or weapons, bulk commodities, fossil fuels, and gas or electric utilities

## 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
- Steady organic growth & geographic spread

## 3 Confirm Management's commitment to sustaining returns

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

- Global Sustain is strong on engagement, light on carbon and built on quality
- We believe integrating ESG risks and opportunities is necessary for successful long-term compounding
- We do not believe that investors should have to sacrifice performance for principles
- Leading the way on ESG can be a substantial opportunity for well-run companies
- ESG risks and opportunities are assessed by the investment team directly

For more information visit [www.sghiscock.com.au](http://www.sghiscock.com.au)

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