Maximizing Capital
The Power of Investing with Impact
What Is Investing with Impact?

Morgan Stanley defines Investing with Impact as an approach that aims to **generate market-rate financial returns** while demonstrating **positive environmental and/or social impact**.

Financial Goals
- Financial performance driven by economic fundamentals

Impact Goals
- Positive social and/or environmental outcomes driven by values and mission

“Delivering innovative solutions for our clients that align their personal values with their financial goals is an important focus for Morgan Stanley, and I believe we are uniquely suited to do this.”

—James Gorman
Morgan Stanley Chairman and CEO
The Evolution of Investing with Impact Approaches

**Investing with Impact** incorporates a variety of terms and investment approaches that have evolved significantly in the past few years. US-based assets incorporating these approaches have increased 76% in the last two years alone.

**Sustainable, Responsible and Impact Investing in US 1995-2014**

1. **ESG Incorporation**
2. **Total**

1. ESG = Environmental, Social and Governance
Myth vs. Reality

- **Myth:** *Investing with Impact means sacrificing returns*
- **Reality:** Analysis of Morningstar data tracking self-described sustainable equity mutual funds vs. the universe of traditional funds, found that sustainable funds often performed better and had lower volatility than their category median.¹

- **Myth:** *Investing with Impact is a niche area*
- **Reality:** Sustainably invested assets now account for more than one out of every six dollars under professional management in the US.²

- **Myth:** *Investing with Impact investment products are limited*
- **Reality:** In 2014, 925 distinct funds, representing $4.31 trillion in assets incorporated ESG criteria, more than four times the $1.01 trillion tracked in 2012.²

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¹Morgan Stanley Institute for Sustainable Investing 'Sustainable Reality,' February 2015.
Investing with Impact Terms & Definitions

**VALUES ALIGNMENT**
- Managing exposures by intentionally avoiding investments based on specific criteria

**ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INTEGRATION**
- Proactively considering ESG criteria alongside financial analysis to identify opportunities and risks during investment process

**SECTOR EXPOSURE**
- Focusing on themes and sectors dedicated to solving sustainability-related domestic and global challenges

**IMPACT INVESTING**
- Allocating to investment funds focused on private enterprises structured to deliver specific positive social and/or environmental impacts

PUBLIC MARKETS
PRIVATE MARKETS
Morgan Stanley’s Investing with Impact Framework enables clients to align investment decisions with impact priorities across their portfolio.

### Investing with Impact Framework

**VALUES ALIGNMENT**

- Managing exposures by intentionally avoiding investments based on specific criteria
- Public equity, Public fixed income, alternatives
- Differentiated by restriction criteria and degree of shareholder advocacy
- Not proactively seeking environmental and social impact
- Mutual fund that excludes companies from buy universe (e.g. tobacco, firearms, coal mining companies)

**ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INTEGRATION**

- Proactively considering ESG criteria alongside financial analysis to identify opportunities and risks during investment process
- Public equity and public fixed income
- Differentiated by ESG integration process and degree of shareholder advocacy
- May also include screens
- Separately Managed Account (SMA) incorporating analysis of ESG performance into stock selection process

**SECTOR EXPOSURE**

- Focusing on themes and sectors dedicated to solving sustainability-related domestic and global challenges
- Public equity and public fixed income
- Differentiated by macro-analysis, sustainability research and sector focus
- Exchange-traded fund (ETF) tracking index of renewable energy companies

**IMPACT INVESTING**

- Allocating to investment funds focused on private enterprises structured to deliver specific positive social and/or environmental impacts
- Differentiated by impact approach, regional focus, liquidity and impact reporting
- May have investor restrictions
- A private equity fund focused on emerging consumers or project level renewable energy investment

### Definitions

**Minimize Objectionable Impact**

**Targeted Impact**
Investing with Impact Building Blocks

- Values Alignment
- ESG Integration
- Sector Exposure
- Impact Investing

- Investing with Impact Portfolio Solutions
- Investing with Impact Products
- Investing with Impact Tools & Resources
Investing with Impact Building Blocks

**Investing with Impact Portfolio Solutions**
- **Firm Discretionary Portfolios** — Balanced & All-Equity impact portfolios available through Select UMA
- **Custom Portfolios** — Tailored to match specific financial and impact goals
- **Custom Alternative Impact Portfolios** ($5M minimum for qualified investors)

**Investing with Impact Products**
- **120+ Products** — Mutual Funds, ETFs, SMA Impact Solutions spanning public equity & fixed income asset classes
  - Including 40+ covered by Global Investment Manager Analysis dedicated to evaluating impact-oriented strategies
- **Alternative Investment Opportunities** (for qualified investors)
- **Capital Markets** — Access to Green Bonds, IPOs, structured investments offerings incorporating positive impact
- **Morgan Stanley Global Impact Funding Trust** — Multiply the impact of your charitable giving through the Donor Advised Fund

**Investing with Impact Tools & Resources**
- **Custom Restriction Screening** — Accounts can be screened across asset classes for 29 different issue areas
- **Proxy Voting** — Connect with external resources on shareholder engagement issues
- **Impact Reporting** — Track impact metrics of alternative impact funds
- **Research & Thought Leadership** — Ideas and insights from Morgan Stanley Sustainable + Responsible Research and Morgan Stanley Institute for Sustainable Investing
Portfolio Solutions – Select UMA Investing with Impact Model Portfolios

Overview. The Investing with Impact Model Portfolios employ highly regarded third-party investment sub-managers with demonstrated experience in generating positive environmental and social impact to construct well-diversified portfolios that incorporate a range of Investing with Impact approaches.

- Eligible investments include separately managed accounts, mutual funds and exchange-traded funds (ETFs)
- Automated account rebalancing, monitoring and optional tax-management services available

INVESTING WITH IMPACT EQUITY PORTFOLIO

Account Minimum: $400,000

INVESTING WITH IMPACT BALANCED PORTFOLIO

Account Minimum: $750,000

Source: Consulting Group, as of October 17, 2014.

1 Inception date: September 15, 2014

The sample portfolio is provided for informational purposes only and should not be deemed to be a recommendation to purchase or sell the securities mentioned. There is no guarantee that any securities mentioned will be held in a client account. It should not be assumed that the securities transactions or holdings discussed were or will be profitable. Information and asset allocation subject to change at any time without notice.
Investing with Impact Actionable Themes

Products, Portfolios, Tools and Resources can be used individually or in concert to activate portfolios designed to meet a variety of impact goals - either in select allocations or across the entire portfolio. Current thematic examples include:

- **Faith-Based Investing**
  Align investment portfolio with principles in accordance with specific religious values

- **Fossil Fuel Aware Investing**
  Support the transition to a lower carbon economy by considering fossil fuel exposures in portfolios

- **Mission-Aligned Investing**
  Activate investment portfolio to amplify the impact of personal or organizational mission
Getting Started

DISCOVERY PROCESS – ARTICULATE AND IDENTIFY INVESTING WITH IMPACT GOALS
• Determine what causes and issue areas are of particular interest
• Identify which aspects of the Investing with Impact Framework are compelling

ESTABLISH INVESTMENT PLAN
• Document investment strategy alongside impact goals

EVALUATE EXISTING PORTFOLIO USING IMPACT LENS
• Evaluate existing investments and exposures in comparison to impact goals

DEVELOP IMPLEMENTATION STRATEGY
• Determine portfolio approach to integrating impact while considering risk/return priorities
  – Decide between allocating percentage of total assets or committing to fully incorporating impact across all asset classes
• Identify the Investing with Impact solution that makes sense to integrate into your investment portfolio

RE-EVALUATE ON AN ONGOING BASIS
• Plan to review your portfolio for alignment with financial and impact goals on a regular basis, making adjustments as appropriate
Discovery Process – Questions to Consider

INDIVIDUALS
- What values and issue areas matter most to you and your family?
- What organizations and causes do you and your family support through philanthropy and/or community service? Are your investments aligned?
- What long-term challenges do you want to help solve with your investments?
- Do you know what companies, industries and geographies your investment portfolio currently supports? Are any holdings of particular concern? Are any of those investments supporting positive impact?
- Do you favor investments capable of delivering broad-based positive impact, thematic impact or prefer solutions customized to your personal value set?

INSTITUTIONS
- Do you have an understanding of how your current portfolio relates to your mission?
- What challenges does your organization help solve? How can these be addressed through investments?
- Does your organization have a mission-aligned Investment Policy Statement?
Investing with Impact Thought Leadership

A suite of research, white papers and educational material to navigate impact approaches
Appendix: Investment Performance

The MSCI KLD 400 Index invests in companies that meet **best-in-class environmental, social and governance (ESG) criteria** and have delivered favorable performance with comparable risk relative to the S&P 500 Index.

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<th>Annualized Return (%)</th>
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<tr>
<td>MSCI KLD 400 Social Index</td>
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<td>S&amp;P 500 Index</td>
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Cumulative Excess Return vs. S&P 500 Index

Assets in sustainable and responsible investments now total $6.57 trillion, or nearly 1 in every 6 dollars in the U.S.*


Note: Past performance is not a guarantee of comparable future results. The index returns are illustrative and shown for comparative purposes only. They do not represent the performance of any specific investments. An investor cannot invest directly in an index.
INDEX DEFINITIONS

S&P 500 Index – Regarded as the best single gauge of the US equities market, this capitalization-weighted index includes a representative sample of 500 leading companies in leading industries of the US economy.

MSCI KLD 400 Social Index – The MSCI KLD 400 Social Index is a market capitalization-weighted Common Stock Index, consisting of 400 corporations that have passed multiple, broad-based social screens. The index is maintained by Kinder, Lydenberg, Domini & Co., Inc. and is intended to serve as a proxy and benchmark for the universe of stocks from which social investors might choose. The index was set at a value of 100 as of May 1, 1990. Since its inception, fewer than one change per month has been made in the index, primarily due to takeovers and acquisitions.

Although the statements of fact and data in this presentation have been obtained from, and are based upon, sources that Morgan Stanley believes to be reliable, we do not guarantee their accuracy, and any such information may be incomplete or condensed. All opinions are as of the date of this presentation and are subject to change without notice.

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Past performance is not a guarantee of future results. Diversification and asset allocation do not ensure a profit or protect against a loss.

Investing in the markets entails the risk of market volatility. The value of all types of securities, including mutual funds and exchange-traded funds (ETFs), may increase or decrease over varying time periods.
Disclosures (continued)

Alternative Investments often engage in speculative investment techniques involving a high degree of risk and are only suitable for long-term, qualified investors. They are generally illiquid, often engage in speculative investment techniques, and may be highly leveraged, thus magnifying the potential for loss or gain. Investors can lose all or a substantial amount of their investment.

Alternative strategy mutual funds may employ various investment strategies and techniques for both hedging and more speculative purposes such as short-selling, leverage, derivatives and options, which can increase volatility and the risk of investment loss. Non-traditional investment options and strategies are often employed by a fund’s portfolio manager to further a fund’s investment objective and to help offset market risks. However, these features may be complex, making it more difficult to understand the fund’s essential characteristics and risks, and how it will perform in different market environments and over various periods of time. They may also expose the fund to increased volatility and unanticipated risks particularly when used in complex combinations and/or accompanied by the use of borrowing or “leverage.”

Select UMA is an investment advisory program that combines the firm’s intellectual capital in asset allocation advice, investment manager analysis and portfolio construction to deliver a suite of model portfolios -- all within a single investment account. The Select UMA Investing With Impact Portfolios are firm discretionary model portfolio options available within the firm’s Select UMA advisory program.

Investors should carefully consider the investment objectives, risks and charges and expenses of a mutual fund or exchange-traded fund before investing. The prospectus contains this and other information about the mutual fund or exchange-traded fund. To obtain a prospectus, contact your Financial Advisor or private Wealth Advisor. Please read the prospectus carefully before investing.

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