

Morgan Stanley

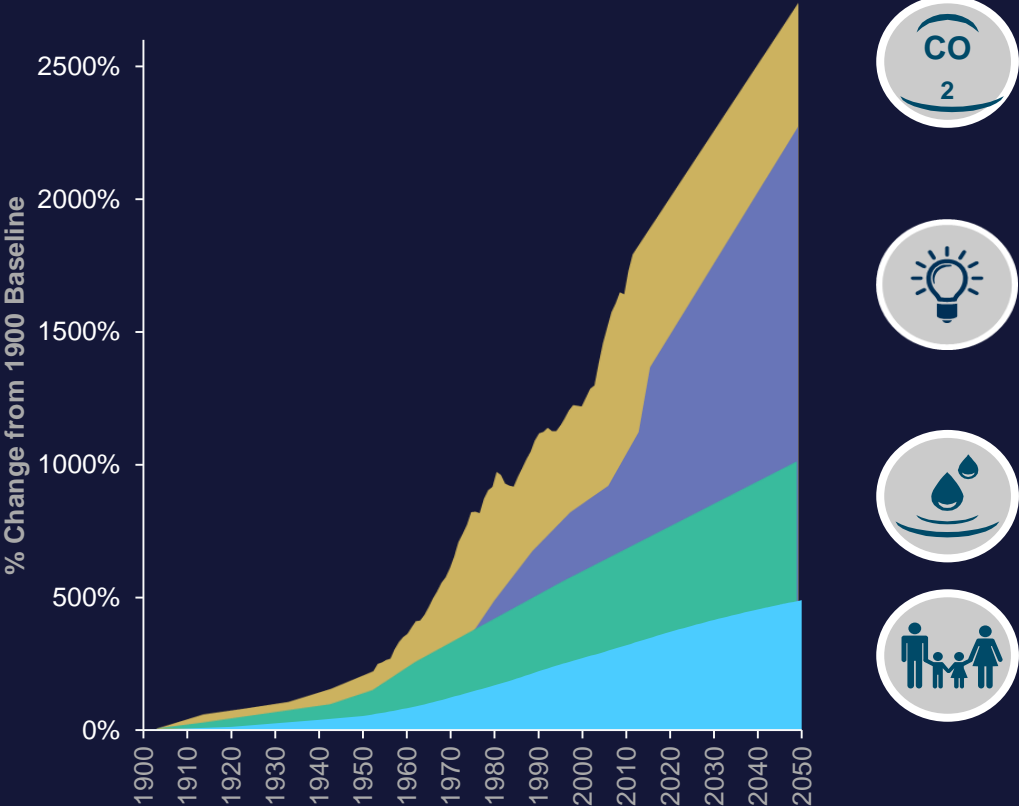


Reaching the Tipping Point: Making a Difference While Making a Profit

Audrey Choi

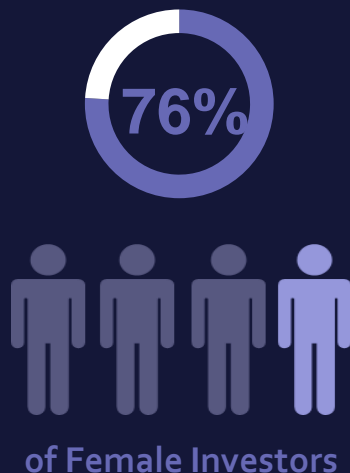
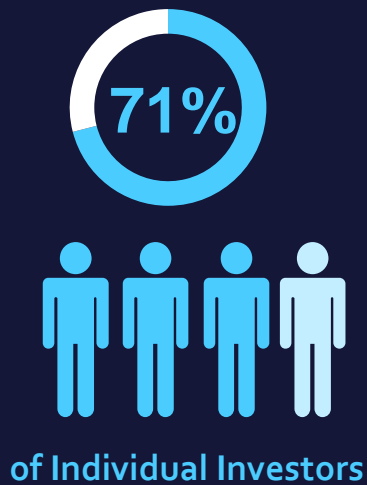
December 9, 2016

Global Demands are Growing Rapidly

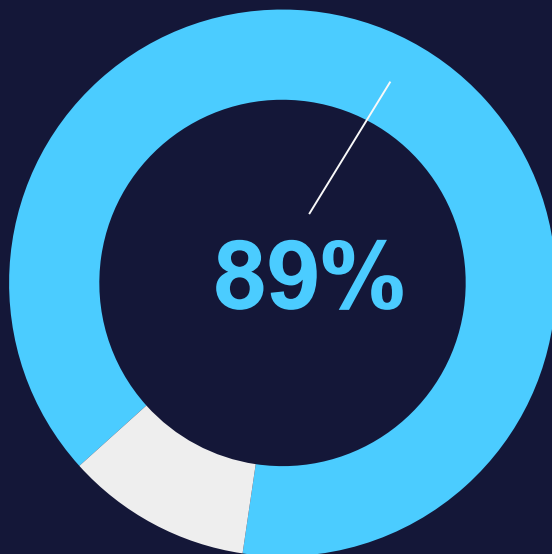


Source: Various, see final slide

Individual Investors Are Interested in Sustainable Investing

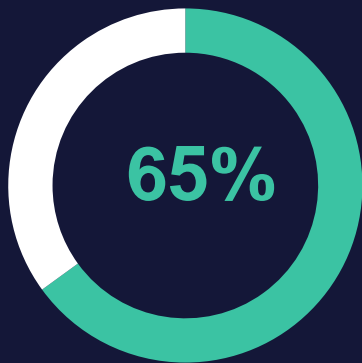


Among Employees of Asset Manager Firms

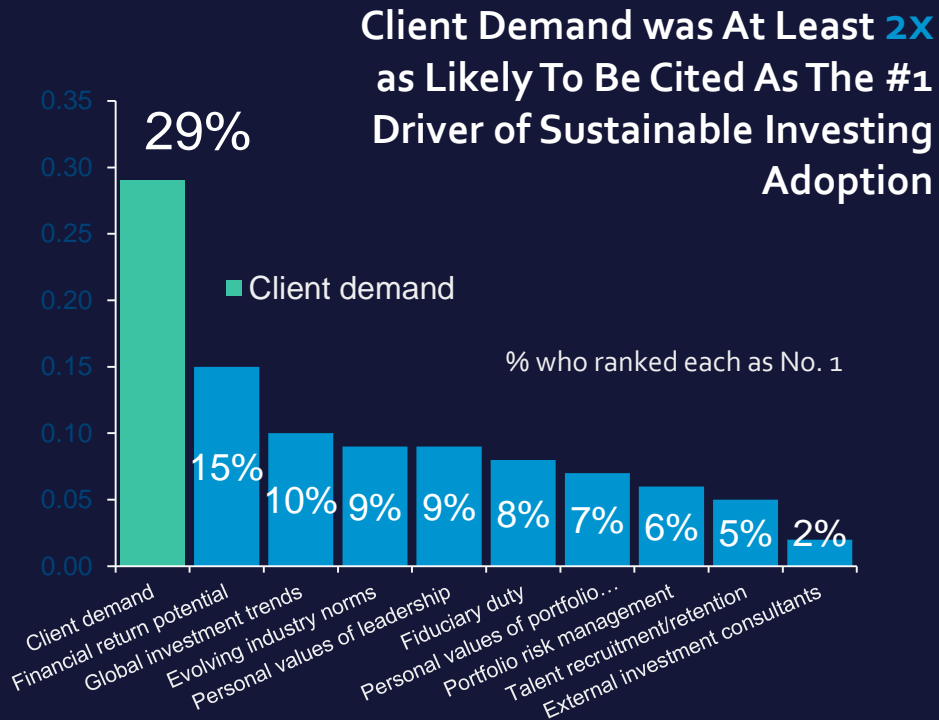


Are **Somewhat** or **Very** Familiar
with Sustainable Investing

Asset Managers are Responding



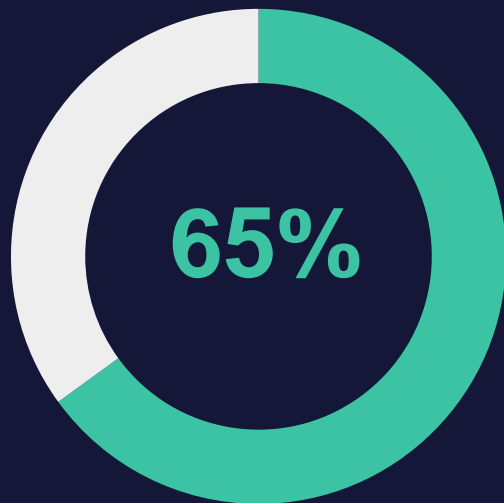
Now Work at Firms that
offer Sustainable
Investing



Source: Institute for Sustainable Investing, Sustainable Signals: Asset manager perspective New York: Morgan Stanley, 2016

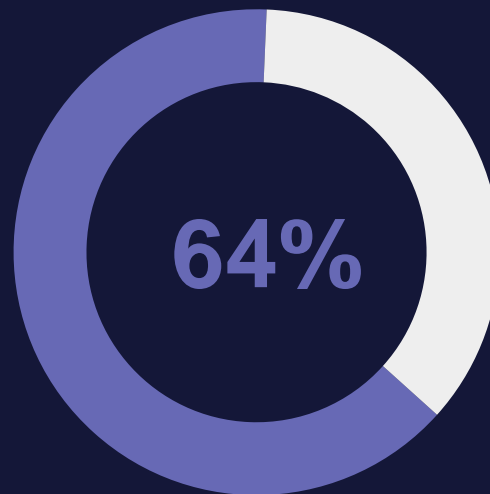
Nearly Two-thirds Believe Sustainable Investing will Grow

Among Individual Investors¹



Believe
Adoption will
Increase in
the Next 5
Years

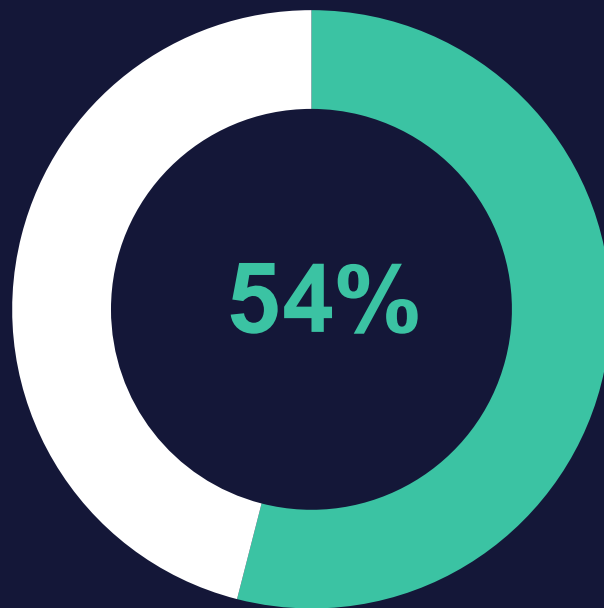
Among Asset Managers²



Source: 1. Institute for Sustainable Investing. Sustainable Signals. New York: Morgan Stanley, 2015

2. Institute for Sustainable Investing. Sustainable Signals: Asset manager perspective New York: Morgan Stanley, 2016

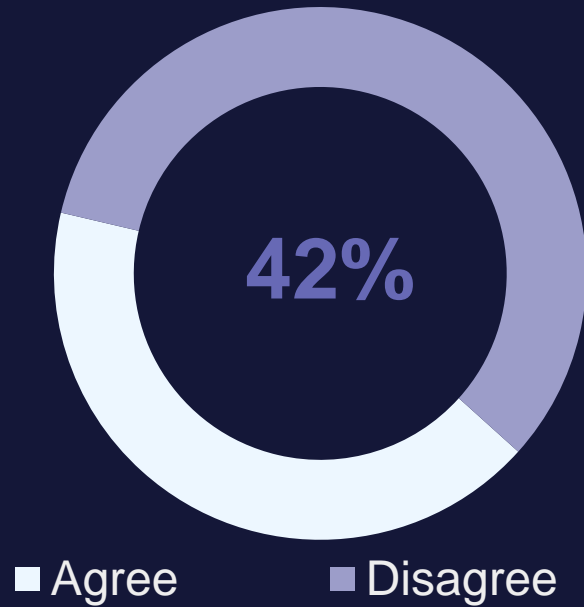
Among Individual Investors



■ Trade-Off ■ No Trade-Off

Believe Investing
Sustainably
Requires a
**Financial Trade-
Off**

Among Asset Managers²

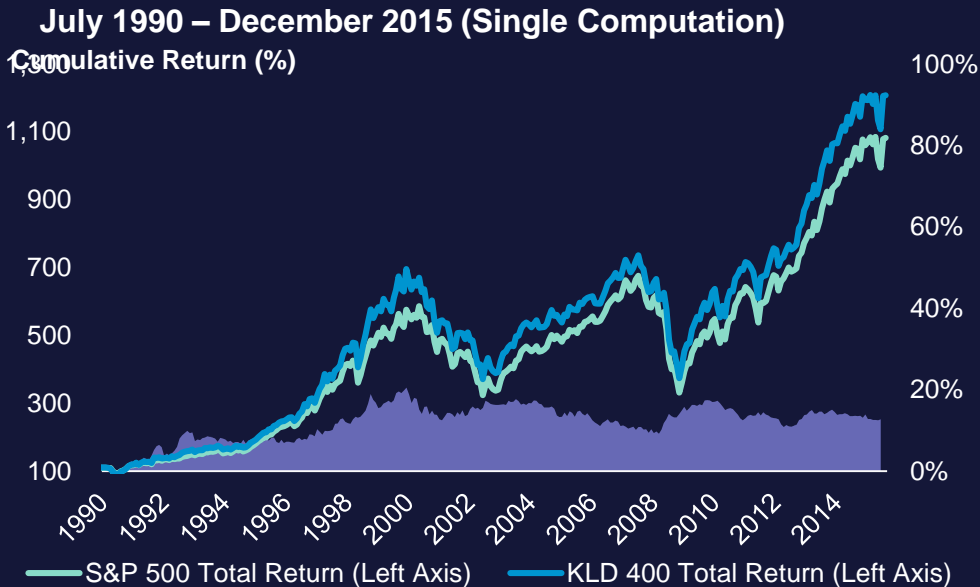


Sustainable Strategies Have Often Performed In Line or Better and Had Lower Volatility

In Morgan Stanley's study of 10,000 mutual funds over a seven year period

64%

Percent of periods that equity mutual funds met/exceeded median returns and met/fell below median volatility of traditional funds

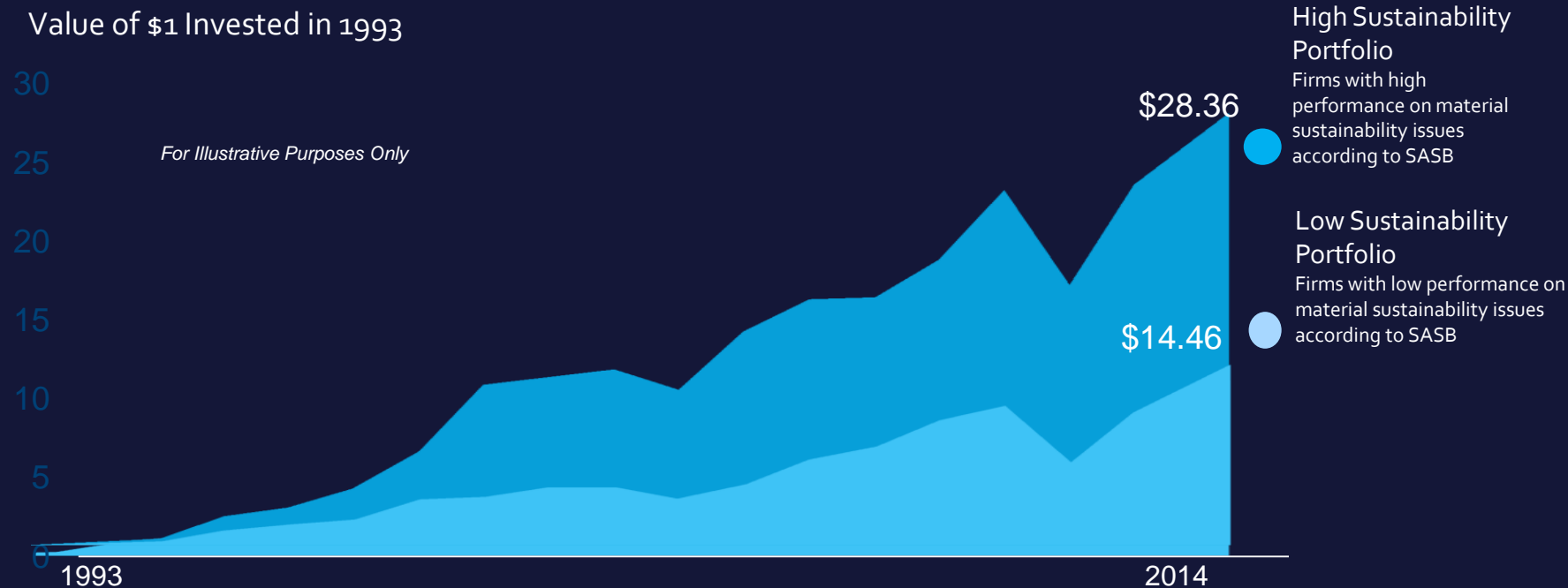


The MSCI KLD 400 Index of companies that meet **best-in-class environmental, social and governance (ESG) criteria.**

Source: Morgan Stanley Institute for Sustainable Investing 'Sustainable Reality,' February 2015.

Past performance is no guarantee of 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.

Harvard Found Integration of Material ESG Factors Can Be Significant



Source: Serafeim, George. *Turning a Profit While Doing Good: Aligning Sustainability with Corporate Performance*. Brookings Institution, 2014.

Khan, Mozaffar and Serafeim, George and Yoon, Aaron. *Corporate Sustainability: First Evidence on Materiality*. Cambridge: Harvard Business School, 2015

Past performance is no guarantee of future results. The returns are illustrative and shown for comparative purposes only. They do not represent the performance of any specific investments. The returns also do not reflect the performance of other ESG aware portfolios or investments, the results of which could be better or worse than those shown here.

In Oxford's 2014 Meta-analysis of Over 200 Studies

90% found sound sustainability standards **lower the cost of capital** of companies

88% showed **better operational performance** of firms

80% showed a **positive effect on stock price performance**

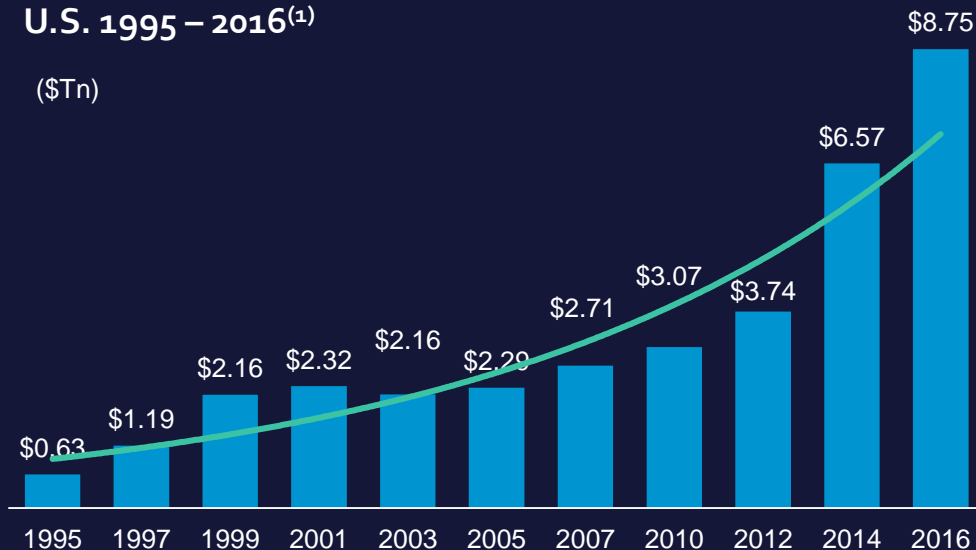
Morgan Stanley Research found that **high gender diversity companies** have delivered slightly **higher ROE & lower ROE volatility**

High gender diversity companies have moderately **outperformed in the past five years**

Sustainably Invested Assets Now Account for More Than One Out of Every Five Dollars Under Professional Management in the U.S. ⁽¹⁾

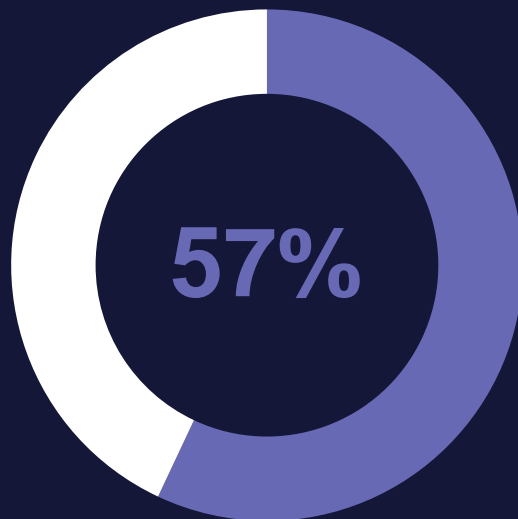
Sustainable, Responsible and Impact Investing in U.S. 1995 – 2016⁽¹⁾

(\$Tn)



Source: Report on the Sustainable and Responsible Investing Trends in the United States, 2016. U.S. SIF Foundation, Nov. 2016.

Asset Manager Plans are Supporting Future Growth



Plan to Offer a New Product in the next 12 Months, **Regardless** if Already Doing So

The Next Generation of Investors are Bringing Sustainability into Consumer *and* Investor Behavior

Millennials are:



3x
More Likely

Seek employment with a sustainability focused company



2x
More Likely

Invest in companies or funds that target a specific social or environmental outcome



2x
More Likely

Check product to ensure sustainability



2x
More Likely

Invest in companies or funds using high-quality ESG practices



2x
More Likely

Purchase from a sustainable brand



2x
More Likely

Exit an investment position due to objectionable activity

Notes

Slide 2 United Nations, Department of Economic and Social Affairs, Population Division (2015). World Population Prospects: The 2015 Revision, Key Findings,

1. Change in global exojoule consumption, Smil, V. 2010. *Energy Transitions: History, Requirements, Prospects*. Praeger, Santa Barbara, CA, ix + 178 pp, World Energy Council. World Energy Scenarios., 2013
2. Change in km³ Shiklomanov I. A., *World Water Resources: Modern Assessment and Outlook for the 21st Century, 1999. (Summary of World Water Resources at the Beginning of the 21st Century*, prepared in the framework of the IHP UNESCO). Federal Service of Russia for Hydrometeorology & Environment Monitoring, State Hydrological Institute, St. Petersburg., OECD (2012), OECD Environmental Outlook to 2050,. OECD Publishing.
3. Change in Million Metric Tons of Carbon, Boden, T.A., Marland, G., and Andres, R.J. (2015). National CO2 Emissions from Fossil-Fuel Burning, Cement Manufacture, and Gas Flaring: 1751-2011, Carbon Dioxide Information Analysis Center, Oak Ridge National Laboratory, U.S. Department of Energy, doi, OECD (2012), OECD Environmental Outlook 2050 , OECD Publishing

Slide 4-8 Institute for Sustainable Investing. Sustainable Signals New York: Morgan Stanley, 2015; Institute for Sustainable Investing. Sustainable Signals The asset manager perspective

Slide 10Institute for Sustainable Investing. Sustainable Reality. New York: Morgan Stanley, 2015

Slide 11 Serafeim, George. *Turning a Profit While Doing Good: Aligning Sustainability with Corporate Performance*. Brookings Institution, 2014. Khan, Mozaffar and Serafeim, George and Yoon, Aaron. *Corporate Sustainability: First Evidence on Materiality*. Cambridge: Harvard Business School, 2015

Slide 13*Why it Pays to Invest in Gender Diversity. MS.com. May 11, 2016*

Slide 14 Report on Sustainable and Responsible Investing Trends in the United States 2016, U.S. SIF Foundation

Slide 15-16Institute for Sustainable Investing. Sustainable Signals New York: Morgan Stanley, 2015; Institute for Sustainable Investing. Sustainable Signals The asset manager perspective

Slide 18 Institute for Sustainable Investing. Sustainable Signals The asset manager perspective

Sustainable Signals The asset manager perspective

Disclosures

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.

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All investing involves risk, including the risk of loss.