Morgan Stanley

INVESTMENT MANAGEMENT

2023 Stewardship Report – Global Balanced Strategy

PORTFOLIO SOLUTIONS GROUP | February 2024

MARKETING COMMUNICATION

Contents

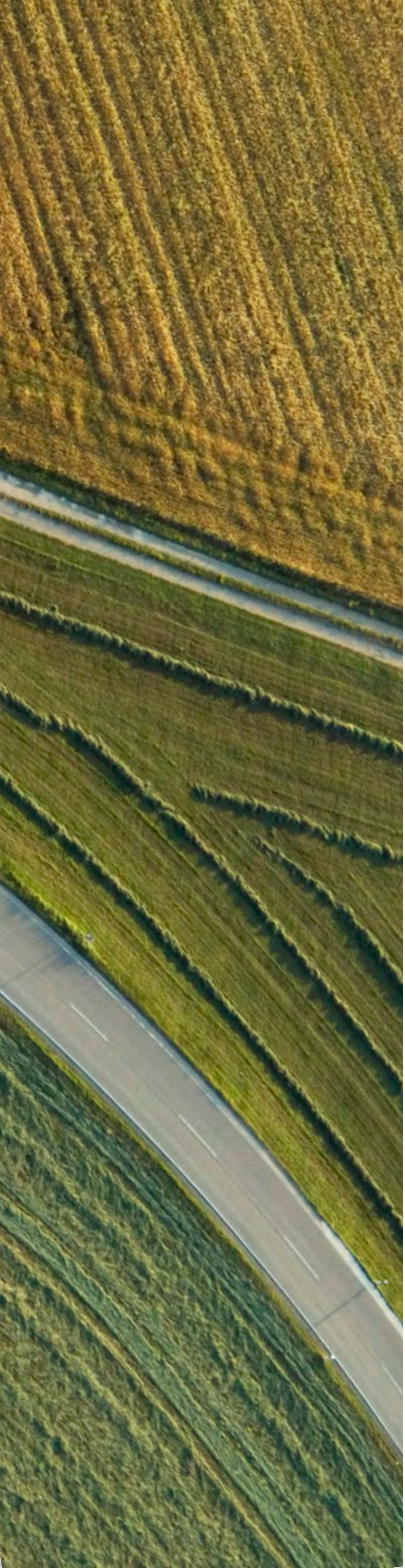
30

PROXY VOTING STATS 2023

22

DECENT WORK & RESILIENT JOBS

Introduction

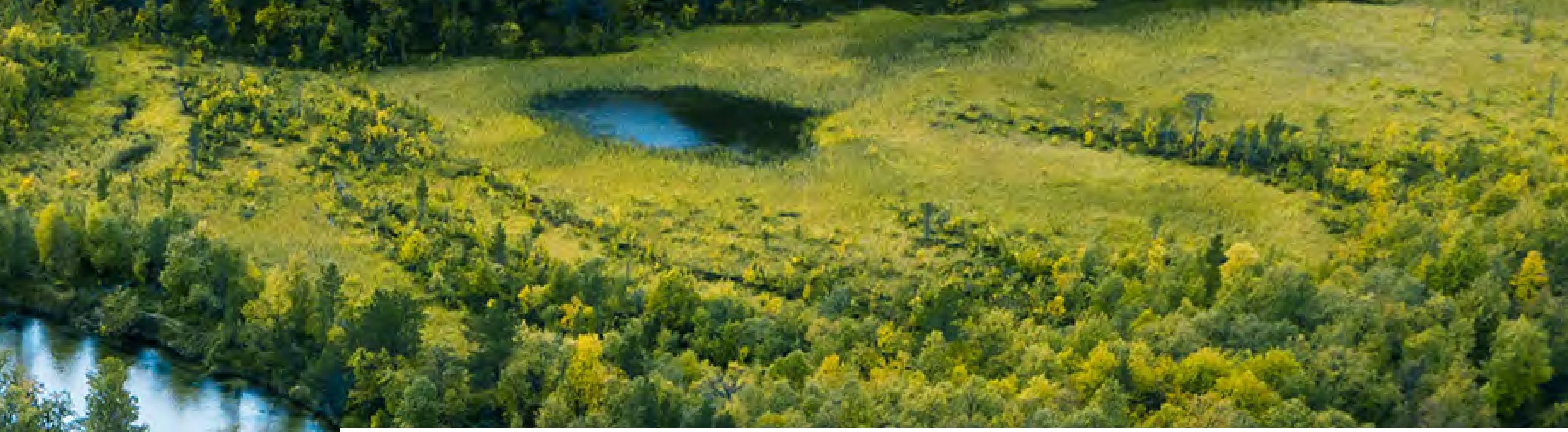


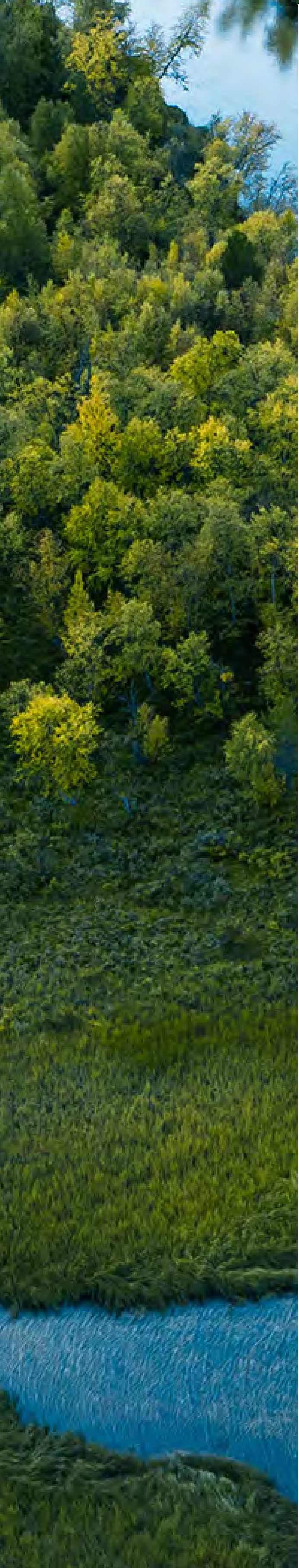
Throughout 2023, Morgan Stanley Investment Management's (MSIM) Portfolio Solutions Group (PSG)'s ESG team continued to refine their engagement approach to further complement our long standing sustainable investment integration process*. The team continued to engage where they believed they could most effectively address systematic environmental and social challenges while adding value to client's portfolios. The team's engagement is supported by the same intensive top-down analysis of global risk that characterises the Strategy's asset allocation process and supplemented with focused, in-depth, bottom-up research on each thematic engagement target.

The PSG ESG team believes this approach allows a fuller understanding of the long term drivers of sustainability-related risk and opportunity across both portfolios and investee companies. Our in-depth understanding of sustainability risk gives us room to engage thoughtfully, to improve the long-term resilience of our investee companies and to realise positive environmental and social outcomes.

*This report covers the engagement activities of PSG's ESG team, acting on behalf of its clients on portfolios with sustainability features.

2023 in Summary



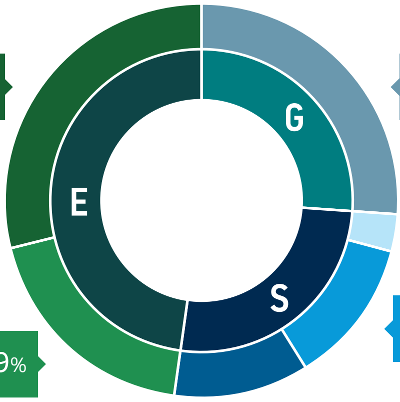


For the year ending 31 December 2023, the team engaged with issuers on 54 occasions across 5 core thematic areas. These engagements not only allowed us to establish constructive dialogues and advocate for positive sustainability outcomes, but also helped inform our investment decisions.

DISPLAY 1

54 Engagements Globally Across Five Distinct Themes

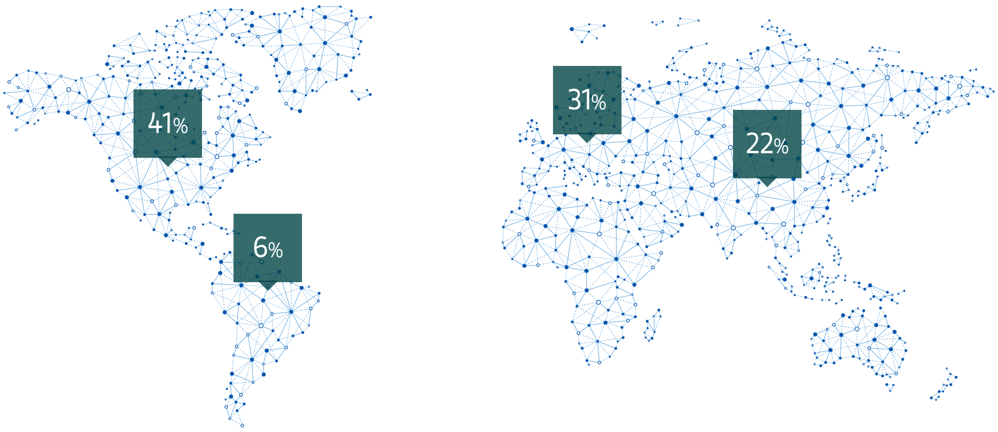
Breakdown by ESG category (some double counting)



Source: MSIM's PSG ESG Team

DISPLAY 2

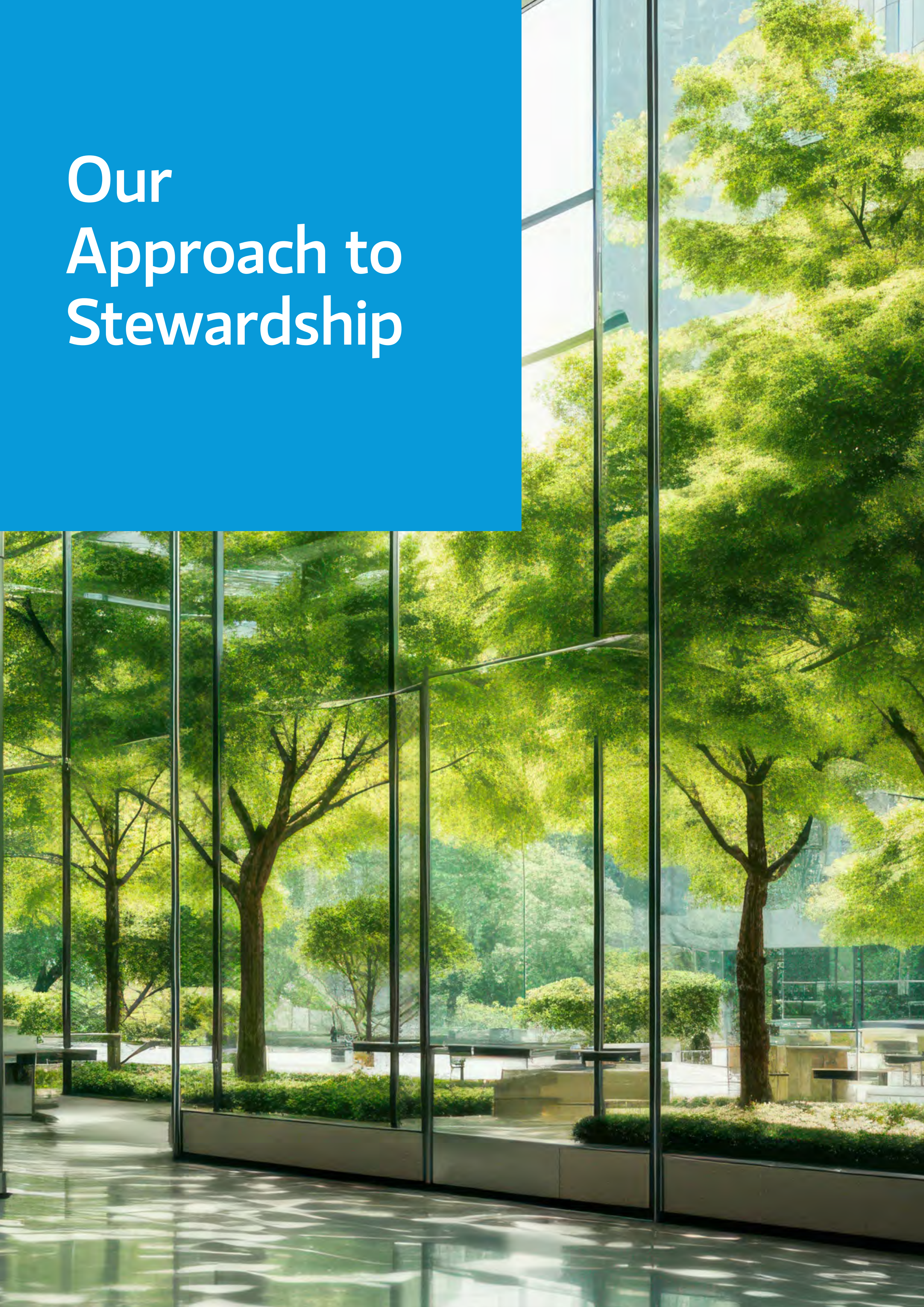
Engagement Breakdown by Region



Source: MSIM's PSG ESG Team

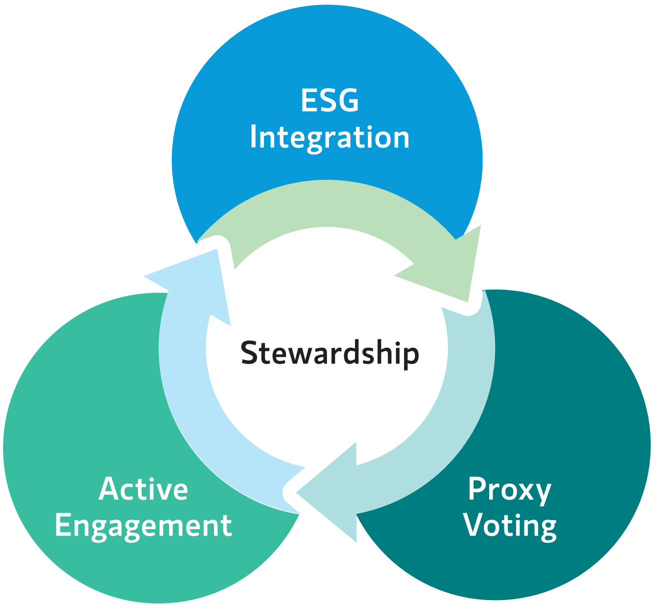
[1]Engagement is not a binding requirement of the Strategy's approach to ESG. Individual funds and client accounts operating within the strategy may have specific ESG related goals and restrictions that affects ESG integration. Please refer to governing documents of individual vehicles to understand their binding ESG criteria.

Our Approach to Stewardship



The PSG ESG team define stewardship as an overarching approach to sustainability involving continuous monitoring of ESG factors, active engagement and exercising our shareholder rights across portfolios *(Display 3)*. We believe our approach is well designed to promote the long-term success of companies and create sustainable value for our clients.

DISPLAY 3
Our Approach to Stewardship

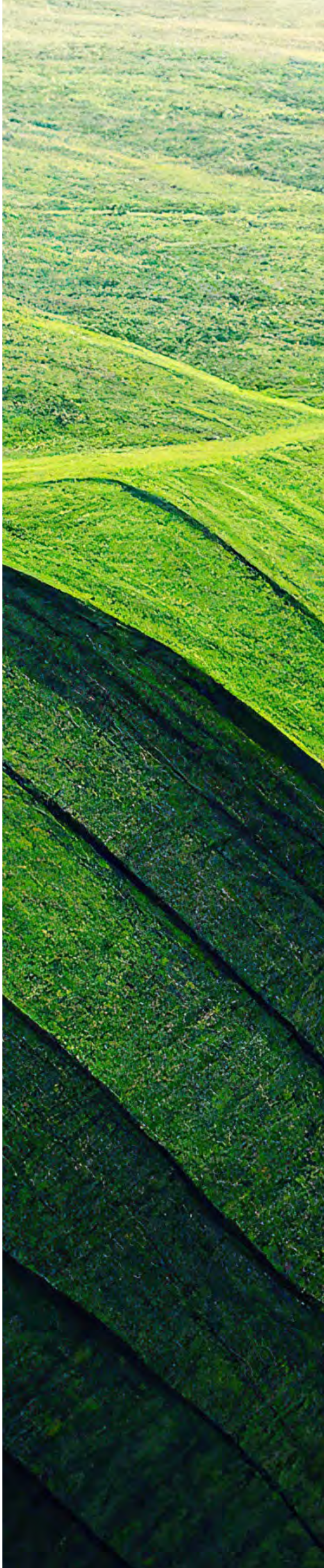


Source: MSIM's PSG ESG Team

The team understands that we have a duty to collaborate with the firms in which we invest to achieve distinct sustainability-related outcomes. We aim to fulfill this duty by engaging directly with issuers, through effective exercise of our proxy voting, and other rights as shareholders. The team's stewardship objectives are tied to outcomes that include:

- Enhanced disclosure of sustainability-related information
- Securing and encouraging improved management of material sustainability-related risks and opportunities
- Improving and enhancing our own understanding of any sustainability-related risks in our portfolios

Typically, the team's main engagement priorities are guided by top-down thematic research based on a materiality assessment of both ESG risks and opportunities conducted by our dedicated ESG analysts. This approach ensures that stewardship is a natural extension of the team's philosophy around risk control as researching the risks and opportunities to our global economy and global markets is central to our asset allocation process.



Our engagement strategy focuses on three components: **Risk, Impact, and Quality**. Focusing on these three elements allows us to prioritise thematic ESG issues that not only contribute to global sustainability goals but also potentially reduces risk across our portfolios.

DISPLAY 4
Engagement Considerations

Risk	Impact	Quality
▪ Top-down thematic-based research ▪ Bottom-up assessment of material ESG factors	▪ We focus on material risks to returns, or; ▪ Opportunities to positively contribute to environmental or social challenges	▪ Purposeful dialogue focused on specific objectives and measurable outcomes ▪ Collaborate with investees and prioritise ongoing engagement to help improve and track performance

Source: MSIM's PSG ESG Team

To maximise the effectiveness of our engagements, we capitalise on opportunities to **collaborate** with a number of MSIM teams, including the Firm's dedicated Global Stewardship team, where appropriate. We find internal collaboration, when appropriate and beneficial for shareholder value, to be highly effective as it pools resources and expertise from across our diverse and differentiated businesses leading to more constructive dialogue. **Approximately 33% of our ESG engagements conducted during the reporting period were collaborative efforts with other MSIM teams. This represents an increase from 30% and 15% in the preceding two periods, respectively.** As part of our commitment to collaboration we carefully assessed the potential for collective engagement with external partners. In 2023 we were among a select group of MSIM investment teams who joined the PRI Advance Program[2] on Human Rights. As part of this initiative, the PSG ESG team engaged with three of the biggest purchasers of renewable energy infrastructure in the world. For more information on this initiative please see page 12.

[2] A collaborative stewardship launched by the PRI where institutional investors work together to advance respect for human rights and social issues.

Engagement Theme

Decarbonisation and Climate Change

Industrial Decarbonisation: Efficiency and Innovation

Industry provides us with much of the building blocks that make up our modern way of life but by some estimates it is directly responsible for almost a quarter of global carbon dioxide (CO_2) emissions.[3] It is clear that decarbonising industry is a necessity if we are to limit global warming however industrial emissions are overwhelmingly concentrated in what are commonly termed 'hard to abate' sectors, namely iron & steel, cement, chemicals and refining.

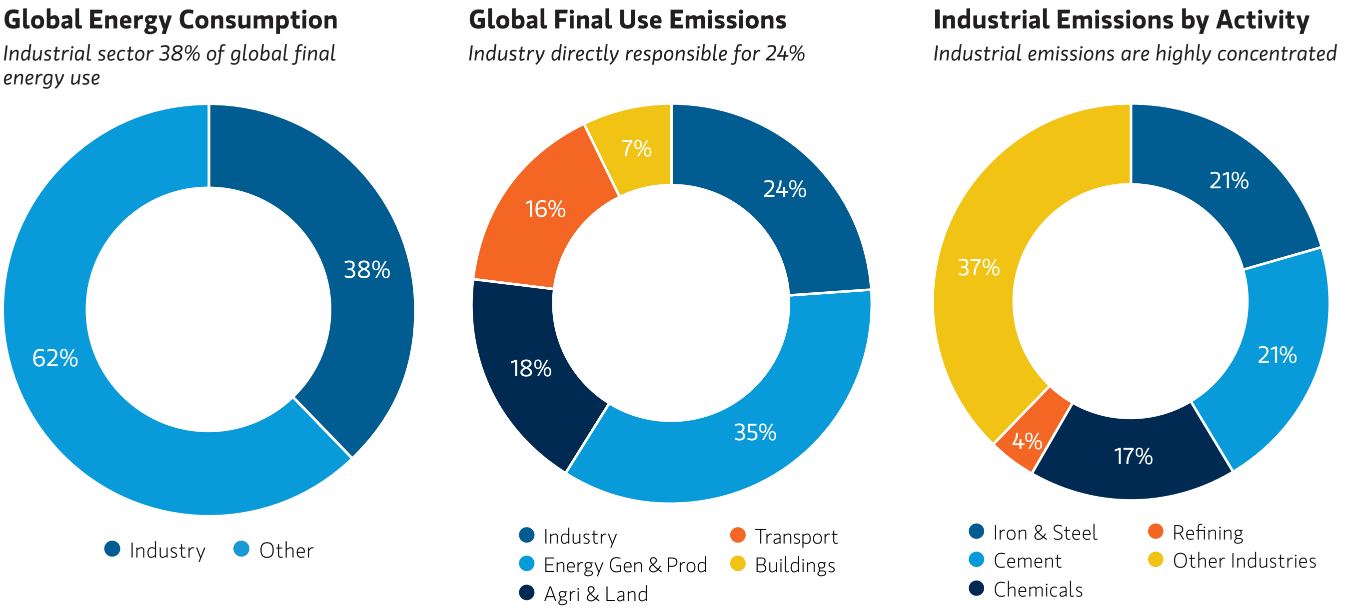
However, there are signs of progress. Increasingly, governments are providing signals to industry through green incentives, subsidies, or carbon pricing mechanisms to encourage cleaner production. Concurrently, on the demand side, we believe the continued growth in decarbonisation targets could represent a key incentive for industry take up of low carbon production processes. Some of the largest purchasers of industrial materials, such as steel, are adopting decarbonisation plans covering their material value chain emissions such as those from procured materials. Increases in demand for more eco-friendly products to satisfy these goals may allow the most carbon efficient producers to capture a "green premium".

> "Energy efficiency action is the unambiguous first and best response to simultaneously meet affordability, supply security and climate goals."
>
> —International Energy Agency (IEA), 2022

[3]Rystand Energy, 2023.

DISPLAY 5

Global Industrial Energy Use and Emissions[4]



Source: MSIM's PSG ESG Team, IEA, Rystad Energy.

[4]Rystand Energy, 2023. IEA, 2022.

Recognising this as both a challenge and opportunity, in 2023 the team focused our engagements on a selection of the heaviest emitting industries collectively responsible for over 60% of energy consumption and up to 70% of industrial emissions globally.[5] We focused on **Iron & Steel, Cement, Chemicals, Refining, as well as a number of emerging high growth areas such as Aluminum, Copper, and Semiconductors**. Throughout the engagement process, the team sought to better understand the potential for decarbonisation across these diverse areas of industry and to encourage companies to adopt more efficient practices as a first step to reduce their emissions. **We engaged with 16 heavy industrial companies in 2023.**

ENERGY EFFICIENCY

Energy efficiency is an overlooked yet critical lever to achieve global decarbonisation ambitions. At its core it is a strikingly straightforward idea — maximise output while minimising energy input. Operating efficiently has both environmental and economic benefits. For heavy industries, such as steel or refiners, energy costs do vary but often make to up as much as 20%-40% of operating costs. Price volatility presents further challenges for heavy consumers of energy. Energy supply disruptions in some regions have contributed to volatile and elevated prices rendering some businesses uncompetitive in global commoditised markets. This highlights the need to save costs and ensure affordable, reliable, energy access.

With many companies 2030 targets fast approaching the importance of decarbonisation in the near-term is emphasised in our engagements. Energy efficiency is, in our opinion, the most appealing method for near term decarbonisation. This is because it can often be an immediately actionable method for reducing emissions.[6]

DISPLAY 6

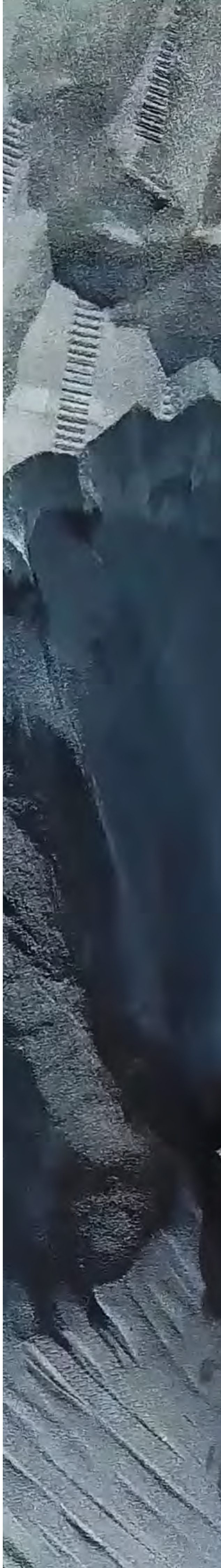
Engagement Goals

Source: MSIM's PSG ESG Team, 2023.

The team designed a top-down screening tool for assessing total portfolio exposure to each carbon-intensive activity considered. Given differentiated levers for energy and emission reductions between industrial activities as well as variations in regional growth outlooks, the team was also mindful of the need to balance our engagements globally taking in to account expectations appropriate for each industry and region. **As a result, the team built bespoke bottom-up frameworks for each industry with the objective of better comparing companies and providing relevant, actionable feedback.** Companies are scored according to the team's assessment of company performance on KPIs related to their policies, processes, emission reduction pathway, and products.

[5] "Net Zero by 2050," IEA, 2021.

[6] "Energy Efficiency as a Foundational Technology Pillar for Industrial Decarbonization," Sustainability, 2023.



INNOVATION

Beyond 2030, research and innovation are essential for reducing emissions and enabling green growth in industry. Post 2030, heavy industry will likely have to rely on currently unproven technologies like carbon capture and storage (CCS) and Hydrogen to decarbonise. In fact, these technologies are estimated to facilitate up to 50% of heavy industry's carbon reduction in the IEA's ambitious net zero scenario.[7] This necessity to innovate represents a new challenge for heavy industry which is typically characterised by commoditised products, sold at high volumes for low margins.

CEMENT

The cement industry neatly represents these challenges. Globally responsible for around 2.5 GtCO_2 emissions in 2020, 7-8% of emissions a year,[8] each tonne of cement produced can result in the release of between on average 650-900kg[9] of carbon dioxide, depending on fuel and technology used.

Higher rates of clinker substitution, alternative fuel usage, and gains in energy efficiency can help to decrease the industry's emissions intensity and reduce costs. Unfortunately, this only solves some of the challenge. Real absolute emissions reduction, at today's cement production volume, requires innovation and investment in relatively unproven and as of today uneconomical initiatives such as CCS. This is because a significant share of cement emissions is released as process emissions during manufacturing.

Starting in 2026, cement manufacturers in the EU will see CO_2 costs phase in until 2035, when free allowances will be phased out in Europe's emissions trading scheme (ETS). Depending on ETS prices, compliance could significantly inflate cost for companies with assets in Europe. This could result in reduced profits if operators cannot pass on cost increases. Investments in CCS for European operators could fast become a necessity.

Over half of total CO_2 is released during the chemical reaction that takes place during the conversion of limestone ($CaCO_3$) to lime (CaO).[10]

[7] "Net Zero by 2050," IEA, 2021.

[8] "Global Carbon Project," 2022. "Making concrete change; innovation in low-carbon cement and concrete," Chatham House, 2018.

[9] "Cementing the Global Net Zero Transition," Climate Bonds, 2023.

[10] "Laying the Foundation for Zero-Carbon Cement". McKinsey & Company, 2020. "GCCA Concrete Future — Roadmap to Net Zero". Global Cement and Concrete Association, 2021.

Case Study 1

In 2023, we engaged with a cement company primarily operating in developed markets. The team believes the company has a clear focus on achieving cost-saving from energy and material efficiency. Further, we note their firm commitment to decarbonisation backed by ambitious, yet achievable, short-term targets, as well as aspirational long-term goals.

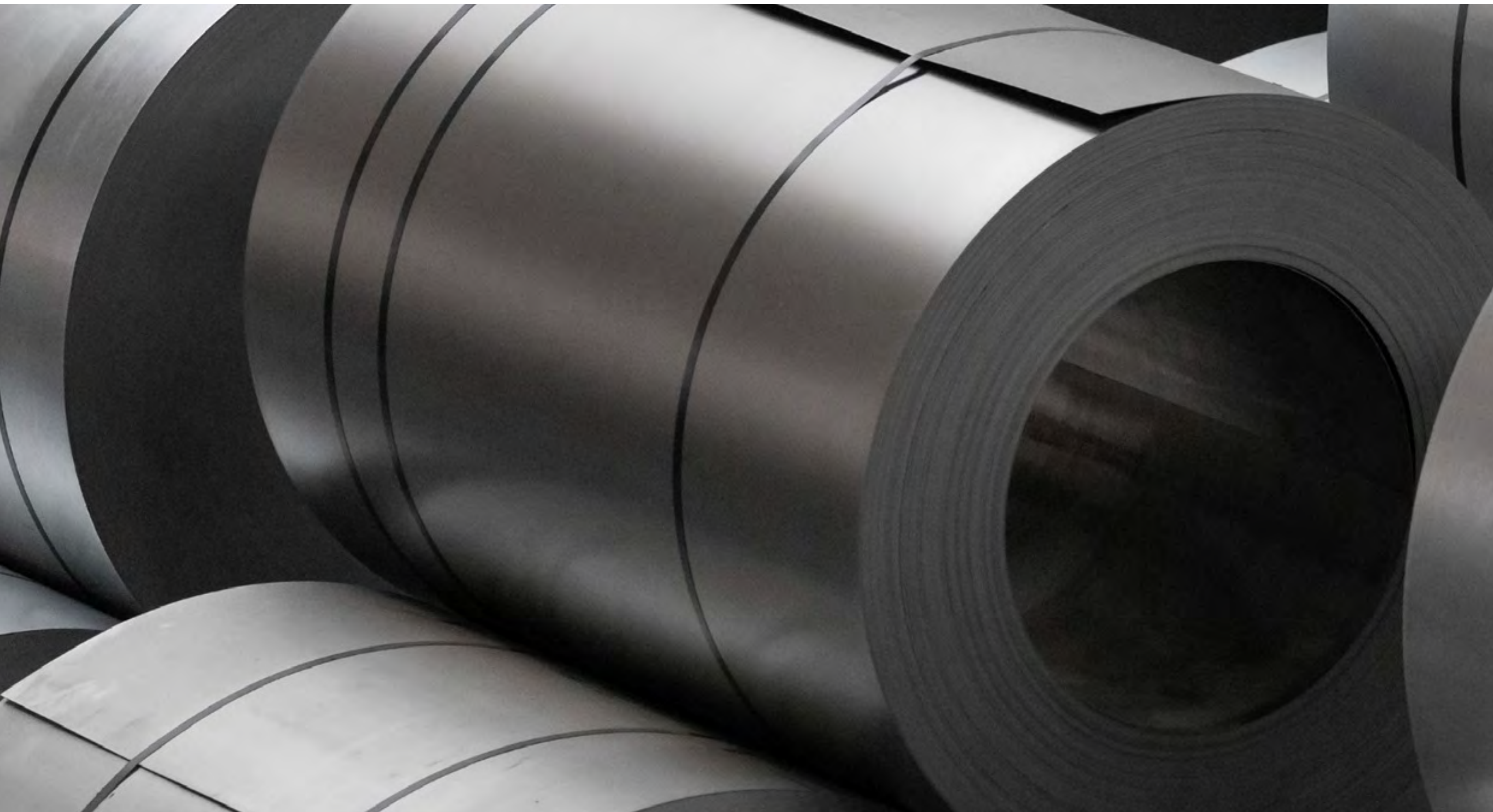
The team believes that while the company is making progress comparable with leading peers, it can nonetheless differentiate itself by increasing its investment in efficiency measures and innovative technologies. Furthermore, we believe the company can potentially enhance its attractiveness to investors by better disclosing their transition plan and further enhancing their disclosure around ongoing sustainability efforts. Primarily we requested information on their green revenue/capex and clarification on potential concerns tied to their burning of waste as fuel.

While we found common ground on many of our disclosure requests, the company disagreed with our assessment of risks involved with using certain waste products for fuel. The company did however agree to assess further disclosures related to their waste combustion.

The company agreed that enhancing disclosure around solutions they are investing in such as clinker reductions, renewable energy and CCS, makes them more appealing to some sustainability focused investors who might have once avoided the industry. The company has noted greater investor engagement with investors who manage ESG strategies since they began reporting on green revenues and capex.

The company believed that regulation was one of the largest barriers to decarbonising in certain markets and stated their executive team's policy engagement with regulators as a key sign of commitment.

We believe the company is well aligned to meet their ambitious 2030 targets, which are assessed by leading initiatives as in line with the goals of the Paris Agreement. Without regulatory support the longer-term picture is less clear and the environmental and social risk involved with burning waste could represent a small but non negligible tail risk. We believe the company should take steps to continue enhancing disclosure and seeking cost effective areas where they can decarbonise while investing in emerging technologies to enable their long-term goals.



Case Study 2

In 2023 we engaged with an Indian Steel company. The company has a long-term net zero target and had previously disclosed interim decarbonisation goals.

India is a key market for iron and steel and is second only to China when it comes to manufacturing crude steel. Crucially, demand for steel in India is projected to increase over 87% during the period 2021-2030 while capacity is expected to grow by 57%.[11]

The carbon intensity of iron and steel production varies, not only due to technology efficiency, but also due to the local energy mix and availability of scrap material. Given India's low scrap availability and heavy reliance on coal for power, its steel production is highly carbon intensive compared to global peers. To satisfy growing demand many firms continue to invest in the most carbon intensive forms of production. More than half of planned capacity additions are carbon intensive Basic Oxygen Furnace (BOF) plants. The assets require significant capital and have long operating lives exacerbating the risk of locked in carbon emissions or stranded assets.

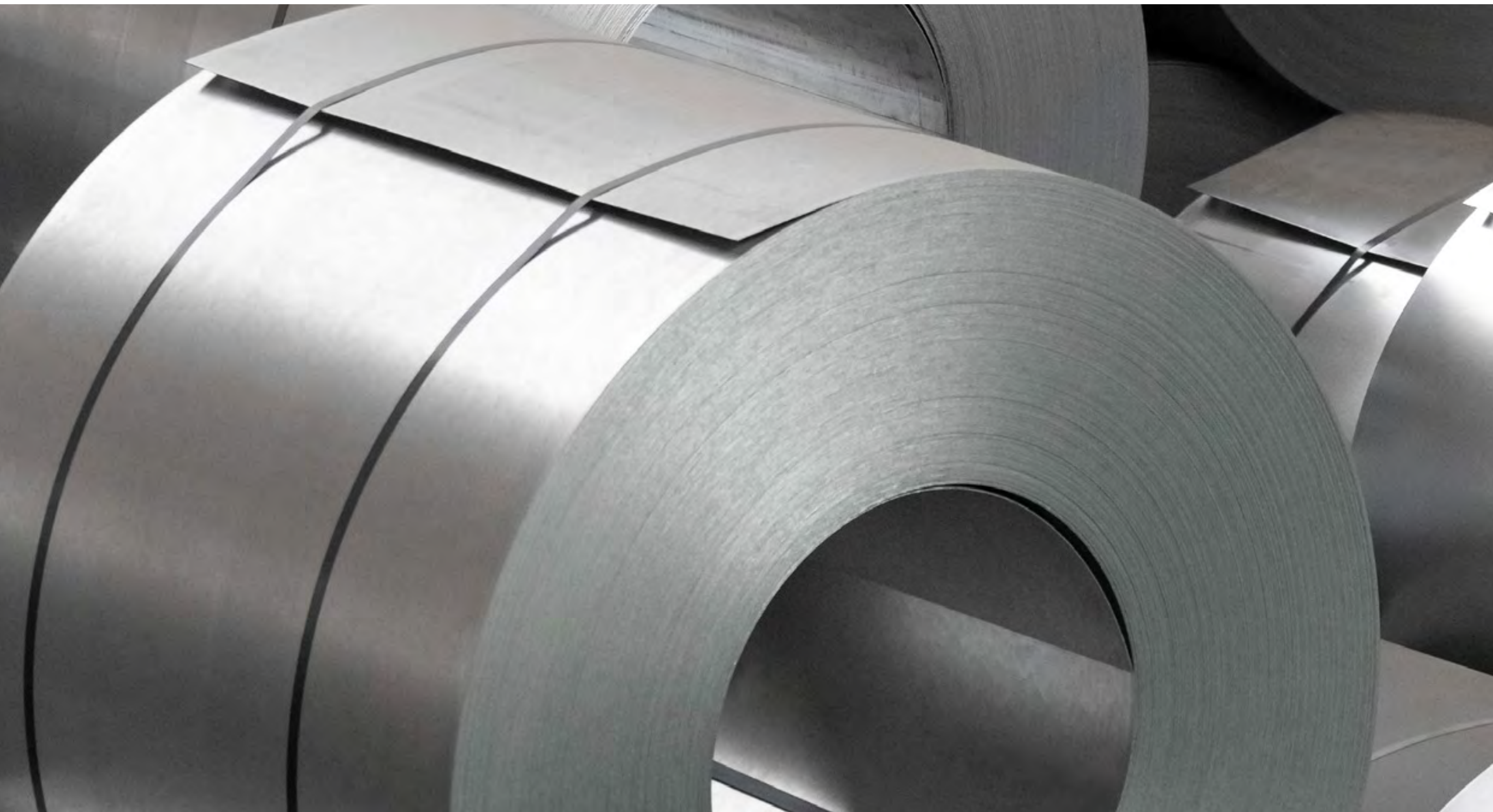
The team is sensitive to the challenges the company faces regarding balancing decarbonisation with serving growing demand for its product. As mentioned, coal is the fuel of choice for almost all Indian steelmakers given a relative lack of gas reserves or renewables. Furthermore, India's rapid development needs limits scrap availability, limiting the potential for cleaner Electric Arc Furnace production. We nonetheless underlined our concern with current progress on meeting targets as well as the company's continued build out of the most polluting coal fired BOF furnaces.

Like most steel companies with net-zero commitments, the company is yet to lay out detailed roadmaps for how they expect to deliver their pledge. The team was concerned that interim targets previously disclosed were not present in its most recent reporting documents and could not be found on the website. The team outlined that accountability was essential and targets should remain in play, or the company should clearly disclose why not. The company was receptive to feedback and underlined they are assessing current plans.

Further, the team discussed challenges in investing for emerging markets companies given high interest rates and prohibitive costs for innovative technologies. The company used its European assets as an example of success that would be hard to replicate in its Indian assets.

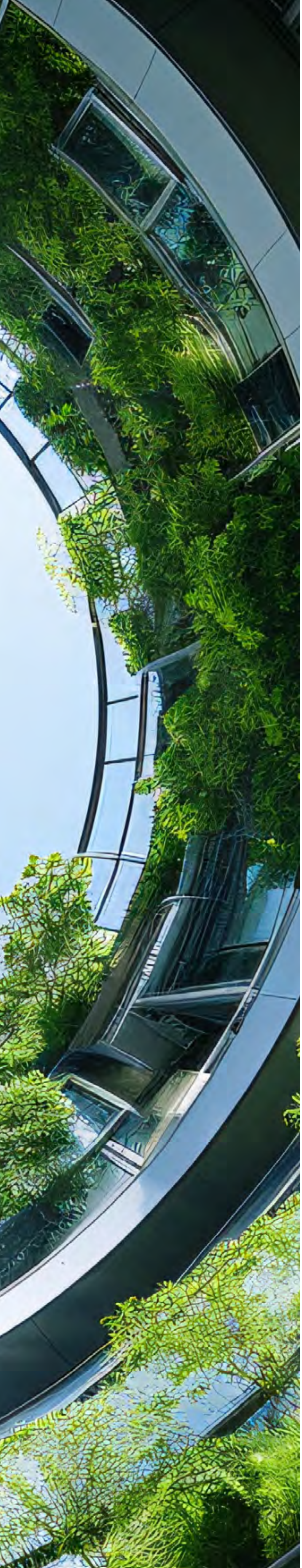
Overall, we are disappointed in the company's current practices. The lack of disclosure and clear accountability raises questions over the company's commitment to decarbonisation and its capex plans on highly emission intensive assets calls for further scrutiny. We will continue to monitor the company while it assesses its strategy.

[11] "India Net Zero Steel Demand Outlook Report," Climate Group Steelzero, 2022.



Engagement Theme:

Circular Economy & Biodiversity



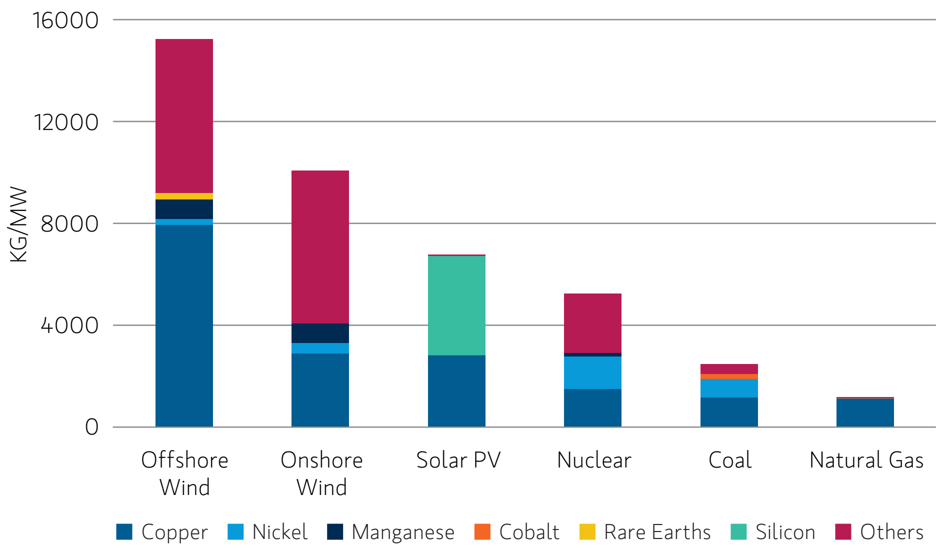
Demand for minerals used in clean energy technologies will increase **four-to-six times** over the next 20 years.[12]

Living in a Material World: Engaging Emerging Greenablers

As mentioned in '[The Paradox of Progress](#)', a research article the team published earlier this year, metals and minerals are the bedrock of the energy transition. Indeed, as many do, we expect the buildout of solar, wind and energy storage technology to increasingly drive demand for a host of critical metals and minerals. Exposed extractive companies that adeptly manage their own sustainability risks may not only stand to gain from the burgeoning demand but also attract investors who may have previously avoided the sector.

DISPLAY 7

Minerals Used in Energy Technologies[12]



Source: "The Role of Critical Minerals in Clean Energy Transitions," IEA, 2022.

This growing interest in the mining sector by sustainability focused investors may be a powerful catalyst for change. We believe investors have an opportunity to encourage stronger management of material ESG risks across the sector. **In 2023, the team engaged with five metals and mining companies including Copper, Aluminium and Gold focused miners.**

[12] "The Role of Critical Minerals in Clean Energy Transitions," IEA, 2022.

Case Study 3

The Copper industry demonstrates both the challenges and opportunities many future facing commodities are exposed to. Chile, responsible for about a quarter of global copper production, has long battled severe drought, a struggle that has often resulted in curtailed production for Chilean copper miners. Changing climate patterns are expected to make matters worse. By 2040, all areas of copper production in Chile are expected to face extremely high-water stress.[13] Climate change and the required technological shifts to mitigate its impacts thus pose both an opportunity and a material risk for copper producers. Producers should plan accordingly.

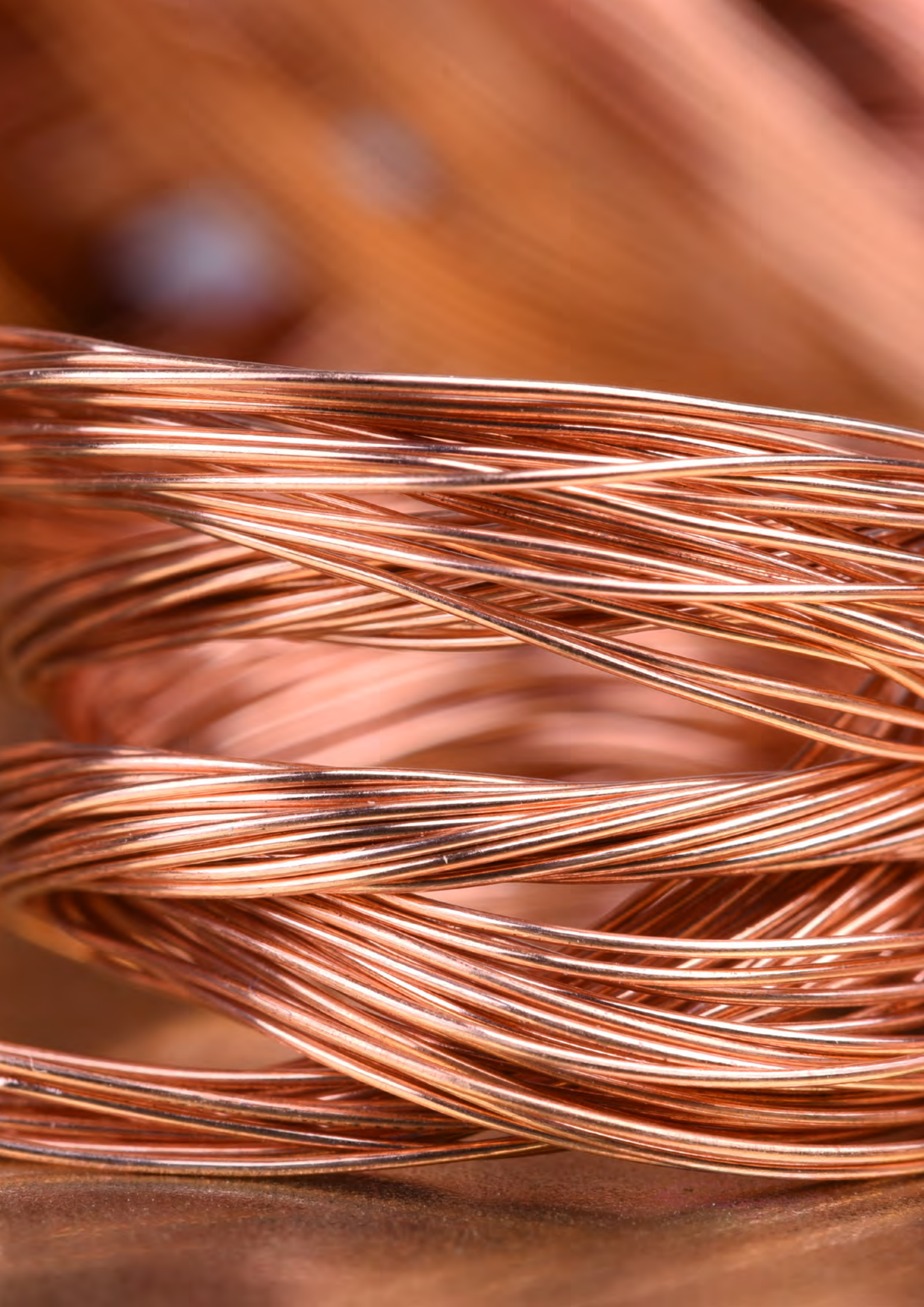
The team began engaging with a Chile based Copper producer in 2022, last meeting in Q3 2023. Our engagements have centered on the company's water related risk management and emission reduction plans.

Since initiation of our engagement program, the company has transitioned to renewable energy for its electricity needs, significantly cutting scope 2 emissions. The company is now focusing on reducing its scope 1 emissions, 60% of which comes from its truck fleet. We've also highlighted concerns around the company's future energy needs due to the increased effort required to extract copper from lower quality ore grade. We believe more disclosure on how this feature could impact both net zero goals and profitability would be useful for investors.

In response to operational disruptions from drought, the company opened a desalination plant in 2023 at a cost that could exceed $2bn. While the execution of this project reduces water related risk, it underscores the sector's vulnerability to environmental related risks.

We've urged the company to further address its ESG risk by quantifying Scope 3 emissions and collaborating with suppliers and customers to help them lower their emissions, a critical step for the industry in achieving net zero.

[13] "Climate risk and decarbonization: What every mining CEO needs to know," McKinsey, 2020.



Case Studies 4 & 5

The aluminium industry also stands at crossroads with significant growth potential due to its demand for lightweight, resistant, materials clashing with the sectors own high energy needs. Aluminium is often referred to as 'liquid electricity' due to the immense amount of electrical energy required in its manufacturing process. Aluminium's smelting process, which makes up around 60% of the metal's direct emissions[14] has traditionally relied heavily on fossil fuels to provide this electric power.

Recycled aluminium offers a compelling low carbon alternative to primary aluminium production as it can be produced using about 5% of the energy needed in primary production.[15] This emphasises the importance of circularity-based practices to reduce environmental footprint and potentially unlock cost savings. **In 2023 we engaged with two leading aluminium producers.**

Company A has made substantial strides in sustainable production and is on track to achieve significant carbon reductions by 2030 through doubling the use of post-consumer scrap and transitioning to cleaner fuels for its power needs. This shift not only reduces emissions but also achieves a cost savings of approximately $25 per ton or $160-190mn per annum.

Notably, a key positive market signal is emerging as one of the company's green aluminium products (recycled with 75% post-consumer scrap) enjoys a significant cost premium given the lack of alternatives and high demand. The company estimates that green premiums are expected to be the key driver of their targeted uplift in EBITDA by 2030. We believe this exemplifies how market incentives can drive responsible consumption and production processes.

Company B is a multinational aluminium company at an earlier stage of their sustainability journey. The company has a long-term net zero target with interim goals. However, the company demonstrates the challenges the aluminium sector faces in aligning growth and sustainability. Despite reducing its emissions by almost 20% since 2015, the company has begun to increase emissions again over the past few years as the business continues to grow.

We emphasised the need to shift away from coal and focus on reducing emissions through renewable energy where possible. We discussed the company's longer-term plan to maintain a secure supply of recyclable aluminium and pushed back against the company's assertion that consumers would be unwilling to pay a premium for green aluminium. We encouraged the company to continue to enhance disclosure and hope to see scope 3 emissions disclosure next year.

DISPLAY 8

Aluminium Recycling[16]

Main sources

Source: Transition Pathway Initiative, 2019.

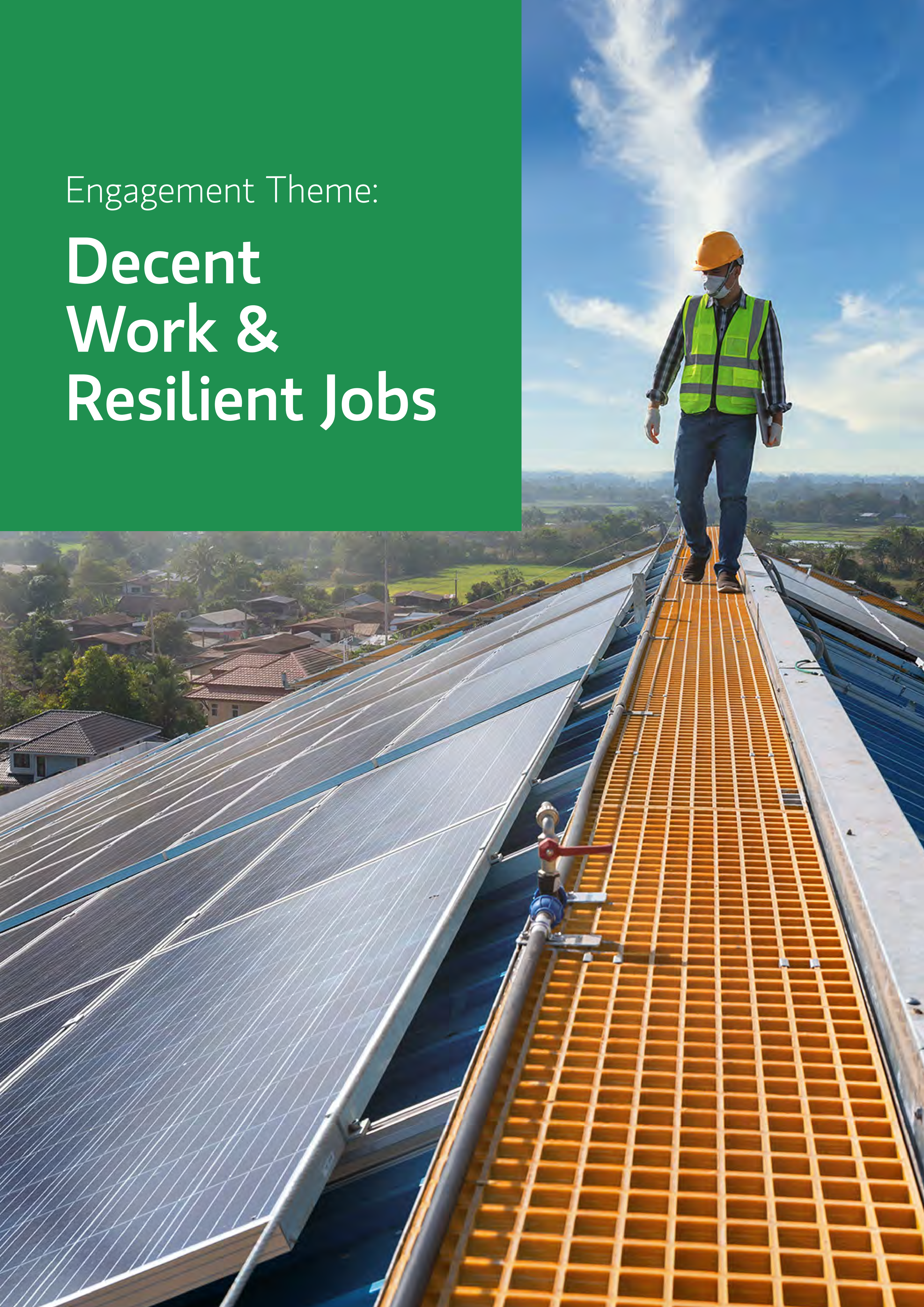
[14] International Aluminium, 2018.

[15] Aluminium Plan, European Aluminium, 2022.

[16] Transition Pathway Initiative, 2019.

Engagement Theme:

Decent Work & Resilient Jobs



Human Rights: A Potential Weak Link in Global Supply Chains

The team believes an equitable and fair society provides participants with the opportunity to reach their full potential and could help drive productivity and economic growth. Abuse of human rights and inequalities in wealth and education on the other hand can impose barriers, contributing to a misallocation of talent and efficiency losses.[17]

The UN Guiding Principles[18] outline how businesses, including investors, impact human rights in three distinct ways:

1. **Causing an adverse human rights impact through its own actions or omissions;**
2. **Contributing to an adverse human rights impact through its own activities, either alongside other entities or through external entities, such as clients or customers;**
3. **Being directly linked to an adverse human rights impact through its operations, products, or services via a business relationship, such as a portfolio company.**

While public companies typically do have established policies and procedures related to upholding key stakeholders (such as employees, customers, local community) human rights, risks may nonetheless lurk both directly in a company's operations or deep within their supply chains.

For example, modern developed market utility companies are ramping up their investments in renewable energy. In doing so they expand the provision of clean energy and reduce air pollution released from coal combustion. However, scrutiny on human rights impacts is intensifying alongside this expansion. Impacts may arise directly from service provision, employment, or community relations and indirectly via substantial land needs and through complex supply chains.

Renewable energy assets require up to 10 times more land than thermal assets[19] which may result in competition for land and conflict with local communities. Renewable energy supply chains are complex and critical components are often concentrated in areas with potential exposure to labour rights violations. Regulators have to date focused their attention on restricting the import of goods potentially tainted with forced labour. In the US, the Uyghur Forced Labor Prevention Act (ULFPLA) prohibits the import of certain goods, such as solar panes, that fail to demonstrate forced labour was not used. Failing to address these complex human rights issues could therefore not only result in project delays but pose legal, reputational, and social license risks.

As part of Morgan Stanley Investment Management's commitment to human rights, the Firm became a participant of PRI Advance. **In 2023 the team engaged with three Utility companies as part of the PRI Advance program and engaged separately with one more on human rights.**

[17] "The Allocation of Talent and U.S. Economic Growth". Econometrica, 2019.

[18] The UN Guiding Principles on Business and Human Rights, 2011.

[19] "Material and Resource Requirements for the Energy Transition," Energy transition committee, 2023.

Case Study 6

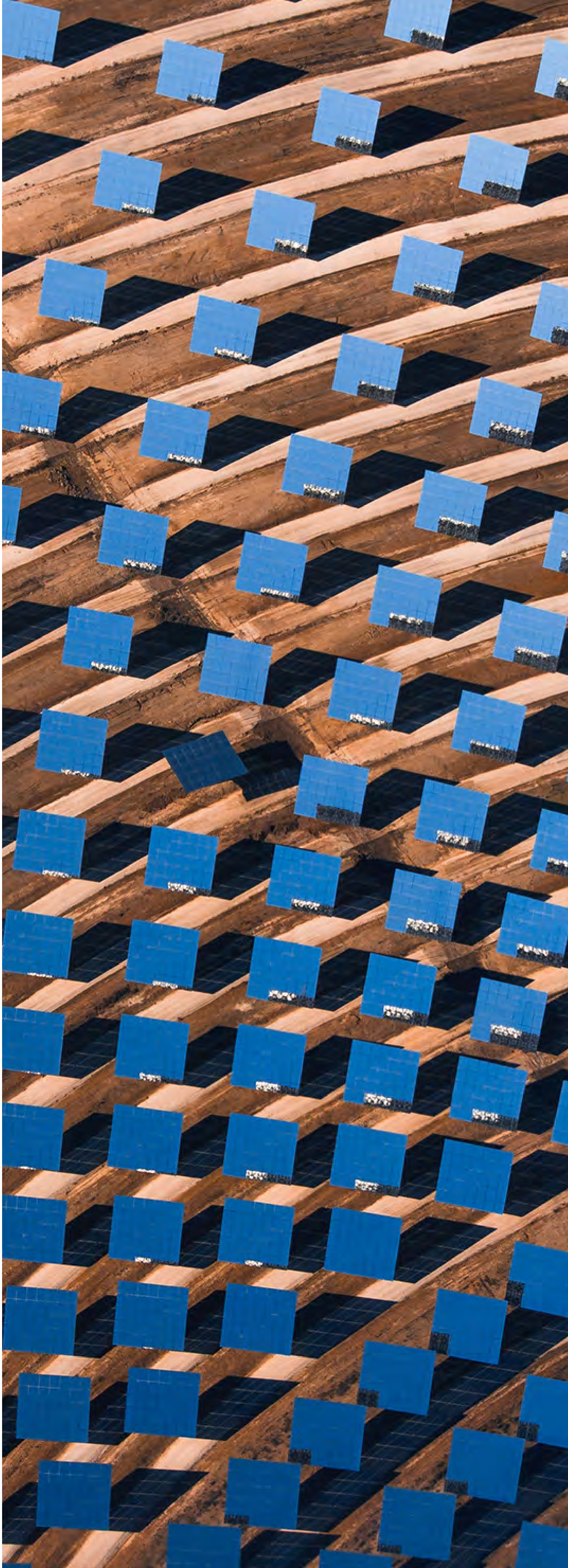
In 2023, we engaged twice with an American Utility company, knowns as one of the largest purchasers of renewable energy, as part of the PRI Advance program. The company has faced past project delays when solar panels failed certification under the ULFPLA. It's current supply contracts forbid sourcing from where legislation focuses its attention, and the company is assisting suppliers to diversify from high-risk regions. The goal remains onshoring or 'friend-shoring' their solar supply chain by 2024.

Disappointed by limited human rights disclosures despite the scale of the issue, we pressed for more detail around traceability and asked about indigenous community engagement and land rights regarding planned development and overall human rights efforts.

Acknowledging the feedback, the company explained new organisational partnerships to enable expanded disclosure. Since we last spoke, they had instituted a new, stricter, supplier code of conduct and hired a third-party auditor for supply chain and operational human rights reviews. On traceability they detailed supply chain monitoring while admitting upstream mapping difficulties and historical unreliable supplier information.

Regarding indigenous rights, the company confirmed dedicated personnel working with divisional departments to incorporate indigenous considerations.

The company has so far responded positively to our requests, and we plan to continue to collaborate together to enhance their disclosures and practices on human rights and our understanding of the challenges and opportunities they face. While complete transparency and origin level traceability are ideal for avoiding human rights violations this aspiration remains difficult to achieve due to limited upstream capacity and unreliable data.



Case Study 7

Similarly, in 2023, the team engaged with a European Utility company via the Advance program. The company has a highly ambitious transition plan that will see investments of €55 billion on green initiatives and a concurrent phase out of coal power by 2030.

The Advance group sent the company's CEO a letter outlining the engagement's proposed goals before meeting with Investor Relations and the head of Sustainability. We initially spoke about new supply chain laws, stakeholder engagement programs and their decentralised human rights framework. The company detailed internal auditing efforts and capacity additions to help address human rights issues and described their ongoing efforts to address forced labour accusations related to the solar supply chain by sourcing locally when possible.

We communicated gaps in the company's implementation of the UN Guiding Principles. We believe a key short term target for the company should be tied to increasing disclosure around these areas for improvement. Over the longer term we hope to see better supply chain risk mitigation for renewable technologies and salient human rights. We believe this can help cement the company as a responsible renewable operator.

Promisingly, the company recently published and will roll out a Community Engagement Policy. Additionally, ongoing human rights risk analysis will inform new targets and KPIs. We will monitor policy implementation going forward.

Engagement Theme:

Diverse & Inclusive Businesses

Making the Business Case for Diversity in Emerging Markets

We believe a company's ability to cultivate talent often determines its competitive advantage. In modern markets built on intangible assets like human capital, brand, and culture, ideas are key and diverse perspectives could help companies realise the full value of these assets.

This is an intentionally rather vague statement; we recognise social conditions vary considerably across countries, and contexts. We believe a business should adopt corporate policies around diversity, equality and inclusion (DEI) that fit their specific operating environments and a successful strategy may likely necessitate additional facilitative measures. For example, without structures enabling employee engagement, diverse insights may struggle to improve a company's absorptive capacity.

We believe enduring culture change requires buy in from top management. Demonstrating diversity at the highest levels of an organisation thus may bolster the credibility of a businesses' DEI strategy. When assessing diversity, the board is therefore a natural starting point. Additionally, when considering a board's diversity strategy, we believe it is important to consider factors like a business' domicile, market capitalisation, business model and overall strategy. Lastly, we believe it's helpful to consider what diversity dimensions the board itself prioritises and how those priorities cascade through the organisation to reflect the diversity of stakeholder groups.

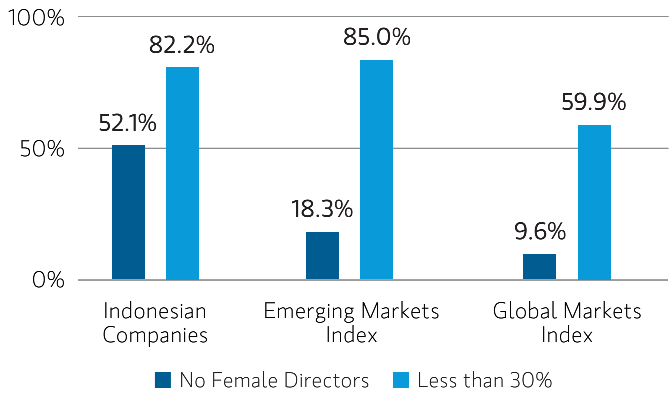
Given sustained global progress to expand the representation of women on corporate boards, the team will generally vote against board members deemed responsible for nominating directors where there is still no woman represented on the board. This is the team's baseline requirement.

The Asia-Pacific region stands out as a region that trails global peers on this metric. For example, as of January 2024, over 50% of MSCI ACWI IMI companies listed in Indonesia lack a single female director.[20]

Indeed, Indonesia, despite boasting Southeast Asia's largest economy has seen little rise in female workforce representation over the last decade. Notably, while by some estimates women-owned businesses make up between 40% and 60% of SMEs[21] and women are relatively well represented in many technical roles including finance, this rarely translates to women holding positions of power. **In 2023 we engaged with two Indonesian banks on this issue.**

DISPLAY 9

Indonesian Board Room Gender vs. Select Indices



Source: MSCI ESG Research. MSIM's PSG ESG Team.

We chose to engage with these two banks for a number of reasons:

- We believe, diverse opinions may provide valuable strategic insights in knowledge sectors which are more reliant on intangibles.
- Talent exists; in Indonesia, women are comparatively well represented in finance.
- The complexity of risks in banking operations necessitates strong governance.
- Diverse directors may identify business opportunities in Indonesia's distinct SME market.

[20] Source: MSCI ESG Research, MSIM's PSG ESG Team.

[21] Source: "Women-owned SMEs in Indonesia: A Golden Opportunity for Local Financial Institutions," World Bank, 2016.

Case Studies 8 & 9

Both banks align with global best practices on sustainability reporting guidelines including TCFD and SASB. Each was keen to demonstrate how they proactively work to address issues like sustainable palm oil and coal mining finance given their environmental risks. On palm oil in particular, the team was impressed that both banks adopted stringent requirements for certification to ensure sustainable production.

Through online banking both banks have expanded access across Indonesia's 17,000 islands providing essential services to underserved communities.

Company A shared its strategy of targeting underserved SMEs and explained how they manage the elevated credit risk that comes with this strategy. The bank believes funding these potential customers may bring long term growth as well as local economic benefits. Relatedly, the bank is Indonesia's largest microlender holding a 60% market share. The bank explained that this is a profitable business, but they don't expect to continue to grow in this area.

With regards to governance, we raised concerns around board independence, government golden share provisions and the lack of female directors on the board since a resignation two years ago. This lack of representation is despite the bank's gender parity throughout the organisation right up until senior levels, where representation is at about 30%. We questioned why the board felt this was an appropriate balance. The company will bring this concern to their board's ESG Committee.

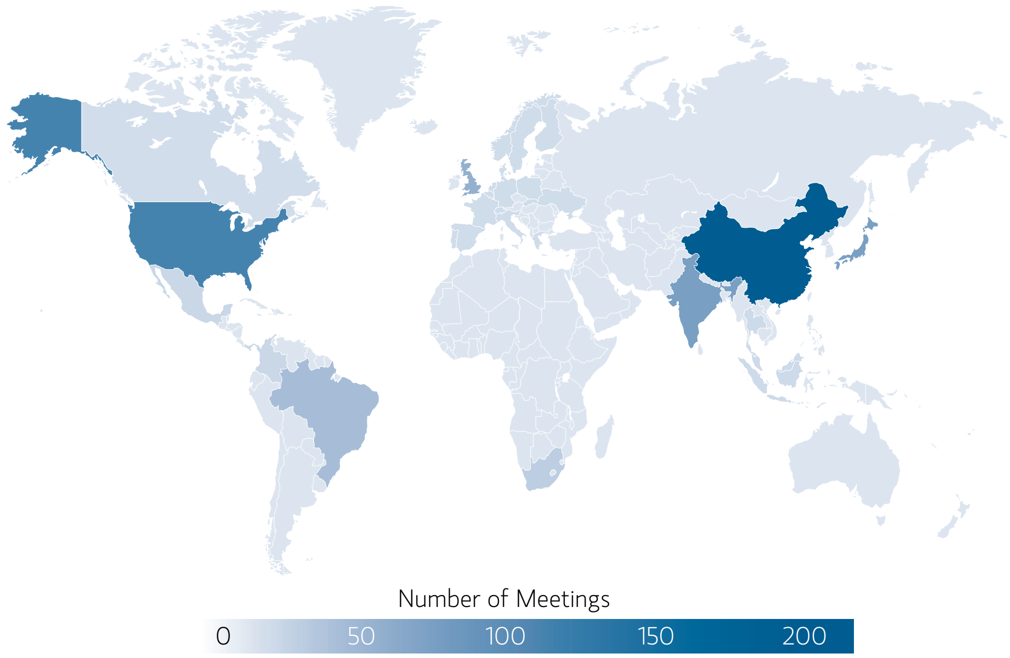
Company B also targets SMEs which combined with its green financing makes up 25% of their book. The bank also has a consumer-focused growth plan including a well-established digital platform which may help it reach underserved customers more efficiently. The bank has made empowering women entrepreneurs a component of its strategic plan and over 60% of the company's workforce are women. In our call, we questioned if an all-male board effectively reflect its stakeholders and strategic ambitions. The company cited the board's staggered term structure and difficulty in finding good cultural fit as key challenges to improving representation. We requested that the company reflect our concerns to the board.

Increasing diversity could potentially give both engaged banks a competitive advantage and help them target SMEs more effectively. Indeed, it has been alleged that gender specific factors affect female led SME's ability to access finance in Indonesia. For example, banks have reportedly used potentially biased lending practices that disadvantage women-owned businesses. A common requirement for loans is a husband or male relative co-signatory which may inhibit prospective female entrepreneurs or dissuade them from applying for credit.

Proxy Voting Stats 2023

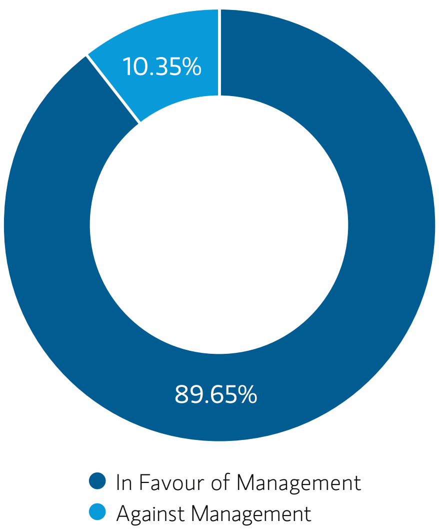
- We voted on 14,156 resolutions at 1,185 shareholder meetings.
- We voted Against or Abstained on at least one resolution at 51% of shareholder meetings.
- We voted Against Management approximately 10.4% of the time.
- We Voted Against 24% of Executive Remuneration resolutions.
- We voted For 58% of Shareholder Proposals related to ESG matters.

DISPLAY 10
Number of Meetings by Country



Source: MSIM's PSG ESG team, ISS Governance 2023.

DISPLAY 11
Proxy Voting Results



Source: MSIM's PSG ESG team, ISS Governance 2023.

DISPLAY 12
Proxy Voting Overview 2023

Number of Votable Meetings	**1,199**
Number of Voted Meetings	**1,185** (98.8% of all proposals)
Number of Votable Resolutions	**14,380**
Number of Voted Resolutions	**14,156** (98.4% of all proposals)

Source: MSIM's PSG ESG team, ISS Governance 2023.

Risk Considerations

There is no assurance that the Strategy will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by the portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing in this portfolio. Please be aware that this strategy may be subject to certain additional risks. There is the risk that the Adviser's **asset allocation methodology** and assumptions regarding the Underlying Portfolios may be incorrect in light of actual market conditions and the Portfolio may not achieve its investment objective. Share prices also tend to be volatile and there is a significant possibility of loss. The portfolio's investments in **commodity-linked notes** involve substantial risks, including risk of loss of a significant portion of their principal value. In addition to commodity risk, they may be subject to additional special risks, such as risk of loss of interest and principal, lack of secondary market and risk of greater volatility, that do not affect traditional equity and debt securities. **Currency fluctuations** could erase investment gains or add to investment losses. **Fixed-income securities** are subject to the ability of an issuer to make timely principal and interest payments (credit risk), changes in interest rates (interest-rate risk), the creditworthiness of the issuer and general market liquidity (market risk). In a rising interest-rate environment, bond prices may fall and may result in periods of volatility and increased portfolio redemptions. In a declining interest-rate environment, the portfolio may generate less income. **Longer-term securities** may be more sensitive to interest rate changes. **Equity and foreign securities** are generally more volatile than fixed income securities and are subject to currency, political, economic and market risks. Equity values fluctuate in response to activities specific to a company. Stocks of **small-capitalization companies** carry special risks, such as limited product lines, markets and financial resources, and greater market volatility than securities of larger, more established companies. The risks of investing in **emerging market countries** are greater than risks associated with investments in foreign developed markets. **Exchange traded funds (ETFs)** shares have many of the same risks as direct investments in common stocks or bonds and their market value will fluctuate as the value of the underlying index does. By investing in exchange traded funds ETFs and other **Investment Funds**, the portfolio absorbs both its own expenses and those of the ETFs and Investment Funds it invests in. Supply and demand for ETFs and Investment Funds may not be correlated to that of the underlying securities. **Derivative instruments** can be illiquid, may disproportionately increase losses and may have a potentially large negative impact on the portfolio's performance. A **currency forward** is a hedging tool that does not involve any upfront payment. The use of **leverage** may increase volatility in the Portfolio. **Diversification** does not protect you against a loss in a particular market; however, it allows you to spread that risk across various asset classes. **ESG** Strategies that incorporate impact investing and/or Environmental, Social and Governance (ESG) factors could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. As a result, there is no assurance ESG strategies could result in more favorable investment performance.

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