Morgan Stanley

INVESTMENT MANAGEMENT

2023 UK Stewardship Code Report

October 2023

From Our Leadership

Morgan Stanley Investment Management Ltd (MSIM Ltd) has been a signatory of the Stewardship Code since 2021 and continues to be a long-term supporter of its principles.

MSIM refers to the collective subsidiaries of Morgan Stanley in its Investment Management division. MSIM's stewardship activities are driven by our investment teams, who are guided by, and operate in accordance with, the broader stewardship, sustainability, risk management and operating framework that MSIM has established at an organisational level. We will continue to develop our approach in line with the evolving regulatory and industry landscape, as we believe it is fundamental to the long-term success of our organisation and our ability to deliver value for our clients.

MSIM recognises that the strength of our stewardship lies in the approach of our independent investment teams and asset class platforms. Our investment teams utilise their skill and judgment in assessing the materiality of Environmental, Social and Governance (ESG)-related risks and opportunities, where appropriate to their investment strategy, to deliver consistent performance for our clients over the long term.

In 2022/23 MSIM will continue to evolve our strategic vision:

- Established a new governance framework through the creation of a MSIM ESG Committee to facilitate and guide MSIM's support for the sustainable investment strategies of each investment business. The MSIM ESG Committee is co-chaired by the division's Co-Head and Chief Investment Officer of the Solutions and Multi-Asset Group and the division's Global Head of Risk and Analysis.
- As part of the MSIM's continued integration of Eaton Vance Management (EVM) and its affiliates, we have continued to look for opportunities to consolidate our stewardship approach. To that end, MSIM's Global Stewardship Team (GST) will take responsibility in 2024 for proxy voting on behalf of the EVM family of funds.

MSIM recognises the need to continue evolving and enhancing our approach to stewardship in the face of significant challenges, such as the continued impact of climate change and the increasing global scrutiny around investment strategies that incorporate ESG. Stewardship continues to be an ongoing journey, and we acknowledge that there is still much work to be done.

This report highlights how MSIM generally approaches and drives stewardship at both an organisational and investment team level, and our progress on that journey as we continue to integrate stewardship activities within our investment processes and workplace. It provides in-depth examples of how our investment teams aspire to act as good stewards of clients' capital. We are pleased to share our 2023 UK Stewardship Report and look forward to continuing to deliver this value to our clients in the remainder of 2023 and beyond.

Ruairi O'Healai

EMEA COO at Morgan Stanley Investment Management and CEO at Morgan Stanley Investment Management Ltd.

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Scope of Report

Morgan Stanley Investment Management (MSIM) refers to the investment management business segment of Morgan Stanley, a global financial services firm. MSIM is composed of a number wholly owned subsidiaries of Morgan Stanley, including Morgan Stanley Investment Management Limited (MSIM Ltd). MSIM Ltd is a private limited company established in England and Wales, authorised and regulated by the FCA to provide investment management and investment advisory services to clients.

This report sets out how MSIM generally approaches and drives stewardship at both an organisational and investment team levels. MSIM has a decentralised approach towards investment management, consisting of independent public and private markets investment teams and asset class platforms. Accordingly, reporting on each Principle in this Report has been limited to the most relevant investment team and may not be applicable to each investment team, strategy or asset class. Further, certain MSIM entities[1] including Calvert Research and Management, Parametric Portfolio Associates LLC, and Atlanta Capital Management Company, LLC, operate independently with regard to stewardship activities based on distinct proxy voting policies and engagement principles, and are not included within the scope of this report.[2] An overview of their respective approaches is provided in the Appendices. MSIM may also leverage or be a part of its parent company's policies and processes, therefore references to the "Firm" herein refer to Morgan Stanley.

This report relates to the reporting period of 1 July 2022 - 30 June 2023 only. The organisational structures, governance, policies and practices described in this report may evolve and change over time as MSIM continues to enhance its approach to stewardship and sustainability, as well as its control framework generally (having regard to considerations such as changing regulatory expectations, best practice, stewardship priorities and client feedback, among others).

[1] Morgan Stanley completed its acquisition of Eaton Vance Corp. and its affiliates on March 1, 2021.

[2] For the purposes of AUM consolidation, Eaton Vance AUM (including its four investment brands – EV Management, Calvert Research and Management, Parametric Portfolio Associates and Atlanta Capital) has been included within our asset class categories.

SECTION 1

Purpose and Governance

Principle 1

Purpose, Strategy and Culture

Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society

Overview

MSIM offers clients personalised investment solutions with $1.4 trillion[3] in assets under management (AUM). MSIM delivers innovative investment solutions across public and private markets worldwide. MSIM has been creating value for its clients for more than 45 years.

Comprising 1,248 investment professionals worldwide, and 54 offices in 25 countries (as of 30 June 2023), MSIM is able to provide in-depth local knowledge and expertise while channelling the strength of Morgan Stanley's global presence and resources.

MSIM has a decentralised approach towards investment management, consisting of independent public and private markets investment teams and asset class platforms. Each investment team has a distinct talent pool of experienced professionals, and dedicated resources focused on a specific investment discipline, including corresponding sustainability, stewardship and engagement approaches. A number of investment teams manage strategies that sit within the asset classes below.

Our Culture and Business Principles

Built on Morgan Stanley's core values—**Put Clients First, Do the Right Thing, Lead With Exceptional Ideas, Commit to Diversity and Inclusion, and Give Back**—the Firm's culture sets us apart. Over 82,000 dedicated colleagues globally embrace the Firm's core values to seek to deliver first-class service to its stakeholders and to the communities where its employees live and

FIGURE 1.1
MSIM Investment Capabilities

High-Conviction Equities
- International Equity
- Counterpoint Global
- Global Opportunity
- Emerging Markets Equity

Alternative Investments
- Private Credit and Equity
  - Private Market Solutions
  - European Private Credit
  - Capital Partners
  - Next Level Fund
- Morgan Stanley Real Assets
  - Private Global Real Assets group
    - Private Real Estate: Morgan Stanley Real Estate Investing
    - Private Infrastructure: Morgan Stanley Infrastructure Partners
    - Private Real Estate Credit
  - Global Listed Real Assets
    - Global Listed Real Estate
    - Global Listed Infrastructure

Fixed Income & Liquidity
- Agency MBS
- Broad Markets Fixed Income
- Emerging Markets
- Floating-Rate Loans
- High Yield
- Liquidity
- Municipals
- Securitized

Customised Solutions
- Global Balanced Risk Control

[3] Assets under management includes all discretionary and non-discretionary assets of MSIM and all advisory affiliates. MSIM Fund of Fund assets represent assets under management and assets under supervision. MSIM direct private investing assets represents the basis on which the firm earns management fees, not the market value of the assets owned. Alternatives Investments includes fee-earning assets under management, unfunded commitments, and fund leverage, representing the total investible capital for the platform.

work. Morgan Stanley operates globally, with offices in 41 countries around the world. Leadership, including Morgan Stanley's Board, sets the tone for the Firm, and the executive teams drive a culture that is central to how the Firm serves clients, how the Firm advances and develops its workforce, and how the Firm supports the communities around us.

The fair treatment of customers is central to the Firm Code of Conduct, which demands that we put clients first—that we act in our clients' best, long-term interests and build their trust while we build our franchise. Morgan Stanley maintains a Code of Conduct that is central to this programme. The Code of Conduct establishes standards of behaviour and ethical codes of conduct that all new hires, and employees annually, are required to certify that they understand and will follow.

Maintaining a strong employee culture is the focus of the Firm Culture, Values and Conduct Committee, which is made up of senior managers from across the Firm with oversight from its board of directors. Please see Principles 2, 5, 6, 7 and 9 in particular for details on how MSIM has embedded these core values in the resourcing of our stewardship function, our engagement priorities and actions during the reporting period.

We believe that a supportive and entrepreneurial environment, combined with the Firm's global resources, makes employment at MSIM an attractive long-term choice for our employees—which, ultimately, makes MSIM an attractive long-term choice for clients as well. MSIM provides support and mentoring for development through various means, including classroom and online training sessions, learning lunches with prominent internal and external business leaders, guest speaker presentations, networking, and diversity groups.

MSIM Investment Beliefs

Due to the nature of MSIM's independent investment teams, each investment team is responsible for determining its own investment philosophies and processes for managing client assets. We believe in individuality and encourage diverse investment opinions, hence our stewardship strategies and implementation are not homogenous. As noted previously, we believe that this approach drives better outcomes for our clients, as the investment teams directly responsible for managing their assets and strategies are able to set, follow and deliver on investment beliefs that are appropriately tailored to corresponding client interests, strategies and the capital they manage.

MSIM investment teams' beliefs are guided by the Firm's core values (as outlined above), as well as MSIM's clients' best interests and their stewardship needs (please see Principle 6). While our decentralised investment teams are responsible for determining their own investment philosophies and processes, they generally share certain overarching investment beliefs, including the following:

- Risks are necessary to achieve returns but must be appropriately managed, hedged or diversified
- Investing responsibly and engaging as long-term owners reduces risks and may positively impact returns over time
- Engagement is generally more effective in driving change and delivering better outcomes than divestment
- Collaboration, where appropriate and consistent with fiduciary duty, with targeted objectives is more impactful in delivering meaningful outcomes
- Thoughtful consideration of material ESG factors and risks (as appropriate to specific MSIM investment strategies and asset classes) is an important aspect of active investment management

FIGURE 1.2
MSIM Purpose Statement

Client-Centric	Innovative Investment Solutions	Commitment to Sustainability
Deliver long-term value for clients and shareholders	Creative and original solutions, through independent, unique investment teams	Expressed through: ■ Stewardship and engagement ■ Sustainable expertise in investment management ■ Sustainable investing solutions

Fulfilling our purpose and effectively addressing client needs

MSIM continues to focus on serving our clients' best interests, supported by our commitment to advancing our sustainable investment and stewardship practices, as well as our client offerings, reporting and disclosures to meet client needs and demands. Highlights from the reporting period and forward-looking intentions are outlined in the table below.

In assessing the effectiveness of how MSIM has served the best interests of our clients during the reporting period, we have taken into account inputs such as direct client feedback on our approach, the alignment of our stewardship and ESG priorities with client and investor priorities (based on client feedback), relevant regulatory reporting and disclosure requirements, and the scale and growth of our diverse investment platforms.

MSIM's Approach to Stewardship, Engagement and Sustainable Investing

MSIM's investment teams are responsible for developing their individual approaches to sustainable investing. However, MSIM investment teams are, guided by, and operate in accordance with, the broader stewardship, sustainability, risk management and operating framework that MSIM has established at an organisational level (in particular, MSIM's Sustainable Investing Policy).

MSIM believes that ESG factors can present investment risks and opportunities. Understanding and managing these risks and opportunities may therefore contribute to both risk mitigation and long-term investment returns. Engagement and stewardship are a key part of this. Investment teams engage with the assets or companies they own, seeking to deliver long-term value and align with our objective to be responsible stewards of our clients' capital.

The meaning/definition of sustainable investing can vary from investment team to investment team. MSIM is characterised by its global reach, experience, and reputation for providing customised solutions to clients. MSIM has a decentralised approach towards investment management, consisting of independent public and private markets investment teams and asset class platforms. This decentralised investment approach allows investment teams to tailor their approach to sustainability using multiple factors, including, but not limited to, the objectives of the product, asset class and investment time horizon, as well as the specific research and portfolio construction, philosophy and process used by each team. Investment teams deploy their skill and judgment in assessing the materiality of ESG-related risks and opportunities as appropriate for each investment strategy.[4]

We aim to create a culture that fosters independent thought, including diverse investment and innovation. This is

TABLE 1.1
Highlights of key achievements in 2023 and next steps

HIGHLIGHT AREA	ENHANCEMENTS DURING REPORTING PERIOD	NEXT STEPS AND FUTURE ASPIRATIONS
ESG Committee Formation	Established the MSIM ESG Committee (see Principle 2)	The MSIM ESG Committee will continue to provide oversight of MSIM ESG-related goals, strategy and regulatory risk, such as "greenwashing".
Engagement Approach	Updated MSIM's engagement themes to include Natural Capital & Biodiversity (see Principle 9)	MSIM Sustainability team to work alongside investment teams to empower them to develop this theme, (where appropriate) as part of their engagement processes and assessment of financial materiality.
Proxy Voting	Reviewed and updated language within MSIM's Equity Proxy Voting Policy and Procedures to highlight decision-making on the environmental and social shareholder proposals (see Principle 5)	Implement online voting disclosure to incorporate SEC's amendments to Form N-PX for 13F say-on-pay disclosure rule for US Securities.

[4] Some investment strategies may not consider ESG factors where it is not currently feasible or appropriate to do so, e.g., passive investment strategies, certain asset allocation strategies, or where requested by clients.

demonstrated by our investment offerings that range across various geographies, investment styles, asset classes and approaches to sustainability.

MSIM Investment Teams

Examples of MSIM investment teams' diverse beliefs and competitive edge, including their approaches to ESG integration, are set out below:

HIGH-CONVICTION EQUITIES

International Equity

The International Equity (IE) team's investment philosophy is to own high-quality companies with the potential to successfully compound over the long term. These companies compound by steadily growing while sustaining their high returns on operating capital. The team believes that understanding and addressing financially material long-term ESG risks and opportunities is important for successful long-term compounding.

The team uses a proprietary approach (described in more detail in Principle 4) to identify financially material ESG risks and opportunities and assess how companies manage them. This analysis is directly integrated within the investment process. As active owners, the team engages and votes to encourage the companies they own to address financially material issues that could affect long-term returns. They believe engagement should be treated as a marathon, not a sprint. Their long-term approach to engagement is aligned with their long-term approach to investing.

Counterpoint Global

The Counterpoint Global team's key investment belief continues to be that investing for the long term aligns with interests of long-term shareholders, which often means focusing on disruption and sustainability themes. Accordingly, the team takes a long-term oriented approach to investing, which focuses on identifying differentiated insights on multi-year opportunities.

Environmental awareness and social responsibility underpin this investment philosophy, and the team believes that innovative companies can use sustainability initiatives and programmes to differentiate their franchises in the marketplace. The team's Sustainability Researchers, together with Disruptive Change Researchers, Consilient Researchers and investors within the Counterpoint Global team that cover different companies, are responsible for sustainability research for respective investments. In this way, the team is able to leverage each member's expertise to identify opportunities and risks presented by environmental and social trends.

In addition to qualitative aspects of the team's sustainability research process, the team has built quantitative proprietary systems to evaluate sustainability factors, including, but not limited to, a system that compares the long-term orientation and the culture of adaptability of companies. For example, they designed a visualisation and ranking system to evaluate the duration of deferred compensation vesting schedules for the top five named executive officers at a given company. The team believes executive teams that are compensated for the long term will act in alignment with long-term shareholders, which often means operationally focusing on disruption and sustainability themes.

Global Opportunity

The Global Opportunity team believes that by applying a price discipline to investments in high-quality companies—e.g., companies the investment team considers demonstrate competitive advantages and long-term growth that creates value—it can best capture opportunities and manage risk for clients.

The team believes that strong stock selection is derived from long-term investments purchased at a large discount to intrinsic value. These long-term investments are best protected when they are sustainable with respect to disruption, financial strength and ESG externalities, and best enhanced when the underlying company has strong competitive advantages and growth that creates value.

The Global Opportunity team's stock selection focuses on finding high-quality companies, developing insights around competitive advantage and uniqueness that can make them successful over time, and having the perspective to hold them when there are short-term disruptions, as long as those disruptions do not affect the thesis, which it believes will deliver outperformance over the next three to five years. Furthermore, concentrating the portfolio in the best ideas while maintaining reasonable diversification is a way to maximise the reward while reducing the risk of unknown variables.

Each Global Opportunity team investor is responsible for integrating ESG by applying the Health, Environment, Liberty and Productivity (HELP) and Agency, Culture and Trust (ACT) framework within their quality assessment, proxy voting and engaging with portfolio companies. The team's investors primarily source information from discussions with company management and public disclosures, supplemented by various research resources.

Emerging Markets Equity

The Emerging Markets Equity (EME) team manages multiple equity investment strategies with distinct investment philosophies and processes, and a range of ESG and sustainability integration.

Overall, the team's investors seek company management teams in quality businesses that understand long-term environmental, social and governmental trends, and can integrate these considerations into their strategies. When the EME team evaluates companies, their investors place a great deal of emphasis on the quality of leadership and sustainable drivers of growth.

The EME team's global investment platform has a dedicated Sustainability Research team that supports the investment teams with data, monitoring and engagements. Sustainable mandates rely on this information and data, while other strategies utilise it as a resource.

For strategies with sustainable commitments, investors evaluate sustainability and ESG risks through direct company engagement, company reported data and third-party data. The team focuses on transparency and reporting, the identification and analysis of material factors, and the demonstration of progress on ESG factors.

FIXED INCOME & LIQUIDITY

Fixed Income

The Fixed Income organisation is a global platform with investment capabilities spanning the full spectrum of active fixed income, managing a total of US$185 billion of assets (as of June 30, 2023). It is composed of seven highly specialised investment teams, centred around a collaborative culture: Agency MBS, Broad Markets Fixed Income (covering Investment-Grade Corporate and Multi-Sector investments), Emerging Markets, Floating-Rate Loans, High Yield, Municipals and Securitized.

Each of the seven Fixed Income investment teams is research-focused and dedicated to uncovering value for clients. The autonomy and specialisation of each team enable them to leverage their unique capabilities, while the collaborative culture allows for the cross-pollination of market views. Starting from these shared values, each investment team within the platform operates based on their investment beliefs and approaches.

The Fixed Income organisation partners with Calvert Research and Management ("Calvert"), MSIM's specialised responsible investment affiliate, to integrate the proprietary research conducted by ESG analysts in the investment process. Fixed Income portfolio managers and fundamental research analysts have access to the full breadth of research produced by Calvert, at the sector level, issuer level, and, where applicable, at the security level. This process supplements traditional credit analysis by providing additional, more granular, insights into material ESG risks to be integrated in the investment process. The outputs of in-house ESG research, in the form of ESG scores, sector, issuer and security evaluations, are used as inputs both before making investments and then updated regularly to aid with the monitoring of ESG credentials of portfolio holdings.

The Fixed Income organisation conducts engagement meetings with bond issuers as part of its regular course of business, as well as in a more targeted manner in relation to specific ESG issues. Engagement, on one hand, supplements desk research with additional insights directly from investee entities' management and representatives, and, on the other hand, aims at encouraging improvements in sustainability practices across the fixed income market. In 2022-23, the Fixed Income organisation joined a number of external collaborative engagement initiatives, led by the PRI. Please refer to Principle 9 for more details on engagement.

The Calvert Fixed Income ESG Strategy and Research team is a dedicated resource working alongside the Fixed Income investment teams in integrating Calvert's research and expanding its coverage within fixed income asset classes, engaging with bond issuers, and developing new ESG frameworks and models. The team also supports the monitoring of portfolios and the development of analytics and reporting tools, collaborating with ESG data and technology experts across MSIM and Calvert.

Liquidity

The Liquidity team manages c.US$350 billion of assets (as of June 30, 2023), and takes a conservative investment approach, balancing the desire for capital preservation with attractive levels of income, allowing investors to realise an efficient cash investment portfolio. This approach involves active management of interest rate risk and opportunistic, but defensive, portfolio management strategy and structure. The team's liquidity solutions are underpinned by a rigorous and independent credit and risk process, focusing on high levels of weekly liquidity and structuring portfolios to minimise interest rate risk that could arise from future interest rate movements. As a result of this, the Liquidity team has a short-term investment horizon of around one year. The focus on capital preservation is implemented through a rigorous approach to managing and mitigating headline and tail risk, which includes sustainability-related risks, and which therefore may imply that the Liquidity team may not invest in certain sectors.

The Liquidity team works closely with the Fixed Income organisation. In particular, the Liquidity team relies on the research conducted by analysts on the Broad Markets Fixed Income investment team and shares the ESG data and resources available to them. In Q2 2023, the Liquidity team also started to integrate Calvert's proprietary ESG research into their investment process, replacing their previous approach to ESG integration, which was largely based on third-party data.

Unless stated otherwise, the processes and activities described in this report for Fixed Income's credit and ESG research apply, where relevant, in terms of the investment universe in scope, to the Liquidity team.

ALTERNATIVE INVESTMENTS

Private Credit and Equity

The Private Credit and Equity (PC&E) business focuses on providing private capital predominantly to middle-market companies. Equity strategies include:

- Majority control of mature companies (Cap Partners, Energy Partners)
- Minority non-control growth/venture investments (1GT, Expansion Equity, PE Asia, Next Level)
- Non-control equity co-investments and fund of funds (PECO, PMF) and
- GP-led transformational secondaries (Ashbridge)

Debt strategies include:

- First-lien, second-lien, mezzanine and uni-tranche loans to sponsor-backed and non-sponsor-backed companies (NA/EU Direct Lending, Credit Partners)
- An opportunistic strategy with a flexible mandate investing in structured debt, asset-backed loans and preferred equity (Tactical Value)
- Growth credit (Expansion Credit)

In general, PC&E's investment philosophy is to make investments in high-quality businesses that are leading players in their industries and have significant growth potential. The team believes in the value of working with founders and management teams that are looking to grow to the next level of size and sophistication.

A key investment belief across the PC&E teams' strategies is that ESG risks and opportunities should be considered throughout the investment life cycle starting from the investment due diligence phase, where investment teams seek to identify ESG risks and value drivers, and continuing through to the post-investment phase, where investment teams seek to partner with investees to maximise ESG opportunities and value drivers where possible. Given the range of private equity and credit products on the platform, the varying levels of control, and different industries and sectors of focus, teams take a tailored approach in considering ESG factors during the investment and ongoing monitoring process. The varying ways in which strategies consider ESG are illustrated in the examples below.

Private Equity Solutions: The Private Equity Solutions team manages an Impact Investing platform that was launched in 2014 in partnership with the Morgan Stanley Institute for Sustainable Investing. The platform seeks to drive positive social and environmental impact by providing access to a diversified portfolio of private equity investments and innovative client solutions within less efficient areas of the private markets, which, because of size, complexity or time-sensitive nature, may be overlooked or avoided by other market participants.

Capital Partners: The Morgan Stanley Capital Partners (MSCP) team makes control investments in middle-market companies across consumer services, business and industrials services, and health care sectors, and partners with portfolio company management teams to drive value creation and growth supported by a comprehensive operational approach. ESG risks and opportunities are integrated as appropriate into the Value Creation Plans for each company, leadership responsibility is assigned to a member of the company's executive leadership team to champion ESG activities, and relevant metrics and KPIs are periodically reviewed during portfolio company board meetings.

European Private Credit: The European Private Credit team has an investment philosophy underwritten by a strong conviction that the ESG characteristics of a potential investment are essential to the credit process. The strategy integrates ESG considerations into the investment process throughout the life cycle, including the use of ESG-linked margin ratchets for borrowers where suitable.

MORGAN STANLEY REAL ASSETS

Morgan Stanley Real Assets (MSRA) is the global real assets investment management arm of Morgan Stanley. MSRA comprises five investment teams focused on real estate and infrastructure equity and credit strategies, both private and listed.

Private Real Estate: Morgan Stanley Real Estate Investing (MSRE) has been one of the most active property investors in the world for three decades, employing a patient and disciplined approach through global value-add/opportunistic and regional core real estate investment strategies in the US, Europe and Asia.

MSREI believes that appropriately evaluating and integrating ESG factors in the investment process may contribute to better risk mitigation and long-term investment returns. MSREI manages assets within its funds with the goal of enhancing value and reducing environmental impact. Therefore, the team endeavours to optimise the value of its funds while making decisions and investments that can have positive impacts for communities, businesses, governments and the environment. Select MSREI funds have set 2050 net-zero aspirations and interim Scope 1 and 2 carbon-reduction targets.

Private Infrastructure: Morgan Stanley Infrastructure Partners (MSIP) is a global leader in private infrastructure equity investing, targeting assets that provide essential public goods and services primarily located in OECD countries, with the potential for value creation through active management.

MSIP believes that ESG integration throughout MSIP's investment life cycle reduces long-term investment risk and increases the attractiveness of its portfolio companies. The MSIP investment teams believe in employing sustainability through an approach that calls for active management of ESG considerations throughout the investment life cycle for each asset. These considerations are incorporated into due diligence, acquisition and post-close strategies, where applicable, as well as monitoring and improvement. MSIP also seeks to support portfolio companies in their preparation for exit.

Private Real Estate Credit: With teams in both the US and Europe, the Private Real Estate Credit teams are leading real estate debt fund managers and portfolio lenders. The teams strive to identify ESG risks and opportunities throughout the investment life cycle of each loan, where feasible. This is essential to reduce financial, regulatory and reputational risk. ESG factors may be considered at each stage of the investment process, including due diligence, investment decision and asset management, where possible. As a private real estate credit lender, teams are limited in ability to apply ESG practices across their investments (in contrast to that of the borrower/owner of the underlying real estate).

GLOBAL LISTED REAL ASSETS

The Global Listed Real Assets business comprises Global Listed Real Estate and Global Listed Infrastructure.

Global Listed Real Estate: The team's investment process utilises internal proprietary research to invest in public real estate companies the team believes offer the best value relative to the companies' underlying assets and earnings. Strategies combine a bottom-up approach, assessing the intrinsic value, equity multiples and growth prospects of each security, with top-down considerations that seek exposure across regions, countries and/or sectors, and integrate forecasted fundamental inflections, macroeconomic considerations, geopolitical and country risk assessments, among other factors. Analysts assess real estate specific factors, broader equity factors, as well as ESG factors, in their fundamental bottom-up analysis. These factors are synthesised into valuation models to arrive at an NAV, and equity multiple and forward growth rate for each issuer.

The team undertakes a mosaic approach to sustainability research, using both quantitative and qualitative data from multiple sources. The team's internal research complements and enhances data from company sustainability reports and third-party providers. The proprietary research process ranks the relative strengths and weaknesses of each company in the investment universe on ESG factors. The team then adjusts valuations to account for these ESG risks and opportunities, and the impact they may have on a company's net asset value and cash flow forecasts in both the near and intermediate term; ultimately, the team seeks to identify the real estate securities with the best total expected returns for clients, inclusive of adjustments for ESG risks and opportunities.

Global Listed Infrastructure: The team implements a value-oriented, bottom-up-driven investment process focused on obtaining infrastructure exposure at the most attractive relative valuations and has regard for ESG issues. The team's fundamental analysis includes review of public filings, with consideration of financial strength and prospects, strategy, market potential, risks and liabilities, management quality, corporate governance, and ESG-specific considerations.

The team's investment perspective is that over the medium and long term, the key factor in determining the performance of infrastructure securities will be underlying infrastructure values. In aiming to achieve core infrastructure exposure in a cost-effective manner, the team invests in equity securities of publicly listed infrastructure companies it believes offer the best value relative to underlying infrastructure value. Key considerations in constructing and managing the portfolio include valuation of the underlying portfolio holdings, diversification and liquidity.

On the ESG side, the team has specific areas of engagement that help to make investment decisions. On Environmental, the team looks at emissions, resource intensity, energy efficiency and environmental regulations; on Social, at labour conditions, community impact, supply chain management, access to health care, and product safety; on Governance, at quality of management, governance and regulatory risks, minority shareholder alignment, business ethics and ownership.

CUSTOM SOLUTIONS

The Custom Solutions group comprises a number of investment teams, including Global Balanced Risk Control, who provide customised investment strategies to meet their clients' needs.

GLOBAL BALANCED RISK CONTROL (GBaR)

The GBaR team's strategy follows a top-down global asset allocation approach, managed within a clearly defined, risk-controlled framework. The team seeks not only to participate in rising markets, but also to mitigate the downside in more volatile markets. The team believes a well-diversified global portfolio—investing across equities, fixed income commodity-linked instruments and cash, and focused on systematic risks that the team expects to be rewarded—is the most suitable method to achieve positive long-term risk-adjusted financial returns for their clients.

The team's stewardship approach is backed by the same intensive top-down analysis of global risk that characterises their asset allocation strategy. This, in turn, is complemented with focused, in-depth bottom-up ESG research on select investee companies. The team believes this is the ideal approach for the strategy, as researching risks to the global economy and global markets is central to their asset allocation process. Sustainability concerns such as climate change definitively fall into the team's definition of potential "risk events." Their approach therefore ensures that stewardship is a natural extension of the team's philosophy around risk control.

Principle 2

Governance, Resources and Incentives

Signatories' governance, resources and incentives support stewardship

Governance Structures and Processes

During 2023 as set out below, MSIM has made (or is in the process of implementing) certain key enhancements in its resourcing of stewardship activities oversight and assurance framework to further strengthen governance in this area.

MSIM's governance approach reflects business structure as the investment management division of a global financial services firm, which comprises multiple legal entities in different jurisdictions, with respective boards of directors and governance structures, that leverage MSIM's processes relating to investment and climate risk management. MSIM Ltd is an appointed investment manager within the EMEA region with several committees and teams across the MSIM division supporting its board in performing its responsibility for establishing appropriate governance systems.

MSIM has established governance systems, risk management and controls to support its advisors with effective management of sustainability issues as outlined in the Key Division-wide ESG-Specific Groups (see *Figure 2.2*).

BOARD REVIEW

This report has been reviewed and approved by the board of directors (the "Board") of MSIM Ltd and signed by Ruairi O'Healai, Chief Executive Officer of MSIM Ltd and EMEA Chief Operating Officer of MSIM. The Board is composed of seven members. The Chair of the Board is an Independent Non-Executive Director; there are four Executive Directors (including the CEO) and three Non-Executive Directors.

The Board receives updates periodically at its Board meetings from the central MSIM Sustainability team and other functional stakeholders on ESG/sustainability-related regulatory, business, product and strategic initiatives, including developments in the UK Financial Reporting Council's (FRC) stewardship and reporting requirements, internal progress on the UK Stewardship Code report, and ongoing stewardship activities.

MSIM'S SUSTAINABILITY GOVERNANCE STRUCTURE

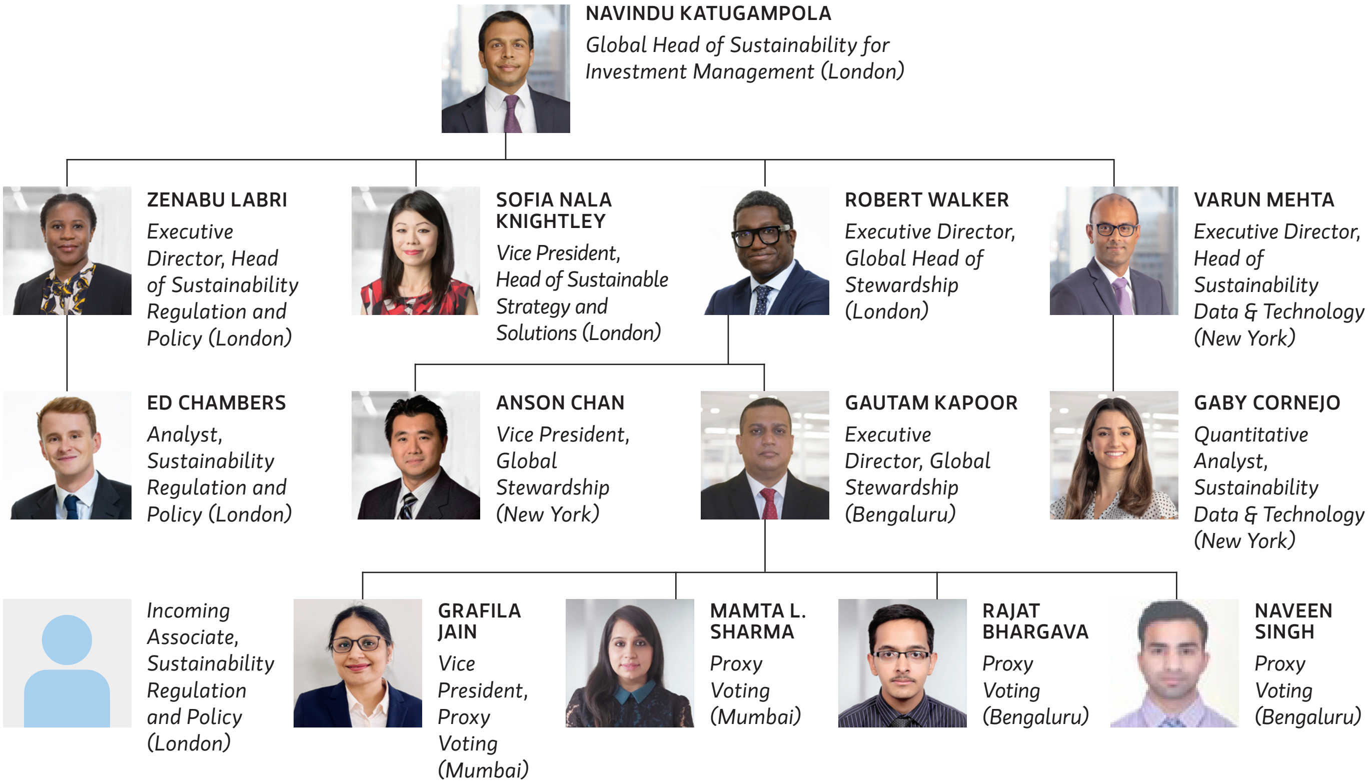
We continue to view effective management of stewardship and sustainability issues as an important component of our business strategy and continue to evolve our philosophy as we believe it is fundamental to the long-term success of our organisation and our ability to deliver value for our clients. We believe that a successful stewardship framework requires committed leadership, a clear strategy, and appropriate checks and balances to ensure overall accountability and transparency. To that end, we have established governance systems, risk management and controls to support our stewardship and sustainability agenda, outlined in our Key Division-wide ESG-Specific Groups (*Figure 2.2*) below.

MSIM GLOBAL HEAD OF SUSTAINABILITY

The Global Head of Sustainability for Investment Management leads MSIM's sustainability strategy and governance, and the centralised Sustainability team (please see *Figure 2.2* below, under MSIM Sustainability Expertise) that supports MSIM's global investment teams. The MSIM Global Head of Sustainability has 19 years of industry experience and was previously the Head of Green and Sustainability Bond Origination for Morgan Stanley's Global Capital Markets group.

FIGURE 2.1

MSIM Sustainability Expertise



MSIM Sustainability Team Chart, as of July 2023, including incoming Associate, Sustainability Regulation and Policy

MSIM SUSTAINABILITY TEAM

Led by MSIM's Global Head of Sustainability, the MSIM Sustainability team supports MSIM's collective sustainable-related processes and governance. The MSIM Sustainability team works with the sustainability leads from our investment teams to coordinate global sustainable investing and stewardship initiatives. These activities include supporting investment teams in relation to sustainability-related reporting and regulatory disclosure requirements, incorporating ESG considerations into their investment approaches, developing sustainable products and supporting sustainability data utilization, development of tools, and sustainability research, as appropriate.

MSIM's Global Stewardship function, as part of the MSIM Sustainability team, supports and helps investment teams coordinate MSIM proxy voting and investee engagement activities.

Four verticals enhance the team's centralised function across MSIM by providing:

- Efficient coordination of specific sustainability issues, functions and tools that have utility across MSIM
- Sustainability expertise that seeks to ensure quality, consistency and integrity across asset classes and products, supporting investment teams in achieving their objectives
- Collaboration across Morgan Stanley businesses to leverage internal synergies, delivering the best of the combined Firm into MSIM and
- Further support to MSIM-level reporting, policies and communications

MSIM's Sustainability Team is split into four verticals:

1. *Head of Sustainability Regulation and Policy* – leads projects to support MSIM's work in this area, including implementing key regulatory and industry ESG frameworks, representing MSIM in ESG-focused industry forums, and developing MSIM's approach to key sustainability themes.
2. *Head of Sustainability Strategy and Solutions* – focuses on strategic implementation, regulatory and product-related sustainability initiatives, including new products and existing strategies, supporting investment teams on product positioning, ESG labels, developing frameworks and content generation.

3. *Head of Global Stewardship* – leads MSIM's Stewardship team (further details provided later in this section), oversees MSIM's proxy voting and stewardship-related activities, supporting investment teams. Responsibilities also include corporate governance research and analysis, and monitoring and developing MSIM stewardship strategies.
4. *Head of Sustainability Data and Technology* – leads sustainability data due diligence and selection, quantitative analysis of portfolios and technology innovation to address use case in research, portfolio construction, and regulatory and client reporting. The Head of Sustainability Data and Technology also chairs the Sustainability Tech and Data Oversight Council.

The MSIM Sustainability Team (including the Global Stewardship Team) is overseen by the MSIM ESG Committee.

How Our Governance Structure Promotes Effective Oversight and Accountability of Stewardship

Enhancements made to our governance structure this year have been in response to our regular assessment of stewardship and sustainable investing capabilities and needs, resources and alignment with our products, and commitments to clients, taking into account regulatory requirements and market developments. In this regard, we have also taken steps to ensure that stewardship activities and corresponding governance and oversight are appropriately resourced at different levels in terms of head count and seniority.

- Investment Teams: It is the MSIM investment teams' responsibility to define their approach to consideration of ESG factors. Many of MSIM's investment teams or asset class platforms have appointed at least one dedicated Sustainable Investing/ESG specialist to coordinate and support the sustainable investing approaches for the relevant teams' work. A key responsibility of these specialists is to work with their respective investment teams to help encourage incorporation of ESG factors where relevant, in line with each team's investment philosophy and strategy. Other elements of the role may include supporting investment staff to enhance incorporation of ESG factors in investment processes through research, training, knowledge-sharing, engagement with companies, and representing their asset class/team in relevant ESG-related forums and groups as necessary.
- MSIM Sustainability Team and MSIM ESG Committee: The MSIM Sustainability team (including our Stewardship team) is led by the MSIM Global Head of Sustainability, and overseen by the MSIM ESG Committee (the "Committee").
- Sustainability Oversight and Accountability: The below provides an overview of the management-level committees, working groups and teams that have responsibility for overseeing and monitoring broader ESG- and climate-related issues.

FIGURE 2.2
MSIM Key Division-wide ESG-Specific Groups Summary

MSIM ESG Committee	Key topics overseen by this Committee include: ESG-related goals, ESG-related product development and marketing frameworks, MSIM's investment teams' ESG-related engagement programme, ESG-related training, and ESG-related technology and data initiatives. The Committee is co-chaired by the MSIM Co-Head and Chief Investment Officer of the Solutions and Multi-Asset Group and MSIM's Global Head of Risk and Analysis. Key members include MSIM's Head of Sustainability and MSIM's Chief Operating Officer, as well as senior members of Risk, Legal and Compliance divisions. The Committee consists of senior representatives from MSIM's Sustainability team, Office of the Chief Operating Officer, and other advisory and related functions who oversee and guide MSIM's support for the sustainable investment strategies of each investment business.
Sustainability Tech and Data Council	Supports business and client needs for ESG data governance and technological controls, and advises on high-level ESG data and tech operational priorities, including selection and sourcing of third-party ESG data; ESG data governance framework; promoting continued innovation of ESG data and applications. Key members include Head of Data and Analytics MSIM, Heads of Operations and Technology.
EMEA ESG Regulatory Steerco	Oversees implementation of EMEA ESG regulations and responses to EMEA ESG-related supervisory exams, regulatory, audit or testing findings. Key members include MSIM's Head of Sustainability, EMEA Chief Operating Officer, as well as senior members of EMEA Risk, Legal and Compliance divisions.
Proxy Review Committee	Oversees implementation and coordination of MSIM's proxy voting policy. The Committee consists of investment professionals who represent the different investment disciplines and geographic locations of MSIM, and is chaired by the Head of the Global Stewardship Team.
Sustainability Team Leads Call	Forum for consultation and coordination amongst investment teams on substantive ESG matters. Chaired by Head of Sustainability Strategy and Solutions, and dedicated Sustainable Investing/ESG research specialists in each investment team are invited.

FIGURE 2.3

MSIM Three Lines of Defence

EXAMPLES OF MSIM'S GOVERNANCE AND CONTROLS IN PRACTICE

1. *ESG Checklist:* MSIM's internal ESG Checklist, is part of the new product development and review process. The Checklist documents the proposed new product's ESG characteristics/objectives and methodologies used to attain these characteristics/objectives. It also covers existing products that seek to revise ESG characteristics/objectives and methodologies. This Checklist is owned by the MSIM Sustainability team and has been further expanded, requiring investment teams to document specifically how their proposed or revised ESG characteristics/objectives/methodologies align with relevant regulatory classifications and requirements, e.g., the Sustainable Finance Disclosure Regulation (SFDR) (EU 2019/2088) and, where relevant, the rationale for any regulatory classification conversions.
2. *Pathway for Internal Review of MSIM ESG-Related Proposals:* To provide increased governance over our non-product ESG commitments, we have established an internal process to review certain regulatory consultation responses and other industry-related proposals from an MSIM and/or investment team perspective.
3. *Three Lines of Defence:* MSIM operates a 'three lines of defence' model to provide independent, objective and timely assurance about the effectiveness of the Firm's risk, governance and internal controls. In 2023, MSIM has continued to enhance the three-lines-of-defence model to update responsibilities across functions involved in supporting, controlling and overseeing ESG investing activities, as well as updating MSIM's overarching ESG governance framework under the ESG Committee.

MSIM's Focus on Diversity and Inclusion

In addition to the MSIM Diversity Council, MSIM EMEA has a dedicated D&I committee—the Diversity Focus Committee (DFC). The DFC works on diversity and inclusion efforts in MSIM EMEA. Structured across four streams: Reach, Retain, Recruit and Relay, the DFC is underpinned by the themes of allyship and inclusion to create initiatives focussing on different diversity dimensions: race and ethnicity, gender, LGBTQ+, and socioeconomic diversity and inclusion.

In 2023, the DFC has been running over 10 initiatives across its four workstreams, some of which are detailed below:

- *VP Voices:* bringing together the MSIM EMEA Vice President (VP) cohort through networking, buddy groups, internal events and skills training to increase visibility and connectivity across teams and geographies. This initiative is VP-led to empower and engage the cohort to elevate their own career paths with the support of HR and senior sponsorship.
- *4Ps Programme:* a multiyear programme engaging senior managers to support female VPs in creating individual developmental plans and share best practices, and in so doing, increase the VPs' visibility. Action plans are discussed at a biannual roundtable comprising senior stakeholders to uncover further ideas. The purpose of this is to increase senior stakeholder involvement in female VPs' careers, in order to increase inclusion and retention of diverse talent.
- *Mentoring Programme:* a nine-month programme that pairs approximately 20 diverse Executive Directors and Vice Presidents with senior mentors to support personal progress, career development and grow participants' network.
- *DFC Roadshows:* informative sessions about the 'what, who and how' of the DFC to target groups to increase engagement with diversity-related activities in MSIM EMEA.

Examples of engagement and collaboration with external industry organisations to further our commitment to Diversity and Inclusion can also be found in Principle 10.

Resourcing Stewardship Activities: Investment in Systems, Processes, Research and Analysis

In addition to the governance structure, processes and resources we have outlined earlier in this Principle, we continue to build upon our existing systems (where appropriate and feasible) to support our stewardship activities.

Furthermore, many of MSIM's investment teams or asset class platforms have appointed at least one dedicated Sustainable Investing/ESG research specialist to coordinate and support the sustainable investing approaches for the relevant team (please see Principle 1 for further details with respect to specific investment teams). MSIM believes that this model helps drive accountability for stewardship and ESG integration at the investment team level, and ensures that each investment team is appropriately resourced and equipped to further its stewardship priorities and efforts, in a manner that it considers would best serve its clients' interests.

The decision to introduce additional sustainability expertise and coverage is taken at the individual investment team level as appropriate, as part of headcount management. As a Firm, we feel that sufficient staffing and a robust infrastructure are the most important factors in maintaining our ability to provide excellent investment results and service to our clients. MSIM is fully committed to hiring the best people, not only with regard to sustainability and portfolio management, but also in all the trading, client servicing, risk management, compliance and operational services that accompany it. Please see below and Principle 7 for specific investment team examples within the reporting period.

A key responsibility of these specialists is to work with their respective investment teams to help encourage incorporation of ESG factors where relevant, in line with each team's investment philosophy and strategy. These specialists may support the investment staff in such incorporation of ESG factors in the investment processes through research, training, knowledge-sharing, engagement with companies, and representing their asset class/team in relevant ESG-related forums and groups as necessary.

STEWARDSHIP RESOURCES

1. **MSIM'S GLOBAL STEWARDSHIP TEAM**

   The MSIM Global Stewardship Team (the "Global Stewardship Team") co-ordinates MSIM's stewardship and investee engagement agenda and activities alongside our investment teams, with help from our proxy advisors (please see Principle 8 for further details). The Global Stewardship Team (GST) is responsible for ensuring shareholder meetings are voted and supporting investment teams to vote in the best interest of the client, consistently applying the MSIM Proxy Voting Policy and Procedures. Prior to engagement, investment teams may work closely with the MSIM Global Stewardship Team to assist in structuring engagement dialogues. The majority of engagements led by the Global Stewardship Team focus on shareholder meetings.

   During 2023, the Global Stewardship Team began to conduct annual updates in Q1 of each year, as opposed to Q3, to ensure the MSIM proxy voting policy is updated ahead of each proxy season. Please see Principle 5 for further details. In addition, the GST team also hired an additional analyst focused on ESG to provide greater support to MSIM's Stewardship team in Mumbai. The team also initiated discussions to gain a better understanding on potential options of combining internal voting platforms and, as a next step, has commenced work on onboarding EVM's voting process onto MSIM internal voting platform, Provosys, in the short term. This will enable us to reduce dependence on third-party solutions and provide in-house support to our investment teams and clients. We will report on our progress in our 2024 report.

2. **ENGAGEMENT TRACKING**

   The majority of MSIM engagements are tracked at the investment team level. Investment teams may utilise various systems to assist with tracking, such as Provosys and Aladdin Research. Through tracking engagements, investment teams are able to evaluate the success and progress of their interactions, in addition to identifying areas for further engagement or escalation, consequently pushing for better sustainability outcomes.

   Examples of fields tracked in engagement systems include: geography; issuer type; sector; engagement theme and summary; whether it was a satisfactory engagement; outcome of engagement on investment strategy and type of sustainable bond (for Fixed Income only).

   In 2023, we established an engagement leads call, comprising investment teams and others from MSIM and its affiliates. The objective of the call is to discuss and share best practices regarding engagement practices utilised by MSIM investment teams.

3. **INTERNAL VOTING PLATFORM**

   MSIM's internal voting platform notifies portfolio managers when there is a meeting for one of their holdings, and they are given the opportunity to input on the Global Stewardship team's analysis and voting recommendations prior to finalising the investment team's voting decision. This interactive process facilitates ongoing discussion between the Global Stewardship Team and portfolio teams about a holding's material ESG and related stewardship issues. The platform also enables a semiautomated control process to ensure eligible holdings are voted at shareholder meetings.

ESG DATA AND TECHNOLOGY RESOURCES

Investment teams may supplement proprietary ESG research and analysis with third-party ESG data. ESG data is utilised in various ways; for example, some investment teams use it to inform their own fundamental research, while other teams integrate third-party data into proprietary models and scoring frameworks.

Third-party ESG data providers are generally selected based on how effectively they will meet our stewardship needs, and particularly on the depth and breadth of coverage required for regulatory reporting and disclosures. For example, when evaluating an ESG data provider, we take into consideration the applicability of the data of a particular topic (e.g., climate, biodiversity) and use case (e.g., research, reporting), breadth of coverage, robustness of the vendor's methodology and feasibility of implementation.

Once sourced and onboarded, MSIM's investment teams can use this data as required to support ESG integration and client reporting. Driven by strong internal demands, increased volume of client interests and changing regulations, MSIM has been further enhancing its ESG analytics dashboards this year to enable investment teams to view ex-post portfolio exposure to a broad spectrum of ESG metrics, in areas such as climate, screening and controversies, corporate ESG ratings and sustainable revenues.

For more information on how individual investment teams incorporate third-party ESG data into their investment process, please see Principle 7. For more information on how we monitor our service providers, and activities and progress during the reporting year, please refer to Principle 8.

USE OF SERVICE PROVIDERS

MSIM views proxy voting as one of the key stewardship activities, and obtains information on corporate governance, proxy voting, issuer research and selected environmental and social issues from its investment teams' own research, as well as two independent advisors, Institutional Shareholder Services (ISS) and Glass Lewis, who provide vote execution, reporting and recordkeeping services.

Further information relating to our use of service providers can be found under Principle 7 and Principle 8.

Performance Management and Reward Programmes

MSIM remains an employer of choice by offering competitive compensation programmes to our employees. A primary objective in designing compensation programmes for MSIM employees is to ensure that compensation incentives are aligned with our business strategy of driving performance and adding value for clients, shareholders and other employees. Moreover, MSIM has a Global Incentive Compensation Discretion (GICD) Policy, which is reviewed at least once a year and amended, as needed, in advance of the annual incentive

SPOTLIGHT #1

Progress on the Development of Our Proprietary ESG Database/System

The centralisation of the ESG data stack (consisting of data sets across the ESG spectrum of approaches, across asset classes and data providers) at Morgan Stanley has allowed for product innovation and applications. MSIM believes that assessing a portfolio on ESG risks and opportunities relies on using multiple sources of information, and, in most cases, from different third-party providers to allow for cross-comparability. These include, and are not limited to:

1. CLIMATE ANALYTICS

MSIM analytics have a heavy focus on climate, where we engage clients and internal teams around carbon emissions, portfolio earnings at risk from carbon price scenarios, corporate science-based target analysis, power generation mix, exposure to stranded assets and physical risk.

2. ESG SCREENING AND ANALYTICS

On the ESG side, MSIM focuses our analytics on portfolio exposures to a range of more than 50 screening criteria; an assessment of performance across ESG ratings providers; an analysis of impact alignment to a range of sustainability themes from a corporate revenue perspective; and additional proprietary analysis, including an increased focus on diversity, equity and inclusion. These tools and analytics deployed across a range of platforms, both internally and with clients.

In the last 12 months, there has been an increased focus on creating data-driven tools for portfolio analysis and reporting on EU regulations. In particular, MSIM acquired third-party data sets for regulatory reporting and created internal tools for monitoring the SFDR's Principal Adverse Sustainability Indicators. MSIM is also expanding the solution to address reporting requirements for the SFDR more broadly. Client requests for TCFD metrics are also becoming increasingly common, and MSIM is actively building solutions to address client reporting needs in this area.

There is a steady pipeline to develop more ESG analytics modules. MSIM plans to gradually shift the focus towards ex-ante portfolio ESG modelling and issuer-level ESG analysis, as we progress in our proprietary ESG database/system build-out.

compensation decision-making process. The GICD Policy requires and directs compensation managers to consider only legitimate, business-related factors when exercising discretion in determining incentive compensation. Such factors include adherence to Morgan Stanley's core values, conduct, disciplinary actions in the current performance year, risk management and risk outcomes.

The GICD Policy also requires and directs compensation managers to escalate circumstances that may warrant cancellation or clawback of previously awarded compensation for further investigation. Compensation managers are required to certify their compliance with the GICD Policy in advance of exercising discretion in determining incentive compensation, and Morgan Stanley's Human Resources (HR) coverage team works directly with compensation managers to ensure that they understand their responsibilities.

MSIM's local entities have implemented remuneration policies to promote sound and effective risk management of sustainability risks, including discouraging excessive risk-taking with respect to sustainability risks.

Principle 3

Conflicts of Interest

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first

MSIM Conflicts Management Framework

As part of a diversified global financial services firm that engages in a broad spectrum of activities, MSIM may encounter potential or actual conflicts of interest, including: (i) between MSIM (including connected persons such as our affiliates and employees) and our clients; and (ii) between different MSIM clients.

MSIM employees must comply with Morgan Stanley's established Firmwide policies and procedures, such as: the Firm Code of Conduct, Global Conflicts of Interest Policy, Global Gifts, Entertainment & Charitable Giving Policy, Global Employee Trading and Outside Business Activities Policy, and the Global Confidential and Material Non-Public Information Policy (covering information barriers). MSIM employees receive appropriate training to ensure that they are fully aware of their responsibilities and obligations.

MSIM has also established procedures intended to identify and mitigate conflicts of interest related to business activities on a worldwide basis. As part of the conflicts management framework, MSIM EMEA has a Conflicts of Interest Committee, chaired by a Conflicts Management Officer, with a remit that includes reviewing and evaluating transactions and business practices identified as posing conflicts of interest; evaluating, in aggregate, matters brought to the Committee to assess consistency of resolution and potential themes or trends; and maintaining the MSIM EMEA conflicts of interest register. MSIM also has in place an escalation process, both to senior management within the business unit and/or to the Firm management, or the Firm's franchise committees, for potentially material conflicts.

GIFTS AND ENTERTAINMENT

Additionally, employees engaging in engagement and stewardship activities are subject to MSIM's Global Gifts, Entertainment and Charitable Giving Policy, and related controls.

Approach to and Examples of Stewardship Conflicts and Outcomes

MSIM's conflict management framework enables us to identify and manage actual and potential conflicts of interest in the context of stewardship. Such conflicts may arise, for instance, as a result of MSIM's commercial relationships with clients or third parties who may be issuers of securities held on behalf of accounts managed by MSIM, or from cross-directorships of MSIM staff. MSIM is also part of Morgan Stanley, a global financial services group, and, as such, MSIM faces potential conflicts due to the role of other Morgan Stanley divisions, which may have commercial relationships with companies in which MSIM may invest.

In addition to the above, our approach to identifying, managing and mitigating other potential stewardship-related conflicts are as follows:

PROXY VOTING

Material Conflict Management

MSIM pre-identifies conflicts of interest as part of the voting process. This targeted approach in conflict of interest identification involves specific meeting level monitoring for potential conflicts of interest. The MSIM Proxy Voting Policy (See Principle 5) provides guidance for identifying actual or potential material conflicts of interest in voting situations, a process maintained by the MSIM Global Stewardship Team.

A potential material conflict of interest could exist in the following situations, among others:

1. The issuer soliciting the vote is a client of MSIM or an affiliate of MSIM and the vote is on a matter that materially affects the issuer;
2. The proxy relates to Morgan Stanley common stock or any other security issued by Morgan Stanley or its affiliates except if echo voting is used;
3. One of Morgan Stanley's independent directors or one of MSIM Funds' directors also serves on the board of directors or is a nominee for election to the board of directors of a company held by a MSIM Fund or affiliate; or
4. Morgan Stanley has a material pecuniary interest in the matter submitted for a vote (e.g., acting as a financial advisor to a party to a merger or acquisition for which Morgan Stanley will be paid a success fee if completed).

If the Global Stewardship Team determines that an issue raises a potential material conflict of interest, the following process will be followed as deemed appropriate:

- If the matter relates to a topic covered by the MSIM Proxy Voting Policy, the proposal will be voted as per the Policy;
- If the matter is not covered by the MSIM Proxy Voting Policy or the Policy indicates that the issue is to be decided on a case-by-case basis, the proposal will be voted

in a manner consistent with the recommendations of the Research Providers,[5] provided a) that the Research Providers consulted have the same recommendation, b) no portfolio manager objects to that vote, and c) the vote is consistent with the objective of maximising long-term investment returns;

- If the Research Providers' recommendations differ, the MSIM Global Stewardship Team will refer the matter to the PRC to vote on the proposal, as appropriate;
- Where it serves the best interest of our clients, MSIM will vote against management;
- Echo voting[6] may be used where shares are instructed to be voted in the same proportion as the vote of the other holders of the fund's or company's shares, where feasible; and
- Where Morgan Stanley or MSIM hold shares in MSIM-managed funds, MSIM may use the voting rights conferred by those shares to vote at the General Meetings of those funds provided its votes are in line with the recommendations of at least two research providers.

The MSIM Proxy Review Committee has overall responsibility for the Policy. The Committee consists of investment professionals who represent the different investment disciplines and geographic locations of MSIM, and is chaired by MSIM's Head of Global Stewardship.

The MSIM Global Stewardship Team tracks actual and potential conflicts of interest arising in a proxy voting context, and how these issues are handled. Where appropriate, such issues are also reported to the Proxy Review Committee, and on a quarterly basis to public fund boards for relevant portfolio companies. MSIM memorialises conflict of interest issues in the minutes of MSIM Proxy Review Committee meetings and will disclose them to clients who hold the affected securities in their accounts if requested.

The EMEA IM Conflicts of Interest Committee monitors quarterly metrics on exceptions to the MSIM Proxy Voting Policy and procedures across these four conflicts categories.

In the period 1 July 2022 to 30 June 2023, all identified potential conflicts of interest related to proxy voting were considered and resolved with either a vote against a management recommendation or application of voting policy. There were no policy overrides at meetings identified with a potential conflict of interest.

Arm's-Length Approach

In addition to the controls and mitigants set out above, MSIM deals with other business units within the Morgan Stanley Group at arm's length. By doing so, we minimise the risk that we will act towards our portfolio companies in line with the interests of other divisions, e.g., Institutional Securities rather than the interest of our clients. Further, trading in Morgan Stanley securities by accounts managed by MSIM is generally prohibited by MSIM's policy and procedures.

CASE STUDY 3.1

Proxy Relating to Security Issued by Morgan Stanley or its Affiliates

CONFLICT	▪ MSIM voting on an M&A transaction where Morgan Stanley's Investment Banking Division is an advisor to a party to the transaction
CONFLICT DESCRIPTION	▪ In 2023, MSIM voted in favour of the merger of two companies, for which Morgan Stanley Investment Banking Division (IBD) was serving as financial advisor to one of the merger parties. ▪ Situations of this nature represent a potential conflict between the IBD's interests in receiving fees from their client upon completion of the merger, and MSIM voting against the merger if it deemed the merger not to be in the interests of MSIM's clients. ▪ The resolution was identified as part of the standard Shareholder Meeting review process.
MANAGEMENT	▪ MSIM managed this risk by (among other things) following the vote recommendations of independent research providers, in this case, ISS, who recommended in favour of the transaction. ▪ This was done in compliance with the MSIM Proxy Voting Policy. ▪ MSIM took further actions to manage this potential conflict: — MSIM assessed the merits of the transaction objectively. MSIM considered this approval vote to be consistent with the objective of maximising long-term investment returns since the merger consideration was fair and provided both liquidity and certainty of value. — MSIM and IBD operated on an arm's-length basis with respect to this transaction (as further described below), and MSIM's voting decision was not influenced by IBD's separate role in the transaction.
CONFLICT OWNER(S)	▪ MSIM Global Stewardship Team and MSIM Conflicts Officer

[5] ISS and Glass Lewis

[6] Echo voting refers to a practice when one votes shares in the same proportion as the vote of all of the other holders of the fund's shares.

INVESTMENT TEAMS – SPLIT VOTING

As a result of MSIM's independent investment team structure, a situation may emerge in which different investment teams have different views on a particular vote for a company. We also aim to stay true to our stewardship philosophy in seeking to maximise long-term investment returns for each client. Under these circumstances, different views on a particular vote will result in a conflict, which we seek to manage through split votes. For example, when different clients have varying economic interests in the outcome of a particular voting matter (such as a case in which varied ownership interests in two companies involved in a merger result in different stakes in the outcome), the votes will be cast on a split basis (in proportion to the votes held by the relevant clients).

We also may split votes at times based on differing views of portfolio managers (e.g., based on what they consider would generate better value for their investment strategies). These generally apply to cases where the policy item is determined on a case-by-case basis. Where policy guidelines are clear on the voting matter, the policy is generally followed, and hence a split vote should not arise.

EMPLOYEE PERSONAL TRADING AND OUTSIDE BUSINESS ACTIVITIES

MSIM has also put in place processes to identify and manage situations where an employee's personal relationships and outside business interests might compromise MSIM's duty to act in the clients' best interests. Employees are subject to the Firm's Global Employee Trading and Outside Business Activities Policy, which establishes a duty to declare and seek prior approval for in-scope outside business interests and dealing on personal accounts. MSIM conducts e-communications surveillance to detect undeclared outside business interests. MSIM requires employees to confirm personal dealing accounts annually.

PORTFOLIO MANAGEMENT

As our portfolio managers are involved in stewardship and engagement efforts, we are mindful of the risk of them acquiring inside information in the process or undertaking personal account dealing that would conflict with client interests and result in potential client detriment.

Additionally, when an investment team manages multiple portfolios ("side-by-side management") with different structures (e.g., registered funds and unregistered funds) and/or fee structures (e.g., performance-based fees versus asset-based management fees), certain perceived or actual conflicts may arise. Potential conflicts include favouring one account over another in investment decisions or the exercise of investor rights; taking conflicting positions in the same security for different portfolios; or favouring an account where performance fees are awarded over an account that is charged an asset-based fee. To minimise potential conflicts and protect the interests of all MSIM clients, the Global Side-by-Side Management Policy and Procedures (the "Policy and Procedures"): (i) provide that allocation decisions are not influenced by fee arrangements or other incentives; and (ii) allocate investment opportunities in a manner that treats clients fairly and equitably over time.

The Policy and Procedures set out specific guidelines to mitigate potential conflicts that may arise in connection with side-by-side management, including conflicts around trading practices, performance fees, security selection, investment in MSIM funds and consistent investment viewpoint (e.g., long/short).

All portfolios actively managed by the same investment team (e.g., the same portfolio manager exercising ultimate discretion over an account) must generally take the same directional viewpoint (e.g., short or overweight) in a particular security (e.g., a consistent investment viewpoint). Within the same investment team, opposite direction investment decisions are not permissible except where they fall within a consistent investment viewpoint, as delineated in the Policy and Procedures.

MSIM has established the Side-by-Side Subcommittee, which meets on a regular basis and comprises representatives from business areas and control functions, including Compliance, and has overall governance responsibility for helping to ensure adherence to the Policy and Procedures.

DIFFERENCES IN ENGAGEMENT ON THE SAME SECURITIES

In some cases, there may be differences in opinion and priorities in engagement approaches between investment teams across asset classes for the same security (e.g., Fixed Income vs. Equities).

For example, the Fixed Income organisation may be more focused on governance issues or controversies that could impact the price or liquidity of bonds in the near term, whereas Equity investors may be more focused on sustainability issues that might have longer-term implications for valuation. Accordingly, any such divergences will be appropriately escalated, considered and resolved.

MSIM investment teams work closely with each other (where relevant and where circumstances permit) with the support of the MSIM Global Stewardship Team to pursue our engagement themes.

Principle 4

Promoting Well-Functioning Markets

Signatories identify and respond to marketwide and systemic risks to promote a well-functioning financial system

Overview

Identifying and responding to marketwide and systemic risks is a priority for Morgan Stanley. As such, the Firm has staffed governance and controls, escalation protocols, and management and remediation processes to ensure our business and stewardship activities not only meet clients' interests and requirements but help promote a well-functioning financial system. We take a globally harmonised approach across MSIM and the Firm, adopting a three-lines-of-defence model—risks are owned and managed at the business level (First Line), risks are independently monitored by Firm Risk Management and Compliance (Second Line) and Internal Audit (Third Line), which performs a range of assurance activities commensurate with the risk exposure across the Audit Universe, and assesses whether the first-and second-line functions are operating effectively.

The MSIM and Firm Risk Committees serve to oversee, manage and address risks that are escalated from First and Second Lines of Defence. Our Entity Boards (please see Principle 2) provide Board-level oversight and Firm leadership with input from our business heads who have responsibility for the identification and management of such risks. These include, but are not limited to, Investment, Enterprise and ESG risk report updates, which are provided periodically to boards.

The types of marketwide and systemic risks we work to mitigate include, but are not limited to, macroeconomic, market, credit and currency risks—but most importantly with respect to sustainability—e.g., climate change, physical/transition risk, social and governance risks. This year, in response to the evolving industry trends and regulatory developments, we have also enhanced our internal ESG governance framework to minimise greenwashing and stewardship-washing risks. Internally amongst our employees, upholding our Firm's core values (Principle 1) is critical in addressing marketwide and systemic risks. We provide further details in the sections below.

Marketwide and Systemic Risks

CLIMATE CHANGE – INCLUDING TRANSITION AND PHYSICAL RISKS

At a Firm level, Morgan Stanley is committed to considering climate change throughout our business, operational and risk management activities. To support this work, we have a four-pillar climate strategy, with the overall goal of achieving net-zero financed emissions[7] by 2050.

FIGURE 4.1

Morgan Stanley's Climate Change Strategy and Progress

1

SUPPORT THE TRANSITION TO A LOW-CARBON AND GREEN ECONOMY

- Commitment to mobilize **$750Bn** to support **low-carbon and green solutions** by 2030
- Launched **Climate Strategy Assessment Framework (CSAF)** to understand our clients' transition plans and commitments

2

MANAGE CLIMATE RISK

- Climate change considerations integrated into the Firm's **risk management** and **governance** processes under the Chief Risk Officer
- Climate risks overseen by the **Risk Committee of the Board of Directors**

3

PROVIDE RELEVANT, TRANSPARENT AND USEFUL CLIMATE-RELATED DISCLOSURES

- Launched integrated **ESG Report**, combining our Diversity & Inclusion, Climate and Sustainability reports into one
- Only major US-headquartered global financials services firm on the **Partnership for Carbon Accounting Financials (PCAF) Steering Committee**

4

ENHANCE THE CLIMATE RESILIENCE OF OUR OPERATIONS

- **Bennington Wind Farm** is accounting for approximately 50% of Morgan Stanley's global energy consumption
- **Renewable electricity** attributes account for 100% global operational electricity in 2022

[7] Net zero reflects a state in which the amount of greenhouse gas (GHG) emissions being released into the atmosphere is matched by the amount of greenhouse gases being removed from the atmosphere via natural "sinks." Financed emissions are the absolute greenhouse gas emissions attributed to banks through their loans and investments.

At MSIM, we continue to believe that climate change-related transition and physical risks are systemic risks. Sustainable investing risk, which includes climate change-related transition and physical risks, is one of the principal risk categories monitored under our Global Investment Management Risk Management Policy. Principal risks are formalised risk categories managed in a manner consistent with the framework established under this policy.

The risk committees across MSIM oversee, address and prioritise risks, including climate risks, taking into account the Risk Appetite Statement, as well as emerging regulatory and external events. MSIM has implemented systems, controls and procedures to identify, track and ultimately manage climate-related risks at security, portfolio and entity level. Our investment teams are the primary risk owners, and identify these risks and manage them, together with other risks, as part of their investment process.

MSIM Ltd Risk Appetite Statement was updated in 2022 to incorporate climate risk as a driver of existing risks within the overarching risk framework. Specifically, climate risk was established as a driver of Strategic Risk from regional regulations and disclosure requirements related to sustainable investments and a driver of Reputational Risk related to an idiosyncratic event that could negatively impact MSIM Ltd's standing to clients and employees.

This section provides an overview of how MSIM, at an organisational and investment team level, identified and responded to key marketwide and systemic risks during the reporting period.

MSIM's Global Risk & Analysis (GRA) team performs ongoing monitoring for emerging geopolitical and financial risks in the market. These risks are identified by the market risk team at both the portfolio level and aggregate business line level, and they are assessed using measurements such as exposure analysis, beta analysis and scenario analysis. The team assesses the business's top exposures to identified risks and the implied stress profit and loss across different hypothetical market-driven scenarios. Findings from this analysis are then shared with the investment teams and management, and they are also escalated to the Investment Management Risk Committee (IMRC), which is the forum for representatives across different functional groups to discuss key risk issues and make recommendations to manage those risks. Additionally, the IMRC discusses market trading volume and liquidity with portfolio managers and traders to assess potential trading disruptions, and performs screenings for issuers that may be impacted by sanctions, working with its partners across the Firm to mitigate these risks.

The MSIM GRA team conducts scenario analysis to monitor the climate risk of portfolios across asset classes. These scenarios are forward-looking and aim to measure the financial impact of hypothetical transition risks. The results are monitored for changes over time and factored into portfolio construction, composition and investment decisions made by some investment teams (as appropriate) to ensure that climate risks across client portfolios are appropriately identified, tracked and managed. Additionally, our GRA team conducts its own research regarding climate change and other topical ESG risks, and develops our own proprietary scenarios. This work to create new scenarios ensures that the stress testing remains relevant and an effective tool for risk management as market conditions change.

Topical ESG risks (including climate change) are also reviewed in regular discussions across our MSIM's Market Risk team. Once identified, risks are measured through several different kinds of analysis. For example, exposure screening may be conducted at both the individual portfolio and aggregated business line levels. New scenario analysis may also be developed to measure the financial impact of hypothetical scenarios. Changes in risk levels, scenario analysis results and exposures are monitored at the portfolio and aggregate business line levels, and the trend line over time is analysed by the team and used to influence, where relevant, strategy, portfolio and investment level decisions.

GRA identifies risks through its regular processes for monitoring climate metrics. The GRA team may then engage directly with portfolio managers across certain of our investment teams on potential risks and escalates them during risk committee meetings, which include members of senior management. Periodic ESG risk updates have also been provided to Morgan Stanley International Limited (MSI) Board Risk Committee.

Recognising that climate change is an economic reality and a growing risk that businesses and investors are learning to address, MSIM seeks to develop better analyses on climate change to provide our clients and other stakeholders with more information to enable better investment decision-making and increase awareness of the impact of climate change as a systemic risk.

The impacts of climate change range in nature, severity and frequency, and therefore it is critical for financial institutions to understand how such impacts may affect their business and clients. Firm Risk Management (FRM), in partnership with other areas of the Firm, continues to focus on identifying and managing risks related to climate change to limit their potential impact to Morgan Stanley.

SPOTLIGHT #2

New Platform Supports Climate Change Mitigation

In November 2022, MSIM launched a growth-oriented private equity platform to invest in companies seeking to mitigate climate change. Through the collective investments it makes, the platform seeks to avoid or remove one gigaton of CO_2 equivalent emissions from the Earth's atmosphere from the date of investment through 2050. The new platform focuses its investments on private companies that seek to deliver attractive financial returns alongside measurable positive environmental impacts across the mobility, power, sustainable food and agriculture, and circular economy sectors. The platform will also seek to leverage Morgan Stanley's sustainability resources to partner with portfolio companies. This may include monitoring ESG risks, reporting Scopes 1-3 emissions, aligning companies with key trends, and pursuing earnings growth, multiple expansion and enhanced exit potential.

Defining Climate Risks

As informed by the Task Force on Climate-related Financial Disclosures (TCFD) as well as various non-governmental organisations, regulators and financial institutions, MSIM, in line with Morgan Stanley, categorizes the risks associated with climate change into two groups: transition risks and physical risks.

TRANSITION RISKS

Risks associated with the move to a low-carbon economy, generally falling into one of three categories:

1. Policy and legal changes, such as local, national or international regulation of carbon emissions
2. Technology advancements, such as replacement of existing products with lower-emission options
3. Market changes, such as changes in consumer and business sentiment or impacts resulting from public perception of an organisation's action or inaction on climate change

PHYSICAL RISKS

The physical impacts of climate change include harm to people and property arising from acute climate-related events such as hurricanes, heatwaves, floods or wildfire, and chronic, longer-term shifts in climate patterns, such as higher average temperatures, rising sea levels and long-term drought. Such events could disrupt MSIM's operations or those of our clients or third parties on which we rely, including through direct damage to physical assets and indirect impacts from supply chain disruption and market volatility. Over the longer term, these events could impact the ability of certain of our clients or customers to repay their obligations, reduce the value of collateral, limit insurance coverage and result in other effects.

ESG Three Lines of Defence Enhancement In 2023

In early 2023, MSIM undertook work to clarify the responsibilities across functions involved in sustainability investing activities and expand the role of Firmwide functions within the second line. Within the first line, investment teams

FIGURE 4.2

Types of Transition and Physical Risks

TYPES OF TRANSITION RISKS			TYPES OF PHYSICAL RISKS	
POLICY AND LEGAL	TECHNOLOGY	MARKET	ACUTE	CHRONIC
Carbon Taxes	Improved energy efficiency	Shifts in consumer and business sentiment	Hurricanes	Higher temperatures
Renewable portfolio standards	Greater battery storage	Impact of public perception regarding inaction on climate change	Floods	Sea-level rise
Increased disclosure	Lower-emission products		Wildfires	Long-term drought

SPOTLIGHT #3

Progress on Achieving Carbon Neutrality and Climate-Resilient Operations

In 2022, Morgan Stanley achieved its commitment to carbon neutrality[8] across its global operations. Its carbon neutrality status covers direct scope emissions from its operations, scope 2 location-based emissions from purchasing energy and scope 3 emissions from business travel and downstream leased assets.

Morgan Stanley achieved its goals of carbon neutrality and 100% renewable electricity through the following strategies:

- Reducing its energy use through efficiencies in its real estate by employing projects across our infrastructure.
- Securing a virtual power purchase agreement for a wind-based power system accounting for approximately 50% of Morgan Stanley's annual global electricity consumption.
- Contracting directly for renewable electricity and buying renewable energy certificates.
- Purchasing carbon offsets to compensate for its remaining emissions.

For more details, please see Morgan Stanley 2022 ESG Report

remain primarily responsible for identifying sustainability-related risks, including climate risks, supported by various functions within the first line (e.g., MSIM Sustainability Team and investment oversight). The GRA team also has responsibility for ESG risk identification as well as for the review and challenge over fund-level activities.

DEVELOPING GLOBAL REGULATION

Regulatory authorities are using the TCFD recommendations to issue guidelines for relevant sectors. Beginning 1 January 2022, UK FCA rules required TCFD reporting for asset managers and asset owners with first public disclosures to be made by 30 June 2023. In line with the Firm's commitment to climate change, MSIM in June 2023 published its inaugural TCFD report. Details of the report can be found in the MSIM 2022 Climate Report.

Effectiveness in Identifying and Responding to Marketwide/Systemic Risks, and Promotion of Well-Functioning Financial Markets

We outline below a high-level summary of the key groups and committees involved in addressing marketwide and systemic risks on behalf of clients, the Firm and within financial markets.

TABLE 4.1

Summary of Key Groups/Committees Addressing Marketwide and Systemic Risks

#	ROLE & PROCESS FOR ESCALATION	TYPES OF MARKETWIDE/SYSTEMIC RISKS
MSIM		
FIRST LINE OF DEFENCE **Investment Teams/ GRA/Portfolio Surveillance**	■ Investment teams are ultimately responsible for addressing and mitigating risks associated with their respective products and strategies, working with the MSIM Sustainability team and other MSIM/Firm stakeholders (including MSIM Legal Compliance Division (LCD), GRA, Portfolio Surveillance) ■ Periodic meetings with the Sustainability Team Leads, Investment Team ESG Regulations Working Group, IM ESG Committee and Investment Oversight Committees ensure ongoing communication and escalation of potential/actual risks ■ Portfolio Surveillance oversees and ensures all ESG screening and monitoring guidelines are agreed to between investment teams and clients on the outset of client onboarding, implemented, and monitored throughout the mandate ■ GRA identify, monitor and manage risks at security, portfolio and MSIM levels, working with investment teams and MSIM Sustainability and Sustainability Oversight teams. Updates (including escalation) to IMRC and other regional MSIM Risk Committees are made on a periodic basis	■ All relevant marketwide and systemic risks to the extent they are relevant to specific investment strategies and products, including those which may have wider implications (please see above) ■ Specific focus/priority on greenwashing, stewardship-washing, environmental (including climate change), social (including human rights, controversies) and governance etc., as appropriate and relevant to the strategies/ products they manage

[8] The Firm's carbon neutral status reflects the actions above. This is a management-determined metric that may be viewed or calculated differently by others who may use the same "carbon neutral" terminology. Morgan Stanley has determined that the boundary around our carbon neutrality status is scope 1, scope 2 location-based emissions, scope 3 business travel and downstream leased assets, carbon offsets purchased from the voluntary carbon market, green power contracts and market instruments (e.g., Renewable Energy Certificates (RECs), Energy Attribute Certificates (EACs)). There are instances where green power contracts and instruments that we accept for our purposes to meet carbon neutrality do not align with the criteria required to reflect those purchases in our scope 2 market-based figure in accordance with the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition) ("GHG Protocol"). For our GHG emissions table aligned with the GHG protocol, please see pg 60 of the Morgan Stanley 2022 ESG Report.

#	ROLE & PROCESS FOR ESCALATION	TYPES OF MARKETWIDE/SYSTEMIC RISKS
SUBJECT MATTER EXPERTISE **MSIM Sustainability/ Stewardship Team(s)** **MSIM Sustainability Oversight**	■ The MSIM Sustainability and Stewardship teams provide subject matter expertise, supporting the Investment Teams holistically and work with MSIM/Firm stakeholders (including MSIM LCD, GRA, Portfolio Surveillance etc.) to address product, regulatory, strategy, stewardship and data-related areas (Principle 2). The MSIM Sustainability team hosts and coordinates the Sustainability Team Leads, Sustainability Regulatory & Product Working Group. ■ MSIM Sustainability Oversight ensures processes are in place to capture and monitor product/investment commitments made. Please see Principle 5 for further details. ■ Stakeholders above also periodically update Board-level members given ESG is a standing agenda topic at quarterly meetings	■ All relevant marketwide and systemic risks relevant to investment teams and their respective products including wider implications for MSIM as a whole (please see above) ■ Specific focus/priority on greenwashing, stewardship-washing, environmental (including climate change), social (including human rights, controversies) and governance etc.
SECOND LINE OF DEFENCE **MSIM Compliance**	■ MSIM Compliance works with investment teams and the MSIM Sustainability, Stewardship and Sustainability Oversight team to advise on ESG-related regulatory and industry consultations; advise on ESG related policies and procedures; and conduct periodic reviews of the MSIM businesses' compliance with laws, regulations and policies, including with respect to ESG investing approaches, disclosures and practices	
FIRM-LEVEL		
Firm Risk Committee (Global, Regional)	■ Oversees Firm-level risk based on divisional business activities, provides guidance on management and mitigation of potential/actual risks	■ All relevant marketwide and systemic risks relevant to the Firm as a whole (please see above)
Firm Operating Risk Committee (Global, Regional)	■ Oversees Firm-level operating risk based on divisional business activities, provides guidance on management and mitigation of potential/actual risks ■ Reports to various Firm Boards	■ All relevant marketwide and systemic risks relevant to the Firm as a whole (please see above)
Regulatory Oversight	■ Oversees, guides and ensures Firm-level regulatory compliance and disclosures, working with functional stakeholders across divisions ■ Reports to various Firm Board	■ All relevant marketwide and systemic risks relevant to the Firm as a whole (please see above)
SUBJECT MATTER EXPERTISE **Global Sustainability Office (GSO)** **Environmental & Social Risk Management (ESRM)**	■ GSO integrates sustainability considerations into the Firm's decision-making, across corporate policies, business activities and operations ■ ESRM Oversees the Environmental and Social Policy Statement (ESPS) and related policies and procedures, conducts due diligence on relevant transactions and provides internal subject matter expertise on environmental and social risk	■ Sustainability-specific areas/priorities concerning MSIM, including, but not limited to: environmental, climate change, biodiversity, social, governance and regulation.
THIRD LINE OF DEFENCE **Internal Audit (IAD)**	■ IAD is an independent and objective assurance function reporting directly to the Firm's Board Audit Committee ■ IAD assists the Firm in achieving its strategic and operational objectives by identifying and assessing risks facing the Firm and providing independent, objective and timely assurance to stakeholders about the effectiveness of the Firm's risk management, internal controls and governance processes	■ All relevant marketwide and systemic risks relevant to the Firm as a whole, including governance, and internal controls (please see above)
BOARD-LEVEL		
Various Board Committees (MSIM (including Investment Oversight)/Firm-Level, Entity-Specific, Product-Specific, Global, Regional, etc.)	■ The role of Boards is to execute on their respective Board Charters, which include but are not limited to: ensuring businesses comply with their respective objectives and operate within appropriate governance and control frameworks, discussing and providing guidance on managing potential/actual risks upon escalation etc. ■ The main functions of Boards are to protect the Firm and business units	■ All relevant marketwide and systemic risks relevant to MSIM and the Firm as a whole (please see above)

The above reflects the current MSIM governance structure and is a nonexhaustive list of stakeholders involved in identifying, managing and mitigating marketwide and systemic risks. Further details can also be found in Principles 2, 3, 5, 7 – 12.

We consider that our risk management and engagement approaches have been, and continue to be, effective in identifying and responding to marketwide and systemic risks, as well as promoting well-functioning financial markets.

Investment Team Approaches

MSIM has set out below examples of the approaches adopted by some of our investment teams in identifying and responding to marketwide and systemic risks.

INTERNATIONAL EQUITY

The International Equity team specifically focuses on factors (ESG or otherwise) that may materially influence the sustainability of long-term returns on operating capital. The IE team identifies financially material ESG risks and opportunities using its proprietary screening framework, the Material Risk Indicator (MRI), a tool designed to capture ESG company assessments in a consistent and comparable way over time.

As part of the MRI process the team has identified six universal risks that must be assessed for portfolio companies. These are considered universal as they may be financially material, regardless of sector or geography, albeit to varying degrees. For some companies, following assessment, these may be determined not to be financially material. The universal risks are not static but may change should the team determine other risks to be potentially financially material.

- Climate Change
- Governance
- Diversity/Culture
- Safety
- Data security/Privacy
- Tax

Climate Change

In 2022, the team's carbon transition engagement programme continued with the focus shifting to tackling the remaining laggards, tracking progress of companies that had increased their climate risk management and assessing new holdings for climate risk. Over the course of the year the team engaged with 55% of the companies it holds across its global portfolios, reflecting the conclusions from the first year and the progress made. The programme continues in 2023.

COUNTERPOINT GLOBAL

Risk Defined as Potential for Permanent Loss of Capital

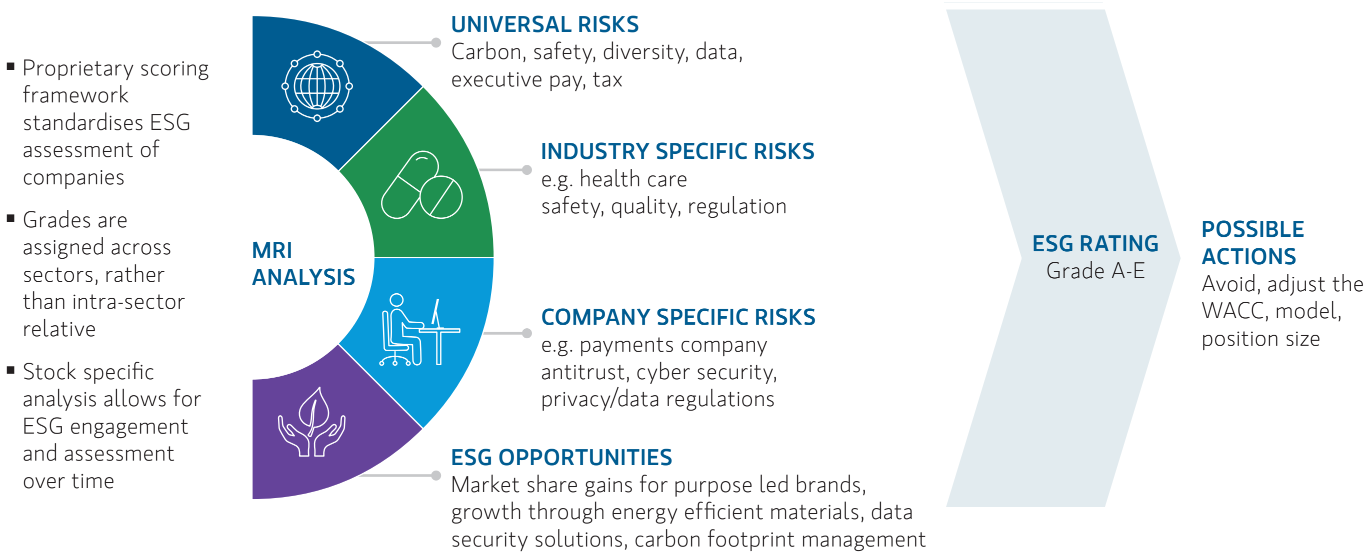
For the Counterpoint Global team, as an active fundamental investor, the biggest risks are unexpected macro shocks, or market rotation in and out of sectors, when fundamentals are in the short term less relevant.

Risk Assessment & Management Approach

The Counterpoint Global team manages portfolios that are well diversified as a way to control risk at the portfolio level. The Counterpoint Global team considers both company-specific and portfolio risk in construction and implementation decisions. The team manages these potential risks through the rigorous analysis of business fundamentals and the evaluation of an investment's risk/reward based on free cash flow yield, optionality and end game. For example, this could include assessment for potential loss in value of an

FIGURE 4.3

Proprietary ESG MRI Analysis



investment due to increasing competition, mismanagement of the business or financial insolvency.

The Counterpoint Global team maintains objectivity by referring to the investment thesis, which clearly states why the team owns a stock, and when circumstances occur that violate the thesis, it sells, and does not modify the thesis. The team manages portfolios that are well diversified to help control risk at the portfolio level.

The team measures market and principal risk at the portfolio level by monitoring portfolio volatility attributed to movements in the market and determining the impact of a realized loss on the total portfolio. The team manages this risk through the diversification of investments.

GLOBAL OPPORTUNITY

For the Global Opportunity team, risk management is an integral part of the team's investment process. In an absolute sense, the team seeks to own big ideas that win over time. Their investment time horizon is five years. The investment team attempts to avoid permanent loss, which it defines as selling a position at a loss, by buying high-quality businesses. The team considers the risks inherent in each position by asking what could go wrong and by evaluating company developments in the context of the investment thesis. The investment team maintains its objectivity by referring to the investment thesis, which clearly states why they own a stock, and when circumstances occur that violate the thesis, it sells, and does not modify the thesis. The Global Opportunity team manages portfolios that are well diversified as a way to control risk at the portfolio level.

The investment team believes that idiosyncratic risk can be reduced by addressing what matters at the company level:

- Valuation risk is mitigated by not paying a price that exceeds the team's estimate of value;
- Sustainability risk is mitigated by analysing the threat of disruption, financial strength and ESG externalities;
- Fundamentals risk is mitigated by analysing the threat of deteriorating competitive advantage and growth opportunities.

Portfolio risks are mitigated by reducing correlated factor exposures with the support of monthly reports from Portfolio Attribution and Risk teams. Market and principal risks are measured at the portfolio level by monitoring portfolio volatility attributed to movements in the market and determining the impact of a realised loss on the total portfolio. The investment team manages this risk through the diversification of investments.

The Global Opportunity team is responsible for risk within the Strategy, with ultimate responsibility lying with the Head of the Global Opportunity team.

In this task the team is supported by the MSIM's GRA team, which uses quantitative and qualitative tools to analyse investment risk by product area. The GRA team produces in-depth reports for each investment programme on a monthly basis, concentrating on tracking error, R-squared, Beta, Information Ratio, and absolute and relative exposures versus the benchmark. The team uses a range of vendor-based and proprietary systems to conduct this analysis. Reporting for each investment strategy is available to the portfolio managers and portfolio specialists as well as to divisional management and the Firmwide risk committee. While risk analysis is provided monthly, however, it has the capability to run intra-month analysis.

EMERGING MARKETS EQUITY

For the Emerging Markets Equity team, ESG materiality is considered across the investment team, in investments and engagements, which are an important part of their research process.

Macroeconomic Risks

The EME team's dedicated macro-thematic team conducts original research on such issues as economic growth, credit penetration levels and currency valuations. At the country level, the EME team seeks to understand the environmental, macroeconomic, social and governance drivers that may affect a country's growth pathway, pose policy risks or otherwise impact company earnings or affect the investment case for an industry or company.

Environmental Risks

The EME team analyses the GHG emissions of their portfolio companies and seeks to understand the implications for corporate strategy, competitive positioning, contingent risk and potentially incremental market opportunities. The EME team engages with companies on their GHG disclosures (including Scope 3), and if there is a strategy for decarbonisation, how they plan to achieve it, and whether their targets are reasonable and achievable. The EME team encourages companies to set more short- to mid-term quantifiable targets to effectively measure and to evaluate their progress towards their long-term goals.

For products with specific carbon commitments, the team is focused on a decarbonisation pathway at the aggregate portfolio level. This includes creating a decarbonisation tracker that allows them to track portfolio level and company Weighted Average Carbon Intensity (WACI) numbers, utilising both company reported and MSCI greenhouse gas emissions data. The tracker also uses company emission reduction targets to project portfolio WACI over the next 10 years and includes a 10-year Paris aligned benchmark for comparison.

Social Risks

Accidents and injuries in the workplace are principal risks that the EME team pays close attention to, particularly in heavy industries within emerging markets. Not only are accidents and injuries detrimental to victims and their families, but they also speak to the broader culture of a company generally, and can have consequences including loss of labour, reputational damage, tighter regulations and fines, and loss of social license to operate.

For now, social factors remain difficult to materially quantify, and therefore remain an engagement topic for the team. The EME team incorporates human rights through their engagements on labour conditions, workplace health and safety and potential social externalities.

Governance Risks

A key criterion of the EME team's philosophy in investing is strong governance, both at management and the board levels. As long-term investors, it is imperative that they understand management's strategic goals and key targets. As responsible managers, the team actively examines and votes their proxies. Voting represents the direct participation of shareholders in the overall governance of a corporation and offers shareholders a voice on important issues, such as director independence and executive compensation.

Assessing Effectiveness

The EME team assesses effectiveness by evaluating company performance over time more broadly as well as on specific risks identified for each investment. The team looks for transparency, changes in practices or outcomes, and monitors third-party assessments of company performance on these risks.

FIXED INCOME

The investment teams within the Fixed Income organisation construct durable portfolios so that they are not forced sellers at distressed prices during extremely illiquid periods in the market brought on by systemic risk events. Systemic risk is extremely difficult to hedge and anticipate as it impacts the very structure of the market. Therefore, the structure of a portfolio is a first line of defence adopted by the teams—taking account of factors such as diversification, position sizing, minimising correlation risk and liquidity is important.

The team has sought to respond to marketwide and systemic risks as follows:

- **Macro:** Portfolio managers in the Fixed Income organisation assess and monitor, through in-house research and proprietary models, macroeconomic risks.
- **Stress Test & Scenario Analysis:** Systemic risk events are highlighted by the independent Risk Management team via stress tests and scenario analysis conducted across portfolios. In addition, the GRA team within MSIM conducts climate scenario analysis at the portfolio level and works in conjunction with climate risk subject-matter experts in the Firm, to develop climate risk analysis capabilities and in-house scenarios.
- **ESG Integration:** The Fixed Income organisation recognises that exposure to sustainability risks such as climate change, product safety issues and corporate governance mismanagement poses systemic risk to portfolio management. For example, the Broad Markets Fixed Income investment team decided to maintain an underweight in the water utility sector of a European jurisdiction, as a result of a multitude of operational issues related to leakages, sewage spills, water and wastewater management inefficiencies. Such issues drastically affect the ability of the sector to provide water services to customers and ensure the stability of the region's water resources, and increased exposure to regulatory risk. As a result of record fines and negative news flow across multiple companies in the sector, spreads on their bonds widened, and the team's underweight contributed to preserving portfolio returns. At the same time, the team engaged with some of the companies to set out expectations on the improvement of those issues.
- **Enhanced Transparency and Disclosure:** The team has continued to leverage their access to smaller, privately owned, high-yield companies to encourage the adoption of market-best practices on fair customer treatment, transparency and control systems around data privacy and security, and sustainability-related disclosure. Issues of transparency and disclosure can translate into product safety, social governance and systemic risk in industries such as private debt collection, given that this business activity is heavily regulated by financial and consumer protection authorities.
- **Sovereign Engagement:** Marketwide risks can be generated at the country level. The Fixed Income organisation therefore continues to actively engage with governments and policymakers of sovereign bond issuing countries, across developed and emerging markets, to

seek to promote robust institutions, political stability and progress on sustainable development commitments.

As part of the team's membership of the International Capital Market Association (ICMA) and of the Green and Social Bond Principles (GBP/SBP), and through participation in several of their Working Groups, the Fixed Income organisation continues to contribute to the development and update of best practices in the sustainable finance market. The team's proprietary Sustainable Bond Evaluation Framework factors alignment with the ICMA GBP/SBP as part of their assessment of labelled transactions, and they aim to keep issuers accountable to high standards, to minimise the risk of greenwashing and loss of market confidence in these products. The Fixed Income organisation has also provided inputs to the "Practical Recommendations for High Yield Sustainability-Linked Bonds," which have been jointly published by ICMA and the European Leveraged Finance Association (ELFA), of which MSIM is also a member, with the aim of improving the transparency and overall quality of these instruments.

GLOBAL BALANCED RISK CONTROL

The team aim to identify and analyse potential systemic risks, that could impact market volatility and therefore its clients' portfolios. The team's analysis of these risk events may lead them to adjust the broad mix of global equities, global fixed income and cash within the team's asset allocations, with the aim of maintaining each portfolio's realised volatility in line with its target. Examples of previous systemic and marketwide events through which the team has previously guided its portfolios include the Eurozone crisis, the Greek debt crisis, commodity price extremes, plummeting Chinese equities in 2015, the UK's 2016 Brexit referendum, multiple political and geopolitical events, US-China trade tensions, the COVID-19 pandemic, and most recently, the Russian invasion of Ukraine, soaring inflation and tightening monetary policy.

In the early part of Q3 2022, the team saw the potential for earnings downgrades as a marketwide risk, and potentially the next major headwind for equities, so the team's asset allocation was positioned defensively. Although valuations improved, as the team moved through Q3 the team still saw downside risk from rising real yields and mounting margin pressures from inflation. The team kept equity exposure at relatively low levels, while also reducing portfolio duration, given the increasing pressure on Central Banks to prevent inflation expectations from de-anchoring. In the final quarter of 2022, the team did not see any new specific risks arise, so they maintained their defensive positioning until mid-December, when the slump in equities the team saw in the first half of December provided an opportunity for them to increase equity exposure, given a relative lack of forward-looking macro event risks.

As the team entered 2023, they saw US inflation risks moderating. US inflation continued to slow as they moved through Q1 2023, whilst the job market continued to exceed expectations. While the team did not view Q1's banking sector volatility as systemic and a reflection of weakness in the broader banking sector, but rather the result of mismanagement at certain banks, these events provided the impetus to further tightening of financial conditions. In mid-Q2 2023, a group of potential risks—concerns over a global economic slowdown, weak Chinese economic data and uncertainty over the US debt ceiling—outweighed optimism over signs of easing inflation. The team aligned portfolios by removing the overweight in Chinese equities, as they are not seeing an acceleration in economic momentum, nor earnings revisions, despite the re-opening impetus.

The team sees climate change as a specific potential systemic risk. Where permitted by in client or portfolio guidelines, they tilt portfolios towards companies which they believe are more resilient to climate change, whilst tilting away from carbon-intensive industries. They also seek to increase investments in solution-type companies which stand to benefit from opportunities arising from the transition to a low-carbon economy. Finally, they actively engage with companies in hard-to-abate sectors, to make sure they take into account the risks associated with climate transition and set up ambitious decarbonisation measures. In order to maximise the effectiveness of these engagements, they may collaborate with other investment teams within MSIM, or with other asset managers.

PRIVATE CREDIT & EQUITY

PC&E as an asset class has always focused on identification and consideration of material risks in any category prior to making an investment and during the holding period, given the long-term nature of its strategies. Systemic risks, such as climate change, may precipitate an increased focus in a particular area (e.g., emissions) and become an important factor considered during the investment process.

With regard to company engagement as it relates to systemic risks, the control strategies under the PC&E teams have the ability to influence strategic direction and major company decisions through board positions and when appropriate, may use that influence to address one of MSIM's engagement priority areas (Principle 9).

In order to address climate risk, the PC&E teams are exploring several different approaches to understand the carbon footprint of its portfolio across the platform. For example, the MSCP team, engaged an external vendor to conduct emissions calculations for portfolio companies in their most recent vintage funds. Furthermore, a different vendor was engaged to refresh the ESG assessment conducted for the same portfolio companies and to assist in reviewing and refreshing ESG KPIs and metrics. For the PC&E strategies where portfolio companies do not, or cannot, calculate emissions themselves or partner with a vendor to do so, a proxy approach based on sectoral emission estimates of public market companies is still leveraged to approximate carbon emissions across strategies. This proxy approach is intended to help teams identify potential areas of climate risk and opportunity in advance of portfolio companies calculating their own emissions and developing comprehensive climate strategies. They are directional indicators and can serve as a basis to encourage and support portfolio companies towards a path of decarbonisation.

The Next Level Fund, the venture strategy looking to generate long-term capital appreciation through privately negotiated investments in early-stage women and minority-led technology and technology-enabled companies, is wrapping up fundraising and continuing to deploy capital. In addition to a financial investment, portfolio companies benefit from access to select partners, who together with Morgan Stanley provide strategic assistance and operational value in order to improve economic outcomes and accelerate business results. In their investments to date, 67% of founders are female, 50% are black, 42% are Asian and 8% are Latinx.

GLOBAL LISTED REAL ESTATE

The Global Listed Real Estate team believes climate change, ESG factors and a real estate company's approach to sustainability are important systematic risk factors which will significantly influence a company's potential future risk and total return prospects.

Existing buildings face chronic and acute physical risks, including intensifying hurricanes, floods and wildfires, as well as economic, social and regulatory changes necessary for decarbonisation. To limit the global temperature increase to 1.5°C in this century as required by the Paris Agreement, it has been estimated that real estate's direct carbon emissions will need to be cut in half by 2030, compared to 2020 levels, and reach net zero by 2050.

Publicly traded real estate companies hold a significant share of the building stock globally. As such, they are in a unique position to play an important role in achieving global sustainability targets. As public market investors, understanding how companies can influence and achieve net zero targets is important, as is assessing the financial implications and, importantly, the capital expenditures required to reach such targets.

To help address these systematic risks and opportunities, the Global Listed Real Estate team, in collaboration with Calvert Research and Management, has conducted a number of thematic engagements with Portfolio companies, specifically focused on encouraging issuers to commit to net zero through setting science-based emissions reduction targets and tracking progress of such goals.

GLOBAL LISTED INFRASTRUCTURE

The Global Listed Infrastructure team leverages third-party ESG research, including MSCI ESG data and Sustainalytics ESG Reports. Each industry faces a variety of ESG challenges and opportunities. As part of the team's fundamental analysis that seeks to understand the material challenges facing each company, they may reference these research tools to help identify controversies or further assess the relevant ESG concerns that could undermine the long-term sustainability of a company's returns. The team may then, if relevant, discuss them with a company's management.

The team has a comprehensive approach to risk, with risk management at team and firm level. At team level they approach the following risks:

- Valuation Risk (current trading levels relative to intrinsic value; build downside risk into price targets);
- Business Risk (industry structure, vulnerability to disruption, earnings visibility, distinct business drivers),
- Financial Risk (preference for low relative financial leverage, in particular for Emerging Market infrastructure).

The team receives a weekly Barra Risk Factor Analysis report featuring equity models and scenario analysis on sectors, countries, and specific systemic risks.

Stakeholder Collaboration to Promote Continued Improvement of Functioning of Financial Markets

MSIM maintains memberships and affiliations with organisations that help validate our stakeholders' range of perspectives, influence and encourage the adoption of consistent and clear industry standards, and serve to reinforce our sustainability commitments and priorities. We also dedicate time and effort to collaborating with our peers on addressing systemic risks and advancing the industry's role in promoting sustainability as a key investment theme. We do so through our active participation in various industry bodies and forums, which is also highlighted in detail with examples in Principle 10.

Through its various businesses and internal functions, MSIM and Morgan Stanley participate in, belong to or take a leading role in many ESG-related initiatives and organisations.

We regularly bring together investors, policymakers, NGOs and environmental thought leaders to share lessons and promote innovative solutions to sustainability-related challenges. This includes participating in industry conference panels, exploring joint research and supporting the work of groups focused on ESG-related issues. See appendices for detailed list of our initiatives.

Notwithstanding industry collaboration to promote well-functioning financial markets, MSIM also partners with our colleagues in Morgan Stanley's Global Capital Markets Team as part of the ICMA Green and Social Bond Principles Working Groups, and the Firm is a member of the Global Impact Investing Network (GIIN), the Ceres Investor Network and the board of directors of the Partnership for Carbon Accounting Financials (PCAF).

We also actively collaborate with external industry peer groups to address the risk of "greenwashing" related to sustainability-focused products. In this regard, we have actively participated in regulatory consultations relating to the SFDR and MiFID II, among others, aimed at increasing the transparency of how investment managers integrate sustainability issues and risks into their investment decision-making process. Our Head of Sustainability Regulation and Policy is a member of the Irish Funds' ESG Policy and Legal workstream, representing MSIM in such discussions to agree on best practices and also contribute our views and learning to promote greater disclosure in a manner that mitigates the risk of greenwashing, and to assist industry peers in responding to relevant policy initiatives in a meaningful and impactful manner.

Some of the risks identified in this principle are part of our collaborative and key initiatives are provided in Principle 10.

Principal Adverse Impacts on Sustainability Factors

The business activities of the companies we invest in may have some level of adverse impact on sustainability factors such as environmental and social matters. SFDR has defined a set of metrics for financial market participants to measure and report on principal adverse impacts, covering themes such as greenhouse gas emissions, biodiversity, waste, employee and social matters, and violations of international norms, amongst other topics. These principal adverse impacts may be taken into account for products that fall within the scope of this regulation.

MSIM's investment teams follow their own investment approaches and methodologies to determine if and how to consider or prioritise principal adverse impacts, as appropriate for each product, in line with its specific investment policy. We use reasonable efforts to obtain the required data to monitor these potential impacts, and to understand any remediation efforts undertaken by companies. Portfolio managers maintain discretion over the extent to which the outcomes of this due diligence affect ongoing engagement and asset stewardship.

Across products that do take principal adverse impacts into account, MSIM's Portfolio Surveillance and GRA teams monitor and review portfolio holdings for adherence with the relevant commitments and restrictions defined in each product's investment policy.

Additionally, we strive to adhere to several normative business conduct codes and standards. MSIM adopts the principles-based framework for responsible investing as a signatory to the Principles for Responsible Investment (PRI). We also adhere to the governance standards and implement the UK Stewardship Code and other relevant regional stewardship codes in our approach to investing and stewardship.

Finally, the collaboration of our private markets investing businesses with ESRM to identify and address potential environmental and social issues, as outlined in the ESPS, also supports MSIM's monitoring and mitigation of potential principal adverse impacts.

Principle 5

Review and Assurance

Signatories review their policies, assure their processes and assess the effectiveness of their activities

Review, Oversight and Continuous Improvement of Policies and Processes Ensuring Effective Stewardship

Ongoing review, assessment and reflection of our policies, processes and frameworks are crucial in ensuring the effectiveness of our stewardship approach in response to the evolving industry landscape and, most importantly, ensuring that our stewardship activities continue to deliver outcomes aligned with our core values of putting clients' interests first.

We follow a robust governance review and sign-off process by relevant functional and senior stakeholders (based on the type of policy, process and framework). Though internal processes guide the frequency of review and updates of different types of policies, we take a pragmatic approach and may conduct ad hoc reviews/updates, if and when there are time-sensitive drivers such as material incidents or regulatory amendments, the effective dates of which may precede our regular review and update cycles. Examples of these include:

MSIM PROXY VOTING POLICY AND PROCEDURES

As described in Principle 2, our MSIM Proxy Voting Policy was updated earlier this year in line with our commitment to conduct annual updates in Q1 of each year.

The MSIM Proxy Review Committee (PRC) has responsibility for overseeing the implementation of the MSIM Proxy Voting Policy and meets at least quarterly and reviews and considers changes to the MSIM Proxy Voting Policy at least annually. Regular review of the MSIM Proxy Voting Policy by the MSIM Sustainability team and the MSIM Global Stewardship Team has led to ongoing incremental improvements and clarifications to the existing policy—and during this reporting period the teams actively engaged to seek the views of MSIM's public-side investment teams to ensure that proposed amendments were aligned with their proxy voting strategies and ultimately MSIM's end-clients. These were then incorporated and presented to the relevant boards for approval. Key updates for 2023 focused on ESG issues expected to be prominent during the proxy season:

- **Governance:** Clarification that MSIM supports hybrid shareholder meetings but would not support proposals seeking to establish a "virtual-only" format, restricting shareholder engagement.
- **Environmental:** Clarification on support for the use of Science Based Targets by companies to ensure emissions are aligned with the Paris agreement.
- **Social:** Clarify support for shareholder proposals that seek disclosure of relevant diversity policies and meaningful workforce diversity data, including EEO-1 data.

Looking ahead, the MSIM Sustainability team and the MSIM Global Stewardship Team will continue to actively incorporate MSIM's investment teams' views as they provide crucial intelligence on guiding companies in which we invest towards better ESG practices, which we believe produce long-term, sustainable returns. Future updates will further integrate MSIM's governance and proxy voting with clients' investment goals, using votes to encourage portfolio companies to enhance long-term shareholder value and to provide a high standard of transparency such that equity markets can value corporate assets appropriately.

SUSTAINABILITY OVERSIGHT AND GOVERNANCE

In recognition of the risks that ESG and other sustainability factors can pose to MSIM's business and clients, MSIM has developed a sustainability risk function within its non-financial risk (NFR) department. The purpose of this function is to contribute to the enhancement of the MSIM sustainability programme by taking a leadership role in strengthening its control and governance framework. Other responsibilities include, but are not limited to, overseeing and challenging the first line of defence on sustainability matters and performing independent risk assessment of the sustainability framework. A summary of key processes includes:

- **Product Governance Process:** sets out how products with ESG features are considered and approved
- **Sustainability Consideration Checklist:** MSIM similarly adopted a multi-dimensional approach to review our ESG Checklist, which aims to document product/investment-level objectives and methodologies (Principle 2)
- **Marketing Review Process:** sets out how ESG statements and claims in marketing materials are reviewed, and by whom
- **SFDR Incident Oversight:** reviews outstanding investigations and passive breaches, and the consistent application of the breach remediation policy
- **Protocol for Review of ESG-Related Public Statements and Memberships:** sets out pathway for review of

ESG-related Public Statements and requests to join ESG-related initiatives

- **Collaborative Engagement Process:** sets out risk assessment process to be followed when an investment team wishes to engage with a company to effect specific changes or on thematic issues
- **Product Disclosures Process:** sets out process to be followed for SFDR pre-contractual and periodic disclosures

MSIM is also aware of the evolving global legal, regulatory and industry landscape relating to ESG and will continue to adapt its governance framework accordingly to meet these obligations.

MSIM SUSTAINABLE INVESTING POLICY

The MSIM Sustainable Investing Policy was updated in May this year to reflect, primarily, the enhanced sustainability governance structure including the creation of the MSIM ESG Committee. The MSIM ESG Committee now has responsibility for and oversight of the MSIM Sustainable Investing Policy, which it reviews periodically and updates as appropriate.

Additional updates expected in Q4 of this year will include updated EU Sustainable Finance Disclosure Regulation (SFDR) Level 2 language relating to entity-level Principal Adverse Impact (PAI) considerations to align with our Irish Management Company, MSIM Fund Management (Ireland) Limited's entity PAI statement, and the inclusion of our MSIM-level sustainability approach and MSIM engagement themes, given the addition of our fifth theme, Natural Capital & Biodiversity. These updates are driven by our periodic internal reviews to reflect enhancements to MSIM's sustainability governance and to ensure consistency and transparency in messaging across different channels.

Internal and External Assurance; Continuous Improvement of Stewardship Policies and Processes

Assurance of MSIM's sustainability and stewardship policies, processes, activities and reporting is important in ensuring we continue to deliver on our client commitments in line with internal and external regulatory and industry requirements, and that our reporting and communications are an accurate reflection of this and are fair, balanced and understandable.

INTERNAL

Internal Audit's assurance approach provides an objective assessment of the effectiveness of MSIM's policies, processes, activities and reporting, as IAD is fully independent of the business, with the Chief Audit Officer reporting to the Chair of the Firm's Board Audit Committee and administratively to the Firm's Chief Executive Officer. Additionally, the EMEA Head of Internal Audit reports to the Chair of the MSIM Audit Committee and administratively to the EMEA Chief Executive Officer. IAD has full accessibility to Morgan Stanley and possesses a deep knowledge of the business and applicable regulations. ESG is also a focal area for IAD across the Firm, with multiple audits conducted across business units between 2022 and 2023 focusing on climate risk, sustainable finance and ESG investing.

IAD's mandate is to evaluate the design, implementation and operating effectiveness of the system of internal control across the Firm using a variety of tools and techniques at its disposal. Every activity (including outsourced activities) and every entity of the Firm (including subsidiaries, affiliates and branches) are subject to IAD coverage. IAD identifies and assesses key risks associated with the Firm's products, services and activities ("auditable universe") to inform its coverage for the assurance plan activities, and evaluates the adequacy and effectiveness of the Firm's system of internal control. IAD will consider the key aspects of a business's control framework, including evaluating the key processes of other control groups who work with the business, such as Compliance, Operations, Technology and Finance.

IAD conforms with the Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing, which is validated by an independent third party every five years. To fulfil its purpose, IAD maintains a professional staff with sufficient knowledge, skills and experience to meet these requirements.

In Q4 of 2022, IAD completed an audit of the MSIM ESG investing framework, including sustainability governance, monitoring over sustainable investing, ESG integration in portfolio management activities, sustainable investing reporting and the use of exclusionary screens. IAD also completed a separate audit in Q4 2022 focused on the inclusion of sustainability factors in the product governance process and disclosures related to the EU SFDR Level 1 requirements.

In Q1 2023, IAD completed an audit of MSIM's proxy voting processes, including governance and oversight of proxy voting, management of proxy vote processing, vendor monitoring and user access entitlements to key proxy systems. In addition, IAD commenced an audit of EU SFDR Level 2 and TCFD, including disclosure generation, incorporation and documentation of the sustainable investing considerations into the investment decision-making process and monitoring of these, and adherence to selected investment team ESG policies.

Internal Assurance of Stewardship

In Q4 of 2021, the MSIM Compliance team completed an ESG Testing review to assess whether relevant ESG disclosures complied with investment team practices, documentation and applicable regulations, and in Q4 of 2022 IAD completed an ESG Investing audit on our sustainability and stewardship governance, reporting and select portfolio management processes. Though Firm policy does not allow external disclosure of results of internal reviews/audits, we continue to review, assess and enhance our overall approach holistically, as identified in our previous 2022 report. Progress is provided throughout this report in Principles 6, 7 and 10.

MSIM LTD BOARD

The MSIM Ltd Board is ultimately responsible for overseeing the business of the entity, including oversight of its stewardship activities. As noted previously, the MSIM Ltd. Board has approved the issuance of this report.

EXTERNAL

On proxy voting, an external auditor also performs an external SSAE-18 audit of the proxy voting process and procedures as part of the Firm's annual Sarbanes-Oxley review. We have passed this audit in each of the last eight years, indicating that our process continues to be robust and effective.

MSIM maintains voting records of individual agenda items at company meetings in a searchable database on its website on a rolling 12-month basis. As a result of wanting to provide greater transparency to clients, we have enhanced and improved this reporting to include vote rationales for items voted against management and rationales for voting on shareholder resolutions.

OTHER REVIEWS TO ASSURE PROCESSES AND ASSESS EFFECTIVENESS OF STEWARDSHIP ACTIVITIES

As part of MSIM's ongoing oversight of third-party providers, MSIM performs periodic due diligence on service providers used to support our stewardship and investment activities. Topics of the reviews include, but are not limited to, conflicts of interest, methodologies for developing their policies and vote recommendations, and their resources. Where necessary or appropriate, MSIM also conducts on-site/virtual due diligence meetings and meets with research staff, and compliance and information technology teams to review policies and procedures.

SECTION 2

Investment Approach

Principle 6

Client and Beneficiary Needs

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them

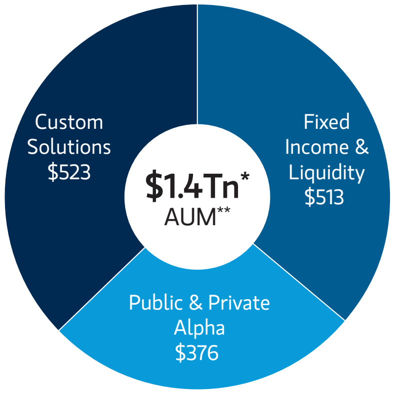
Understanding and Meeting Our Clients' Needs

MSIM has a diverse portfolio of clients with a broad spectrum of needs. We believe that our independent investment teams' structures give us the agility and perspective to understand and meet the plurality of our clients' needs and investment objectives. Our diverse client base also benefits from the advantage of having global teams of investment professionals in major hubs, including, but not limited to, New York, Boston, Washington D.C., London, Mumbai, Singapore, Hong Kong and Tokyo, which seek to leverage their in-depth knowledge and expertise to capitalise on investment opportunities in major markets across the globe. The charts below provide a breakdown of our AUM across our four investment platforms and regions of investment, as well as a breakdown of our diverse client base. We seek to embed sustainable investing into our investment strategies, where appropriate.

FIGURE 6.1

MSIM Investment Capabilities and Assets Breakdown[9]

Assets By Investment Capabilities ($Bn)



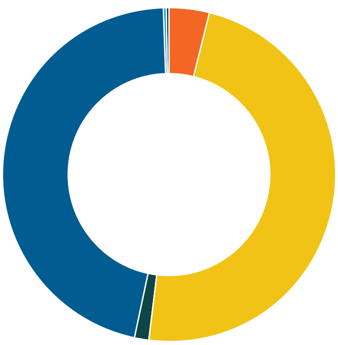
*For the purposes of AUM consolidation, Eaton Vance AUM (including its four investment brands – EV Management, Calvert Research and Management, Parametric Portfolio Associates and Atlanta Capital) has been included within our total MSIM AUM and asset class breakdowns.

**Assets under management (AUM) includes all discretionary and non-discretionary assets of Morgan Stanley Investment Management (MSIM) and all advisory affiliates. MSIM Fund of Fund assets represent assets under management and assets under supervision. MSIM direct private investing assets represents the basis on which the firm earns management fees, not the market value of the assets owned.

FIGURE 6.2

AUM by Region of Investment

As of 30 June 2023

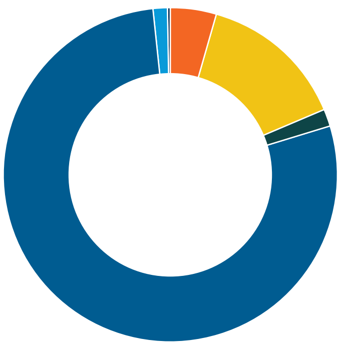


Europe, Australasia, Far East	3.91%
Global	48.27%
Global Emerging Markets	1.30%
North America & LatAm	46.10%
Asia ex-Japan	0.40%
LatAm	0.02%

FIGURE 6.3

MSIM AUM Breakdown by Client Geography

As of 30 June 2023



Asia, Australia	4.7%
Europe	14.0%
Latin America, Caribbean, Atlantic Basin	1.8%
North America	78.0%
Middle East	1.5%
Africa	0.1%

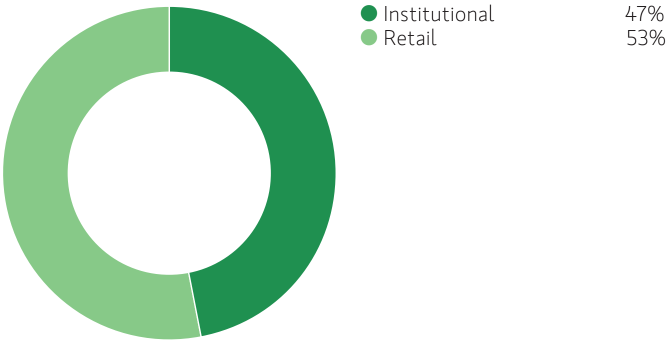
[9] "Sustainable Investing" does not represent a separate investment team, but is a term used to refer to our other investment teams when acting with a sustainable investing focus.

FIGURE 6.4

MSIM AUM Breakdown by Client Type and Product Type

As of 30 June 2023

MSIM AUM Breakdown by Client Type



MSIM AUM Breakdown by Product Type

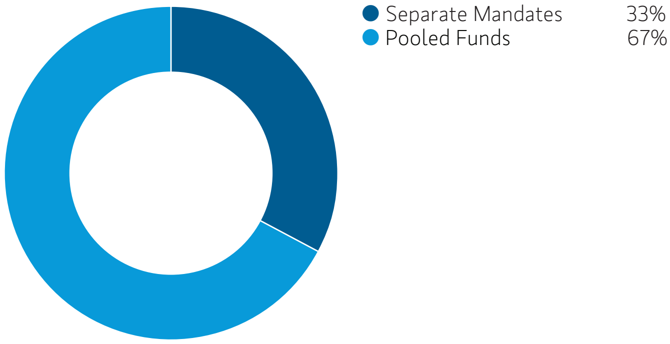
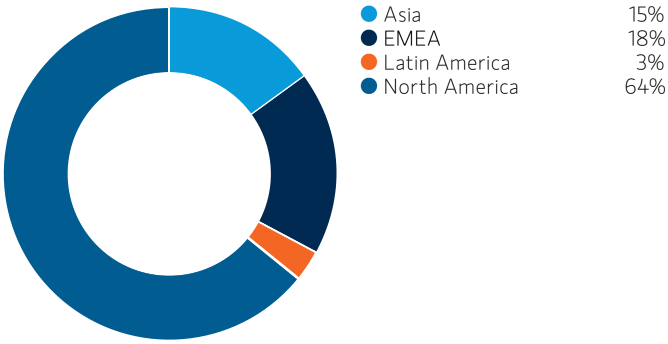


FIGURE 6.5

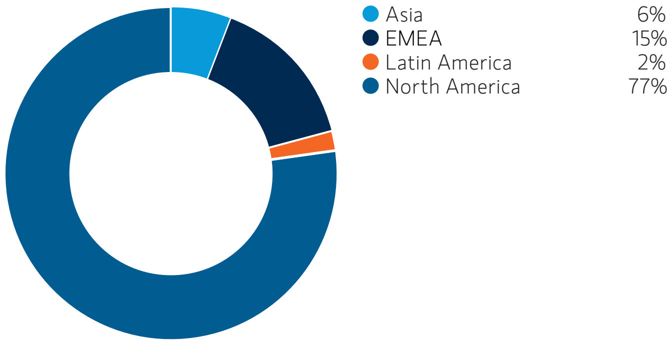
MSIM AUM Breakdown by Asset Class and Geography

As of 30 June 2023

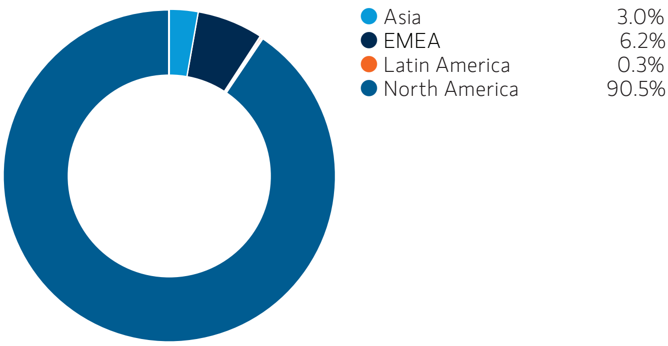
High Conviction Equities



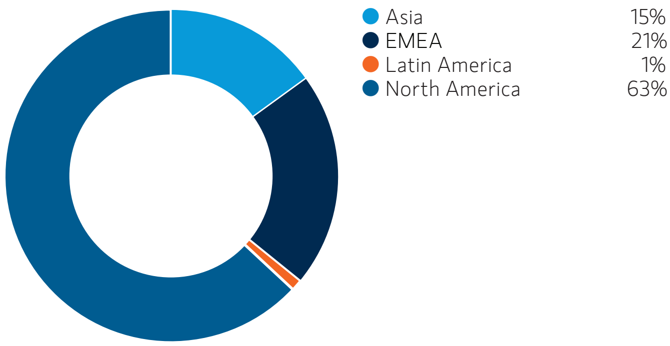
Fixed Income & Liquidity



Customised Solutions



Alternative Investments



Investment Horizons

The investment horizon of MSIM's clients varies depending on their individual financial goals, objectives and liabilities. MSIM works with clients to ensure that the investment horizons of the strategies and solutions we are providing align with their needs. While these may vary across our independent investment groups and platforms, generally most MSIM investment teams consider a three- to five-year investment time horizon, with some teams being below or above that range. For example, some of our concentrated global equity portfolios have held certain companies for decades while our money market, liquidity and asset allocation funds consider much shorter time horizons.

The investment horizon may also vary depending on the asset classes and investment strategy pursued—for example, some of our private asset funds could have an investor lock-in period of up to eight to ten years, whereas our Liquidity funds tend to have an investment horizon of one year or less—as well as market conditions, which, in turn, are impacted by factors such as investor confidence, geopolitical events (e.g., the Ukraine-Russia conflict) and marketwide risks (e.g., inflation and the cost-of-living crisis).

Obtaining Clients' Views

It is MSIM's goal to help our clients address their particular investment needs as well as regulatory and reporting requirements. Over the past 12 months, in anticipation of regulatory deadlines and effective dates (e.g., TCFD) we have proactively reached out to end-clients and intermediaries ahead of time to understand the scope of additional and/or bespoke regulatory reporting we can support, in line with our client-centric commitment. As a result of this, we have implemented a number of internal processes to collect specific types of data for clients and/or incorporated their needs in our data and technology build-out, including further assessments on third-party data providers on coverage, and how these may support our clients' needs (please see Principle 2 for more details).

Client Relationship Management at MSIM

Through our investment, distribution and client relationship teams we are focused on fostering meaningful relationships with our clients and in building one MSIM following the successful integration of Eaton Vance. We value developing unique and holistic partnerships with clients that are customised to a client's specific investment needs, interests and goals, which often include specific sustainable investing objectives.

Our various client interactions provide us with an opportunity to better understand how to meet their investment needs. Our investment teams have published research and thought leadership in response to specific client inquiries and areas of interest, and also joined investor coalitions or industry organisations that are important to our clients. We strive to be responsive to our clients' needs to meet the plurality of their specific investment objectives and targets.

Incorporation of Client Views, Stewardship and Investment Policies Into Asset Management

The incorporation of clients' views, stewardship and investment policies are generally conducted by individual investment teams corresponding to their specific clients, as demonstrated by the examples that follow.

INTERNATIONAL EQUITY

The IE team regularly meets with clients to respond to individual questions/requests, e.g., customise separate account portfolios with additional client-specific exclusions. In addition, the team provides customised data and reporting to their UK pension fund clients for their use in reporting in order to meet their own regulatory and client reporting needs.

The IE team also communicates with clients as follows:

- Biannual Engage report, outlining the IE team's engagement activities and voting statistics as well as ESG-related thought pieces
- ESG fact cards for all global SICAV funds as well as for the Global Sustain OEIC and the Global Sustain strategy
- Engagement case studies and proxy voting data may be shared during the team's quarterly update calls

GLOBAL OPPORTUNITY

The Global Opportunity team ensures that its client mandates take into account clients' stewardship policies through consultation during the onboarding process based on open dialogue and consensus on Investment Management Agreement guidelines, agreed to by each client. In 2020, through the incorporation of one large client's sustainable investment objectives, the Global Opportunity team partnered with the client to launch Global Change, a customised global equity strategy that has over $6.8 billion in assets as of 30 June 2023. This demonstrates both the success of incorporating a client's sustainable investment objectives and stewardship policies as well as collaboration/partnership to achieve the client's specific goals.

The Global Opportunity team regularly obtains client feedback, which is integrated into the team's annual ESG Update that discusses ESG integration within the investment process. For example, clients have previously requested company engagement case studies and information relating to the carbon footprint of portfolios, which the team incorporated into its annual ESG Update. The Global Opportunity team continues to innovate and evolve its process, and believes that integrating ESG within its investment analysis improves the risk-and-reward profile of client portfolios. To do this, client feedback is incorporated into the team's future plans, including ESG reporting and potential product launches.

EMERGING MARKETS EQUITY

The EME team seeks to add value to clients' stewardship and investment policies through engagements with corporates on sustainability issues on clients' behalf, portfolio-level sustainability reporting, and detailed reviews with clients on their stewardship practices. The team also publishes a yearly report with detailed ESG metrics and engagement examples. Customised reporting on the team's ESG progress is provided to clients throughout the year. In addition to this, the team customises portfolios for clients who wish to implement specific exclusions or additional ESG standards.

The EME team also engages with clients on sustainability and ESG topics to understand their investment policies and stewardship activities so that the team can partner with them and ensure alignment with client interests.

FIXED INCOME ORGANISATION

The Fixed Income organisation welcomes collaboration with and feedback from clients in delivering innovative fixed income solutions to meet clients' sustainability requirements and to confront the challenges of ESG integration in fixed income more generally.

Examples of the organisation's constructive interactions with clients over the past year include the following:

- **Implementing customised climate-focused mandates:** The team leverages access to a highly sophisticated institutional investor base, particularly in Europe, to test and receive feedback on their ESG frameworks, methodologies and reporting. For instance, they manage a number of climate-focused client mandates, in which the implementation of specific portfolio decarbonisation pathways was the result of their dialogue with them around the most appropriate metrics and targets to use, in order to align with their organisational policies while taking into consideration science-based climate frameworks.
- **Engagement aligned with clients' objectives:** Some of the organisation's client mandates embed specific expectations around active engagement with bond issuers to help attain the portfolio's objectives. As an example, they manage a climate-focused credit mandate for a large European institutional client, where their ability to evidence the role of issuer engagement on decarbonisation plays a key role.
- **Developing new approaches to expand the scope of sustainability within portfolios, e.g., to sovereigns and securitisations:** The team has started to discuss with some of our clients how to embed decarbonisation targets for sovereign bond issuers in aggregate portfolios, a growing area of focus within the fixed income market, which presents some implementation challenges.
- **Expanding data access to respond to clients' needs:** The team continues to assess the value of onboarding new ESG datasets to best serve client needs. For example, they have recently expanded their access to climate-related data, in line with client demands and in alignment with their desire to most effectively deliver on their responsibility to monitor exposures to climate-related risks and to decarbonise portfolios, where applicable.
- **Evolving portfolio-level ESG reporting:** The team regularly looks for client feedback on portfolio-level ESG disclosure and reporting to ensure it aligns with market best practice, and it is highly informative to clients.

PRIVATE CREDIT AND EQUITY

The PC&E teams implement client-specific stewardship requirements (through side letters or negotiation of the fund documents) such as: (1) excuse rights or investment restrictions (e.g., tobacco, alcohol, weapons); (2) client-specific reporting; and (3) enhanced due diligence or portfolio-monitoring procedures.

The PC&E business published its inaugural ESG Report in 2021, which detailed how ESG is integrated throughout the investment life cycle across strategies (where relevant), PC&E's governance structure, ESG-related partnerships around ESG and select case studies that highlight the impact the PC&E teams have had through its work with portfolio companies. The 2023 report is currently being updated.

- Clients may request that the PC&E teams take further action in the form of increased transparency and reporting (e.g., according to IFC principles, in alignment with TCFD or specific reporting pertaining to modern slavery). These requirements are discussed and agreed upon through side letters with clients when the LP commitment is made to the strategy.
- Strategies across the PC&E teams may further provide LPs with material ESG updates during quarterly investor updates and/or annual meetings.

GLOBAL LISTED REAL ASSETS

The Global Listed Real Estate team actively works with separately managed account clients to customise investment strategies, guidelines and reporting requirements through the client onboarding process, and in response to ad-hoc requests and client communication, while taking into account a number of factors including client sustainability and proxy voting needs and investment objectives. In addition, the team provides clients with the flexibility to vote proxies if that is their preference or to have MSIM vote proxies on their behalf according to the MSIM Proxy Voting Policy.

The Global Listed Real Estate team has also participated in conferences and webinars and published thought leadership content to help communicate with clients on sustainability topics, including the team's stewardship and investment activities and outcomes.

The Global Listed Real Estate team has converted its European investment funds from SFDR Article 6 to SFDR Article 8 during the period, in response to market preference for investment vehicles with an increased emphasis on ESG considerations.

PRIVATE REAL ESTATE

Morgan Stanley Real Estate Investing seeks to manage the environmental footprint of assets in a way that enhances financial value and reduces negative impacts while maximising value to investors and the communities in which the funds operate. Interest in transitioning investment portfolios to net zero by 2050 is accelerating among the investor community. Select MSREI funds have set 2050 net-zero aspirations and interim Scope 1 and 2 carbon reduction targets.

PRIVATE INFRASTRUCTURE

The MSIP team publishes an annual ESG report for its investors that highlights the team's approach to the integration of sustainability considerations throughout the investment life cycle and provides an annual update on The MSIP team's focus areas and key accomplishments.

In addition, the MSIP team is a founding participant of the Global Real Estate Sustainability Benchmark (GRESB) Infrastructure Assessment and has participated in its surveys since inception in 2016. GRESB participants are scored and benchmarked on their ESG policies, management practices and performance. The GRESB Infrastructure Assessment covers a range of asset types, including energy generation, energy transmission and distribution, transportation, telecommunications, water and waste treatment, and social infrastructure. The GRESB process seeks to provide clients with an understanding of how portfolio companies are assessed against sustainability criteria.

The MSIP team also contributes to the Infrastructure Module of MSIM's UN PRI annual survey, which looks at responsible investment implementation during fundraising, pre-investment processes and post-investment processes.

Communicating With Our Clients About Our Stewardship Activities and Continuous Reviews

From a broader MSIM perspective, consistent with our pledge to have a clear investment process, we also pride ourselves on being available to our clients and providing them with regular and timely information on our services and stewardship activities. Collective stewardship and sustainable investing updates are consolidated and integrated into regular communications with our clients. These regular touchpoints include: annual or biannual client meetings; our annual client conference; quarterly conference calls (in the case of certain strategies); portfolio-level sustainability reports; and monthly information packages.

Client relationship managers and investment teams are also available to connect with clients outside these scheduled touchpoints. Via their regular client interactions, our investment teams have observed the increasingly prominent role that stewardship plays in our clients' investing objectives and that has informed the magnitude of our efforts in this space.

In 2023, MSIM hosted additional events, continuing to build on these important client relationships, by covering topics that are most meaningful to our clients. Some of these were/will be conducted cross-divisionally with our Firm colleagues, including, but not limited to:

- *Morgan Stanley Sustainable Investing Summit* – featuring ESG capabilities and thought leaders across our investment teams and businesses
  - Corporate executives and investors shared their outlooks on the clean-energy transition, new sustainability technologies and evolving regulations.
- *Morgan Stanley Asia Pacific Summit* – the Firm's flagship client event in Asia (since 2002) bringing clients together with policymakers, industry experts, thought leaders, corporate leaders and senior global investors exchanging views and sharing insights on topics that will shape the future.
  - There were 800 C-level executives from more than 400 leading public and private companies from the region in attendance and more than 2,000 top-tier global investors.
  - Three days of one-on-one and small-group meetings between corporates and investors, three days of track

presentations, fireside chats and panel discussions led by policymakers; industry experts; thought leaders; senior corporate management; and Morgan Stanley economists, strategists and sector analysts.

- The success of the Summit reflects the Firm's ranking as the No. 1 Asia Corporate Access Provider in Institutional Investor 2022.

In addition to these dynamic client touchpoints, this MSIM UK Stewardship report is the most comprehensive report on our collective global sustainability/ESG, engagement, proxy voting and stewardship activities across our investment platforms. Our last UK Stewardship 2022 report was shared with clients after receiving the FRC's approval, and we received positive client feedback on our progress, activities and outcomes. As mentioned above, individual investment teams may also publish team- or strategy-level engagement reports for clients, and provide engagement information and case studies on request.

The regular touchpoints also serve as opportunities to address client queries, such as how geopolitical or market events might effect portfolio holdings, portfolio managers' outlook on certain asset classes, companies or industries or details on portfolio performance. We typically seek client feedback to ensure that we deliver the highest level of client satisfaction through our sustainability/ESG and stewardship approach, investment products, client relationship management and client reporting solutions.

Effectiveness of Our Client Communication Methods

MSIM has assessed the effectiveness of our chosen methods to communicate with and understand the needs of our clients using factors such as direct client feedback, the scale and spread of our AUM across different regions and investment platforms (for example, due to increased ESG priorities and preferences across our investor and client base, we are seeing increased demand not only for our Sustainable Investing products but for bespoke reporting that will assist our clients' respective regulatory and stakeholder reporting/transparency requirements), and our ability to access our client and investor base (ranging from separate account clients with dedicated MSIM relationship managers to investors in our funds who are able to communicate with us through investor forums and conferences).

MSIM considers that our chosen communication channels and approaches have been effective in taking into account clients' sustainability and stewardship needs. We believe this is demonstrated firstly in the successful implementation and scale of our bespoke investment solutions, custom portfolios, multi-asset strategies and outcome-oriented accounts for clients—which, as of 30 June 2023, consists of $703 billion in AUM, half of our overall AUM. It is also evident from the long-standing relationships we have with many of our key clients, who have been invested in our strategies for decades—across different investment teams, either within a client capacity or as co-investors alongside our investment teams. Our longest legacy MSIM mandates date back to the 1980s, capital we have managed for approximately 40 years.

In 2023, MSIM continued to engage with our clients to get their feedback on both how well we communicate with them and how we reflect their views and priorities in the management of their portfolios. An example of this is our internal sustainability regulatory project workstream, which has been created to:

- Implement client sustainability preferences as part of client suitability assessments, in response to the EU MiFID II revisions, which became effective from August 2022; and
- Report on SFDR Level 2 product and entity disclosures, which came into effect on 1 January 2023.

This workstream consists of stakeholders across functional teams, including our MSIM Head of Sustainability Regulation and Policy, MSIM Sustainability team, Product Development, Legal and Compliance, Sales Management and ESG Data/Technology teams who work together to ensure relevant MSIM product information and data is tracked, monitored and measured so that clients can make better and more informed investment decisions when it comes to selecting their sustainability preferences.

MSIM continues to monitor different regulatory reporting requirements in different jurisdictions, where there is potential for asymmetry of reporting and information shared with clients in different jurisdictions, which we believe can create challenges for our clients with global mandates and footprints. For example, in the UK, the Sustainable Disclosure Regulation (SDR) is expected in Q4 of 2023. In line with our core Firm value of Putting Clients First, we are committed to understanding how we can ensure consistency in our disclosures across jurisdictions and support our clients with their reporting needs.

Principle 7

Stewardship, Investment and ESG Integration

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities

ESG Integration, Portfolio Management and Stewardship

Although issues prioritised during stewardship and investment decision-making vary across different MSIM investment teams, the teams are guided by MSIM-wide Sustainable Investing Policy, and Engagement & Stewardship Principles. MSIM investment teams act as responsible long-term investors and are responsive to ESG factors that they believe can present both material risks to and opportunities for the investment portfolios they manage.

MSIM adopts a tailored approach to ESG integration and stewardship, with public and private investment teams ultimately responsible for exercising their judgement to identify and integrate materially relevant risks and opportunities into their investment decision-making process, including due diligence and research, valuation, asset selection, portfolio construction, and ongoing engagement and investment monitoring. MSIM's investment teams assess materiality in the context of ESG integration and stewardship through the consideration of various factors, such as investment philosophy, asset class, the nature of the issuer, the size of the holding, the exposure to sustainability risk (including both physical and transition risks) and the investment time horizon, ultimately reflecting the Firm's core values.

The following examples demonstrate the different types of issues, ESG factors and stewardship methods prioritised by investment teams across asset classes and geographies throughout the investment process generally and during the reporting period.

High-Conviction Equities

While engagement and Sustainable Investing approaches differ across our individual High-Conviction Equity teams, many of our investment teams or asset class platforms have appointed at least one dedicated Sustainable Investing/ESG specialist to coordinate and support this work for the relevant group. The following examples demonstrate the diverse approaches taken by our investment teams with respect to ESG integration in investments and stewardship.

A) INTERNATIONAL EQUITY

When integrating ESG analysis into the investment process, the team explicitly focuses on material ESG risks and opportunities and their effect on the sustainability of future returns on operating capital. The team believes that seeking to understand how ESG factors may impact long-term returns has to be rooted in company-specific analysis. The team uses its proprietary tools as part of this analysis.

MRI (See also Principle 4)

- The fundamental question each investor seeks to answer is whether the factors in question may significantly impair or enhance the company's long-term returns on operating capital employed, the team's primary quality metric.
- For each company, the team attempts to identify
  - Industry-specific ESG factors/risks.
  - Key universal ESG factors/risks (team agreed).
  - Quantifiable ESG data is also analysed.

Pay X-ray

- Scoring tool to compare company pay plans.
- Each element of pay plan receives a positive or negatives score, rolled up into an overall company score.
- The team may use this score to help inform their decisions when voting on remuneration.

Information gathered through ESG analysis and stewardship contributes to the team's acquisition, monitoring and exiting decisions. The team may analyse and quantify the financial materiality of ESG considerations, for instance, in terms of the percentage of sales and profits that may be affected by a particular factor (e.g., shifts in demand, impact of potential new regulation on the business model), potential impact on the growth rate and the cost base of the company, and the company's strategy to mitigate such financially material risks or take advantage of any opportunities. This is reviewed by the investment team as part of discussions in their weekly investment meetings when new companies are evaluated and current holdings monitored.

The nature of ESG factors can make it challenging to quantify their impact. As such, the team may employ a range of methods to reflect the outcome of their ESG analysis:

- Where feasible, they run scenario analyses, e.g., forecasting the impact of a financially material ESG factor on the company's growth rate, profits or capex and the resulting change in fair value—for instance, modelling the impact on profits and valuation of consumer staples companies switching to more sustainable packaging.
- They may adjust the weighted average cost of capital (WACC) to reflect the higher or lower risk.
- They may also reflect potential risks by adjusting the position size, in addition to any model or WACC changes.
- Finally, they may choose not to invest in a candidate company if they believe financially material ESG risks as assessed by the MRI are too high.

A high MRI grade does not automatically suggest a large position and a relatively low MRI grade does not automatically trigger a reduction or divestment of a holding. The ESG assessment is an important component of the research process, not the sole driver of investment decisions.

The following examples detail instances where the team adjusted the financial model for companies held due to stock-specific, sector-related and systemic ESG risks identified by the team:

- For a consumer staples company, the team assumed a sub-GDP terminal growth rate of 1% when valuing the company and used an 8.5% WACC (0.5% above competitors and considerably higher than the industry) due to the ESG risks for the company.
- The team added 0.1 to the beta for two of the professional services companies they hold due to the ESG risks of the sector, with an approximate 10% impact on fair value.
- For a communication services company the team owns, they chose to adjust the WACC due to regulation-related ESG risks regarding data use and data protection. The team also chose to moderate the position size to reflect the risk.

B) COUNTERPOINT GLOBAL

The Counterpoint Global team employs sustainability research additively within their investment process, acknowledging that environmental and socially oriented initiatives within companies can be drivers of value when those initiatives capitalise on:

- **Moat Extension**
  - Example: increasing the switching costs from smart buildings' efficiency data
- **Growth Opportunity**
  - Example: a new market such as mobile-based financial services for the under-banked population
- **Efficiency Opportunity**
  - Example: a profitability enhancer such as energy efficiency practices in cloud computing, and
- **Optionality**
  - Example: making plant-based protein more widely available

The Counterpoint Global team's Sustainability Research process focuses on identifying material opportunities and risks presented by environmental, social and governance factors for companies. As part of the team's process, they focus on identifying companies with "sustainability optionality," which they define as the potential to benefit from the growing demand from stakeholders for environmentally and socially responsible products and services. The team views sustainability optionality as a form of intangible value, which is often overlooked by market participants and thus serves as a key differentiator in how they assess the long-term prospects of companies.

Key aspects of the team's evaluation include engagement with company leadership, systematic evaluation of the alignment management's long-term incentives, and an assessment of the cultural adaptability of organisations (with a particular focus on identifying companies that give their sustainability leaders the agency and decision-making authority to capitalise on opportunities). In terms of material risks, the team seeks to discern the externalities created by companies that detract from the environment and society, and can ultimately result in substantial costs. The team integrates these insights into their assessment of a company's competitive advantages and long-term prospects, which are core to Counterpoint Global's investment process.

Rather than using ESG factors as a screen to reduce the investment universe, the team uses sustainability research not only as an additive process both to augment their understanding of existing investments, but also to identify new investment opportunities. They go a step further than passive sustainability integration (i.e., screens) to actively partner with select portfolio companies to help them understand and realise the value of their "sustainability optionality."

C) GLOBAL OPPORTUNITY

The Global Opportunity team's investment process integrates analysis of sustainability with respect to disruptive change, financial strength and environmental and social externalities and governance. The investment

FIGURE 7.1
Proprietary HELP & ACT Framework

WE CARE HOW COMPANIES HELP & ACT

H ealth: Improve humanity's quality and duration of life
E nvironment: Protect the planet and its inhabitants
L iberty: Freedom, equality, privacy and security
P roductivity: Improve our knowledge of how the universe works to make our lives better within it
&
A gency: Skin in the game and incentives to work on behalf of long-term shareholders
C ulture: Encourage a culture of innovation, adaptability and shared values
T rust: Reliability of financial statements and management

team views ESG as a component of quality and considers the valuation, sustainability and fundamental risks inherent in every portfolio position.

As bottom-up investors, the Global Opportunity team does not outsource ESG analysis to third-party providers of sustainability ratings that produce scorecards ranking companies versus industry peers. Based on the investment team's analysis, such ESG ratings are derived from dozens of metrics and hundreds of ESG data points, thus such approaches may reward corporate issuers with high rates of disclosure rather than businesses with sound operational performance. In the investment team's view, ESG ratings approaches risk leading investors to inconsistent and misleading conclusions. Therefore, the Global Opportunity team deems disclosure rates to be of lesser importance than potential material risks to company fundamentals.

The Global Opportunity team's quality assessment identifies the key ESG-related opportunities and risks for each prospective investment based on materiality to the long-term fundamental drivers of the business. Using the team's proprietary framework, HELP & ACT (please see *Figures 7.2* and *7.3* above), the Global Opportunity team analyses potential impacts to humanity's health, environment, liberty and productivity, and governance measures to ensure agency, culture and trust, framed by a set of questions applied consistently across companies.

In company engagements, investment team members typically discuss topics specific to each business. Examples of general questions the team typically asks company management teams include:

- What is your most material ESG opportunity?
- What is your most material ESG risk?
- How are management incentives aligned with shareholders?

The Global Opportunity team publishes an ESG Update that discusses ESG integration within the investment process using the HELP & ACT proprietary framework, company engagement, and the carbon footprint of the portfolios, and summarises participation in collaborative initiatives and relevant MSIM policies.

FIGURE 7.2
Proprietary HELP & ACT Framework – SDGs

HELP & ACT is informed by the Sustainable Development Goals (SDGs) adopted by the United Nations in 2015, comprised of 17 goals and 169 targets to be achieved by 2030 with the aim "to end poverty, protect the planet, and ensure prosperity for all."

Source: United Nations The content of this publication has not been approved by the United Nations and does not reflect the views of the United Nations or its officials or Member States. For more details on the Sustainable Development Goals, please see https://sdgs.un.org.

D) EMERGING MARKETS EQUITY

The EME team manages both funds that integrate ESG as well as Sustainable funds with measurable positive environmental and/or social objectives. The EME team's Sustainable funds invest in companies that meet the product's sustainable commitments, and the team may additionally choose to implement exclusions based on activities and norms.

The EME team's ESG and sustainability research informs its engagement strategy, which seeks to understand the sustainability strategy and/or financially material issues for each company. More specifically, factors the team examines can include, but are not limited to, carbon emissions, environmental footprint (e.g., water usage, recycling practices, waste to landfill), worker safety, employee retention and turnover, supply chain management, and board independence and composition. To identify and assess these ESG issues, the EME team refers to third-party sources (such as MSCI, Bloomberg and ISS), company financial reports and disclosures, as well as the team's own internal research, which can include dedicated company specific engagements with management on ESG.

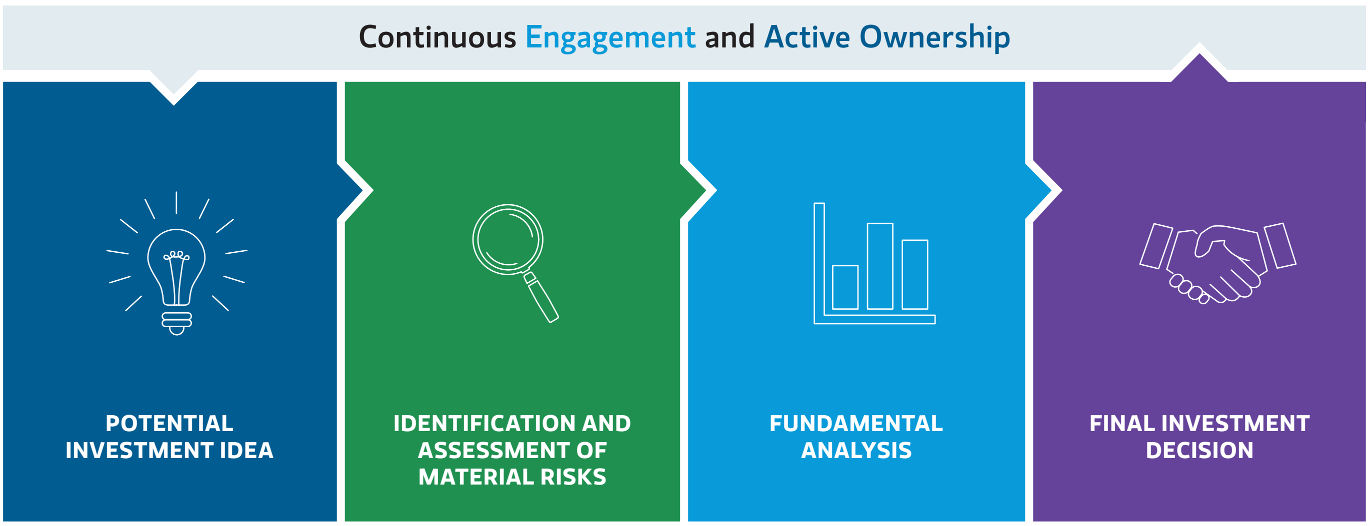
For the EME team's Sustainable funds, the team has identified several sustainable themes around which it seeks to align the portfolio after the initial negative screening process.

The EME team seeks companies that contribute positively to several sustainable themes, including but not limited to responsible energy, access and affordability, decent work and innovation, and sustainable production and circular economy. To identify names in this category, the team looks for businesses that are aligned by revenue exposure and/or business operations to identified sustainability themes. The team uses both third-party data (such as MSCI and Bloomberg) as well as company disclosures to measure alignment with these themes.

As active investors, the EME team integrates material ESG data and analysis into investment decision-making. The degree of this integration varies between products. The baseline for each product is anything that is financially material, which can include sustainability factors. For sustainable products, the team includes carbon commitments and thematic alignment.

The team is moving from baseline engagements, or engagements on a wide array of issues, to more targeted ones. The team continued its work in conducting thematic engagements with portfolio companies on financially material issues, such as decarbonisation. Over the course of the year, the team directly engaged with companies from high-emitting sectors to analyse the viability of existing transition pathways. Through their engagements, the EME team is able to identify key drivers of these companies' emissions and potential opportunities for improvement and change. This furthers the team's efforts to improve ESG integration within the investment process.

FIGURE 7.3
EME ESG Approach



ESG Data

In terms of limitations to the team's process, data still remains difficult to assess or quantify, specifically climate change scenario analysis or social metrics such as gender pay gap. The EME team engages with third-party vendors and portfolio companies on these data gaps to increase transparency.

FIXED INCOME AND LIQUIDITY

The Fixed Income organisation supplements traditional credit analysis by conducting ESG research in-house and integrating the analysis of material ESG risks and opportunities in the investment decision-making process.

The teams' approach to embedding ESG considerations into the investment process relies on three key steps:

1. **ESG integration through proprietary ESG research** and scoring methodologies across corporate, sovereign and securitised debt, and through in-depth evaluations of labelled Green/Sustainable bonds;
2. **Active engagement with bond issuers** to seek to drive positive change in the management of ESG risks and opportunities, discussed in more detail in Principle 9; and
3. **Measurement and ongoing monitoring of key ESG metrics** at the portfolio level.

1. ESG INTEGRATION THROUGH PROPRIETARY ESG RESEARCH AND SCORING METHODOLOGIES:

As described in Principle 1, the Fixed Income organisation partners with Calvert to conduct ESG research in-house, and to develop models that reflect the characteristics of different asset classes within fixed income.

Across the team's proprietary ESG research and scoring methodologies, the focus and prioritisation is on:

I. Reflecting the relative materiality of E, S and G factors for an investment;

II. Rewarding positive sustainability momentum; and

III. Penalising exposure to severe ESG-related controversies that can adversely impact bond price or liquidity.

These assessments and scores inform the portfolio construction process and investment decision-making across the Fixed Income platform, across a range of asset classes (where prioritisation of ESG issues may differ).

FIGURE 7.4

FIXED INCOME ASSET CLASS	PROPRIETARY METHODOLOGY
Corporate Bonds	Over 700 underlying vendor datapoints feed into custom environmental and social thematic indicators in Calvert's ESG research models. The team's ESG analysts seek to uncover financially material ESG issues to which a sector is exposed, and then determine how well each company is managing these risk exposures. This analysis results in a proprietary ESG score and assessment that is relevant in the context of a specific sector peer group. The overall ESG score is composed of a structural score, representing a long-term measure of the company's approach to ESG risks in its operations, products and services, and of a circumstantial factor, reflecting the ESG analyst's shorter-term evaluation of the company's involvement in and response to controversial or adverse events.
Sovereign Bonds	The team conducts statistical analyses on sustainability data from the official sector, focusing on factors that underpin economic progress and resilience of sovereign nations, and which it considers most material to the performance of their debt, to develop the team's own proprietary ESG scores. Additionally, the team make adjustments to the underlying E, S and G scores based on GDP per capita, to help remove bias against emerging markets, and incorporate a momentum factor that combines the analysts' qualitative view of recent developments within a country with a quantitative assessment of track record. The team is able to use its scoring methodology to help construct a sovereign portfolio that is tilted towards what it considers to be the stronger-performing countries from a sustainability standpoint.
Securitised Investments	The team assesses and scores a security's negative, neutral or positive contribution towards sustainability factors (which differ based on type of securitisation). Contributions are then mapped towards specific UN Sustainable Development Goals (SDGs). The team uses this approach to screen its portfolios.
Green/Sustainable Bond Evaluations	The team's proprietary Sustainable Bond Evaluation Framework seeks to assess each bond and score it based on multiple criteria, including the fit within the issuer's broader strategy, the relevance and additionality of the selected projects or sustainability indicators in the context of the issuer's core business, the alignment of the bond structure with best practice in the markets, such as the International Capital Market Association's (ICMA) Green and Social Bond Principles, external verifications and the quality of reporting. This process includes an evaluation of the extent to which the transaction contributes to specific sustainability objectives aligned with the UN Sustainable Development Goals (SDGs).

2. ACTIVE ENGAGEMENT WITH BOND ISSUERS

The team considers meeting management as an integral part of its investment process, including within its evaluation of the ESG credentials of issuers. Touchpoints with management on ESG-related topics occur across multiple levels:

I. **Trading desk:** Fixed Income traders maintain relationships with the banks that underwrite and distribute new bond issues, including green and sustainable bonds. Once a new bond issue is announced, the trading desk is alerted and one of the sector credit analysts is assigned to cover the issue.

II. **Credit Analysts:** The credit analyst will typically review roadshow materials and attend a roadshow to meet with the issuer's management team or other representatives. The roadshows offer the analysts the opportunity to ask questions related not only to the credit but also to the specific new issue, and to clarify any uncertainties within the structure of the bond.

III. **ESG analysts:** ESG analysts generally pair credit analysts in attending roadshows focused on Green and other labelled Sustainable Bond transactions. These meetings provide an opportunity for ESG analysts to supplement data-driven ESG scoring models with a more qualitative assessment of an issuer's efforts and progress on sustainability issues. ESG analysts also provide feedback to issuers and structuring advisers in relation to transaction-specific issues as well as more broadly on Green Bond structuring practices, to promote their alignment with market standards for project/indicators selection and impact reporting.

In addition to regular meetings with issuers' management and treasuries as part of credit updates and new issuance, the Fixed Income organisation also runs a targeted engagement programme that aims to engage with companies with lagging practices on specific E, S or G issues, in order to set clear expectations around how such concerns can be addressed.

The programme is based on the Fixed Income Engagement Strategy, first published in 2020 and last updated in 2023, and is structured around a thematic framework in line with MSIM's thematic priorities for sustainable investing. Further details on MSIM's thematic priorities and the Fixed Income organisation's engagement approach are outlined in Principle 9.

3. MEASUREMENT AND ONGOING MONITORING OF KEY ESG METRICS AT THE PORTFOLIO LEVEL

Monitoring of Portfolio ESG Alignment and ESG Data Use

The Fixed Income organisation aims to measure and monitor any real-world effects stemming from its investments. The Fixed Income ESG Strategy and Research team supports the investment team in the monitoring of portfolios and the development of measurement frameworks and reporting tools, collaborating with ESG data and technology experts across MSIM and Calvert. As part of this process, the team seeks to align with existing market frameworks, such as the TCFD for climate-related financial disclosures, and the UN SDGs for impact measurement, in addition to evolving regulatory sustainability disclosure requirements.

The main challenge in Fixed Income ESG integration is data gaps, which particularly affect the High Yield and Emerging Markets investment teams. The Fixed Income organisation is taking steps to address this constraint: first by filling some of those data gaps through in-house, bottom-up ESG research on those issuers; secondly, by proactively engaging with some of the companies whose ESG disclosures and data are significantly lacking, to help gather qualitative insights from meetings.

Focus on Governance and Disclosure

The Fixed Income organisation views governance as the pillar upon which strong credibility is built across any other environmental and social topic. The team therefore conducts due diligence on corporate governance, transparency and accountability, and disclosure matters across its assessments and dialogues with issuers, focusing on, among other things, how they link executive compensation to specific sustainability KPIs and targets.

In particular, the Liquidity members of the Fixed Income organisation pay close attention to governance risks identified in proprietary ESG research and engagement. Governance risk plays an important role for liquidity, in an explicit acknowledgement of the factor's relevance to the types of credit requirement for investment by money market funds. With almost one-fifth of Fixed Income and Liquidity engagements in the reporting period being with Financials, the Liquidity team is able to use the outcomes of such dialogues to inform investment, avoid headline risk and achieve objectives of capital preservation and liquidity.

Regional Differences in Measurement

The Fixed Income organisation accounts for regional differences in its approach by considering the stage of development of the issuer's country, to ensure that its assessment of their sustainability strategy and targets is contextualised and comparable to peers.

For example, in some emerging markets, a longer glidepath might be necessary to achieve desired sustainability outcomes and minimise negative externalities, or there may be a need for engaging in issues related to capital markets policies and processes to facilitate their functioning. This can manifest in the form of a longer phase-out period for fossil fuels in order to continue providing affordable energy to the broader population, more time to improve diversity of a company's board of directors or management team, reflecting the need for a broader change in culture, or trade-offs between job creation and land use, among others. On the other hand, a global company operating in both developed and emerging markets must be considered in a different regional context. For example, a power company operating in various emerging markets must be mindful of cultural heterogeneity in its construction of a just decarbonisation and fossil fuel phase-out strategy.

EXAMPLE 1: EMERGING MARKETS CORPORATE

By way of example, the team engaged with an emerging markets meat-processing company that was rated as a laggard by third-party ESG data providers. Engaging in collaboration with MSIM's Global Balanced Risk Control team, the team structured the discussion around material issues in the sector, such as support of local indigenous communities, the reinforcement of ethics and compliance oversight, and environmental governance linked to deforestation. The team asked the company to improve its reporting practices, and following the meeting, the company improved its CDP Climate Change score to position itself as a leader within the industry.

EXAMPLE 2: EMERGING MARKETS SOVEREIGN

In the context of Emerging Markets Sovereign Debt, the team has been conducting engagements with selected governments with a focus on improving rule of law, transparency, regulatory efficiency, market functioning and openness, as well as on countries' climate transition and social development agendas, especially when backed by sustainable financing plans. For example, in Q4 2022 the team engaged with the Ministry of Finance of a Central Asian country on the back of legacy social controversies. The team raised questions about the government's policies to ensure food security and social stability in the context of wheat price liberalisation, to which the sovereign emphasised a recurring support mechanism for the socio-economically vulnerable. Following the demonstrated progress on the social and governance sides, the team plans to follow up on energy sector reforms—which slowed down due to the pandemic—and continue to monitor developments on the social front.

In addition to the points highlighted above, each investment teams in the Fixed Income organisation also have their own team-specific issues/priorities when conducting due diligence and, at times, geographic allocations are not always at the forefront of security selection based on the specific fund strategy.

Fund-Level Differences

The Fixed Income organisation incorporates ESG criteria across a flexible range of sustainable investing solutions:

- Positive and negative screening
- Principles-based investment
- Low-carbon and climate-aligned solutions
- Green bonds

The Fixed Income organisation, in collaboration with Calvert, has developed a comprehensive *Sustainable Bond Evaluation Framework* for green bonds. The ESG analysts on the Calvert Fixed Income ESG Research and Strategy team look through the labelling and critically assess sustainable bonds that come to market, to ensure the evaluation of their sustainability characteristics is integrated into the investment process, for the benefit of clients.

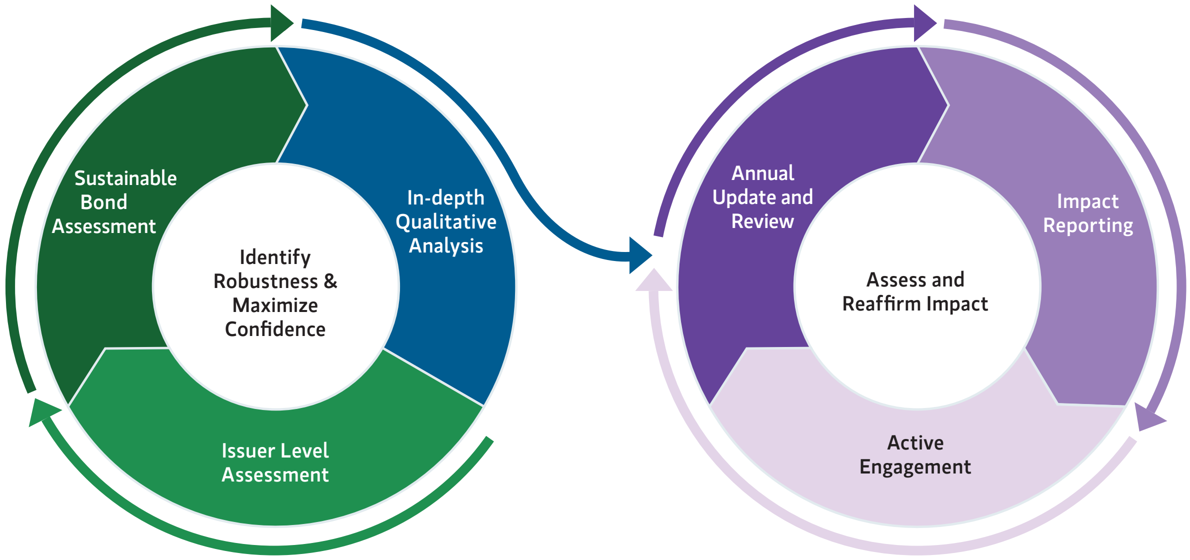
The framework seeks to drive a structured, systematic assessment of investments in Green and other Sustainable Bonds, both at issuance and throughout the life of the bond.

Applying a robust research process also provides an effective platform for the Fixed Income organisation to push for improvements in the structure of these instruments as well as surrounding disclosure. The team believes it has a duty to encourage issuers and underwriters to implement best practices to achieve meaningful positive sustainability outcomes through the issuance of robust sustainable bonds and engage with issuers and participate in industry initiatives to achieve this.

The evaluations enhance the information available to portfolio managers and credit research analysts, furthering their understanding of how effectively issuers are managing material ESG issues and leveraging tailwinds, and it is an integral component of the investment decision process for these instruments. Certain Fixed Income Green Bond strategies only invest in labelled sustainable bonds that have been assessed positively through this framework.

At the same time, the Fixed Income organisation relies on its experience in the market to uphold standards for the additionality of selected projects or targets to be financed. In particular, the Green Bond market offers a unique

FIGURE 7.5
Sustainable Bond Evaluation Model: Key Elements



opportunity for fixed income investors to engage with issuers, at a time when issuers and their management are particularly sensitive to investor feedback on sustainability.

Over the past year, Calvert has continued to add additional resources to support the Sustainable Bond Evaluation process. This is aimed at ensuring global research coverage of the growing labelled sustainable debt market, enabling the team to evaluate these transactions consistently and in a timely manner across the time zones where they are issued, for the benefit of investment teams and investors in our Fixed Income strategies.

Alternative Investments

The Alternative Investments business consists of Morgan Stanley Real Assets and Private Credit and Equity strategies.

Morgan Stanley Real Assets

GLOBAL LISTED REAL ASSETS

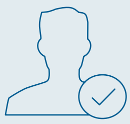
Global Listed Real Estate

The Global Listed Real Estate team's identification and assessment of risks and opportunities related to sustainability—specifically the E, S and G pillars—are a core element of the team's research process. The team's ESG focus is comparable to its focus on other factors such as building quality, tenancy, occupancy, strategic business plans and so on.

The team undertakes a mosaic approach to sustainability research, using both quantitative and qualitative data from multiple sources. The team's internal research complements and enhances data from company sustainability reports and third-party providers as they focus their sustainability research on the areas shown below.

FIGURE 7.6
Global Listed Real Estate Sustainability Research Areas

ENVIRONMENTAL
- Energy Usage and Renewables
- Water Usage
- Emissions (GHG)
- Waste Reduction and Diversion
- Supply Chain and Diversion
- Tenant Engagement
- Climate Resilience



SOCIAL
- Health and Wellness
- Safety
- Diversity and Gender Equality

GOVERNANCE
- Governance Structure around Sustainability
- Board Diversity
- Compensation programmes
- Government and Regulatory Risk
- Business Ethics
- Sustainability-Linked Financing

The team's proprietary research process ranks the relative strengths and weaknesses of each company in the investment universe on ESG factors. The team then adjusts its valuations of the companies to account for these ESG risks and opportunities, and the impact they may have on a company's net asset value and cash flow forecasts in both the near and intermediate terms. Ultimately, the team seeks to identify real estate securities with the best total expected returns for clients, inclusive of adjustments for ESG risks and opportunities.

The Global Listed Real Estate team actively integrates sustainability into the investment process by assessing key ESG risks and opportunities in the bottom-up stock selection process primarily by leveraging third-party ESG providers, supplementing third-party research with proprietary research conducted by the team for assessing and quantifying risks and opportunities related to ESG, and through engagements with company management to discuss ESG-related strengths, weaknesses and opportunities. The team may approach company management with competitive insights, financially sound business cases and practical solutions to potentially improve their real estate operations.

While ESG considerations are an integrated and fundamental part of the investment process, they are one of several key determinants used by the investment team to determine if an investment will be made or the size in the overall portfolio.

Global Listed Infrastructure

The Global Listed Infrastructure team focuses on a variety of ESG areas when assessing investments, with priorities varying by sector given the difference in business drivers/areas of potential ESG improvement. Examples of primary and secondary focus areas by infrastructure super-sector that may be considered are summarised below:

- **Utility**
  - **Primary** – exposure to clean energy operational business lines, progress on decarbonising existing operational footprint (Environmental).
  - **Secondary** – community relations as it relates to new asset project builds; progress on strengthening minority/female representation within the workforce, management and the board; increasing direct link between ESG performance and C-suite pay (Social and Governance).
- **Energy Infrastructure**
  - **Primary** – progress on decarbonising existing operational footprint, progress on identifying truly value-enhancing energy transition project areas, rather than just "greenwashing" opportunities (Environmental).
  - **Secondary** – community relations as it relates to new asset project builds; progress on strengthening minority/female representation within the workforce, management and the board; increasing direct link between ESG performance and C-suite pay (Social and Governance).
- **Communications**
  - **Primary** – progress in improving ESG metrics throughout the company's supply chain, given low direct (Scope 1) emissions footprint; particular focus also on power sourcing (Environmental).
  - **Secondary** – progress on strengthening minority/female representation within the workforce, management and the board; increasing direct link between ESG performance and C-suite pay (Social and Governance).
- **Transportation**
  - **Primary** – progress in improving ESG metrics throughout the company's supply chain, given significant reliance on third-party contractors for asset upkeep and new build; steps taken to help end customer passengers/freight distributors adapt and utilise lower-carbon alternatives (e.g., a toll road operator's initiative to incentivise use of EVs).
  - **Secondary** – progress on strengthening minority/female representation within the workforce, management and the board; increasing direct link between ESG performance and C-suite pay (Social and Governance).

Private Global Real Assets

The Head of Sustainability for Global Real Assets supports the Private Real Estate, Infrastructure and Real Estate Credit investment teams to develop and execute sustainability strategies across the US, Europe and Asia. The Private Global Real Assets group considers the below four focus areas when managing ESG across different asset classes including ESG integration, driving operating and environmental performance across assets, improving ESG engagement and disclosure, and advancing ESG thought leadership.[10]

PRIVATE REAL ESTATE

Morgan Stanley Real Estate Investing seeks to integrate material ESG elements throughout the investment process, where appropriate, as part of its approach to responsible investment and risk management. MSREI's Environmental Management System (EMS) is an internal document that provides best practice, guidance and resources for investment teams to facilitate implementation of funds' ESG elements throughout the entire investment lifecycle, to the extent financially and operationally feasible. The EMS, aligned with the ISO 14001 standard, helps investment teams identify and monitor ESG risks and opportunities throughout the investment process from due diligence to asset management. The EMS also includes best practices for new construction and major renovation projects.

PRIVATE INFRASTRUCTURE

The MSIP team identifies and assesses various material ESG factors, including environmental and climate change risk, during due diligence and works with portfolio companies on platformwide initiatives during acquisition and post-close implementation. To ensure effective implementation of the MSIP team's programme, the MSIP Head of Sustainability and investment teams monitor portfolio company ESG integration and data such as greenhouse gas emissions and health and safety metrics. Where applicable and relevant the MSIP team also supports portfolio companies to set and implement strategic ESG goals.

PRIVATE REAL ESTATE CREDIT

The Private Real Estate Credit teams strive to incorporate ESG considerations throughout the investment life cycle, where feasible. However, as a private real estate credit lender, investment teams are limited in their ability to apply ESG practices across investments (in contrast to that of the borrower/owner of the underlying real estate). As an example, outlined below are select steps to integrate ESG throughout the investment process, where possible.

- **Due Diligence:** The investment teams perform ESG due diligence both prior to and after issuing loan applications in order to analyse ESG implications of the property and sponsorship. Given each loan's unique characteristics, there may be nuances in the due diligence process depending on the loan. There are varied considerations across E, S and G that may be reviewed and may vary by loan structure; select examples are listed below:
  - **Environmental** – This category is particularly relevant for the targeted investment universe, as real estate assets consume energy and water, generate waste, and release greenhouse gas emissions. As a result, ESG due diligence is performed to fully understand the type of asset in the collateral portfolio, its associated activities and its impact on the environment;
  - **Social** – Within the teams' investment universe, social considerations are generally relevant in the context of loan portfolio and collateral management practices. For example, servicing procedures may be reviewed to ensure best practice is followed and applicable legislation is adhered to; and

FIGURE 7.7
ESG Focus Areas

ESG INTEGRATION
Manage and identify ESG risks and opportunities in the investment process

DRIVING OPERATING PERFORMANCE
Improve performance by driving environmental and social initiatives

ESG ENGAGEMENT & DISCLOSURE
Create value and differentiation through enhanced collaboration and disclosure

ADVANCING THOUGHT LEADERSHIP
Deepen in-house expertise, and aspire to position Real Assets as a leader in ESG

[10] Select Private Global Real Assets Funds take ESG considerations into account in investment decisions on a non-binding basis only. Please refer to the offering documents of any fund prior to investment for details on how, and the extent to which, the relevant fund takes sustainability considerations into account on a binding or non-binding basis

- **Governance** – Generally, governance factors are evaluated at the sponsor level. Areas considered may include board responsibility and oversight of ESG matters, ESG-dedicated individual(s), established ESG committees or taskforces, etc.

While the above provides select examples of ESG considerations, the geographical location, management framework and type of collateral may influence which ESG elements are considered.

B) PRIVATE CREDIT AND EQUITY

The PC&E business has its own Sustainable Investment Policy outlining investment teams' belief that incorporating ESG factors into the investment process is essential for minimising investment risk and maximising investment return. The identification of ESG risk and opportunities factors early on in the investment process can reduce financial, regulatory and reputational risks and drive value for investors and other stakeholders. While the specific ESG factors incorporated into investment analysis vary depending on what is material to a particular asset class, sector, geography and/or investment opportunity, the areas below generally reflect the sustainable and stewardship approaches that are incorporated into the investment process and assessment of financial impact. Investment strategies that go beyond integration and link ESG criteria to investments may have additional strategy-specific ESG policies.

ESG Investment Integration

The PC&E teams are committed to considering and incorporating material ESG issues when evaluating investment opportunities throughout the investment lifecycle:

- **Pre-Investment**
  - **Screen for sensitive sectors:** In accordance with Morgan Stanley's Environmental and Social Risk Policy, the PC&E teams will generally avoid investing in certain environmentally sensitive sectors and will conduct enhanced due diligence for specific sectors outlined in the policy, employing expert consultants where necessary. The European Private Credit team, in particular, may apply additional sector-based exclusions in a number of business activities/sectors including ammunition, adult entertainment, weapons, tobacco, upstream production of palm oil, and oil and tar sand development.
  - **Operational due diligence:** Conducted by deal teams through review of investment policies, procedures and site visits, and responses to ESG questionnaires. Where MSIM is a limited partner, general partners' internal ESG policies, procedures and documents are reviewed.
  - **Legal due diligence:** Performed in partnership with MSIM Legal to ensure compliance with regulatory frameworks and to identify exposure to long-term liabilities.
- **Investment Decision-Making**
  - **Valuation:** Depending on the results of the pre-investment due diligence process, deal teams may account for these factors in their overall valuation of the company, deal structure and contract negotiations.
  - **Investment Committee:** The PC&E teams created ESG due diligence questionnaires, based on the SASB Engagement Guide, that are required to be completed for investment committee meetings. Both private equity and private credit questionnaires cover a comprehensive set of metrics across E, S, and G, and the questions were selected and curated based on their relevancy to the industries that the PC&E teams invest in. Specifically, the private-credit scorecard is used to determine an ESG score for each borrower. The score is a composite score based on an evaluation of ESG factors across a standardised set of diligence questions that covers the portfolio company and sponsor. Each component (E, S and G) is measured on a scale and an aggregate total ESG score is calculated. A total ESG score below an established minimum threshold requires additional discussion and consideration by the fund's respective investment committee, and the transaction may be declined if it presents material downside risk. In rare cases, heightened ESG reputational risks may be escalated to the Firm's Franchise Committee.
- **Post-Investment**
  - **Ongoing monitoring:** the investment teams continue to monitor sustainability performance and risks where possible with the aim of maximising investment value at exit. Material issues identified through monitoring are raised with members of MSIM's Risk team.
  - **Stewardship and engagement:** investment teams engage with the investee and relevant stakeholders to encourage ongoing improvement of sustainable practices, raising issues at the appropriate level (e.g., company management and board of directors).
  - **Continuous improvement:** investment teams may set sustainability goals for portfolio companies and track improvement across a range of ESG factors using Key Performance Indicators (KPIs) where possible.

Given that information rights and the ability to influence portfolio companies vary across the PC&E teams' strategies, the following are examples of how individual teams integrate ESG considerations into the investment process:

I) MORGAN STANLEY CAPITAL PARTNERS (MSCP)

The MSCP team manages a middle-market private equity platform, focusing primarily on North America. For the MSCP team, deal teams act as a first filter for potential portfolio companies that are being considered. Any company that is associated with material ESG risks that cannot be mitigated or improved on will not be put forward to the Investment Committee for further discussion and approval.

For companies that do make it to the next round in the selection process, the team considers ESG risks and opportunities throughout the investment lifecycle, starting in the investment due diligence phase, where it seeks to identify ESG risks and value drivers, and continuing through to the post-investment phase where investment teams partner with investees to maximise ESG opportunities and value drivers.

Case Study

The MSCP team has been evolving its approach to further embed ESG into the post-investment process. The team developed portfolio company-specific ESG initiatives and roadmaps based on ESG industry standards and metrics measurement; this effort was supported by external ESG experts working closely with portfolio company ESG leads to assess and provide recommendations on ESG practices and activities tailored for each company. The MSCP team also conducted a GHG emission inventory baseline across portfolio companies as a first step to understanding the actual portfolio climate footprint beyond the proxy estimation conducted across the PC&E business. The MSCP team also launched an effort to develop carbon abatement plans to help portfolio companies evaluate options to reduce their carbon footprint.

II) MORGAN STANLEY PRIVATE EQUITY SOLUTIONS: 1GT FUND

Sustainability Value Add

The team seeks to establish itself as the 'lead sustainability investor' for each transaction in which the Fund participates. Core to this designation is the role the team plays in adding value to portfolio companies through its engagement activity, providing advice, tools and additional resources that help advance progress towards the goals contained in a bespoke Sustainability Value Add (SVA) action plan that is devised for each company post-investment.

Contents of SVA actions plans have been informed by the outcomes of the due diligence process and conversations with company management in terms of their goals and ambitions, and will generally be collaborative in nature, working towards shared sustainability-related goals. The SVA is comprised of three pillars, one of which relates specifically to ESG items to ensure that this is a focus area for ongoing improvement throughout the holding period for each investment the Fund makes.

Structured engagement activity

Engagement activity objectives and targeted outcomes are determined through a combination of strategic priorities and company-specific considerations.

Strategic engagement priorities may in some instances be derived from MSIM level areas of focus or determined by the ESG Lead and IC on an annual basis to better reflect the Fund's portfolio companies. Strategic engagement priorities include i) *data disclosure* – improving disclosure of ESG-related data, incorporating data relating to the PAI indicators as defined by EU SFDR, ii) *minimising carbon footprint* – identifying levers for reduction in Scopes 1-3 emissions to amplify the positive carbon impact resulting from a company's avoided emissions, and iii) *Diversity, Equity & Inclusion* – raising awareness of Diversity, Equity and Inclusion (DEI) and exploring ways a portfolio company can support a diverse, equitable and inclusive work environment.

Company-specific engagement activity tends to arise as a result of ESG due diligence outcomes and may relate to identified areas of relative weakness or potential to cause significant harm as per the EU's EU SFDR, material sustainability-related opportunities as identified by the deal team, or areas identified by company management as those from which they would like to receive additional input and ESG resources.

Data collection and monitoring tools

Over the last 12 months, the team has begun utilising the RepRisk platform. The platform leverages machine learning and artificial intelligence to screen hundreds of thousands of public sources on a daily basis to produce timely and informative alerts in relation to emerging controversies or conduct-based risk to which a company may be exposed or with which it may be associated. Any new controversy or incident that is detected by the system prompts an instant email alert to a member of the ESG team, providing a summary of the controversy or incident. Dependent on the circumstances, any such email alert is likely to lead to reactive engagement with company management to understand the implications of the controversy or incident, and to explore possible remedial options.

The team is also in the process of onboarding a digital platform, Novata, to streamline the data collection and monitoring process through the use of a combination of standardised and bespoke data collection requests. These requests will be automated at specific time intervals, the format of which should help to alleviate the burden on portfolio companies and seek to maximise the response rate. This platform will be operational from 2024 onwards.

ESG Data

Systematic data integration with fund administrator data is still underway, along with the development of reporting capabilities for data housed on the new platform. Collecting and storing ESG data will be examined once financial and operating metric storage has been successfully completed.

Custom Solutions

Certain of the Multi-Asset portfolios integrate ESG factors contingent on asset class and style of investing. As an example, for quantitative investing, the team may optimise the portfolio by using ratings or scores balanced against other risk/return objectives. For customised portfolio solutions, the team may review ESG factors to assess impact on asset allocation and/or customise a basket of securities or funds according to the particular sustainability preferences of the client. For highly active, concentrated equity portfolios, integrated sustainability analysis is conducted based on an ESG materiality framework.

The Multi-Asset teams also conduct thematic engagements on materially important environmental and/or social issues facing companies in order to ensure that target companies follow good governance practices. The teams' approaches to stewardship and investment do not generally differ based on geography—although the ESG issues/factors that are prioritised for engagement with specific investments may differ based on regional practices and progress in those areas.

A) GLOBAL BALANCED RISK CONTROL

The team believes in the merits of a multidimensional approach to incorporating sustainability-related practices into their portfolios. The team aims to assist their clients in expressing their desired sustainability attributes through a combination of exclusions, ESG integration, allocations to solution providers and exercising of stewardship, where appropriate.

Prior to investment, the team may exclude companies involved in activities that are proven, or have the potential, to cause significant harm to the environment and/or society, thereby impacting financial performance. The team considers the indirect impact of the entire value chain, including, for example, suppliers and retailers. The team works on an "engage or exclude" basis whereby if they believe a company, or broader industry, is open to changing its behaviour, they will seek to engage, to help effect that change.

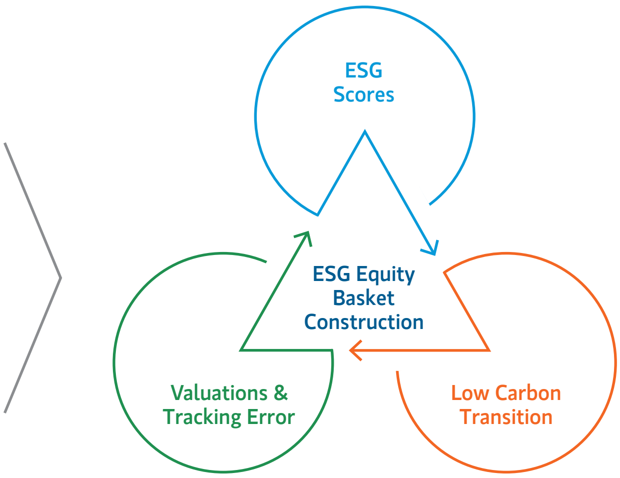
The team's core ESG integration approach typically prioritises those issues that are deemed material for a given company as they believe addressing these issues has the potential to enhance long-term risk-adjusted financial returns for their clients. Material ESG risks and

FIGURE 7.8

ESG Integration Approach Example

ESG-TILTED EQUITY BASKETS

- **Regional equity baskets, e.g., for the UK, US, Europe, Japan, Emerging Markets, Asia-ex Japan**
- **Baskets target top-quartile ESG performance in each sector***
- **Tilt towards companies demonstrating strong carbon emissions management****
- **Valuation check, to ensure the team do not overpay for ESG quality**



The team expect sustainability leaders to display attractive risk-return characteristics over time

opportunities are those that are likely to have an impact on a company's business model and/or value drivers. By tilting towards companies who better manage these risks and opportunities, the team aims to hold securities that, in aggregate, represent top-quartile ESG performers, within each sector, within each region they invest in.

In recognising that climate change poses a significant risk to the global financial system and, in turn, the stability of economies globally, the team can implement additional climate-related tilts, which reflect the Low Carbon Transition risks and opportunities a company faces as well as the company's management of same, or asset class-level decarbonisation targets. For example, the team may incorporate a strategy to decarbonise a portfolios' core equity exposures targeting net zero emissions by 2050.

The team takes a broadly similar approach to their developed government bond holdings, by overweighting those bonds from issuers with above-average ESG practices and momentum while underweighting those found to be below average.

The team also leverages MSIM's broader expertise, as illustrated throughout this document, in their asset allocation process. For example, they often partner with MSIM's Fixed Income organisation, allocating investment-grade credit sleeves to this team for active management, where they incorporate ESG factors in their investment process.

The team also has experience making investments that support potential solutions to many of the world's most urgent environmental and social challenges. They include both equity and fixed income solution providers, currently through funds and ETFs.

The GBaR team believes that they have a duty to work with the firms in which they invest, to achieve distinct sustainability-related objectives, such as enhanced disclosure or improved management of material ESG-related risks and opportunities. For further information on their engagement approach, please see Principle 9.

Ongoing Developments

Given GBaR's top-down and diversified approach to investment, the team currently holds a broader set of issuers than other MSIM investment teams in more concentrated, bottom-up strategies. While the GBaR team believes their approach to theme selection leverages the team's skills appropriately, they may be more limited than other teams that spend more time researching individual companies and liaising with management teams on a more regular basis.

The GBaR team have addressed this limitation by building out their ESG team. The team has hired staff with direct experience in sustainability-related research and engagement and has increasingly been working with MSIM's investment teams as well as the Global Stewardship Team. The team has a dedicated sub-ESG group comprising two research analysts and led by the team's Head of ESG Research.

As discussed last year, the GBaR team believe they can further enhance their ESG approach by increasing collaboration with specialists across MSIM in order to leverage investment teams' combined knowledge and

FIGURE 7.9

Investing in Solution Providers

	ENVIRONMENTAL		SOCIAL	
	Climate	**Resource Management**	**Basic Needs**	**Empowerment**
Issues addressed by portfolio's impact investments	▪ Energy Efficiency ▪ Renewable Energy ▪ Green Buildings	▪ Waste & Resource Management ▪ Pollution ▪ Water ▪ Sustainable Agriculture and Forestry	▪ Health care ▪ Affordable Housing	▪ Education ▪ Financial Inclusion ▪ Inequality ▪ Digital Divide
Aligned with many of the UN's SDGs				

Source: United Nations The content of this publication has not been approved by the United Nations and does not reflect the views of the United Nations or its officials or Member States. For more details on the Sustainable Development Goals, please see https://sdgs.un.org.

ownership to drive change at portfolio companies. The team continues to take a more collaborative approach to exercising stewardship. Approximately a third of GBaR's engagement strategies carried out during the reporting period were collaborative efforts with other MSIM colleagues. This represents a significant increase in the team's willingness to collaborate. They believe this will ultimately serve to enhance the teams' ability to effectively engage with their portfolio companies.

Stewardship and Service Providers

MSIM views proxy voting as a key component of stewardship activities and obtains information on corporate governance, proxy voting, issuer research, and selected environmental and social issues from our investment teams' own research, as well as independent advisers (ISS and Glass Lewis), to provide vote execution, reporting and record-keeping services.

Notwithstanding the appointment of ISS and Glass Lewis as proxy advisers (ISS is also MSIM's proxy voting administrator), as noted earlier in the report, MSIM does not outsource proxy voting, and hence does not rely on either firm to implement a custom stewardship policy. As active managers and owners, our stewardship philosophy is enshrined with performing stewardship directly with companies it invests in, in order to promote long-term shareholder value in line with the views of its clients.

MSIM communicates with both service providers at least monthly to discuss research and other operational voting issues to ensure that both service providers are kept well aware of our stewardship and voting needs and our expectations of them. In the event the GST discovers a potential discrepancy in the underlying service provider's research, we generally escalate and contact the provider's head of research to resolve the issue.

Principle 8

Monitoring Managers and Service Providers

Signatories monitor and hold to account managers and/or service providers

Monitoring of Service Providers To Ensure Services Meet Our Needs

Policies, procedures and controls are in place at different levels within the organisations to manage and oversee relationships with and services received from service providers MSIM utilises in its investment management and engagement activities. MSIM adheres to both Morgan Stanley and MSIM-specific policies to select, assess and monitor service providers to ensure we can deliver best-in-class investment solutions and client servicing standards. This section provides an overview of these controls, how the GST monitors its service providers and how they are held to account.

Morgan Stanley Policies

MSIM adheres to both Morgan Stanley and MSIM-specific policies to select, assess and monitor service providers to ensure we can deliver best-in-class investment solutions and client-servicing standards.

Based on Morgan Stanley's Sourcing Guidelines, the firm engages with suppliers who respect, follow and abide by our Core Values: Doing the Right Thing, Putting Clients First, Giving Back, Leading With Exceptional Ideas and Committing to Diversity and Inclusion. In an ever-changing market, the Firm is committed to evaluating new suppliers to meet our evolving needs as well as those of our clients. Morgan Stanley looks for strong capabilities, high-quality and attractive commercial offerings that build lasting partnerships over time. Engaging with suppliers who share the same core values is key to the Firm's success; our global social responsibility is a direct reflection of the Firm's core values and enhances our ability to provide superior service to our clients, our employees and our communities.

Morgan Stanley holds itself to the highest standards and the Firm expects its suppliers and its suppliers' suppliers to adhere to these key values and apply them to how they do business with us and in general. This is outlined in the Firm's Supplier Code of Conduct, which demonstrates its commitment to conducting business honestly and in accordance with its legal and regulatory obligations, including commitments to its suppliers' environmental sustainability, social and ethical business practices. The Firm also ensure supplier diversity by working with firms that foster diversity in business, economic development and communities.

Morgan Stanley is committed to being a responsible corporate citizen, respecting and supporting the protection and advancement of human rights. With operations around the world, the Firm strives to uphold global standards for responsible business, including equal opportunity, the freedom to associate and bargain collectively, and the elimination of modern slavery, human trafficking, and harmful or exploitative forms of child labour. Please see our Morgan Stanley Modern Slavery and Human Trafficking Statement for more details.

In selecting and monitoring its service providers, the Firm has a Global Third-Party Selection and Engagement Policy that establishes a framework for Morgan Stanley's sourcing activities from external, unaffiliated third parties for which its Re-engineering Management (REM) Sourcing Team is engaged. The Policy is designed to help ensure that the sourcing of goods and services by Morgan Stanley is done in a fair, competitive, independent and objective manner, with appropriate due diligence and with substantive involvement from the REM Sourcing Team. Additionally, sourcing decisions must be made in accordance with all applicable laws, regulatory requirements and sound business practices. The Policy complements the Global Third-Party Risk Management Policy, which sets forth requirements for identifying, assessing, managing and controlling risks associated with the outsourcing of business processes and contracting for goods and services.

The Morgan Stanley UK Regulated Entities Supplement to the Global Third Party Risk Management Policy establishes requirements specific to the Firm's UK Regulated Entities and is designed to enable UK Regulated Entities to manage risks within the Morgan Stanley International Group's Third Party Risk Appetite in compliance with SYSC 8 of the FCA Handbook, the Outsourcing section of the PRA Rulebook, the EBA Guidelines on Outsourcing and other UK Regulated Entities-specific regulations and policies listed in Appendices.

MSIM Policies

MSIM complies with both the Investment Management Public Markets Enhanced Vendor Management Programme procedures and the Investment Management Private Enhanced Vendor Management Programme Procedures in selecting and monitoring service providers on both our Public and Private investing platforms, including vendors used for stewardship and engagement purposes. The goal of the Enhanced Programmes is to identify, monitor and manage risks associated with vendors that support both the Public Markets and Private Markets businesses. These procedures supplement Morgan Stanley's Global policies (as outlined above) in addition to our divisional and regional policies.

While Morgan Stanley's global policies focus on financial stability and information security of vendors, MSIM's enhanced programme policies seek to ensure that there are specifically identified individuals—vendor relationship owners (VROs)—in the business or related control/support groups that are responsible for the proper oversight of vendors. Proper oversight includes ensuring that a vendor is providing the services contracted and the invoices for such services are reasonable and consistent with the contractual terms of the vendor arrangement.

A centralised list of key vendor relationships on both Public and Private investing platforms is stored in the Firm's Vendor Repositories and assessed through the Firm's Supplier Portal for Assessing Risk (SPAR) prior to onboarding. Vendor records must be created and maintained for all vendors in scope. VROs are required to periodically certify as to their periodic due diligence and ongoing monitoring. Due diligence and ongoing monitoring of vendors (including our proxy advisers and ESG data providers discussed further below) are conducted through various methods (as appropriate), including:

1. Periodic meetings or site visits and the use of feedback loops to guide these discussions;
2. Review of key risk indicator (KRI) and key performance indicator (KPI) reports provided by the vendor;
3. Measuring the service against a service-level agreement to ensure contractual expectations are being understood and met by the vendor; or
4. Periodic monitoring of services provided.

Contract renewals are also used as an opportunity to evaluate the services provided and to give feedback to vendors.

Proxy Advisers

As mentioned in Principle 7, MSIM retains ISS and Glass Lewis to obtain information on corporate governance, proxy voting and issuer research; however, we do not outsource proxy voting decision-making to either firm. The primary services they provide to MSIM are vote execution of our proxy decisions, reporting (ISS) and meeting-level research (Glass Lewis). MSIM is responsible for ensuring that voting instructions from our investment teams and clients are communicated to ISS and we have controls in place to ensure instructions communicated electronically are accurately recorded in ISS systems for execution (including scenarios where votes have been split because of client preference or differing investment team convictions—please see Principle 3 for more details).

This includes a confirmation report for vote data feed sent to ISS and an automated end-of-day reconciliation of votes instructed between ISS and MSIM systems. Additionally, MSIM reviews on a monthly basis a vote audit report provided by ISS, confirming the execution status for all meetings. The Global Stewardship Team also conducts ex-post reviews to confirm that ISS has accurately implemented voting instructions.

MSIM performs due diligence reviews on retained proxy advisers on an annual basis and the reviews are conducted onsite or virtually by members of the Global Stewardship Team and MSIM Compliance. The focus of annual diligence meetings tends to revolve around timeliness and quality of research, particularly on emerging sustainability topics. Though we do not rely on proxy advisers' vote recommendations, we do expect accuracy in the underlying research provided in their proxy reports. When we identify any errors in the underlying research, The Global Stewardship Team will contact the provider's head of research to point out a potential error. If we are correct, the vendor will publish an update to the report to reflect the identified error. We will also seek assurances from vendors that they are taking reasonable steps to reduce the likelihood of such an error recurring in future. We will also provide feedback to our proxy advisers on an ad hoc basis, on how they can improve their services to better suit our and our clients' needs.

If any material issues were to arise in connection with the quality or continuity of service we receive from these providers, MSIM will take steps to escalate and address them in line with the policies and procedures summarised above.

No critical issues were identified during the reporting period 1 July 2022–30 June 2023. MSIM continues to focus on maintaining transparency and accountability to its clients with respect to participation in corporate governance decisions on their behalf. With this objective we are engaged in active discussions with our proxy voting service provider to ensure voting records and associated disclosures are upgraded to meet evolving client requirements and are in line with the enhanced SEC N-PX reporting requirements.

ESG Data Providers

As noted above, investment teams use ESG data in a number of different ways. Some use it to inform their own fundamental research while other teams integrate third-party data into models and proprietary scoring frameworks.

For ESG data and information, MSIM may leverage third-party data on top of any independent analysis conducted. MSIM recognises that the lack of standardised ESG disclosures has created a fragmented market, and until such disclosures are improved and systematised we may need to leverage third-party ESG information. We do this through both our own relationships with third-party ESG data providers and those that Morgan Stanley licenses at the firm level. We can also draw on the expertise of the Morgan Stanley Institute for Sustainable Investing and GSO relating to ESG data analysis, to support and inform various approaches to data integration, as required.

SELECTION AND ASSESSMENT OF ESG DATA PROVIDERS

When selecting ESG data providers, a number of factors are considered, including methodology, coverage, history, transparency and materiality alignment. An industrywide assessment of ESG data providers covering several hundred providers was conducted several years ago by Morgan Stanley's Global Sustainability Office (GSO). This has enabled additional statistical analyses, which take place whenever the team onboard or consider new providers or datasets to understand similarities or differences between data providers across a common universe (e.g., any potential biases in datasets).

An example of a recent marketwide dataset assessment relates to the analysis we conducted on third-party vendor solutions for the EU Taxonomy Regulation (EU 2020/852) (EU Taxonomy). The team asked each of the vendors under assessment to provide as much granularity as possible on each of the steps of its EU Taxonomy assessment on the same universe of companies.

In general, our findings from these assessments allowed us to make more informed decisions on vendor solutions, understand issues and challenges vendors are facing, and ultimately better assess their respective product solutions to fit our investment and engagement needs.

These analyses are always conducted in parallel to a relevant literature and methodology review. As was the case with some physical risk vendor offerings, our analysis of Implied Temperature Ratings (ITRs) ultimately led us to the conclusion that some third-party vendor solutions are not yet fit for purpose. Significant differences in output results for the same set of locations or portfolio holdings imply that while a vendor solution is available in the market, utilising the solution in a portfolio management context would not be appropriate at this time.

In order to democratise ESG data access, broaden use of these data points and create a consistent set of high-quality and commonly utilised vendors and datasets, the firm has put in place an "ESG data stack" as highlighted in Principle 2. The ESG data stack contains data sets across the ESG spectrum of approaches, across asset classes and across data providers. The data stack is constantly being reviewed to ensure the highest-quality vendors are used, and new datasets are added when:

1. emerging sources of ESG data are made available (e.g., asset class expansion or specific thematic areas like climate risk or water utilisation);
2. coverage can be improved;
3. a more transparent or granular data set is available; or
4. an improved methodological approach is utilised.

QUALITY CONTROL EXAMPLES AND REMEDIATION PROCESS

In general, third-party ESG data is centralised at Morgan Stanley for broad consumption across the organisation, including MSIM. As part of this centralisation process, data is vetted with quality-control checks on a recurring basis to ensure data provider feeds are accurate, timely and, where needed, merged with existing firm infrastructure and identifiers, and/or expanded to improve issuer coverage.

When quality-control checks identify potential issues, the centralised ESG data team at Morgan Stanley that maintains supplier relationships will engage the data provider in a timely manner to ensure revised data is provided or an explanation regarding the issue is provided. A recent example includes the checks as part of the process for producing MSIM's Entity PAI:

- Checking for outliers in the data by reviewing the raw data that ISS sent us for each of the 16 mandatory PAIs we would report on.
- Four data points were flagged as part of this process and ISS was contacted to confirm if they were accurate or not. They confirmed that those four values had since been restated but were not yet available in our data feeds. They provided the restated values, which we overwrote in our feeds.

- The identification of this error ensured that the impact on the two PAIs that were impacted by these outliers was not overstated.

In such circumstances data providers will then need to pass further quality-control checks following further granular inspection of the data. If questions still exist, the team will take appropriate action, which may range from liaising further with the data provider to resolve the issue to terminating use of the relevant product or services. In some cases, erroneous data is purged from our centralised ESG data platform and replaced with corrected information. Users of such information are notified via mail groups, at which point revisions to reporting would be made or noted if any of the information was used.

Updates, including new additions or changes to a vendor data feed, are handled similarly. The centralised Morgan Stanley ESG data team works with the vendor to identify the change, assess the downstream impact on technology systems and establish a timeline for the change to be implemented. Relevant teams are notified in advance following best practices associated with change management.

Consistent Framework Across MSIM

The MSIM ESG Technology and Data team follows data governance standards as laid out by the Firm's Global Data Governance Framework. Since the acquisition of Calvert, the team has a dedicated group that is actively engaged in integrating data and technology systems across MSIM and Calvert and ensuring alignment with Morgan Stanley data governance principles.

The policies, procedures and processes we implement in monitoring, working with and assessing service providers such as proxy advisers and ESG data providers demonstrate our commitment to ensuring a consistent framework across an organisation of our size, particularly on data quality, assurance and vendor standards. In particular, we are working towards supporting our activities outlined in Principles 2, 6, 7 and 8 as well as others with a foundation of centralised and well-governed ESG metrics, which will enable consistency and transparency in internal reporting, client reporting and investment engagement.

SECTION 3

Engagement

Principle 9

Engagement

Signatories engage with issuers to maintain or enhance the value of assets

Engagement Selection and Prioritisation

APPROACH

As active investors and active owners, MSIM has a duty to steward its clients' capital. We fulfil this duty by engaging with selected companies in which we invest. Our investment teams endeavour to engage in constructive dialogue with companies, which may encompass meetings and discussions on a particular issue to multiyear engagements/stewardship on a range of E, S or G topics specific to the company or asset to encourage improvement. These topics can encompass a full range of subjects that affect the long-term value of a business or asset, including strategy, capital structure, operational performance and delivery, risk management, environmental issues, pay, and corporate governance. This helps our investment teams manage risk in the near and long terms, enhance understanding of investee companies/issuers, and, where relevant, create positive sustainable outcomes—all of which benefit our clients.

PRIORITIES AND PURPOSE

MSIM has identified five common themes that many of our investment teams include in their engagements, based on respective strategies, where relevant and appropriate. These five engagement themes[13] are aligned with the United Nations Sustainable Development Goals, and are issues that may cause risk to our society and wellbeing, global economy, and/or capital markets, but can also present opportunities for improved sustainable and financial outcomes.

MSIM investment teams may prioritise engagements based on a variety of factors including position size, investment horizon, frequency of annual general meetings, headline events and materiality. Examples of investment team-specific engagement approaches over the 12 months from 1 July 2022 to 30 June 2023 are provided throughout the rest of this section.

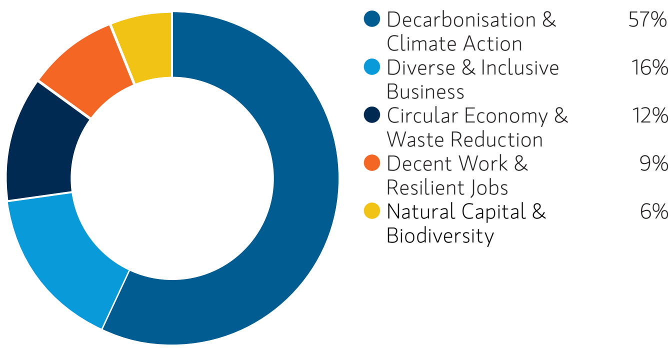
FIGURE 9.1

MSIM Engagement Statistics

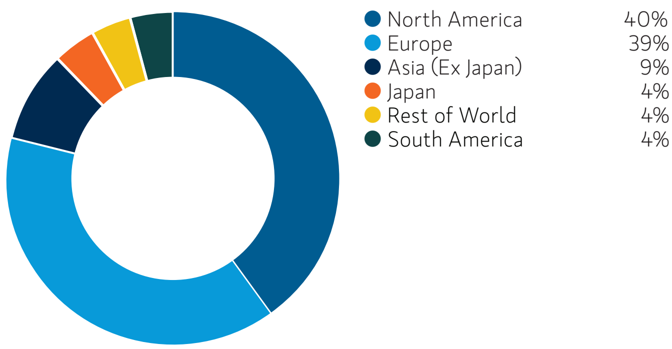
1 July 2022–30 June 2023

Total Engagements: 551[11]

Engagements by MSIM Engagement Themes[12]



MSIM Engagements by region



Please note that certain MSIM investment teams may not be included in these figures.

[11] Refers to ESG engagements conducted by MSIM investment teams, Global Stewardship Team, between 1 July 2022 and 30 June 2023. Includes engagements with corporate and non-corporate issuers. Please note that certain MSIM investment teams may not be included within these figures.

[12] This pie chart refers only to the breakdown of MSIM priority engagement themes; other engagement subjects are also covered by investment teams

[13] See https://www.un.org/sustainabledevelopment/sustainable-development-goals/ for more details on the Sustainable Development Goals

FIGURE 9.2

MSIM Engaging Companies Themes

DECARBONIZATION & CLIMATE RISK	Supporting the transition to a low carbon economy in line with Paris Agreement goals	▪ Renewable energy and clean tech ▪ Energy efficiency ▪ Physical impact adaptation	7 AFFORDABLE AND CLEAN ENERGY; 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 11 SUSTAINABLE CITIES AND COMMUNITIES; 13 CLIMATE ACTION
DIVERSE & INCLUSIVE BUSINESS	Supporting business practices that create a more just and inclusive society	▪ Affordable access to essential services ▪ Investing in communities ▪ Racial justice ▪ Pay equity ▪ Board/employee diversity	3 GOOD HEALTH AND WELL-BEING; 4 QUALITY EDUCATION; 5 GENDER EQUALITY; 10 REDUCED INEQUALITIES
NATURAL CAPITAL & BIODIVERSITY	Supporting business models that reduce negative impact on biodiversity in line with the Post 2020 Biodiversity Framework	▪ Sustainable sourcing and use of resources ▪ Land and sea use change ▪ Deforestation ▪ Pollution reduction	6 CLEAN WATER AND SANITATION; 13 CLIMATE ACTION; 14 LIFE BELOW WATER; 15 LIFE ON LAND
CIRCULAR ECONOMY & WASTE REDUCTION	Supporting business models that reduce impact on natural resources and that innovate to reduce waste generation, with a focus on plastic waste	▪ Recycling and reuse ▪ Sustainable sourcing ▪ Lifecycle analysis ▪ Water stewardship	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 11 SUSTAINABLE CITIES AND COMMUNITIES; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 14 LIFE BELOW WATER
DECENT WORK & RESILIENT JOBS	Supporting decent work across the entire value chain and making workforces resilient in the face of innovation and change	▪ Automation and the workforce ▪ Supply chain management ▪ Living wage ▪ Workforce well-being	3 GOOD HEALTH AND WELL-BEING; 5 GENDER EQUALITY; 8 DECENT WORK AND ECONOMIC GROWTH; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Investment teams may also engage on other areas not limited to these five themes. MSIM recognises that the UN Sustainable Development Goals (SDGs) were written by Governments for Governments and therefore engagement themes with corporates and the SDGs may not be perfectly aligned. The content of this publication has not been approved by the United Nations and does not reflect the views of the United Nations or its officials or Member States. See https://www.un.org/sustainabledevelopment/sustainable-development-goals for more details on the Sustainable Development Goals

SPOTLIGHT #4

Adoption of Natural Capital & Biodiversity as MSIM's Fifth Engagement Theme in 2023

In 2023 MSIM added Natural Capital & Biodiversity as our fifth engagement theme. This addition formalises existing engagement efforts and aligns overall themes to the process laid out in the MSIM Engagement & Stewardship Principles, and our MSIM Proxy Voting Policy, which also addresses biodiversity.

Prior to being put forward as a new engagement priority Natural Capital & Biodiversity was at the centre of a growing number of MSIM investment teams' engagement efforts, particularly following the COP15 conference in December 2022.

WHY ENGAGE ON NATURAL CAPITAL & BIODIVERSITY?

Sector Materiality

We identified a number of sectors, including materials, infrastructure, consumer staples, energy and utilities, for which biodiversity-related factors may pose a significant material risk. We believe such sectors represent key engagement targets, with the purpose of understanding how they are approaching these risks and encouraging progress.

- In our investment teams' experience, companies are increasingly open to feedback and discussion on this topic, with many in the process of developing strategies to comply with the TNFD (Taskforce on Nature-related Financial Disclosures) framework
- Based on this MSIM proposed three key asks for investment teams to include when engaging on this issue:
  - to integrate biodiversity considerations in business models and strategy;
  - to set specific biodiversity commitment and targets that reduce negative impact;
  - to highlight the materiality of this topic from an investor perspective in an effort to raise it up businesses' agendas

TNFD framework will improve disclosure

Reliable data remains a challenge. The TNFD finalised its disclosure recommendations in September 2023 and we believe the newly released metrics provide a great opportunity to ask companies for improved disclosure.

For further insights into our perspective on Natural Capital & Biodiversity, please refer to the following reports: ESG Insight: Biodiversity Loss and implications for Investors, ESG Insight: Single-Use Plastic in the Consumer Staples Sector, Engagement Reports: Autumn 2022; Spring 2022

Process and Methods

Although MSIM does not have centralised investment beliefs across asset classes and strategies, there are certain parallels in the chosen approach to engagement across our various investment teams, which reflect our core values as a firm and our determination to act as responsible long-term investors (as described in Principle 1 and Principle 6 above).

Our investment teams **generally seek to engage constructively with company management** to encourage improved disclosure, behaviour change and (where appropriate) target-setting. Teams tend to prefer one-on-one engagements directly with senior management/board directors, considering them the most effective way to articulate views to, and engage in constructive discussion with, a company's management. If those efforts prove unsuccessful, they may escalate their issues or concerns with the CEO or additional members of the board of directors, or they have the option of voting against management proposals or board directors, or in support of shareholder resolutions.

Notwithstanding one-to-one engagements with senior management/board directors we are also supportive of collaborative engagement where such engagement appears necessary to materially enhance portfolio values and likely to deliver tangible outcomes in relation to key sustainability or stewardship-related issues, provided we can do so in a manner that is in full compliance with applicable laws, regulations and judicial precedents. More details on our collaborative engagement activities are outlined in Principle 10.

Stewardship Monitoring and Engagement

MSIM is a predominantly active investment house and investment teams are responsible for monitoring the performance of companies throughout the investment process. The extent and frequency of monitoring vary across investment teams and are dependent on a number of factors including the investment strategy and the size of interest held.

Some investment teams actively monitor at the stock level by evaluating company fundamentals, financials and management, including sustainability management. Others approach portfolio construction using a top-down, macro approach to strategic asset allocation and undertake thematic engagements with select companies across the portfolio, as needed. Investment teams may take different approaches depending on asset class and type of security, and certain issues may be deemed more material for issuers in certain geographies.

Monitoring of companies in which MSIM invests our clients' money may include, but is not limited to:

1. **Reviewing and analysing relevant public information published by the company** (which may include a company's quarterly financials, earnings calls, general company reporting and/or disclosures, including sustainability-related disclosures);
2. **Developing proprietary quantitative models** to forecast performance, leveraging third-party data services;
3. **Conducting proprietary and reviewing external research;**
4. **Attending company presentations and/or analyst conferences;**
5. Where appropriate, **engaging directly with companies in which MSIM invests on behalf of our clients** (which can include engagement with company executives and board members through in-person meetings, conference calls and email correspondence); and
6. **Ongoing monitoring of external events** that may impact company performance (e.g., regulatory changes, news events).

These monitoring activities support real-time identification of engagement targets and topics across our investment teams' portfolios.

Supportive Function of the Global Stewardship Team

The Global Stewardship Team serves as a first point of contact for MSIM investment teams on proxy voting, stewardship trends and engagement where the knowledge and experience of the Global Stewardship Team is viewed as beneficial to the engagement process. The majority of engagements coordinated by the MSIM Global Stewardship Team focus on shareholder meetings. Please see Principle 12 for highlights from the 2023 proxy season.

During these engagements, the Global Stewardship Team and members of relevant investment teams meet with company management and, when appropriate, a member or members of the board of directors to discuss the issues raised by the company's proxy, including, but not limited to, executive compensation, board structure, ESG issues and shareholder proposals.

Topics of routine engagement focus on governance best practices such as board independence, succession planning and executive pay. Other topics of consideration may include the company's sustainability initiatives and goals, and corporate culture. In consultation with individual investment teams, the Global Stewardship Team may request engagement outside the normal proxy process in response to a company headline event or to proactively discuss thematic ESG issues. In these cases, the Global Stewardship Team may contact the company and request a meeting with the appropriate management team and/or a member or members of the board of directors. MSIM representatives selectively interact with company boards when the knowledge and experience of the Global Stewardship Team may be necessary and beneficial to the engagement process.

Investment Team Approaches to Engagement

As mentioned above, while MSIM has identified five engagement themes, our investment teams prioritise engagement objectives, methods and assessments in varying degrees depending on asset class, geography, investment style and strategy. The following examples demonstrate investment teams' diverse engagement strategies and corresponding rationale under each asset class:

High-Conviction Equity

INTERNATIONAL EQUITY

Engagement Approach

The investment team is responsible for engaging directly with companies. The team's ESG engagements generally have three key purposes:

1. Assessment of materiality of specific ESG issues relevant to companies;
2. Their strategies to address these issues; and
3. Monitoring of progress and encouraging companies to better manage and mitigate financially material ESG risks and take advantage of opportunities.

The team seeks to engage with specific objectives and tracks the company's response and progress on the relevant, financially material ESG issues, including, but not limited to, improving disclosure on these issues; creating a strategy to manage the risks or opportunity, including setting official targets where relevant; and linking KPIs related to the issue to management compensation.

The team engages with companies on ESG matters in three ways: stock-specific engagement, thematic engagement and occasionally where relevant, collaborative engagement. Given the team's bottom-up investment process, their engagement approach is principally stock-specific, engaging on material ESG issues identified in the investment process and documented more specifically in the MRI or Pay X-Ray. In some cases, the team may also apply a thematic approach to particular material ESG issues should they believe it beneficial to engage with several companies on one topic across industries or sectors. These thematic engagements fall within the three team-agreed priority areas of Planetary Boundaries, People Welfare, and Trust and Integrity. In addition, the team may occasionally choose to engage collaboratively on material ESG issues with select partners whose approach is complementary to the team's own and where a collective voice may be helpful. The team rarely engages in collaborative initiatives due to their own access to companies and existing, regular dialogue with company management.

Engagement Methods

The method of engagement is usually determined on a case-by-case basis, depending on the topic that they want to discuss with company management and the time frame. Dialogue with companies on engagement topics can be prolonged and require multiple engagements. Initial engagements may focus on fact finding, building understanding of how the company approaches a particular subject, and the measures and policies they may already have in place.

The team prefers to build an in-depth understanding of what the company is doing by engaging with the company's Sustainability Team and Investor Relations. If the team requires more information or has specific questions that they wish to have answered, as shareholders they have good access to company senior executives and will engage directly with them on the subject.

Engagement Progress Monitoring

Progress may be monitored through additional virtual or face-to-face meetings, via the telephone or by email correspondence. If the team does not see any progress, they will consider appropriate escalation (please see Principle 11 for the International Equity team's escalation approach and case studies). The team measures progress as follows:

- Does the company acknowledge the issue raised?
- Has the company come up with a plan and/or specific targets to address the issue?
- Has the company implemented this plan?

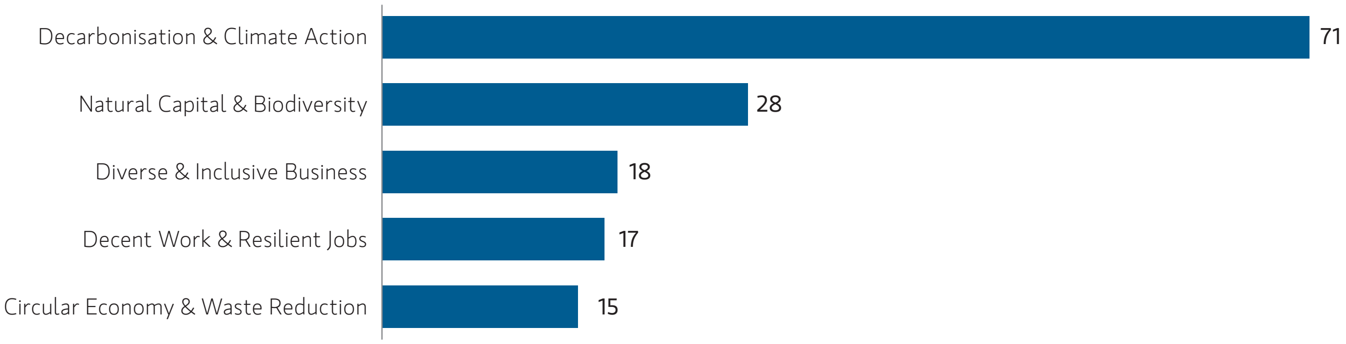
CASE STUDY 9.1

INVESTMENT TEAM	International Equity
ASSET CLASS	High-Conviction Equities
MSIM ENGAGEMENT THEME(S)	Diverse and Inclusive Business (DEI)
COMPANY SECTOR/INDUSTRY	Health Care
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	Europe
MATERIALITY	A lack of diversity in clinical trials can pose a financially material risk at the company level; if a treatment is ineffective or causes harm in addition to the significant risk it presents to patients, it also poses both financial and reputational risks to the companies involved.
ISSUES	Clinical trials are the only way to provide the US Food and Drug Administration (FDA) and other regulatory bodies globally with the data necessary to assess whether a drug works and if it is safe for patients. New drugs are approved following clinical trials. However, clinical trial populations used by pharmaceutical and health care companies are not always representative of those who end up using the medicine. Trials are over indexed toward White European and American populations, with other ethnic groups acutely underrepresented. Clinical research has shown that drugs elicit different responses due to patients' metabolism and absorption rates, among other factors—all of which can vary according to race, ethnicity and gender. If trial participants don't accurately reflect patient populations, the drug being tested may not work in the way intended when used among the wider population. Beyond a reduction in efficacy, it also may not be safe. Companies able to improve clinical trial constitutions may be better positioned to market the drug and inform on the safety and effectiveness of new medicines, thereby increasing the understanding of certain diseases, as well as possible prevention and treatment methods for all populations.
ACTIONS	The International Equity team's intention during the first phase of their engagement programme on diversity in clinical trials was to develop a good understanding of what the companies they hold are doing to meet the increasing requirements for diversity, learn from those leading the way and encourage others to embed clinical trial diversity within their processes, starting with adequate disclosures. As part of the programme, they met with the Global Head of the Health Equity and Population Science Team of a Swiss multinational health care company they own in their International Equity portfolios. From their engagement it became clear that the company has implemented several leading practices in terms of race equity in clinical trials and has allocated specific resources to the issue. The catalyst for forming the team four years ago was the push towards personalised health care—this can't be done if medications aren't tested on people with different genetic profiles. The company recognises that the push for trial diversity has to come from the top and be embedded within the trial process. To encourage this, they have internal goals in place for inclusive research, and funding bids for trials now include information and proposals around demographics of the trial populations. The company also has an internal dashboard featuring data and demographics from both live and historical trials.
OUTCOME/NEXT STEPS	The team asked if this dashboard could be made public, given the importance for pharma companies to practise and demonstrate inclusion and equity in their clinical process. The company advised that while this was their intention, it was not ready to be released publicly yet—although they were hopeful it would be possible within a year. The team's 2022 engagements represent the first phase of their multi-year engagement programme on DE&I within clinical trials; in 2023 they will conduct follow up engagements with the companies to progress the conversation, especially important given increasing regulation on this subject. As the team learned during their engagements, the companies they hold are on the cusp of disclosing data on DE&I in clinical trials, which will provide active data points and enable a better understanding of how the companies are managing this risk. Understanding what constitutes best practice also provides the team with a standard against which to compare peers, allowing them to encourage improvement across the board over time.
INVESTMENT DECISION	The engagement did not result in a significant change to the team's investment thesis for the company.

FIGURE 9.3

International Equity Engagements – Corresponding With MSIM Engagement Themes

From 1 July 2022 to 30 June 2023, the International Equity team had a total of 130 ESG engagement meetings. Figure 9.3 shows a breakdown of portfolio company engagements that corresponded with MSIM's Thematic Engagement Themes:



Please note: more than one subject may be covered in a company engagement, and therefore the total number of engagements may not equal the total number of discussion topics. The chart above is not representative of the full scope of engagement topics covered by the International Equity team during the time period.)

COUNTERPOINT GLOBAL

Engagement Approach

The Counterpoint Global team's engagement approach is viewed holistically with their investment activities, and they consider their ability to deliver long-term value. Each portfolio company is engaged with differently given respective areas of materiality.

The team's engagement process is iterative, with each engagement providing new information that enhances the team's view of the company and what they regard as its priorities, gaps and opportunities. When the team has provided suggestions or recommendations for companies on their business practices, the team monitors the company's alignment with these suggestions over a period of time. The team's engagement tracking notes allow them to flag issues for follow-up and for monitoring throughout the investment process. The team often goes into engagements with predefined topics to discuss with a company, but in some cases, they will identify additional issues through an engagement, which then become new issues to monitor moving forward. For companies with significant, ongoing ESG challenges, the team may monitor a company's management of the same issue over an extended period of time and discuss that issue in every subsequent engagement call. For other companies, the topics of engagement may change frequently along with the KPIs and objectives used to monitor them.

The team is increasingly finding that its global, all-sector, all-capitalisation, integrated sustainability research approach is novel to companies and presents the opportunity for partnership, where the team shares strategies with companies to help them capitalise on the sustainability opportunities available to the company. The team selectively offers companies access to its network of other operators, or sustainability practitioners where they think doing so would create the opportunity for a mutually beneficial dialogue.

The team pays close attention to proxy voting, using their votes and other shareholder rights to promote governance aligned with long-term shareholder interest. The Counterpoint Global team also engages some companies in discussion on various aspects of corporate governance, sometimes as an adjunct to proxy voting.

The Counterpoint Global team engages with companies in different ways, including:

- When evaluating strategy and management quality, the team's Investors engage companies to discuss issues that may include environmental and social policies and practices.
- The Team's Sustainability Lead working with the MSIM Global Stewardship Team to directly engage current portfolio companies—through the governance channel to discuss ESG initiatives. Most recently, a US-based holding engaged with the team to specifically discuss ESG.
- Regular meetings with senior Management of portfolio companies – In regular updates with management teams of the team's portfolio companies, the investment team members address ESG drivers where there are clear enterprise value implications (e.g., expected dilution from share-based-compensation). Socio-economic empowerment, inclusion, community development, data governance, security and risk management are other areas of high focus. Companies engaged in these sustainability-related business activities are expected to benefit in the form of enhanced growth rates, profitability and/or competitive advantages.

- Global institutional conferences attended by portfolio companies' Sustainability Heads – members from the team attend and/or speak at these conferences, the attendees of which would generally include senior sustainability officers from current portfolio companies and other global organisations.

Based on information obtained via various means outlined above, investment team members create Sustainability Research Insights, which are then distributed to all members of the Counterpoint Global team following an "SR Engagement," which the team defines as a discussion where it asks the company a set of questions designed to clarify the state and sophistication of the company's sustainability strategy and processes. These SR Insights notes synthesise the key insights learned from the discussion, which tend to contextualise the opportunities and risks as well as assess the team's understanding of the long-term alignment of incentives as well as the culture of adaptability, which the team views as often useful in capitalising on sustainability-related themes. On a quarterly basis, the team's Sustainability Lead highlights the most material and often out-of-consensus insights acquired through that quarter's engagements, giving the senior investors the opportunity to ask questions and prompt new questions for future engagements. These insights are additive to the entire analysis of the company, to give senior investment decision-makers a more complete view into the opportunities and risks facing the company.

GLOBAL OPPORTUNITY

The Global Opportunity team's investment process integrates analysis of sustainability with respect to disruptive change, financial strength, and environmental and social externalities and governance. The team views ESG as a component of quality and considers the valuation, sustainability and fundamental risks inherent in every portfolio position. As bottom-up investors, the team does not apply top-down ESG positive/negative screens to a benchmark. Nor does the team utilise ESG scorecards from third parties that rank companies versus industry peers. In other words, ESG in isolation is not a principal driver of the team's investment thesis; it is but one important component of the team's quality assessment.

Incorporating ESG-related potential risks and opportunities within an investment process is about ensuring long-term stewardship of capital. Over extended time horizons, the team believes that ESG risks are more likely to materialise and externalities not borne by a company are more likely to be priced into the value of securities. Therefore, the Global Opportunity team continues to innovate and evolve its process and believes that integrating ESG within its investment analysis improves the risk and reward profile of client portfolios.

CASE STUDY 9.2

INVESTMENT TEAM	Global Opportunity
ASSET CLASS	High-Conviction Equities
MSIM ENGAGEMENT THEME(S)	Decarbonisation and Climate Action, Circular Economy and Waste Reduction, Decent Work and Resilient Jobs
COMPANY SECTOR/INDUSTRY	E-commerce and Fintech
COMPANY LOCATION	South America
MATERIALITY	Company specific
ISSUES	The company's mission is to democratize commerce and payments across 18 countries in Latin America. Decent work and economic growth are core to the business as enabling entrepreneurship, job creation and socioeconomic development enhances the continent's largest commerce platform comprising over 500,000 small and medium-sized enterprises (SMEs), 9 million sellers and 67 million buyers. Providing financial services such as digital payments and credit helps merchants build their business and generate 6-11 jobs on average.
ACTIONS	The team engaged a Latin American ecommerce and financial technology platform to discuss progress on sustainability priorities.
OUTCOME/NEXT STEPS	The company is focused on responsible consumption and production by decoupling resource consumption from e-commerce growth through best practices and has achieved 100% recycled cardboard under circular economy initiatives while recognizing room for progress to reduce plastic packaging. The company has also made significant progress on climate action by committing to a science-based target to reduce emissions, publishing TCFD report, and developing plans to increase renewables from 15% of electricity consumption. The company is also working to secure additional supply of electric vehicles for third-party logistics firms by addressing challenges of financing and charging network availability.
INVESTMENT DECISION	Continue to hold the investment.

Engagement Approach

For the Global Opportunity team, engagement priorities differ by individual company and are not region-specific. The team's research has identified both ESG opportunities as well as risks that may impact the value of a company. In such cases, the team takes an engagement approach to guide/steer the company towards better sustainability practices and strategies that correspond with the company's business. This is demonstrated in the following case study:

EMERGING MARKETS EQUITY

Engagement Approach

The EME team's engagement process is driven by financial materiality and improving performance through understanding a company's financial and sustainable strategy. As active managers, the team understands companies' operational performance and ESG strategies are dynamic. Research and engagement allow the team to look beyond an ESG data point and analyse how a company's ESG risks and opportunities are evolving, and how they will impact long-term financial performance. Engaging with management teams allows the team to evaluate whether the company has a clear differentiator and gives them an additional lens into viewing management quality more broadly.

After identifying material risks for a company, the team conducts a baseline engagement meeting with management. The EME team believes that a company's engagements are a two-way street—the team not only listens and learns about the company's sustainability strategy, but also educates the company on industry-best practices and provides guidance, such as encouraging management to set specific emissions targets and communicating the risks which the team believes are most material to the company. The EME team views a successful outcome as when a material metric improves, or when a company might adopt a suggestion or industry standard, or where there is a change in board independence or composition.

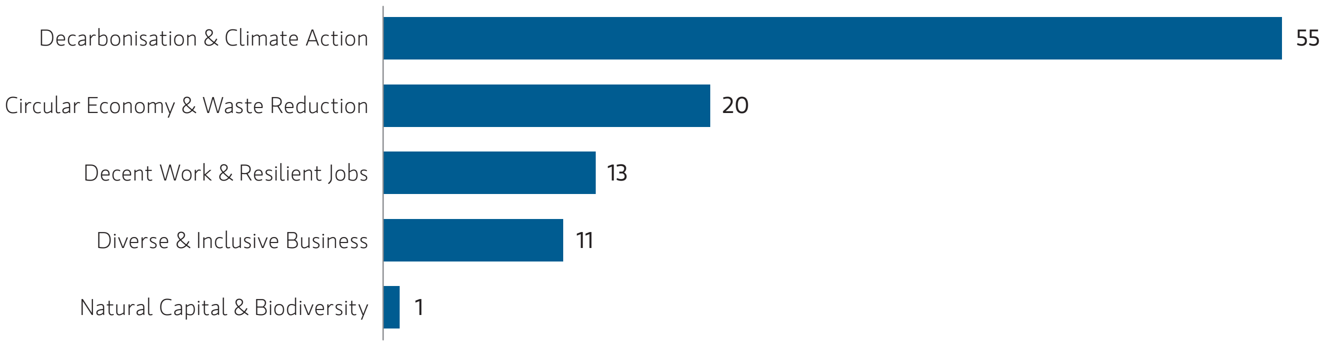
Post-engagement, the EME team writes up its assessment of the company's sustainability strategy. For the first baseline engagement, the team focuses most on how the company acknowledges its ESG risks and how they have addressed them so far. The EME team also wants to understand the company's positioning and evaluate whether or not it is committed to improvement. In its assessment, the team identifies a few key areas and metrics on which they can follow up post-conversation. The team follows up in regular conversations with management.

Should the EME team not see meaningful improvement on material metrics the team may put the stock into its escalation protocols if the team feels that these metrics might impact the competitiveness and growth of the stock, or if the company's inability to make progress degrades their trust in management, they may exit the position. The EME team's approach to escalating engagement does not differ based on strategy or geography but is decided on a case-by-case basis at stock level.

During the full year 1 July 2022–30 June 2023, the EME team held a total of 59 dedicated ESG engagements with company management teams on a range of ESG themes:

FIGURE 9.4

EME Team Engagements – Corresponding With MSIM Engagement Themes



Please note: The chart above is not representative of the full scope of engagement topics covered by the Emerging Markets Equity team during the time period

CASE STUDY 9.3

INVESTMENT TEAM	Emerging Markets Equity
ASSET CLASS	High-Conviction Equities
MSIM ENGAGEMENT THEME(S)	Diverse and Inclusive Business, Decent Work and Resilient Jobs
COMPANY SECTOR/INDUSTRY	Consumer Staples/Food
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	Asia (ex Japan)
MATERIALITY	This company is held in an EU SFDR Article 8 fund that gives due consideration to material sustainability risks for portfolio holdings. For this engagement, the team identified the material risks to be inclusivity, environmental preservation and product integrity—all of which would impact profitability if poorly managed. Inclusivity affects the company's ability to distribute its products (as detailed below). Robust environmental preservation or management can affect consumers' perception of the company as well as support management of regulatory risks. Lastly, product integrity includes food quality and safety, which can directly impact sales volumes. The team wanted to further understand how the company is addressing these issues and specific initiatives put in place which resulted in an engagement.
ISSUES	The team had a first engagement to understand the company's sustainability strategy and approach to material risks, and assess its level of ESG integration.
ACTIONS	During the engagement, the team discussed several material issues. While the company is relatively new to sustainability reporting and communication, the company shared its sustainability strategy, which centres around inclusivity, environmental preservation and product integrity. The company places great importance on its positive contribution to stakeholders and its products, which directly contribute to tackling malnutrition and stunting in children in Indonesia. A key component of the company's inclusivity strategy is their exclusive programme that comprises over 4,000 agents who sell the company's products to more than 300,000 households on a weekly basis. The target of the programme is to empower low- to medium-income Indonesian housewives by providing a source of income and financial independence. Many of these women are previously unbanked and so the company also helps them open their first bank account. The team encouraged the company to consider measuring and disclosing satisfaction rates for agents. During the team's engagement, they also discussed other material topics including environmental preservation and product integrity and encouraged the company to set specific targets around the issues discussed
OUTCOME/NEXT STEPS	While the company is still ramping up its sustainability capabilities and reporting, the team wanted to highlight that the company is receptive to advice and areas of improvement. Given that this was the team's first engagement with the company, they were satisfied with its responses and will continue to engage with the company to further improve performance and transparency. The team will follow up on issues discussed and the company's responses, including specific targets set, during their next engagement.
INVESTMENT DECISION	The team concluded that the company demonstrates awareness and efforts to address material issues, which resulted in their decision to continue to hold the investment.

FIXED INCOME AND LIQUIDITY

Engagement Approach

The Fixed Income organisation has a long history of credit-related engagement. Since 2020—when the organisation first published their Fixed Income Engagement Strategy—they have been supplementing that with a structured approach to ESG-focused engagement across corporates, agencies and sovereigns.

The Fixed Income organisation believes they have an important role to play in building a constructive dialogue with debt issuers, with a unique position versus equity counterparts due to their access to a broad range of entities beyond listed companies: e.g., governments, municipalities and privately held companies. Through engagement, the organisation also aims to enhance transparency in the market, improve price discovery of the proper cost of capital and ultimately help preserve the long-term value of holdings.

In 2023, the Fixed Income organisation updated their ESG Engagement Strategy to better describe their integrated and targeted approach to engagement, and an expanded set of thematic priority areas, as outlined in the chart below:

- **Integrated engagements:** The Fixed Income organisation's integrated engagements seek to address financial materiality. Led by Credit Research Analysts as part of the regular course of business, these engagements serve as information-gathering opportunities for the Fixed Income investment teams to expand their insights on issuers' ESG strategies. For example, Fixed Income Credit Analysts leverage Sustainable Bond Roadshows as an opportunity both to supplement research and gauge sustainability momentum. Integrated engagements may be one-to-one meetings, or with other investors, such as during roadshows.
- **Targeted engagements:** Targeted engagements focus on specific ESG issues to encourage corrective action. These are primarily led by the Calvert Fixed Income ESG Research Analysts, targeting issuers based on severe controversies, or lagging ESG practices. The aim of these engagements is to set measurable objectives to improve sustainability disclosure, in order to recommend the mitigation of sustainability risks and promotion of opportunities. The team's targeted engagements are generally one-to-one meetings, to maximise the opportunity for detailed discussion and advocacy.
- **Thematic focus:** The Fixed Income organisation structures their engagement meetings around a set of thematic priorities that are aligned with MSIM's engagement themes.

Over the 12-month period from July 2022 to June 2023, the Fixed Income organisation conducted over 160 engagement meetings, continuing to focus on the theme of decarbonisation and adoption of science-based emissions reduction targets. In addition, macroeconomic issues such as inflationary pressures and the rising costs of living around the world led to a growing focus on social inclusion and Just Transition, labour and human rights, and good governance.

Some of the engagement meetings conducted by the Fixed Income organisation, in particular with financial institutions, may also benefit the Liquidity team. In some cases, the Liquidity team may rely on the credit analysts and ESG analysts in the Fixed Income organisation to help conduct engagement meetings associated with their investment holdings.

Over the course of the year, the Fixed Income organisation conducted a thematic engagement series, involving an in-depth dialogue with select issuers on themes on which the organisation considers it important to advocate for positive outcomes. For example, in 2023 the Fixed Income organisation launched an engagement series focusing on

FIGURE 9.5

Fixed Income ESG Engagement Strategy

the Just Transition topic, with select utility and energy companies. The series sought to evaluate, on an ongoing basis, how these companies are navigating the impact of the low-carbon transition for the workforce, supply chain and communities. The organisation's key asks for these companies were framed around dialogues with affected stakeholders and the setting of time-bound targets, in an effort to potentially advance climate change mitigation and adaptation, and to improve socio-economic inclusion. At the same time, the engagement series offered the Fixed Income analysts additional insights to conduct a thorough evaluation of those companies and, the risks and opportunities to which they are exposed, and to take that into consideration as part of the investment process.

In light of regulatory developments, such as SFDR, the Fixed Income organisation has been increasingly focusing, within these themes, on environmental and social factors that are associated with Principal Adverse Impact (PAI) indicators, with the intention of mitigating portfolios' exposure to issuers that may do significant harm to such factors. These include, for example, a scale-up in engagement focused on carbon emissions reduction across Scopes 1, 2 and 3, and on the phase-out of fossil fuels, as well as on human and labour rights monitoring along supply chains, in the context of compliance with international norms such as the UN Global Compact or the OECD Guidelines for Multinational Enterprises.

The Fixed Income organisation's predominant method of engagement is via direct meetings with senior representatives in a company or organisation. These usually include senior Chief Financial Officers (CFOs) and members of the Treasury teams, Heads of Investor Relations, and senior representatives from the Sustainability teams. For smaller companies, CEOs also often attend the sessions.

Over the last 12 months, the Fixed Income organisation has also been enhancing its collaboration with the Calvert Engagement team. In Q2 2023, the groups kicked off a joint, ongoing engagement with a utility company on its transition approach and impact on core stakeholders, with a twofold objective to: (1) assess the company's strategic approach towards renewables, and fossil fuel phase-out; and (2) discuss the implementation of initiatives and monitoring to enhance the just transition. The joint engagement has found that the company's risks to exit coal by 2025 are uneven across geographies, green hydrogen projects are on track to meet regulatory standards, and local stakeholder relations are managed by designated employees. The groups solicited the company to provide improved disclosure on potential roadblocks to decarbonisation, and focus on progress measurement and disclosure of just transition metrics.

The Fixed Income organisation also participates in industrywide collaborative engagement initiatives beyond MSIM, as outlined in further detail in Principle 10. In cases where there is a cross-asset class focus on an issuer's ESG risk both on the equity and fixed income side, or an egregious conduct that warrants escalation by mobilising the broader MSIM franchise, the team may engage collaboratively with other MSIM investment teams and the Global Stewardship Team.

Annual Engagement Pipeline

For the Fixed Income organisation's targeted engagements, they establish an annual pipeline of priority target companies with which they aim to engage, based on but not limited to the following criteria: laggard ESG scores, high emissions across Scopes 1-3, high fossil fuel revenue generation, severe ESG controversies such as violations of the UN Global Compact or OECD Guidelines for Multinational Enterprises, size of bold-holding exposures across portfolios, strong misalignment with the SDGs, or unrated names (such as high yield or privately held companies), in order to make disclosure requests.

The team approaches issuer engagement constructively and collaboratively. Depending on the impetus for dialogue, the team seeks to set clear expectations from the engagement process, particularly for the team's targeted engagements. These can include the disclosure of specific data points, promoting the adoption of recognised ESG reporting standards, or suggesting alternative practices where the team is concerned with a certain course of action taken by the issuer.

Asset Class and Regional Differences

The Fixed Income organisation segregates their engagement pipeline across Investment Grade, High Yield and Emerging Market companies, based on the team's research coverage structure. Whilst Investment Grade issuers tend to be the primary target of the team's targeted engagements, as they generally have larger quantifiable externalities, the team has been growing their engagement with High Yield and Emerging Markets issuers, accounting for a higher proportion of engagements over the reporting period. The team finds that the close relationship between management and investor for smaller companies, particularly those in the high-yield space, creates an opportunity for constructive, ongoing dialogue, which is often supported by clients with high-yield focus (see Principle 6 for further detail on engagement with a distinct client focus).

TABLE 9.1

Fixed Income Engagements – Distribution Across Fixed Income Asset Classes

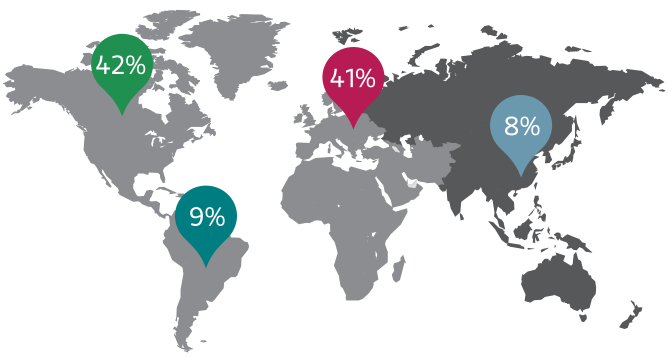
FIXED INCOME SUB ASSET CLASS	ENGAGEMENT DISTRIBUTION (%)
Investment grade	66%
High yield	19%
Emerging markets	10%
Sovereign, Supernationals and Agencies	5%

The Fixed Income organisation has also been using their unique position to engage beyond corporates, focusing on sovereigns and government-related issuers. The team has increasingly been engaging with emerging market sovereigns on their progress towards lagging SDGs, and, more broadly, on how countries can provide more frequent sustainability disclosure and impact-focused data.

On a global scale, the Fixed Income organisation has also been expanding the geographical distribution of their engagements—in particular, increasing their focus on Latin America. Whilst engagements in EMEA and the US continue to comprise the majority of the team's engagements across varying sectors, the team's dialogues in LATAM have been concentrated on metals and mining, and food and beverage companies. The organisation's engagements in this region have sought to encourage improved disclosure and reporting across the supply chain, on topics such as human rights and biodiversity.

FIGURE 9.6

Fixed Income Engagements – Geographical Distribution



Engagement Monitoring and Measurement

The Fixed Income organisation maintains a centralised tracker of engagement activities for monitoring and reporting purposes, distributing a quarterly tracker of engagement statistics and case studies for the benefit of clients. For clients with a specific enhanced focus on engagement embedded within their mandate, the team also provides bespoke engagement information.

Progress on engagements is monitored through the periodic assessment of selected ESG metrics.

MSIM has access to a wide range of third-party ESG data vendors, hence the Fixed Income organisation is able to track ESG metrics at the issuer and, where applicable, security levels. The factors they consider vary based on the issuer and its sector. For example, within their autos engagement series, the team conducted a materiality-based analysis to identify the most important metrics to monitor over time. These included metrics related to decarbonisation (such as percentage of fleet that are electrical vehicles), supply chain management (proportion of suppliers assessed using sustainability factors), and diversity and inclusion (such as gender diversity in the workforce and management).

Engagements are used as frequently as needed as part of the monitoring and stewardship process. The Calvert Fixed Income ESG Strategy and Research Team monitors controversies across holdings, and therefore in cases where they identify a material ESG risk or a particular ESG laggard, they aim to engage to assess whether any remediation strategies have been implemented. They first identify any material issues, for example any controversies or data discrepancies within sustainability reports, before delineating a set of specific questions and expectations. If the team identifies areas for improvement within its engagement, they may request action from the issuer. This can include a specific objective, such as setting a net-zero target, and they may set a timeline if the company is lagging behind its peers.

Example – Monitoring Progress

The Fixed Income organisation's enhanced focus on Natural Capital & Biodiversity within stewardship and ESG research processes has resulted in an increasing focus on monitoring biodiversity practices, particularly in high-risk sectors. For example, in Q1 2023, they asked to meet with a high-yield biomass power company to assess their actions in relation to a biodiversity controversy, which claimed that the company uses imported wood pellets sourced from primary and environmentally important forest. The company clarified to the High Yield team that it is dependent on pellet suppliers to provide them with data on the quality of the logs procured, however, the Calvert Fixed Income ESG analyst recommended that the company improve disclosure and transparency on these sourcing practices.

As part of their monitoring process, the High Yield team continued to assess the company's biodiversity practices. In Q2 2023, the energy regulator in the company's jurisdiction launched a formal investigation into the company's sustainability reported data, namely whether their sourcing of wood pellets was in breach of sustainability requirements. The High Yield team decided to divest from the company's bonds given multiple controversies and potential greenwashing of sustainability data, mitigating the team's exposure to linked regulatory and financial risk. However, the team aims to monitor whether the company has adopted recommendations on disclosure. The team approaches engagement as an ongoing process, particularly given the real-world constraints that many energy companies face in the low-carbon transition, with the possibility of future investment if the company can achieve expected ESG standards.

Engagement Escalation

The Fixed Income organisation approaches engagement constructively as they aim to understand the issuer's strategy and identify sustainability momentum. If, after follow-ups, the team identifies that there has been no improvement, or that the ESG risk outweighs any benefits or opportunities, they would escalate the issue. The first escalation step would be to the Portfolio Managers. As bondholders, the teams use their buy/sell decisions as a way of indicating their sentiment to the company on its approach to sustainability. Any issues considered to be very serious from a sustainability perspective would also be raised to the MSIM Sustainability team and, in extreme cases, to the Firm's Global Franchise Risk committees. For additional information on escalation, refer to Principle 11.

INTEGRATED, TARGETED AND THEMATIC APPROACHES

Example – Integrated Engagement

CASE STUDY 9.4

INVESTMENT TEAM	Fixed Income organisation, Broad Markets Fixed Income
ASSET CLASS	Investment Grade Credit
MSIM ENGAGEMENT THEME(S)	Decarbonisation and Climate Action, Circular Economy and Waste Reduction
COMPANY SECTOR/INDUSTRY	Utility
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	Europe
MATERIALITY	Concerns surrounding wastewater treatment and pollution incidents are highly material to a water utility company, due to fines, regulatory and financial risk potentially stemming from mismanagement.
ISSUES	In Q2 2023, the team engaged with the company's CEO and Treasury team as part of the team's in-depth evaluation of their green financing framework, and their upcoming Green Bond issuance, to better understand how the issuance would fit in and contribute to the issuer's broader sustainability strategy and trajectory. The proceeds from this issuance are intended to support two main projects related to new water pipelines, increasing the company's supply capacity measures in more water-scarce areas, and to investments to reduce spillage and improve water quality. The company is facing criticism over its product management, in particular for wastewater treatment and pollution incidents, with the industry's regulator and investigation agency having opened investigations into sewage treatment works and the company's practices over the past two years. Whilst the analyst noted that the company has managed the gross number of related incidents and has delivered satisfactorily on metering plans, the company had the highest number of serious incidents of any water company within its country over the last year of reporting.
ACTIONS	The issuer explained in detail how the projects associated with the green bond issuance would be focused on addressing some of the identified issues, by seeking to improve water efficiency and wastewater management. However, the team questioned how the company intends to quantify impacts associated with the projects as part of their green bond impact monitoring and reporting. Company representatives stated that in relation to their water industry and strategic pipeline projects, they intend to report on impact annually and plan to provide new water savings and pollution-related impact figures in future reports. The company highlighted that their event duration monitor coverage has increased across their network, enabling them to better monitor sewer overflows. Indeed, one quarter of the company's water CapEx plan is directly targeted at improving performance in the case of sewer overflow and would be funded in part by this green bond issuance.
OUTCOME/NEXT STEPS	The company's issues around wastewater incidents raise serious concerns about the effectiveness of the issuer's governance and management plans. Hence, the information gained in the engagement resulted in our analyst assigning a negative momentum as part of his view of the issuer's sustainability trajectory. The credit analyst also downgraded his view on the company more broadly, including based on ESG considerations. The team aim to monitor the evolution of the pending investigations against the company and of their investments to improve their practices.
INVESTMENT DECISION	The investment team decided not to participate in the company's new green bond issuance, based on some of the pending concerns above.

Example – Targeted Engagement

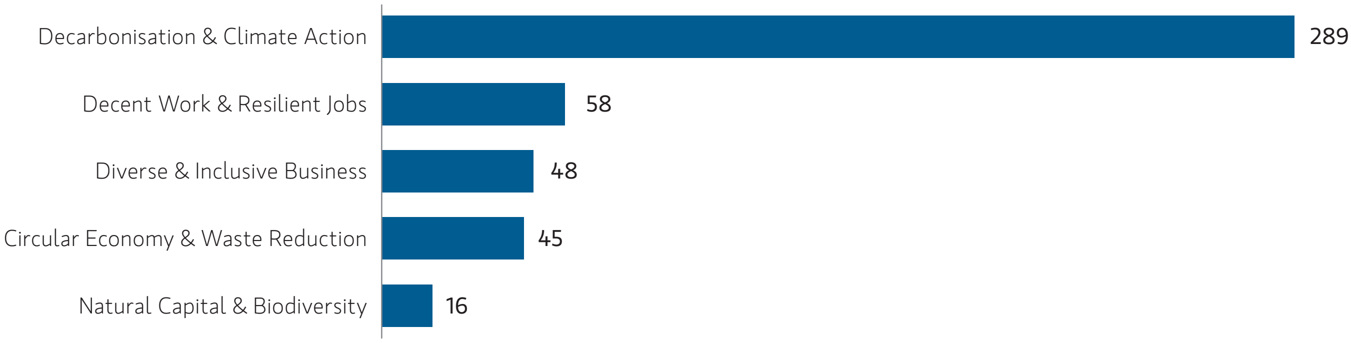
CASE STUDY 9.5

INVESTMENT TEAM	Fixed Income Organisation, High Yield
ASSET CLASS	High Yield
MSIM ENGAGEMENT THEME(S)	Other* (please specify): Governance and Reporting
COMPANY SECTOR/INDUSTRY	Financial Services
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	North America
MATERIALITY	Privacy and data security are critical to the customer protection and the good functioning of financial services. Potential lack of corporate governance structures to monitor and regulate the company's operations and services in this regard may leave it susceptible to regulatory, reputational and social risk.
ISSUES	In Q1 2023, the team initiated an engagement with a private debt collector that had very limited ESG reported information and was unrated by third-party ESG agencies. The key ESG issues at the core of this engagement were fair customer treatment, privacy and data security, and overall corporate governance. Given the investment team's significant bond-holding in this company, they intended to leverage the exposure to induce positive change by speaking directly to the company's management. The team was concerned about the social and regulatory risk arising from misaligned incentives between the debt collection company and their customers, often making this business activity the target of consumer protection authorities. On the other hand, the company claimed to be best-in-class from an ESG perspective within their industry, citing previous audits that did not demand any remediation measures. The company outsources 60% of their collections to third parties, but reviews logged complaints and samples of customer calls to monitor interaction with customers. However, overall customer satisfaction is not systematically assessed.
ACTIONS	The investment team recommended that the company conduct a materiality assessment of ESG issues, defining priorities and action points based on results. The team advised the company to work on developing customer treatment and third-party vendor policies, and to start with publishing an ESG report. The company agreed to internalise our feedback and to develop an ESG summary, to be made initially available to investors only.
OUTCOME/NEXT STEPS	In Q2 2023, the company responded to the team's ask and provided investors with an initial ESG presentation and a selection of ESG metrics, including numbers on customer satisfaction. The team appreciate the company's proactiveness and found this to be a highly satisfactory first milestone of our engagement. The team intends to build on this positive momentum, encouraging the development of new policies and publication of a full ESG report aligned with sustainability disclosure standards while continuing the engagement process to seek to further enhance the company's ESG disclosure practices and quality.
INVESTMENT DECISION	The positive momentum from the engagement with the issuer, including their responsiveness to feedback, contributed to the team's decision to maintain investments in the name.

FIGURE 9.7

Fixed Income Engagements – Corresponding With MSIM Engagement Themes

Between 1 July 2022 and 30 June 2023, the Fixed Income organisation conducted 166 ESG-focused engagement meetings. Figure 9.7 shows a breakdown of topics on which they engaged with portfolio companies based on MSIM Engagement Themes.



Example – Thematic Engagement

In 2023, as part of the Fixed Income organisation's Just Transition engagement series, they requested to meet with an energy company, considered an ESG leader in the oil and gas space, to assess the impact of the company's transition on the workforce, supply chain and wider community. The company had conducted outreach to the wider community; however, it had not set a clear strategy relating to workforce or community engagement. The Fixed Income organisation strongly encouraged the company to explicitly disclose figures on employee reskilling in relation to energy transition activities, and provided examples to the company of transition data metrics, such as the number of new jobs created and employee turnover statistics. The ESG analyst also recommended that in the case of any asset divestments, the issuer contractually ensures that efficient operations and community relations will continue under new ownership. Given the significant transition and social risk associated with a lack of workforce and community engagement, the Fixed Income organisation aims to follow up after the company's next reporting cycle to monitor the suggested action points.

Customised Solutions

GLOBAL BALANCED RISK CONTROL

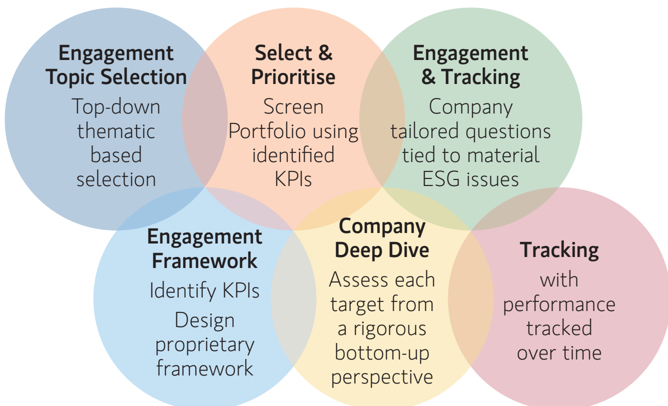
The team aims to fulfil their stewardship responsibilities by engaging directly with issuers through effective exercise of their proxy voting and other rights as shareholders. The team's stewardship objectives are tied to outcomes that include:

- Enhanced disclosure of sustainability-related information by issuers
- Securing and encouraging improved management of material sustainability-related risks and opportunities
- Improving the team's own understanding of any sustainability-related risks in their portfolios

Typically, the team's main engagement priorities are guided by top-down thematic research, based on an assessment of material ESG risks and opportunities by their dedicated ESG analysts. They believe this is the ideal approach for their strategy as researching risks to the global economy and global markets is also central to the GBaR team's asset allocation process. The team's engagement strategy can broadly be summarised in the below Engagement Process:

FIGURE 9.8

GBaR's Engagement Process



SPOTLIGHT #5

Example Engagement Series on Climate Transition

The GBaR team has long considered climate change as a potential risk event and one of the key issues facing society and impacting markets. Indeed, recognising this risk within their portfolios that consider ESG factors, the team implements an additional tilt towards companies that they believe are better managing the risks and opportunities in the global transition towards a low carbon economy.

However, they also recognise that integration alone does little to mitigate the causes and effects of climate change. The GBaR team therefore uses its influence to engage with some of the most carbon-intensive sectors of the economy. Since 2020, the GBaR team have engaged regularly with electric utility companies across Europe, the US and Southeast Asia to encourage more ambitious decarbonisation plans, such as those laid out by the International Energy Association. Typically, the team's engagement has focused on prioritising renewables over gas in the transition away from coal-fired generation. The GBaR team have also focused on encouraging investee companies to step up near-term decarbonisation ambitions.

During the reporting period, the team continued this engagement programme and engaged with 11 electricity generators. In doing so, the team typically meets staff directly responsible for decarbonisation strategies.

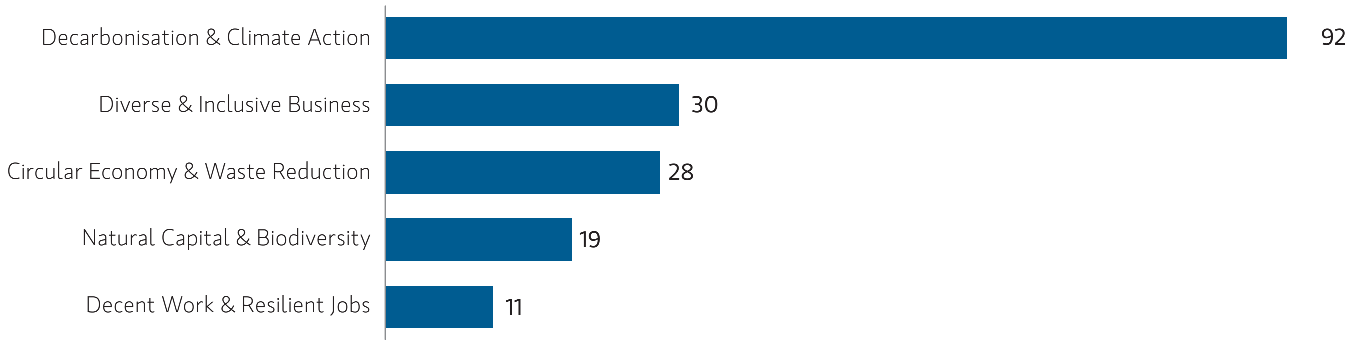
To date, the team is pleased that their target companies' strategies are increasingly aligned with the ambition required to decarbonise the electric utility sector. Through continuous dialogue with their target companies, the GBaR team has validated their research findings that not only do renewables provide lower carbon electricity, but they are also increasingly the cheapest option compared to thermal assets. The team believes that, over the long term, this has the potential to lower not only emissions, but also customer bills.

However, the journey to decarbonisation is not always straightforward. Power generation is a highly complex and regulated industry, and the team has, through their engagements, come to understand and sympathise with the challenges inherent in such a large-scale transition from fossil fuelled power generation to a predominately renewables-based system. Indeed, these challenges are not only associated with oft-cited limitations of renewable energy (intermittency for example) but are also tied to issues such as regulatory requirements to maintain fossil fuelled plants, well founded concerns for a Just Transition, and bottlenecks concerning permitting.

Between 1 July 2022 and 30 June 2023, the GBaR team conducted 60 ESG-focused engagement meetings. *Figure 9.7* shows a breakdown of topics on which they engaged with portfolio companies based on MSIM Engagement Themes.

FIGURE 9.9

Global Balanced Risk Control Engagements – Corresponding With MSIM Engagement Themes



CASE STUDY 9.6

INVESTMENT TEAM	GBaR
ASSET CLASS	Custom Solutions
MSIM ENGAGEMENT THEME(S)	Decarbonisation and Climate Action
COMPANY SECTOR/INDUSTRY	Utility
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	North America
MATERIALITY	The team believe that a net zero target, at least aligned with public policy targets, is essential for electric utility companies. In this case, a specific plan for phasing out the company's most carbon-intensive assets would provide investors reassurance as these assets are more likely to become unprofitable over the long term while renewables gain market share.
ISSUES	The team has engaged since 2020 with a US utility company to encourage management to target net zero emissions and phase out coal since 2020. While the team believes the company is a global leader when it comes to decarbonisation, the team were concerned that the management does not have any longer-term targets for decarbonisation beyond 2025. The team have consistently requested the company commit to a long-term net zero target.
ACTIONS	The team most recently met the company at the start of 2022 and again during 2023. During their engagement in 2022, the company described its thinking around planning for net zero and subsequently publicly announced a net zero plan targeting 2045 a few months after the call.
OUTCOME/NEXT STEPS	Post-engagement, the company shut down all its coal-fired plants except for minority ownership stakes in two coal plants, which are due to close by 2024 and 2028, respectively (representing 0.4% of its capacity). The team are pleased with the company's new ambition and continued commitment to phase out coal; however, the company's plan will need to be monitored closely as it requires significant investment over a long period of time. The company has a good track record and strong balance sheet to support the plans. Furthermore, the team believes the company could bring forward its decarbonisation ambition to 2035, in line with International Energy Agency (IEA) recommendations, given significant regulatory incentive tailwinds. The company's track record shows this may be possible.
INVESTMENT DECISION	The team continues to hold and engage with the company given its positive momentum on this material ESG issue.

SPOTLIGHT #6

Circular Economy & Biodiversity (Deforestation Case Study)

In addition to the climate crisis, the world is also facing a potential biodiversity collapse. Like climate change, loss of biodiversity and natural capital is a systemic risk, which could generate profound negative environmental and social consequences and lead directly to major business or market disruption.

Over the reporting year, the GBaR team sought to encourage their portfolio companies' management teams to better understand the potential impact and costs of neglecting the biodiversity challenge and to seek to integrate the consideration of biodiversity-related issues into their business strategies.

Underlining how reliant economic and societal activity is on a healthy and diverse ecosystem, the World Economic Forum (WEF) found that $44 trillion of economic value generation—over half the world's total GDP—is moderately or highly dependent on ecosystem services.[14]

The GBaR team focused on the consumer staples and consumer discretionary sectors, as this is where they believe biodiversity risk was most concentrated in their portfolios. Companies in these sectors are particularly exposed to deforestation-related risk through their supply chains. They are, of course, also dependent on the abundant benefits derived from biodiverse and healthy ecosystems such as raw materials for their products and clean and abundant sources of water for their operations.

During the reporting period, the GBaR team carried out intensive, bottom-up research on 13 identified companies. In doing so, the team designed a proprietary framework to leverage company-reported and third-party data and to translate this quantitative and qualitative data into standardised and comparable rankings. Companies are scored from 0-100% based on the team's assessment of company policy and practices on KPIs within each category. The framework allows the team to assess, prioritise and track each individual target's progress on key engagement requests.

[14] WEF, Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy (2020).

CASE STUDY 9.7

INVESTMENT TEAM	GBaR
ASSET CLASS	Custom Solutions
MSIM ENGAGEMENT THEME(S)	Decarbonisation and Climate Action
COMPANY SECTOR/INDUSTRY	Utility
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	Europe
MATERIALITY	The team has engaged with this company since 2020. The team most recently met with the company in 2022. The company was initially targeted as the team felt there was an opportunity for the company to benefit from the energy transition in several financially material ways. The team believe the company can cement its leadership position and enhance its long-term business value by bringing forward its net zero ambition.
ISSUES	Decarbonisation/Climate Action. The past years have seen a proliferation in ambitious decarbonisation targets bolstered by policy support for clean energy build out in the markets the company operates in. Additionally, carbon prices and policy developments in the markets where the company operates have the potential to impact profitability and asset life for carbon-intensive assets.
ACTIONS	Since 2020, the company has made significant progress towards decarbonisation. This is demonstrated by its reduction in direct emissions by almost 25% in the last five years. However, following their engagements the team continued to believe the company could cement its leadership position by bringing forward its net zero ambition. The team suggested that the company should follow the IEA's Net Zero guidance and seek to achieve net zero emissions in its generation portfolio by 2030 in operations in advanced economies, and 2040 in emerging markets economies. This would allow the company to benefit from increasing demand and policy support for clean energy.
OUTCOME/NEXT STEPS	The company agreed with the team on the need for a globally quicker decarbonisation of the electricity system. Since the last engagement, the company announced an updated net zero target for scopes 1 and 2 by 2030 and across scope 3 by 2040. It expects to invest 65-75 billion Euros between 2026 and 2030 to transform its business towards network and renewable assets.
INVESTMENT DECISION	As the company's ambition is in line with the team's expectations, they consider this engagement closed.

CASE STUDY 9.8

INVESTMENT TEAM	GBaR
ASSET CLASS	Custom Solutions
MSIM ENGAGEMENT THEME(S)	Diverse and Inclusive Business, Decent Work and Resilient Jobs
COMPANY SECTOR/INDUSTRY	Media and Entertainment
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	North America
MATERIALITY	The team believes an effective DEI strategy makes business sense for the company given the competitive advantage that authentic diverse storytelling has been shown to bring.
ISSUES	Given the materiality of the issue the team wanted the company to establish better board oversight over DEI issues. Additionally, the company had recently faced a shareholder proposal seeking more granular gender pay gap reporting, which the team believed would help investors better understand its progress on this issue.
ACTIONS	Over the reporting period the team engaged with the company on three occasions across a variety of governance and DEI-specific topics. Depending on the engagement context the team spoke with members of board committees, senior members of staff or investment relations officers. Generally speaking, the team discussed how the board oversees the development and retention of diverse talent within the company to senior levels and was pleased to hear how increasingly involved the board was in the strategy. They discussed the company's bottom-up approach to hire from a more diverse pool of talent including using diverse interview panels and requested a more concrete oversight role for the board. The team referred to a recent shareholder proposal on gender diversity and requested that the company fully comply with the request for more granular data. Additionally, with reference to research reports, the team spoke about diversity in decision-making or high-visibility areas such as those involved with greenlighting content, production and other roles in front of and behind the camera.
OUTCOME/NEXT STEPS	The company committed to enhancing its disclosure in line with the shareholder proposal. Since the engagement the company disclosed adjusted gender, race and ethnicity pay ratio data and committed to expanding the assessment of the adjusted pay ratio in 2023 and disclosing unadjusted median analysis of pay in 2024. The team hopes the company can further enhance the disclosure in line with this commitment. Most encouragingly, the company disclosed that the Compensation Committee would be taking on a broader oversight role of DEI initiatives going forward. The team believes Board-level oversight of DEI initiatives will ensure initiatives are monitored from the highest level and are in line with the company's strategy. The team continues to monitor the company with regard to diversity in decision-making functions throughout the organisation
INVESTMENT DECISION	The team continue to hold and engage with the company given their positive momentum on this material ESG issue.

Alternative Investments

GLOBAL LISTED REAL ESTATE

The Global Listed Real Estate team uses engagements with company management to discuss ESG-related strengths, weaknesses and opportunities, and through these conversations provides company management with competitive insights, financially sound business cases and practical solutions to potentially improve their real estate operations and practices, in addition to gathering information on a company's current and planned environmental, social, and governance policies, procedures and practices.

When taking into account both operational emissions and embodied emissions of materials, buildings account for nearly 40% of the world's CO_2 emissions. Moreover, it is estimated that building space is set to grow by approximately 75% through 2050. Without significant decarbonisation efforts within the real estate sector, CO_2 emissions will rise dramatically. With that in mind, during the period the team conducted engagements, in collaboration with Calvert Research and Management, with Portfolio companies in an effort to encourage issuers to commit to net zero through setting science-based emissions-reduction targets and tracking progress of such goals. The team believes a focus on sustainability within the real estate sector will likely serve as a differentiator of value for landlords (and investors) going forward. Increased tenant demand and expectations for green and healthy buildings are leading to rental premiums for these assets versus the rest of the market and expected to give rise to a new capital expenditure cycle for commercial real estate. Property owners that have already made significant investments in sustainability should be best positioned to navigate the increasing costs. At the same time, obsolescence risk is expected to increase substantially for carbon-stranded buildings unable to achieve greenhouse gas emissions reductions necessary to be aligned with a 1.5°C pathway. These buildings are expected to incur a brown discount, ultimately impairing values and potential total returns

The team believes well-governed companies benefit from a wide diversity of perspectives and backgrounds on their boards. As a result, another focus of the team's thematic engagement efforts in collaboration with Calvert Research and Management has been encouraging issuers to commit to gender diversity on boards.

Below are examples of case studies that highlight team engagement efforts, specifically with respect to Decarbonisation and Climate Action and Corporate Governance:

CASE STUDY 9.9

INVESTMENT TEAM	Global Listed Real Assets
ASSET CLASS	Alternative Investments
MSIM ENGAGEMENT THEME(S)	Decarbonisation and Climate Action
COMPANY SECTOR/INDUSTRY	Real Estate/Industrial
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	Europe
MATERIALITY	The installation of solar electricity panels on industrial units appears to offer strong income returns on investment that are two to three times as high as standard rental yields on floorspace. Given the roof area on industrial units is comparable in size to standard floorspace, companies that can exploit this opportunity may be able to harness a material source of additional income and return that may drive incremental growth while also contributing to improved carbon emissions.
ISSUES	The team's engagement with the UK industrial REIT formed part of their due diligence on a potential new investment in a small but growing logistics business. The company had strong growth ambitions, important given the need to cover its leasing platform, and relatively high central costs vs. existing income through improved scale economics. Though the company appeared keen to grow the number of units via acquisition, the team wanted to assess how material the solar opportunity was in practice, and how advanced the company was in its plans to advance a solar rollout given the company's small and fragmented portfolio.
ACTIONS	The team spent a day with senior management and local operational teams in South Wales, touring a representative sample of the company's asset portfolio, and talking in depth about strategic options for the business and potential uses of existing and new capital during and after the asset tours. Management suggested it could and was looking at installing solar panels on roofs. However, management explained that logistically this could take time given it required extensive tenant engagement, and in some cases alteration of leases, both of which increased tenant friction. The company also suggested that although solar-generated power could be used within its buildings by tenants, there would be additional administrative and regulatory complications if the power was sold back to the grid. It also explained that most of its rental customers were small space users who appreciated clarity and simplicity in lease terms, which an additional partial power supply agreement might complicate.
OUTCOME/NEXT STEPS	The team concluded that the solar rollout potential for the company was relatively modest in the near term and that the majority of the growth in the business would likely come from rental growth alone. Without the incremental layer of growth from solar economics, the team believed the scale economics of the business model would take longer to achieve.
INVESTMENT DECISION	The team decided not to proceed with an investment in the company.

CASE STUDY 9.10

INVESTMENT TEAM	Global Listed Real Assets
ASSET CLASS	Alternative Investments
MSIM ENGAGEMENT THEME(S)	Corporate Governance
COMPANY SECTOR/INDUSTRY	Real Estate/Data Centers
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	North America
MATERIALITY	Improper nomination practices pose financial and reputational risk at the company level; non-standard nomination processes such as hiring outside of official board room protocols limit the board's ability to effectively oversee the company's management and make sound decisions.
ISSUES	Clear and transparent nomination practices ensure boards are composed of qualified and experienced individuals, thereby protecting the company's financial interests and reputation. The former chairperson of the company issued a letter highlighting the company's governance issues, including a non-standard nomination process for the incoming CEO and board chair which did not initially involve the entire board of directors and took place outside of official board room protocols. The former chairperson asserted that their replacement as board chair did not follow proper board procedures, nor did the plan to replace the former CEO. The letter necessitated improvement in the company's corporate governance, specifically with respect to increasing transparency and following appropriate protocols and procedures when evaluating and selecting executive officers and board members. Following the appropriate process will help ensure appropriate candidates are selected for these important roles and will help instill investor confidence in the nomination process.
ACTIONS	The team's intention during their engagement was to advocate for increased corporate governance transparency and greater alignment with shareholders regarding the nomination process for the board of directors and company executives. As part of the engagement, the team met with the company's new board chairperson and discussed the process by which board directors are evaluated and selected. The team provided strategic advice on transparency of corporate governance and greater alignment with shareholders.
OUTCOME/NEXT STEPS	Following the meeting, the company acknowledged the need for increased transparency in corporate governance practices, specifically with respect to nomination practices. The company agreed to be forthright with a level of detail around the skills matrix and external consultants used in director nomination considerations. The company agreed to work to instill investor confidence in their corporate governance practices through greater transparency to ensure appropriate shareholder alignment. The team will continue to track the company's corporate governance practices and policies.
INVESTMENT DECISION	The engagement did not result in a significant change to the team's investment thesis for the company.

GLOBAL LISTED INFRASTRUCTURE

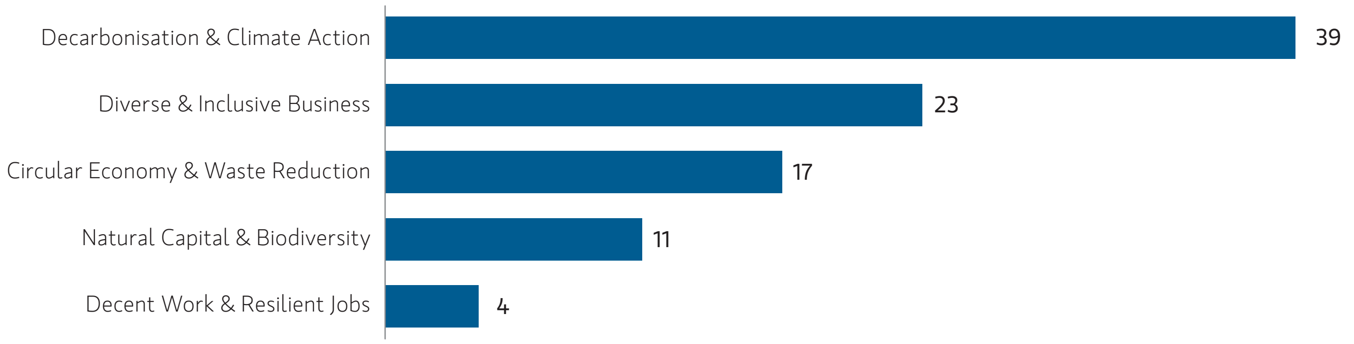
Engagement Approach

The Global Listed Infrastructure team periodically conducts ESG engagements with listed infrastructure companies. The goal of these engagements is to assess each company's ESG efforts and through their conversations seek information on a variety of ESG topics. Generally speaking, the team looks to highlight potential areas of risk and encourage companies to improve their ESG metrics over time.

The Global Listed Infrastructure team takes into consideration both the initial state of the business as well as a company's progress on ESG initiatives when making new investments or deciding to add or reduce positions. In some instances, companies are early on in their ESG journeys, and in other instances, companies are well-advanced, with a high level of experience and very detailed reporting. The team looks for companies to improve in either instance as their ESG engagement process is about ongoing, continuing improvement. In areas where companies are naturally "green" from an environmental perspective, the team also emphasises the need to be best-in-class across a number of different ESG elements, not just "E," and to benchmark themselves not just to their immediate peers or industry, but rather to their regional markets more broadly.

FIGURE 9.10

Global Listed Infrastructure Engagements – Corresponding With MSIM Engagement Themes



CASE STUDY 9.11

INVESTMENT TEAM	Global Listed Infrastructure
ASSET CLASS	Alternative Investments
MSIM ENGAGEMENT THEME(S)	Decarbonisation and Climate Action, Circular Economy and Waste Reduction
COMPANY SECTOR/INDUSTRY	Waste Management/Industrials
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	North America
MATERIALITY	The largest driver of energy use for environmental services companies that engage in solid waste and recycling collection comes from a largely diesel truck collection fleet. To decarbonise the fleet, companies have invested in converting their fleets to compressed natural gas (CNG), which generates lower emissions. Tuck-in M&A makes up a larger portion of the company's growth rate vs. peers, and along with that M&A comes additional diesel trucks.
ISSUES	The team engaged with a waste collection company whose percent of collection fleet that runs on CNG was low compared to peers. The team wanted to understand why it lagged peers in this regard, and what its plans were with regards to decarbonising its collection fleet.
ACTIONS	In addition to regularly meeting with the company at conferences and road shows, the team organised a meeting to specifically discuss ESG topics, of which decarbonisation of the fleet was a primary focus.
OUTCOME/NEXT STEPS	Management explained that in markets where CNG is financially viable, they look to replace diesel trucks with CNG as part of the replacement cycle. However, the company primarily operates in rural regions that do not have the infrastructure built out to support CNG, and hence it is not financially viable in many of its markets. The company is focused instead on testing and developing electric trucks that should work in these markets. The company had already been testing a hybrid electric truck and was awaiting delivery of a fully electric truck to test in certain markets. The team plans to monitor the progress of the EV truck testing and implementation, and continue to follow up on the company's CNG conversion.
INVESTMENT DECISION	The team invested in the company.

CASE STUDY 9.12

INVESTMENT TEAM	Global Listed Infrastructure
ASSET CLASS	Alternative Investments
MSIM ENGAGEMENT THEME(S)	Decarbonisation and Climate Action
COMPANY SECTOR/INDUSTRY	Utility
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	North America
MATERIALITY	Greenhouse gas emissions for utilities are material since the utility sector is one of the highest-emitting sectors. If the utility company continues to generate from coal, it could face higher costs in the future.
ISSUES	A US utility company has a target of reaching net zero for its Scope 1 and Scope 2 greenhouse gas emissions by 2035. The company has ambitious targets to be the first combined electric and natural gas US utility with electric generating assets to achieve Net Zero for its Scope 1 and Scope 2 greenhouse gas emissions by 2035.
ACTIONS	The team arranged an ESG meeting with the company to understand its plan and assess the credibility of its targets. They also discussed other ESG issues in the meeting.
OUTCOME/NEXT STEPS	■ The company expects approximately 60% of its emissions to decline as a function of retiring some coal units (490 MW) and exiting other coal units by 2023 (150 MW), while retiring additional coal units by 2025 (90 MW). The emission reductions from these coal retirements are expected to be partially offset by a gas combustion turbine plant in 2024. ■ The company expects to address the remaining 40% of emissions by focusing on one specific coal unit in the next plan and carbon offsets and renewable credits. It estimates only around 10-15% of its net zero goal is achieved through offsets or credits and they need 500k tons of offsets (100k from peaking gas and 400k from gas methane leaks). The team recommended limiting the use of carbon offsets as much as possible to reach net zero. ■ The team asked if the company is planning to establish interim goals before 2035 for CO_2 reduction—it is not. Upon questioning why its targets aren't SBTI-based, the company reported that over 50% of its revenue comes from gas but they can't use Science Based Target SBTI's gas framework as it is in process of being established. The company advised the team that the Electrical Power Research Institute is also developing a framework and it is planning to use this.
INVESTMENT DECISION	The team kept our positive view on the Company and plan to continue our engagement in the future.

CASE STUDY 9.13

INVESTMENT TEAM	Global Listed Infrastructure
ASSET CLASS	Alternative Investments
MSIM ENGAGEMENT THEME(S)	Decarbonisation and Climate Action
COMPANY SECTOR/INDUSTRY	Utility
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	Europe
MATERIALITY	As a way to diversify from gas transportation activities, the group has in the past announced it aims to reconvert its pipeline network from gas to hydrogen. In addition, management has been at the forefront with regards to its decarbonisation plan.
ISSUES	In the context of assessing the company's strategy on decarbonisation, the team noted that the percentage of the group capex aligned with taxonomy has decreased from 44% to 37%. The team hosted several calls with top management to discuss the company's strategy on decarbonisation, with a particular focus on understanding the rationale behind the company's capex plan.
ACTIONS	Management explained that the size of investments aligned with taxonomy are stable at EUR3.7bn whilst overall total capex has increased following the need to carry out capex in the short term to cope with the energy crisis that resulted from the Russia-Ukraine conflict. New investments have therefore been implemented in order to a) add transport capacity for gas from South to North of Italy to replace gas imports from Russia, b) build up new regasification capacity, and c) adjust compression stations to adapt the system to an inversion of gas flows from South to North. In addition, management explained that calculation of capex aligned with taxonomy is made by the company independently, lacking guidelines from the EU, which should be disclosed by year-end. Lastly, capex on H2 has been postponed to beyond 2030 given the urgency of the energy crisis.
OUTCOME/NEXT STEPS	The team was reassured on the company's investment plan, despite its resulting in a lower share of aligned capex, and on management's long-term commitment to hydrogen development.
INVESTMENT DECISION	Positive investment stance unchanged

PRIVATE CREDIT AND EQUITY

Engagement Approach

The PC&E teams lead engagement with portfolio companies based on the business' incorporation of its own Sustainable Investing Policy and ESG/stewardship priorities outlined under Principle 7. Due to the nature of the asset class and diverse strategies, the ability to engage and thus obtain information pertaining to underlying portfolio companies will vary based on the nature of each strategy (e.g., control vs non-control) and the type of investment (e.g., private equity vs private credit). To supplement various engagement approaches, the PC&E teams may also leverage third-party diligence to augment the investment team's activities.

Furthermore, engagements in the PC&E business are not region-specific but are investment-specific given the long-term horizon and nature of the asset class as well as the opportunistic approach that many of their investment strategies take. This approach aligns with the broader investment objective of MSIM (as explained in Principle 1) to achieve sustainable performance that delivers superior outcomes for clients and markets over the long-term.

Control Situations (Equity)

Control situations enable a high level of regular and ongoing engagement and dialogue with portfolio company boards and management teams. Investment teams collaborate closely with portfolio company management teams in determining 100-day plans for improving operations, expanding business lines, implementing organisational changes, etc., in order to precipitate growth and create long-term value. As a part of that process, KPIs, including those pertaining to ESG, are identified and reported to the investment team as well as the board, where investment teams will have seats, on a regular basis. While there are many common considerations examined across all portfolio companies (e.g., board structure, independent board members, existence of employee policies, the presence of material environmental risks, litigation activities, labour violations, etc.), many other engagement topics are tailored to each industry given the fairly broad range of sectors and geographical regions in which the PC&E teams' strategies invest in.

Non-Control Situations (Equity and Debt)

Non-control situations provide more limited opportunities to engage with portfolio companies, and accordingly the team take steps to carefully diligence and engage with such portfolio companies pre-investment. The level of engagement with portfolio companies where teams do not have control will depend on the nature of their relationship and the willingness of each portfolio company to engage in ESG-related (and other) topics. For equity investments, teams may have board observer rights, which provide them with a greater level of transparency, however, this does not enable them to fully engage with companies compared to control situations. For credit investments, teams may have access to information that the sponsor provides; however, the sponsor determines the materiality threshold of ESG risks and/or incidents and ultimately has control over what is disclosed to investors.

The Private Equity Solutions team sends annual ESG questionnaires to its portfolio companies or GPs to obtain updates on ESG policies, processes and performance reporting. This approach is different from the other PC&E teams as the Private Equity Solutions business consists mainly of Fund of Funds, and since they are not active owners of assets, they rely on active partners (external managers) to engage with portfolio companies (although this varies by partner/strategy/country). ESG questionnaires are a way of obtaining information prior to deciding on next steps with respect to each GP or investment.

Engagement approach

Engagement activity for the team will predominantly be outcomes-based, seeking to drive positive change by engaging with the key influencers and decision-makers within a portfolio company, with whom the team typically have direct lines of communication. Key influencers will differ between portfolio companies, and the team therefore takes a flexible and tailored approach in terms of which issues are addressed specifically, while recognising the importance of senior manager buy-in to drive commitments to sustainability-related initiatives from the top down. Engagement activity is tracked in the Fund's digital platform, DealCloud.

While there is no formal schedule for following up on company engagements, it is expected that this will occur on an ongoing basis, with follow-ups scheduled quarterly at a minimum. Depending on the ESG-related objectives and company management's desired level of collaboration, this may occur on a more frequent basis. Where applicable, goals will incorporate quantitative targets against which progress may be measured.

In addition, the team may engage with portfolio companies on a reactive basis following the identification of a controversy or risk event.

In the event that the 1GT deal team identifies a situation in which the portfolio company's management of one or more material ESG-related risks or opportunities does not meet satisfactory levels or has been deteriorating over time, or where a company within the Article 9 fund has been identified as potentially causing significant harm through the impact of its operations on an ESG theme or principal adverse impact indicator, the team will enact an enhanced engagement protocol. Under this enhanced engagement protocol, the portfolio company and deal team work to resolve this over the course of 12 months from the date of identification. In such an instance, the frequency of engagement activity will likely increase and may involve other resources, such as MSIM's central sustainability resources or third-party specialists. At the end of this 12-month period, the team will review the situation and take appropriate next steps.

Engagement with portfolio companies will first and foremost be undertaken individually, pursuant to the binding agreement between the Fund and the portfolio company, whereby company management commits to engaging with the team and/or any third-party consultant or specialist appointed by the Fund in relation to ESG matters. However, the team recognises that effective implementation of an Shareholder Value Added plan only works if other parties in the capital stack and the board are in alignment with it, and that collective engagements can be powerful drivers of change. As such, the Fund will, where escalation measures may be deemed necessary, seek to work in conjunction with other investors in the capital stack in order to amplify the impact of the undertaken engagement and the chances of engagement objectives and targeted outcomes being achieved.

PRIVATE REAL ESTATE

Engagement Approach

MSREI recognises that it is better able to generate ideas that develop innovative solutions to complex issues by soliciting feedback and listening to the different perspectives of our stakeholders, such as tenants. As such, select MSREI funds have established a tenant engagement programme, which includes providing select tenant sustainability guides to tenants, and conducting tenant engagement surveys and tenant events focused on increasing sustainability awareness at selected assets where appropriate across the portfolios.

MSREI strives to include ESG items in its Property Management Agreements where feasible. Clauses may outline requirements for cooperation between landlord and property manager to identify and assist with execution of various sustainability measures including improving energy efficiency, obtaining green-building certifications, etc.

For select funds, MSREI may conduct an annual property management survey to help assess risk, monitor compliance with a diverse set of policies and track improvements, where possible. This survey includes questions to determine if and how the property management and leasing management teams are conducting reviews to ensure compliance with leasing terms and conditions by their tenants, including those highlighted in green lease clauses.

CASE STUDY 9.14

INVESTMENT TEAM	Private Real Estate
ASSET CLASS	Alternative Investments
MSIM ENGAGEMENT THEME(S)	Decarbonisation and Climate Action
COMPANY SECTOR/INDUSTRY	Select real estate assets within the US portfolio
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	North America
MATERIALITY	Securing competitive energy supply rates, procuring renewable energy for assets located in select markets offers potential achievement of monthly savings on utility bills and reduction of greenhouse gas emissions (GHG).
ISSUES	MSREI seeks to reduce negative environmental footprint of assets. One of the main sources of emissions in real estate operations is energy usage. Renewable energy procurement is one way to reduce the team's real estate assets' GHG. The team identified an opportunity within their US student housing portfolio to procure green electricity. Use of green electricity promotes more renewables in the grid.
ACTIONS	The MSREI ESG team engaged with internal asset managers and external property managers and onboarded a sustainability consultant to evaluate renewable energy procurement options within their US student housing portfolio. After evaluation of the portfolio, the team selected assets where renewable energy procurement was a viable solution.
OUTCOME/NEXT STEPS	For select assets, 2023 green energy procurement contracts were signed. MSREI continues to work with asset managers, property managers and sustainability consultants to monitor opportunities to expand procurement of green electricity as appropriate to drive further GHG reductions within the portfolio. MSREI has established the right platform, knowledge and expertise to monitor opportunities to procure renewable energy as well as reduce assets' GHG reductions throughout the hold period.

PRIVATE INFRASTRUCTURE

Engagement Approach

Morgan Stanley Infrastructure Partners is committed to sustainability through its ESG approach, which calls for active management of ESG issues throughout the investment life cycle for each portfolio company. As part of the investment life cycle, the team performs due diligence on ESG topics, collaborating with internal and external ESG specialists. As part of acquisition and ownership, the MSIP team engages portfolio companies to support the implementation of their ESG programs. The MSIP team's engagement efforts include working with portfolio companies to report against the GRESB Infrastructure Assessment and monitoring relevant ESG data.

CASE STUDY 9.15

INVESTMENT TEAM	Morgan Stanley Infrastructure Partners
ASSET CLASS	Private Markets – Infrastructure
MSIM ENGAGEMENT THEME(S)	Health and Safety
COMPANY SECTOR/INDUSTRY	Portfolio companies across diversified sectors
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	Global – OECD countries
MATERIALITY	The health and safety of employees, contractors and the communities of the MSIP team's portfolio companies is of paramount importance. The MSIP team also believes that companies that do not manage health and safety programs systematically over a sustained period may face potential operational, reputational, legal or commercial risks. The MSIP team is committed to working with portfolio companies to build a rigorous culture of safety, striving for zero accidents.
ISSUES	The MSIP team tracks health and safety metrics of its portfolio companies and believes it would be useful to continue to emphasize the importance of health and safety efforts with portfolio company senior management and share best practices among companies.
ACTIONS	▪ The MSIP team hosts an annual CEO day, which involves bringing together CEOs of the team's portfolio companies to discuss key topics. ▪ In 2023, health and safety best practices was one of the agenda items. ▪ The focus of the session was to share best practices, including tracking of lagging and leading indicators (including "near misses") as well as employee engagement, culture, and health and safety processes. ▪ A detailed discussion was led by one of the portfolio companies, which has had an outstanding safety record and has won awards for its safety performance.
OUTCOME/NEXT STEPS	▪ As a result of the above, health and safety continues to be an area of focus for portfolio company CEOs and their teams. ▪ Portfolio companies continue to track and report health and safety key performance indicators. ▪ The MSIP team continues to engage with portfolio companies on the topic

Principle 10

Collaboration

Signatories, where necessary, participate in collaborative engagement to influence issuers

Through its various businesses and internal functions, MSIM and Morgan Stanley participate in, belong to or take a leading role in many ESG-related initiatives and organisations. We regularly bring together investors, policymakers, NGOs and environmental thought leaders to share lessons and promote innovative solutions to sustainability-related challenges. This includes participating in industry conference panels, exploring joint research and supporting the work of groups focused on ESG-related issues.

Notwithstanding the mode of collaboration that we adopt, we approach collaborative engagement from the perspective of being fiduciaries of our clients' assets, acting on behalf of and in the best interests of our clients (Principle 6) and therefore living by MSIM's Core Value of Putting Clients First (Principle 1).

As mentioned in Principle 1, this past year we have been more selective in collaboration, targeting new initiatives (e.g., 30% Club, WBA etc. outlined below) where we can directly influence or contribute to influencing material causes, aligned with our fiduciary duties and client interests and focusing on obtaining real outcomes. To support this, we are in the process of further enhancing our oversight and governance of collaborative engagements, conscious of antitrust regulations and undue and/or unfair pressure exerted on companies as a result of collective engagements. Depending on the type of external collaborative proposal, those that seek to join external organisations need to go through the process (detailed in Principles 2 and 5) while one-off collaborative engagements need to obtain approval by the Firm's Antitrust Counsel.

A select summary of the types of collaborative engagements both at an MSIM organisational level and by our individual investment teams over the 12 months from 1 July 2022 to 30 June 2023 are detailed below:

1) Industry Networks – Disclosure/Reporting Frameworks

OBJECTIVES

Policy Engagement; Feedback on Global Sustainability Regulations and Requirements; Address Systemic Issues; Enhance Sustainability Knowledge and Share Best Practices; Act as the Voice of Our Clients

I) PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI)

MSIM has been a signatory to the PRI since 2013.Our membership allows us to pool resources, share information and enhance our influence on ESG issues. It is also a hub for us to connect and engage with other PRI signatories and to contribute our voice and practical experiences to a widely recognised responsible investment framework.

PRI ADVANCE

In December 2022 the PRI launched "Advance" a stewardship initiative where institutional investors work together to take action on human rights and social issues. Investors use their collective influence with companies and other decision makers to drive positive outcomes for workers, communities, and society. Currently more than 220 investors collectively representing USD$30 trillion in assets under management (AUM) are involved and the PRI recognises that striving for global respect for human rights is complex and will require varied approaches across different businesses, regions, and sectors. However, at a high-level, three key expectations have been set for the focus companies:

1. Implement the United Nations Guiding Principles on Business and Human Rights (UNGPs) – the guardrail of corporate conduct on human rights
2. Align their political engagement with their responsibility to respect human rights
3. Deepen progress on the most severe human rights issues in their operations and across their value chains

SPOTLIGHT #7

Private Infrastructure

The MSIP team looks to engage with key external stakeholders to understand best practice and trends in sustainability, where applicable and relevant to the MSIP team's business.

In early 2023, the MSIP team joined the Principles for Responsible Investment Infrastructure Advisory Committee, which helps identify PRI's work streams with regard to the infrastructure sector.

In addition, in 2023, the MSIP team participated in GRESB's Infrastructure Net Zero Working Group which was aimed at helping GRESB to understand the commonalities and differences among net zero frameworks and standards.

SPOTLIGHT #8

The PRI's Collaborative Sovereign Engagement on Climate Change

Our Fixed Income organisation became a member of the PRI's pilot initiative to support governments to act on climate change in June 2023. The aim of the initiative is for investors to work collaboratively to support governments to take feasible steps to mitigate climate change, in line with the Paris Agreement and keeping average global warming to 1.5°C. The initial focus of the engagement is Australia (although the plan is to cover other sovereigns in the future) and the group has had 20+ meetings with stakeholders such as the Central Bank, to help the sovereign reclaim the narrative to reach climate change goals. Australia is a key market for MSIM generally, including Fixed Income, and we do see that may of our clients there, notably the Super funds, are very focused on ESG. Although the FI organisation wasn't part of the original pilot, now that the PRI is looking to expand it, they were keen to be part of the ongoing discussions.

The main aims of the collaborative engagement include:

- Closing the gap between current action and a Paris-aligned emissions reduction trajectory.
- Establishing a detailed, credible and economywide net zero transition plan with supporting policy mechanisms, budget expenditure and investment structures.
- Building greater climate adaptation and resilience across the economy and community to avoid worsening disruption and damage from physical risks.
- Improving disclosure of sovereign exposure to climate risks and opportunities consistent with international standards.

Outcome

As member of this pilot MSIM is part of a working group comprising 25 international investors responsible for $8 trillion in assets under management. Participating investors have identified an opportunity to support climate policy action at a critical juncture in Australia, following the introduction of the Climate Change Act and other major reforms. As such in 2023 this group participated in a number of calls with the Australian Federal government and representatives of their Debt Management Offices to provide feedback on their planned green bond framework. In addition, the collaborative group is also planning to send a letter to the Australian Treasury supporting the request that the Australian government publishes an acknowledgement that climate change is a systemic risk that may impact the value of Australian Government Bonds (AGBs).

Outcome

In 2023, some of MSIM's investment teams signed up as a lead investor for two engagements with mining companies, taking an active role in defining engagement strategy and priorities for the coalition of participants. In addition, we are a member of a further five engagements as a collaborating investor (on multiple renewable companies), participating in group meetings with the companies, contributing inputs and co-signing letters.

We have begun setting engagement priorities and outcomes with the companies where we are lead investors, for example MSIM's Fixed Income representatives, acting as an internal coordinator within MSIM for one of the two mining companies. The engagement with this company started with a kick-off meeting in June 2023, with the definition of clear short- and longer-term goals. We will report back on our progress on this and our efforts as a collaborating investor in 2024.

Collaboration Amongst MSIM Investment Teams

Notwithstanding our independent investment team structure and decentralised approach to investment management, MSIM investment teams will engage collaboratively where a cross-asset class stewardship issue arises (e.g., if there is focus on an issuer's ESG risk or an egregious conduct that warrants escalation by mobilising the broader MSIM franchise).

FIXED INCOME

The Fixed Income organisation is supportive of collaborative engagement where such engagement appears necessary or useful to materially enhance portfolio values, and where the team can do so in a manner that is in full compliance with applicable laws, regulations and judicial precedents.

SPOTLIGHT #9

Collaboration Across Equity and Debt Exposures

At the end of 2022, members of the Fixed Income organisation jointly engaged alongside the GBaR team to provide recommendations to a utility company in which the team has significant bond-holdings, in relation to the decarbonisation and biodiversity themes. The collaboration enabled the teams to put forward their suggestions with a stronger, united voice, highlighting MSIM's engagement themes. For example, in light of an increasing focus on biodiversity, the teams recommended that the company should set a companywide biodiversity policy, which the company confirmed it would take to management. The company highlighted positive steps towards its targets (including coal phase out, in line with MSIM's Decarbonisation & Climate Risk theme), and had a transition plan with achievable dates, which is considerate of the potential challenges related to consumer need and economics. The teams plan to monitor the company's assessment of biodiversity targets and policy implementation, sharing insights between investment teams.

Internal Collaboration

For the Fixed Income organisation, collaborative engagement can take place in the form of different investment teams conducting a joint engagement if they, for instance, maintain both equity and debt exposure in the name. As mentioned in Principle 9, the Fixed Income organisation has also been enhancing engagements conducted with Calvert's Corporate Engagement team, to leverage the expertise of the Calvert engagement specialists in some of their targeted engagements.

II) SUSTAINABILITY ACCOUNTING STANDARDS BOARD (SASB) TASKFORCE FOR CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

MSIM promotes disclosures aligned with SASB and TCFD, in our direct engagements with portfolio companies. Morgan Stanley signed up to the TCFD in 2017, and published its first TCFD report in 2020, with Morgan Stanley's 2022 ESG report released in July 2023. As a consequence, two-thirds of companies engaged through the efforts of SASB have agreed to implement reporting according to the SASB standards. Since 2012, MSIM has also been a member of SASB, where we frequently engage with fellow investors to promote SASB reporting standards.

During 2023 MSIM, as a member of the Ceres Paris Aligned Investment Working group, participated in discussions around climate strategy and risk management with peers. These discussions contributed to the preparation for publication of MSIM's first TCFD Report in June 2023.

2) Investor Coalitions – Leverage Networks; Improve Ability to Engage with Companies

OBJECTIVES

Access Broader Range of Expertise; Leverage Engagements to Increase Our Impact; Seek Out Specific Expertise (Academic, Industry, Non-Governmental Organisations) to Improve our Ability to Work with Companies; Act as the Voice of Our Clients

I) INSTITUTIONAL LIMITED PARTNERS ASSOCIATION (ILPA) – DIVERSITY IN ACTION

Our PC&E business is a signatory to ILPA's Diversity in Action initiative, which involves GPs and LPs committed to advancing DEI in the private equity industry, which is also one of Morgan Stanley's core values—Commit to Diversity & Inclusion. The goal of the initiative is to motivate market participants to engage in the journey towards becoming more diverse and inclusive and to build momentum around the adoption of specific actions that advance DEI over time.

Outcome

As part of MSIM's membership of ILPA's Diversity in Action, our PC&E business commits to specific actions that advance diversity and inclusion, both within our business, our portfolio companies and the industry more broadly. As a signatory, the team undertakes four essential DEI actions that span across talent management, investment management and industry engagement. The PC&E business, with other ILPA Diversity in Action signatories, have ongoing dialogues on diversity-related topics, best practices, and ideas to strengthen diversity related initiatives within organisations (e.g., related to recruiting diverse candidates).

Select signatories shared how they encourage teams to engage in advancing DEI objectives, including potential financial incentives, non-monetary recognition and awards, as well as leveraging Employee Resource Groups (ERGs) to increase impact. Select data/technology solutions providers also shared what they're seeing across the industry, including DEI scores and metrics across portfolio companies that are providing metrics to guide monitoring of progress.

II) EMERGING MARKETS INVESTOR ALLIANCE (EMIA)

EMIA seeks to conduct engagement with Emerging Market sovereign issuers or companies (often government-related) on ESG topics that may be challenging for individual investors, hence joining forces with other investors can increase the likelihood of achieving positive outcomes. The Fixed Income organisation, though the Emerging Markets Debt investment team, is part of EMIA's ESG Initiative to construct a set of best practices for sustainable investing for Emerging Market sovereigns and corporates.

Outcome

The Fixed Income organisation's representatives to EMIA, participated in the piloting of a new portal for collaborative advocacy campaigns. The aim of such a pilot was to develop a collaborative culture to allow other investors to join engagements and offer support, to strengthen the message and recommendations provided to emerging market issuers.

III) CERES PRIVATE EQUITY WORKING GROUP

Our PC&E business is also a member of Ceres' Private Equity Working Group, which supports GPs and limited partners (LPs) to transition private equity portfolios towards a sustainable net zero economy. Their contribution has included facilitating and participating in sessions that provide GPs and LPs with the latest climate-centric and sustainable investment practices, policies, frameworks and tools to assess, manage and mitigate ESG and climate risks.

Ongoing Progress

Through this forum, the PC&E business has been able to make a positive contribution by sharing their insights with GPs and LPs on best practice within the private equity space with respect to: (1) investment strategies aligning with the Net Zero Investment Framework; (2) consideration of environmental and social impacts of investments to support sustainable development; and (3) developing and implementing investor climate action plans.

Ceres, in partnership with IIGCC and Anthesis, also released a net zero framework specific to the private equity industry to help firms develop practical approaches to align to the goals of the Paris Agreement. Beyond participation in industry forums to discuss the potential implications of this new framework, the PC&E business explored fit with various strategies on the platform and what adoption would require.

PC&E's relationship with Ceres is also reinforced by the fact that Morgan Stanley is a member of the Ceres Investor Network on Climate Risk and Sustainability, and the CEO of Ceres is a member of the Morgan Stanley Institute for Sustainable Investing Advisory Board.

IV) 30% CLUB (UK INVESTOR GROUP)

MSIM Ltd is a member of the 30% Club UK Investor Group, an investor initiative that seeks to encourage companies to improve diversity at board and executive level to deliver better outcomes for investors. The International Equity team's Head of ESG is currently co-chair of the group. During the reporting period the group focused their work in three areas: (1) improve knowledge around diversity, equity and inclusion, (2) engage with FTSE 350 companies on the 30% Club's targets and (3) support global cooperation.

Key activities during 2023 included engagement with FTSE 250 companies on race and ethnic minority representation in line with the UK Parker Review and the research and drafting of a soon to be released report outlining best practice in DEI reporting.

3) Engaging/Collaborating With Issuers – Setting Industry Standards

OBJECTIVES

Improve Industry Practices and Disclosure Standards; Share Feedback on Structuring Sustainable Products/ Securities; Increase Transparency and Quality of Market Instruments; Act as the Voice of Our Clients

I) WORLD BENCHMARKING ALLIANCE (WBA)

MSIM Ltd joined the WBA as an ally in 2022. The WBA is an organisation that publishes publicly available research on companies' performance on ESG issues. The alliance is a voluntary way to gain insight about companies and has no formal targets or binding commitments for allies.

Progress

The WBA organises an annual Allies Assembly, bringing together investors, companies, organisations and governments to discuss progress, risks and opportunities. In July 2023, the assembly was held in Mexico, and the International Equity team's Head of ESG Research attended, speaking on a panel on nature-related risks and opportunities. MSIM representatives have also joined regular Allies calls, where the WBA shares information about their benchmarks. MSIM teams may use the WBA's research, where appropriate, to help understand the financially material risks and opportunities companies face. For example, in 2023, the International Equity team used elements from the Nature Benchmark methodology in the development of their proprietary approach to identify financially material nature-related risks and opportunities. The benchmark results have now been published allowing the team to use the results in their research where appropriate. The WBA's network of allies have also been helpful in supporting the International Equity team to identify new sources of information that can support the team's understanding of the potentially financially material risks and opportunities facing companies they own, such as organisations located in Southeast Asia with expertise on palm oil supply chain risks.

II) INTERNATIONAL CAPITAL MARKETS ASSOCIATION (ICMA)

The Fixed Income organisation takes part in multiple ICMA working groups under the Green, Social and Sustainability-Linked Bond Principles, including those on Climate Transition Finance, sustainability-Linked Bonds, and Impact Reporting.

Outcome

In the spirit of collaboration, the Fixed Income representatives share their feedback with issuers and structuring advisors of sustainable bonds to increase the transparency and quality of these instruments in the market. As mentioned in Principle 5, Fixed Income investment teams integrate a consideration of alignment with ICMA's Principles within their Sustainable Bond Evaluation Framework, in particular for their Sustainable Bond strategies.

III) EUROPEAN LEVERAGED FINANCE ASSOCIATION (ELFA)

The Fixed Income organisation joined ELFA as a member in 2021, and through its High Yield investment team helps promote sustainability awareness and best practice reporting amongst high-yield bond issuers.

Outcomes

The Fixed Income organisation contributed to ELFA and ICMA's 'Practical Recommendations for High Yield Sustainability-Linked Bonds', published at the start of 2023. This guidance is part of an effort to tighten market practice related to Sustainability-Linked Bond issues in the high-yield space, such as timing of redemption.

4) Giving Back to the Community: NGOs; Talent Development

We aim to contribute to our communities, including NGOs, as part of our Morgan Stanley Core Value: Giving Back (Principle 1). We believe there is power in numbers when we bring different voices and interests to the table, with common objectives.

We also embarked on an important talent development and recruitment initiative during the reporting period:

I) SPONSORS FOR EDUCATIONAL OPPORTUNITY (SEO) – ALTERNATIVE INVESTMENTS FELLOWSHIP PROGRAMME (AIFP)

In 2021, our PC&E business became a partner of SEO's Alternative Investments Fellowship Programme, which aims to connect historically excluded talent to career opportunities in the alternatives sector through interview preparation, a curated alternative investments curriculum, mentorship, and private networking sessions. As one of more than 50 partners, the PC&E business helps in educating, developing, and providing access to first- through third-year underrepresented investment banking analysts and management consultants who are looking to pursue careers in alternatives.

Outcome

Through this partnership, the PC&E business has completed several cycles of this mentorship programme, with two SEO fellows per season, where SEO fellows are paired up with a number of junior and senior investment professionals across PC&E's different strategies to help prepare them for on-cycle, private equity recruiting. Additionally, the PC&E business continues to explore opportunities to potentially hire SEO fellows into its investment teams, full time.

Overall

MSIM regularly bring together investors, policymakers, NGOs and thought leaders to share lessons and promote innovative solutions to environmental and social challenges. Our priority is to always act in the best interests of our clients (Principle 6), as good stewards of their capital. This also includes participating in industry conference panels, exploring joint research, and supporting the work of groups focused on ESG-related issues.

MSIM and Morgan Stanley are active participants in a number of external sustainability initiatives. Please see Appendices for a list of current initiatives.

Principle 11

Escalation

Signatories, where necessary, escalate stewardship activities to influence issuers

MSIM regular engagements with company management provide an opportunity to monitor and track the performance of our investments.

Engagement may be considered to be successful when a company is receptive to viewpoints and suggestions, and takes concrete steps to implement them. In cases where a company is not receptive or where engagements do not lead to desired results, investment teams may escalate their engagement by, for example, casting votes against management, requesting meetings with Board members, or writing letters to boards and management. In some cases, repeated, unsuccessful engagements in relation to a material issue may contribute to a decision to decrease or exit a holding. Additionally, teams may consider collaborative engagement or filing a shareholder proposal as an escalation method in appropriate cases.

Our portfolio managers are ultimately responsible for interpreting and integrating information gained through engagements into their investment decision-making process and for prioritising further engagement or escalation, as appropriate. Hence the need for escalation and the types of escalation methods used depend on the investment, prior engagement activities, outlook, and a judgement call made by the investment team as to the materiality of the issue at hand, whilst always putting our clients' interests at the forefront of decision-making (in line with our Core Value to Put Clients First). As active owners, our investment teams already have regular engagements with portfolio companies/issuers. However, they also appreciate that each engagement is unique to the particular company and so do not rely on a prescriptive engagement escalation framework. Therefore, in some cases, it may take years to effect substantive change on certain issues.

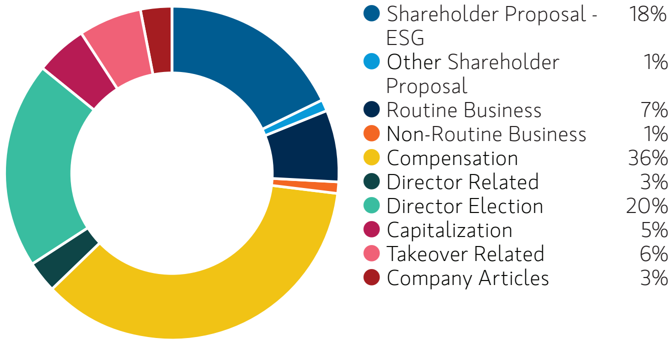
International Equity

Bringing issues directly to the company CEO is one form of escalation used by the International Equity team, as is voting. *Figure 11.1* below outlines the team's voting activity between 1 July 2022 and 30 June 2023:

FIGURE 11.1

International Equity Voting Activities

% Votes against management by topic



Over two thirds of the votes were related to executive pay, director appointments and ESG-related shareholder proposals. In instances when the International Equity team has long-standing unresolved concerns, further escalation may include voting against the election of committee members. For example, with companies whose pay plans they have voted against a number of times, the team votes against members of remuneration committees to make their message clearer. The team also votes against nomination committee members when they have concerns over diversity. In total, the team voted against 31 directors in the last 12 months, as of 30 June 2023.

Voting on shareholder proposals is another form of escalation. While the companies the team owns receive fewer shareholder proposals than an average company, presumably reflecting fewer underlying issues, when they do, the team analyse them carefully and engage with companies on them. During the same time period, they have voted in support of 30 shareholder resolutions, and against management 60% of the time, on a broad range of topics, including ESG issues, such as decarbonisation, diversity and human rights.

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CASE STUDY 11.1

Escalation to persuade Portfolio Company to align pay to long-term performance

INVESTMENT TEAM	International Equity
ASSET CLASS	High-Conviction Equities
MSIM ENGAGEMENT THEME(S)	Other[15] (Executive Compensation)
COMPANY SECTOR/INDUSTRY	Information Technology
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	Europe
MATERIALITY	As a long-term investor, the International Equity team believes it is important to ensure company management is incentivised to deliver long-term performance. The team believes pay is a key instrument in incentivising company management to operate in the long-term interests of a company and its shareholders, meaning it's critical for the boards and management teams of companies to get it right. When compensation is managed effectively, it aligns key decision makers' behaviour with the company's objectives, encouraging better performance and long-term returns to shareholders. Poorly structured and outsized company management incentive schemes can be a financially material risk, inviting short-termism, capital misallocation, excessive risk taking, misaligned objectives and poor shareholder returns.
ISSUES	The team assessed that the pay plan of a European multinational software company was not aligned to long-term performance due to the inclusion of non-IFRS earnings, the short vesting period of the awards, and an insufficient degree of performance-based targets.
ACTIONS	As persistent critics of the company's pay structure, the team escalated this by voting against its pay plan at the Annual General Meeting in May 2022 for the reasons mentioned above. While the company had moved away from rewards being cash settled to shares, the team was not convinced this was sufficient to warrant a "for" vote, given aspects of the plan could detract from long-term shareholder value, in their view. In September 2022, the team further escalated this issue by meeting with the company's Supervisory Board to discuss changes to the executive compensation scheme. The company discussed that improvements had been made, with greater disclosure on the quantum of targets and metrics employed in the plan. In particular, the team considered the 20% deferral of annual bonus and the end of retention bonuses a positive outcome from their previous engagement. On ESG metrics, the team was pleased to see that 20% of both the long-term and short-term incentive plan is allocated to ESG targets (Net-Zero 2030 and Diversity targets), as the team had encouraged for both long- and short-term incentives to be aligned with their relevant financially material ESG priorities and targets.
OUTCOME/NEXT STEPS	While the company has made positive changes, the team expressed dissatisfaction that targets are still based on non-IFRS numbers, which exclude share-based compensation. The company also shared with the team that the performance aspect of pay excluded mergers and acquisitions (M&A); the team asked that they make this explicit in the pay plan. The team intends to continue engaging with the company and using voting as a form of escalation to continue encouraging more sensible operating metrics that they believe should help the company's share price performance in the long run.
INVESTMENT DECISION	The engagement did not result in a significant change to the team's investment thesis for the company.

[15] Other include (but are not limited to) areas such as governance, cybersecurity, product safety

CASE STUDY 11.2

Escalation to persuade Portfolio company to provide greater supply chain disclosure

INVESTMENT TEAM	International Equity
ASSET CLASS	High-Conviction Equities
MSIM ENGAGEMENT THEME(S)	Decent Work and Resilient Jobs
COMPANY SECTOR/INDUSTRY	Consumer Discretionary
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	North America
MATERIALITY	Opaque and complex supply chains, a result of outsourcing production to cheaper labour markets, can lead to ESG-related risks falling outside global companies' direct control. The International Equity team believes failure to adequately manage this issue poses regulatory, reputational and commercial risks. In the apparel and footwear industry, a lack of raw material traceability can pose a financially material risk to the sustainability of a company's long-term returns.
ISSUES	Greater regulatory scrutiny has increased the potential for companies to face government penalties and the stopping of goods at their borders. A demonstration of this is cotton sourced from the Xinjiang region in China, where multiple allegations of human rights abuses have been made. In 2022, legislation was introduced in the US banning products made in Xinjiang from entering the US unless the importer can prove they were not made with forced labour. Similar legislation has been discussed in other countries. The team previously engaged on supply chain management with a sporting goods company they own that was named as one of the well-known global brands whose suppliers allegedly used forced labour in their supply chain, and sought to understand the steps it is taking to mitigate supply chain risks. The company is making significant efforts to improve traceability. Its monitoring and transparency practices have been recognised in independent human rights assessments by the World Benchmarking Alliance and Know the Chain[16] and its anonymous worker feedback programme was recognised by a leading human rights organisation as best practice for capturing issues in the supply chain. 100% of the company's suppliers have shared their data, allowing the company to understand strengths and opportunities across their supply chains and identify areas where more support is needed. What the team would like to see now is greater disclosure and continued progress towards full traceability.
ACTIONS	The team previously supported a shareholder resolution in 2021 that asked the company to produce a report on the human rights impact of its cotton-sourcing practices. Following this vote, they engaged with the company, including encouraging them to explore partnering with Oritain, one of several companies offering tracing technologies that help verify suppliers' claims on origin and traceability. In September 2022, the company faced a further shareholder resolution related to sourcing, which the team made the decision to abstain from; while they believe the company could make further improvements the request within the resolution was impractical. The team explored this with the company in their next engagement with them, which was their second in 2022.
OUTCOME/NEXT STEPS	The company conducts extensive monitoring and reporting on supplier factories where the garments are assembled, but currently has far less visibility over earlier stages in the supply chain, such as cotton production, spinning and weaving. They noted that they are working with a range of third parties to improve working conditions in their supply chains through the use of audits, remediation and capability-building efforts. They have a policy of not sourcing anything from Xinjiang and have made this clear to the factories they use, but they are reliant on their suppliers adhering to this. For any instances of noncompliance within their factories, there is a remediation and escalation process in place: any reported issues are immediately investigated with the aim of correction. If the factory fails to make progress, it is subject to review and sanctions, including potential termination. There is now a team of seven within the company dedicated to traceability, including new hires in their supply chain team with human rights expertise. In line with the team's earlier suggestion, the company now works with Oritain to verify suppliers' claims of origin. The company agreed to share more information on supply chain responsibility when the team next engages with them in 2023; given the financially material risk this issue presents, the engagement remains ongoing, and they will continue to encourage further progress.
INVESTMENT DECISION	The engagement did not result in a significant change to the team's investment thesis for the company.

[16] Know the Chain is a resource for companies and investors to address forced labour in global supply chains. Their benchmarks and practical resources help companies operate more transparently and responsibly while also informing investor decisions.

Emerging Markets' Equity

GENERAL APPROACH

The EME team's engagements inform our views of management. When a company is not improving or addressing a risk the team considers important to the business strategy over a relevant period, the team will reevaluate the investment thesis in the context of this issue.

For our sustainable portfolios, the team have a higher level of scrutiny of ESG criteria considered important to the ESG commitments of the strategy.

As described below, our escalation protocols include varying practices and timelines, and each investor determines the use for each company as needed.

Escalation protocols:

Typically, the EME team will request a dedicated call with the company to discuss the issue and implications/negative effects on the business. The team will monitor the company on an ongoing basis for improvements.

Approaches the team may use are:

- Follow up in writing to send best practices and/or suggestions for next steps for improvement on a particular issue with those on the call.
- Raise this issue further with senior management.
- Depending on the timeline and the severity of the issue, the team may vote against the board directors responsible.
- Depending on the strategy, potential divestment if the issue is not resolved or could have an adverse effect on the business model and/or stock price or sustainability characteristics, and/or the team loses confidence in management.

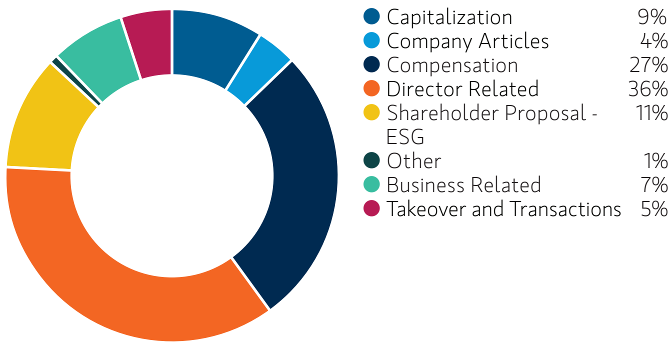
As described above, there are several outcomes in the EME team's escalation protocols. The team views success as an improvement in metrics, increased transparency, adoption of a suggestion or industry standard, or an improvement in board independence or composition. Lastly, divestment is a potential outcome.

On proxy voting, the investment team continues to vote across the portfolios. Between 1 July 2022 and 30 June 2023, the EME team voted at 593 meetings and on 6,755 proposals. Overall, the team voted against management in 11% of the cases, and 49% of meetings had at least one vote against management, an increase on last year's statistics of 9% votes against management and 46% of meetings with at least one vote against management. The most common reasons for voting against management were related to non-salary compensation and board structure. In the 2023 season, the investment team has continued to focus on board independence and remuneration plans.

FIGURE 11.2

Emerging Markets Equity Voting Activities

% Votes against management by topic 12 months to 30 June 2022 (across EME team's strategies)



In the 12 months to 30 June 2023, the EME team voted on **754** proposals **against** management

Source: Morgan Stanley Investment Management. The views and opinions expressed herein are those of the portfolio management team, are not representative of the Firm as a whole, and are subject to change at any time due to market or economic conditions.

CASE STUDY 11.3

Escalation to encourage greater disclosure around material ESG factors

INVESTMENT TEAM	Emerging Markets Equity
ASSET CLASS	High-Conviction Equities
MSIM ENGAGEMENT THEME(S)	Diverse and Inclusive Business, Decarbonisation and Climate Action
COMPANY SECTOR/INDUSTRY	Consumer Staples/Household Products
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	Asia (ex Japan)
MATERIALITY	The team previously engaged with a Chinese domestic cosmetics company, which has a primarily female customer base, to address the lack of female representation on the board. The team conducted a follow-up engagement to further highlight our concerns on the lack of disclosure concerning ESG issues the team considers to be financially material, including gender diversity, chemical management, waste and packaging, and carbon emissions.
ISSUES	As part of the EME team's follow-up engagement, the team discussed with the company the lack of transparency around material ESG issues, such as chemical management, waste and packaging, and carbon emissions. The team also remain concerned about board diversity and composition as the company had no women on the board despite serving a nearly 100% female customer base. The objective of the call was to follow up on the team's concerns and encourage improvement.
ACTIONS	The team engaged with the company on these issues and discussed the importance of setting a sustainability strategy and specific goals. The team encouraged the company to enhance their ESG data and reporting. They also communicated to the company their concern around their board composition and diversity, as well as their rationale for why they believed this was a material issue.
OUTCOME/NEXT STEPS	Although the team's initial engagement with the company revealed significant gaps in their ESG performance and reporting, they believe that they took their feedback from the previous meeting to heart and have made improvements. During their engagement, the company discussed some of these improvements, including setting a carbon emissions reduction plan and providing disclosures around chemical safety management, waste and packaging, and their supply chain practices. The company also developed their first strategic plan around sustainability, which is based upon three major pillars: 1) sustainable business 2) sustainable value chain and 3) sustainable social ecosystem. The team believe that the first two pillars are more material for the company and consist of goals that they would like to continue to monitor, including, but not limited to, achieving carbon emissions peak and 50% renewable energy by 2025, net-zero emissions from operations by 2030, and carbon neutrality across the entire value chain by 2045. On governance, the company assured the team that they are aware of investors' concerns regarding the lack of female representation on the board and that the company plans to make improvements during the next election. The team continues to believe that the ideal board should reflect the company's customer base, and given that the company has nearly 100% female customers, there should be at least one woman on the board.
INVESTMENT DECISION	After the team's follow-up engagement, they believe that the company has demonstrated a willingness to improve, which is demonstrated by the progress it has made since their last conversation. The team will continue to monitor these key material issues, but because the company is currently on track to address these issues, they have decided to continue to hold the investment.

Fixed Income

GENERAL APPROACH

As mentioned in Principle 9, the Fixed Income organisation stewardship and engagement process identifies a target pipeline of key names, to prioritise engagement with severely lagging issuers or names in which they are large bondholders. In cases where engagements do not have the desired outcome, for example when recommendations from targeted engagements are not taken on board, the team may choose to enact their escalation process.

Across geographies, the Fixed Income organisation's escalation process is generally the same. However, as engagement priorities may differ based on sector and location, the factors influencing teams' escalation approaches may also differ. The Fixed Income organisation also aims to consider each issuer with respect to their level of regional development, which feeds into these differences in factors influencing escalation.

- **Example 1:** A persistent lack of a coal phase-out plan might be a trigger for escalation in the engagement with an energy or mining company operating and distributing mainly in a developed market, given the risks associated with new low-carbon regulation. However, the Fixed Income organisation might concede a longer time buffer for a company with most of their coal-related operations and distribution in emerging markets, with lower transition risk or where other ESG considerations—such as access to affordable power—warrant a longer timeline. The team is also enhancing their consideration of the just transition in their assessment of issuers operating in global markets.
- **Example 2:** On social concerns, the Fixed Income investment teams would not apply the same flexibility with respect to issues related to human and labour rights, as they believe issuers have to abide by established international norms. The team, where appropriate, engages with issuers operating in global markets to ensure robust human rights policies and processes are in place across regions and value chains, as appropriate.
- **Examples 3:** Governance standards may also differ across geographies, with certain countries or regions being more prone to company family ownership, for example, which, in some instances, can be associated with less transparent remuneration practices. The Fixed Income investment teams have, on multiple occasions, escalated concerns around executive over-compensation, board entrenchment and family ownership within these types of companies.

By way of example of addressing the above concerns, between 2021 and 2023, the Broad Markets Fixed Income Investment team engaged with an autos company (operating globally) three times, as part of an escalation process related to human rights issues at one of their operations sites.

The team had previously engaged with the company at the end of 2021, where concerns on human rights in emerging markets had been raised. When data indicated that the company continued to experience these issues a year later, the team initially engaged as part of a group meeting to express continued concern. However, the team considered the company's response to be narrowly tied to the "scripted" legal narrative, and consequently arranged a one-to-one meeting to raise additional concerns to the company. In this meeting, the team requested that the company improve transparency, conduct regular audits, and show they are addressing human rights beyond pure legal requirements.

Whilst the ownership rights conferred by equity tend to permit better corporate access and therefore more options with respect to escalating engagements, in the fixed income context, the team typically escalates engagements by either voting against a bondholder resolution (although this is quite rare as an option) or more often, by raising relevant issues with other internal and/or external stakeholders in order to facilitate a collaborative engagement.

CASE STUDY 11.4

Escalation to encourage greater disclosure around material ESG factors

INVESTMENT TEAM	Fixed Income organisation, Broad Markets Fixed Income
ASSET CLASS	Investment-Grade Credit
MSIM ENGAGEMENT THEME(S)	Decent Work and Resilient Jobs, Human rights
COMPANY SECTOR/INDUSTRY	Mining
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	Europe
MATERIALITY	As a mining company, labour and human rights practices are highly material to the company's business due to the potential financial and reputational risk that may arise from lack of compliance with international human rights standards, local license to operate across their global sites, as well as the health and safety obligations owed to workers in the company.
ISSUES	The Broad Markets Fixed Income team, through its credit analyst covering the sector and its ESG specialists, first engaged with the company in late 2021, and followed up in Q4 2022. The team originally engaged with the company in relation to controversies with local communities around their operation sites, which were deemed by third-party ESG research providers to be associated with violations of the UN Global Compact principles. The main purpose of the engagement was to evaluate the extent to which the company was implementing actions to remediate such issues, strengthen their labour and human rights policies, and improve their practices. They also used this engagement opportunity to discuss the company's decarbonisation policy, particularly in relation to coal decommissioning, and their approach to a just transition. The goal of the initiative is for the company to fully align (and comply with) the UN Guiding Principles on Business and Human Rights.
ACTIONS	The company noted the introduction of a new, in-house human rights rating tool, prioritising impact assessments, on issues such as dust levels present within mines, the minimisation of risks surrounding artisanal intrusion, and detection of child labour instances. The company elaborated on the third-party review they are conducting at the operation sites related to the controversies, and they described their development of a cultural heritage standard to promote a respectful coexistence with impacted indigenous peoples and traditional landowners. In the first half of 2023, the team reengaged with the company through the team's participation in the PRI Advance collaborative stewardship initiative, where institutional investors are working together to escalate engagement on human rights and social issues in the mining and renewables sectors. The team is a Co-Lead investor for the engagement with this mining company, with the Broad Markets Fixed Income team coordinating this effort internally. The team's 2023 engagement activities have helped the investor group deepen their understanding of the nature and scope of the company's human rights policies, which will form the basis of the formulation of the team's engagement strategy and key asks for the company in the short and longer term.
OUTCOME/NEXT STEPS	Whilst the team's analysts were pleased to see improvements on the company's side on the human rights-related front, the team perceived that the initiatives were quite high level and lacked targeting and specificity to address some of the underlying issues identified. The team intends to continue their engagement process with the company to ensure that they are more targeted and impact-focused in their human rights approach.
INVESTMENT DECISION	The team's negative ESG outlook on the issuer contributed to the decision to reduce their investments in the name, but the team continues to hold some investments in the name.

Private Infrastructure

The MSIP team's strong preference for controlling or co-controlling stakes in portfolio companies generally enables the MSIP team to escalate engagement with companies on their strategies and operational initiatives, including with regard to ESG. Where appropriate, the MSIP team encourages boards of controlled companies to review portfolio companies' progress on ESG initiatives, as well as key metrics, such as health and safety.

SECTION 4

Exercising Rights and Responsibilities

Principle 12

Exercising Rights and Responsibilities

Signatories actively exercise their rights and responsibilities

Overview

As noted previously, MSIM's investment teams exercise the rights and responsibilities associated with the assets they manage in line with their respective investment strategies, having regard to factors such as the type of assets, their risk assessments and investment convictions. At the forefront of this is our collective organisational purpose and Firm Core Value to always Put Clients First and act in their best interests when managing their assets (Principle 1 and Principle 6).

Throughout this report, we have outlined how our decentralised business model allows investment teams to approach stewardship differently when exercising their rights and responsibilities through our Purpose and Governance (Principles 1-5), Investment Approach (Principles 6-8), and Engagement (Principles 9-11) across different investment teams, asset classes and geographies (although as active owners, our approach in exercising our rights and responsibilities does not generally vary by region). We do so by also leveraging support and expertise from our Sustainability governance stakeholders.

High-Conviction Equities and Global Listed Real Asset

Over the past 12 months, we have continued to implement enhanced governance, oversight and processes to ensure that our holistic stewardship approach aligns with evolving client interests and regulatory developments, and that our investment teams have sufficient support as our product platforms and engagement activities expand. At the same time, we uphold our fiduciary duties with our Firm Code of Conduct.

TABLE 12.1

Highlights of Proxy Voting Themes from 2023 Voting Season

VOTING THEME	HIGHLIGHTS
Board Diversity	■ Gender diversity has increased to 32% at S&P 500 companies and Financial Conduct Authority targeting 40% at UK companies. Improvements in racial diversity is the next target. ■ Increase in votes against directors, primarily due to lack of gender diversity.
Compensation	■ Average support level for Say-on-Pay the last two years continues to decline. Quantum of CEO pay levels continue to rise to all-time highs, while TSR was mixed.
Environmental and Social (E&S)	■ Record number of E&S shareholder proposals; 62% of proposals are E&S related, while 38% are G related. Most prevalent shareholder proposals related to climate-related risk, diversity and inclusion, and political contributions. ■ Overall support of E&S shareholder proposals continues to decline. ■ Strong support for proposals seeking improved disclosure on E&S issues, racial diversity audits and reduction in plastic use.

TABLE 12.2

Exercising Rights and Responsibilities by Asset Class

The following table (Figure 12.1) summarises examples of approaches taken by investment teams (where appropriate) across asset classes.

ASSET CLASS	EXAMPLE OF APPROACHES (WHERE APPROPRIATE)
High Conviction Equities	■ One-to-one direct engagement ■ Proxy voting ■ Industry/external collaboration
Fixed Income and Liquidity	■ Stewardship throughout investment stages ■ Collaborative engagements ■ Escalation with issuers to seek amendments to terms and conditions in contracts and/or indentures
Alternative Investments	■ Steer and engage with business management through representation on board seats of portfolio companies when in controlling ownership ■ Negotiated upfront and work alongside with business management to improve governance standards, transparency when in noncontrolling ownership ■ Use third-party due diligence services
Customised Solutions	■ Depend on the type of customised/bespoke investment solutions; whilst incorporating the clients' ESG priorities and requirements, rights and responsibilities are exercised via the above methods outlined in relation to the relevant asset classes.

Monitoring Shares and Voting Rights

MSIM's Proxy Review Committee is responsible for overseeing the MSIM Proxy Voting Policy. Our proxy voting records can be found in the proxy voting section on our website.

The MSIM Proxy Voting Policy addresses a broad range of issues and provides general voting parameters on proposals that arise most frequently. Our investment teams integrate governance, sustainability and proxy voting considerations with investment goals, using votes to encourage portfolio companies to enhance long-term shareholder value and to provide a high standard of transparency such that equity markets can value corporate assets appropriately.

Rather than simply relying on our proxy service providers, MSIM's Global Stewardship Team has developed a proprietary system, Provosys, that tracks and monitors shares and voting rights, including a ballot reconciliation module. We perform a ballot reconciliation for every meeting to ensure share positions eligible to participate in the event are voted. MSIM's Global Stewardship Team tries to ensure that any discrepancies are investigated and resolved prior to the cutoff date. The proprietary system also handles workflow around proxy voting, documenting the views of various parties at MSIM, as well as voting rationale for the final decisions. We are notified of upcoming voting events by ISS through electronic feeds. Our proprietary system performs an automated reconciliation comparing our shareholding data with the ballots received and highlights exceptions for review. MSIM's Global Stewardship Team tries to ensure that exceptions are investigated and resolved by MSIM, which may entail communication with intermediaries and vendors to resolve or document explanations for discrepancies. MSIM's proxy voting-related controls are part of System and Organisational Controls (SOC) examination; in the last eight years, no exceptions were found. As noted under Principle 5, MSIM maintains voting records of individual agenda items at company meetings in a searchable database on its website on a rolling 12-month basis. These Proxy Voting Records are published periodically on our website.

ISS serves as MSIM's voting agent, but all vote decisions are made by MSIM's investment teams, informed, as required, by research from ISS and Glass Lewis. MSIM is responsible for ensuring that voting instructions for client accounts are communicated to the proxy advisor. Our proxy advisors assist us in monitoring the voting rights we have in relation to shares we hold by aggregating proxies and notifying us of all upcoming shareholder meetings and the relevant voting rights. The Global Stewardship Team maintains a control process to ensure eligible holdings are voted at shareholder meetings.

MSIM's equities and global listed real assets teams vote proxies in a prudent and diligent manner and in the best interest of clients, including beneficiaries of and participants in a client's benefit plan(s), for which the sub-adviser manages assets, consistent with our Core Value to Put Clients First and our overarching investment objective of maximising long-term investment returns (Principle 1 and Principle 6). We consider voting to be an important stewardship and investment responsibility that impacts shareholder value, and portfolio managers have in-depth knowledge of the companies and markets in which they invest.

Individual Circumstances and Client Preferences

As noted under Principle 3, there are occasions where different portfolio teams may view an issue differently and, in those cases, we may split our votes to accommodate those different views. Some clients may also wish to retain voting rights for their shares or accounts. Any client with a separately managed account that has delegated proxy-voting authority to MSIM is permitted to request, at any time, how they would like a certain meeting or ballot item voted. We do not currently facilitate clients directly voting in a pooled vehicle because of the practical difficulties in proportioning a ballot, and because we are mindful of potential legal and regulatory hurdles that may restrict or prevent client-directed voting in pooled fund structures.

Retention and Oversight of Proxy Advisory Firms

As noted in Principle 7 and Principle 8, MSIM retains the services of ISS and Glass Lewis as independent advisers that specialise in providing a variety of fiduciary-level proxy-related services. We rely on them only for proxy vote execution, reporting record-keeping, and where appropriate, to provide company-level reports that summarise key data elements within an issuer's proxy statement or on specific thematic/market topics.

During 1 July 2022-30 June 2023, MSIM voted differently from our primary proxy adviser, ISS, 5% of the time across ballot items, which further reinforces our direct stewardship/proxy voting philosophy.

Securities Lending

Many MSIM funds or any other investment vehicle sponsored, managed or advised by an MSIM affiliate may participate in a securities lending programme through a third-party provider. The voting rights for shares that are out on loan are transferred to the borrower and, therefore, the lender (e.g., an MSIM Fund or another investment vehicle sponsored, managed or advised by an MSIM affiliate) is not entitled to vote the lent shares at the company meeting. In general, MSIM will not recall shares for the purpose of voting. However, in cases in which MSIM believes the matters being put to vote are critical for the investment thesis or client interests, we reserve the right to recall the shares on loan on a best-efforts basis. In order to effectively monitor whether recalling shares may be necessary, ISS provides electronic feeds that populate Provosys with meeting details, including ballot-level holdings. The team performs ballot reconciliation to ensure appropriate ballots are received and shares out on loan are identified by GST through this review. We generally do not encounter scenarios where all holdings associated to a meeting are out on loan—the scenarios would be limited to a few portfolios and even then, the entire holding may not be out on loan.

Equity Voting Statistics, Select Topics and Case Studies (1 July 2022-30 June 2023)

Between 1 July 2022 and 30 June 2023, MSIM voted more than 98% of the ballots in which it is eligible to vote. The residual <2% of votes not voted were generally due to various issues that can arise when voting proxies of companies located in certain overseas jurisdictions, where local processes can often restrict or prevent the ability to vote such proxies or entail significant costs. These problems include, but are not limited to: (i) proxy statements and ballots being written in a language other than English; (ii) untimely and/or inadequate notice of shareholder meetings; (iii) restrictions on the ability of holders outside the issuer's jurisdiction of organisation to exercise votes; (iv) requirements to vote proxies in person; (v) the imposition of restrictions on the sale of the securities for a period of time in proximity to the shareholder meeting; and (vi) requirements to provide local agents with power of attorney to facilitate our voting instructions. As a result, we vote clients' non-US proxies on a best-efforts basis only, after weighing the costs and benefits of voting such proxies.

MSIM provides rationales for votes against key issues like director and executive remuneration, and rationales for shareholder-sponsored resolutions. We disclose vote rationales to clients upon request. For a full disclosure of how we voted in any meeting, please visit our website for full voting records, which are updated on a rolling monthly basis. We also disclose our proxy votes globally through annual N-PX requirements with the US SEC for all Mutual Funds under the US Investment Advisers Act of 1940.

The following tables illustrate how the engagement and proxy voting processes work together in the exercise of our stewardship duties. These cover some of the most common proposals we review each year.

Overall Voting Statistics

1 July 2022-30 June 2023

Total number of meetings voted	8,926
Total proposals	93,877
(of which are Shareholder Proposals)	896
Number of markets voted	70
% of meetings with at least 1 vote against management	53%
% votes against management	13%
% with management	87%

Shareholder Proposals by Region

1 July 2022-30 June 2023

REGION	NUMBER OF SHAREHOLDER PROPOSALS	NUMBER OF VOTES SUPPORTING SHAREHOLDER PROPOSALS*	% OF VOTES SUPPORTING SHAREHOLDER PROPOSALS
Asia	87	33	38%
EMEA	104	29	28%
North America	677	332	49%
South America	0	0	0%
Rest of World	28	6	21%
Total	896	400	45%

*Includes cases where MSIM has abstained from voting.

Shareholders in the US and certain other markets may submit proposals encouraging changes in company disclosure and practices related to particular sustainability issues. MSIM investment teams, with support from the Global Stewardship Team, as required, consider how to vote on such proposals on a case-by-case basis by determining the relevance of the issues identified in the proposal and their likely impacts on shareholder value. Investment teams also take into account a company's current disclosures and their understanding of its management of material ESG issues in comparison to peers.

Investment teams seek to balance concerns about reputational and other risks that lie behind a proposal against costs of implementation while considering appropriate shareholder and management prerogatives. They may abstain from voting on proposals that do not have a readily determinable impact on shareholder value and may oppose proposals that intrude excessively on management prerogatives and/or board discretion.

Between 1 July 2022 and 30 June 2023, MSIM's investment teams supported 45% of shareholder proposals and abstained on 0.4% of shareholder proposals. On the environmental side, notwithstanding thematic updates below, teams have generally voted in support of an increased number of proposals seeking to promote sustainable packaging efforts by reducing the use of plastic packaging. With respect to political lobbying and spending, there have been an increased number of proposals seeking companies to assess the congruency between their stated values and their political lobbying activities. MSIM's investment teams are supportive of proposals requesting increased disclosure of political contributions resulting in improved transparency; however, they have not supported proposals if in their assessment, the company has sufficient transparency in its lobbying-related disclosure.

Select Topics

1 July 2022-30 June 2023

(I) CORPORATE GOVERNANCE/EXECUTIVE COMPENSATION

REGION	NUMBER OF PROPOSALS	NUMBER OF VOTES AGAINST EXECUTIVE REMUNERATION*	% OF VOTES AGAINST
Asia	3	1	33%
EMEA	1,649	593	36%
North America	2,422	580	24%
South America	0	0	0%
Rest of World	280	77	28%
Total	**4,354**	**1,251**	**29%**

*Includes cases where we have abstained from voting

MSIM's investment teams have a long history of focusing on corporate governance. They believe that good corporate governance is a signal of quality management and that well-managed companies should produce long-term returns for clients. Executive compensation is an important indicator of good board oversight, and teams consider advisory votes on remuneration on a case-by-case basis. Considerations include a review of the relationship between executive remuneration and performance based on operating trends and total shareholder return over multiple performance periods. In addition, investment teams may review remuneration structures and potential poor pay practices, including relative magnitude of pay, discretionary bonus awards, poorly defined target metrics, tax gross-ups, change-in-control features, and internal pay equity. As long-term investors, teams support remuneration policies that align with long-term shareholder value.

Between 1 July 2022 and 30 June 2023, MSIM's investment teams supported 71% of say-on-pay proposals and voted against 29% of proposals. They voted against say-on-pay proposals primarily due to excessive compensation relative to company performance, upfront and mega grants, and poor pay practices.

CASE STUDY 12.1

INVESTMENT TEAM	Emerging Markets Equity
MSIM ENGAGEMENT THEME(S)	Board compensation and composition
BACKGROUND	At the annual meeting of a South African bank in 2022, the team voted against management and against ISS recommendations on compensation proposals. The team disagreed with the proposed shortening to two years of the performance period to be considered for long-term pay, noting long-term compensation should be based on three to five years' performance. In addition, the team voted against the appointment of two directors, one of whom was the chairman of the board and the other who was a member of the remuneration committee, on concerns around compensation, over boarding, tenure and inadequate gender diversity.
VOTING OUTCOME	While both directors were elected, other shareholders voted against, with enough dissent to send a signal to management. On compensation, management certainly heard the team's dissent, as the vote failed; more than 47% voted against. The team has since engaged with the company on these measures, with the goal of improving governance.

CASE STUDY 12.2

INVESTMENT TEAM	International Equity
MSIM ENGAGEMENT THEME(S)	Executive Compensation
BACKGROUND	The International Equity team has voted against this leading consultancy's executive compensation plan every year since 2019 and, despite engaging with the company to encourage improvement, concerns persist. The team's main issues are the lack of disclosure of the structure of the short-term bonus or the profit targets that drive 75% of the long-term incentive plan (LTIP), as well as the short vesting period of the long-term incentive component. In general, the team believes poorly structured and outsized company management incentive schemes can be a financially material risk, inviting short-termism, capital misallocation, excessive risk taking, misaligned objectives and poor shareholder returns.
VOTING OUTCOME	Given the company's lack of progress, the International Equity team again decided to vote against the company's executive compensation plan and continued to escalate their position on the matter by voting against the election of the Chair of the Compensation Committee, as they did in 2021 and 2022. If the company does not make sufficient improvement in the future, the team may consider escalating the issue further.

CASE STUDY 12.3

INVESTMENT TEAM	International Equity
MSIM ENGAGEMENT THEME(S)	Executive Compensation
BACKGROUND	The International Equity team had concerns about the pay plan at a large professional services company, such as 20% of the long-term incentive plan (LTIP) not being linked to performance and the short vesting period, and, as such, had voted against the plan the previous year. Ahead of the 2023 Annual General Meeting, the team engaged with the company to express their concerns and encourage improvement in key areas, including linking 100% of the LTIP to performance and increasing the length of vesting to at least five years. The team also communicated their discomfort with stock awards made to the CEO that were unrelated to performance. In general, the team believes poorly structured and outsized company management incentive schemes can be a financially material risk, inviting short-termism, capital misallocation, excessive risk taking, misaligned objectives and poor shareholder returns.
VOTING OUTCOME	Subsequently, the team expressed their views at the Annual General Meeting by voting against the company's advisory pay plan once again. As a sign of significant investor discontent, the pay plan vote failed, receiving 57% of votes against versus those in favour. Following this, the company requested a further conversation with the team to discuss the subject, and a meeting was arranged to take place in Q3 2023.

CASE STUDY 12.4

INVESTMENT TEAM	Global Balanced Risk Control
MSIM ENGAGEMENT THEME(S)	Board Structure and Composition
BACKGROUND	The team had concerns with the company's seemingly disjoined response to a serious controversy.
VOTING OUTCOME	Considering the board's structure and its essential role in independently overseeing management, the team decided to vote against an incumbent new director, given his potential lack of experience for the role and his position as a relative of the CEO. The team believed, and communicated to the company, that given the heightened scrutiny on them since the controversy and their mismanagement of communications thereafter, that an independent appointee would have been preferred to better exercise independent oversight over management.

(II) TOPICS ALIGNED WITH MSIM'S ENGAGEMENT THEMES

CATEGORY	NUMBER OF PROPOSALS	NUMBER OF VOTES SUPPORTING SHAREHOLDER PROPOSALS (VOTES AGAINST MANAGEMENT)	% OF VOTES IN SUPPORT OF SHAREHOLDER PROPOSALS
Climate Action	77	42	55%
Board and Employee Diversity	34	26	76%
Human Rights	37	20	54%
Political Lobbying and Spending	55	35	64%
Environmental – Other	92	30	33%
Social – Other	111	33	30%

a) Climate- and Environment-Related Proposals

Between 1 July 2022 and 30 June 2023, MSIM's investment teams supported 55% of climate-related proposals overall. They voted on an increased number of proposals seeking GHG emission reduction targets, supportive of proposals requesting companies to set greenhouse gas (GHG) emissions reduction targets where they felt the companies were lagging peers or that GHG emissions were a material risk.

Of the 45% of proposals not supported, various factors came into consideration as investment teams sought to balance concerns on reputational, financial and other risks that may lie behind a proposal against costs of implementation while considering appropriate shareholder and management prerogatives. Teams may abstain from voting on proposals that do not have a readily determinable financial impact on shareholder value and may oppose proposals that intrude excessively on management prerogatives and/or board discretion. Investment teams generally vote against proposals requesting reports or actions that they believe are duplicative, related to matters not material to the business, or that would impose unnecessary or excessive costs.

CASE STUDY 12.5

INVESTMENT TEAM	Global Listed Real Assets
MSIM ENGAGEMENT THEME(S)	Decarbonisation and Climate Action
BACKGROUND	A large US self-storage REIT received a shareholder proposal during the 2023 proxy voting season. The proposal requested that the company issue short- and long-term scope 1-3 greenhouse gas reduction targets aligned with the Paris Agreement's 1.5°C goal requiring net zero emissions by 2050. As background, the Global Listed Real Estate team engaged with the company during 2022 for the purpose of encouraging it to commit to net-zero emissions using science-based targets. At that time, the company was working with two consultants to develop a net-zero strategy and indicated the process could take as long as 24months. The company was reluctant to commit to long-term emission reduction targets without a visible pathway to achieve its goals. The company emphasised that it was committed to reducing emissions but needed more time before publicly articulating credible long-term targets. The team viewed this engagement as a partial success, as they were encouraged the company was working toward a net zero framework but hoped it could occur at a faster pace. The team planned to engage with the company again the following year (2023) on this topic. The team engaged with the company in spring 2023, prior to its Annual Meeting, to discuss the shareholder proposal and progress on the company's net-zero framework. The company's work was ongoing, but it was still not prepared to establish long-term emission reduction targets and recommended voting against the shareholder proposal. In particular, the company felt it needed more time to establish credible scope 3 targets that would be consistent with eventual SEC disclosure requirements. The team remained encouraged by the work the company was doing but was disappointed it was not moving at a faster pace.
VOTING OUTCOME	The team voted to support the shareholder proposal, which received approximately 34% of votes and did not pass. The team believes net-zero targets would further reduce the company's environmental footprint and could generate attractive financial returns, as the company uses more renewable energy. They will continue to engage with the company on this topic and track its progress.

CASE STUDY 12.6

INVESTMENT TEAM	Global Balanced Risk Control
MSIM ENGAGEMENT THEME(S)	Decarbonisation and Climate Action
BACKGROUND	The team has an ongoing engagement programme with a large US Integrated Oil and Gas company. While the team engages constructively with the company to find common ground, they believe that as active shareholders they should vote in the manner that they believe promotes the long-term best interests of the company while adhering to strong ESG standards. Amongst others, the company was presented with a shareholder proposal about how it calculates an emission baseline that determines progress towards emissions reduction goals. This would effectively exclude the aggregated emissions from material asset divestitures occurring since 2016, giving a more accurate reflection of actual emissions reductions achieved. The team requested more information for why the company recommended shareholders vote against this proposal. The company reiterated its decarbonisation strategy and explained divestments may play a part, but they would not be driven from an emissions perspective. The company explained intensity measures would show its efficiency in producing product. The team cautioned against divestments for emissions reductions, as they could have the impact of moving out of companies with shareholder oversight or disclosure requirements. Additionally, the company was faced with a shareholder petition to vote against directors based on poor climate lobbying disclosures. The team has engaged with the company since a proposal passed in 2020 on this issue, and while they do believe there is more to be done, they note the company has made improvements, most notably releasing a standalone document outlining its position and alignment of certain associations.
VOTING OUTCOME	While the team was sympathetic to the company's argument, they ultimately thought such disclosure could be helpful and supported the emissions-related proposal. Given the improvements in disclosure, the team did not support the additional proposal, but they do believe companies' lobbying efforts and those of their trade associations can have powerful influence, and they therefore continue to monitor this area across their energy holdings.

b) Gender Pay Gap Proposals

Between 1 July 2022 and 30 June 2023, MSIM's investment teams supported 100% of proposals on gender pay gap disclosure. As a Firm, MSIM is committed to support fair pay, promotion and development opportunities. The proposals were analysed on a case-by-case basis, and our investment teams supported where they observed the company's disclosures did not provide adequate transparency. Investment teams would not support proposals where, as a result of their analysis, they concluded the company has sufficiently addressed the requirement.

c) Diversity and Inclusion Proposals

Between 1 July 2022 and 30 June 2023, MSIM's investment teams supported 76% proposals to increase board and employee diversity. The most prominent proposals under this category called for companies to oversee racial equity or civil rights audits and enhance transparency related to board diversity. MSIM's investment teams reviewed these on a case-by-case basis and were broadly supportive of these proposals.

With respect to the remaining 24% of proposals that were not supported, the investment teams generally support proposals that if implemented would enhance useful disclosure on employee and board diversity. They support shareholder proposals urging board and employee diversity with respect to gender, race or other factors where they believe the board has failed to take these factors into account. They may oppose proposals where the expected cost of giving due consideration to the proxy does not justify the potential benefits or if the company has sufficiently addressed requirements of the proposal.

CASE STUDY 12.7

INVESTMENT TEAM	International Equity
MSIM ENGAGEMENT THEME(S)	Diverse and Inclusive Business
BACKGROUND	A shareholder proposal was put forward requesting that the company report on the alignment of its video-sharing platform's policies with online safety regulations. The proponent argued that the company's video-sharing service has faced problems with its content moderation, including allegations that the platform may be used to propagate hate speech and a place of contact for grooming and coercion.
VOTING OUTCOME	The International Equity team decided to vote in favour of this proposal. Considering the evolving regulatory landscape in terms of the emergence of online safety regulations and legislation, in particular in the US, Australia, the EU and the UK, as well as the negative media attention to the company as a result of inappropriate content for children and misinformation on its platform, the team believes additional disclosure on this issue is warranted to mitigate against potential regulatory and reputational risks.

d) Human Rights Proposals

Between 1 July 2022 and 30 June 2023, MSIM supported 54% of proposals to improve human rights disclosure and risk management. MSIM seeks to enhance useful disclosure and improvements on material issues related to human rights risks, labour practices and supply chain management, including the elimination of forced labour and child labour. We review these proposals on a case-by-case basis and have been generally supportive. We have not supported proposals where we believe the company has taken adequate steps to address this concern or the proposal is overly prescriptive.

Fixed Income – Approach to Seeking Amendments in Terms and Conditions, Contracts and Other Legal Documentation

The Fixed Income organisation exercises their rights and responsibilities through good stewardship efforts both at the pre-investment stage and throughout the holding of a security. They use engagement and escalation (if needed) to inform their investment decisions, which ultimately can have an impact on issuers.

Prior to investment, credit analysts conduct due diligence across a wide range of factors, including on material ESG issues, and may request to engage with an issuer to obtain additional insights. The team draws upon a variety of data sources for ESG-related information pre-investment, including both third-party and proprietary analysis. Engagement is also used as an opportunity to provide granular feedback to issuers on the structure of their deals.

The Fixed Income organisation's approach to seeking amendments to terms and conditions, contracts and other legal documentation depends on the issue in question, type of security held, investment strategy and their fiduciary duty to act in clients' best interests. Credit Analysts work closely with the Fixed Income ESG Analysts on the Calvert Fixed Income ESG Strategy and Research team, with several trainings over the course of the reporting period to enhance Credit Analysts' understanding of and integration into the ESG research and engagement process. Furthermore, there are additional training opportunities available from rating agencies to law firms and associations, such as the European Leveraged Finance Association (Principle 10), of which MSIM is a member. Our in-house legal expertise also provides support for in-depth analysis where needed, especially in ESG-related areas when evaluating terms for any potential transaction.

The following are examples of different approaches based on different types of income securities:

GREEN/LABELLED SUSTAINABLE BONDS – TRANSPARENCY AND REPORTING

In the context of green and other labelled sustainable bonds, for example, the team may organise one-to-one dialogues with management where reporting and transparency practices do not align with commitments outlined in labelled bond frameworks. The team advises issuers to commit to annual reporting where possible; however, as part of the monitoring process, the team may engage with issuers that do not fulfil these criteria.

For example, representatives of the Fixed Income organisation recently engaged with a climate solutions company on their green bond reporting—given the company's pure-play nature, the issuer had lagged the market in reporting practices for its outstanding green bonds. The Fixed Income representatives contacted the issuer with concerns regarding transparency and granularity in both allocation and impact reporting, making an immediate request for information to allow the team to conduct a proper review of the company's green notes.

The issuer was able to provide the requested information within two weeks, benefiting the team's evaluation process for the benefit of clients. The team also provided longer-term feedback to improve the strength of the company's green programme.

SUSTAINABILITY-LINKED BONDS – SUSTAINABLE TARGETS AND POTENTIAL COUPON STEP-UPS; CALL DATES/PRICES

In the case of Sustainability-Linked Bonds associated with specific targets and potential coupon step-ups, the Fixed Income organisation engages with issuers ahead of the transaction through one-to-one meetings or group roadshow calls to provide their views on the appropriateness of the trigger event date and the size of the step-up, and request changes if necessary to increase the level of ambition and accountability. For example, there has been a surge in the number of high-yield bond issuers using the sustainability-linked format, often setting call dates very close to the trigger date of the coupon step-up.

The Fixed Income organisation has also engaged with multiple high-yield issuers of callable Sustainability-Linked Bonds, to recommend that whenever the step-up trigger date is close to the call date, the penalty should be reflected in the call price as well, to avoid creating an incentive to call the bond. As mentioned in Principle 10, the team also addressed these issues by collaborating with industry organisations, such as ICMA and ELFA, to establish more detailed guidance on best practices around the issuance of these bonds.

HIGH YIELD – PROSPECTUS REVIEW; BOND STRUCTURE/COVENANTS

In relation to high-yield issuance more broadly, investors tend to receive a prospectus a few days in advance. Each prospectus is reviewed by the credit research analysts. Using a combination of in-house expertise (several team members have either investment banking or loan experience) and Xtract Research (legal research available via paid subscription), the High Yield investment team determines whether covenants and/or structure are too aggressive. In cases where the team thinks the documentation is too aggressive, they provide written feedback directly to the syndicate desks involved in marketing the bond deal. If there is significant pushback from the investor base, either the documentation is tightened up or the pricing of the deal makes up for the looseness of the documentation. Loose documentation does not preclude the High Yield investment team from participating in a deal if they believe they are being appropriately compensated on the issuance level. Equally, they have chosen to withdraw their interest in deals as a result of loose documentation where no changes were made despite their feedback.

SECURITIZATIONS – LOAN COLLECTION AND MODIFICATION POLICIES, CONDITIONS

For securitisations, the Securitized and Agency MBS investment teams construct and then monitor their portfolios with the aim of avoiding exposure to predatory lending practices, severe malpractices in payment collections, or breaches of consumer protection standards, all of which can increase the probability of default of the involved lenders or servicers. Over the past year, the team continued to engage with securitisation issuers to assess loan originators and servicers' collection and loan modification policies, and the conditions imposed on borrowers.

As an example, the team divested its exposure to a large sub-prime auto lender, based on concerns around their rollout of high-interest car loans to low-income consumers, resulting in a downgrade in their credit score upon inability to repay. The investment team engaged with the lender's Chief Treasury Officer to discuss the allegations; however, the explanations were not sufficient to mitigate the team's concerns, which led to divesting, to avoid downside risks from further escalation of the controversy. These issues ultimately led to the regulator suing the lender.

SECTION 5

Appendices

Appendices

Parametric Portfolio Associates – Stewardship Overview

Parametric Responsible Investment (RI)—part of Investment Strategy—implements proxy voting and shareholder engagement, in addition to portfolio construction and oversight activities.

Proxy Voting

- **High-level oversight:** Proxy votes are aligned with Proxy Voting Policy and Procedures, which are overseen by the Parametric Proxy Committee, subsequently the Stewardship Committee, whose 11 members include our CEO and CIO
- **Single experience for clients:** All clients who select Parametric to vote their proxies have their shares voted according to the same investor-friendly custom policy
- **Beyond RI assets:** Approximately 75% of ~$182 billion in Parametric Custom Core equity assets are voted by Parametric, substantially more than the ~$32 billion RI assets
- **Systematized proxy voting activities:** Documentation and distribution of activities should be completed by 30 June 2023

Shareholder Engagement

- **Direct Engagement** with companies is largely limited to the engagement priority theme to drive impact
- **Company best practices** in supply chain labour management and reporting are being assessed to drive more informed and targeted 2023 engagements
- **Financially material issues** are the focus of engagements, considering current SASB topics and potential topic expansion

Shareholder Resolutions

- **We assist clients** in filing shareholder resolutions through As You Sow, the largest filer of shareholder resolutions at US companies
- **Shareholder resolutions are a minor activity,** as they are attempted for ~1% of Responsible Investing accounts

Thematic Engagement Priorities: Five key themes drive our 2023 engagements

CLIMATE CHANGE	WORKFORCE DIVERSITY DISCLOSURE	HUMAN TRAFFICKING	HUMAN RIGHTS
▪ **Collaborative engagement as Climate Action 100+ Signatory** ▪ Climate is material in 90% of SASB industries ▪ Year two of long-term CA 100+ engagement	▪ **Direct Parametric engagement** ▪ Diversity is an expanding SASB topic ▪ Year two of 3 to 5-year engagement ▪ Met in 2022 with 10 of 101 contacted S&P 500 companies not reporting EEO-1 data	▪ **Collaborative engagement as inaugural PRI Advance Signatory** ▪ Supply Chain Labor Conditions SASB Topic ▪ Company selection criterion: Fails Parametric Human Rights Controversies screen	▪ **Direct Parametric engagement** ▪ Supply Chain Labor Conditions SASB Topic ▪ Year three of 7+ year engagement ▪ Company selection criterion: Fails Parametric Human Trafficking screen ▪ Met in 2022 with 11 of 19 R1000 & EAFE fails ▪ 3 themes: Child labor in tobacco and coca supply chains and forced labor

For more information on Parametric's responsible investment approach, please visit: https://www.parametricportfolio.com/solutions/institutional/responsible-investing.

Calvert Research and Management – Stewardship Overview

The Calvert Principles for Responsible Investment ("Calvert Principles") provide the framework for setting engagement priorities with the companies in which they invest.

(E) Environmental Sustainability and Resource Efficiency

- Reduce the negative impact of operations and practices on the environment
- Manage water scarcity and ensure efficient and equitable access to clean sources
- Mitigate impact on all types of natural capital
- Diminish climate-related risks and reduce carbon emissions
- Drive sustainability innovation and resource efficiency through business operations or other activities, products and services

(S) Equitable Societies and Respect for Human Rights

- Respect consumers by marketing products and services in a fair and ethical manner, ensuring security of sensitive consumer data
- Respect human rights, respect culture and tradition in local communities and economies
- Promote diversity and gender equity across workplaces, marketplaces and communities
- Demonstrate a commitment to employees by emphasizing decent workplace opportunities and standards
- Respect the health and wellbeing of consumers by promoting product safety

(G) Accountable Governance and Transparent Operations

- Provide responsible stewardship of capital
- Exhibit accountable governance and develop effective boards that reflect expertise and diversity of perspective, and provide oversight of sustainability risk and opportunity
- Include environmental and social risks, impacts and performance in material financial disclosures
- Lift ethical standards in all operations
- Demonstrate transparency and accountability in addressing adverse events and controversies while minimising risks and building trust

Strategic Engagement Activities

Calvert uses the following strategic engagement activities to encourage positive change in companies:

Direct Dialogue

Calvert engages directly with management to raise concerns and identify opportunities to minimise a company's risk or transform practices that our research indicates could lead to an increase in shareholder value.

Shareholder Proposals

In cases where direct dialogue and other efforts go unheeded, Calvert often file a shareholder resolution to encourage and influence progress. Sample topics for shareholder resolutions Calvert have filed recently include diversity and human capital disclosure, political contributions' transparency, and climate change mitigation.

Public Policy Initiatives

Calvert works with regulators and policymakers to ensure that officials are informed about our position on critical issues such as Shareholder Rights and Corporate Disclosure on such topics as human capital and greenhouse gas emissions.

Proxy Voting

Calvert believes that proxy voting is the most direct means by which investors can influence corporate behaviour. Calvert casts votes on a company's shareholder resolutions based on its Proxy Voting Guidelines.

For more information on Calvert's active ownership approach, please see https://www.calvert.com/active-engagement.php

Eaton Vance Management Stewardship – Overview

The Proxy Administrator and Global Proxy Group oversee proxy voting and shareholder engagement.

Proxy Voting

- **High-level oversight:** Proxy Voting Policy and Procedures are overseen by the Global Proxy Group, whose members include investment professionals
- **Custom Voting Guidelines:** Clients can choose to vote their shares according to the Eaton Vance voting policy guidelines or their own chosen custom voting policy

Shareholder Engagement

- **Direct Engagement:** EVM engages directly with management and boards of directors to discuss issues/concerns regarding governance, as well as social and environmental matters
- **Financial materiality** is the focus of engagements, aiming for transparency and accountability in disclosures, addressing controversies and risks, sustainability of business operations, products and services
- **Engagements** are prioritised based on widely-held securities across Eaton Vance portfolios, as well as starter positions where they may have questions or concerns on board effectiveness, board expertise on material issues and board diversity; climate-related risks and carbon emissions; and human capital management including workforce diversity, equity and well-being.

Atlanta Capital Stewardship – Overview

Proxy Voting

- **High-level oversight:** Proxy Voting Policy is overseen by the Procedures Administrator, who may seek insight from ACM's portfolio managers and/or Management Committee on how a particular proxy proposal will impact the financial prospects of a company, and vote accordingly.
- **Exercise of shareholder rights:** Generally performed by casting votes by proxy at shareholder meetings on matters submitted to shareholders for approval (for example, the election of directors or the approval of a company's stock option plans for directors, officers or employees).

For more information on Atlanta Capital's Proxy voting policy please see: https://www.atlcap.com/media/34847.pdf

Policy Glossary

Firm Code of Conduct	Our Code of Conduct reflects our continued commitment to act in accordance with our core values and in full alignment with the letter and spirit of applicable laws, regulations and our policies. Our values are as follows, and inform everything we do: Put Clients First, Lead with Exceptional Ideas, Do the Right Thing, Commit to Diversity and Inclusion, and Give Back.
Global Confidential and Material Non-Public Information Policy	The Global Confidential and Material Non-Public Information Policy addresses handling confidential information in a manner which protects Morgan Stanley's reputation for integrity, promotes relationships with our clients, safeguards Firm assets and helps to ensure compliance with the complex regulations governing the financial services and banking industry.
Global Conflicts of Interest Policy ("Global Conflicts Policy") and related procedures	The Global Conflicts of Interest Policy addresses business conduct and practices at Morgan Stanley that give rise to an actual or potential conflict of interest. For example, conflicts can occur when there is a divergence of interests between Morgan Stanley and a client, or among clients. Conflicts can also occur when there is a divergence of interests between an employee on the one hand and the Firm or a client on the other. This Policy sets forth guidance on the identification of conflicts and the Firm's conflicts governance framework. MSIM has established procedures intended to identify and mitigate conflicts of interest related to business activities on a worldwide basis. A conflict management officer for each business unit and/or region acts as a focal point to identify and address potential conflicts of interest in their business area. When appropriate, there is an escalation process to senior management within the business unit, and ultimately, if necessary, to Firm management or the Firm's franchise committees, for potentially significant conflicts that cannot be resolved by the conflict management officers or that otherwise require senior management review.
Global Employee Trading and Outside Business Activities Policy	The Global Employee Trading, Investing and Outside Business Activities Policy sets forth general rules that employees must follow with respect to personal trading and investing, including transactions in Morgan Stanley securities, and specific rules for particular types of transactions and accounts.
Global Gifts, Entertainment & Charitable Giving Policy	The Global Gifts, Entertainment and Charitable Giving Policy sets forth guidance and limitations with respect to the provision or receipt of gifts and entertainment, as well as the provision of charitable contributions, in connection with business relationships as a Morgan Stanley employee. This Policy addresses gifts, business entertainment (including payment for travel, lodging and meals), charitable contributions, and assumption or forgiveness of debt, or any other item of value.
Global Incentive Compensation Discretion (GICD) Policy	The Global Incentive Compensation Discretion Policy sets forth the terms under which an employee of Morgan Stanley, its subsidiaries and affiliates may be eligible to receive a discretionary incentive compensation award, establishes standards with respect to the process for determining the discretionary incentive compensation to be awarded to an employee, and provides guidance for the escalation of a possible clawback of previously awarded incentive compensation.
Global Investment Management Risk Management Policy	Effective risk management is vital to the success of Morgan Stanley and Morgan Stanley Investment Management. Accordingly, the Global IM Risk Management Policy establishes a framework to integrate the diverse roles of the Risk Management functions into a holistic structure and facilitates the incorporation of risk assessment in decision-making processes. This Policy helps members of senior management understand and monitor all significant risk categories on a consistent, proactive basis and defines the roles, responsibilities, guidelines and other elements that formalize the governance framework, which is central to risk management and embodies the Firm's risk management culture.

Global Side-by-Side Management Policy and Procedures	When an adviser manages multiple portfolios (side-by-side management) with different structures (e.g., registered funds and unregistered funds) and/or fee structures (e.g., performance-based fees versus flat management fees) certain perceived or actual conflicts may arise. To address these types of conflicts, we have adopted policies and procedures, including the Global Side-by-Side Management Policy and Procedures, pursuant to which allocation decisions may not be influenced by fee arrangements and investment opportunities will be allocated in a manner that we believe to be consistent with obligations as an investment adviser. To further manage these types of conflicts, we have formed a Side-by-Side Management Subcommittee to ensure that side-by-side management guidelines are met.
Global Third-Party Risk Management Policy	The Global Third-Party Risk Management Policy sets forth the standards and requirements for Morgan Stanley's Third-Party Risk Management Program. The Firm manages overall Third-Party risk within risk-tolerance levels established and updated periodically by the Firm. The Programme implemented through the Policy is designed to support effective identification, assessment, management and mitigation of risks associated with Third-Party relationships. The Programme requires that outsourcing and sourcing decisions incorporate a risk-based assessment of the associated risks that may impact the Firm.
Global Third-Party Selection and Engagement Policy	The Global Third-Party Risk Management Policy sets forth the standards and requirements for Morgan Stanley's Third-Party Risk Management Program. The Firm manages overall Third-Party risk within risk-tolerance levels established and updated periodically by the Firm. The Programme implemented through the Policy is designed to support effective identification, assessment, management and mitigation of risks associated with Third-Party relationships. The Programme requires that outsourcing and sourcing decisions incorporate a risk-based assessment of the associated risks that may impact the Firm.
Global Third-Party Selection and Engagement Policy	The Global Third-Party Selection and Engagement Policy establishes a framework for Morgan Stanley's sourcing activities from external, unaffiliated Third Parties for which the Firm's sourcing team is engaged. This Policy is designed to help ensure that the sourcing of goods and services by Morgan Stanley is done in a fair, competitive, independent and objective manner, and with appropriate due diligence. Additionally, sourcing decisions must be made in accordance with all applicable laws, regulatory requirements and sound business practices.
Investment Management Public Markets Enhanced Vendor Management Programme Procedures	These procedures describe the Investment Management Public Markets Enhanced Vendor Management Program. The goal of the Enhanced Programme is to ensure that service providers that support the Public Markets business are monitored and payments made to the vendors are reviewed by designated personnel.
Investment Private Enhanced Vendor Management Programme Procedures	These procedures describe the Investment Management Public Markets Enhanced Vendor Management Program. The goal of the Enhanced Programme is to ensure that service providers that support the Public Markets business are monitored and payments made to the vendors are reviewed by designated personnel.
Morgan Stanley ESG Report	The Morgan Stanley 2022 ESG Report can be found here
Morgan Stanley Environmental and Social Risk Policy Statement	Morgan Stanley's Environmental and Social Policy Statement reflects the Firm's global commitment to our stakeholders, communities and the environment to identify and address environmental and social risks. To help us deliver long-term value for our clients and shareholders, we employ comprehensive risk management policies that include environmental and social risk, as laid out in this policy.
Morgan Stanley Europe SE – EU SFDR disclosures	The EU SFDR disclosures for Morgan Stanley Europe SE can be found in this link here.

Morgan Stanley Modern Slavery and Human Trafficking Statement	The Morgan Stanley Modern Slavery and Human Trafficking Statement is published in accordance with Section 54 of the United Kingdom's Modern Slavery Act 2015 and Section 16 of Australia's Modern Slavery Act 2018. It outlines the steps taken by Morgan Stanley to address the risk of modern slavery in our own global operations or of the suppliers of Morgan Stanley and its consolidated subsidiaries, as well as Morgan Stanley's future plans in that regard.
Morgan Stanley SGR S.p.A. Disclosures under Regulation (EU) 2019/2088	The Disclosures under Regulation (EU) 2019/2088 for Morgan Stanley SGR S.p.A. can be found in this link here.
Morgan Stanley Supplier Code of Conduct	We expect our suppliers, and our suppliers' suppliers, to adhere to these key values and apply them to how they do business with Morgan Stanley and in general.
Morgan Stanley UK Gender Pay Gap Report	The Morgan Stanley UK Gender Pay Gap Report can be found in this link here.
Morgan Stanley UK Regulated Entities Supplement to the Global Third Party Risk Management Policy	The Morgan Stanley UK Regulated Entities Supplement (the "Policy Supplement") to the Global Third-Party Risk Management Policy establishes requirements specific to UK Regulated Entities. The Policy Supplement is designed to enable UK Regulated Entities to manage risks within the Morgan Stanley International Group's Third-Party Risk Appetite in compliance with SYSC of the FCA Handbook, the Outsourcing section of the PRA Rulebook, the EBA Guidelines on Outsourcing and other relevant regulations.
MSIM's Counterparty Risk Policy	The Morgan Stanley Investment Management Counterparty Risk Policy sets forth the broad principles that serve as the foundation for managing globally, in a consistent and integrated manner, counterparty risk for all IM businesses. The objective of the Policy is to avoid or mitigate risk of loss arising from the default or inability of a counterparty to meet its financial obligations.
MSIM's Proxy Voting Policy and Procedures ("MSIM Proxy Voting Policy")	Our MSIM Proxy Voting Policy addresses a broad range of issues and provides general voting parameters on proposals that arise most frequently. We endeavour to integrate governance and proxy voting policy with investment goals, using the vote to encourage portfolio companies to enhance long-term shareholder value and to provide a high standard of transparency such that equity markets can value corporate assets appropriately. The MSIM Proxy Review Committee ("Committee") has responsibility for overseeing the implementation of the MSIM Proxy Voting Policies and Procedures.
Remuneration Policy of MSIM Fund Management (Ireland) Limited	The Remuneration Policy of MSIM Fund Management (Ireland) Limited can be found in this link here.
Sustainable Investing Policy	MSIM's Sustainable Investing Policy outlines our approach to stewardship and sustainable investing. Our sustainable investment beliefs, strategy and culture are collectively guided by the key principles laid out in the policy here.

Mapping to UK Stewardship Code Principles

PRINCIPLE	PAGE	ADDITIONAL KEY DETAILS REFERENCED IN OTHER PRINCIPLES	STARTING PAGE
Principle 1: Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and Beneficiaries, leading to sustainable benefits for the economy, the environment and society.	5	How MSIM's investment beliefs and core values are embedded in the stewardship function and engagement priorities [Principles 2, 5, 6 & 9]	13, 34, 38, 64
		Highlights of key stewardship achievements 2023 [Principles 2, 4, 5, & 9]	13, 23, 38, 64
		International Equity team's proprietary approach to material ESG risks [Principle 4]	28
		Fixed Income organisation external collaborative engagement initiatives [Principles 9 & 10]	64, 90
Principle 2: Signatories' governance, resources and incentives support stewardship	13	Resourcing stewardship activities [Principle 1]	7
		Details of collaboration across Morgan Stanley businesses [Principle 4]	33
		Details of engagement and collaboration efforts to further our commitment to DEI [Principle 10]	90
		Details of MSIM 2023 Proxy Voting Policy update [Principle 5]	34
		Incorporation of third-party data ESG data by MSIM investment teams [Principle 7]	44
		Use of service providers [Principles 7 & 8]	44, 59
		How we monitor our service providers, activities and progress [Principle 8]	59
Principle 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	20	Details of MSIM 2023 Proxy Voting Policy update [Principle 5]	34
Principle 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.	23	MSIM Ltd Board review [Principle 2]	13
		Subject matter expertise MSIM Sustainability and Stewardship teams [Principle 2]	14
		MSIM Sustainability Oversight [Principle 5]	34
		Private Credit and Equity team engagement in relation to systemic risk [Principle 9]	87
		Details of active participation in industry bodies and forums and collaboration examples [Principle 10]	90
Principle 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities.	34	Details on ESG Checklist and Pathway for collaborative Proposals [Principle 2]	16
		MSIM Proxy Review Committee [Principle 2]	15
		Internal assurance of stewardship [Principles 5 & 6]	34, 38
		Transparency in regulatory, client and stewardship reporting [Principles 2, 6, 7, 9 & 10]	13, 38, 44, 64, 90
		ESG Data Provider Due Diligence process [Principle 8]	59
Principle 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.	38	Obtaining Clients Views [Principle 2]	13

PRINCIPLE	PAGE	ADDITIONAL KEY DETAILS REFERENCED IN OTHER PRINCIPLES	STARTING PAGE
Principle 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.	44	International Equity team's proprietary approach to material ESG risks [Principle 4]	28
		Fixed Income Organisation active engagement with Bond issuers [Principle 9]	73
		MSIM's thematic engagement priorities [Principle 9]	65
		Customised solutions – Engagement approach [Principle 9]	78
Principle 8: Signatories monitor and hold to account managers and/or service providers.	59	Information on vote splitting due to client preference or differing investment team convictions [Principle 3]	22
		MSIM Proxy Voting Policy update [Principle 5]	34
Principle 9: Signatories engage with issuers to maintain or enhance the value of assets.	64	Details of our collaborative engagement activities with MSIM [Principle 10]	90
		EME – Escalation protocols [Principle 11]	98
		International Equity team's escalation approach and case studies [Principle 11]	95
		Global Fixed Income – Escalation process [Principle 11]	100
		Private Credit & Equity – Engagement approach and rationale [Principle 7]	53
Principle 10: Signatories, where necessary, participate in collaborative engagement to influence issuers.	90	-	
Principle 11: Signatories, where necessary, escalate stewardship activities to influence issuers.	95	-	
Principle 12: Signatories actively exercise their rights and responsibilities.	103	Details of MSIM's Proxy Voting Policy, Voting Records and Proxy Review Committee [Principles 2 & 5]	13, 34
		Details of MSIM's ongoing monitoring and due diligence of proxy advisors [Principle 8]	59

MSIM Collaborative Initiatives

Through its various businesses and internal functions, MSIM and Morgan Stanley participate in, belong to or take a leading role in many ESG-related initiatives and organisations.

This includes participating in industry conference panels, exploring joint research, and supporting the work of groups focused on ESG-related issues.

MSIM and Morgan Stanley's external sustainability/ESG-related initiatives and organisations include, but are not limited to, the following:

SUSTAINABILITY/ ESG-RELATED INITIATIVES	KEY AREA OF FOCUS	SINCE
30% Club UK Investor Working Group	MSIM (UK) joined the 30% Club UK investor working group to help increase gender diversity on boards and senior management teams.	2022
Better Building Partnerships	The BBP is a collaborating of leading property owners who are working together to improve the sustainability of commercial buildings.	2022
Black Women in Asset Management (BWAM)	BWAM is a professional network founded in 2019 in the UK that is focused on advancing and retaining Black, female professionals in the asset management industry. BWAM has expanded internationally and hosts various panel sessions and networking events. MSIM engages with BWAM through participation in their Cross-Company Mentorship Programme and Sponsor Roundtables, and is a Platinum sponsor of their 2023 annual conference.	2021
Ceres Investor Network on Climate Risk and Sustainability	Ceres is a nonprofit working with investors and companies to drive sustainability solutions through the economy. Morgan Stanley is a member of the Ceres Investor Network on Climate Risk and Sustainability, and the CEO of Ceres is a member of the Morgan Stanley Institute for Sustainable Investing Advisory Board.	2013
Ceres Private Equity Working Group	Our PC&E business is also a member of Ceres' Private Equity Working Group, which supports GPs and LPs in transitioning private equity portfolios towards a sustainable net zero economy. Our contribution has included facilitating and participating in sessions that provide GPs and LPs with the latest climate-centric and sustainable investment practices, policies, frameworks and tools to assess, manage and mitigate ESG and climate risks.	2021
CFA Institute's Diversity, Equity and Inclusion Code	Led by the CFA Institute, the DEI Code fosters action to advance diversity, equity, and inclusion in the investment industry through six metrics-based Principles built to generate a cycle of positive change for individuals and organisations. The DEI Code also requires signatories to amplify the impact of their commitment by making the economic, business and moral case for diversity, equity, and inclusion.	2023
Council for Institutional Investors (CII)	CII is a leading voice for effective corporate governance, strong shareowner rights and sensible financial regulations that foster fair, vibrant capital markets. CII promotes policies that enhance long-term value for US institutional asset owners and their beneficiaries.	2020
Emerging Markets Private Equity Association (EMPEA)	EMPEA is a global industry association for private capital in emerging markets.	2015
Entrepreneurs In Action (EIA)	MSIM is partnering with EIA, an organisation that seeks to bring together young people and employers. The initiative includes a five-day assessment programme that will introduce applicants to MSIM, present them with a business challenge and give them the opportunity to present to MSIM Senior Management.	2022
European Leveraged Finance Association (ELFA)	MSIM recently joined ELFA and is actively participating in its ESG working group, aiming to improve ESG data disclosure.	2021

SUSTAINABILITY/ ESG-RELATED INITIATIVES	KEY AREA OF FOCUS	SINCE
FAIRR	FAIRR is a leading collaborative engagement NGO focusing on delivering a sustainable food system. MSIM joined FAIRR in 2022 with the objective of forging new partnerships and delivering sustainable outcomes.	2021
Girls Who Invest	GWI is a nonprofit organisation founded in 2015 and dedicated to increasing the number of women in portfolio management and executive leadership in the investment management industry. Seema R. Hingorani is the Founder and Chair of Girls Who Invest (GWI). Seema R. Hingorani is the Founder and Chair of Girls Who Invest (GWI)	2019
Global Impact Investing Network (GIIN)	GIIN is a nonprofit industry organisation focused on developing infrastructure, education and research to accelerate the scale and effectiveness of impact investing around the world. Morgan Stanley is a member of the GIIN's Investors Council and actively engages with the GIIN and is members on a variety of topics including impact measurement and management.	2011
Global Real Estate Sustainability Benchmark (GRESB)	GRESB is the ESG benchmark for real assets. It collects and catalogues ESG data for property companies, real estate investment trusts (REITs), funds and developers, including infrastructure funds and assets. Morgan Stanley is an investor member of GRESB and MSIM's Real Assets team both provides and consumes GRESB data.	2015
Hong Kong Stewardship Code	MSIM is a signatory.	2019
Institutional Limited Partners Association (ILPA) – Diversity in Action	Our PC&E business is a signatory to ILPA's Diversity in Action initiative, which involves GPs and LPs committed to advancing diversity, equity and inclusion (DEI) in the private equity industry, which is also one of Morgan Stanley's core values—Commit to Diversity and Inclusion. The goal of the initiative is to motivate market participants to engage in the journey towards becoming more diverse and inclusive and to build momentum around the adoption of specific actions that advance D&I over time.	2020
International Capital Market Association (ICMA) and the Green & Social Bond Principles (GBP/SBP)	ICMA oversees a set a voluntary set of guidelines that recommend transparency/disclosure and promote integrity in the development of the sustainable labelled debt market. Morgan Stanley was a founding signatory of the Green Bond Principles and was selected to join the Advisory Council in 2019. MSIM became an investor member of ICMA and the GBP/SBP in 2022. Morgan Stanley and MSIM representatives participate in a number of GBP/SBP working groups, including: Climate Transition Finance, Sustainability-Linked Bonds, Impact Reporting, Social Bonds.	2014, 2022
Irish Funds Industry Association	The Irish Funds Industry Association (Irish Funds) is the representative body for the international investment fund community in Ireland.	2013
ISSB – Sustainability Accounting Standards Board (SASB)	As of August 2022, the International Sustainability Standards Board (ISSB) of the IFRS Foundation assumed responsibility for the SASB Standards. SASB is dedicated to enhancing the efficiency of capital markets by fostering high-quality disclosure of material sustainability information that meets investor needs. Morgan Stanley's Chief Sustainability Officer is a board member of the SASB Foundation, helping ensure that emerging sustainability metrics are relevant to investors. MSIM is also a member of ISSB Investor Advisory Group (IIAG), which replaced the SASB's Investor Advisory Group as of March 2023. This group brings asset managers and owners together to promote the adoption of the SASB reporting framework among corporate issuers.	2012
Japanese Stewardship Code	MSIM is a signatory.	2017
JUST Capital	JUST Capital is a nonprofit research and ratings organisation that measures and ranks companies on their performance on issues that matter to Americans.	2021

SUSTAINABILITY/ ESG-RELATED INITIATIVES	KEY AREA OF FOCUS	SINCE
One Planet Summit Asset Managers Initiative	In Q1 2020 MSIM became a member of the One Planet Asset Managers Initiative. The initiative was established by eight global asset management firms to support the members of the One Planet Sovereign Wealth Funds in accelerating the integration of climate change analysis into the management of large, long-term diversified asset pools.	2020
PRI Advance (Human Rights)	Advance is a new stewardship initiative coordinated by the PRI where institutional investors work together to take action on human rights and social issues. MSIM, Calvert and Parametric have signed up to this initiative.	2022
PRI Collaborative Sovereign Engagement on Climate Change	The PRI Collaborative Sovereign Engagement on Climate Change is a pilot initiative launched in 2022 by the PRI and a group of investors.	2023
PRI – Global Policy Reference Group	The GRPG is a voluntary group of PRI signatories that works to inform and strengthen the PRI's public policy engagement on responsible investment topics.	2022
PRI Nature Reference Working Group	Voluntary body of PRI signatories that aims to build investor capacity for addressing nature and biodiversity loss. The group was launched in 2022 and is approximately made up of approximately 70 signatories.	2022
Principles for Responsible Investment (PRI)	The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance issues and to support signatories in integrating these issues into investment and ownership decisions. MSIM is a signatory of the PRI. In 2020, MSIM also became a signatory to PRI's Credit Risk and Ratings initiative, which promotes the incorporation of ESG into credit ratings and analysis in a systematic and transparency way.	2013
Sponsors for Educational Opportunity – Alternative Investments Fellowship Programme	The Alternative Investments Programme was developed by leading Private Equity and Asset Management firms to help raise awareness of industry challenges. Its aim is to help diversify the workforce by providing opportunities to individuals from underserved and underrepresented backgrounds.	2022
Trading for Trees Program	The MSIM Fixed Income organisation takes part in Trading for Trees, a partnership between the trading platform MarketAxess and the organisation One Tree Planted, to provide a unique trading incentive for users to trade Green Bonds. Through the program, five trees are planted for every $1 million in Green Bonds traded on the MarketAxess platform. Between 2020 and 20-22, the programme facilitated the trading of over $140bn and the planting of 700,000+ trees.	2020
UK Investment Association	MSIM is a member of the Investment Association, a trade body that represents Investment Managers & Investment Management Firms in the UK. MSIM has also previously been part of the Working Group on Fund-Level Communication of Responsible Investment, focused on fund disclosure requirements applicable to UK-based asset managers.	1998
UK Stewardship Code	MSIM is a signatory to the revised 2020 UK Stewardship Code.	2022
World Benchmarking Alliance	The WBA is a global organisation that works to drive change with 2000 of the world's largest companies on SDGs by assessing/ranking publicly on their performance. MSIM UK Ltd joined the World Benchmarking Alliance (WBA) as an ally in 2022.	2022

IMPORTANT INFORMATION

The views and opinions and/or analysis expressed are those of the author or the investment team as of the date of preparation of this material and are subject to change at any time without notice due to market or economic conditions and may not necessarily come to pass. Furthermore, the views will not be updated or otherwise revised to reflect information that subsequently becomes available or circumstances existing, or changes occurring, after the date of publication. The views expressed do not reflect the opinions of all investment personnel at Morgan Stanley Investment Management (MSIM) and its subsidiaries and affiliates (collectively "the Firm"), and may not be reflected in all the strategies and products that the Firm offers.

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Charts and graphs provided herein are for illustrative purposes only. **Past performance is no guarantee of future results.**

A separately managed account may not be appropriate for all investors. Separate accounts managed according to the Strategy include a number of securities and will not necessarily track the performance of any index. Please consider the investment objectives, risks and fees of the Strategy carefully before investing. A minimum asset level is required.

For important information about the investment managers, please refer to Form ADV Part 2.

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