

Morgan Stanley

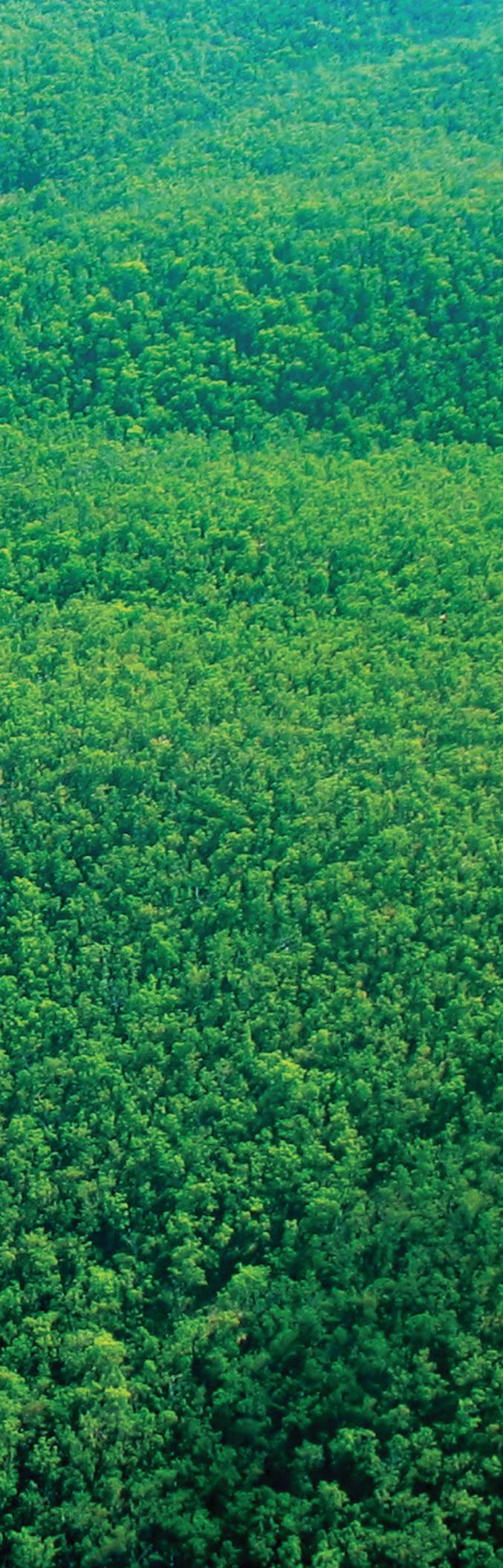
INVESTMENT MANAGEMENT

Morgan Stanley Investment Management's Proxy Voting and Engagement Report: 2017

STEWARDSHIP REPORT





A vertical strip on the left side of the page showing an aerial view of a dense, green forest. The forest is composed of many different types of trees, creating a textured, green pattern. The perspective is from above, looking down at the canopy.

The following report provides an overview of Morgan Stanley Investment Management's (MSIM) Proxy Voting and Engagement activity for 2017.

MSIM has a dedicated team of five full-time professionals responsible for the global proxy voting, engagement and environmental, social and governance initiatives across the MSIM and client portfolios. The team conducts research, collaborates with portfolio managers and provides voting recommendations on all company proxies.

Proxy Voting

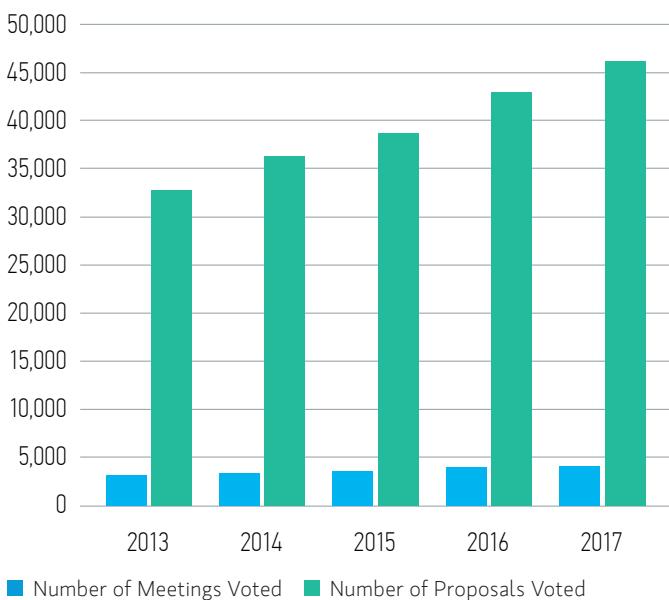
MSIM votes proxies in a prudent and diligent manner and in the best interest of the client, including beneficiaries of and participants in a client's benefit plan(s) for which the subadvisor manages assets, consistent with the objective of maximizing long-term investment returns. MSIM's Corporate Governance Team is responsible for consistently applying the MSIM Proxy Voting Policy and Procedures to proxy votes at issuer shareholder meetings.

2017 Overview

Number of Meetings Voted	4,095
U.S.	36%
Non-U.S.	64%
Number of Countries Represented	71
Total Proposals Voted.....	46,170
Votes With Management	93%
Votes Against Management	7%

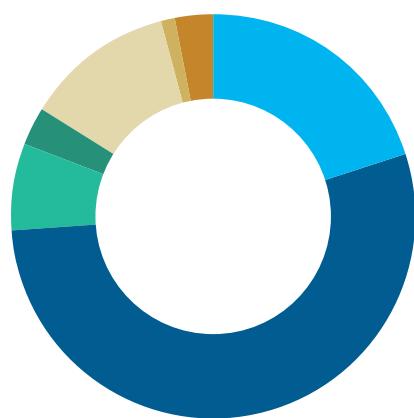
Source: ISS Proxy Exchange

Number of Meetings and Proposals Voted From 2013 – 2017



Source: ISS Proxy Exchange

Categories of Proposals Voted in 2017



● Routine/Business	20%	● Nonsalary Comp.	12%
● Directors Related	54%	● Anti-Takeover Related	1%
● Capitalization	7%	● Shareholder Proposals	3%
● Reorg. and Mergers	3%		

Source: ISS Proxy Exchange

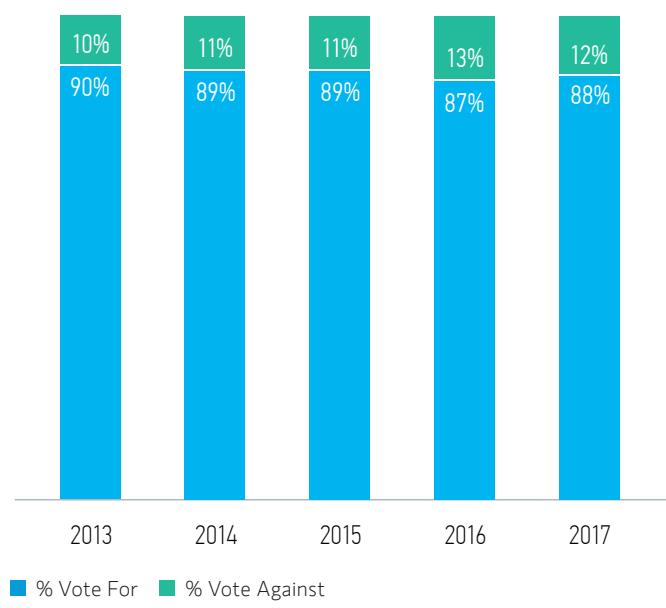
Compensation Issues

MSIM reviews all compensation proposals and votes on a case-by-case basis. MSIM votes on 2,074 say-on-pay management proposals during the reporting period:

- 88 percent of the votes were voted in favor or the proposal.
- 12 percent of the votes were voted against the proposal.
- Reasons MSIM voted against say-on-pay proposals include: excessive compensation relative to company performance and poor pay practices.

The chart on the right illustrates the percentage of votes for and against management-sponsored say-on-pay proposals during the period from 2013 to 2017.

Votes on Management Say-on-Pay Proposals in 2017



Source: ISS Proxy Exchange

Shareholder Proposals

Shareholders in the United States and certain other markets submit proposals encouraging changes in company disclosure and practices related to particular corporate social, political and environmental matters. We consider how to vote on proposals on a case-by-case basis to determine likely impacts on shareholder value and current market best practices. We seek to balance concerns on reputational and other risks that lie behind a proposal against costs of implementation, while considering appropriate shareholder and management prerogatives.

In 2017, MSIM voted on 1,408 shareholder proposals, supporting 42 percent of the time.

Top 10 Most Frequently Voted Shareholder Proposals (nonroutine) in 2017

	% VOTED FOR	% VOTED AGAINST
Elect a Shareholder-Nominee to the Board	76%	11%
Require Independent Board Chairman	40%	56%
Political Lobbying Disclosure	67%	33%
Phase Out Nuclear Facilities	0%	100%
Political Activities and Action	3%	97%
Adopt Proxy Access Right	86%	14%
Climate Change	65%	29%
Amend Articles/Bylaws/Charter – Nonroutine	33%	59%
Anti-Discrimination Miscellaneous	0%	96%
Sustainability Report	46%	54%

Source: ISS Proxy Exchange

Engagements

A key input in our investment selection process is a deep understanding of management quality. To develop that knowledge, we engage with company management at regular intervals, including in active dialogues where positions are significant and issues are viewed as material. Our portfolio groups regularly monitor and engage with companies in the normal course of their investment process, and may make use of the Corporate Governance Team as needed.

A majority of the Corporate Governance Team's engagements focuses on shareholder meetings and takes place during proxy season. MSIM, company management and, when appropriate, a member or members of the board of directors will participate in discussions concerning the company's proxy, including but not limited to executive compensation, board structure and shareholder proposals. Topics of routine engagements focus on governance best practices such as board independence, succession planning and executive pay. Other topics of consideration include the company's sustainability initiatives and goals, shareholder proposals and culture. In the event an engagement is required outside the normal proxy process, for example due to a pending merger agreement or company event, MSIM and, when appropriate, members of the Proxy Review Committee, may contact the company and request a meeting with the appropriate management team and/or a member or members of the board of directors. We selectively interact with company board of directors when necessary and beneficial to enhance an ongoing dialogue with a company.

MSIM engaged with 107 companies in 2017. Discussions included, but were not limited to, executive compensation, board structure, sustainability and shareholder resolutions.

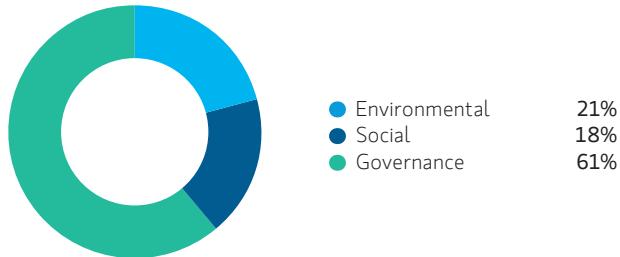
ENGAGEMENT EXAMPLES

Environmental

Each industry has a variety of environmental challenges and opportunities, including but not limited to greenhouse gas emissions, energy usage, waste and water usage. When engaging on these topics MSIM seeks to understand the material challenges facing each company and to meet with a member of the company's stewardship team to facilitate these discussions.

In one example, MSIM engaged with the Sustainability Team of a large-cap utility company. The company had received a shareholder proposal that asked the company to disclose more information regarding the company's response to a two-degree scenario. The proposal received support from 46 percent of voters. The company explained that over the

Engagement Topics 2016



Source: MSIM Corporate Governance Team

last few years they had made improvements to their annual Corporate Responsibility Report as a result of conversations with the proponent. Last year's proposal asked that the information that was disclosed outside of the Corporate Responsibility Report be included in that report. MSIM suggested that the company consider ways to make the data easier to compare to that of their peers. The company described their goals of reducing carbon emissions and carbon intensity, as well as increasing renewables. MSIM voted in favor of the shareholder proposal at the annual meeting, as we did with 65% of similar resolutions we reviewed in 2017.

In another example, MSIM engaged with the sustainability team at a large-cap oil and gas pipeline company to discuss the company's sustainability initiatives. The company had a history of focusing on key sustainability issues and had established an Environmental, Safety and Health Leadership Committee ("ESH Committee") in 2008. The ESH Committee is comprised of senior management from each area of operations and presents to the board on a periodic basis. The company created an ESH Compliance System to help the committee track and share knowledge across the company. The system provides consistent reporting across all business units and a more comprehensive view of the ESH metrics. As part of the company's commitment to their sustainability goals, environmental and safety metrics are part of companywide compensation. MSIM was supportive of all proposals at the annual general meeting.

Social

MSIM engagement on social issues includes, but is not limited to, employee relations and diversity, supply chain management and cybersecurity.

In an example, MSIM engaged with senior management of a large-cap restaurant company as a follow-up to our past

engagements and to discuss the company's employee programs. The company had recently conducted a study of who accesses the Corporate Sustainability Report on its website and concluded that 30% of the readers were company employees and 30% were students. The company attributed these readership statistics to its recently implemented college program that encourages all employees to obtain an online college degree. The company believes that by investing in its employees' educations, it can mitigate risks associated with labor management. MSIM was supportive of all proposals at the annual general meeting.

MSIM also met with a large-cap European telecom firm to discuss cyber security. We discussed the company's processes for initiating security reviews for all its telecom equipment at the design stage; we gained comfort from the process as we learned that the board does review security processes. We also discussed human rights and supply chain issues as the company increases its focus on an industry-led initiative to group together supply chain audits. MSIM was supportive of all proposals at the annual general meeting.

Governance

MSIM has a long history of engaging companies on traditional governance topics, including remuneration, board structure, board diversity and corporate takeover defenses.

For example, MSIM engaged with the Deputy General Counsel and the Director of Investor Relations of a large-cap industrial company. Management described the company's governance practices, including its focus on long-term board quality and succession planning. They explained that the company uses a search firm for help with their recruitment process; however, personal referrals of high-quality board members tend to be their most successful recruitment tool. MSIM noted that many of their board members overlap on other boards and encouraged the board to focus on diversity of background, as well as race and gender. MSIM also encouraged the company to disclose a supplemental compensation table in the "compensation disclosure and analysis" section of its proxy filing that would accurately reflect the compensation the named executives receive. MSIM was supportive of all proposals at the annual general meeting.

In another example, MSIM engaged with a large-cap aerospace company to discuss executive remuneration and board governance. We had concerns about the magnitude of pay and performance options that earn dividend equivalents prior to the awards performance vest. This practice allows executives to receive large payouts without owning shares and before performance hurdles have been achieved. Also, we had concerns that the company had not adopted a majority voting standard for director elections, which is unusual for a large-cap company. In addition we highlighted the lack of board diversity. MSIM will consider voting against board members unless the board addresses these governance and remuneration issues.

If you have any questions about this document, please contact Drew Hambly, Head of MSIM Corporate Governance, at mbproxy@morganstanley.com.

Related Documents: Publically available by accessing the "About Us" section on our website- www.morganstanley.com/im:

- Morgan Stanley Investment Management's Proxy Voting Policy and Procedures
- Morgan Stanley Investment Management's Approach on Environmental, Social and Governance Factors
- Morgan Stanley Investment Management's Engagement Principles

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