Morgan Stanley

INVESTMENT MANAGEMENT

Morgan Stanley Funds (UK) Global Balanced Sustainable Fund

Stewardship Policy

MARKETING COMMUNICATION | GLOBAL BALANCED RISK CONTROL TEAM | APRIL 2022

We define "stewardship" as our overarching approach to monitoring, engaging and exercising our shareholder rights across our portfolios, to promote the long-term success of companies and create sustainable value for our clients while contributing to environmental and social challenges.

Relatedly, the Global Balanced Risk Control (GBaR) team believes that we have a duty to work with the firms in which we invest, to help improve their environmental, social and governance (ESG) performance. We fulfill this duty by engaging with the companies in which we invest and by effectively exercising our proxy voting and other rights as shareholders. These stewardship activities give us the opportunity to guide companies in which we invest toward better environmental, social and governance practices, which we believe produce attractive returns for our clients over the long term. We further believe a structured approach to engagement is a powerful tool to keep issuers on track of their commitments.

Our Approach to Engagement

Typically, the GBaR team's main engagement priorities are guided by top-down, thematic-based research and our assessment of material ESG risks by our dedicated ESG analysts. We believe this is the best approach for our strategy, as researching risks to the global economy and global markets is integral to GBaR's asset allocation process. ESG factors such as climate change definitively fall into the team's definition of potential "risk events." This approach therefore ensures that stewardship is seen as a natural extension of the team's philosophy around risk control.

Our engagement strategy is based on three main components: risk, impact and quality. This allows the team to focus on thematic ESG issues that contribute to global sustainability imperatives as well as the performance of our portfolio.

Component I: Risk

As mentioned, our approach to engagement is a natural extension of our investment process' philosophy. Through our top-down prioritisation and bottom-up analysis, we hope to find the subset of thematic engagement issues where impact intersects with mitigating material risks or positive alpha opportunities for exposed companies. Through this combination, we hope we can benefit from demonstrating win-win opportunities with targeted companies, driving change, and supporting our fiduciary duties.

Component II: Impact

We believe engaging with our portfolio companies gives us a crucial lever for demonstrating additionality in our impact efforts. To ensure that we are contributing to overarching efforts in sustainability, we align our engagement's impact with internationally recognised and agreed-upon standards such as the U.N. Sustainable Development Goals (SDGs), or the Transition Pathway Initiative (TPI), when relevant. A particular focus is laid upon those standards where our portfolio holdings are most exposed to risks and impact opportunities.

Our investment approach excludes those companies that we do not believe are receptive to engagement, such as tobacco and controversial weapons, thereby ensuring we focus our efforts on areas where we believe there is opportunity for change.

Component III: Quality

Our approach to engagement emphasises the quality of our engagements over the quantity, with a focus on materiality and intensive bottom-up research of the companies exposed to our top-down thematic prioritisation. Consequently, we spend our resources on the most promising engagement opportunities, assessing portfolio companies' idiosyncrasies such as exposure to financial or reputational concerns, capacity to implement changes and scope for improvement. We recognise that fruitful engagement takes time, and our thematic engagement approach typically consists of several engagements over a multiyear period in order to work and improve together.

These components can broadly be summarised in the following process:

GBaR Engagement Process

Source: MSIM's GBaR team
Further details on our Engagements can be found in our Stewardship Report

To maximise the effectiveness of our engagement, we collaborate with a number of colleagues, including MSIM's Global Stewardship team, with extensive experience in corporate governance and proxy voting. Additionally, we work closely with other investment teams within the firm, to ensure we have the loudest possible voice.

Escalation and Divestment

We will regularly touch base with our target companies to ensure they make progress on any agreed-upon actions. There are two cases where we may need to escalate our engagement:

1. Where we believe management is unreceptive or unresponsive to our recommendations
2. Where after an agreed-upon period of time, there has been no change

Typically, our engagement escalation will consist of meeting with either the chair of the board of directors, or the chair of the most relevant board committee.

If after meeting the chair, we remain unhappy with the progress, we will inform the company of our intention to vote against relevant board members and management proposals.

While it is unlikely, we may reduce our holding in a company or divest entirely for them in extreme cases.

Proxy Voting

We see proxy voting as an integral component of our normal monitoring and engagement activity. We seek to vote all shares held by our clients, unless the costs, or administrative burden, of doing so are excessive, such as in markets with share blocking. To promote consistency in voting proxies on behalf of our clients, we follow MSIM's Proxy Voting Policy.[1]

MSIM votes proxies in a prudent and diligent manner and in the best interest of our clients. MSIM has retained research providers to analyse proxy issues and to make vote recommendations on those issues. While we are aware of the recommendations of one or more research providers, we are in no way obligated to follow such recommendations. The investment teams vote all proxies based on MSIM's proxy voting policies in the best interests of each client.

[1] www.morganstanley.com/im/publication/resources/proxyvotingpolicy_msim_en.pdf

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CRC 4739633 Exp. 30.05.23 10231911_KC_0622