Morgan Stanley

INVESTMENT MANAGEMENT

Engagement Policy

INTERNATIONAL EQUITY TEAM | JANUARY 2022

Our approach

We have engaged directly with companies on issues of sustainability and governance for over 20 years. We believe active managers running concentrated portfolios are well positioned to develop long-term relationships with investee companies.

Our investment process is focused on understanding the long-term viability of a company's returns on operating capital and engagement with management plays a vital role in this.

It informs us whether management can maintain these returns while growing the business over the long term. This includes direct engagement with companies and boards on material ESG risks and opportunities.

Dialogue with companies on engagement topics can be prolonged and require multiple engagements. As long-term shareholders with an owner's mindset our active engagement is aligned to our long-term investment approach.

We attempt to encourage good corporate governance through diligent attention to proxy voting responsibilities, raising issues of concern directly with company management as well as voting against items we do not believe are in the long-term interests of shareholders.

Purpose of our ESG engagement

Our ESG engagements have three key purposes: assessment of materiality of specific ESG issues relevant to companies' and their strategies to address these issues, monitoring of progress and influencing companies towards better practices. In the case of the latter, we engage with specific objectives and track the company's response and progress, including but not limited to improved disclosure, behaviour change, and (where appropriate) target-setting.

Periods of controversy provide meaningful opportunities where frequent engagement can bear direct results as corporate managements are often more sensitive to feedback. We recognise that large global organisations may encounter ESG issues, but a lot can be learned from how they address them. Their awareness, policies and responses to these issues can give us insight into the quality of the management.

Types of Engagement and Stewardship

Our engagement can be divided into the following types:

1. **EXECUTIVE/BOARD LEVEL.** The portfolio managers meet with senior management and board members to discuss the fundamental drivers underpinning growth and returns, at which material company-specific ESG issues will be raised. We prefer 1:1 meetings with senior executives over group presentations.
2. **COMPANY GOVERNANCE/SUSTAINABILITY TEAM.** Our dedicated Head of Sustainable Outcomes, Marte Borhaug, and Head of ESG Research, Vladimir Demine, work alongside the portfolio managers to identify and conduct potential engagements which require robust enquiry with the company's corporate governance or ESG/sustainability representatives. We can use the expertise of the Global Stewardship Team should we wish, to test our views on individual companies, remain abreast of broader industry stewardship trends, and provide supplemental resources in approaching specialist or systemic issues we may observe.

3. **PROXY VOTING.** We do not outsource proxy voting. The investment team votes proxies in a prudent and diligent manner and in the best interest of our clients, consistent with the objective of maximising long-term investment returns. Our proxy voting is predominantly related to governance issues such as management incentives and director appointments. We also consider how to vote on proposals related to social and environmental issues on a case-by-case basis by determining the relevance of the issues identified in the proposal and their likely impact. We generally support proposals that, if implemented, would enhance useful disclosure or improve management practices.

Proprietary Tools supporting Engagement

We have developed certain tools to help with our engagement process on ESG issues.

- A proprietary ESG scorecard, the Material Risk Indicator (MRI), which explicitly documents our evaluation of a company's material ESG risks and opportunities both industry/company specific as well as key universal factors/risks – and helps to identify areas for future engagement.
- Pay X Ray, a proprietary scoring system for company remuneration plans, which allows us to better compare and discuss company pay plans and inform our voting approach.

These tools are supplemented by the review of third-party provider data and controversy history reports.

Engagement Process and Transparency

Potential ESG engagement topics are discussed and agreed at the investment team's quarterly engagement meeting. All engagements are documented. The most relevant engagements and outcomes are summarised in our Engage newsletter and client presentations. Should companies offer suboptimal responses or improvements over time, we discuss the relevant issue and escalation options at the investment meeting.

Engagement generates knowledge that is one factor that could affect the investment view, valuation, weighting or buy/sell discipline.

For more information, please see our **ESG Policy for Global Equity** or **ESG Policy for International Equity.** For more information on MSIM's stewardship and engagement resources and collective engagement, please see the **Sustainable Investing Policy** which can be found on www.msim.com

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Risk Considerations

There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market value of securities owned by the portfolio will decline. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing in this strategy. Please be aware that this strategy may be subject to certain additional risks. Changes in the worldwide economy, consumer spending, competition, demographics and consumer preferences, government regulation and economic conditions may adversely affect **global franchise companies** and may negatively impact the strategy to a greater extent than if the strategy's assets were invested in a wider variety of companies. In general, **equity securities'** values also fluctuate in response to activities specific to a company. Investments in **foreign markets** entail special risks such as currency, political, economic, and market risks. companies carry special risks, such as limited product lines, **Stocks of small-capitalisation** markets and financial resources, and greater market volatility than securities of larger, more established companies. The risks of investing in **emerging market countries** are greater than risks associated with investments in foreign developed markets. **Non-diversified portfolios** often invest in a more limited number of issuers. As such, changes in the financial condition or market value of a single issuer may cause greater volatility. **ESG: Strategies** that incorporate impact investing and/or Environmental, Social and Governance (ESG) factors could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favour in the market. As a result, there is no assurance ESG strategies could result in more favourable investment performance.

DEFINITIONS

"ESG" investment: Environmental Social and Governance based investment is an investment approach which takes explicit account of the environmental, social and corporate governance aspects of all proposed investments.

IMPORTANT INFORMATION

Any views and opinions provided are those of the portfolio management team and are subject to change at any time 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. The views expressed do not reflect the opinions of all portfolio managers at Morgan Stanley Investment Management (MSIM) or the views of the firm as a whole, and may not be reflected in all the strategies and products that the Firm offers. All information, which is not impartial, is provided for informational and educational purposes only and should not be deemed as a recommendation. The information herein has not been based on a consideration of any individual investor circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

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