The following report provides an overview of Morgan Stanley Investment Management's (MSIM) Proxy Voting and Engagement activity for 2018.

This report is prepared by MSIM’s Global Stewardship team—a team of five full-time professionals dedicated to coordinating the firm’s global proxy voting, engagement and environmental, social and governance (ESG) initiatives. The team conducts thematic research and collaborates with investment professionals on stewardship activities and emerging ESG issues.

**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 Global Stewardship team is responsible for consistently applying the MSIM Proxy Voting Policy and Procedures.
2018 Overview

Number of Meetings Voted
5,947
- U.S. 27%
- Non-U.S. 73%

Number of Countries Represented
75

Total Proposals Voted
64,230

Votes With Management
92%

Votes Against Management
8%

Source: ISS Proxy Exchange
MORGAN STANLEY INVESTMENT MANAGEMENT

Categories of Proposals Voted in 2018

Compensation Proposals
MSIM reviews all compensation proposals on a case-by-case basis. For example, MSIM reviewed and voted on 1,297 say-on-pay management proposals during the reporting period:

- MSIM supported 88.6% of say-on-pay proposals
- MSIM recommended against 11.4% of say-on-pay proposals

MSIM considers proposals relating to an advisory vote 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, we review remuneration structures and potential poor pay practices, including relative magnitude of pay, discretionary bonus awards, tax gross ups, change-in-control features, internal pay equity and peer group construction. As long-term investors, we support remuneration policies that align with long-term shareholder value.

The following chart illustrates the percentage of votes for and against management sponsored say-on-pay proposals voted during the period from 2014 – 2018:

Say-on-Pay Votes 2014 – 2018

Source: ISS Proxy Exchange

Number of Meetings and Proposals Voted 2014 – 2018

Source: ISS Proxy Exchange

Categories of Proposals Voted in 2018

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 governance, social, political and environmental matters. We consider how to vote on the 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 2018, MSIM voted on 521 shareholder proposals, supporting 52% of the proposals.

Frequently Voted ESG Proposals in 2018

ENVIRONMENT PROPOSALS

In 2018, we saw an increasing number of climate-related shareholder proposals. We reviewed 26 proposals asking companies to report on GHG emissions, climate change preparedness, or a 2-degree scenario analysis. While we review these proposals on a case-by-case basis, we tend to take a positive view of such proposals where climate change is a relevant risk for the company, the proposal is not overly burdensome, and where we feel that shareholders could benefit from greater disclosure. Overall, we supported 80% of these proposals in 2018.

We supported 100% of proposals requesting that companies publish a sustainability report. This reflects our view that meaningful ESG disclosure provides useful information to investors and other stakeholders, and enhances a company’s ability to manage its environmental and social footprint.

We also saw an increasing number of proposals related to improving disclosure on recycling and packaging. Depending on a company’s footprint, we believe that increased recycling can lead to greater efficiencies and cost savings, and also reduce regulatory and headline risks related to excessive waste generation. We supported 80% of these proposals in 2018.

SOCIAL PROPOSALS

In 2018, we saw several proposals requesting that companies link executive pay to performance on social criteria such as safety, diversity and employee satisfaction. We generally believe that the board and compensation committee are best suited to design compensation programs, but we support the integration of ESG factors into compensation programs when we believe they are material to the company’s sustainability strategies. We supported 55% of these proposals in 2018.

Workforce diversity and equity continue to be major themes of shareholder proposals. We reviewed six proposals on gender pay equity in 2018. We supported 50% of these proposals when we felt that the target company was lagging industry peers or in an industry highly exposed to gender imbalances. Similarly, and in

* MSIM reviews all shareholder proposals on a case-by-case basis. The following narrative text is a reflection on the most frequent proposals we reviewed in 2018 and our voting approach to those proposals. Our Proxy Voting Policy and Procedures outline our approach to reviewing shareholder proposals.
line with our proxy voting policy amendment on board diversity, we supported 50% of board diversity proposals where we felt that a board had not sufficiently considered diversity in its composition.

**Frequent Social Proposals**

<table>
<thead>
<tr>
<th>Number of Proposals</th>
<th>Number of Votes FOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposals to Link Executive Pay to Social Criteria</td>
<td>12</td>
</tr>
<tr>
<td>Gender Pay Gap Proposals</td>
<td>8</td>
</tr>
<tr>
<td>Board Diversity Proposals</td>
<td>4</td>
</tr>
</tbody>
</table>

**GOVERNANCE PROPOSALS**

In 2018, certain governance topics such as the ability to call a special meeting and the right to act by written consent remained the most frequent shareholder proposals. We generally support the right of shareholders to call a special meeting and tend to prefer this shareholder right over the right to provide written consent. In 2018, we supported 98% of proposals requesting the right to call a special meeting vs. 10% of proposals requesting the right to act by written consent.

The right to amend proxy access continued to be another popular shareholder proposal in 2018. In the past, we have been very supportive of the right to adopt proxy access, but as more companies have implemented proxy access our support for these proposals has waned given that our support depends on companies’ ownership thresholds, holding periods, the number of directors that shareholders may nominate and any restrictions on forming a group. In 2018, we supported 37% of proposals to amend proxy access rights.

The proposal requiring an independent board chairman has been popular for several years, while we support board independence, we review these proposals on a case-by-case basis taking into account market norms and the existing board leadership structure, company performance and evidence of entrenchment or key person risk. In 2018, we supported 35% of proposals requiring an independent board chairman.

Lastly, proposals related to increasing transparency around political contributions and lobbying continued to be among the most popular for U.S.-domiciled companies in 2018. We reviewed 57 such proposals in 2018 and supported 63%. Our decision to support these proposals, in part, depends on the company’s current disclosure and oversight regime against that of sector peers.

**Frequent Governance Proposals**

<table>
<thead>
<tr>
<th>Number of Proposals</th>
<th>Number of Votes FOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Right to Call a Special Meeting</td>
<td>75</td>
</tr>
<tr>
<td>Right to Act by Written Consent</td>
<td>50</td>
</tr>
<tr>
<td>Political Contributions and Lobbying</td>
<td>25</td>
</tr>
<tr>
<td>Require Independent Board Chairman</td>
<td>0</td>
</tr>
<tr>
<td>Right to Amend Proxy Access</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: ISS Proxy Exchange
Engagements

MSIM works to ensure that shareholder engagement is effective and works in the best interest of clients to improve the long-term returns from the companies in which we invest. Engagements are conducted regularly by investment teams and the Global Stewardship team, which is dedicated to promoting investment stewardship activities, including proxy voting and engagement, across the firm.

Investment teams engage with companies throughout their investment process on a broad range of issues, including a company’s strategy, financial and nonfinancial performance, risk management, sustainability initiatives and capital structure. A majority of engagements led by the Global Stewardship team focus on shareholder meetings and take place during 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 company’s proxy, including but not limited to executive compensation, board structure, ESG issues 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, goals and corporate culture. The Global Stewardship team may request engagement outside of 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 selectively interacts with company boards when necessary and beneficial to the engagement process.

MSIM engagements are carried out through a mix of conference calls, in-person meetings and email correspondence.

MSIM’s Global Stewardship team engaged with 104 companies in 2018. This does not include the number of engagements conducted by individual investment teams. Topics of discussions in the Global Stewardship team’s engagements include, but are not limited to, executive compensation, board structure, ESG issues and shareholder resolutions.

Engagement Examples

The Global Stewardship team and portfolio teams take a materiality-based approach to engaging with companies on ESG issues. This means that engagement topics vary by company, sector and region. The following examples showcase the variety of ESG topics we discussed with companies in 2018. The examples are grouped by E, S and G although many engagements are cross-cutting.

Environmental

ENCOURAGING RECYCLING AT A BREWERY

Our Global Emerging Markets team engaged with a large, Latin American brewing company about bottle recycling. Specifically, the team asked management whether greater recycling could lead to cost savings and other opportunities. Management explained that bottle recycling is indeed very positive for the business, and that it is working on initiatives to increase the market penetration of its returnable glass bottles. Management’s ability to connect environmental initiatives to cost savings enhanced the team’s view of the company, but the team plans to continue monitoring the company’s progress on its recycling goals overtime.

PROMOTING SUSTAINABILITY DISCLOSURE AT A CANADIAN REIT

The Global Listed Real Assets team and Global Stewardship team met with a large-cap, Canadian retail REIT as part of its regular ESG engagements of portfolio
companies. As part of our active dialogue with company management surrounding ESG-related risks and initiatives, the company asked MSIM to provide input on their overall sustainability profile and disclosures, which had been limited to date. The team made suggestions based on its experience in the REIT space, and suggested leading practices adopted by peers, such as energy efficiency initiatives (e.g., LED lighting and installation of meters to help tenants understand their energy usage), improved waste reduction and diversion, improved data collection, and the establishment of sustainability guidelines for development and redevelopment projects. Additionally, the team recommended the company build out its sustainability reporting and leverage third-party ESG frameworks such as Global Real Estate Sustainability Benchmark (GRESB) and SASB (Sustainability Accounting Standards Board) as a starting point for its disclosures. We encouraged the company to refine its tracking of its ESG efforts to further highlight its growing initiatives in this space.

**CHAMPIONING ESG INTEGRATION IN FINANCIAL SERVICES**

The Global Emerging Markets team engaged with an Indian, nonbanking financial company to discuss its approach to financing projects with a social and/or environmental impact. The team was pleased to learn that the bank is funding two big projects on water management and rain water harvesting, and that they are focusing on providing long-term innovative solutions benefiting water-deprived communities in rural India. This approach is aligned with the investment team’s view that emerging markets companies are uniquely well-positioned to offer impact solutions.

**SUSTAINABILITY IMPROVEMENTS AT A LOGISTICS COMPANY**

The Global Listed Real Assets team and Global Stewardship team met with a large-cap, U.S.-listed logistics REIT to learn about enhancements made to their sustainability program. The company had recently improved its Global Real Estate Sustainability Benchmark (GRESB) score by more than 80%, and we discussed the changes that resulted in this dramatic improvement. The team learned that the company now ties ESG into its corporate goals and objectives by using science-based targets, emphasizing resilient and efficient design and construction, investing in renewable energy, and proactively integrating ESG into its business model. We learned about CAPEX projects to improve energy efficiency, reduce water use and carbon emissions (which the company noted have yielded a rapid investment payback). The board’s Governance and Nomination Committee has direct oversight over ESG, reviews the annual CSR report, and receives regular updates on this topic—this strong board engagement has helped align and advance ESG strategies across the organization. The company’s progress in ESG innovation has generated value for their stakeholders, and highlights the connection between good ESG practices and good business.

**A HOLISTIC APPROACH TO ESG AT A U.K. REIT**

The Global Listed Real Assets team and Global Stewardship team met with a large-cap U.K.-based office REIT to better understand the company’s holistic approach to ESG, which is integrated into both building design and property management. The company develops unique, sustainable, and climate-resilient buildings that are both efficient to operate and healthy for workers. Its design-led approach has led to development of new innovative, eco-friendly systems for heating and cooling, such as the use of chilled water circulated through pipes embedded in the concrete structure to reduce the need for air conditioning. This new technology combined with high levels of natural light and ventilation reduce energy usage by a quarter compared to conventional office buildings. The company’s ability to connect its ESG initiatives to commercial strategies sets it apart from peers. The next focus for the company is on staff and tenant well-being projects and facilities, which the company believes drives an increase in rent per square foot by more than 50%. As tenants have shown an increased willingness to spend to
create better work environments, more sustainable spaces are not only efficient to operate, but tend to rent quickly and on better terms.

**INCREASING RENEWABLE ENERGY AT A UTILITY COMPANY**

The Global Listed Real Assets team and Global Stewardship team met with a large-cap U.S. electric utility firm to discuss opportunities the company sees for the growing demand for renewable energy. Currently, nearly 25% of the company’s generation capacity comes from renewable sources, and the company plans to increase the renewable load by 7-12 gigawatts through the use of wind and solar. The company’s overall goal is to increase renewable energy generation by at least 40% by 2020. In addition to the opportunities in renewable energy, we discussed the company’s governance profile and strongly encouraged the company to increase board diversity, which they committed to do. Otherwise, we were appreciative of other structural governance improvements the company had recently made, including adopting a proxy access by-law provision.

**UNCOVERING ENVIRONMENTAL EFFICIENCIES AT A HOTEL OPERATOR**

The Global Opportunity team engaged a Chinese hotel property operator to better understand how the company manages its environmental footprint. The company provided information regarding its online hotel energy management IT system, which records daily energy consumption of all leased and owned hotel properties, and is monitored for spikes and abnormalities by a dedicated team of specialists. The company also disclosed that it uses light-emitting diode lighting fixtures, energy efficient HVAC equipment, such as split-type air conditioning for economy hotels and duct air-conditioning for midscale hotels, as well as heat pump and solar photovoltaic equipment. Engaging with the company shed light on these environmental efficiencies, which were not apparent in company disclosures, and ultimately enhanced our view of how the company is managed.

**Social**

**PROMOTING TALENT RETENTION AT AN EDUCATION COMPANY**

The Global Opportunity team engaged the CFO of an education company on improving its environmental and social disclosures. The team believes the company creates positive social externalities through the advancement of primary and secondary education in China, with minimal negative externalities, and that it could benefit from communicating this story. For example, as the company’s success relies upon the strength of its math and science curriculum, the company pays its teachers a rate much higher than industry average to ensure it attracts and retains talented teachers. The investment team views this business practice favorably and it contributes to their

**ENGAGING ACROSS THE OPIOID VALUE CHAIN**

In 2018, the Global Balanced Risk Control (GBaR) team worked with the Global Stewardship team to engage with companies across the opioid value chain. In partnership, we sought to better understand the root causes of the epidemic, the ongoing risks posed to society and businesses in addition to potential solutions and lessons learned. To obtain a full understanding, and the roles of different actors, we spoke to a global drug manufacturer, one of the United States’ largest drug distributors and a large-cap U.S. drug store chain. We asked all companies to explain when they became aware of the epidemic, what they did to adjust their business practices once they fully understood the risks of over-prescribing opioids, and how they are changing their practices to address the epidemic and to prevent similar crises in the future. Generally, our engagements revealed some reluctance from companies to provide greater transparency on how they are addressing, and impacted by, the epidemic, which suggests that they are still in the process of assessing these risks. While we hope for greater accountability from all actors in the value chain, we were pleased to see that some companies are elevating risk oversight of the epidemic to the board level.

In one instance, our engagement with a company led us to support a shareholder proposal requesting that the company consider opioid-related litigation costs in its executive compensation plan. While we normally believe board remuneration committees are best suited to determine compensation practices, in this case, after engaging with the company, we felt that it was not adequately disclosing or accounting for the risks it faced in relation to the epidemic, and we consequently supported the spirit of the proposal.

Moving forward, the GBaR team will use the insights gleaned from these engagements to monitor the latest developments with the opioid epidemic and related risks in its portfolio. Similarly, the Global Stewardship team will apply learnings from these engagements to inform future engagements with other companies along the opioid value chain and in its analysis of opioid-related shareholder proposals.
overall positive view of the company. The team plans to use its position as a key shareholder to continue engaging with the company to push for better environmental and social disclosures.

**Monitoring Product Safety at a Consumer Staples Company**

The International Equity team engaged with a large consumer staples company multiple times in 2018 to better understand the company's product safety practices. A series of safety incidents had impacted sales, and the investment team wanted to better understand management's response to these incidents. The company explained how it had implemented new safety procedures to ensure that potential product quality incidents were immediately escalated to senior management. The management team provided examples of incidents where they chose to suffer a loss on large batches of products or to withdraw products from market, due to safety concerns. This signaled to the investment team that senior management prioritizes product safety and understands the financial risks associated with product recalls and loss of consumer trust. The engagements left the investment team with greater confidence in senior management and enhanced their view of the company.

**Digging Deeper at a Health Care Equipment Company**

The International Equity team found that one of its health care equipment holdings had a low product safety and quality score from an ESG data provider. Noting the materiality of this issue for the company, the team conducted further analysis and learned that the methodology used by the ESG data provider unfairly penalized the company as it calculated product recalls based on intensity of sales. This company sells a high number of low-priced products, compared to its peers, which results in an artificially high ratio based on this methodology. Digging deeper, the team did find that the company had experienced a number of recalls and consequently sought to better understand the company's safety practices. The CFO explained how the company had improved its safety practices over recent years and pointed to a declining number of recalls, which had not yet been captured in ESG data providers' rankings. The team’s research and engagement on the topic enhanced its understanding of the company’s safety approach and related ESG score, which did not tell the whole story.

**Governance**

**Good Governance at a Consumer Staples Company**

The International Equity team engaged with a consumer staples multinational to discuss concerns about proposed changes to the compensation plan. The investment team met with the CFO and head of the remuneration committee several times to express its concerns and ultimately voted against the new remuneration policy to further signal those concerns. We believe this sent a strong signal to management as the company amended the remuneration policy. The investment team also engaged with the same company to discuss its proposal to move its headquarters to a jurisdiction with fewer shareholder rights protections. The team was concerned that moving to such a jurisdiction would reduce management accountability as the likelihood of a hostile takeover would be lower. After the team's persistent and thoughtful engagements with the company, it eventually decided to abandon its move. In both cases, the management team's receptiveness and openness to our ideas improved our view of management and encouraged us to continue to engage.

**Compensation and Living Wage at a Media and Entertainment Company**

The Global Stewardship team spoke with a media and entertainment company about our concerns regarding their CEO pay, succession planning, and living wage concerns for noncorporate staff. In our engagement with the company, we noted that CEO pay was four times higher than peers, expressed concern about the company's lack of succession planning, and that the company had received negative news coverage regarding the ability of its noncorporate employees to earn a living wage. We encouraged the company to address succession planning, which we believe could address some of the pay imbalances, but ultimately voted against the CEO's pay package at the annual meeting and will continue to monitor the living wage issues.

**Workforce Diversity and Sustainable Packaging at a Food and Beverage Company**

The Global Stewardship team and Counterpoint team engaged with a food and beverage company about two shareholder proposals on environmental and social issues they faced at an upcoming meeting. One proposal asked the company to provide enhanced workforce diversity reporting and the other related to the company's use
of single use plastics. While both issues are material E&S issues for this company, after engaging with management, we found that the company was making significant strides in its efforts to improve the sustainability of its packaging and the diversity of their workforce. We decided not to support the shareholder proposals, but are continuing to monitor and engage on these issues with the company.

**CHECKING RISK MANAGEMENT AT A PHILIPPINE BANK**

Leveraging its knowledge of emerging markets risks and key ESG issues in the banking sector, the Global Emerging Markets team identified corruption and instability risks as key issues for a Philippine bank, and sought to better understand how the bank manages these risks. The team learned that management rotates relationship managers across customer accounts to prevent fraud and that they have hired a third party to conduct a full review of operational risk framework and processes. The company also has a strong whistleblower policy that requires the CEO to receive reports. The team acknowledges the bank’s adoption of these leading risk management practices, but will continue to engage on these topics given their materiality and its risk exposure.

**FURTHER INFORMATION**

If you have any questions about this document, please contact Drew Hambly, head of MSIM Global Stewardship, at mbproxy@morganstanley.com.

Related documents are publically available on www.morganstanley.com/im/esg.

- Morgan Stanley Investment Management’s Proxy Voting Policy and Procedures
- Morgan Stanley Investment Management’s Engagement and Stewardship Principles
- Morgan Stanley Investment Management’s Global Stewardship Report
- International Equity team’s ‘Engage’ report

**RISK CONSIDERATIONS**

ESG strategies that incorporate impact investing and/or Environmental, Social and Governance (ESG) factors could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. As a result, there is no assurance ESG strategies could result in more favorable investment performance.

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. The risks of investing in emerging market countries are greater than risks associated with investments in foreign developed countries. Fixed income securities are subject to the ability of an issuer to make timely principal and interest payments (credit risk), changes in interest rates (interest-rate risk), the creditworthiness of the issuer and general market liquidity (market risk). In the current rising interest-rate environment, bond prices may fall and may result in periods of volatility and increased portfolio redemptions. Longer-term securities may be more sensitive to interest-rate changes. In a declining interest-rate environment, the portfolio may generate less income. Real estate investments, including real estate investment trusts, are subject to risks similar to those associated with the direct ownership of real estate, and they are sensitive to such factors as management skills and changes in tax laws.

Learn more at [www.morganstanley.com/im/esg](http://www.morganstanley.com/im/esg).
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