

Morgan Stanley Investment Management Ltd.'s Statement on compliance with the UK Stewardship Code.

SEPTEMBER 2018

Morgan Stanley Investment Management Ltd ("MSIM") supports the aims of the seven principles of the UK Stewardship Code, amended September 2012. MSIM has always regarded good corporate governance as fundamental to its business model and we continue to apply high standards of corporate responsibility that are broadly consistent with the spirit of the principles of the UK Stewardship Code.

The work of MSIM's Global Stewardship Team underpins our dedication to ensuring shareholder engagement is effective and works in the best interests of clients to improve the long-term returns from the companies in which we invest in on their behalf. The team works closely with MSIM investment personnel as needed on matters of proxy voting, environmental, social and governance analysis and engagement.

This document lists the seven principles set out in the UK Stewardship Code and includes MSIM's response to these recommendations.

PRINCIPLE 1

Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities

MSIM's policy on stewardship responsibilities is explored in the MSIM Proxy Voting Policy and Procedures, and the MSIM Approach on Environmental, Social, and Governance Factors, which are reviewed at least annually. MSIM appreciates that environmental, social and governance ("ESG") factors can impact long-term performance. Our investment teams have a variety of methods for considering

such factors, including analysis of reputational risks and litigation and other exposures as an element of fundamental analysis. Our portfolio managers review ESG factors at portfolio companies through diligent attention to proxy voting responsibilities and engagement, for which MSIM's Global Stewardship Team provides central support.

MSIM has an established Global Stewardship Team, comprised of five full-time professionals, who are responsible for the global proxy voting, engagement and environmental, social and governance initiatives across the MSIM and client portfolios. The Global Stewardship Team conducts research, collaborates with portfolio managers and provides voting recommendation on all company proxies.

To manage material ESG-related risks, the Global Stewardship Team engages with company management at regular intervals, including active dialogues where positions are significant and issues are viewed as material. Our investment managers regularly monitor and engage with companies in the normal course of their investment process, and make use of the Global Stewardship Team as needed. 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 addition, we selectively interact with company Boards of Directors when necessary and beneficial for shareholder value or when we have substantive concerns.

The Proxy Review Committee is responsible for the oversight of the Global Stewardship Team. Comprised of the heads of Global Stewardship, and representatives for each of the equity Portfolio Teams, the Proxy Review Committee is responsible for the formulation and initial approval of the MSIM Proxy Voting Policy and for review and ratification of specific votes, such as material conflict of interest. The Committee meets at least quarterly and reviews and considers changes to the Policy at least annually.

PRINCIPLE 2**Institutional Investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed**

The MSIM process for identifying potential material conflicts of interest situations is fully described in the MSIM Proxy Policy and Procedures. According to Policy, MSIM's Global Stewardship Team has a process for identifying potential material conflicts of interest, which include:

- Votes at issuers that are MSIM clients;
- Votes on Morgan Stanley common stock or any other security issued by Morgan Stanley or its affiliates;
- Votes on merger and acquisition and related transactional items at issuers that have been advised on the transactions by Morgan Stanley;
- Votes on directors who also serve on the Morgan Stanley board, affiliate boards, or boards of our mutual funds; and
- Votes at issuers or on proposals under special circumstances requiring review of the Proxy Review Committee.

MSIM records and tracks the conflict of interest and how the issues were handled. All such issues are also reported to the Proxy Review Committee and, for their portfolio companies, to relevant mutual fund boards, the latter on a quarterly basis. MSIM discusses proxy voting issues, including handling of conflicts of interest, with mutual fund boards at least annually. MSIM memorializes conflict of interest issues in the minutes of Proxy Review Committee meetings and will disclose them to clients that hold the affected securities in their accounts if requested.

MSIM aims to vote all shares in the best interest of our clients. In the rare event that a client determines that its interest requires a vote different from the recommendation of the Global Stewardship Team, MSIM, per our voting policy, has the ability to vote that client's shares per their instructions.

At a firm level, Morgan Stanley 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.

PRINCIPLE 3**Institutional investors should monitor their investee companies**

MSIM monitors equity portfolio companies at a minimum with an equivalent frequency to a company's annual and special meetings, and is willing to engage in active dialogues where positions are significant and issues are viewed as material. As noted in Principle 1, our fundamental investment teams monitor and engage with companies regularly in the normal course of their investment process, and may make use of the MSIM Global Stewardship Team as needed. As would be expected, teams seek to identify portfolio company problems at an early stage.

MSIM at times interacts with external board members, through correspondence, and/or meetings, but this activity is selective. MSIM is prepared to meet with a company's external directors where such activity is judged as necessary and beneficial to shareholder value or when we have significant concerns. We would like the board of directors to spend its time engaged in substantive consideration of the strategy, management and risk oversight of the company.

MSIM tracks all proxy votes, and has an internal system for documenting vote rationale for votes requiring judgment. We track company interactions for internal purposes related to proxy voting. In addition, fundamental portfolio managers engage portfolio companies frequently during the ordinary course of their investment management activities.

In addition to our internal resources, MSIM uses MSCI ESG Data and Sustainalytics to help identify potential ESG related risks and factors at our portfolio companies. MSCI provides MSIM with ESG Rating Reports and Business Involvement Screening Research.

PRINCIPLE 4**Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value**

As previously stated in the Principles above, we engage with company management at regular intervals, including active dialogues where positions are significant and issues are viewed as material, and escalate issues to the Proxy Review Committee when appropriate.

A majority of the Global Stewardship 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. 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 Boards of Directors when necessary and beneficial for shareholder value or when we have substantive concerns.

PRINCIPLE 5

Institutional investors should be willing to act collectively with other investors where appropriate

MSIM is supportive of collective engagement where such engagement appears necessary in order to materially enhance portfolio values and where we can do so in a manner that is in full compliance with applicable laws, regulations and judicial precedents with reference to such status. To date, MSIM has not participated in a collective engagement with an individual company. We have neither approached or been approached by other investors to participate in such engagements. MSIM frequently engages with portfolio companies and generally finds that these solo engagements are the best way to articulate our views to a company consistent with our clients' needs.

MSIM's decision to participate in collective engagement will always consider the impact on our clients'. Other considerations include, but are not limited to: interests of Morgan Stanley, potential conflicts of interest, materiality of the issue, and probability of change.

MSIM is also a signatory to the Principles for Responsible Investment and members of other international investor networks in which we can collectively engage when appropriate.

PRINCIPLE 6

Institutional investors should have a clear policy on voting and disclosure of voting activity

As discussed in Principles 1 and 2, MSIM has an internally developed Proxy Voting Policy and Procedures, reviewed on an annual basis by the Proxy Review Committee. MSIM will vote proxies in a prudent and diligent manner and in the best interests of clients, 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 to proxy votes at issuer shareholder meetings. The MSIM Voting Policy addresses a broad range of issues, and provides general voting parameters on proposals that arise most frequently. We endeavor 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.

Voting proxies of companies located in some jurisdictions may involve several problems that can 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 organization 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-U.S. proxies on a best efforts basis only, after weighing the costs and benefits of voting such proxies, consistent with the Client Proxy Standard. It is MSIM practice not to disclose our votes until after the company has publicly disclosed their meeting results.

MSIM Funds or any other investment vehicle sponsored, managed or advised by a MSIM affiliate may participate in a securities lending program through a third party provider. The voting rights for shares that are out on loan are transferred to the borrower and therefore, the lender (i.e., a MSIM Fund or another investment vehicle sponsored, managed or advised by a MSIM affiliate) is not entitled to vote the lent shares at the company meeting. In general, MSIM believes the revenue received from the lending program outweighs the ability to vote and we will not recall shares for the purpose of voting. However, in cases in which MSIM believes the right to vote outweighs the revenue received, we reserve the right to recall the shares on loan on a best efforts basis.

MSIM obtains information on corporate governance, proxy voting and selected social issues, and uses research from a variety of sources to inform its proxy voting decisions; these sources include: Institutional Shareholder Services ("ISS") and Glass Lewis. The firm has retained ISS as its proxy voting administrator. MSIM performs due diligence reviews on the retained proxy advisors on an annual basis. The review is conducted onsite by members of the Global Stewardship Team and Compliance.

PRINCIPLE 7

Institutional investors should report periodically on their stewardship and voting responsibilities

MSIM provides documents pertaining to our voting process and voting reports to clients in many ways:

- The MSIM Proxy Voting Policy and Procedures is available at a client's request and publically available by accessing the "About US" section on our website - www.morganstanely.com/im;
- Client's may request proxy voting reporting at the portfolio level;
- Client's may request ESG reporting at the portfolio level;
- MSIM annually files form N-PX for all MSIM Funds, as required by the SEC. The records, for the period July 1 through June 30, are available on our website and on the SEC's website at www.sec.gov;
- MSIM provides the voting records for the MSIM SICAV Funds, on a rolling monthly basis, on our UK website.

For a number of years MSIM has obtained an independent audit opinion on proxy voting processes in SSAE-16 reviews.

If you have any questions on this document or the UK Stewardship Code, please contact Drew Hambly, Head of MSIM Global Stewardship at mbproxy@morganstanley.com.

Related Documents:

- [Morgan Stanley Investment Management Proxy Voting Policy and Procedures](#)
- [Our Approach on Environmental, Social and Governance Factors](#)
- [Morgan Stanley Investment Management's Engagement Principles](#)
- [Morgan Stanley Investment Management's Proxy Voting and Engagement Report](#)