

Morgan Stanley

INVESTMENT MANAGEMENT

2024 UK Stewardship Code Report

April 2025



From Our Leadership

Morgan Stanley Investment Management Limited (MSIM Ltd) has been a signatory of the Stewardship Code since 2021 and continues to be a long-term supporter of its principles. The UK's Financial Reporting Council (FRC) defines stewardship as "the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society." As trusted fiduciaries, we recognise our responsibility to act as effective stewards of our clients' capital, which involves actively managing assets to create sustainable, long-term value on their behalf.

MSIM Ltd is part of Morgan Stanley Investment Management (MSIM) which represents the investment management business segment of Morgan Stanley. This report provides an overview of our stewardship approach across the organisation, underpinned by a broader stewardship, sustainability, risk management and operating framework that supports and guides our activities. We will continue to develop our approach in line with the evolving regulatory and industry landscape, as we believe it is fundamental to the long-term success of our organisation and our ability to deliver value for our clients.

While our organisational values and principles establish a consistent framework, MSIM's investment teams and asset class platforms adapt their stewardship approach to reflect their specific mandates, asset classes and investment styles. This means that MSIM's investment teams tailor their approach to engagement with companies and other entities, with the aim of ensuring that it is both relevant and effective in the context of their investment strategy. They seek to apply their expertise and judgment in assessing the financial materiality of risks and opportunities in investment research, analysis and decision-making, aiming to ensure that their approach to stewardship is thoughtful and effective in driving long term value.

2024 has been an important year for MSIM, and we have continued to make meaningful progress in evolving our stewardship capabilities and approach in line with our clients' needs:

- We strengthened our governance framework through the creation of four working groups to assist the Investment Management (IM) ESG Committee in its duties: the IM ESG Regulation/Disclosure Working group; the IM ESG Commitments, Targets and Membership Working group; the IM ESG Proxy Voting and Engagement Working group; and the IM ESG Tech and Data Working group. These working groups play a vital role in providing guidance and/or oversight of MSIM's investment teams' stewardship and investment activities, where appropriate.
- We are working to update our Proxy Voting Policy (to be published in 2025), which outlines our proxy voting procedures and high-level voting guidelines and strikes a balance between providing investment teams with the flexibility necessary to make informed voting decisions and seeking to ensure firm-wide consistency through central oversight by MSIM's Global Stewardship Team (GST). It also includes an updated conflicts of interest process to maintain a consistent approach across all MSIM-affiliated entities.
- As part of MSIM's ongoing integration of Eaton Vance Management (EVM) and its affiliates, we have continued to look for opportunities to consolidate our stewardship approach. To that end, in 2024 the GST took responsibility for proxy voting on behalf of the EVM family of funds. EVM was also onboarded to MSIM's proxy voting platform.

We are proud to share our stewardship report for 2024, which highlights our capabilities and activities at both an organisational and investment team level, with examples of our practical approach to stewardship and the outcomes of this work. We look forward to continuing to deliver this value to our clients.



Ruairi O'Healai
CEO at Morgan Stanley Investment Management Ltd.

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Scope of Report

Morgan Stanley Investment Management (MSIM) refers to the investment management business segment of Morgan Stanley (the Firm), a global financial services firm. MSIM is composed of a number wholly owned subsidiaries of Morgan Stanley, including Morgan Stanley Investment Management Limited (MSIM Ltd). MSIM Ltd is a private limited company established in England and Wales, authorised and regulated by the FCA to provide investment management and investment advisory services to clients.

This report outlines MSIM's approach to stewardship, at both an organisational and investment team level, with examples of our practices and outcomes.¹ The report takes account of our diverse range of investment teams and asset class platforms across both public and private markets. Given the breadth of our operations, reporting on each Principle within this report is focused on the most relevant investment teams, ensuring that the content reflects areas where our stewardship practices are most actively integrated and applied.

The organisational structures, governance, policies and practices described in this report may evolve and change over time as MSIM continues to enhance its approach to stewardship and sustainable investing.

¹ For the purposes of this Report, except where otherwise noted, MSIM is not including certain of its investment advisor entities including, but not limited to, Calvert Research and Management and Parametric Portfolio Associates LLC which maintain separate stewardship programs. This report covers the period July 2023 – December 2024; therefore, examples of activities in this report cover this period.

SECTION 1

Purpose and Governance

Principle 1: Purpose, Strategy and Culture

Overview

With over four decades of experience and \$1.67 trillion² in assets under management (AUM), MSIM offers clients worldwide a broad range of innovative investment solutions across public and private markets. Comprising 1,248 investment professionals worldwide, and 57 offices in 24 countries (as of December 2024), MSIM is able to provide in-depth local knowledge and expertise while channelling the strength of Morgan Stanley's global presence and resources.

We believe this is best achieved through a decentralised approach towards investment management, giving our public and private markets investment teams the autonomy to make informed, independent decisions based on their expertise and local market insights. Each investment team brings together a distinct group of experienced professionals and dedicated resources, focused on a specific investment discipline. This comprehensive expertise shapes each team's approach to sustainability and stewardship in a way that aligns with their investment philosophy and specific mandates.

A selection of MSIM's investment capabilities is outlined below.

Our culture and business principles

MSIM's culture is built on the core values of its parent company, Morgan Stanley — **Put Clients First, Do the Right Thing, Lead With Exceptional Ideas, Commit to Diversity and Inclusion, and Give Back**. Approximately 80,000 dedicated colleagues globally embrace the Firm's core values to seek to deliver first-class service to its stakeholders and to the communities where its employees live and work. Morgan Stanley operates globally, with offices in more than 42 countries around the world. Leadership, including Morgan Stanley's Board, sets the tone for the Firm, and the executive teams drive a culture that is central to how the Firm serves clients, how it advances and develops its workforce, and how it supports the communities around us. The fair treatment of customers is central to the Firm's [Code of Conduct](#), which demands that we put clients first, that we act in our clients' best, long-term interests and build their trust while we build our franchise.

Morgan Stanley's core values are firmly embedded in MSIM's investment and stewardship functions, providing a strong foundation for our decisions and actions along with guiding our engagement themes. They help shape our

FIGURE 1.1

Selection of MSIM's investment capabilities

High Conviction Equities

- International Equity
- Counterpoint Global
- Global Opportunity
- Emerging Markets Equity

Alternative Investments

- Private Credit and Equity (PC&E)
 - Private Market Solutions
 - European Private Credit
- Morgan Stanley Global Real Assets
 - Private Real Estate: Morgan Stanley Real Estate Investing (MSREI)
 - Private Infrastructure: Morgan Stanley Infrastructure Partners (MSIP)
 - Private Real Estate Credit

Fixed Income & Liquidity

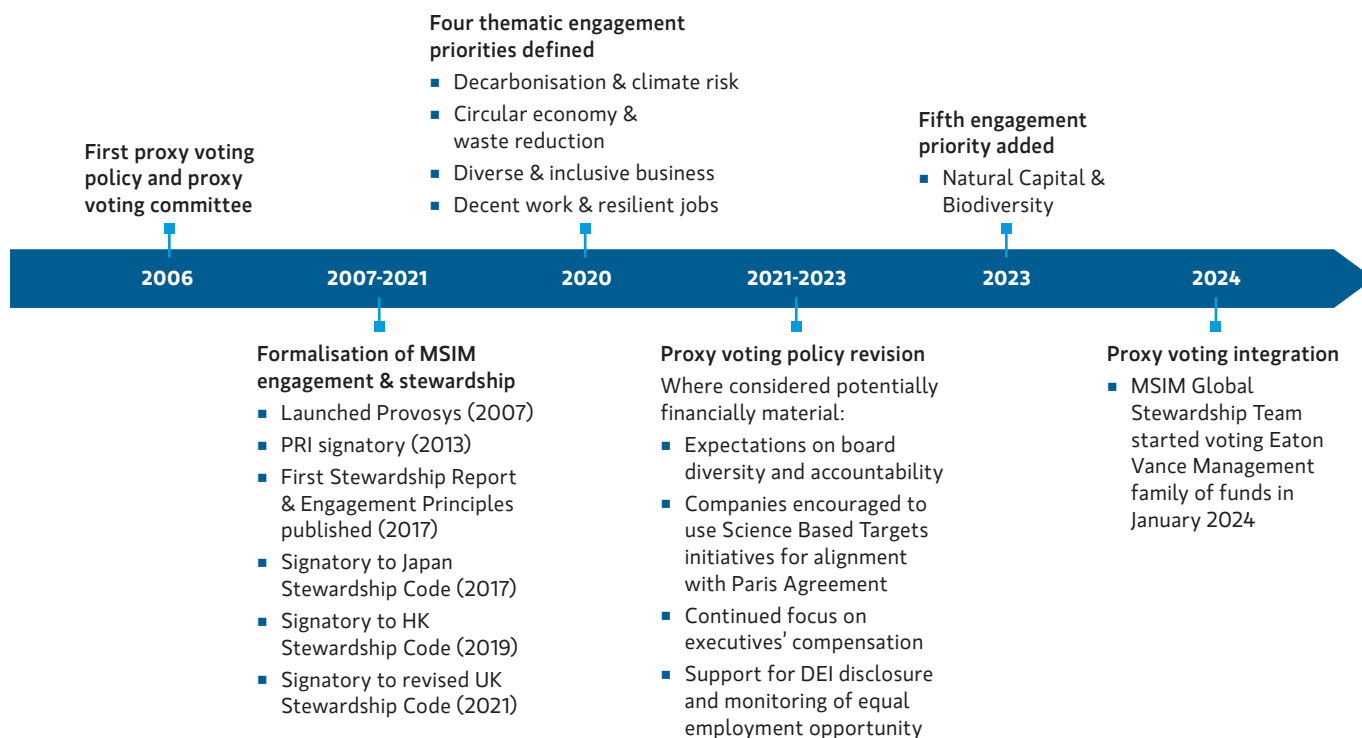
- Broad Markets
- Emerging Markets
- Floating-Rate Loans
- High Yield
- Mortgage & Securitised
- Municipals
- Liquidity

Customised Solutions

- Portfolio Solutions Group

² Assets under management in this section of the report reflect Morgan Stanley Investment Management (MSIM) which represents the investment management business segment of Morgan Stanley, of which MSIM Ltd is a part. The AUM figures include all discretionary and non-discretionary assets of MSIM and certain MSIM-affiliated entities not otherwise included in the report. MSIM fund of fund assets represent assets under management and assets under supervision. MSIM direct private investing assets represents the basis on which the Firm earns management fees, not the market value of the assets owned.

Our stewardship milestones



stewardship approach and align with our clients' long-term objectives. Additionally, they drive our commitment to attracting, developing and retaining talent with the expertise needed to effectively serve our clients.

MSIM provides support and mentoring for colleague development through various means, including classroom and online training sessions, learning lunches with prominent internal and external business leaders, guest speaker presentations and employee networking groups.

MSIM investment beliefs

Our active approach to investment and stewardship ensures that we meet our fiduciary responsibility and is guided by a set of overarching investment beliefs:

- Risks are necessary to achieve returns but must be appropriately managed, hedged or diversified
- Investing responsibly and engaging as long-term owners on financially material issues can reduce risk and may positively impact returns over time
- Engagement is generally more effective in driving change and delivering better outcomes on financially material issues than divestment

- Collaboration, where appropriate and consistent with fiduciary duty, with targeted objectives can be impactful in delivering meaningful outcomes
- Thoughtful consideration of financially material Environmental, Social and Governance (ESG) factors and risks (as appropriate to specific MSIM investment strategies and asset classes) is an important aspect of active investment management

Throughout this report, we illustrate how these beliefs actively guide our stewardship activities.

Due to the independent nature of MSIM's investment teams, each team is responsible for determining its own investment philosophy and processes for managing client assets. We believe in individuality and encourage diverse investment opinions; hence, our stewardship strategies and implementation are not homogenous either. As previously noted, we believe this approach leads to better outcomes for our clients by enabling the investment teams to follow and deliver on the investment beliefs in a manner that aligns with their clients' interests and strategies.

Fulfilling our purpose and effectively addressing client needs

MSIM partners with clients to ensure that our strategies and solutions closely align with their unique needs, objectives and time horizons. Please see [Principle 6](#) for further insight into how we ensure a thorough understanding of and alignment with our clients' needs, with examples from our investment teams.

We have a continual focus on serving our clients' best interests, supported by our commitment to advancing our sustainable investment and stewardship practices where relevant, as well as our client offerings, reporting and disclosures. Highlights from the reporting period and forward-looking intentions are outlined in the table below.

TABLE 1.1

Highlights of key achievements over the reporting period and next steps

HIGHLIGHT AREA	ENHANCEMENTS DURING REPORTING PERIOD	NEXT STEPS AND FUTURE ASPIRATIONS
Governance framework	Established four working groups: the IM ESG Regulation/Disclosure Working group, IM ESG Commitments, Targets, and Membership Working group, the ESG Proxy Voting and Engagement Working group, and the IM ESG Tech and Data Working group to assist the IM ESG Committee in its duties (see Principle 2).	No further enhancements required.
Engagement tracking system	Launched a pilot version of a centralised dashboard to quantify the number of engagements across MSIM.	Collaborate closely with our investment teams to refine this system.
Proxy voting	In 2024 we worked to finalise the development of a new Proxy Voting Policy for MSIM. This policy will launch in 2025, and outlines our proxy voting procedures and high-level voting guidelines (see Principle 12 for more details on our voting activities).	No further enhancements required.
Proxy voting	MSIM's Global Stewardship Team (GST) took responsibility for proxy voting on behalf of the EVM family of funds, which was also onboarded to MSIM's proxy voting platform.	No further enhancements required.

In assessing the effectiveness of how MSIM has served the best interests of our clients during the reporting period, we have taken account of inputs such as direct client feedback on our approach, the alignment of our stewardship priorities with client and investor priorities (based on client feedback), relevant regulatory reporting and disclosure requirements, and the scale and growth of our diverse investment platforms. Please see [Principle 6](#) for more detail on how client feedback has guided our approach.³

MSIM's approach to stewardship, engagement and sustainable investing

Although our investment teams are guided by a shared set of values, investment beliefs, and a broader firmwide stewardship, sustainability, risk management and operating framework (including the MSIM [Sustainable Investing Policy](#)), each investment team tailors its approach to

sustainable investing to reflect the unique characteristics of its asset class and investment style. Many of the teams are further supported by dedicated sustainable investing and ESG research specialists embedded within their teams to help coordinate and drive sustainable investing activities, where relevant, alongside the central Sustainability team.

A key part of our approach to stewardship and sustainable investing is the consideration of financially material ESG factors, including long-term themes and secular trends. We recognise that these factors can present both investment risks and opportunities, and that a deep understanding and effective management of these may therefore contribute to both risk mitigation and long-term investment returns. Where possible and consistent with their strategies, our investment teams actively engage with the assets or companies they own on matters that are deemed material to long-term value creation.

³ MSIM's investment teams operate independently and the application of inputs such as direct client feedback will vary across investment teams as appropriate.

Each investment team tailors its approach to stewardship and sustainable investing based on a range of factors, including, but not limited to, the objectives of the product, asset class, and investment time horizon, as well as the team's unique investment philosophy and processes for investment research and portfolio construction. Our investment teams deploy their skill and judgment in assessing the financial materiality of risks and opportunities—including, but not limited to, those related to ESG—as appropriate for each investment strategy.⁴ Please see [Principle 7](#) for more detail on how our investment teams integrate stewardship and investment.

MSIM's investment teams

Below, we highlight examples of MSIM's investment teams' diverse beliefs and competitive edge, reflecting their individual approaches to investment and stewardship. While each team has its own strategy, they share a common commitment to delivering long-term value to clients in alignment with their fiduciary duty.

HIGH CONVICTION EQUITIES

MSIM's active fundamental equity capabilities encompass a diverse range of strategies, each with a distinct investment style and approach to stewardship. Below, we provide brief descriptions of the 'International Equity,' 'Counterpoint Global,' 'Global Opportunity' and 'Emerging Markets Equity' investment teams' approaches.

International Equity

The International Equity (IE) team's investment philosophy is to own high-quality companies with the potential to successfully compound over the long term. Understanding and addressing potentially financially material long-term ESG risks and opportunities is important for successful long-term compounding.

The team uses a proprietary approach, which is described in more detail in [Principle 4](#) and [Principle 7](#), to identify potentially financially material ESG risks and opportunities and assess how companies manage them. This analysis is directly integrated into the investment process. As active owners, the team engages and votes to encourage the companies it owns to address potentially financially material issues that could affect long-term returns. Its long-term approach to engagement is aligned with its long-term approach to investing.

Counterpoint Global

The team takes a long-term approach to investing, which focuses on identifying differentiated insights on multiyear

opportunities, often focusing on disruption and secular growth opportunities. Counterpoint Global is a stable and long-tenured team focused on continued learning, differentiated long-term thinking and in-depth research.

Environmental awareness and social responsibility underpin this investment philosophy, and the team believes that innovative companies can use sustainability initiatives and programmes to differentiate their franchises in the marketplace. The team's Sustainability Researchers, together with Disruptive Change Researchers, Consilient Researchers and investors within Counterpoint Global that cover different companies, are responsible for sustainability research for their respective investments.

In addition to qualitative aspects of the team's sustainability research process, the team has built proprietary quantitative systems to evaluate sustainability factors, including, but not limited to, a system that compares the long-term orientation and the culture of adaptability of companies. For example, the team designed a visualisation and ranking system to evaluate the duration of deferred compensation vesting schedules for the top five named executive officers at a given company. The team believes executive teams that are compensated over the long term will act in alignment with long-term shareholders, which often means operationally focusing on disruption and sustainability themes.

Global Opportunity

Global Opportunity seeks long-term capital appreciation by investing globally in high-quality established and emerging companies that the investment team believes are undervalued at the time of purchase. The team's investment process integrates analysis of sustainability with respect to disruptive change, financial strength, environmental and social externalities and governance. The team views ESG as a component of quality and considers the valuation, sustainability and fundamental risk inherent in every portfolio position.

The team's HELP & ACT framework employs a holistic approach to ESG integration within company quality assessments by analysing potential impacts to humanity's health, environment, liberty and productivity, and corporate governance measures to ensure agency, culture and trust (see [Principle 7](#)). HELP & ACT is designed to reduce complexity of analysis by distilling a multitude of potential ESG criteria to the material factors that may condition a company's ability to sustain competitive advantage and shareholder value over the long term. Each Global

⁴ Certain investment teams may not conduct engagements where it is not currently feasible or appropriate to do so as determined by an investment team.

Opportunity investor is responsible for integrating ESG by applying the HELP & ACT framework within quality assessments, proxy voting and engaging with portfolio companies. The team primarily sources information from discussions with company management and public disclosures, supplemented by various research resources.

Emerging Markets Equity

The Emerging Markets Equity (EME) team manages multiple equity investment strategies with distinct investment philosophies and processes and a range of approaches to ESG and sustainability integration. Understanding and addressing financially material long-term ESG risks and opportunities is a part of our investment process and guides our research which forms our final investment thesis. The team looks for quality businesses with sustainable drivers of growth where management is seeking to address social and environmental externalities which may affect the team's investment thesis. As good stewards of capital, the team engages with management to encourage companies to improve on financially material issues that could affect long-term returns. A dedicated sustainability research team supports the investment team with research and engagement (see [Principle 9](#)).

FIXED INCOME & LIQUIDITY

Fixed Income

The Fixed Income organisation is a global platform with investment capabilities spanning the full spectrum of active fixed income. It is composed of six highly specialised investment teams, centred around a collaborative culture: Broad Markets (covering Investment-Grade Corporate and Multi-Sector investments), Emerging Markets, Floating-Rate Loans, High Yield, Municipals, and Mortgage & Securitised.

Each of the six Fixed Income investment teams is research-focused and dedicated to uncovering value for clients. The autonomy and specialisation of each team enables them to leverage their unique capabilities, while the collaborative culture allows for the effective sharing of market views.

The Fixed Income organisation partners with Calvert Research and Management (Calvert), MSIM's specialised responsible investment affiliate, to develop and integrate proprietary ESG research into the investment process. Fixed Income portfolio managers and fundamental research analysts have access to a breadth of research notes and ESG indicators produced by ESG analysts at the sector level, issuer level, and, where applicable, at the security level. This process supplements traditional credit analysis by providing additional, more granular, insights into financially material ESG risks. The outputs of

in-house ESG research, in the form of ESG scores, sector, issuer and security evaluations, are used as inputs both before making investment decisions and to support the monitoring of portfolio holdings (Please see [Principle 7](#) for more information on our approach to ESG integration).

The Fixed Income organisation conducts engagement meetings with bond issuers as part of its regular course of business to supplement desk research with additional insights. It also engages with issuers in a more targeted manner in relation to specific ESG issues where they are deemed material to the investment case, with the aim of encouraging improvements in business practices. In 2023-24, the Fixed Income organisation continued to support selected external collaborative engagement initiatives. Please refer to [Principle 9](#) and [Principle 10](#) for more details on engagement and collaboration.

Liquidity

The Liquidity team takes a conservative investment approach, balancing the desire for capital preservation with attractive levels of income, allowing investors to realise an efficient cash investment portfolio. This involves active management of interest rate risk and opportunistic, but defensive, portfolio management strategy and structure. The team's liquidity solutions are underpinned by a rigorous and independent credit and risk process, focusing on high levels of weekly liquidity, and structuring portfolios to minimise interest rate risk that could arise from future interest rate movements. As a result of this, the Liquidity team has an investment horizon of around one year. The focus on capital preservation is implemented through a rigorous approach to managing and mitigating headline and tail risk, which includes sustainability-related risks.

The Liquidity team works closely with the Fixed Income organisation. In particular, the Liquidity team relies on the research conducted by analysts on the Fixed Income research team and shares the ESG data and resources available to them.

Unless stated otherwise, the processes and activities described in this report for Fixed Income's credit and ESG research apply, where relevant in terms of the investment universe in scope, to the Liquidity team.

ALTERNATIVE INVESTMENTS

Private Credit and Equity

Private Credit and Equity (PC&E) focuses on providing private capital predominantly to middle-market companies, but generally includes extensive access to private equity markets and flexible financing through an integrated lending platform.

TABLE 1.2**Examples of private equity strategies:**

INVESTMENT APPROACH	STRATEGY/FUND MANAGER NAME
Control investments primarily in North America	Capital Partners
Equity and equity-related investments in energy businesses	Energy Partners
Later-stage growth-equity investments in technology, health care, consumer	Expansion Equity
Equity and equity-related investments in companies with significant operations in the Asia-Pacific	Pan Asia
Early-stage investments in tech and technology-enabled companies	Next Level
GP-driven investment in small- and mid-cap buyout/growth companies across North America and Europe	Co-Investments
Provides access to a globally diversified portfolio of private equity investment funds	Private Equity Solutions ⁵
GP-led single asset continuation strategy primarily investing in situations that entail a restructuring or recapitalisation	Secondaries
Growth-stage private equity investments in companies with processes, products and/or services that have the potential to significantly avoid or remove CO ₂ e emissions through their operations	1GT

In general, PC&E's investment philosophy is to make investments in high-quality businesses that are leading players in their industries and have significant growth potential. The team believes in the value of working with founders and management teams that are looking to grow to the next level of size and sophistication.

A key investment belief across PC&E strategies is that financially material ESG risks and opportunities should be considered throughout the investment life cycle. Generally, this begins with the due diligence phase, where investment teams seek to identify material ESG risks and value drivers, and continues through the post-investment phase, where they seek to partner with investee companies to maximise ESG opportunities and value drivers, where possible. Given the diverse range of private equity and credit products on the platform, with varying levels of control and focused on different industries and sectors, investment teams take a tailored approach to stewardship throughout the investment and ongoing monitoring processes. The degree of influence varies by strategy, informing how each team engages with portfolio companies and/or borrowers.

Examples of private credit strategies:

TYPE OF STRATEGY	STRATEGY/FUND MANAGER NAME
First lien, unitranche and second lien loans	N. America Direct Lending
Senior secured, floating rate loans	European Direct Lending
Secured notes plus warrants	Expansion Credit
Second lien and mezzanine loans	Opportunistic Credit
Structure debt, asset-backed loans, preferred equity	Tactical Value

TYPE OF STRATEGY	FUND NAME
First-lien, second-lien, mezzanine and unitranche loans to sponsor-backed and non-sponsor-backed companies	NA/EU Direct Lending Credit Partners
An opportunistic strategy with a flexible mandate investing in structured debt, asset-backed loans and preferred equity	Tactical Value
Growth credit	Expansion Credit

The following examples highlight the distinct approaches across selected strategies:⁶

1GT (Private Equity Solutions): The Private Equity Solutions platform includes Impact Investing strategies launched in 2014 in partnership with the Morgan Stanley Institute for Sustainable Investing. The platform seeks to drive positive social and environmental impact by providing access to a diversified portfolio of private equity investments and innovative client solutions within less efficient areas of the private markets, which, because of size, complexity or time-sensitive nature, may be overlooked or avoided by other market participants. The team believes companies generating climate impact must do so in a way which manages Environmental, Social and Governance (ESG) risks while capturing ESG opportunities. As such, the team sees the integration of ESG considerations into their process as critical to fulfilling their duty of delivering the best possible financial outcomes for clients, seeking to:

1. Minimise exposure to excessive or unmanageable ESG-related risks
2. Identify material ESG-related opportunities from which the team can extract additional value throughout their holdings.

⁵ The Morgan Stanley Private Equity Solutions platform provides investors access to broadly diversified and thematic multi-manager portfolios, and includes funds listed above such as Co-investments and 1GT.

⁶ Please note that these strategies were chosen as examples to feature in this report given that they are based in the EU and are required to consider and promote ESG-related characteristics given that they manage products classified as Article 8 and 9.

In September 2024, the platform closed fund-raising efforts for its 1GT Climate Private Equity Fund (1GT), a growth-oriented fund with a sustainable investment objective to catalyse the avoidance or removal of a total of one gigaton of Greenhouse Gas (GHG) emissions, measured as Carbon Dioxide Equivalent (CO₂e), from the Earth's atmosphere.

The Fund focuses on the mobility, power, sustainable food and agriculture, and circular economy sectors, and invests solely in companies with processes, products and/or services that have the potential to significantly avoid or remove CO₂e through their operations.

European Direct Lending (EU Private Credit): The strategy integrates ESG considerations throughout the life cycle. Restricted from investing in sectors that, the Fund believes, pose financially significant ESG risks, the Fund also considers screening and ESG-specific due diligence, prior to collecting ESG-related information from portfolio companies. Additionally, the strategy may apply ESG-linked margin ratchets for borrowers, where suitable, as a mechanism to both keep borrowers accountable in progressing their consideration and management of ESG-related risks and opportunities and monitor progress across the holding period.

Explanation of ESG margin ratchets: ESG margin ratchets are generally included in loan documentation to incentivise borrowers by measuring and rewarding their performance across several sector-appropriate ESG-related KPIs designed to protect and enhance long-term investment value. These ratchets are structured to reward companies for progress on multiple ESG-related targets by reducing the interest rate payable on their loan if they meet pre-agreed targets. For example, ESG factors considered for margin ratchets may include (but are not limited to) meeting GHG emissions targets, establishing recycling targets or waste programmes, reducing overall energy consumption, conducting third-party environmental risk assessments, improving workforce diversity, expanding training opportunities, or engaging in community outreach.

Morgan Stanley Global Real Assets

Morgan Stanley Global Real Assets comprises investment teams focused on Private Real Estate (equity and credit) and Private Infrastructure strategies.

Private Real Estate: Morgan Stanley Real Estate Investing (MSREI) has been one of the most active property investors in the world for over three decades, employing a patient, disciplined approach through global value-add/opportunistic and regional core/core-plus real estate investment strategies in the US, Europe and Asia.

MSREI believes that appropriately evaluating and integrating financially material sustainability factors into the investment process may contribute to better risk mitigation and long-term investment returns. MSREI manages assets within its funds with the goal of enhancing value and reducing environmental impact and associated risks. Therefore, the team endeavours to optimise the value of its funds while making investment decisions that can have positive impacts for communities, businesses, governments and the environment. Select MSREI funds have set 2050 Net Zero aspirations and interim Scope 1 and 2 greenhouse gas emission reduction targets.

Private Infrastructure: Morgan Stanley Infrastructure Partners (MSIP) is a global leader in private infrastructure equity investing. MSIP targets assets that provide essential public goods and services primarily located in OECD countries and with the potential for value creation through active management and operational improvements. MSIP's experience indicates that portfolio companies that integrate sustainability into how they conduct business are better able to manage operational, regulatory and financial risks as well as identify opportunities for innovation and commercial edge. MSIP's view is that the management of sustainability factors contributes to mitigation of risks and identification of potential business opportunities which can, in turn, enhance long-term, risk-adjusted returns.

MSIP integrates sustainability considerations throughout the investment lifecycle for each asset as part of its active management approach. Sustainability considerations are incorporated into due diligence, acquisition and post-close strategies, where applicable, as well as monitoring and improvement. MSIP also seeks to support portfolio companies in their preparation for exit. Please see [Principle 7](#) for more detail.

Private Real Estate Credit: With teams in both the US and Europe, the Private Real Estate Credit teams are leading real estate debt fund managers and portfolio lenders. The teams strive to identify sustainability risks and opportunities throughout the investment lifecycle of each loan, where feasible. This assists in reducing financial, regulatory and reputational risk. Sustainability factors may be considered at each stage of the investment process, including due diligence, investment decision and asset management, where possible. As a private real estate credit lender, teams may be limited in their ability to apply sustainability practices across their investments (in contrast to that of the borrower/owner of the underlying real estate).

CUSTOM SOLUTIONS

The Custom Solutions group comprises several investment teams, including the Portfolio Solutions Group which provides customised investment strategies to meet its clients' needs.

Portfolio Solutions Group

The Portfolio Solutions team's strategy follows a top-down global asset allocation approach, managed within a clearly defined, risk-controlled framework. The team seeks not only to participate in rising markets, but also to mitigate the downside in more volatile markets. The team believes a well-diversified global portfolio, investing across equities, fixed income, commodity-linked instruments and cash and focused on systematic risks that the team expects to be rewarded, is the most suitable method to achieve positive long-term risk-adjusted financial returns for their clients.

The team's stewardship approach is supported by the same intensive top-down analysis of global risk that characterises their asset allocation strategy. This involves a systematic quants-driven approach to identifying companies with exposures to specific risks. This, in turn, is complemented with focused, in-depth bottom-up research on investee companies. The team believes this is the ideal approach for the strategy, as researching risks to the global economy and global markets is central to their asset allocation process. As part of this process, the team also considers ESG risks such as climate change. The team's approach allows a fuller understanding of the long-term drivers of sustainability-related risks and opportunities across both portfolios and investee companies, which gives the team room to engage thoughtfully, focusing on improving the long-term resilience of investee companies and driving long-term value.

Principle 2: Governance, Resources and Incentives

Governance structures and processes

Throughout this reporting period, MSIM has made continued progress in strengthening our governance structures and processes in relation to our stewardship activities. Key developments include:

- Setting up four working groups alongside the Investment Management (IM) ESG Committee to seek to ensure that all relevant issues receive sufficient scrutiny: the IM ESG Regulation/Disclosure Working group, the IM ESG Commitments, Targets, and Membership Working group, the IM ESG Proxy Voting and Engagement Working group, and the IM ESG Tech and Data Working group. These working groups play a vital role in providing guidance and oversight of MSIM's stewardship and investment activities, where appropriate. See below for more information on the responsibilities of these groups.
- During 2024, updating MSIM's Proxy Voting Policy. This updated policy (to be published in 2025), outlines our proxy voting procedures and high-level voting guidelines and strikes a balance between providing investment teams with the flexibility necessary to make informed voting decisions and ensuring firmwide consistency through central oversight by MSIM's Global Stewardship Team (GST). It also includes an updated conflicts of interest process to maintain a consistent approach across all MSIM-affiliated entities.

In 2025, we plan to further centralise proxy voting procedures across the organisation, enhancing efficiency and consistency. To support this, we aim to expand the GST, ensuring effective delivery of the centralisation process. Additionally, we plan to strengthen the Sustainability Team by hiring a dedicated resource to enhance client reporting capabilities. For the avoidance of doubt, investment teams will retain the overall vote decision.

We believe that a successful stewardship framework requires committed leadership, a clear strategy, and appropriate checks and balances to aim to ensure overall accountability and transparency. To that end, we have established strong governance systems, risk management processes and controls to effectively support our stewardship approach.

MSIM's governance approach reflects the structure of an investment management division within a global financial services firm. It consists of multiple legal entities in different jurisdictions, each with its own Board of Directors and governance structures, all leveraging MSIM's processes for investment and risk management.

Board review

This report has been reviewed and approved by the board of directors (the Board) of MSIM Ltd and signed by Ruairi O'Healai, Chief Executive Officer of MSIM Ltd.

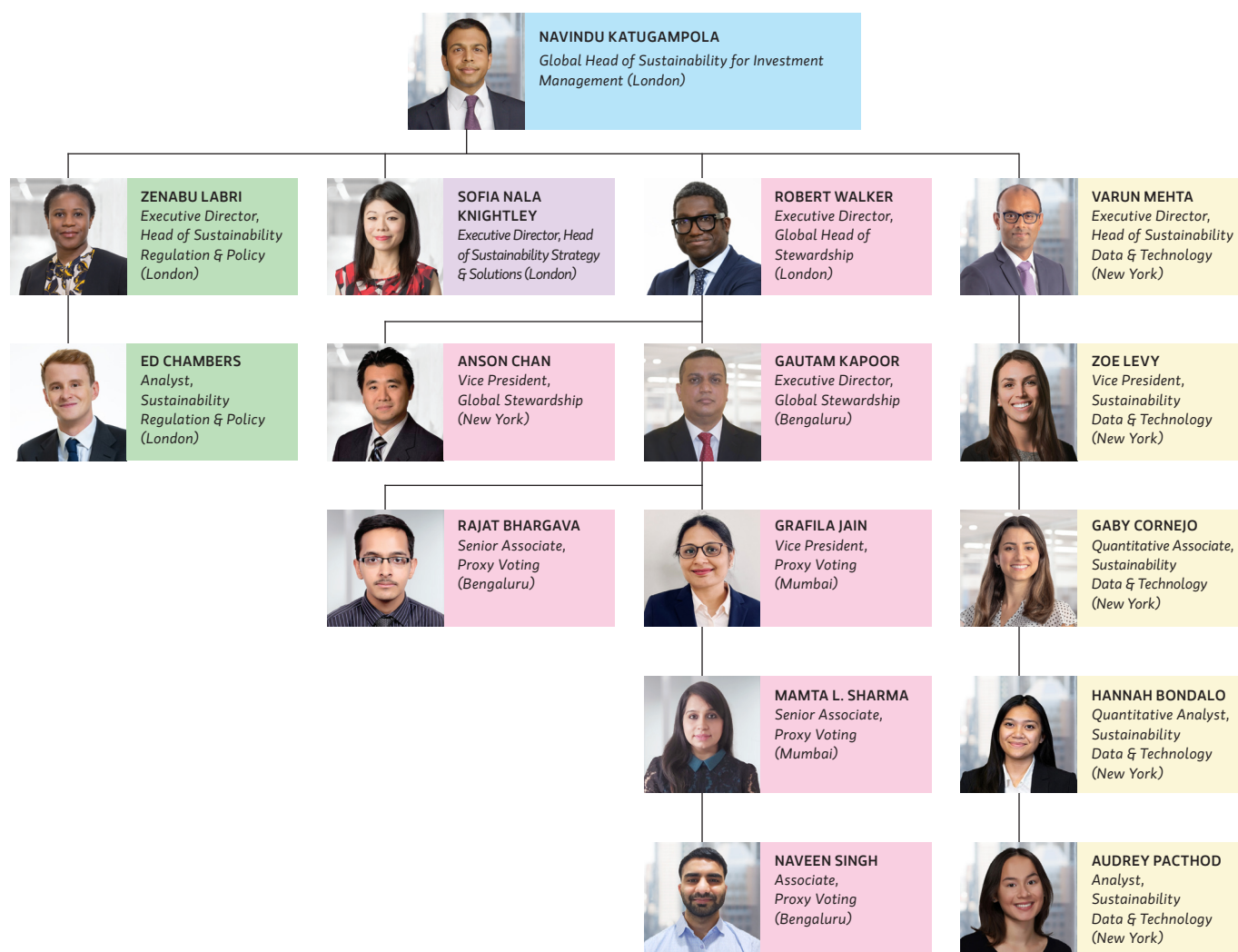
The Board receives updates periodically at meetings from the central MSIM Sustainability Team and other functional stakeholders on ESG/sustainability-related regulatory, business, product and strategic initiatives, including developments in the UK Financial Reporting Council's (FRC) stewardship and reporting requirements, internal progress on the UK Stewardship Code report, and ongoing stewardship activities.

MSIM's stewardship and sustainability governance structure

MSIM's governance structures and processes seek to ensure that stewardship is coordinated throughout our organisation, where relevant. Our central sustainability and stewardship teams support our investment teams by providing expert insights to enhance our stewardship activities, where appropriate, while ensuring strong oversight and accountability. Additionally, many of MSIM's investment teams or asset class platforms have appointed at least one dedicated sustainable investing or ESG research specialist to coordinate and support the stewardship activities for the relevant team (please see [Principle 1](#) for a detailed overview of our investment teams). MSIM believes that this model helps drive accountability for stewardship and ESG integration at the investment team level and works to ensure that each team is appropriately resourced and equipped to further its stewardship priorities and efforts in a manner that best serves its clients' interests. Please see [Principle 7](#) for investment team specific examples within the reporting period.

FIGURE 2.1**MSIM Sustainability Team**

Supporting Investment Teams and MSIM's Collective Sustainability Business Efforts



MSIM Sustainability Team Chart, as of December 2024

MSIM Sustainability Team

The Global Head of Sustainability leads MSIM's sustainability strategy and governance and the central Sustainability Team that supports MSIM's investment teams. MSIM's Global Head of Sustainability has 19 years of industry experience and was previously the Head of Green and Sustainability Bond Origination for Morgan Stanley's Global Capital Markets group.

MSIM's Sustainability Team works with the sustainability leads from our investment teams to coordinate global sustainable investing and stewardship initiatives. These activities include, where appropriate, supporting investment teams in relation to sustainability-related reporting and regulatory disclosure requirements, incorporating ESG considerations into their investment

approaches, developing products with sustainability features and supporting sustainability data utilisation, development of tools and research.

MSIM's Sustainability Team is split into four sub-teams, each of which is led by an individual with significant relevant experience:

- 1. Head of Sustainability Regulation and Policy** — leads projects to support MSIM's work in this area, including implementing key regulatory and industry ESG frameworks and representing MSIM in industry forums.
- 2. Head of Sustainability Strategy and Solutions** — leads strategic implementation, regulatory and product-related sustainability initiatives, including both new products and existing strategies. Responsibilities also

include supporting investment teams with product positioning, ESG labels, framework development and content creation.

3. **Head of Global Stewardship** — leads MSIM's Global Stewardship Team (GST), overseeing proxy voting and supporting investment teams with regard to stewardship-related activities. Responsibilities also include corporate governance research and analysis.
4. **Head of Sustainability Data and Technology** — leads sustainability data due diligence and selection, quantitative analysis of portfolios and technology innovation to address use case in research, portfolio construction, and regulatory and client reporting. The Head of Sustainability Data and Technology also chairs the IM ESG Tech and Data Working Group.

We believe that this structure is effective in ensuring deep subject matter expertise, efficiency and responsiveness across key areas in relation to stewardship. Our Sustainability Team brings together a diverse range of expertise, professional backgrounds and perspectives, enabling more effective and informed decision-making and stronger risk oversight.

The MSIM Sustainability Team (including the GST) is overseen by the MSIM ESG Committee.

Stewardship resources

The GST coordinates MSIM's stewardship and engagement activities alongside our investment teams. The GST is responsible for supporting investment teams in voting in the best interests of clients, aiming to consistently apply the [MSIM Proxy Voting Policy](#) (see [Principle 8](#) and [Principle 12](#) for further details). Prior to undertaking engagement, investment teams may work closely with the GST to assist in structuring engagement dialogues.

Training

MSIM recognises that the impact of ESG factors on our investments and assets and the tools and best practices for assessing those factors are rapidly evolving. As such, we foster a culture of ongoing learning and improvement through our training programmes.

Topical training and knowledge-sharing is provided periodically to investment teams and relevant stakeholders on global sustainability regulations and frameworks, client ESG-related stewardship requirements and interests, sustainable investing and engagement trends and best practices, and mitigation of greenwashing risks.

These may be facilitated by the MSIM Sustainability team, Global Sustainability Office (GSO), the Environmental and Social Risk Management Group (ESRM), Legal and Compliance, and both internal and external sustainability subject matter experts. Certain investment teams may arrange for new joiners and existing members within their teams to undergo asset class or team-specific sustainability training.

We continue to invest in our employees' development to help meet our evolving needs and the preferences of our clients.

Our governance structure: seeking to ensure effective oversight and accountability of stewardship

This year's enhancements to our governance structures reflect our ongoing assessment of our stewardship and sustainable investing capabilities, resource needs, product alignment and client commitments, while also considering regulatory requirements and market developments. As previously mentioned, in 2024, the MSIM ESG Committee established four working groups (see [Table 2.1](#)) to help us further enhance our governance framework and share best practices within MSIM.

Sustainability oversight and accountability

The table below provides an overview of the management-level committees, working groups and teams that have responsibility for overseeing and monitoring broader ESG- and climate-related issues.

Sustainability oversight and governance

Recognising the potential risks that financially material ESG and sustainability factors may pose to MSIM's business and clients, MSIM has developed a sustainability risk function. This function is part of the Non-Financial Risk team, and forms part of the first line of defence. The purpose of this function is to strengthen the control and governance framework of MSIM's approach to sustainable investing. Its responsibilities include, but are not limited to, overseeing and challenging the business on sustainability matters and performing independent risk assessments of the sustainability framework. Key processes include:

- **Product governance:** sets out how products with ESG features are considered and approved.
- **ESG checklist:** aims to document product/investment-level objectives and methodologies where relevant.

- **Marketing review:** sets out how ESG statements and claims in marketing materials are reviewed, and by whom.
- **Sustainable Finance Disclosure Regulation (SFDR) incident oversight:** reviews outstanding investigations and passive breaches and works to ensure consistent application of the breach remediation policy.
- **Review of ESG-related public statements and memberships:** sets out pathway for review of ESG-related public statements and requests to join ESG-related initiatives.
- **Collaborative engagement:** sets out risk assessment process to be followed when an investment team wishes to engage collaboratively with a company to effect specific changes or on thematic issues.
- **Product disclosures:** sets out process to be followed for SFDR pre-contractual and periodic disclosures.

TABLE 2.1
MSIM Key division-wide ESG-specific groups

IM ESG Committee	Key topics overseen by this committee include where appropriate: MSIM's ESG-related business goals, ESG-related product development and marketing frameworks, investment teams' ESG-related engagement programmes, ESG-related training and ESG-related technology and data initiatives.
IM ESG Regulation/Disclosure Working group	Provides guidance and facilitates oversight of MSIM's ESG-related public statements, including: <ul style="list-style-type: none"> ■ administration of ESG Content Review Process; ■ review of regular periodic ESG public and/or regulatory reporting including, but not limited to: MSIM Sustainability Policy, TCFD Report, PASI Statement, UNGC Reports, PRI Reports; ■ review of ad hoc public reports and disclosures related to ESG; and ■ preparatory work and consultation in anticipation of submission of public statement proposals to the Protocol for Review of ESG-Related Public Statements & Memberships ("Pathway Protocol").
IM ESG Commitments, Targets, and Memberships Working group	Provides guidance and facilitates oversight of the external ESG-related commitments and targets set by MSIM as well as membership of ESG-related initiatives: <ul style="list-style-type: none"> ■ MSIM's ESG-related external memberships; ■ MSIM's ESG-related commitments and targets; ■ commitments and targets of MSIM products which apply novel ESG methodologies; ■ MSIM compliance with any of the foregoing or any Firmwide ESG targets or commitments; ■ tracking of all the foregoing; and ■ preparatory work and consultation in anticipation of submission of commitment and membership proposals to the Pathway Protocol.
IM ESG Proxy Voting and Engagement Working group	Provides guidance and facilitates oversight of MSIM's proxy voting and engagement activities, including: <ul style="list-style-type: none"> ■ where appropriate, review of significant ESG-related engagement programmes and activities across MSIM, including thematic and company specific initiatives; ■ overall tracking of ESG-related engagements; ■ review of proxy voting guidelines; ■ review of proxy and engagement related disclosure including, but not limited to, the UK Stewardship Report, but excluding investment teams' individual engagement/stewardship reporting; and ■ preparatory work in anticipation of submission of collaborative engagement proposals to the Pathway Protocol.
IM ESG Tech and Data Working group	Provides guidance and facilitates conversation on ESG data and digital tools, including: <ul style="list-style-type: none"> ■ analysing investment team use cases for ESG data including, but not limited to, research, portfolio construction, client and regulator reporting; ■ building awareness of vendor offerings across sustainability approaches and asset classes; ■ facilitates the development of ESG integrated solutions including digital tools for research, portfolio management and reporting in partnership with investment teams and IT; and ■ Review and develop metrics for regulatory reporting: TCFD report, PASI Statement. EU SFDR periodic disclosures.
EMEA ESG Reg Steerco	Oversees implementation of EMEA ESG regulations and responses to EMEA ESG-related supervisory exams, regulatory, audit or testing findings.
Proxy Review Committee	Overall responsibility for MSIM's Proxy Voting Policy and is the escalation body for votes where a potential conflict of interest has been identified.

FIGURE 2.2
MSIM Three Lines of Defence



Examples of MSIM's governance and controls in practice

MSIM implements robust governance and control measures to manage financially material ESG risks effectively. Two examples of these measures include:

1. ESG Checklist

MSIM's internal ESG Checklist is part of the product development and review process, which documents products' proposed ESG characteristics and objectives and methodologies used to attain those. It also covers Separately Managed Accounts (SMAs) that seek to revise their ESG characteristics and objectives and methodologies. This checklist is owned by the MSIM Sustainability Team and has been further expanded so that investment teams document specifically how their proposed or revised ESG characteristics, objectives and methodologies align with relevant regulatory classifications and requirements, for example the SFDR and, where relevant, the rationale for any regulatory classification conversions.

2. Three Lines of Defence

MSIM operates a "three lines of defence" model to provide independent, objective and timely assurance about the effectiveness of the Firm's risk, governance and internal controls. MSIM continues to review and refine the three lines of defence model as needed, ensuring clear allocation of responsibilities across functions that support, control and oversee ESG investing activities, while also strengthening its overarching ESG governance framework under the ESG Committee.

Resourcing stewardship activities: investment in systems, processes, research and analysis

In addition to the governance structure, processes and resources outlined above, we continue to build upon our existing systems (where appropriate and feasible) to support our stewardship activities.

ESG data and technology

Investment teams may supplement proprietary ESG research and analysis with third-party ESG data. ESG data is used in various ways; for example, some investment teams use it to inform their own fundamental research while other teams integrate third-party data into proprietary models and scoring frameworks.

Third-party ESG data providers are generally selected based on how effectively they will meet our research needs where relevant, and particularly on the depth and breadth of coverage required for regulatory reporting and disclosures. When evaluating an ESG data provider, we consider the applicability of the data of a particular topic (for example, climate or biodiversity) and use case (for example, research or reporting), breadth of coverage, robustness of the vendor's methodology and feasibility of implementation.

Once sourced and onboarded, MSIM's investment teams can use this data as required, for example, to support their investment research and analysis and client reporting. Driven by strong internal demands, increased volume of client interests and changing regulations, MSIM has been further enhancing its ESG analytics dashboards this year to enable investment teams to view ex-post portfolio exposure to a broad spectrum of ESG metrics in areas such as climate, business involvement screening, controversies, corporate ESG ratings, Sustainable Revenues, labelled debt, and Biodiversity.

For more information on how individual investment teams incorporate third-party ESG data into their investment processes, please see [Principle 7](#). For more information on how we monitor our service providers and activities, please refer to [Principle 8](#).

Use of service providers

MSIM views proxy voting as a key stewardship activity and obtains information on corporate governance, proxy voting, issuer research and selected environmental and

SPOTLIGHT #1

Developing our ESG-related tools and systems

MSIM has developed a digital application to provide an assessment of a portfolio's sustainability-related risks and opportunities called AlphaPort-Sustainability (AlphaPort). Delivered through a web-based application, the tool enables MSIM's investment teams, where appropriate, to integrate ESG data into the investment due diligence process, streamline client reporting, meet regulatory reporting requirements, and track company engagements. AlphaPort produces quantitative insights on a range of ESG topics including climate, controversies, business involvement screens, ESG Ratings, UN SDG alignment, sustainable revenues and sustainable debt. The underlying analytics engine ingests upward of 10,000 individual ESG data points from third-party sources and seeks to produce actionable insights on underlying investments. The digital tool has dashboards that provide both portfolio-level metrics, such as a portfolio's financed emissions, as well as issuer-level insights, such as a company's greenhouse gas (GHG) emissions intensity.

We developed AlphaPort to meet MSIM's unique needs as a global, diversified asset manager with a broad client universe. Insights from

the tool are available for both equity and fixed income portfolios, making it a truly multi-asset class application. For example, the climate module can not only assess the decarbonisation trajectory of an active equity portfolio but also evaluate the Net Zero pathway of a fixed income fund through a combination of corporate disclosures and use of proceeds tied to labelled debt issuance. Output from the tool may be leveraged by investment teams in research and portfolio construction and may also be delivered to clients and increasingly to regulators as part of MSIM's SFDR and TCFD reports.

AlphaPort's success stems from the collaboration and partnership across MSIM's investment teams, MSIM's Sustainability Team, Technology, Operations, Legal and Risk. Digital innovation is at the core of AlphaPort, with exciting enhancements on the topics of biodiversity, climate scenario analysis and physical risk on the roadmap ahead.

There is no obligation for investment teams to use AlphaPort. Each team uses the application at its own discretion.

social issues from its investment teams' own research, as well as two independent advisers, Institutional Shareholder Services (ISS) and Glass Lewis, who provide vote execution, reporting and recordkeeping services, as well as issuer research. MSIM does not outsource proxy voting and hence does not rely on either firm to implement a custom voting policy on its behalf.

Further information relating to our use of service providers can be found under [Principle 7](#) and [Principle 8](#).

Performance management and reward programmes

MSIM remains an employer of choice by offering competitive compensation programmes to our employees. A primary objective in designing compensation programmes for MSIM employees is to seek to ensure that compensation incentives are aligned with our business strategy of driving performance and adding value for clients, shareholders and other employees. MSIM has a Global Incentive Compensation Discretion (GICD) Policy, which is reviewed at least once a year and amended, as needed, in advance of the annual incentive compensation decision-making process. The GICD Policy requires and directs compensation managers to consider

only legitimate, business-related factors when exercising discretion in determining incentive compensation. Such factors include adherence to Morgan Stanley's core values, conduct, disciplinary actions in the current performance year, risk management and risk outcomes. This approach aligns behaviours and actions with our clients' interests while encouraging our investment teams to act as responsible stewards of client assets, including managing financially material risks and maintaining a strong focus on achieving our clients' long-term objectives.

The GICD Policy also requires and directs compensation managers to escalate circumstances that may warrant cancellation or clawback of previously awarded compensation for further investigation. Compensation managers are required to certify their compliance with the GICD Policy in advance of exercising discretion in determining incentive compensation and Morgan Stanley's Human Resources (HR) coverage team works directly with compensation managers to seek to ensure that they understand their responsibilities.

MSIM's local entities have implemented remuneration policies to promote sound and effective management of sustainability risks, including discouraging excessive risk-taking with respect to sustainability.

SPOTLIGHT #2

Strengthening engagement-tracking capabilities

MSIM's Emerging Markets Equity (EME) team moved from tracking engagements in Excel with notes in Factset Research Management System to Verity in late 2023. Verity both houses engagement notes and can provide a dashboard for the tracking and reporting of engagement data, which allows for more real time searchability and visibility for top-line information including total number of

engagements, type, topics, objectives and outcomes. This allows the team the ability to report with more transparency and more easily access information for ongoing engagement research. See [Principle 9](#) for more information on the EME team's engagement during the reporting period.

Principle 3: Conflicts of Interest

MSIM Conflicts Management Framework

As part of a diversified global financial services firm that engages in a broad spectrum of activities, MSIM may encounter potential or actual conflicts of interest, including: (i) between MSIM (including connected persons such as our affiliates and employees) and our clients; and (ii) between different MSIM clients.

MSIM employees must comply with Morgan Stanley's established Firmwide policies and procedures, such as: the Firm [Code of Conduct](#), Global Conflicts of Interest Policy, Global Gifts, Entertainment & Charitable Giving Policy, Global Employee Trading and Outside Business Activities Policy, and the Global Confidential and Material Non-Public Information Policy (covering information barriers). MSIM employees receive appropriate training to ensure that they are fully aware of their responsibilities and obligations.

MSIM has also established procedures intended to identify and mitigate conflicts of interest related to business activities on a worldwide basis. As part of the conflicts management framework, MSIM EMEA has a Conflicts of Interest Committee, chaired by a Conflicts Management Officer, with a remit that includes reviewing and evaluating transactions and business practices identified as posing potential or actual conflicts of interest, evaluating, in aggregate, matters brought to the Committee to assess consistency of resolution and potential themes or trends, and maintaining the EMEA MSIM Conflicts of Interest Register. MSIM also has in place an escalation process, both to senior management within the business unit and to Firm Management, or the Firm's franchise committees, for potentially material conflicts.

GIFTS AND ENTERTAINMENT

Additionally, all employees engaging in engagement and stewardship activities are subject to MSIM's Global Gifts, Entertainment & Charitable Giving Policy and related controls.

Approach to and Examples of Stewardship Conflicts and Outcomes

MSIM's conflict management framework enables us to identify and manage actual and potential conflicts of interest in the context of stewardship. Such conflicts may arise, for instance, because of MSIM's commercial relationships with clients or third parties, who may be

issuers of securities held on behalf of accounts managed by MSIM, or from cross-directorships of MSIM staff. Also, MSIM is part of Morgan Stanley, a global financial services group and, as such, faces potential conflicts due to the role of other Morgan Stanley divisions, which may have commercial relationships with companies in which MSIM may invest.

In addition to the above, our approach to identifying, managing, and mitigating potential stewardship-related conflicts is as follows:

Proxy voting

MATERIAL CONFLICT MANAGEMENT

MSIM seeks to pre-identify conflicts of interest as part of the voting process. The [MSIM Proxy Voting Policy](#)⁷ provides guidance for identifying actual or potential material conflicts of interest in voting situations.

A potential material conflict of interest could exist in the following situations, among others:

1. The issuer soliciting the vote is a client of MSIM or an affiliate of MSIM and the vote is on a matter that materially affects the issuer.
2. The proxy relates to Morgan Stanley common stock, or any other security issued by Morgan Stanley or its affiliates.
3. One of Morgan Stanley's independent directors or one of MSIM funds' directors also serves on the board of directors, or is a nominee for election to the board of directors, of a company held by a MSIM fund or affiliate; or
4. Morgan Stanley has a material pecuniary interest in the matter submitted for a vote, for example, acting as a financial adviser to a party in a merger or acquisition for which Morgan Stanley will be paid a success fee if completed.

If the Global Stewardship Team (GST) determines that an issue raises a potential material conflict of interest, we will use the following process, as deemed appropriate:

- If the matter relates to a topic covered by the MSIM Proxy Voting Policy, the proposal will be voted as per the policy.

⁷ The MSIM Proxy Voting Policy was updated as of 30 April 2025. As such, the description herein reflects the proxy voting policy during the reporting period.

- If the matter is not covered by the MSIM Proxy Voting Policy or the policy indicates that the issue is to be decided on a case-by-case basis, the proposal will be voted in a manner consistent with the recommendations of the research providers,⁸ provided that research providers consulted have the same recommendation, no portfolio manager objects to that vote and the vote is consistent with the objective of maximising long-term investment returns.
- If the research providers' recommendations differ, the MSIM GST will refer the matter to a special committee to vote on the proposal, as appropriate. Any special committee shall be comprised of the GST Director, and at least two portfolio managers (preferably members of the committee), as approved by the Proxy Review Committee. See [Principle 2](#) for more details on this committee.
- Echo voting⁹ may be used where shares are instructed to be voted in the same proportion as the vote of the other holders of the funds or company's shares, where feasible.
- Where Morgan Stanley or MSIM hold shares in MSIM-managed funds, MSIM may use the voting rights conferred by those shares to vote at the general meetings of those funds provided its votes are in line with the recommendations of at least two research providers.

The GST tracks actual and potential conflicts of interest arising in a proxy voting context and how these issues are handled. Where appropriate, such issues are also reported to the Proxy Review Committee and, on a quarterly basis, to public fund boards for relevant portfolio companies. They are also disclosed to clients that hold the affected securities in their accounts if requested.

The EMEA IM Conflicts of Interest Committee monitors quarterly metrics on exceptions to the MSIM Proxy Voting Policy across these four conflicts categories. Following the onboarding of EVM to MSIM's proxy voting platform in 2024, we have focused on centralising our approach to identifying conflicts of interest as part of the voting process. This effort will continue into 2026.

In the period 1 July 2023 to 31 December 2024, all identified potential conflicts of interest related to proxy voting were considered and resolved with application of the MSIM voting policy. There were no policy overrides at meetings identified as involving a potential conflict of interest.

INVESTMENT TEAMS – SPLIT VOTING

MSIM's investment teams seek to vote proxies in a prudent and diligent manner and in the best interests of their clients in accordance with their fiduciary duties, consistent with the objectives of the relevant investment strategy. As a result of MSIM's independent investment team structure, a situation may emerge in which investment teams have different views on a particular vote for a company. Under these circumstances, different views on a particular vote will result in a conflict, which we seek to manage through split votes. For example, when different clients have varying economic interests in the outcome of a particular voting matter (such as a case in which varied ownership interests in two companies involved in a merger result in different stakes in the outcome), the votes will be cast on a split basis in proportion to the votes held by the relevant clients, as appropriate.

We may also split votes at times based on differing views of portfolio managers, for example, based on what they consider would generate better value for their investment strategies. These generally apply to cases where the policy item is determined on a case-by-case basis.

CASE STUDY 3.1

CONFLICT	MSIM voting on proposals pertaining to a security issued by Morgan Stanley.
CONFLICT DESCRIPTION	In 2024, MSIM, in its capacity as investment manager of client portfolios, invested in a security issued by Morgan Stanley. Situations of this nature represent a potential conflict due to the perceived risk that the vote would be motivated by the interests of the Firm. The conflict was identified as part of the standard shareholder meeting review process.
MANAGEMENT	MSIM managed this risk by echo voting i.e. voted shares in the same proportion as the vote of all the other holders of the shares. This method eliminates undue influence and works to ensure that the voting power truly reflects investor intent, neutralising conflict of interest. This was done in compliance with the MSIM Proxy Voting Policy.
CONFLICT OWNER(S)	MSIM Global Stewardship Team and MSIM Conflicts Officer.

⁸ ISS and Glass Lewis.

⁹ Echo voting refers to a practice when one votes shares in the same proportion as the vote of all the other holders of the fund's shares.

EMPLOYEE PERSONAL TRADING AND OUTSIDE BUSINESS ACTIVITIES

MSIM has processes in place to identify and manage situations where an employee's personal relationships and outside business interests might compromise MSIM's duty to act in the clients' best interests. Employees are subject to the Firm's Global Employee Trading and Outside Business Activities Policy, which establishes a duty to declare and seek prior approval for in-scope outside business interests and dealing on personal accounts. MSIM conducts e-communications surveillance to detect undeclared outside business interests. MSIM requires employees to confirm personal dealing accounts annually.

PORTFOLIO MANAGEMENT

As our portfolio managers are involved in stewardship and engagement efforts, we are mindful of the risk of them acquiring inside information in the process or undertaking personal account dealing that would conflict with client interests and potentially be detrimental to them.

Additionally, when an investment team manages multiple portfolios ("side-by-side management") with different structures, for example, registered funds and unregistered funds, and/or fee structures, for example, performance-based fees versus asset-based management fees, certain perceived or actual conflicts may arise. Potential conflicts include favouring one account over another in investment decisions or the exercise of investor rights, taking conflicting positions in the same security for different portfolios or favouring an account where performance fees are awarded over an account that is charged an asset-based fee. To minimise potential conflicts and protect the interests of all MSIM clients, the Global Side-by-Side Management Policy and Procedures (the "Policy and Procedures") provide that allocation decisions are not influenced by fee arrangements or other incentives and allocate investment opportunities in a manner that treats clients fairly and equitably over time.

All portfolios actively managed by the same investment team, for example, the same portfolio manager exercising

ultimate discretion over an account, must generally take the same directional viewpoint, for example, short or overweight in a particular security. Within the same investment team, opposite direction investment decisions are not permissible except where they fall within a consistent investment viewpoint, as delineated in the Policy and Procedures.

MSIM has established the Side-by-Side Subcommittee, which meets on a regular basis and comprises representatives from different business areas and control functions, including compliance, and has overall governance responsibility for helping to aim to ensure adherence to the Policy and Procedures.

DIFFERENT ENGAGEMENT APPROACHES ACROSS ASSET CLASSES

In some cases, there may be differences in opinion and priorities in engagement approaches between investment teams across asset classes for the same company.

For example, fixed income investors may be more focused on governance issues or controversies that could impact the price or liquidity of bonds in the near term, whereas equity investors may be more focused on sustainability issues that might have longer term implications for valuation.

MSIM's investment teams may work closely with each other, where relevant and where circumstances permit, and with the support of the MSIM GST, to pursue our engagement themes while seeking to act in the best interests of our clients.

ARM'S LENGTH APPROACH

In addition to the controls and mitigants set out above, MSIM deals with other business units within the Morgan Stanley Group at arm's length. By doing so, we seek to minimise the risk that we will act towards our portfolio companies in line with the interests of other divisions, for example, Institutional Securities, rather than the interest of our clients. Further, trading in Morgan Stanley securities by accounts managed by MSIM is generally prohibited by MSIM's policy and procedures.

Principle 4: Promoting Well Functioning Markets

Overview

Identifying and responding to marketwide and systemic risks is a priority for MSIM. As a global asset manager, we recognise the importance of promoting a well-functioning financial system and effectively managing marketwide and systemic risks including, but not limited to, macroeconomic, market, credit and currency risks as well as sustainability-related risks such as climate change, physical and transition risk, and social and governance issues. As part of our approach to risk management, our investment teams work to mitigate and manage these risks to protect the long-term interests of our clients where relevant to their investment strategies.

How we identify marketwide and systemic risks

MSIM's independent Global Risk & Analysis (GRA) team performs ongoing monitoring for emerging geopolitical and financial risks in the market. The Market Risk team identifies these risks at both the portfolio level and aggregate business line level and it assesses them using measurements such as exposure analysis, beta analysis and scenario analysis. The team assesses a business's greatest exposures to identified risks and the implied stress profit and loss across different hypothetical market-driven scenarios. Findings from this analysis are shared with the investment teams and management and escalated to the Investment Management Risk Committee (IMRC), a forum for representatives across different functional groups, to discuss key risk issues and make recommendations to manage those risks. The IMRC also discusses market trading volume and liquidity with portfolio managers and traders to assess potential trading disruptions and performs screenings for issuers that may be impacted by sanctions, working with partners across the Firm to mitigate these risks.

The independent GRA Team conducts scenario analysis to monitor the climate risk of certain portfolios of different assets. These scenarios are forward-looking and aim to measure the financial impact of hypothetical transition risks. This has been developed and delivered independently of the investment teams. The GRA team's analysis is shared with the investment teams as part of MSIM's risk management process where it is found to be relevant. The investment teams may consider this analysis together with their own analysis and factor it into

the investment process as relevant, taking into account relevant product and regulatory requirements and their obligation to act in the best interests of its clients.

A key role of GRA is to work to identify material risks and engage directly with portfolio managers across certain investment teams on potential risks and to escalate them during risk committee meetings, which include members of senior management. Periodic ESG risk updates are also provided to the Morgan Stanley International Limited (MSI) Board Risk Committee.

CLIMATE CHANGE RISKS

Recognising that climate change is an economic reality and a growing risk to businesses and investors, MSIM seeks to develop analyses on climate change to provide our clients and other stakeholders with information that enables better investment decision-making and increases awareness of the financial impacts of climate change.

The impacts of climate change range in nature, severity and frequency, and therefore it is critical for financial institutions to understand how such impacts may affect their business and clients. The Firm Risk Management (FRM) team, in partnership with other areas of the Firm, continues to focus on identifying and managing risks related to climate change to limit their potential impact to Morgan Stanley.

The risk committees across MSIM oversee, address and prioritise risks, including climate risks, while considering the Risk Appetite Statement and responding to emerging regulatory developments and external events. MSIM has implemented systems, controls and procedures to identify, track and ultimately manage climate-related risks at security, portfolio and entity levels. Our investment teams are the primary risk owners, identifying and managing these risks, alongside other risks, as an integrated part of their investment processes where relevant to their investment strategies.

The MSIM Risk Appetite Statement incorporates climate risk as a driver of existing risks within the overarching risk framework. Specifically, climate risk was identified as a driver of strategic risk, arising from regional regulations and disclosure requirements related to sustainable investments, and a driver of reputational risk related to potential idiosyncratic events that could negatively impact MSIM's standing with clients and employees.

SPOTLIGHT #3

Private equity platform supports climate change mitigation

1GT is a private equity platform focused on investments in private growth-stage companies that seek to collectively avoid or remove one gigaton of carbon dioxide-equivalent emissions from the earth's atmosphere from the date of investment through to 2050. 1GT seeks to deliver attractive financial returns alongside its substantial climate goal by backing companies across the hard-to-abate mobility, power, sustainable food and agriculture and circular-economy sectors.

In 2024, MSIM held the final close of 1GT at \$750 million of equity capital commitments and the fund has completed five investments as at March 2025. Examples of 1GT's investments include high-

performance portable battery provider Instagrid, leading sustainability software platform enabling the circular value chain AMCS, and provider of uncrewed surface vessels for ocean data collection XOCEAN. The platform seeks to leverage Morgan Stanley's considerable resources to partner with portfolio companies to enhance their growth and impact trajectories.

MSIM's 1GT platform won the 2024 Insurance Asset Risk's Investment Innovation Award for the third year in a row.

For more information on 1GT and its portfolio, visit the website [here](#).

PUBLIC-PRIVATE SECTOR PARTNERSHIPS

SPOTLIGHT #4

Exploring the transformative potential of AI in driving sustainability

As the UN General Assembly wrapped up its 79th session in New York City in September 2024, the Sustainable Development Goals remained at the forefront of the global agenda. With advancements in artificial intelligence, (AI), the narrative has shifted to the impact and opportunity presented by this emerging technology.

At a UN special event, the technology division, research division and the Global Sustainability Office at Morgan Stanley, together with members of the UN Global Compact, explored the transformative potential of AI in driving sustainability initiatives by examining the roles institutional, societal and governance structures play in this ecosystem.

While AI is still in the early stages of what is possible, looking at the big picture, the event explored how AI is positively impacting the UN, and the world at large, on its sustainability journey around

health, agriculture, tracking changes in biodiversity and the ocean. The speakers introduced recent developments in Gen AI and Large Language Models (LLMs) to better predict rare and extreme weather events and enhance people's lives by democratising education and personalising health care needs.

Morgan Stanley is working at the intersection of what governments and the industry are doing. The event also discussed the emerging sustainability industry standards that reflect metrics that technology companies can achieve and aspire to. With the standards, some of the business enablement attributes of AI can be unlocked, without opening the Pandora's box of risk and challenges like power consumption. The event also discussed some use cases for how AI could be integrated into ESG data and reports to give information so people can do their jobs quicker.

Effectiveness in identifying and responding to marketwide and systemic risks, and promotion of well-functioning financial markets

We outline below a high-level summary of the key groups and committees at MSIM and Morgan Stanley involved in addressing marketwide and systemic risks on behalf of our clients.

TABLE 4.1

Summary of key groups and committees addressing marketwide and systemic risks

	ROLE & PROCESS FOR ESCALATION	TYPES OF MARKETWIDE AND SYSTEMIC RISKS
MSIM		
FIRST LINE OF DEFENCE Investment teams/GRA/Portfolio Surveillance	<p>Investment teams are ultimately responsible for addressing and mitigating risks associated with their respective products and strategies, working with the MSIM Sustainability team and other MSIM and Firm stakeholders (including MSIM Legal Compliance Division (LCD), GRA and Portfolio Surveillance where relevant).</p> <p>Periodic meetings with the sustainability team leads, Sustainability Regulatory & Product Group, IM ESG Committee and Investment Oversight Committees seek to ensure ongoing communication and escalation of potential/actual risks.</p> <p>Portfolio Surveillance oversees and seeks to ensure all ESG screening and monitoring guidelines are agreed to between investment teams and clients at the outset of client onboarding, implemented, and monitored throughout the mandate.</p> <p>GRA identifies, monitors and manages risks at security, portfolio and MSIM levels, working with investment teams and MSIM Sustainability and Sustainability Oversight teams where relevant. Updates (including escalation) to IMRC and other regional MSIM Risk Committees are made on a periodic basis.</p>	<p>All relevant marketwide and systemic risks to the extent they are relevant to specific investment strategies and products.</p> <p>A specific focus on greenwashing, stewardship-washing, environmental (including climate change), social (including human rights and controversies), and governance aspects, as relevant to the strategies and products managed by each investment team.</p>
SUBJECT MATTER EXPERTISE MSIM Sustainability/Stewardship Team(s) MSIM Sustainability Oversight	<p>MSIM's sustainability and stewardship teams provide subject matter expertise, supporting the investment teams holistically, and work with MSIM and Firm stakeholders (including MSIM LCD, GRA, Portfolio Surveillance, etc.) to address product, regulatory, strategy, stewardship and data-related areas (See Principle 2 for more details).</p> <p>The MSIM Sustainability Team hosts and coordinates the sustainability team leads and Sustainability Regulatory & Product Working Group.</p> <p>MSIM Sustainability Oversight ensures processes are in place to capture and monitor product/investment commitments made. Please see Principle 5 for further details on our sustainability oversight and governance.</p> <p>Stakeholders above also periodically update fund board members as ESG is a standing agenda topic at quarterly meetings.</p>	<p>All relevant marketwide and systemic risks relevant to investment teams and their respective products, including wider implications for MSIM.</p> <p>A specific focus on greenwashing, stewardship-washing, environmental (including climate change), social (including human rights and controversies), and governance aspects, as relevant to the strategies and products managed by each investment team.</p>
SECOND LINE OF DEFENCE MSIM Compliance	<p>MSIM Compliance works with investment teams and the MSIM Sustainability and Stewardship teams to advise on ESG-related regulatory and industry consultations; ESG-related policies and procedures; and conduct periodic reviews of the MSIM businesses' compliance with laws, regulations and policies, including with respect to ESG investing approaches, disclosures and practices.</p>	
FIRM-LEVEL		
Firm Risk Committee (Global, Regional)	Oversees firm-level risk based on divisional business activities, provides guidance on management and mitigation of potential/actual risks.	All relevant marketwide and systemic risks relevant to the Firm.
Firm Operating Risk Committee (Global, Regional)	Oversees firm-level operating risk based on divisional business activities, provides guidance on management and mitigation of potential/actual risks. Reports to various firm boards.	All relevant marketwide and systemic risks relevant to the Firm.
Regulatory Oversight	Oversees, guides and ensures firm-level regulatory compliance and disclosures, working with functional stakeholders across divisions. Reports to various firm boards.	All relevant marketwide and systemic risks relevant to the Firm.

	ROLE & PROCESS FOR ESCALATION	TYPES OF MARKETWIDE AND SYSTEMIC RISKS
SUBJECT MATTER EXPERTISE Global Sustainability Office (GSO)	GSO integrates sustainability considerations into the Firm's decision-making, across corporate policies, business activities and operations.	Sustainability-specific areas and priorities concerning MSIM including, but not limited to, environmental, climate change, biodiversity, social, governance and regulation.
SUBJECT MATTER EXPERTISE Environmental & Social Risk Management (ESRM)	ESRM oversees the Environmental and Social Policy Statement (ESPS) and related policies and procedures, conducts due diligence on relevant transactions and provides internal subject matter expertise on environmental and social risk.	Sustainability-specific areas and priorities concerning MSIM private markets, including, but not limited to, environmental, climate change, biodiversity, social, governance and regulation.
THIRD LINE OF DEFENCE Internal Audit (IAD)	<p>IAD is an independent and objective assurance function reporting directly to the Firm's board Audit Committee.</p> <p>IAD assists the Firm in achieving its strategic and operational objectives by identifying and assessing risks facing the Firm and providing independent, objective and timely assurance to stakeholders about the effectiveness of the Firm's risk management, internal controls and governance processes.</p>	All relevant marketwide and systemic risks relevant to the Firm, including governance and internal controls.
BOARD-LEVEL		
Various board committees (MSIM (including Investment Oversight)/ Firm-Level, Entity-specific, Product-specific, Global, Regional, etc.)	<p>The role of boards is to execute on their respective board charters which include, but are not limited to, ensuring businesses comply with their respective objectives and operate within appropriate governance and control frameworks, discussing and providing guidance on managing potential/actual risks upon escalation, etc.</p> <p>The main function of boards is to protect the Firm and business units.</p>	All relevant marketwide and systemic risks relevant to MSIM and the Firm.

The above reflects the current MSIM governance structure and is a non-exhaustive list of stakeholders involved in identifying, managing and mitigating marketwide and systemic risks. Further details can also be found in Principles [2](#), [3](#), [5](#), [7-12](#).

We consider that our risk management and engagement approaches have been, and continue to be, effective in identifying and responding to marketwide and systemic risks, as well as promoting well-functioning financial markets.

Investment team approaches

Below are examples of approaches our investment teams have adopted to identify and address marketwide and systemic risks, acting as the first line of defence as described in the table above.

INTERNATIONAL EQUITY

The International Equity (IE) team specifically focuses on factors that may materially influence the sustainability of long-term returns on operating capital. The IE team identifies potentially financially material ESG risks and opportunities using its proprietary screening framework, the Material Risk Indicator (MRI), a tool designed to capture ESG company assessments in a consistent way that is comparable over time.

FIGURE 4.1
Proprietary ESG MRI analysis



SPOTLIGHT #5

Seeing the wood for the trees: EUDR 101

The threats posed by deforestation—biodiversity loss, climate change, soil erosion and water cycle disruption—are well reported. Since 1990, some 420 million hectares of forest have been lost through conversion to other land uses.¹⁰ What is perhaps less well known is that agricultural expansion is the main driver of deforestation, and that more than half of all agriculture-driven deforestation between 2001 and 2015 was due to the production of just seven commodities: cattle, coffee, cocoa, timber products, natural rubber, palm oil, and soy.

With the intention of curbing the EU market's impact on global deforestation, the EU implemented a new anti-deforestation law in June 2023 covering the deforestation-linked agricultural commodities listed above. The regulation requires any company that places any of these commodities or products on the EU market, or exports them,

effectively to prove that their supply chain is deforestation free. From the start of 2025, companies will need to be compliant or face potential fines.

With potential fines for companies of up to 4% of total European Union (EU) turnover, the EU Deforestation Regulation (EUDR) could pose financially material risks to companies doing business in the EU. To understand the risk facing companies in its portfolios, the IE team set out to assess the exposure of companies it owns to deforestation risk and to engage directly with those it considers to be at potentially greater risk. In its engagements, the team focused its discussion on the visibility and transparency of companies' supply chains today, as well as any planned changes to meet the new rules.

As part of the MRI process, the team has identified six universal risks that must be assessed for portfolio companies. These risks are reviewed regularly and may change over time if the team identifies other risks to be potentially financially material. The identified risks include climate change, governance, diversity and culture, safety, data security and privacy, and tax.

COUNTERPOINT GLOBAL

For Counterpoint Global, as an active fundamental investor, the biggest risks are unexpected macro shocks, or market rotation in and out of sectors, when fundamentals are in the short term less relevant.

Counterpoint Global manages portfolios that are well diversified to control risk at the portfolio level. The team considers both company-specific and portfolio risk in construction and implementation decisions. The team manages these potential risks through rigorous analysis of business fundamentals and the evaluation of an investment's risk/reward based on free cash flow yield, optionality and end game. For example, this could include assessment for potential loss in value of an investment due to increasing competition, mismanagement of the business or financial insolvency.

As part of its investment research process, the team has identified ten types of business activities (referred to as "SR Tailwinds") that it believes can drive financial value while benefitting society. The team's sustainability research and SR Tailwinds process enables our clients to benefit from differentiated insights as well as contribute to the economic catalysts that incentivise operating companies to create value through positive environmental and/or societal impact (please see [Principle 7](#) for more information).

GLOBAL OPPORTUNITY

For Global Opportunity, risk management is an integral part of the team's investment process. Global Opportunity attempts to avoid permanent loss, which they define as selling a position at a loss, by buying high-quality businesses and the team considers the risks inherent in each portfolio position.

The investment team believes that idiosyncratic risk can be reduced by addressing what matters at the company level:

- Valuation risk is mitigated by not paying a price that exceeds the team's estimate of value.
- Sustainability risk is mitigated by analysing the threat of disruption, financial strength and ESG externalities.
- Fundamentals risk is mitigated by analysing the threat of deteriorating competitive advantage and growth opportunities.

Portfolio risks are mitigated by reducing correlated factor exposures with the support of monthly reports from the Portfolio Attribution and Risk teams. Market and principal risks are measured at the portfolio level by monitoring portfolio volatility attributed to movements in the market and determining the impact of a realised loss on the total portfolio. The investment team manages this risk through the diversification of investments. Global Opportunity is responsible for risk management within the strategy, with ultimate responsibility lying with the Head of Global Opportunity and supported by the GRA team.

Global Opportunity incorporates its HELP & ACT framework into the investment process, which employs a holistic approach to ESG integration within their company quality assessment by analysing potential impacts to humanity's

¹⁰ Source: <https://www.unep-wcmc.org/en/news/earths-biodiversity-depends-on-the-worlds-forests>

health, environment, liberty and productivity, and corporate governance measures, seeking to ensure agency, culture and trust (please see [Principle 7](#) for more information).

EMERGING MARKETS EQUITY

The Emerging Markets Equity (EME) team bases its investment philosophy on proprietary research that shows how both country-level and stock-specific factors can drive risks and returns in emerging markets.

Macroeconomic risks

EME's dedicated macro-thematic team conducts original research on such issues as economic growth, credit penetration levels and currency valuations. At the country level, the EME team seeks to understand the environmental, macroeconomic, social and governance drivers that may affect a country's growth pathway, pose policy risks, or otherwise impact company earnings or affect the investment case for an industry or company.

Governance risks

A key criterion of the EME team's philosophy in investing is strong governance, both at management and the board levels. As long-term investors, it is imperative that they understand management's strategic goals and key targets. As responsible managers, the team actively examines and votes their proxies. Voting represents the direct participation of shareholders in the overall governance of a corporation and offers shareholders a voice on important issues, such as director independence and executive compensation.

Environmental risks

The EME team analyses the emissions of their portfolio companies and seeks to understand the implications for corporate strategy, competitive positioning, contingent risk and potentially incremental market opportunities. The EME team engages with companies on their GHG disclosures (including Scope 3), and if there is a strategy for decarbonisation, how they plan to achieve it, and whether their targets are reasonable and achievable. The EME team encourages companies to set more short- to mid-term quantifiable targets to effectively measure

and to evaluate their progress towards their long-term goals. The EME team focuses on companies from high-emitting sectors, given that these companies tend to face more public scrutiny and higher regulatory risks. The team's research and engagement approach are done on a company-by-company basis, taking into account that each company has differentiated levers and pathways for emissions reduction.

In addition to carbon emissions, the team also seeks to understand the other environmental risks including, but not limited to, raw material sourcing, supply chain sensitivities, other relevant emissions (process gases) and/or exposure to materials sensitive to environmental regulations.

Social risks

Accidents and injuries in the workplace are principal risks that the EME team pays close attention to, particularly in heavy industries within emerging markets. Not only are accidents and injuries detrimental to victims and their families, but they also speak to the broader culture of a company generally, and can have consequences including loss of labour, reputational damage, tighter regulations and fines, and loss of social license to operate. For now, social factors remain difficult to materially quantify, and therefore remain an engagement topic for the team. The EME team incorporates human rights through their engagements on labour conditions, workplace health and safety and potential social externalities.

The team has observed a rise in regulatory interventions directed to enhance transparency and reporting within supply chains. The EU is at the forefront of this movement, introducing mandatory supply chain disclosure and due diligence. Implementing these requirements can be complex, as they put the burden of disclosure on companies, a practice unfamiliar to many EM suppliers. Many of these companies have never assessed the risks within their supply chains, or considered their broader, more localised impacts. The team anticipates that companies leading the way in supply chain sustainability and transparency could gain a competitive edge relative to peers and potentially increase market share.

SPOTLIGHT #6

Engagement on human rights and supply chain risk

In 2022, the EME team engaged with several companies in apparel and IT sectors to assess their risk management practices concerning human and labour rights within their supply chains. In 2023, the

team followed up with many of the same companies to monitor their progress (see table below).

TABLE 4.2
Follow-Up Engagements on Supply Chain Risks in 2023

COMPANY	OUR RECOMMENDATION	MANAGEMENT CHANGES
Semiconductor Solutions Provider	Provide more public disclosure ahead of EU regulations	<ul style="list-style-type: none"> ✓ Elected human rights officer ✓ Disclosed details around auditing process (already uses Responsible Business Alliance, RBA) ✗ More disclosure on action items and outcomes
Electronics and Semiconductor Company	Improve grievance response and action items and provide more details on auditing function	<ul style="list-style-type: none"> ✓ Already uses RBA for auditing ✓ Disclosed main action items and reviewing correction plans ✗ Disclose auditing percentages
Auto Original Equipment Manufacturer	Establish more company led oversight into suppliers, including auditing	<ul style="list-style-type: none"> ✓ Acknowledged the need for more risk management and disclosure, especially for EU exports ✗ Oversight procedures under consideration
Apparel Company	Provide more transparency around who suppliers are and disclose policies and procedures around supply chain risk management	<ul style="list-style-type: none"> ✓ Disclosed the total number of suppliers and the breakdown between tier 1 and tier 2 ✓ Improved their auditing and introduced a formal risk management procedure to assess forced labor risks ✗ Disclose full grievance data and provide more transparency on auditing
Solar Equipment Manufacturer	Provide criteria required from suppliers around human rights	<ul style="list-style-type: none"> ✓ Disclosed Supplier Code of Conduct, 90% of suppliers have signed ✗ Provide more transparency on auditing and due diligence results on suppliers
Solar Power Supply Company	Provide more disclosure on supply chain management practices	<ul style="list-style-type: none"> ✓ Ended production capacity in regions where forced labor risks are high ✓ Established supplier due diligence policies and compliance measures to assess suppliers' environmental and social performance ✗ Increase transparency on tier 1 suppliers with specific criteria used for evaluation
Apparel Supplier	Assess human rights risks in the supply chain	<ul style="list-style-type: none"> ✓ Disclosed the geographical breakdown of suppliers ✓ Provide more details around the overall due diligence process ✓ Disclosed human rights policy covering operations and suppliers and conducted traceability assessment

✓ Requested change was implemented

✗ Change requested but not yet implemented

SPOTLIGHT #7

Big picture: Key themes

As we step into 2025, the EME team's insight paper considered how the confluence of geopolitical, economic and generational shifts will impact markets.

Global trade and capital flows are evolving. The US champions a "China Plus One" strategy to diversify supply chains, while Beijing counters with its own "US Plus One" approach. This geopolitical tug-of-war will create clear winners and losers. And, the competition extends beyond our planet, as space emerges as the next commercial frontier.

Meanwhile, back on earth, demographic and generational shifts are reshaping economies and consumption patterns. Aging populations drive demand for specialised infrastructure and services, while Millennials and Gen Z exert their purchasing power through digital connectivity and a dopamine drive. For these younger generations, joy is just a click away.

Read more in the EME team's insight paper: [Key Themes for 2025](#).

FIXED INCOME

The investment teams within the Fixed Income organisation construct durable portfolios so that they are not forced to sell at distressed prices during extremely illiquid periods in the market brought on by systemic risk events. Systemic risk is extremely difficult to hedge and anticipate as it impacts the structure of the market. Therefore, the structure of a portfolio is a first line of defence adopted by the teams, taking account of factors such as diversification, position sizing, minimising correlation risk and liquidity.

The team has sought to respond to marketwide and systemic risks as follows:

- **MACRO:** Portfolio managers in the Fixed Income organisation assess and monitor macroeconomic risks through in-house research and proprietary models.
- **STRESS TEST AND SCENARIO ANALYSIS:** The independent Risk Management team highlights systemic risk events by via stress tests and scenario analysis conducted across portfolios. In addition, the GRA team within MSIM conducts climate scenario analysis at the portfolio level and works in conjunction with climate risk subject-matter experts in the Firm to develop climate risk analysis capabilities and in-house scenarios.
- **ESG INTEGRATION:** The Fixed Income organisation recognises that exposure to sustainability risks such as climate change, product safety issues, and corporate governance mismanagement poses systemic risk to portfolio management. For example, the Broad Markets Fixed Income investment team decided to maintain an underweight in the water utility sector of a European jurisdiction because of a multitude of operational issues related to leakages, sewage spills, water and wastewater management inefficiencies. Such issues drastically affect the ability of the sector to provide water services to customers and ensure the stability of the region's water resources and increase exposure to regulatory risk. As a result of record fines and negative news flow across multiple companies in the sector, spreads on their bonds widened, and the team's underweight contributed to preserving portfolio returns. At the same time, the team engaged with some of the companies to set out expectations on the improvement of those issues.
- **ENHANCED TRANSPARENCY AND DISCLOSURE:** The team has continued to leverage its access to smaller, privately owned, high-yield companies to encourage the adoption of market-best practices on fair customer treatment, transparency and control systems around data privacy and security, and sustainability-related disclosure. Issues

of transparency and disclosure can translate into product safety, social governance, and systemic risk in industries such as private debt collection, given that this business activity is heavily regulated by financial and consumer protection authorities.

- **SOVEREIGN ENGAGEMENT:** Market-wide risks can be generated at the country level. The Fixed Income organisation therefore continues to actively engage with governments and policymakers of sovereign bond-issuing countries, across developed and emerging markets, to seek to promote robust institutions, political stability, and progress on sustainable development commitments.

As part of the team's membership in the International Capital Market Association (ICMA) and in the Green and Social Bond Principles (GBP/SBP), and through participation in several of their working groups, the Fixed Income organisation continues to contribute to the development of best practices in the sustainable finance market. The team's proprietary Sustainable Bond Evaluation Framework takes into account the ICMA GBP/SBP as well as other industry guidelines as part of the rigorous assessment of labelled transactions, and it aims to hold issuers accountable to high standards and to minimise the risk of greenwashing and loss of market confidence in these products.

PORTFOLIO SOLUTIONS GROUP

The team aims to identify and analyse potential systemic risks that could impact market volatility and therefore its clients' portfolios. Its analysis of these risk events may lead it to adjust the broad mix of global equities, global fixed income, and cash within asset allocations, with the aim of maintaining each portfolio's realised volatility in line with its target. Examples of previous systemic and marketwide events through which the team has previously guided its portfolios include the Eurozone crisis, the Greek debt crisis, commodity price extremes, plummeting Chinese equities in 2015, the UK's 2016 Brexit referendum, multiple political and geopolitical events, US-China trade tensions, the COVID-19 pandemic and, most recently, the Russian invasion of Ukraine, soaring inflation and tightening monetary policy.

The team sees climate change as a specific potential systemic risk. Where permitted by client or portfolio guidelines, it tilts portfolios towards companies which it believes are more resilient to climate change and away from carbon-intensive industries. It also seeks to increase investments in solution-type companies which stand to benefit from opportunities arising from the transition to a low-carbon economy. Finally, it actively engages with

SPOTLIGHT #8

Industrial decarbonisation: Efficiency and innovation

Heavy industry provides products that make up the backbone of modern life, but these come at a high carbon cost. Heavy industry is responsible for as much as 25% of global CO₂ emissions.¹¹ While progress has been made in emissions reductions, the pace has been slow compared to the continuous rapid advances seen in other areas of the economy such as power. However, promising signs of progress are appearing.

Increasingly, governments are providing signals to industry through green incentives, subsidies or carbon pricing mechanisms to encourage cleaner production. Concurrently, on the demand side, the continued growth in decarbonisation targets could represent a key incentive for industry take-up of low carbon production processes. Some of the largest purchasers of industrial materials, such as steel, are adopting decarbonisation plans covering their material value chain emissions such as those from procured materials. Increases in demand for more eco-friendly products to satisfy these goals may allow the most carbon efficient producers to capture a “green premium.”

Energy efficiency

Energy efficiency is an overlooked yet critical lever to achieve global decarbonisation ambitions. At its core it is a strikingly straightforward idea: maximise output while minimising energy input. Operating efficiently has both environmental and economic benefits. For heavy industries, such as steel or refiners, energy costs do vary but often

make up as much as 20-40% of operating costs. Price volatility presents further challenges for heavy consumers of energy. Energy supply disruptions in some regions have contributed to volatile and elevated prices, rendering some businesses uncompetitive in global commoditised markets. This highlights the need to save costs and work to ensure affordable, reliable, energy access.

Recognising this as both a challenge and opportunity, in 2023 the team focused its engagement on a selection of the heaviest emitting industries, collectively responsible for over 60% of energy consumption and up to 70% of industrial emissions globally.¹² It focused on iron and steel, cement, chemicals, refining, as well as a number of emerging high-growth areas such as aluminium, copper and semiconductors. Throughout the engagement process, the team sought to better understand the potential for decarbonisation across these diverse areas of industry and to encourage companies to adopt more efficient practices as a first step to reduce their emissions. It engaged with 16 heavy industrial companies in 2023.

With many companies' 2030 targets fast approaching, the importance of decarbonisation in the near term is emphasised in the team's engagements. Energy efficiency is, in its opinion, the most appealing method for near term decarbonisation. This is because it can often be an immediately actionable method for reducing emissions.¹³

companies in hard-to-abate sectors, to make sure they take account of the risks associated with climate transition and set up ambitious decarbonisation measures. To maximise the effectiveness of these engagements, it may collaborate with other investment teams within MSIM, or with other asset managers.

Stakeholder collaboration to promote continued improvement of functioning of financial markets

MSIM maintains memberships and affiliations with organisations that help to validate our stakeholders' range of perspectives, influence and encourage the adoption of consistent and clear industry standards, and which serve to reinforce our sustainability commitments and priorities. We also dedicate time and effort to collaborating with our peers on addressing systemic risks and advancing the industry's role in promoting sustainability as a key investment theme. We do so through our active participation in various industry bodies and forums, examples of which are provided in [Principle 10](#).

MSIM participates in a number of sustainability initiatives and industry associations where MSIM has determined that such participation aligns with our objectives and will

ultimately add value for our clients. Participation in such new or existing initiatives is regularly reviewed to ensure continued relevance for MSIM and consistency with our fiduciary duties.

We regularly bring together investors, policymakers, NGOs and relevant thought leaders to share lessons and promote innovative solutions to sustainability-related challenges. This includes participating in industry conference panels, exploring joint research and supporting the work of groups focused on ESG-related issues. See [Appendices](#) for a detailed list of our initiatives.

The Fixed Income organisation also participates in the ICMA Green & Social Bond Principles Working Groups and the Firm is a member of the Global Impact Investing Network (GIIN), the Ceres Investor Network, and the Board of Directors of the Partnership for Carbon Accounting Financials (PCAF).

We also actively collaborate with external industry peer groups to address the risk of “greenwashing” related to sustainability-focused products. In this regard, we have actively participated in regulatory consultations relating to the SFDR and MiFID II, among others, aimed at increasing

¹¹ Rystand Energy, 2023.

¹² “Net Zero by 2050,” IEA, 2021.

¹³ “Energy Efficiency as a Foundational Technology Pillar for Industrial Decarbonization,” Sustainability, 2023.

the transparency of how investment managers integrate sustainability issues and risks into their investment decision-making process. Our Head of Sustainability Regulation & Policy is a member of the Irish Funds' ESG Policy and Legal working group, representing MSIM in

such discussions to agree on best practices and contribute our views and learning to promote greater disclosure in a manner that mitigates the risk of greenwashing, and to assist industry peers to respond to relevant policy initiatives in a meaningful and impactful manner.

Principle 5: Review and Assurance

Review, oversight and continuous improvement of policies and processes seeking to deliver effective stewardship

Ongoing review and assessment of our policies, processes and frameworks is crucial in seeking to ensure the effectiveness of our stewardship approach. We are committed to ensuring that we respond to the evolving industry landscape and, most importantly, that our stewardship activities are aligned with our core value of putting clients' interests first.

All of our stewardship-related policies are reviewed on a regular basis; however, we may also conduct ad-hoc reviews and updates if there are time-sensitive drivers such as material incidents or regulatory amendments which have potential implications for our approach.

MSIM Proxy Voting Policy

As described in [Principle 1](#) and [Principle 2](#), the GST updated the MSIM Proxy Voting Policy in 2024 in line with the commitment to conduct annual reviews in the first quarter of each year.

The MSIM Proxy Review Committee (PRC) has responsibility for overseeing the implementation of the MSIM Proxy Voting Policy and meets at least quarterly to review its effectiveness. On at least an annual basis, it considers what changes to the policy are needed to aim to ensure that it remains appropriate and in the best interests of clients. Regular review of the Proxy Voting Policy has led to ongoing incremental improvements and clarifications and, during this reporting period, the PRC actively engaged with MSIM's public side investment teams to seek their views to aim to ensure that proposed amendments were aligned with their proxy voting strategies and ultimately MSIM's end-clients. These amendments were then incorporated and presented to the relevant boards for approval. Key updates for 2024 include:

- Consolidating best practices from the existing MSIM and associated affiliate proxy policies to create a consistent approach to voting based on high-level principles. Each investment team is ultimately responsible for proxy voting for their investment strategies.
- Modifying the language to be less prescriptive, allowing for variability of vote outcomes so that MSIM's investment teams can vote based on their consideration of financial materiality and client mandates.

EATON VANCE MANAGEMENT (EVM) PROXY VOTING INTEGRATION

Following ongoing efforts to improve alignment across entities and recognising that there was no material difference between MSIM's and EVM family of funds' voting policies, the Global Stewardship Team (GST) took over implementation of EVM's Proxy Voting Policy from ISS in the first quarter of 2024. EVM was also onboarded to the MSIM Proxy Voting application "Provosys" in 2024 to enable enhanced controls, access to Glass Lewis meeting level analysis in addition to ISS, and investment team participation in the voting process, if desired.

Looking ahead, where appropriate, the MSIM Sustainability Team and the GST will continue to actively incorporate our investment teams' views into proxy voting policies as they provide crucial intelligence on encouraging companies in which we invest towards better ESG practices on potentially financially material issues, which we believe can contribute to long-term, sustainable returns. Future updates will seek to further align, where appropriate, MSIM's governance and proxy voting with clients' investment goals.

MSIM Sustainable Investing Policy

MSIM's ESG Committee has responsibility and oversight of the [MSIM Sustainable Investing Policy](#), which it reviews annually and updates as appropriate.

Through the annual review, the MSIM Sustainability team has identified five common themes—decarbonisation and climate risk; diverse and inclusive business; circular economy and waste reduction; decent work and resilient jobs; and natural capital and biodiversity—which certain of our investment teams may focus on in their engagements, based on their respective investment strategies, where relevant and appropriate. These themes are aligned with the UN Sustainable Development Goals (SDGs), in recognition that certain environmental and social issues can cause systemic risk to the economy and capital markets, and in some cases pose an existential threat to life on earth. These views are also shared by some of our clients, one of the key contributors to the thematic engagement themes.

During this reporting period, the MSIM Sustainable Investing Policy has been reviewed as part of the annual review cycle. The updated policy clarifies reference to the embedded principles and the application of these across the MSIM entities in-scope. The policy was also adapted to reflect various public and private investment team inputs

SPOTLIGHT #9

Fixed Income review and development of engagement processes

During the reporting period, the Fixed Income organisation sought to develop its engagement processes through ongoing training activities with the fundamental credit analysts, after reviewing its engagement practices in Q2 2024. Sustainability specialists in the Fixed Income Organisation held training sessions that were tailored to individual

Fixed Income asset classes, as well as developing resources available to the teams on a sector-by-sector basis. This helped the group to expand the reach of its engagement activities, increasing the number of its engagements in 2024 by over 70% versus 2023.

for depth of insight into business practices and to aim to ensure consistency and accuracy across narratives. These updates reflect enhancements to MSIM's sustainability governance and help aim to ensure consistency and transparency in messaging across different channels.

INTERNAL AND EXTERNAL ASSURANCE; CONTINUOUS IMPROVEMENT OF STEWARDSHIP POLICIES AND PROCESSES

Assurance of MSIM's sustainability and stewardship policies, processes, activities and reporting are important in ensuring we continue to deliver on our client commitments in line with internal and external regulatory and industry requirements, and that our reporting and communications are an accurate reflection of this and are fair, balanced and understandable.

Internal assurance

Internal Audit (IAD) provides an objective assessment of the effectiveness of MSIM's policies, processes, activities and reporting as IAD is fully independent of the business, with the Chief Audit Officer reporting to the Chair of the Firm's Board Audit Committee and administratively to the Firm's Chief Executive Officer. Additionally, the EMEA Head of Internal Audit reports to the Chair of the MSI Audit Committee and administratively to the EMEA Chief Executive Officer. ESG has been reviewed by IAD across business units between 2023-2024, and covered climate risk, sustainable finance and ESG investing.

MSIM Compliance Team completes ESG testing reviews, assessments and audits where relevant. We continue to review, assess and enhance our overall approach holistically and details of progress are provided

throughout this report, including in [Principle 6](#), [Principle 7](#) and [Principle 10](#).

MSIM Ltd Board

The MSIM Ltd Board oversees stewardship activities of MSIM Ltd and, as noted previously, has approved the issuance of this report.

External assurance

An external auditor also performs an external SSAE-18 audit of the proxy voting process and procedures as part of the Firm's annual Sarbanes-Oxley review. We have passed this audit in each of the last eight years, indicating that our process continues to be robust and effective.

MSIM maintains voting records of individual agenda items at company meetings in a searchable database on its website on a rolling 12-month basis.

Other reviews to assure processes and assess effectiveness of stewardship activities

As part of MSIM's ongoing oversight of third-party providers, MSIM performs periodic due diligence on service providers used to support our stewardship activities. Topics of the reviews include, but are not limited to, conflicts of interest, methodologies for developing their policies and vote recommendations, and their resourcing. Where necessary or appropriate, MSIM also conducts on-site or virtual due diligence meetings and meets with research staff, compliance, and information technology teams to review policies and procedures.

SECTION 2

Investment Approach

Principle 6: Client and Beneficiary Needs

Understanding and meeting our clients' needs

MSIM has a diverse portfolio of clients with a broad spectrum of needs. We believe that our structure of independent investment teams gives us the agility and perspective to understand and meet the plurality of client needs and investment objectives, and clients also benefit from the advantage of having global teams of investment professionals in major hubs, including, but not limited to, London, New York, Boston, Washington DC, Mumbai, Singapore, Hong Kong and Tokyo. Investment teams seek to leverage their in-depth knowledge and expertise to capitalise on investment opportunities in major markets. The charts below provide a breakdown of our AUM¹⁴ across our four investment platforms and regions of investment, as well as a breakdown of our diverse client base.

FIGURE 6.1

MSIM investment capabilities and assets breakdown¹⁵

As of 31 December 2024

Assets By Investment Capabilities (\$Bn)

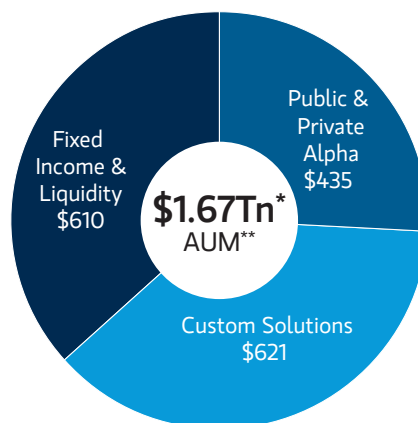


FIGURE 6.2

AUM by region of investment

As of 31 December 2024

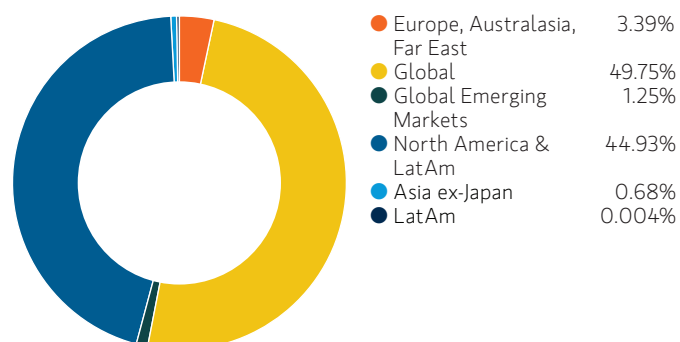
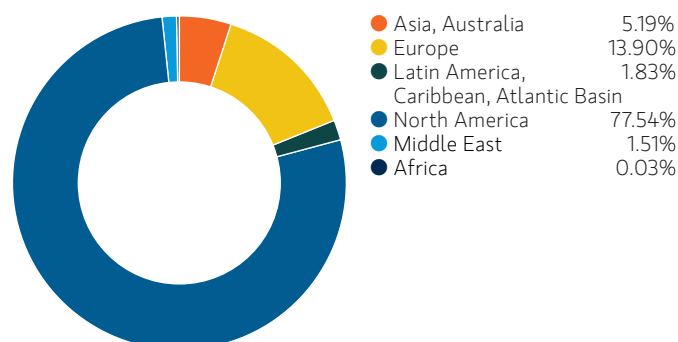


FIGURE 6.3

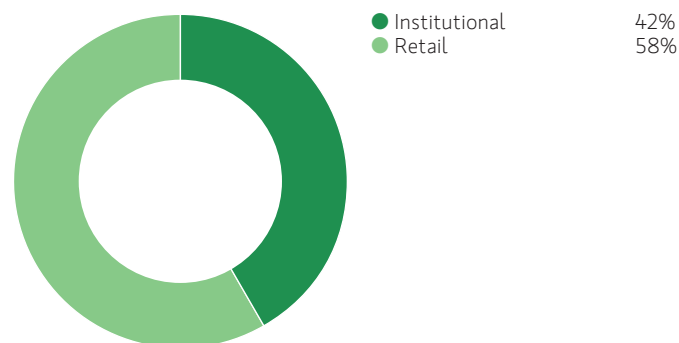
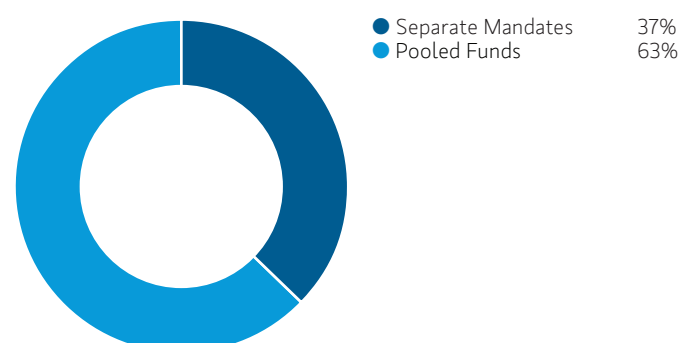
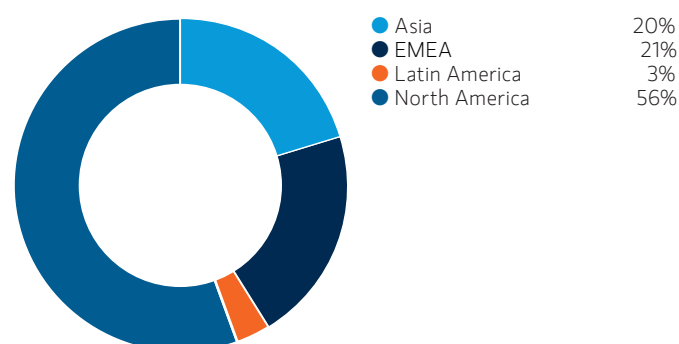
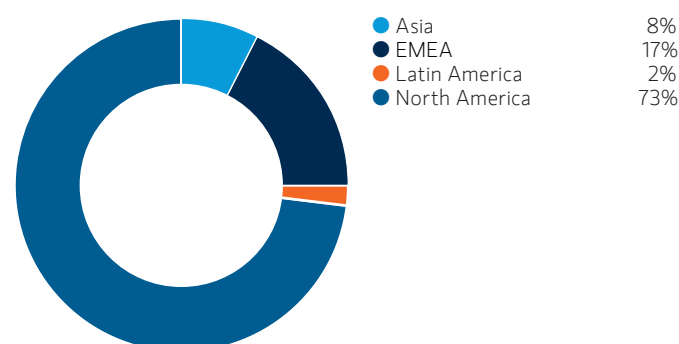
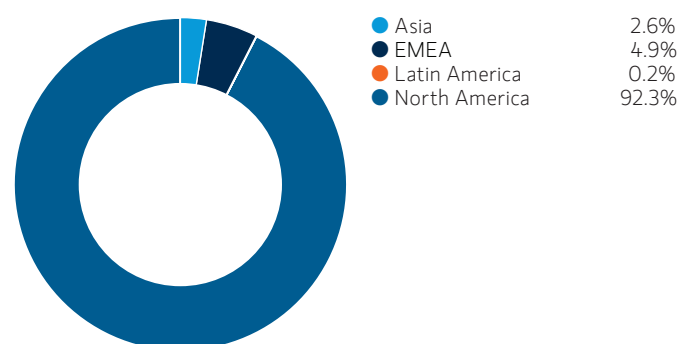
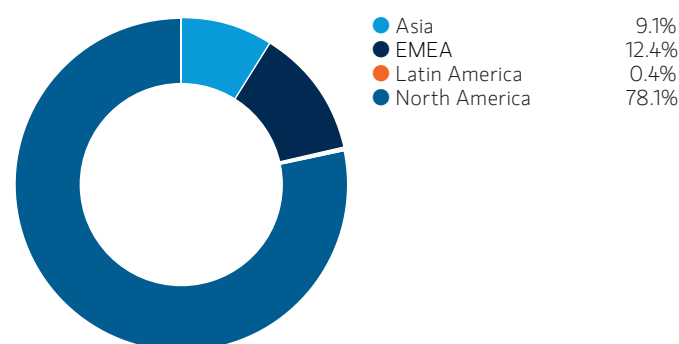
MSIM AUM breakdown by client geography

As of 31 December 2024



¹⁴ Assets under management in this section of the report reflect Morgan Stanley Investment Management (MSIM) which represents the investment management business segment of Morgan Stanley, of which MSIM Ltd is a part. The AUM figures include all discretionary and non-discretionary assets of MSIM and certain MSIM-affiliated entities not otherwise included in the report. MSIM fund of fund assets represent assets under management and assets under supervision. MSIM direct private investing assets represents the basis on which the Firm earns management fees, not the market value of the assets owned.

¹⁵ Managed AUM for Fixed Income & Liquidity (including assets sourced by other teams but managed by Fixed Income & Liquidity) was \$630 billion as of 31 December 2024.

FIGURE 6.4**MSIM AUM breakdown by client type and product type***As of 31 December 2024***AUM by Client Type****AUM by Product Type****FIGURE 6.5****MSIM AUM Breakdown by Asset Class and Geography***As of 31 December 2024***High Conviction Equities****Fixed Income & Liquidity****Customised Solutions****Alternative Investments**

Investment horizons

The investment horizon of MSIM's clients varies depending on their individual financial goals, objectives and liabilities. MSIM collaborates with clients to aim to ensure that the investment horizons of our strategies and solutions align with their needs, interests and goals, which may include specific sustainable investing objectives, for example, relating to carbon emissions reduction. While investment horizons vary across our independent investment groups and platforms, many of MSIM's investment teams consider a three- to five-year investment time horizon. However, some are significantly outside of this range. For example, some concentrated equity portfolios have held certain companies for decades and some of our private asset funds have an investor lock-in period of between eight and 10 years, while our money market, liquidity and asset allocation funds generally consider much shorter time horizons.

Incorporation of clients' views, and stewardship and investment policies

MSIM also prides itself on being available to our clients and providing them with regular and timely information on our stewardship activities. We integrate stewardship and sustainable investing-related updates into regular communications with our clients, where relevant. These regular touchpoints may include annual or biannual client meetings, our annual client conference, quarterly conference calls (in the case of certain strategies), portfolio-level sustainability reports, where relevant, and monthly information packages.

Client relationship managers and investment teams are also available to connect with clients outside these scheduled touchpoints. Via their regular client interactions, our investment teams have observed the increasingly prominent role that stewardship plays in some of our clients' investment objectives, and that has informed the evolution of our approach.

In 2024, MSIM hosted additional events, continuing to build on these important client relationships, by covering topics that are most meaningful to our clients. Some of these were conducted cross-divisionally with our Firm colleagues, including, but not limited to:

- **Morgan Stanley's 2024 Annual Sustainable Finance Summit** – Sustainability-focused business units from across the Firm hosted the four-day event attended by corporates, investment managers and allocators.
 - MSIM brought together some of our sustainability experts from a range of asset classes, spanning private

and public markets, for a wide-ranging discussion on the intersection of sustainability and technology.

- **Morgan Stanley 23rd Annual Asia Pacific Summit** – One of the Firm's flagship conferences in Asia bringing together clients, policymakers, industry experts, thought leaders, corporate executives and investors to exchange views and share insights on key topics shaping the future.
 - The conference was attended by more than 3,000 global participants, including 800 C-suite executives from over 400 leading firms in Asia and more than 1,600 top-tier investors.
 - The summit is recognised as the leading institutional investor event in Asia. Policymakers, industry experts and thought leaders joined Morgan Stanley economists, strategists and analysts to explore a wide range of top-of-mind investment themes, including the global outlook in the wake of Donald Trump's win in the US election, opportunities in Japan and India, and Asia's digital economy.
 - Overall participation has grown fivefold since inception, reflecting the success of the summit.

These interactions serve as opportunities to address client queries such as how geopolitical or market events might affect portfolio holdings, portfolio managers' outlook on certain asset classes, companies or industries or details on portfolio performance, where appropriate.

In addition to these dynamic client touchpoints, this MSIM UK Stewardship Report provides a comprehensive report of our stewardship activities across our investment platforms. Our last (2023) UK Stewardship report was shared with clients after receiving the FRC's approval, and we received positive client feedback on our progress, activities and outcomes.

We strive to be responsive to our clients' needs to meet their investment objectives and targets. This includes incorporating clients' views and their stewardship and investment policies into their investment strategies, as demonstrated by the examples that follow.

INTERNATIONAL EQUITY

The International Equity (IE) team holds quarterly update calls for clients during which engagement case studies and proxy voting data may be shared as relevant. Team members regularly meet with clients to respond to individual questions or requests, for example, to customise separate account portfolios with additional client-specific exclusions. In addition, the team works with clients to identify their reporting requirements, for example,

providing customised data and reporting to UK pension fund clients to enable them to meet their own regulatory and client reporting needs.

This team also publishes a biannual [Engage report](#), outlining its engagement activities and voting statistics as well as ESG-related thought pieces. It provides ESG fact cards for its global SICAV funds as well as for the Global Quality Select OEIC and strategy.

GLOBAL OPPORTUNITY

Global Opportunity works to ensure that its mandates consider clients' stewardship policies through consultation during the onboarding process based on open dialogue and consensus on Investment Management Agreement guidelines, agreed to by each client. In 2020, Global Opportunity partnered with one large client to launch Global Change, a customised global equity strategy aligned with the client's sustainable investment objectives. As of 31 December 2024, the strategy has over \$7 billion in assets. This demonstrates the success of incorporating a client's sustainable investment objectives and stewardship policies, as well as the value of partnership, in achieving client-specific goals.

Global Opportunity regularly obtains client feedback, which is integrated in the team's annual [ESG Update](#) that discusses the integration of ESG considerations into the investment process. For example, clients have previously requested company engagement case studies and information relating to the carbon footprint of portfolios, which the team incorporated into the ESG Update. The team continues to innovate and evolve its process, and client feedback is incorporated in the team's future plans, including ESG reporting and potential product launches.

EMERGING MARKETS EQUITY

The Emerging Markets Equity (EME) team engages with clients on sustainability and ESG topics to understand their investment policies and approach to stewardship so that the team can partner with them and aim to ensure it is aligned with clients' interests. The team also attends industry-wide conferences to understand client views on sustainability where asset owners and industry leaders speak on changing trends. During the reporting period, the team attended, in person, three sustainability conferences: RI Europe (London) in June 2024, UN PRI (Toronto) in October 2024 and Asia Corporate Governance Associate (ACGA) in November 2024.

EME seeks to add value to clients' stewardship and investment policies through engagements with corporates on sustainability issues on clients' behalf, portfolio-level

sustainability reporting, and detailed reviews with clients on their stewardship practices. The team also publishes a yearly report with detailed ESG metrics and engagement examples. Customised reporting on the team's ESG progress is provided to clients throughout the year. In addition to this, the team customises portfolios for clients who wish to implement specific exclusions or additional ESG standards.

FIXED INCOME

The Fixed Income organisation welcomes collaboration with and feedback from clients in delivering innovative fixed income solutions to help meet clients' investment and sustainability requirements. Examples of the organisation's constructive interactions with clients over the past year include:

- **Implementing customised climate-focused mandates:** The team leverages access to a highly sophisticated institutional investor base, particularly in Europe, to test and receive feedback on its ESG frameworks, methodologies and reporting. For instance, the team manages a number of climate-focused client mandates, in which the implementation of specific portfolio decarbonisation pathways was the result of dialogue with clients around the most appropriate metrics and targets to use, in order to align with their organisational policies while taking into consideration science-based climate frameworks.
- **Engagement aligned with clients' objectives:** Some of the organisation's client mandates embed specific expectations around engagement with bond issuers to help attain the portfolio's objectives. As an example, the Broad Markets team manages a climate-focused credit mandate for a large European institutional client, where the ability to evidence the role of issuer engagement on decarbonisation plays a key role. The team also conducts engagements on decarbonisation beyond corporates for clients with multi-sector portfolios.
- **Expanding data access to respond to clients' needs:** The team continues to assess the value of onboarding new ESG datasets to best serve client needs. For example, it has continued to expand access to climate-related data, in line with client demands and its desire to most effectively deliver on the responsibility to monitor exposures to climate-related risks and to decarbonise portfolios, where applicable. In 2024, a new team member was added to focus specifically on ESG data and green bonds to further strengthen the team's capabilities.
- **Evolving portfolio-level ESG reporting, particularly for sustainable bonds:** The team regularly looks for client feedback on portfolio-level ESG disclosure and reporting

to aim to ensure it aligns with market best practice. In particular, the team has been developing green bond impact reporting practices for its dedicated green bond portfolios, to improve transparency for clients.

PRIVATE CREDIT AND EQUITY

Private Credit and Equity (PC&E) investment teams work with investors post-commitment to implement the LP's specific stewardship requirements such as excuse rights or investment restrictions (e.g., business involvement in controversial sectors, etc.), enhanced due diligence or portfolio-monitoring procedures, and client-specific reporting.

PC&E publishes an annual ESG Report which details how material ESG factors are considered throughout the investment life cycle and across strategies. The report also covers PC&E's governance structure, ESG-related partnerships and selected case studies that highlight progress at portfolio companies. Strategies across PC&E may also provide LPs with material ESG updates during quarterly investor updates and/or annual meetings.

PRIVATE REAL ESTATE

MSREI communicates and engages stakeholders, including clients, on its sustainability approach and activities. Select MSREI funds publish an annual sustainability report which highlights the funds' sustainability strategy and provides an update on select sustainability initiatives and key highlights.

Additionally, select MSREI funds participate in the Global Real Estate Sustainability Benchmark (GRESB) Real Estate Assessment. The GRESB Real Estate Assessment covers a range of E, S and G topics, including asset-level environmental performance (i.e., energy, GHG emissions, water and waste consumption, where available), tenant engagement, governance, policies, and efforts to address ESG during a building's design and construction/renovation phase.

MSREI also contributes to the Real Estate Module of MSIM's UN PRI annual survey, when appropriate.

Transitioning real estate investment portfolios to net zero by 2050 is being accelerated in the industry especially by select investors. Select MSREI funds have set 2050 net-zero aspirations and interim Scope 1 and 2 greenhouse gas emission reduction targets.

PRIVATE INFRASTRUCTURE

MSIP communicates and engages stakeholders, including clients, on its sustainability approach and activities. MSIP publishes an annual sustainability report to provide clients with an update on MSIP's approach, focus areas and

key accomplishments. This report focuses on data and information which are relevant for MSIP clients based on industry standards and feedback from those clients.

In addition, MSIP is a founding participant of the GRESB Infrastructure Assessment and has participated in its surveys since inception in 2016. GRESB participants are scored and benchmarked on their ESG policies, management practices and performance. The GRESB Infrastructure Assessment covers a range of asset types, including energy generation, energy transmission and distribution, transportation, telecommunications, water and waste treatment, and social infrastructure. The GRESB process seeks to provide clients with an understanding of how portfolio companies are assessed against sustainability criteria.

MSIP also contributes to the Infrastructure Module of MSIM's UN PRI annual survey, which looks at responsible investment implementation during fundraising, pre-investment processes and post-investment processes. This process gives clients an understanding of MSIP's overall approach to sustainability integration.

Effectiveness of our client communication methods

MSIM has assessed the effectiveness of our chosen methods to communicate with and understand the needs of our clients using factors such as direct client feedback and the scale and spread of our AUM across different regions and investment platforms. For example, due to evolving stewardship priorities and preferences across our investor and client base, we are seeing increased demand not only for our sustainable investment products but for bespoke reporting that will assist our clients with their own regulatory and stakeholder reporting and transparency requirements.

MSIM considers that our chosen communication channels and approaches have been effective in taking into account clients' sustainability and stewardship needs. We believe this is demonstrated firstly in the successful implementation and scale of our bespoke investment solutions, custom portfolios, multi-asset strategies and outcome-oriented accounts for clients. It is also evident from the long-standing relationships we have with many of our key clients, who have been invested in our strategies for decades and across multiple investment teams, either within a client capacity or as co-investors alongside our investment teams. Our longest legacy MSIM mandates date back to the 1980s.

Principle 7: Stewardship, Investment and ESG Integration

ESG integration, portfolio management and stewardship

MSIM adopts a tailored and integrated approach to stewardship with public and private investment teams ultimately responsible for exercising their judgement to identify and integrate material risks and opportunities (including, but not limited to, ESG) into their processes for investment research, analysis and decision-making, due diligence, valuation, asset selection, portfolio construction, and engagements with companies and other issuers, as appropriate.

MSIM's investment teams deploy their skill and judgment in assessing the materiality of specific issues as appropriate for each investment strategy and through the consideration of various factors, such as investment philosophy, asset class, the nature of the issuer, the size of the holding, the risk exposure, and the investment time horizon. The teams are guided by our MSIM-wide [Sustainable Investing Policy](#) which provides high-level guidance that reflects the Firm's core values.

The following examples demonstrate the different types of ESG factors, approaches to integration, and stewardship methods prioritised by investment teams across asset classes and geographies and throughout the investment process.

High Conviction Equities

Approaches to engagement and sustainable investing differ across teams within High Conviction Equities as the following examples demonstrate.

INTERNATIONAL EQUITY

The team believes that understanding how ESG factors could potentially affect the sustainability of future returns on operating capital must be rooted in company-specific analysis. It uses proprietary tools as part of this analysis, including the Material Risk Indicator (MRI) (see [Principle 4](#)) and Pay X-ray, which is a scoring tool the team uses to try to assess whether a company's pay practices are aligned with management's intention and/or ability to deliver sustainably high long-term returns on operating capital.

Information gathered through this analysis may contribute to the team's acquisition, monitoring and exit decisions, where relevant. The team may analyse and quantify the potential financial materiality of ESG considerations, for

instance, in terms of the percentage of sales and profits that may be affected by a particular factor (for example, shifts in demand, impact of potential new regulation on the business model), potential impact on the growth rate and the cost base of the company, and the company's strategy to mitigate such financially material risks or take advantage of any opportunities. Where relevant, the investment team reviews this during its weekly investment meetings when new companies are evaluated and current holdings monitored. While the ESG assessment is an important component of the research process, it is not the sole driver of investment decisions.

The nature of ESG factors can make it challenging to quantify their impact. As such, the team may employ a range of methods to reflect the outcome of its ESG analysis in portfolio construction decisions, including:

- Where feasible, it may run scenario analyses, for example, forecasting the impact of a financially material ESG factor on the company's growth rate, profits or capex and the resulting change in fair value, such as modelling the impact on profits and valuation of consumer staples companies switching to more sustainable packaging.
- It may adjust the weighted average cost of capital (WACC) or the terminal growth rate to reflect the higher or lower risk.
- The team may also reflect potential risks by adjusting the position size, in addition to any model or WACC changes.
- Finally, it may choose not to invest in a candidate company if it believes financially material ESG risks as assessed by the MRI are too high.

The team focuses on understanding the long-term sustainability of a company's returns on operating capital, and engagement plays a role in this. It is an input in helping them to understand whether management can and will maintain returns while growing the business over the long term, which includes consideration of potentially financially material ESG risks and opportunities. The team believes engagement can generate knowledge which may contribute towards the investment view, valuation, weighting or buy/sell discipline.

The following examples detail instances where the team adjusted the financial model for companies held due

to stock-specific, sector-related and systemic ESG risks identified by the team:

- For a consumer staples company, the team assumed a sub-GDP terminal growth rate of 1% when valuing the company and used an 8.5% WACC (0.5% above competitors and considerably higher than the industry) due to the ESG risks for the company.
- The team added 0.1 to the beta for two professional services companies it holds due to the ESG risks of the sector, with around a 10% impact on fair value.
- For a communication services company the team owns, it chose to adjust the WACC due to regulation-related ESG risks regarding data use and data protection. The team also chose to moderate the position size to reflect the risk.

COUNTERPOINT GLOBAL

Counterpoint Global's research focuses on identifying material risks and opportunities for companies presented by ESG factors. The team aims to identify companies with "sustainability optionality," which is the potential to benefit from the growing demand from stakeholders for environmentally and socially responsible products and services. It views "sustainability optionality" as a form of intangible value, which is often overlooked by market participants and thus serves as a key differentiator in how it assesses the long-term prospects of companies.

Key aspects of the team's evaluation process include engagement with company leadership, systematic evaluation of the alignment of management's long-term incentives, and an assessment of the cultural adaptability of organisations (with a particular focus on identifying companies that give their sustainability leaders the

agency and decision-making authority to capitalise on opportunities). In terms of material risks, the team seeks to discern the externalities created by companies that detract from the environment and society, which can result in substantial costs. The team integrates these insights into its assessment of a company's competitive advantages and long-term prospects, which is core to Counterpoint Global's investment process.

Rather than using ESG factors as a screen to reduce the investment universe, the team uses sustainability research as an additive process both to augment their understanding of existing investments, but also to identify new investment opportunities. It goes a step further than passive sustainability integration (i.e., screens) to actively partner with select portfolio companies to help them understand and realise the value of their "sustainability optionality." The team has had several successful partnerships in which it contributed useful insights based on its experience and broad network of industry contacts and thought leaders.

After years of focus and hundreds of discussions with companies on how their sustainability initiatives drive value, the team identified 10 types of business activities that can drive financial value and benefit society, referred to as "Sustainability Research (SR) Tailwinds." Identifying these 10 SR Tailwinds allows the team to more clearly discuss opportunities and assess positive externalities. The team believes its sustainability research and SR Tailwinds process provides clients with differentiated insights while also contributing to economic catalysts that incentivise companies to create value through positive environmental and/or societal impact.

FIGURE 7.1

Sustainability Research Tailwinds

PEOPLE	1. Economic Empowerment	Platforms Enabling Socio-economic Empowerment and Entrepreneurialism
	2. Health	Healthcare Innovation Driving Wellness by Improving Patient Outcomes
	3. Access Democratization	Consumer Democratization of Access Supporting Consumer Empowerment
	4. Inclusive Communities	Communities and Tools Enabling Belonging and Inclusion
PLANET	5. Resource Efficiency	Upstream Opportunities 5.1 Manufacturing and Supply Chains, 5.2 Transportation, 5.3 Energy Production and 5.4 Agriculture
	6. Downstream Efficiency	6.1 Waste Management and Circularity Minimizing Environmental Costs, 6.2 Building Construction and Energy Consumption, 6.3 Carbon Sequestration
SYSTEMS	7. Data Security	Cyber Security Solutions Protecting Data and Privacy
	8. Effective Institutions	Public Institution Effectiveness and Safety
	9. Stakeholder Cultures	Ecosystem Focus Strengthening Uniqueness Durability, Stakeholder, Alignment
	10. Structural Longtermism	Structures Supporting Long-Term Value Creation

GLOBAL OPPORTUNITY

Global Opportunity's investment process integrates analysis of sustainability with respect to disruptive change, financial strength, and environmental and social externalities and governance. Its quality assessment identifies the key ESG-related opportunities and risks for each prospective investment based on materiality to the long-term fundamental drivers of the business. Using its proprietary framework, HELP & ACT (see Figure 7.2 below), which is informed by the UN Sustainable Development Goals (SDGs), the team analyses potential impacts on health, the environment, liberty and productivity, and governance measures to aim to ensure agency, culture and trust.

FIGURE 7.2
Proprietary HELP & ACT Framework

We care how companies HELP & ACT

Health:	Improve humanity's quality and duration of life
Environment:	Protect the planet and its inhabitants
Liberty:	Freedom, equality, privacy and security
Productivity:	Improve our knowledge of how the universe works to make our lives better within it
Agency:	Skin in the game and incentives to work on behalf of long-term shareholders
Culture:	Encourage a culture of innovation, adaptability and shared values
Trust:	Reliability of financial statements and management

Each Global Opportunity investor is responsible for integrating ESG by applying the HELP & ACT framework within their quality assessment, proxy voting and engagements with portfolio companies. Each investor primarily sources information from discussions with company management and public disclosures, supplemented with various research resources.

Incorporating ESG-related potential risks and opportunities within the investment process is about ensuring long-term stewardship of capital. Over extended time horizons, the team believes that ESG risks are more likely to materialise, and externalities not borne by a company are more likely to be priced into the value of securities.

EMERGING MARKETS EQUITY

The Emerging Markets Equity (EME) team manages both funds that integrate ESG as well as sustainable funds with measurable positive environmental and/or social objectives²⁵ F EME's sustainable funds invest in high-quality, financially attractive companies that align with the product's sustainability commitments. The team may also choose to implement exclusions based on specific activities and norms.

As active investors, EME integrates material ESG data and analysis into investment decision-making. The degree of this integration varies between products. The baseline for each product is anything that is financially material, which can include sustainability factors. For sustainable products, the team includes sustainable and carbon commitments and thematic alignment.

The team seeks to understand the sustainability strategy and/or financially material issues for each company. To identify and assess these issues, the team refers to company financial reports and disclosures, and its own internal research as well as third party sources, which may be supported by company engagements.

For the EME sustainable funds, following the initial negative screening process, the team has identified several themes to align the portfolio: responsible energy, access and affordability, decent work and innovation, and sustainable production and circular economy. To identify companies within these categories, the team looks for businesses that are aligned by revenue exposure and/or business operations to its identified sustainability themes.

Engagements are a key part of our research process, focusing on material issues, such as governance, decarbonisation and supply chain management. The team seeks to understand how specific challenges, such as the changing regulatory landscape across carbon emissions, or progress on technologies required for the global energy transition, affect the team's investment thesis. A summary of the team's engagement activities is in [Principle 9](#).

Fixed Income and Liquidity

The team undertakes proprietary ESG research and has its own scoring methodology across corporate, sovereign and securitised debt, as well as a specialised framework, to evaluate sustainable instruments, such as green bonds. It engages with issuers to seek to drive positive change in the management of ESG risks and opportunities (see [Principle 9](#) for more details), and undertakes measurement and monitoring of key ESG metrics at the portfolio level on an ongoing basis.

ESG integration through proprietary ESG research and scoring methodologies:

As described in [Principle 1](#), the Fixed Income organisation conducts ESG research in-house, partnering with specialists at Calvert, and has developed models and methodologies that reflect the characteristics of different asset classes within fixed income.

Across Fixed Income's proprietary ESG research and scoring methodologies, the focus is on identifying the relative materiality of ESG factors for an investment, rewarding positive momentum, and penalising exposure to severe ESG-related controversies that can adversely impact bond price or liquidity.

These assessments and scores inform the portfolio construction process and investment decision-making across the Fixed Income platform and across a range of asset classes (where prioritisation of ESG issues may differ).

- **Corporate bonds:** Over 700 underlying vendor datapoints feed into custom environmental and social thematic indicators in proprietary ESG research models used by Fixed Income. The ESG analysts seek to uncover potentially financially material ESG issues to which a sector is exposed and then determine how well each company is managing these risk exposures. This analysis results in a proprietary ESG score and assessment that are relevant in the context of a specific sector peer group. The overall ESG score is composed of a structural score, representing a long-term measure of the company's approach to ESG risks in its operations, products and services, and a circumstantial factor, reflecting the analyst's shorter-term evaluation of the company's involvement in, and response to, controversial or adverse events.
- **Sovereign bonds:** The team conducts statistical analyses on sustainability data, focusing on factors that underpin economic progress and resilience of sovereign nations, and which it considers most material to the performance of their debt, to develop its own proprietary ESG scores. Additionally, it adjusts the underlying ESG scores based on GDP per capita, to help remove bias against emerging markets, and incorporate a momentum factor that combines the analysts' qualitative view of recent developments within a country with a quantitative assessment of track record. The team can use its scoring methodology to help construct a sovereign portfolio that is tilted towards what it considers to be the stronger-performing countries from a sustainability standpoint.
- **Securitised investments:** The team assesses and scores a security's negative, neutral or positive contribution towards sustainability factors (which differ based on type

of securitisation). Contributions are then mapped towards specific environmental and social themes. The team also uses this approach to screen its portfolios.

- **Green/sustainable bond evaluations:** The team's proprietary Sustainable Bond Evaluation Framework seeks to assess each bond and score it based on multiple criteria, including the fit within the issuer's broader strategy, the relevance and additionality of the selected projects or sustainability indicators in the context of the issuer's core business, the alignment of the bond structure with best practice in the markets, such as the International Capital Market Association's (ICMA) Green and Social Bond Principles, external verifications and the quality of reporting.

Active engagement with bond issuers

The team considers meeting management to be an integral part of its investment process, which occurs across multiple levels:

- **Trading desk:** Fixed income traders maintain relationships with the banks that underwrite and distribute new bond issues, including green and sustainable bonds. Once a new bond issue is announced, the trading desk is alerted, and one of the sector credit analysts is assigned to cover the issue.
- **Credit analysts:** The credit analyst will typically review roadshow materials and attend a roadshow to meet with the issuer's management team or other representatives. The roadshows offer the analysts the opportunity to ask questions related not only to the credit but also to the specific new issue, and to clarify any uncertainties within the structure of the bond.
- **ESG analysts:** ESG analysts pair with credit analysts in attending roadshows focused on Green and other labelled Sustainable Bond transactions. These meetings provide an opportunity for ESG analysts to supplement data-driven ESG scoring models with a more qualitative assessment of an issuer's efforts and progress on sustainability issues. ESG analysts also provide feedback to issuers and structuring advisors in relation to transaction-specific issues as well as more broadly on green bond structuring practices, to promote their alignment with market standards for project/indicators selection and impact reporting.

In addition to regular meetings with issuers' management and treasuries as part of credit updates and new issuance, the Fixed Income organisation runs a targeted engagement programme focused on companies with lagging practices on specific material ESG issues, to set clear expectations around how such concerns can be addressed.

The programme is based on the [Fixed Income Engagement Strategy](#), first published in 2020 and last updated in 2023, and is structured around a thematic framework in line with MSIM's engagement themes for sustainable investing. Further details on MSIM's engagement themes and the Fixed Income organisation's engagement approach are outlined in [Principle 9](#).

Measurement and ongoing monitoring of key ESG metrics at the portfolio level

ESG specialists support the investment teams in the monitoring of portfolios and the development of measurement frameworks and reporting tools, collaborating with ESG data and technology experts. As part of this process, the team seeks to align with existing market frameworks, such as the TCFD for climate-related disclosures, in addition to evolving regulatory sustainability disclosure requirements.

Focus on governance and disclosure

As fixed income investors, the team views governance as the strongest ESG driver of portfolio risk and return, and the pillar from which strong credibility is built across any sustainability-related topic. The team therefore conducts due diligence on corporate governance, transparency and accountability, and disclosure matters across its assessments and dialogues with issuers.

In particular, the Liquidity team pays close attention to governance risks identified in proprietary ESG research and engagement. Governance risk plays an important role for liquidity, in an explicit acknowledgement of the factor's relevance to the types of credit requirement for investment by money market funds. With nearly one-sixth of Fixed Income and Liquidity engagements in the 12-month period between July 2023 and June 2024 being with financials, the Liquidity team can use the outcomes of such dialogues to inform investment, avoid headline risk, and achieve objectives of capital preservation and liquidity.

Regional differences in measurement

The Fixed Income organisation accounts for regional differences in its approach by considering the stage of development of the issuer's country, to seek to ensure that its assessment of their sustainability strategy and targets is contextualised and comparable to peers.

For example, in some emerging markets, a longer glide path might be necessary to achieve desired sustainability outcomes and minimise risks, or there may be a need to engage in issues related to capital markets policies and processes to facilitate their functioning. This can manifest in the form of a longer phase-out period for fossil fuels to continue providing affordable energy to the broader

population, more time to improve diversity of a company's board of directors or management team, reflecting the need for a broader change in culture, or trade-offs between job creation and land use, among others. On the other hand, a global company operating in both developed and emerging markets must be considered in a different regional context. For example, a power company operating in various emerging markets must be mindful of cultural heterogeneity in its construction of a just decarbonisation and fossil fuel phase-out strategy.

In addition to the points highlighted above, each investment team in the Fixed Income organisation takes into account its own specific priorities when conducting due diligence.

Fund-level differences

The Fixed Income organisation incorporates ESG criteria across a flexible range of sustainable investing solutions:

- Positive and negative screening
- Principles-based investment
- Low-carbon and climate-aligned solutions
- Green bonds

The Fixed Income organisation has developed a comprehensive Sustainable Bond Evaluation Framework for green bonds. The ESG analysts look through the labelling and critically assess sustainable bonds that come to market, to seek to ensure the evaluation of their sustainability characteristics is integrated into the investment process, for the benefit of clients.

Applying a robust research process also provides an effective platform for the Fixed Income organisation to push for improvements in the structure of these instruments as well as surrounding disclosure. The team believes it has a duty to encourage issuers and underwriters to implement best practices to achieve meaningful positive sustainability outcomes through the issuance of robust sustainable bonds, and engage with issuers and participate in industry initiatives to achieve this.

The evaluations enhance the information available to portfolio managers and credit research analysts, furthering their understanding of how effectively issuers are managing material ESG issues and leveraging tailwinds, and it is an integral component of the investment decision process for these instruments. Certain fixed income green bond strategies only invest in labelled sustainable bonds that have been assessed positively through this framework.

At the same time, the Fixed Income organisation relies on its experience in the market to uphold standards for the

additionality of selected projects or targets to be financed. In particular, the green bond market offers a unique opportunity for fixed income investors to engage with issuers, at a time when issuers and their management are particularly sensitive to investor feedback on sustainability.

Alternative Investments

The Alternative Investments business consists of Morgan Stanley Global Real Assets and Private Credit and Equity strategies. On the private markets side, engagement approaches are idiosyncratic to the investment strategy and asset class, differing across equity and credit, real estate, and infrastructure. The ability to influence and engage companies on sustainability-related issues will also be bespoke to the strategy, and level of ownership and control. As well as engaging with portfolio companies, MSIM private markets teams may also engage with other relevant stakeholders, such as other general partners (GPs) or the private credit and equity side, or property managers and tenants on the real estate side.

Morgan Stanley Global Real Assets

The Head of Sustainability for Global Real Assets oversees sustainability for Global Real Assets, advising the Private Real Estate (equity and credit) and Private Infrastructure investment teams to enhance existing practices, and provides expert guidance to advance sustainability strategy. The Global Real Assets group considers the below four focus areas when managing sustainability across different asset classes, including sustainability integration, driving operating and environmental performance across assets, improving sustainability engagement and disclosure, and advancing thought leadership.¹⁶

PRIVATE REAL ESTATE

Morgan Stanley Real Estate Investing (MSREI) seeks to integrate material sustainability elements throughout the investment life cycle, where appropriate. Sustainability topics are defined to align with business goals, risk management, regulatory requirements, and investor expectations. MSREI's Environmental Management System (EMS) is an internal document that provides best practice, guidance and resources for investment teams to facilitate implementation of funds' sustainability elements throughout the entire investment life cycle, including due diligence and asset management, to the extent financially and operationally feasible.

To aim to ensure effective implementation of MSREI's sustainability priorities for select funds, progress is tracked over time through regular reporting, third-party audits and participation in benchmarks, such as the annual GRESB Real Estate Assessment. Nuances of approach may vary depending on specific fund strategy and objectives.

PRIVATE INFRASTRUCTURE

Morgan Stanley Infrastructure Partners (MSIP) believes that incorporating sustainability considerations throughout the investment life cycle reduces long-term investment risk and increases the attractiveness of its portfolio companies to buyers of core and core-plus infrastructure assets.

MSIP has a general approach to sustainability integration that applies across funds with the goal of incorporating sustainability factors that are material to each asset throughout the investment life cycle.

As part of the investment life cycle, the team performs due diligence on sustainability-related topics specific to

FIGURE 7.3
Sustainability Focus Areas

SUSTAINABILITY INTEGRATION	DRIVE OPERATING PERFORMANCE	ENGAGEMENT & DISCLOSURE	ADVANCE THOUGHT LEADERSHIP
Embed sustainability in investment life cycle	Improve environmental and financial performance across assets	Create value and differentiation through sustainability disclosure and collaboration	Deepen in-house expertise, and aspire to position Global Real Assets as a leader in the industry

¹⁶ Select Global Real Assets funds take ESG considerations into account in investment decisions on a non-binding basis only. Please refer to the offering documents of any fund prior to investment for details on how, and the extent to which, the relevant fund takes sustainability considerations into account on a binding or nonbinding basis.

a target company, engaging with internal and external specialists as appropriate. As part of this process, the team will review internal and external data and assess a potential investment's sustainability framework and approach, where relevant. Identified gaps, risks and opportunities are addressed as part of the investment decision-making process.

During acquisition and post-close implementation, MSIP works with portfolio companies, to share platform-wide initiatives and best practices and controls. Risks and opportunities identified in the due diligence process are incorporated into a set of sustainability priorities, as relevant.

To aim to ensure effective implementation of MSIP's programme, MSIP's Head of Sustainability and investment teams monitor portfolio company sustainability activities and performance, including through data such as greenhouse gas emissions, energy use and health and safety metrics. In addition, MSIP uses the GRESB Infrastructure Assessment as a framework to systematically assess MSIP funds' and portfolio companies' ability to manage risk and generate value through sustainability. Where relevant, MSIP also supports portfolio companies to set and implement strategic sustainability strategies aligned with their businesses.

Sustainability-related information is also used to support the potential buyers at exit of a specific asset, as applicable.

PRIVATE REAL ESTATE CREDIT

The Private Real Estate Credit teams strive to incorporate sustainability considerations throughout the investment life cycle, where feasible. The approach to sustainability integration may differ between the Private Real Estate Credit teams in the U.S. and Europe to account for regional nuances. As a private real estate credit lender, investment teams may be limited in their ability to apply sustainability practices across investments (in contrast to that of the borrower/owner of the underlying real estate).

As an example, the European Private Real Estate Credit team strives to finance real estate assets or projects with strong underlying environmental/social characteristics. As part of the investment life cycle, the investment teams review each potential investment using a proprietary internal sustainability due diligence scorecard designed to assess and review assets against select sustainability factors including energy efficiency, circular economy and health and wellbeing. Post-investment, the team engages with the sponsors/borrowers to reassess the investment against the proprietary sustainability scorecard annually and to collect relevant and up-to-date information (e.g., EPC rating, building certifications, etc.), as needed.

Private Credit and Equity

Private Credit and Equity (PC&E) has its own sustainable investment policy which sets out how ESG factors are incorporated into its investment process as an essential part of minimising investment risk and maximising investment returns. While the specific ESG factors incorporated into investment analysis vary depending on what is material to a particular asset class, sector, geography and/or investment opportunity, the below reflects the team's overall approach to incorporating sustainability and stewardship into the investment process. Investment strategies that go beyond integration and link ESG criteria to investments may have additional strategy-specific ESG policies.

ESG Integration throughout the investment life cycle

In accordance with [Morgan Stanley's Environmental and Social Risk Policy Statement](#), PC&E will conduct due diligence for specific sectors, viewed as potentially higher risk, in coordination with the Environmental & Social Risk Management Team, employing expert consultants where necessary and as appropriate. Prior to due diligence, PC&E Strategies may consider unique ESG risks and opportunities during an initial assessment.

Strategies that are classified as Article 8 or 9 funds within SFDR, such as the European Direct Lending or 1GT Fund(s), in particular, may apply additional exclusions. Where appropriate, deal teams will undertake operational due diligence through a review of investment policies and procedures and responses to ESG questionnaires as well as site visits. Where MSIM is a limited partner, general partners' internal ESG policies, procedures and documents are also reviewed. Finally, where appropriate, legal due diligence will be undertaken in partnership with MSIM Legal to seek to ensure compliance with regulatory frameworks and to identify exposure to long-term liabilities.

ESG due diligence is conducted by deal teams through review of investment opportunity policies, procedures, site visits and/or responses to ESG-specific questionnaires. Should a PC&E strategy make investments as a limited partner, it will review respective general partners' internal ESG policies, procedures, and documents to assess their past performance as well as their ability and commitment to managing future ESG risks, where applicable. Where appropriate, investment teams will also work alongside Morgan Stanley's Legal team and outside counsel to seek to ensure compliance with regulatory frameworks and to identify exposure to long-term liabilities.

Depending on the results of the pre-investment due diligence process, deal teams may take account of

ESG factors in their overall valuation of the company, deal structure and contract negotiations. Given that a strategy's ability to request and collect ESG data varies, each investment team will possess unique amounts of ESG key performance indicators (KPIs) to consider during investment decision-making. Methods of integrating sustainability risks into investment opportunity valuations vary across strategies and asset classes.

During the Investment Committee, deal teams will present investment rationale which includes ESG analysis and/or scorecards for some specific strategies. The Investment Committee may recommend possible courses of action, where necessary. For example, incorporating ESG clauses in investment agreements or action plans may address issues of concern; in rare cases, opportunities with heightened ESG risks are escalated to the Firm's Franchise Committee for further review and approval.

Post-Investment, the investment teams continue to monitor sustainability performance and risks, where possible, with the aim of maximising investment value at exit. Material issues identified through monitoring are raised with MSIM's Risk team, as appropriate, and the team engages with the investee to encourage ongoing improvement, as appropriate. Where appropriate, certain investment teams, such as 1GT and/or European Direct Lending, may set sustainability goals for portfolio companies and track improvement using pre-determined KPIs where possible. Over the last 18 months, PC&E has also worked to onboard RepRisk, an AI-powered ESG risk surveillance tool. PC&E strategies may leverage RepRisk as an additional mechanism to monitor for any reputational risks or incidents featured in the media.

Given that information rights and the ability to influence portfolio companies vary across PC&E strategies, the following are examples of how individual teams integrate ESG considerations into the investment process:

Morgan Stanley Private Equity Solutions: 1GT Fund

The team seeks to establish itself as the 'lead sustainability investor' for each transaction in which the Fund participates. Core to this designation is the role the team plays in adding value to portfolio companies through its engagement activity, providing advice, tools and additional resources that help advance progress towards the goals contained in a bespoke Sustainability Value Add (SVA) action plan that is devised for each company post-investment.

Contents of SVA action plans are informed by the outcomes of the due diligence process and conversations with company management about their goals and ambitions and will generally be collaborative in nature, working towards shared sustainability-related goals. The SVA is composed of three pillars, Expansion and Exit, ESG and Impact Acceleration. The ESG pillar is intended to help aim to ensure that this is a focus area for ongoing improvement throughout the holding period for each investment the Fund makes.

Company-specific engagement activity tends to arise as a result of ESG due diligence outcomes and may relate to identified areas of relative weakness or potential to cause significant harm as per the EU's Sustainable Finance Disclosures Regulation (SFDR), material sustainability-related opportunities as identified by the deal team, or areas identified by company management as those where they would like to receive additional input and resources.

Engagement objectives and targeted outcomes are determined through a combination of strategic priorities and company-specific considerations. Strategic engagement priorities include improving the disclosure of ESG-related data, incorporating data relating to the Principle Adverse Impacts (PAI) indicators as defined by the SFDR, identifying levers for reduction in Scopes 1-3 GHG emissions to amplify the positive carbon impact resulting from a company's avoided emissions, and raising awareness of Diversity, Equity and Inclusion (DEI), and exploring ways a portfolio company can support a diverse, equitable and inclusive work environment.

During 2024, 1GT onboarded a digital platform, Novata. The platform integrates numerous ESG-related data-sets, including those relating to SFDR or other regulatory regimes, and helps to streamline the data collection and monitoring process and to alleviate the burden on portfolio companies.

European Direct Lending

The team is committed to embedding ESG analysis in each stage of the investment process, from origination through to portfolio monitoring. The five-stage process below encapsulates our approach to integrating ESG throughout the investment life cycle.

- 1. ESG investment restrictions:** The Morgan Stanley European Direct Lending (EDL) Fund does not invest in sectors that pose significant ESG risks and, where

necessary, draws on internal Morgan Stanley expert groups to assess transactions from an ESG perspective.

2. **Preliminary ESG screening:** Before undertaking an investment, the investment team uses RepRisk and undertakes qualitative research to explore a company's historic and current ESG record (if available) and identify potential infringements.
3. **ESG due diligence and assessment:** Investment teams use our proprietary ESG Scorecard, consisting of over 30 questions, to assess companies' ESG performance. Companies that score below the cutoff are no longer considered for financing, and all ESG analysis is presented to the Investment Committee.
4. **Documentation and execution:** The investment team seeks to implement ESG-linked margin ratchets with every borrower to incentivise progress on ESG (please see an example below).
5. **ESG monitoring and reporting:** EDL monitors the ESG performance of its investments on an ongoing basis and reports sustainability data and updates to investors both quarterly and annually.

CASE STUDY 7.1

INVESTMENT TEAM	European Direct Lending (EDL)
ASSET CLASS	Alternative investments
MSIM ENGAGEMENT THEME(S)	Other, Diverse & Inclusive Business ¹⁷
COMPANY SECTOR/INDUSTRY	Application Software
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	Europe
SITUATION	<p>Founded in 2009 and headquartered in France, the company is a specialised provider of treasury management software, predominantly to the large enterprise market segment. Its solutions simplify and optimise cash management, automate payments, and help to manage the risks associated with treasury products. It serves 35% of the largest 40 listed French companies (the CAC 40) and 22% of the SBF 120 corporates, offering solutions to more than 10,000 users in over 50 countries.</p> <p>In January 2024, EDL invested in the company via a senior secured loan and committed acquisition facility to support its acquisition by a private equity sponsor. During ESG due diligence, the investment team identified that the company, while being a relatively small business, has an increasing focus on adopting stronger ESG risk management practices. For instance, it has a number of ESG-related policies in place, according to which it tracks carbon emissions from Scopes 1 to 3 and encourages fair labour practices within the company. It also has several policy documents, such as a Code of Conduct, flexible working policy, and IT policy, and there is a confidential whistleblowing mechanism in place. There are also policies in place relating to cybersecurity and providing training for employee development.</p> <p>To promote further progress on ESG risk management, the team also negotiated an ESG-linked margin ratchet construct in the documentation. The ratchet is bidirectional with +5bps applied if sustainability targets are not met and -5bps awarded for each KPI successfully achieved. The ratchet is also progressive: in order to continue accessing the margin discount, the company must improve its ESG profile annually. The KPIs decided are as follows:</p> <ul style="list-style-type: none"> ■ Have 1/2/3 sustainability certifications in place by FY25/FY26/FY27 and thereafter. Sustainability certifications being either (i) ISO27001, (ii) Ecovadis, (iii) Qualiopi, or (iv) Carbon Footprint certification. ■ Have 1/2/3 sustainability policies in place by FY25/FY26/FY27 and thereafter. Sustainability policies being either an (i) Advanced Whistleblowing Policy, (ii) Code of Ethics, (iii) Gender Diversity Policy, or (iv) Modern Slavery Policy. ■ Have 10%/20%/30% of employees involved in an annual community, pro bono, charitable or outreach programme in each of FY25/FY26/FY27 and thereafter.

¹⁷ The Case Study above includes details about ESG Margin Ratchets as the core mechanism that contribute to European Direct Lending's ESG engagement activities. As the intention of ESG margin ratchets are to benefit the ESG-related management and practices of a borrower, they may include multiple ESG KPIs. In the Case Study above, the Investment Team elected to choose "Diverse & Inclusive Business" amongst others based on one of the underlying KPIs within the respective margin ratchet. It should be noted that there are several others, which do not overlap with MSIM's Engagement Themes.

Custom Solutions

Our multi-asset portfolios integrate ESG factors differently depending on the asset class and strategy. As an example, for quantitative strategies, the team may optimise the portfolio by using ratings or scores balanced against other risk/return objectives. For customised portfolio solutions, the team may review ESG factors to assess impact on asset allocation and/or customise a basket of securities or funds according to the sustainability preferences of particular clients. For highly active, concentrated equity portfolios, integrated sustainability analysis is conducted based on an ESG materiality framework.

The multi-asset teams also conduct thematic engagements with companies on material ESG issues with the themes prioritised for engagement with specific investments differing based on regional practices and progress in those areas.

PORTFOLIO SOLUTIONS GROUP

The team adopts a multidimensional approach to incorporating sustainability into its portfolios. Depending on client preferences, this involves a combination of exclusions, ESG integration, and allocations to solution providers, as needed.

Prior to investment, the team may exclude companies involved in activities that are proven, or have the potential, to cause significant harm to the environment and/or society, thereby potentially impacting financial performance. The team considers the indirect impact of the entire value chain including, for example, suppliers and retailers. Where appropriate, the team works on an “engage or exclude” basis whereby if it believes a company, or broader industry, is open to changing its behaviour, it will seek to engage to help effect that change. For further information on the Portfolio Solution Group’s (PSG) engagement approach, please see [Principle 9](#).

The team’s core ESG integration approach involves tilting portfolios towards companies that better manage material ESG risks and opportunities.

The team takes a broadly similar approach to their developed government bond holdings, by overweighting bonds from issuers with above-average ESG practices and momentum while underweighting those found to be below average.

PSG also leverages MSIM’s broader expertise in its asset allocation process. For example, it often partners with MSIM’s Fixed Income organisation, allocating investment-grade credit sleeves to this team for active management, which includes the incorporation of ESG factors into the investment process.

Collaboration across MSIM

Given PSG’s top-down and diversified approach to investment, the team currently holds a broader set of issuers than other MSIM teams which manage more concentrated, bottom-up strategies. While PSG believes its approach to theme selection leverages the team’s skills appropriately, it may be more limited than other teams that spend more time researching individual companies and liaising with management teams on a more regular basis.

The team believes it can further enhance its ESG approach by increasing collaboration with specialists across MSIM to leverage investment teams’ combined knowledge and ownership to drive change at portfolio companies. The team continues to take a collaborative approach to exercising stewardship and collaborates with several MSIM teams, including the Global Stewardship Team (GST), where appropriate. PSG believes this will ultimately serve to enhance the team’s ability to effectively engage with portfolio companies.

Service providers

As noted, investment teams may use third-party ESG data in various ways. Some use it to inform their own fundamental research, while other teams integrate this data into models and proprietary scoring frameworks.

MSIM recognises that the lack of standardised ESG disclosures has led to a fragmented market. Until these disclosures are improved and systematised, we may need to continue utilising third-party ESG information. We do this both through our own relationships with third-party ESG data providers and those that Morgan Stanley licenses at the Firm level. We can also draw on the expertise of the Morgan Stanley Institute for Sustainable Investing and Morgan Stanley’s Global Sustainability Office (GSO) relating to ESG data analysis, to support and inform various approaches to data integration as required.

MSIM views proxy voting as a key component of stewardship and has appointed independent advisors (ISS and Glass Lewis), to provide vote execution, reporting and record-keeping services as well as issuer research. As noted earlier in the report, MSIM does not outsource proxy voting and hence does not rely on either firm to implement a custom voting policy on its behalf.

MSIM communicates with both service providers at least monthly to discuss research and other operational voting issues to aim to ensure that they are aware of our stewardship and voting needs and our expectations of them in relation to these. See [Principle 8](#) for further details about how we monitor stewardship-related service providers.

Principle 8: Monitoring Managers and Service Providers

Monitoring of service providers seeking to ensure services meet our needs

MSIM adheres to both Morgan Stanley- and MSIM-specific policies to select, assess and monitor service providers seeking to ensure we can deliver best-in-class investment solutions and client servicing standards. This section provides an overview of these controls, explains how the Global Stewardship Team (GST) monitors our service providers, and describes how we hold them accountable.

Morgan Stanley policies

Based on Morgan Stanley's Sourcing Guidelines, the Firm endeavours to engage with suppliers who respect, follow and abide by our [Core Values](#). Engaging with suppliers who share the same core values is key to the Firm's success and enhances our ability to provide superior service to our clients, our employees and our communities. This is outlined in the Firm's [Supplier Code of Conduct](#), which demonstrates our commitment to conducting business honestly and in accordance with our legal and regulatory obligations.

MSIM policies

MSIM complies with both the Investment Management (IM) Public Markets Enhanced Vendor Management Programme procedures and the IM Private Enhanced Vendor Management Programme procedures in selecting and monitoring service providers on both our public and private investing platforms, including vendors used for stewardship and engagement purposes. The goal of these programmes is to identify, monitor and manage risks associated with vendors that support both the public markets and private markets businesses. These procedures supplement Morgan Stanley's Global policies (as outlined above) in addition to our divisional and regional policies.

MSIM conducts due diligence and ongoing monitoring of vendors through various methods including:

1. Periodic meetings or site visits and the use of feedback loops to guide these discussions.
2. Review of key risk indicator (KRI) and key performance indicator (KPI) reports provided by the vendor.
3. Measuring the service against a service-level agreement seeking to ensure contractual expectations are being understood and met by the vendor.

4. Periodic monitoring of services provided.

We also use contract renewals as an opportunity to evaluate the services provided and to give feedback to vendors.

Proxy advisors

As mentioned in [Principle 7](#), MSIM retains ISS and Glass Lewis as proxy voting advisors; however, we do not outsource proxy voting decision-making to either firm. Their primary services to MSIM include vote execution and reporting (provided by ISS) and meeting-level research (provided by ISS and Glass Lewis). MSIM is responsible for ensuring that voting instructions from our investment teams and clients are communicated to ISS. We have robust controls in place seeking to ensure these electronically communicated instructions are accurately recorded in ISS's systems for execution, including scenarios where votes are split because of client preference or differing investment team convictions. Please see [Principle 3](#) for more details.

Our controls include a confirmation report for voting data feeds sent to ISS and an automated end-of-day reconciliation of votes instructed between ISS and MSIM systems. Additionally, MSIM reviews a monthly vote audit report provided by ISS, confirming the execution status for all meetings. The GST also conducts ex-post reviews to confirm that ISS has accurately implemented all voting instructions.

The GST and compliance teams perform due diligence reviews on retained proxy advisors on an annual basis either onsite or virtually. The focus of annual diligence meetings tends to be the timeliness and quality of research, particularly on emerging sustainability topics. Though we do not rely on proxy advisors' voting recommendations, we do expect accuracy in the underlying research they provide. When we identify errors in the underlying research, the GST may contact the provider's head of research to point out the potential error. If we are correct, the vendor may publish a corrected update to the report. We may also seek assurances from vendors that they are taking reasonable steps to reduce the likelihood of such an error recurring in the future. We may provide feedback to our proxy advisors on an ad hoc basis on how they can improve their services to better meet our and our clients' needs.

No critical issues were identified during the period covered by this report.

ESG data providers

SELECTION AND ASSESSMENT OF ESG DATA PROVIDERS

When selecting ESG data providers, MSIM considers several factors including methodology, coverage, history, transparency and materiality alignment. Morgan Stanley's Global Sustainability Office (GSO) conducted an industry-wide assessment of ESG data providers covering hundreds of providers. This assessment has enabled additional statistical analyses, which are performed whenever the team onboards or reviews new providers or datasets to understand similarities or differences between data providers across a common universe (for example any potential biases in datasets).

In general, our findings from these assessments allow us to make more informed decisions on vendor solutions, understand the challenges vendors face, and better evaluate their products to align with our investment and engagement needs.

To aim to ensure the availability of ESG data across MSIM, expand its use, and create a consistent set of high-quality and commonly used vendors and datasets, MSIM has put in place an "ESG data stack." This contains datasets across the ESG spectrum of approaches, across asset classes and across data providers. The data stack is being reviewed where appropriate, to aim to ensure that we are using the highest-quality vendors and adding new datasets to take account of areas where:

1. Emerging sources of ESG data are made available (for example, asset class expansion or specific thematic areas like climate risk or water utilisation).
2. Coverage can be improved.
3. A more transparent or granular data-set is available.
4. An improved methodological approach is used.

QUALITY CONTROL AND REMEDIATION PROCESS

In general, third-party ESG data is centralised at Morgan Stanley for broad consumption across the organisation, including MSIM. As part of this centralisation process, data is vetted with quality-control checks on a recurring basis with the aim of ensuring data provider feeds are accurate, timely and, where needed, merged with existing Firm infrastructure and identifiers, and/or expanded to improve issuer coverage.

When quality-control checks identify potential issues, the central ESG Data team at Morgan Stanley that maintains supplier relationships seeks to engage the data provider in a timely manner with the aim of ensuring that it provides revised data or an explanation regarding the issue.

In such circumstances, data providers will then need to pass further quality-control checks following more granular inspection of the data. If questions still exist, the team will take appropriate action, which may range from consulting further with the data provider to resolve the issue to terminating use of the relevant product or services. In some cases, erroneous data is purged from our central ESG data platform and replaced with corrected information. Users of such information are notified via email groups, at which point revisions to reporting would be made or noted if any of the information was used.

Our policies, procedures and processes for monitoring, working with, and assessing service providers, such as proxy advisors and ESG data providers, reflect our commitment to maintaining a consistent framework across an organisation of our size, with a strong focus on data quality, assurance and vendor standards.

SPOTLIGHT #10

Actions taken after identifying issues with vendor data

An example of quality-control checks identifying potential issues occurred in 2024, when producing MSIM's Entity Principal Adverse Sustainability Impacts (PASI) report. When reviewing the dataset provided by the vendor, the MSIM ESG Tech and Data team flagged data related to seven issuers. The vendor was contacted to confirm if the

data points were accurate or not. The vendor confirmed that there was an issue which had been rectified after the data had been distributed to the team. The vendor provided the corrected data, which was then used when producing the report. 2024 by over 70% versus 2023.

SPOTLIGHT #11

Meeting our data needs through strengthening in-house capabilities

As mentioned in Spotlight #1, MSIM has developed a digital application called AlphaPort-Sustainability ("AlphaPort"). The tool enables MSIM's investment teams and our business functions to assess and quantify the impact of sustainability-related risks and opportunities across the investment portfolio, where relevant.

AlphaPort has seen tremendous growth over the past 12 months, from the introduction of new analytics and dashboards to increased user adoption. Prior to 2024, ESG analytics were decentralised, with individual MSIM investment teams running analysis in disparate platforms. The MSIM Sustainability Team saw an opportunity to build a centralised platform which all investment teams can access. The application we built comprises of a series of modules—Climate, Screens, UN SDG Alignment, ESG Scores, Labelled Debt, Sustainability Regulations—representing specific approaches to evaluating sustainability-related risks and opportunities. Collectively, we believe these modules provide a rounded view of sustainability-related risks and opportunities in an investment portfolio.

We built AlphaPort because we wanted a decision-useful sustainability-related data tool for investment professionals that could be integrated with existing investment management processes including research, portfolio construction, portfolio surveillance, risk management, client reporting and regulatory reporting. After surveying the vendor landscape, we realised that our desired solution existed in parts and that no single vendor could comprehensively deliver a platform that was fit for our needs as a global, diversified asset manager. When building AlphaPort, we aimed to ensure that our solution was 1) flexible to accommodate multiple third-party and proprietary data sources, 2) dynamic to satisfy requirements of multiple investment teams across different asset classes and markets, and 3) delivered in a unified platform alongside existing investment management workflows.

There is no obligation for investment teams to use AlphaPort. Each team uses the application at its own discretion.

SECTION 3

Engagement

Principle 9: Engagement¹⁸

Engagement selection and prioritisation

Approach

As active owners on behalf of our clients, MSIM has a duty to act as a responsible steward of our clients' capital. We fulfil this duty by engaging with selected companies, as appropriate, in which we invest across different strategies and asset classes. Our investment teams, where appropriate to their investment strategy, endeavour to engage in constructive dialogue with companies, which may encompass activities ranging from meetings and discussions on a particular issue to multiyear engagements on a range of topics specific to the company or asset to encourage improvement of companies' practices where relevant. This can encompass a range of topics that may affect the long-term value of a business or asset, including strategy, capital structure, operational performance and delivery, risk management, executive pay and corporate governance, recognising that different approaches to engagement may be appropriate in different regions. This helps us manage risk in the near and long-term, enhance

our understanding of our investee companies/issuers, and, where relevant, create positive sustainable outcomes—all of which we believe may contribute to the long-term returns of our clients.

Engagement Themes

The MSIM Sustainability team has identified five common themes which certain of our investment teams focus on in their engagements, based on their respective investment strategies, where relevant and appropriate. These five Engagement Themes are aligned with the United Nations Sustainable Development Goals, which are areas that may cause risk to our society and well-being, global economy and/or capital markets, but may also present opportunities for improved sustainable and/or financial outcomes.

MSIM's investment teams may prioritise engagements based on a variety of strategy and asset-class specific factors including position size and investment horizon. Examples of investment team-specific engagement approaches over the 18 months from 1 July 2023 to 31 December 2024 are provided throughout the rest of this section.

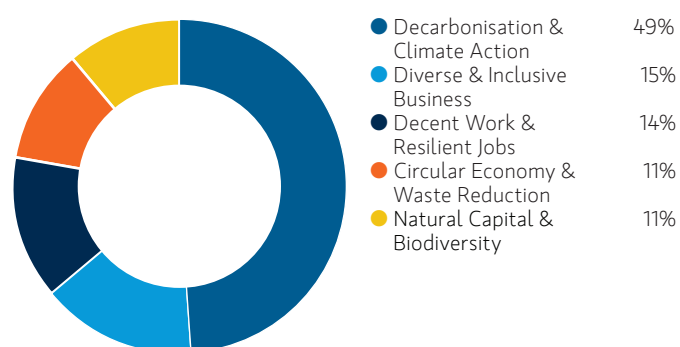
FIGURE 9.1

MSIM ESG engagement statistics

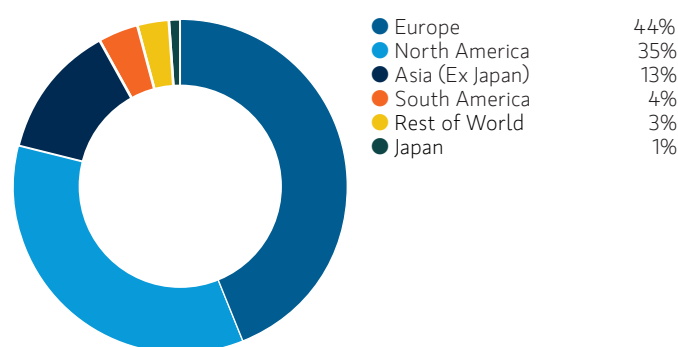
1 July 2023–31 December 2024

Total Engagements: 558¹⁹

ESG Engagements by MSIM engagement themes²⁰



MSIM ESG engagements by region



Please note that certain of MSIM's investment teams may not be included in these figures.

¹⁸ The engagement statistics in this section do not include certain MSIM investment teams.

¹⁹ Refers to ESG engagements conducted by MSIM's investment teams and Global Stewardship team, between 1 July 2023 and 31 December 2024. Includes engagements with corporate and non-corporate issuers. Please note that certain of MSIM's investment teams may not be included within these figures.

²⁰ This pie chart refers only to the breakdown of MSIM engagement themes; other engagement subjects are also covered by investment teams where relevant.

FIGURE 9.2
MSIM engagement themes

	DECARBONIZATION & CLIMATE RISK Supporting the transition to a low carbon economy in line with Paris Agreement goals	<ul style="list-style-type: none"> Renewable energy and clean tech Energy efficiency Physical impact adaptation Just transition 				
	DIVERSE & INCLUSIVE BUSINESS Supporting business practices that create a more just and inclusive society	<ul style="list-style-type: none"> Affordable access to essential services Investing in communities Racial justice Pay equity Board/employee diversity 				
	NATURAL CAPITAL & BIODIVERSITY Supporting business models that reduce negative impact on biodiversity in line with the Post 2020 Biodiversity Framework	<ul style="list-style-type: none"> Sustainable sourcing and use of resources Land and sea use change Deforestation Pollution reduction 				
	CIRCULAR ECONOMY & WASTE REDUCTION Supporting business models that reduce impact on natural resources and that innovate to reduce waste generation, with a focus on plastic waste	<ul style="list-style-type: none"> Recycling and reuse Sustainable sourcing Lifecycle analysis Water stewardship 				
	DECENT WORK & RESILIENT JOBS Supporting decent work across the entire value chain and making workforces resilient in the face of innovation and change	<ul style="list-style-type: none"> Automation and the workforce Supply chain management Living wage Workforce well-being 				

Investment teams may also engage on other areas not limited to these five themes. MSIM recognises that the UN Sustainable Development Goals (SDGs) were written by Governments for Governments and therefore engagement themes with corporates and the SDGs may not be perfectly aligned. The content of this publication has not been approved by the UN and does not reflect the views of the UN or its officials or Member States. See <https://www.un.org/sustainabledevelopment/sustainable-development-goals> for more details on the SDGs

SPOTLIGHT #12

Adoption of natural capital and biodiversity as MSIM's fifth engagement theme in 2023 with continued focus in 2024

In 2023, MSIM added natural capital and biodiversity as our fifth engagement theme. This addition formalises existing engagement efforts and aligns overall themes to the process laid out in the [MSIM Proxy Voting Policy](#), which also addresses biodiversity.

Prior to being put forward as a new engagement theme, natural capital and biodiversity was important to a number of the independent investment teams' engagement efforts, particularly following the COP15 conference in 2022. We continued to highlight this as a key theme in 2024 due to increased focus around portfolio companies' impact and dependencies on natural resources.

Engaging on natural capital and biodiversity

SECTOR MATERIALITY

We identified several sectors, including materials, infrastructure, consumer staples, energy and utilities, for which biodiversity-related factors may pose a significant material risk. We believe companies in these sectors represent key engagement targets, with the purpose of understanding

how they are approaching these risks and encouraging progress.

- In our investment teams' experience, companies are increasingly open to feedback and discussion on this topic, with many in the process of developing strategies to comply with the TNFD (Taskforce on Nature-related Financial Disclosures) framework.
- Some of MSIM's investment teams may have included the following asks of companies when engaging on this issue, to highlight the materiality of this topic from an investor perspective:
 - to integrate biodiversity considerations in business models and strategy.
 - to set specific biodiversity commitment and targets that reduce negative impact.

For further insights into our perspective on natural capital & biodiversity, please refer to the following reports, 2024 Stewardship Trends, Engagement Reports: Engage Autumn 2024; [2024 Fixed Income Engagement Report](#).

Processes and methods

Although MSIM does not have centralised investment beliefs across asset classes and strategies, there are certain commonalities in our approach to engagement across investment teams, which reflect our core values as a firm and our commitment to act as responsible long-term investors (as described in [Principle 1](#) and [Principle 6](#)).

Where relevant, our investment teams seek to engage constructively with companies to encourage improved disclosure and address potentially financially material risks and opportunities. The investment teams tend to prefer one-on-one engagements with senior management and board directors, as they consider these interactions to be the most effective way to articulate their views and engage in constructive discussions with company leadership.

While we prioritise one-to-one engagements with companies, we are also supportive of collaborative engagement where such engagement appears necessary to materially enhance portfolio values and is likely to deliver tangible outcomes, provided we can do so in a manner that is in full compliance with applicable laws, regulations and judicial precedents. More details on our collaborative engagement activities are outlined in [Principle 10](#).

Monitoring and engagement

MSIM's investment teams are responsible for monitoring the performance of companies throughout the investment process. The extent and frequency of monitoring varies across investment teams and is dependent on various factors including the investment strategy and the size of interest held.

Some investment teams actively monitor at the stock level by evaluating company fundamentals, financials and management. Others approach portfolio construction using a top-down, macro approach to strategic asset allocation and undertake thematic engagements with select companies across the portfolio, as needed. Investment teams may take different approaches depending on asset class and type of security, and particular issues may be deemed more material for issuers in certain geographies.

Monitoring of companies may include, but is not limited to:

1. Reviewing and analysing relevant public information published by the company (which may include a company's quarterly financials, earnings calls, general company reporting and other relevant disclosures).
2. Developing proprietary quantitative models to forecast performance, leveraging third-party data services.
3. Conducting proprietary analysis and reviewing external research.
4. Attending company presentations and/or analyst conferences.
5. Where appropriate, engaging directly with companies (which can include in-person meetings, conference calls and email correspondence with company executives and board members).
6. Ongoing monitoring of external events that may impact company performance (for example, regulatory changes, news events).

These monitoring activities can support ongoing identification of engagement targets and topics across our investment teams' portfolios.

Role of the Global Stewardship Team

The Global Stewardship Team (GST) serves as a first point of contact for MSIM's investment teams on proxy voting, stewardship trends and engagement where the knowledge and experience of the GST is viewed as beneficial to the engagement process. Please see [Principle 12](#) for highlights from the 2024 proxy season.

During these engagements, the GST and members of relevant investment teams meet with companies to discuss the issues raised by the company's shareholder meeting agenda.

Topics of routine engagement may include governance best practices such as board independence, succession planning and executive pay. Other topics of consideration may include a company's sustainability initiatives and goals and corporate culture. In consultation with individual investment teams, the GST may request engagement outside the normal proxy process in response to a company headline event or to discuss specific ESG issues. In these cases, the GST may contact the company and request a meeting with the appropriate management team member or member of the board of directors.

Investment team approaches to engagement

As mentioned above, while MSIM has identified five high-level engagement themes, our investment teams are responsible for setting engagement objectives, where relevant, and determining the appropriate engagement methods depending on asset class, geography, investment style and strategy. The following examples demonstrate the different approaches of some of our investment teams in relation to MSIM's five engagement themes.

High Conviction Equities

INTERNATIONAL EQUITY

The investment team is responsible for engaging directly with companies.

The team generally engages with companies on potentially financially material ESG matters in three ways: stock-specific engagement, thematic engagement and, occasionally, where relevant, collaborative engagement.

Given the team's bottom-up investment process, its approach is principally stock-specific, where the team engages on potentially financially material issues identified in the investment process, including those documented in the MRI or Pay X-Ray, where relevant (See [Principle 7](#) for more information).

In some cases, the team may also apply a thematic approach should it believe it is beneficial to engage with several

companies on one topic. In 2024, the team engaged with companies on potentially financially material thematic risks and opportunities including carbon, biodiversity and representation in clinical trials.

In addition, the team may occasionally choose to engage collaboratively on potentially financially material issues with select partners whose approach is complementary to the team's own and where a collective voice may be helpful. It is rare for the team to participate in collaborative initiatives, however, due to its own access to companies and ongoing dialogue in general.

The method of engagement is usually determined on a case-by-case basis, depending on the topic and the timeframe. Engaging with companies can be an ongoing process, often requiring multiple interactions. Initial engagements may focus on fact-finding, building an understanding of the company's approach to a particular issue, and understanding

CASE STUDY 9.1

INVESTMENT TEAM	International Equity
ASSET CLASS	High Conviction Equities
MSIM ENGAGEMENT THEME(S)	Natural capital and biodiversity
COMPANY SECTOR/INDUSTRY	Household products
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	North America
MATERIALITY	Companies may face nature-related risks that can pose a material risk to their bottom line. For instance, companies might depend on natural resources and the ecosystem services provided by nature, such as water, clean air and pollination—"free common goods" which are likely to see an increase in price over time due to regulation and resource scarcity. Companies might also have a negative impact on nature, which can bring significant legal and reputational risks, particularly given regulatory developments.
ISSUES	The team identified nature-related issues as potentially financially material for this company. This includes the risk of water scarcity and the responsible sourcing of commodities, such as palm kernel oil, a crucial ingredient in surfactants and which the company has disclosed 51-60% of its sales are dependent on. This is potentially financially material given regulations such as the EU Deforestation Regulation (EUDR)—the implementation of which has been delayed to the end of 2025 for large companies—which require companies to implement improved traceability and compliance systems.
ACTIONS	<p>In Q4 2024, the International Equity Team met with the company to better understand how it is managing potentially financially material risks relating to its impact and dependencies on nature.</p> <p>To manage the risk of water scarcity, the company is seeking to reduce its water use in its operations and has set itself several goals by 2030, including to increase water efficiency at its facilities by 35% per unit of production. In 2020, the company assessed more than 130 facilities and identified 33 located in areas exposed to high water risk and is focusing its efforts there. Such facilities are required to understand their local watersheds and create action plans in the event of water scarcity. The team encouraged the company to quantify sales dependent on water which the team believes will provide investors with greater transparency on the magnitude of the risk. The company is also seeking to reduce the water footprint associated with consumer use of its products, for example through product innovation. This aims to provide customers with superior products in terms of quality and usability but with a smaller resource footprint, enabling cost savings for the end user in terms of less water and energy use. The team believes the company's focus on the consumer experience is an important component of its success.</p> <p>To comply with the EUDR, the company's primary focus has been on working with its suppliers on their compliance plans. The company explained how it is upgrading its traceability system to meet transparency requirements for its palm oil supply chain.</p>
OUTCOME/NEXT STEPS	While the team believes the company is taking appropriate steps towards managing these risks, they made specific asks of the company. This included quantifying sales dependent on water, which the team believes will provide investors with greater transparency on the magnitude of the risk, and reporting the percentage of palm oil sourced from key geographies (e.g. Indonesia).
INVESTMENT DECISION	The International Equity team continued to hold the company in its portfolios.

CASE STUDY 9.2

INVESTMENT TEAM	International Equity
ASSET CLASS	High Conviction Equities
MSIM ENGAGEMENT THEME(S)	Governance
COMPANY SECTOR/INDUSTRY	Software
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	Europe
MATERIALITY	Excessive use of share-based compensation (SBC) can be problematic and present a potentially financially material risk when company earnings are reported "adjusted," distorting historical earnings and clouding consensus estimates on potential profitability.
ISSUES	The International Equity team generally includes SBC as a cost when conducting investment analysis of a company, deducting it from both adjusted earnings and free cash flows. There are a number of reasons for this. Excluding SBC from cash flow statements means earnings are overstated, given that payroll costs would have been higher had employees been settled with cash. Over time, the expense associated with share buybacks—made necessary as an attempt to rectify the dilutionary effect of shares paid out in SBC—can make a profound difference to a company's cash flows, impacting a company's long-term compounding potential. Not accurately accounting for SBC leaves room for the cost to go unchecked. Considering SBC in financial reporting provides a clearer set of numbers for investors and management to guide towards.
ACTIONS	For the company in question, while the team has already seen some positive outcomes from its prolonged engagement on pay, the team continued to express its dissatisfaction that the company's targets were still based on non-IFRS numbers, which exclude SBC. The team encouraged change via a mix of both engagement and by voting against the company's executive pay plan.
OUTCOME/NEXT STEPS	In 2023, the company switched from awarding notional shares, which transformed to cash after three years, and paid the bulk of SBC in actual shares. To the team's satisfaction, at the end of 2023, the company announced that from 2024, SBC will be accounted for in earnings. Following that announcement, the forecast SBC cost for 2025 has fallen from €2.6 billion to €2 billion, down to 5.3% of revenues, as management has announced its intention to use it more sparingly and have it falling as a percentage of revenues. Given that company management compensation will now be affected by SBC numbers, the team considers this another good example of incentives driving outcomes.
INVESTMENT DECISION	The International Equity team continues to hold the company in its portfolios.

the measures and policies already in place. This is often done through discussions with the company's sustainability and investor relations teams. If the team requires more information, it generally has good access to company senior executives and will engage directly with them where relevant and possible.

Progress may be monitored through additional virtual or face-to-face meetings, telephone calls or email correspondence. If the team does not see any progress, it may consider appropriate escalation (see [Principle 11](#) for more details).

CASE STUDY 9.3

INVESTMENT TEAM	International Equity
ASSET CLASS	High Conviction Equities
MSIM ENGAGEMENT THEME(S)	Data accuracy
COMPANY SECTOR/INDUSTRY	Professional services
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	North America
MATERIALITY	The reporting of inaccurate data can pose a potentially financially material risk to credit rating companies, including litigation and reputational risks, as these companies play a key role in helping creditors make decisions about granting individual loans.
ISSUES	<p>Incorrect credit report data can hamper access to credit. Perhaps the most obvious impact is to the customer, who may then struggle to access the many products that require a credit report, from phone contracts to loans, credit cards to rental agreements or mortgages.</p> <p>Credit reporting has been under increasing scrutiny from regulators and other stakeholders focused on financial inclusion. Customers are also becoming increasingly aware, thanks to media and ongoing settlements, that inaccuracies in reporting can occur, with the number of complaints about credit mistakes on the rise.</p> <p>The International Equity team believes that reporting on accuracy levels provides transparency to customers and stakeholders and helps keep the company accountable.</p>
ACTIONS	<p>During an engagement meeting in Q3 2023, the team asked the company to start publishing data on the accuracy of its credit reports. At the time, while not publicly reported, the company informed the team that it had approximately 99% data accuracy. While this sounds reasonable, when considered in the context of the real numbers of end users, a 1% room for error was still too high in the team's view.</p> <p>The team had a follow-up engagement with the company in Q2 2024. In this meeting, it was pleased to learn that the company has started publishing data on the accuracy of its credit reports, in line with the team's suggestion. The team believes this will provide greater transparency over the regulatory and reputational risks of inaccurate data. The company reported accuracy of 99.7%, with 0.3% confirmed errors.</p> <p>On closer questioning, the company explained that management and the board has spent time overseeing processes and governance. While most data errors come from external data sources, its new task force focused on four key initiatives, including automated review of data files to look for illogical conditions in data and the use of plain language when dealing with customer disputes, should help combat inaccuracies and improve resolution.</p>
OUTCOME/NEXT STEPS	The company intends to keep publishing data on the accuracy of its reporting and expressed the hope of continued progress. The company shared that it is looking at artificial intelligence (AI) tools that could potentially "iron out" errors. To further improve, the team asked the company to report historical data in addition to the current data it is now reporting, to allow investors to assess progress. After all, investor trust in the accuracy of reporting is key; disclosures can help to reassure investors that errors are being effectively managed.
INVESTMENT DECISION	The International Equity team continues to hold the company in its portfolios.

COUNTERPOINT GLOBAL

Counterpoint Global sees engagement as a holistic part of its investment activities, and key to the ability to deliver long-term value. Each company engagement is different depending on the issue and its relevance to the value of the investment. The team members focus on topics where there are clear business value implications such as expected dilution from share-based compensation. Other areas of focus include, but are not limited to, socioeconomic empowerment, inclusive communities, data governance, security and risk management.

The team's engagement process is iterative, with each company meeting providing new information that increases the team's knowledge about the company and its priorities, gaps and opportunities. In some cases, the team provides suggestions or recommendations to companies on their business practices and monitors their alignment with these suggestions over time. The team's approach to engagement tracking allows for effective monitoring and follow-up. For companies facing significant, ongoing challenges, the team will typically monitor the company's management of those issues over an extended period and discuss them in every subsequent engagement call. For other companies, engagement topics may change more frequently, along with the objectives and KPIs used to monitor them.

The team is increasingly finding that its global, all-sector, all-capitalisation, integrated sustainability research approach

is novel to companies and presents an opportunity for partnership, where the team shares strategies with companies to help them capitalise on the sustainability opportunities available to them. The team selectively offers companies access to its network of other operators or sustainability practitioners where it thinks doing so would create the opportunity for a mutually beneficial dialogue.

The team pays close attention to proxy voting, using its votes and other shareholder rights to promote long-term shareholder interests, with a particular focus on good corporate governance. The team's sustainability lead also works with MSIM's Global Stewardship Team to directly engage with portfolio companies.

Based on insights gathered through engagement, team members may create internal notes, referred to as "Sustainability Research (SR) Insights." These notes provide valuable context on risks and opportunities, facilitating deeper analysis, knowledge-sharing, and informed discussions within the team. On a quarterly basis, the team's sustainability lead highlights the most material and often out-of-consensus insights acquired through that quarter's engagements, which are discussed among the senior investors and may prompt new questions for future engagements. These insights are additive to the entire analysis of the company, providing senior investment decision-makers with a more complete view into the opportunities and risks facing the company.

CASE STUDY 9.4

INVESTMENT TEAM	Counterpoint Global
ASSET CLASS	High Conviction Equities
MSIM ENGAGEMENT THEME(S)	Waste reduction, health and safety
COMPANY SECTOR/INDUSTRY	Software
COMPANY LOCATION	North America
MATERIALITY	Company specific
ISSUES	The company's products and services enable more efficient construction, which means reduced waste and less strain on the environment, as well as improved health and safety through improved risk management. However, the team identified opportunities for the company to enhance its communication on the sustainability-related benefits of its platform, thereby improving its ability to manage reputational risk and more effectively engage with new investors.
ACTIONS	The team engaged with senior leaders at the company on effectively communicating the sustainability-related benefits of their platform, for which it believes the company is not getting enough credit based on market consensus. Specifically, that their platform helps their customers manage their construction projects more efficiently and reduce waste. Additionally, it helps improve the health and safety of its customer's employees by reducing the number of incidents at their respective job sites. The team communicated that it was important to effectively communicate quantitative examples of the benefits their products and services provide, so as not to be considered greenwashing, and to possibly attract new types of investors to their company.
OUTCOME/NEXT STEPS	The company welcomed the suggestions, and the team will continue to monitor how it communicates these benefits.
INVESTMENT DECISION	The Counterpoint Global team continued to hold the company in its portfolio.

CASE STUDY 9.5

INVESTMENT TEAM	Counterpoint Global
ASSET CLASS	High Conviction Equities
MSIM ENGAGEMENT THEME(S)	Decent work and resilient jobs, economic empowerment
COMPANY SECTOR/INDUSTRY	Professional services
COMPANY LOCATION	North America
MATERIALITY	Company specific
ISSUES	The company operates an online marketplace that enables businesses to find, hire and pay freelancers for short-term and longer-term projects. The team believes the company is naturally aligned with a more sustainable economy, specifically enabling more broader hiring pools for businesses and more opportunities for freelancers to showcase their talent (removing barriers and helping them access opportunities beyond their local market). However, the company has yet to quantify the value impact to its business customers or the independent workers. The team engaged the company to gain a better understanding of the impact its platform has on its customers, both for businesses and for independent talent.
ACTIONS	Following discussion with the team, the company explained that it had begun working with the internal Research Institute to quantify the future earnings potential of independent talent. Management highlighted that data access and quality have been challenging for off-platform calculations, but it will continue to work on quantifying the benefits of its offerings.
OUTCOME/NEXT STEPS	The team is encouraged by the company's efforts to quantify the value that its marketplace provides to society and will continue to monitor its progress.
INVESTMENT DECISION	The Counterpoint Global team continued to hold the company in its portfolios.

GLOBAL OPPORTUNITY

Global Opportunity engages company management on topics specific to each business with a focus on material risks and opportunities that may impact the value of a

company's securities. Accordingly, engagement priorities differ by individual company and are not region specific.

The following case study provides a practical example of the team's engagement approach:

CASE STUDY 9.6

INVESTMENT TEAM	Global Opportunity
ASSET CLASS	High Conviction Equities
MSIM ENGAGEMENT THEME(S)	Decarbonisation and climate action, circular economy and waste reduction, responsible consumption and production
COMPANY SECTOR/INDUSTRY	Luxury
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	Europe
MATERIALITY	Company specific
ISSUES	The team engaged the CEO, Chief Brand Officer and other executive officers of a European luxury brand in multiple meetings throughout the year to discuss its corporate strategy and progress on sustainability initiatives.
ACTIONS	<p>Management emphasized confidence in the long-term prospects of the brand and culture of continuous innovation, and flexibility of its supply chain as drivers of outperformance within the luxury market amidst a slowdown in the Chinese consumer market. The team discussed progress on a sustainability strategy, use of sustainable and recycled materials in production and climate change initiatives. The company has advanced the traceability and sustainability of materials used in its products over the past decade in support of SDG12: responsible consumption and production, with a special focus on down, one of the most important raw materials in outerwear. The company demands and verifies that all of its down suppliers follow a strict protocol, with requirements pertaining to farming standards, animal welfare and traceability, that apply to all down purchases for their garments.</p> <p>Moreover, the company has set targets to increase the use of recycled and low-impact materials in garments and packaging. Unsold garments are recycled to recover materials and are not incinerated or disposed to landfill. An expanded garment advanced repair service also extends the life of products. Finally, regular audits are conducted by independent bodies to verify supplier compliance to best practice for traceability and animal welfare across the company's supply chain.</p> <p>The company also remains focused on SDG13: climate action, citing continuous improvement and additional reporting resources to increase transparency for recognition with an A score from Carbon Disclosure Project (CDP) in 2023. Furthermore, in addition to near-term emission reduction targets, the company has committed to a science-based target to achieve net zero greenhouse gas emissions across its value chain by 2050, including by sourcing 100% renewable energy by 2023 at all its directly managed corporate sites worldwide and maintaining its carbon neutrality at those same sites.</p>
OUTCOME/NEXT STEPS	The team's dialogue with management further strengthened its conviction in the long-term sustainability of the company's strategy, supported by consistent improvement on product circularity and commitments to science-based targets.
INVESTMENT DECISION	Global Opportunity continued to hold the investment.

EMERGING MARKETS EQUITY

The Emerging Markets Equity (EME) team aims to improve company performance through building an in-depth understanding of the company's approach to sustainability and how this links to its overall strategy. The team undertakes research to look beyond the data and analyses how ESG risks and opportunities are evolving, and how they will impact companies' long-term financial performance. Engaging with management teams allows the team to evaluate whether the company has a clear differentiator and gives them an additional lens on management quality more broadly.

After identifying material risks for a company, the team may conduct a baseline engagement meeting with management. The team believes that company engagements are a two-way street; an opportunity for the team to learn about the company's sustainability strategy, but also to share expertise on industry-best practices and provide guidance, such as encouragement to set specific emissions targets and communicating on the risks, which the team believes are most material to the company.

Post-engagement, the team writes up its assessment of the company's sustainability strategy. For the baseline engagement meeting, the team focuses most on how the company is managing material risks. The team also seeks to understand the company's positioning and evaluates the extent to which it is committed to improvement. In its assessment, the team identifies a few key areas and metrics on which it can follow up through regular conversations with management.

Should the team not see meaningful improvement on identified material issues and believes that this might impact the competitiveness and growth of the stock, the engagement may be escalated. The approach to escalation is decided on a case-by-case basis at stock level (see [Principle 11](#) for more details).

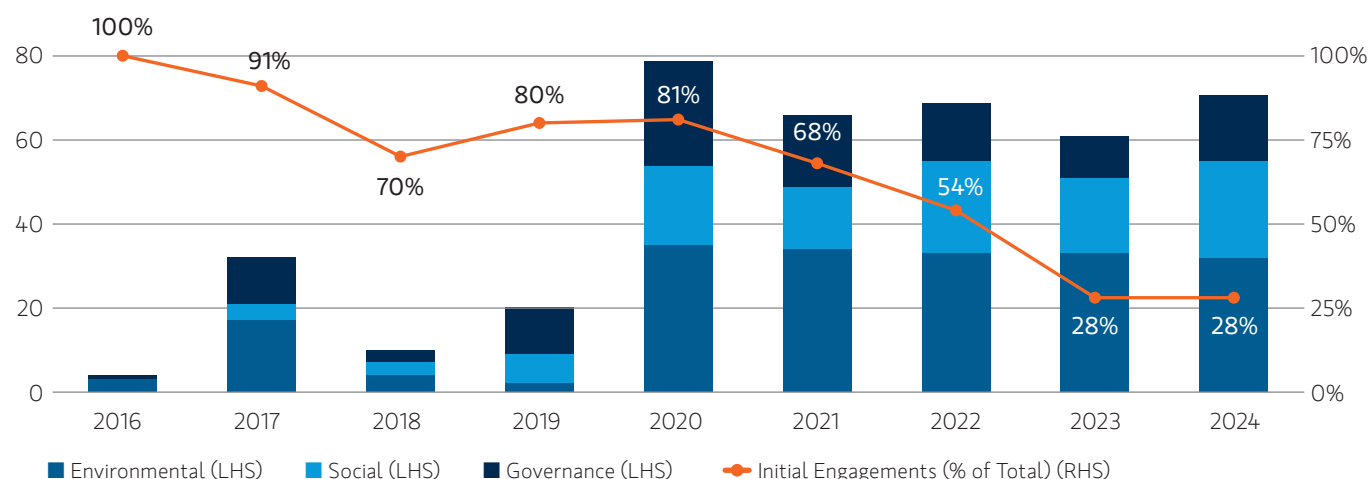
In 2024, the EME team conducted 71 engagements across the team's platform focused on material environmental, social and sustainability issues. The Emerging Markets Equity team records each interaction with management as an individual engagement.

The team increased the number of in-person meetings to nearly 20%, including visits to India in March 2024 and Indonesia/Malaysia in November 2024. The team plans to conduct at least two country visits in 2025, with both Taiwan and China scheduled for the first half of the year.

Regarding the purpose of its engagements, the team focused on improving disclosures in 30% of cases, with the remainder evenly split between sharing best practices, conducting due diligence, and addressing material issues. Additionally, the team conducted a few engagements to assess eligibility for its sustainable portfolios.

The number of baseline (first time) engagements remained similar to the previous year, accounting for less than one third of total engagements. In 2024, the team achieved outcomes that met its objectives in over half of its engagements. Examples of desired outcomes include improved disclosures, assignment of accountability, changes in oversight (such as board composition), reduction of sustainability risk, and commitments such as setting an interim reduction target.

FIGURE 9.3
Total engagements in 2024



CASE STUDY 9.7

INVESTMENT TEAM	Emerging Markets Equity
ASSET CLASS	High Conviction Equities
MSIM ENGAGEMENT THEME(S)	Diverse and inclusive business, and climate action
COMPANY SECTOR/INDUSTRY	Financials
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	South Africa
MATERIALITY	<p>The investment team has been engaging with a South African bank. The company's growth strategy focuses on financial inclusion, supporting wider economic transformation through small and middle enterprise banking, and increasing penetration in the informal township economy.</p> <p>The bank attracts sticky customers by offering affordable and transparent financial products. This is further reinforced by a strong commitment to diversity for its employees and management.</p> <p>Lastly, banking in South Africa where the energy transition is especially difficult means awareness of portfolio level risks is important to investors.</p>
ISSUES	<p>Although the company is committed to diversity and inclusion for its employees and management, board and management diversity levels remain significantly below country averages. However, progress is being made, particularly at the lower levels, which can support improvements in mid- to senior-level management through training, succession planning and internal promotions over time.</p> <p>Moreover, the team has also been engaging management on improving accountability and oversight through better executive compensation targets that align with the company's growth objectives and strategy.</p> <p>Lastly, the company has not effectively communicated its emissions reduction strategy to the market. Although its carbon footprint is relatively low, given where the company operates and the potential for financed emissions, the team felt that enhanced transparency was warranted.</p>
ACTIONS	<p>During the team's previous engagement meeting, it had suggested that the company conduct a materiality assessment, which has since been completed. In this meeting, the company explained that it is working on double materiality post a new acquisition.</p> <p>The company explained that it has also achieved the goal of level 1 black economic empowerment (BEE), which it had been targeting since 2019. Now it continues to focus on increasing diversity at senior management and the board level.</p> <p>Additionally, when discussing executive compensation, the company stated that it had refined its executive compensation targets, which the team believes will positively impact alignment with shareholders.</p>
OUTCOME/NEXT STEPS	<p>During the meeting, the team recommended that the company disclose more details on how they can improve management- and board-level diversity.</p> <p>The team also suggested that management publicly disclose more details on emissions targets, as multiple sources indicate a lack of such targets, despite their inclusion in executive compensation.</p> <p>Lastly, the team encouraged the company to seek greater external assurance on ESG metrics, which management agreed to.</p>
INVESTMENT DECISION	<p>This engagement was part of the team's research process and did not result in a change to the team's investment thesis for the company.</p> <p>The team continues to believe the company remains a leader in financial inclusion and believes the company's sustainability strategy is well aligned with the company's growth strategy.</p>

CASE STUDY 9.8

INVESTMENT TEAM	Emerging Markets Equity
ASSET CLASS	High Conviction Equities
MSIM ENGAGEMENT THEME(S)	Decarbonisation and climate action
COMPANY SECTOR/INDUSTRY	Metals and mining
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	South America
MATERIALITY	In the metals and mining sector, decarbonisation efforts are directly related to the company's operations and energy derived from the grid. In the team's Latin America and global portfolios, it has invested in a major copper miner with operations in South America.
ISSUES	When the team first engaged in 2022, the company was working on decarbonisation but had not published any plans.
ACTIONS	The team recommended that the company draft a detailed roadmap and provided best practices to guide the process. By 2023, the company had not only published a decarbonisation plan but also achieved full energy replacement with renewables. The team continued to engage with the company, asking for more details on the full decarbonisation plan. Recently, the company published an updated emissions reduction pathway. This ongoing engagement not only contributed to improved disclosures but also highlights the company's potential to reduce emissions while improving operational efficiency and delivering robust production results.
OUTCOME/NEXT STEPS	The company's carbon intensity is already lower than industry peers', and based on the company's current emissions trajectory, the team believes the company will continue to be a leading player in the mining sector for decarbonisation. The team is conducting similar work with other metals and mining companies in its portfolios.
INVESTMENT DECISION	This engagement was part of the investment team's research process and did not result in a change to the team's investment thesis for the company. The team continues to believe the company remains a leader in copper mining with sustainability embedded in the growth strategy.

FIXED INCOME AND LIQUIDITY

The Fixed Income organisation has a long history of credit-related engagement. Since 2020—when the organisation first published its [Fixed Income Engagement Strategy](#)—it has evolved its approach to engagement across corporates, agencies and sovereigns.

The Fixed Income organisation believes it has an important role to play in building a constructive dialogue with debt issuers, with a unique position compared to their equity counterparts due to their access to a broad range of entities beyond listed companies, such as governments, municipalities and privately held companies. Through engagement, the Fixed Income organisation also aims to enhance transparency in the market, improve price discovery of the proper cost of capital and ultimately help preserve the long-term value of holdings.

In 2023, the Fixed Income organisation updated its ESG Engagement Strategy to better describe how it categorises its engagements, which focus on MSIM's overall engagement themes and distinguish between integrated, targeted and thematic engagements:

- **Integrated engagements:** Integrated engagements seek to address the most credit-material ESG issues. Led by credit research analysts as part of the regular course of business, these engagements serve as information-gathering opportunities for fixed income investment teams to expand

their insights on issuers' sustainability strategies. For example, credit analysts leverage roadshows as an opportunity to gather both credit- and sustainability-related information with regards to an issuer and/or a specific transaction. Integrated engagements may be one-to-one meetings or alongside other investors.

- **Targeted engagements:** Targeted engagements focus on specific ESG issues that have been identified as part of the ESG research process, to encourage improvements over time. These are primarily led by ESG analysts, targeting issuers based on severe controversies or lagging ESG practices, among other topics. The aim of these engagements is to provide tangible recommendations to issuers on how they can improve transparency through sustainability disclosure, or actions they may take to help mitigate certain identified sustainability risks. The team's targeted engagements are generally one-to-one meetings, to maximise the opportunity for detailed discussion.
 - For targeted engagements, the team establishes an annual pipeline of target issuers based on several criteria, including, but not limited to:
 - companies lagging based on the team's proprietary ESG research,
 - high GHG emissions across scopes 1-3,

- high fossil fuel revenue generation,
- severe ESG controversies such as violations of the UN Global Compact or OECD Guidelines for Multinational Enterprises,
- strong misalignment with the SDGs
- investment team input on feasibility,
- unrated names (such as high-yield or privately held companies), and
- the size of holdings across portfolios.

■ **Thematic engagements:** Select thematic engagements series are conducted based on salient ESG risks and opportunities, reflecting Credit Analysts' sector specialisation and the team's broader approach to ESG analysis. Credit Analysts, together with Fixed Income ESG Specialists, use these thematic engagements to benchmark issuers versus peers, make targeted recommendations, and encourage long-term positive change from issuers. The engagement series serve as deep-dive analyses into relevant, sector-specific topics, such as biodiversity for paper and packaging companies, or human-rights across the supply chain for retail.

The team approaches issuer engagement constructively and collaboratively. Depending on the impetus for dialogue, the team seeks to set clear expectations throughout the engagement process. These can include the disclosure of specific data points, promoting the adoption of recognised ESG reporting standards or suggesting alternative practices where the team is concerned by a certain course of action taken by the issuer.

The Fixed Income organisation's predominant method of engagement is via direct meetings with senior representatives in a company or organisation, including Chief Financial Officers (CFOs) and members of the treasury teams, heads of investor relations, and senior representatives from the sustainability teams.

Progress on targeted engagements is monitored through the periodic assessment of selected metrics considered most important to the company and sector. If the team determines that a company is not adequately addressing specific financially material risks, it may escalate the issue, where appropriate. The teams use buy/sell decisions as a

way of indicating sentiment to the company on its approach to sustainability. Any issues considered to be very serious from a sustainability perspective may also be raised to the MSIM Sustainability Team and, in extreme cases, to the Firm's Global Franchise Risk committees (see [Principle 11](#) for more details on escalation).

Over the 12-month period from July 2023 to June 2024, the Fixed Income organisation conducted over 150 engagement meetings focused on sustainability topics. In line with increasing regulation focused on disclosure for both investors and issuers, the team doubled its engagement focus on ESG reporting and disclosure quality.²¹

Over the course of the year, the Fixed Income organisation also conducted a series of thematic engagements. For example, in 2024, it launched an engagement series focusing on human rights, targeting engagement with retail companies to encourage their alignment to the core UN Guiding Principles on Business and Human Rights (UNGP) indicators.²² The team believes that through prioritising conversation with companies that either have low scores on the World Benchmark Alliance (WBA) Corporate Human Rights Benchmark, or names it has large exposure to, and diversification across investment-grade, high-yield and emerging market issuer types, it can effectively leverage its influence and prompt improved human rights management.

Some of the engagement meetings conducted by the Fixed Income organisation, in particular with financial institutions, may also benefit the Liquidity team. In some cases, the Liquidity team may rely on the credit analysts and ESG analysts in the Fixed Income organisation to help conduct engagement meetings associated with their investment holdings.

Asset class and regional differences

While investment-grade issuers tend to be the primary target of the team's targeted engagements, as they generally have larger quantifiable externalities, the team has been growing its engagement with high-yield issuers. The team finds that the close relationship between management and investor for smaller companies, particularly those in the high-yield space, creates an opportunity for constructive, ongoing dialogue, which is often supported by clients with high-yield focus (see [Principle 6](#) for further detail on engagement with a distinct client focus).

²¹ This is based on MSIM's thematic engagement framework (identifying common engagement themes across MSIM, but not limited to five thematic focus areas), and refers to the predominant themes covered during the engagement; however, the Fixed Income teams' dialogues normally cover multiple ESG issues. Please refer to MSIM's Sustainable Investing Policy for more information. Data refers to number of themes covered across all engagements.

²² 13 Core UNGP indicators formulated by the World Benchmark Alliance (WBA) Corporate Human Rights Benchmarking Alliance, <https://www.worldbenchmarkingalliance.org/research/corporate-human-rights-benchmark-core-ungp-indicators/>.

TABLE 9.1**Fixed Income engagements – distribution across fixed income asset classes²³**

FIXED INCOME SUB ASSET CLASS	ENGAGEMENT DISTRIBUTION (%)
Investment grade	68%
High yield	15%
Emerging markets	4%
Sovereign, supranational and agencies	11%
Securitised	2%

The team has seen a significant increase in the number of engagement meetings with sovereign issuers. These engagements have been focused on lagging performance on UN SDGs, and, more broadly, on how countries can provide more frequent sustainability disclosure and impact-focused data.

The team has also been expanding the geographical distribution of its engagements, although meetings with issuers based in the EMEA region comprised the majority of engagements. This was, in part, attributed to the presence of a more sophisticated sustainable debt capital market, and developed sustainability strategies and resources, enabling more touchpoints with issuers.

TABLE 9.2**Fixed Income engagements – geographical distribution²⁴**

GEOGRAPHY	ENGAGEMENT DISTRIBUTION
EMEA	64%
APAC	6%
LATAM	3%
US	27%

²³ Engagement refers to meetings conducted over the 12-month period from July 2023 to June 2024, by MSIM's Fixed Income group.

²⁴ Engagement refers to meetings conducted over the 12-month period from July 2023 to June 2024, by MSIM's Fixed Income group.

CASE STUDY 9.9

INVESTMENT TEAM	Fixed Income
ASSET CLASS	Active fixed income
MSIM ENGAGEMENT THEME(S)	Natural capital and biodiversity
COMPANY SECTOR/INDUSTRY	Personal products
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	North America
MATERIALITY	Personal products companies often have complex supply chains, which are required for the raw material inputs for product offerings. The sourcing of forest risk commodities such as palm oil, soy, pulp and paper, if not done responsibly, may result in financially material ESG risks. These include shortages in supply, reputational and/or regulatory risks stemming from human rights and deforestation rules violations.
ISSUES	<p>In Q4 2023, the Fixed Income organisation met with a household and personal products company, following an initial discussion with the company's sustainability representatives on biodiversity and deforestation in 2022. In that instance, the company had displayed limited awareness of best practices around biodiversity-related measurement and reporting. The team had therefore encouraged it to:</p> <ol style="list-style-type: none"> 1. Familiarise itself with the outcomes of COP15. 2. Consider Taskforce on Nature-related Financial Disclosures (TNFD) recommendations and conduct a biodiversity impact and dependency assessment. 3. Reconsider the materiality assessment of biodiversity for the company, to prioritise the theme in their agenda and integrate it more thoroughly in business considerations. 4. Set a forward-looking clear time-bound company-wide commitment to ending deforestation, and 5. Publish a deforestation grievance log. <p>The aim of the meeting in Q4 2023 was to go over the company's efforts to implement the team's previous recommendations, and to continue to push for monitoring and measurement of biodiversity interdependencies, company-wide deforestation goals and the publication of the related grievance log.</p>
ACTIONS	<p>The company confirmed the recent creation of a team specifically focused on biodiversity, going through reporting frameworks including the TNFD and developing a double materiality assessment. The team's analysts encouraged the company to prioritise the TNFD framework and to publish biodiversity dependency and impact reporting. The company confirmed that it had not considered reporting on TNFD recommendations and noted the suggestion.</p> <p>With respect to deforestation, a grievance log had not been published at the time of the second meeting, but the company confirmed that it was working on publishing it, clarifying grievance procedures with excluded suppliers and any escalation practices. The company highlighted to the team that their previous discussion in 2022 was helpful for it to push internally for this disclosure, as it was able to evidence to the Sustainability Committee that not only NGOs, but also investors, were requesting this information.</p>
OUTCOME/NEXT STEPS	<p>A few months after the team's meeting, the company published a grievance log for palm oil suppliers, improving its reporting and transparency on this forest-risk commodity. The team views this as a partial success, as palm is one of the key commodities for this company; it aims to continue engaging to discuss the deforestation goals and biodiversity assessments.</p> <p>In Q4 2024, the team followed up with the company on its deforestation and biodiversity practices. The company had set a new deforestation-free objective by 2030 for its palm oil and soy products, and it has been engaging with suppliers on deforestation and conversion free methodologies; the 2030 goals are viewed positively. In addition, the company had been engaging with suppliers on the implementation of the EU Deforestation Regulation, working to ensure compliance and avoid impacts on their supply chain. While the company had absorbed considerations for biodiversity into its deforestation program, it confirmed nature would not be a company-wide priority in 2025. The team is satisfied with the company's responses and positive momentum since 2022 and plans to continue to monitor these as part of its research process.</p>
INVESTMENT DECISION	The investment team continue to hold investments in the company in certain portfolios, given the success of the team's ongoing interactions with them.

CASE STUDY 9.10

INVESTMENT TEAM	Fixed Income & Liquidity
ASSET CLASS	Active fixed income & liquidity
MSIM ENGAGEMENT THEME(S)	Governance
COMPANY SECTOR/INDUSTRY	Banking
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	North America
MATERIALITY	<p>In the banking sector, the team finds that governance risks tend to be more financially material to fixed income returns relative to social or environmental factors. In its most simplistic form, a governance assessment can be interpreted as an indicator of management quality, something that traditionally aligns closely with the interests of bondholders. Independent historical analysis of ESG ratings and bond returns tends to support this conclusion.</p> <p>More generally, as long-term investors and active owners, the team believes that good corporate governance and sustainability practices are a signal of management quality and that well-managed companies produce long-term sustainable returns.</p>
ISSUES	<p>The company had been involved in a series of anti-money laundering (AML) controversies over previous years, having paid more fines in the U.S. over the past decade than any of its Canadian peers (although significantly lower than U.S. competitors). The Fixed Income team has been monitoring these controversies closely.</p> <p>Most recently, in Q4 2024, the company was fined by the Department of Justice (DOJ), due to AML violations concerning Chinese crime groups, who were using the company's branches to launder money across certain states in North America. The fine was in line with expectations. However, the Department of Justice had also imposed an asset cap on the company's operations in the US, which was not widely expected by the market and could restrict the bank's growth.</p> <p>For several months leading up to the DOJ decision, the team's Fixed Income fundamental analyst and ESG specialist discussed the controversy and shared views, engaging with the company in Q3 and Q4 2024 to gather information to assess the extent of its remediation plans.</p>
ACTIONS	<p>In a meeting with the company in Q3, the team's analysts sought to understand what had been done to address the AML inefficiencies.</p> <p>The company had already invested a meaningful amount in strengthening its risk and control function (as of May 2024), directing a substantial proportion to technology to improve transaction monitoring. While some of this was a one-off investment, the company expected an additional equivalent expenditure on the improvement of controls in 2025 and 2026, signalling an increase in ongoing expenses to remediate the controversies.</p> <p>Additionally, the company had appointed a new Head of Financial Crime Risk Management, and an AML Officer, with proven leadership and experience. Beyond these leadership roles, the company had also added over 700 new AML specialists from a range of backgrounds, with experience and qualifications in money laundering prevention, financial crimes, and AML remediation. When the team connected with the company in Q4, management highlighted that while the oversight committee was currently focused on the U.S., it is a top priority to expand this function across the Firm. Process improvements are expected to be company-wide and benefit the entire organisation (including Canada and Europe).</p> <p>Finally, the company had also focused on training involving its broader employee base. Pulse surveys were being sent to employees to assess morale, and the company had been sharing updates with its workforce in a timely manner. Positively, the company highlighted that turnover had not been impacted by the controversies. In Q4, the team's analysts followed up on this topic; the company highlighted that the asset cap only applied to 25% of its total business, and so the majority of its employees did not feel personally affected, especially those based outside of the U.S.</p>
OUTCOME/NEXT STEPS	<p>The engagement enabled the team's analysts to better assess the company's ESG progress. The Fixed Income organisation is invested in this company across multiple portfolios, and its analysts plan to continue monitoring the company's progress on remediation. In particular, the team aims to monitor the company's employee turnover, given it has previously seen significant loss of talent for banks that have experienced governance-related controversies.</p>
INVESTMENT DECISION	<p>Given the engagement provided the team's analysts with sufficient information to assess the company's controversy remediation approach, the team continues to hold the name widely across its fixed income and liquidity portfolios.</p>

Customised Solutions

PORTFOLIO SOLUTIONS GROUP (PSG)

The team aims to fulfil its stewardship responsibilities by engaging directly with issuers and through effective exercise of proxy voting and other shareholder rights. The team believes its approach is well designed to promote the long-term success of companies and create sustainable value for its clients.

Typically, the team's main engagement priorities are guided by top-down thematic research based on a materiality assessment of both ESG risks and opportunities conducted by its dedicated ESG analysts. This approach aims to ensure that stewardship is a natural extension of the team's philosophy around risk control as researching the risks and opportunities to our global economy and global markets is central to the team's asset allocation process.

The team's engagements are generally focused on enhancing the disclosure of sustainability-related information by issuers, securing and encouraging improved management of material sustainability-related risks and opportunities and improving the team's own understanding

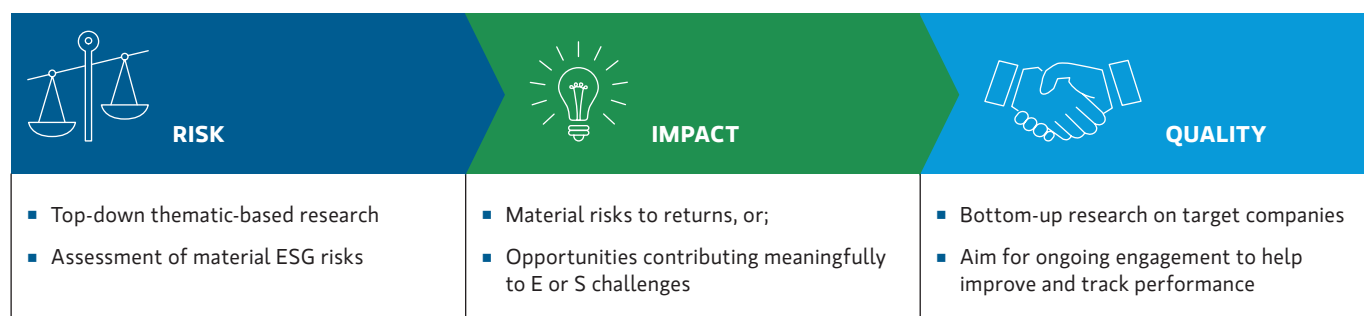
of any sustainability-related risks in their portfolios. Its engagement strategy focuses on three components: risk, impact, and quality. Focusing on these three elements allows the team to prioritise thematic ESG issues that not only contribute to global sustainability goals but also potentially reduces risk across portfolios.

To maximise the effectiveness of its engagements, the team capitalises on opportunities to collaborate with a number of MSIM teams, including MSIM's GST, where appropriate. The team finds internal collaboration, when appropriate and beneficial for shareholder value, to be highly effective as it pools resources and expertise from across MSIM's diverse and differentiated businesses leading to more constructive dialogue.

For the year ending 31 December 2023, the team engaged with issuers on 54 occasions across 5 thematic areas. These engagements not only allowed the team to establish constructive dialogues and advocate for positive sustainability outcomes, but also helped inform its investment decisions.

FIGURE 9.4

Engagement Considerations



Source: MSIM's PSG ESG Team

SPOTLIGHT #13

Decarbonisation and climate change

The PSG team engaged with an emerging-markets steel company headquartered in India with global operations. The company has a long-term net zero target and had previously disclosed interim decarbonisation goals.

India is a key market for iron and steel and is second only to China when it comes to manufacturing crude steel. Crucially, demand for steel in India is projected to increase over 87% during the period 2021-2030 while capacity is expected to grow by 57%.²⁵

The carbon intensity of iron and steel production varies, not only due to technology efficiency but also due to the local energy mix and availability of scrap material. Given India's low scrap availability and heavy reliance on coal for power, its steel production is highly carbon-intensive compared to global peers. To satisfy growing demand many firms continue to invest in the most carbon intensive forms of production. More than half of planned capacity additions are carbon-intensive Basic Oxygen Furnace (BOF) plants. The assets require significant capital and have long operating lives, exacerbating the risk of locked-in carbon emissions or stranded assets.

Like most steel companies with Net Zero commitments, the company is yet to lay out detailed roadmaps for how they expect to deliver on its pledge, at least outside of its European assets. The team is sensitive however to the challenges the company faces regarding balancing decarbonisation with serving growing demand for its product. As

mentioned, coal is the fuel of choice for almost all Indian steelmakers given a relative lack of gas reserves or renewables. Furthermore, India's rapid development needs limit scrap availability, limiting the potential for cleaner Electric Arc Furnace production. The team nonetheless underlined its concern with current progress on meeting targets as well as the company's continued build-out of the most polluting coal fired BOF furnaces.

Notably, the team was concerned that interim targets previously disclosed were not present in its most recent reporting documents and could not be found on the website. The team outlined that accountability was essential and targets should remain in play, or the company should clearly disclose why not. The company was receptive to feedback and underlined they are assessing current plans.

Further, the team discussed challenges in investing for emerging-markets companies given high interest rates and prohibitive costs for innovative technologies. The company used its European assets as an example of success that would be hard to replicate in its Indian assets.

Overall, the team is disappointed in the company's current practices. The lack of disclosure and clear accountability raises questions about the company's commitment to decarbonisation and its capex plans on highly emission-intensive assets call for further scrutiny. The team will continue to monitor the company while it assesses its strategy.

Alternative Investments

PRIVATE CREDIT AND EQUITY

Engagement Approach

PC&E investment teams believe engaging with portfolio companies is an important element of their approach to investment management, especially considering the respective time horizons of their respective asset classes. However, due to the diverse strategies across the team, the ability to engage and thus obtain information pertaining to underlying portfolio companies will vary (for example control vs. non-control, private equity vs. private credit). To supplement internal findings and analysis, PC&E may also leverage third-party expertise during diligence or the holding period. There are many common considerations across portfolio companies (for example, board structure, independent board members, existence of employee policies), and investment teams recognize the presence of industry-specific risks that may include environmental risks, labour violations and other thematic topics that may warrant engagement.

Variance in approaches across control and non-control situations

Control situations enable a high level of regular and ongoing engagement and dialogue with portfolio company boards and management teams. Investment teams collaborate closely with portfolio company management teams in determining 100-day plans for improving operations, expanding business lines, implementing organisational changes, etc., to precipitate growth and create long-term value. As a part of that process, ESG-related KPIs are identified, where investment teams seek to monitor progress on a regular basis throughout the holding period.

In comparison, non-control strategies are relatively limited in their ability to engage with management of portfolio companies; accordingly, the team undertakes careful diligence and preinvestment engagement in these cases. In some cases, within their non-control equity investments, teams may have board observer rights. This may provide investment teams with transparency but does not

²⁵ "India Net Zero Steel Demand Outlook Report," Climate Group Steelzero, 2022.

guarantee that they can influence company management in comparison to control situations. For credit investments, teams have limited access to information provided by the sponsor or the borrower, which are typically KPIs that are important for the investment team to consider a borrower's credit worthiness. Investment teams on the credit side will work with borrowers or sponsors, where applicable, to obtain ESG-related information typically in the form of a predetermined ESG checklist. That said, credit investments do not permit investment teams to influence company management; accordingly, it is the private equity sponsor of the borrower that ultimately determines how material ESG risks and/or incidents are managed, and what is disclosed to investors.

Example: 1GT Fund, Private Equity Solutions (indirect private equity investments)

The Private Equity Solutions (PES) business is largely an indirect, passive private equity investment platform, consisting of co-investments, secondaries and fund-of-funds strategies. Since the business does not actively manage its assets and targets companies, it generally engages with investment partners (general partners) to manage and steward their portfolio companies (although this varies by partner/strategy/country). Depending on the investment, the business will typically send either annual ESG questionnaires to its portfolio companies or GPs to obtain updates on ESG policies, processes and performance as a way of obtaining information prior to deciding on next steps with respect to each GP or investment.

As a part of PES' direct investing impact strategy, 1GT is an Article 9 fund that primarily seeks to make growth equity investments in companies that enable decarbonization globally. As its name suggests, 1GT maintains a broader

decarbonization target of enabling the avoidance of 1 gigaton of carbon emissions by 2050. As an Article 9 fund, engagement activity for the 1GT team focuses on outcomes, seeking to drive positive change by engaging with the key influencers and decision-makers within a portfolio company, with whom the team typically have direct lines of communication. Key influencers will differ across portfolio companies, and the team therefore takes a flexible and tailored approach in terms of which issues are addressed specifically, while recognising the importance of senior manager buy-in to drive commitments to sustainability-related initiatives from the top down. Engagement activity is tracked in the Fund's digital platform, DealCloud.

In addition, the team may engage with portfolio companies on a reactive basis following the identification of a controversy or risk event. In the event that the 1GT deal team identifies a situation in which the portfolio company's management of one or more material ESG-related risks or opportunities does not meet satisfactory levels or has been deteriorating over time, or where a company within the Article 9 fund has been identified as potentially causing significant harm through the impact of its operations on an ESG theme or principal adverse impact indicator, the team will typically enact an enhanced engagement protocol. Under this enhanced engagement protocol, the portfolio company and deal team work to resolve this over the course of 12 months from the date of identification. In such an instance, the frequency of engagement activity will likely increase and may involve other resources, such as MSIM's central sustainability resources or third-party specialists. At the end of this 12-month period, the team will typically review the situation and take appropriate next steps.²⁶

²⁶ Please note that 1GT is not aware of any ESG-related incidents that have occurred during preinvestment or holding period that it would consider material to investment performance. Engagement with portfolio companies will first and foremost be undertaken individually, pursuant to the binding agreement between the Fund and the portfolio company, whereby company management commits to engaging with the team and/or any third-party consultant or specialist appointed by the Fund in relation to ESG matters. However, the team recognises the benefits of other parties in the capital stack and the board being in alignment with plans for significant change and that collective engagements can be powerful drivers of this. As such, the Fund will, where escalation measures are deemed necessary, seek to work in conjunction with other investors in the capital stack to amplify the impact of the undertaken engagement and the chances of the objectives and targeted outcomes being achieved.

CASE STUDY 9.11

INVESTMENT TEAM	1GT
ASSET CLASS	Alternative investments
MSIM ENGAGEMENT THEME(S)	Decarbonisation and climate risk
COMPANY SECTOR/INDUSTRY	Application Software ²⁷
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	North America
MATERIALITY	Company specific
ISSUES	<p>The company offers a supply chain risk management software solution and serves a variety of customers across a range of industries and geographies. Many of the company's customers are subject to increasing environmental regulations such as CSRD and will be required to disclose value-chain emissions at a product level. This proves problematic for EU customers especially as these companies will need to increase their supply chain due diligence and commitment to responsible sourcing, which may require additional time and resources.</p> <p>1GT worked with the company to identify a gap in their offering, and an opportunity to provide a regulation-focused solution for customers.</p>
ACTIONS	1GT, along with the company management team, identified CSRD and similar regulations as a positive commercial opportunity for the company. This opportunity was presented to the company's board, leveraging insights from Morgan Stanley's Global Sustainability Office, to highlight the increased scope of companies that must disclose sustainability reporting, including non-EU companies that meet certain thresholds.
OUTCOME/NEXT STEPS	The company is now offering its expertise in supply chain management solutions and adaptive tools to help multinational corporations based in North America and Europe navigate newly imposed regulations. By leveraging AI and predictive analytics the company can make operational supply chain improvements, which helps reduce costs and carbon emissions whilst becoming more aligned with regulations such as CSRD.
INVESTMENT DECISION	Improved conviction in the company's commercial outlook and sustainability value-add for customers.

PRIVATE REAL ESTATE

Engagement Approach

Morgan Stanley Real Estate Investing (MSREI) recognizes that it is better able to generate exceptional ideas and develop innovative solutions to complex issues by soliciting feedback and listening to the different perspectives of our stakeholders. The MSREI engagement strategy focuses on collaborating with key stakeholders—including tenants and property managers—to drive sustainability performance, operational efficiency and long-term value creation. Nuances of approach may vary by fund.

Tenant engagement involves engaging tenants on sustainability topics, where possible, and encouraging sustainable behaviours. For example, select MSREI funds have implemented green lease clauses and/or established a tenant engagement program, which includes providing

tenant sustainability guides and conducting tenant engagement surveys for select assets across its portfolio, where appropriate.

Collaboration with property managers is necessary for executing on-site capex projects such as energy and water efficiency measures or pursuing a green building certification. As an example, for select funds, MSREI may conduct an annual property management survey to help assess risk, monitor compliance with a diverse set of policies and track improvements, where possible.

To strengthen collaboration, MSREI has organized a Sustainability Summit in the U.S., bringing together top real estate operators to share best practices, discuss regulations and align on sustainability strategy, fostering a unified sustainability approach.

²⁷ Please note that the Case Study above reflects a software company serving the "Mobility" sector, one of several core themes within 1GT's strategy to enable global decarbonisation.

CASE STUDY 9.12

INVESTMENT TEAM	Private Real Estate
ASSET CLASS	Alternative investments
MSIM ENGAGEMENT THEME(S)	Decarbonisation and Climate Action
COMPANY SECTOR/INDUSTRY	Select real estate assets within the US core portfolio
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	North America
MATERIALITY	Energy consumption is one of the most material topics in real estate given the built environment is a major source of GHG emissions fuelling climate change.
ISSUES	Energy efficiency reduces a building's operating expenses and enhances asset value. As such, MSREI seeks to reduce energy consumption across its portfolio where operationally and financially feasible.
ACTIONS	<p>MSREI conducted a top-down energy analysis across its U.S. portfolio to identify opportunities to reduce energy consumption — one of the largest sources of operational emissions. The focus was on self-storage assets, which are landlord-controlled, allowing for efficient implementation, and select health care properties with high-energy loads from medical equipment.</p> <p>An external engineering firm was engaged to benchmark energy performance, assess compliance with local building regulations (e.g., Building Performance Standards) and inform capital planning.</p>
OUTCOME/NEXT STEPS	The analysis confirmed strong performance across both asset classes, with full regulatory compliance and only minor efficiency tune-ups suggested. Outliers were flagged and issues—such as HVAC control faults—were promptly resolved. Opportunities to further improve energy efficiency and reduce emissions were identified: LED retrofits, HVAC upgrades, retro-commissioning, and envelope enhancements. MSREI continues to engage asset managers, property managers, and external consultants to monitor opportunities to drive asset-level energy and GHG emission reductions.

PRIVATE INFRASTRUCTURE***Engagement Approach***

During acquisition and ownership, MSIP works with portfolio companies to support their sustainability initiatives. MSIP believes that embracing and institutionalizing sustainability practices helps drive long-term value and results in higher-quality infrastructure assets.

MSIP's engagement efforts include working with portfolio companies to report against the GRESB Infrastructure

Assessment on an annual basis. Through this process, portfolio companies submit annual sustainability performance data as well as updates on their sustainability approach. Engagement is also conducted through portfolio company board-level reporting and internal asset reviews.

MSIP also supports portfolio companies' sustainability efforts by providing training on relevant topics. In the past year, training has been conducted on governance, regulatory and human rights topics.

CASE STUDY 9.13

INVESTMENT TEAM	Morgan Stanley Infrastructure Partners
ASSET CLASS	Private Markets – Infrastructure
MSIM ENGAGEMENT THEME(S)	Health and safety
COMPANY SECTOR/INDUSTRY	Utility
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	Europe
MATERIALITY	The health and safety of employees, contractors and the communities of MSIP's portfolio companies are of paramount importance. MSIP also believes companies that do not manage health and safety programs systematically over a sustained period may face potential operational, reputational, legal or commercial risks. MSIP is committed to working with portfolio companies to build a rigorous culture of safety, striving for zero accidents.
ISSUES	<p>A rigorous health and safety program is essential to infrastructure companies to keep employees, contractors and communities safe.</p> <p>MSIP invested in a company that was a carve-out of a larger company. As such, the company needed to develop and implement stand-alone sustainability strategies and systems, including with regard to health and safety.</p> <p>After investment, the MSIP team worked closely with company management to undertake a comprehensive program to support the company's overall safety culture and program.</p>
ACTIONS	<p>The portfolio company, with the support of consultants and MSIP, undertook a phased project to transform the company's safety program.</p> <p>The project included a comprehensive analysis of the current state of the company's safety performance and culture, including a safety perception survey with management and employees and an assessment of management systems.</p> <p>Senior leadership was engaged throughout the process to increase risk awareness and reinforce visible leadership and commitment.</p> <p>Senior leadership was equally incentivized to improve safety KPIs through the annual target setting and bonus system.</p> <p>A detailed plan was developed and is being implemented by the company with commitments including a safety vision for the future. A risk-based analysis was implemented to prioritize actions and business segments.</p>
OUTCOME/NEXT STEPS	<p>As a result of the actions above, health and safety has become a significant focus for the company and senior management.</p> <p>The company continues to implement its safety program, including through a communications program, training, metrics, and reporting and technology.</p>

Principle 10: Collaboration

Through its various businesses and internal functions, MSIM and Morgan Stanley support, participate in or take a leading role in many industry initiatives and organisations. We regularly bring together investors, policymakers, NGOs and thought leaders to share lessons and promote innovative solutions to sustainability-related challenges. This includes participating in industry conference panels, exploring joint research and supporting the work of groups focused on relevant ESG-related issues.

Notwithstanding the mode of collaboration that we adopt, we approach collaborative engagement from the perspective of being fiduciaries of our clients' assets, acting on behalf of and in the best interests of our clients ([Principle 6](#)) and therefore living by MSIM's core value of Putting Clients First ([Principle 1](#)).

We prioritise oversight and governance of collaborative engagements, seeking to ensure compliance with antitrust regulations and prevent undue or unfair pressure on companies. Depending on the type of collaboration,

proposals to join external organisations need to go through the process detailed in [Principle 2](#), while one-off collaborative engagements require review from the Firm's Antitrust Counsel.

Examples of the types of collaborative engagements undertaken both at an MSIM organisational level and by our individual investment teams over the 18 months from 1 July 2023 to 31 December 2024 are summarised below:

Examples of collaboration among MSIM's investment teams

Notwithstanding our independent investment team structure and decentralised approach to investment management, MSIM's investment teams may engage collaboratively where a cross asset-class stewardship issue arises (for example, if there is focus on an issuer's ESG risk or egregious conduct that warrants escalation by mobilising the broader MSIM franchise).

SPOTLIGHT #14

Collaboration between MSIM's Emerging Markets Equity (EME) team and Calvert

EME conducted several combined research engagements with its affiliate entity Calvert Research and Management (which is not otherwise included in this report) in 2024, on holdings in common across all sectors. Since the partnership between MSIM EME and Calvert went live on 11 November 2024, Calvert's Research team has joined most engagements where holdings are in common, with the exception of in-country/in-person engagements. Calvert's Research team and MSIM EME typically hold planning meetings ahead of engagements to discuss material issues, objectives and debate questions, then the teams conduct a debriefing as well to decide on next steps and follow-ups if needed.

In the coming year, MSIM EME and Calvert's Engagement team have several targets to engage with companies in a couple of sectors, with very specific objectives to encourage change in areas such as indigenous people's rights in the autos sector and financed emissions in banking. MSIM EME believes these combined efforts are a benefit to its portfolios combining Calvert's industry best practices with MSIM EME team's deep emerging-markets knowledge and long history of investing in these companies.

SPOTLIGHT #15

Collaboration across equity and debt exposures

BACKGROUND

In collaboration with the Emerging Markets equity team, the Fixed Income organisation initiated an engagement with a metals and mining company, focused on the following key operational issues:

1. “Social License to Operate,” or the acceptance that mining operations receives from local communities beyond legal requirements. The issuer’s business activities primarily consist of extractive mining, making maintaining successful relationships with local communities key to preserving longevity of its operations;
2. Decarbonisation and the implementation of reduction targets, given the scrutiny faced by the sector to support the transition to a low-carbon economy, via credible capital allocation strategy, commodity portfolio orientation and integration of downstream scope 3 emissions considerations; and
3. Company plans for potential Initiative for Responsible Mining (IRMA) memberships and/or IRMA audits for certain mines.

ISSUER RESPONSE

The issuer had faced previous controversies related to its impact on local communities. Company representatives presented their new, more proactive approach to community engagement through developing plans with local communities to determine the best ways to engage. In addition, the issuer is running workshops with communities near sites before launching projects to address potential

issues in advance. On the issue of external audits of mine sites, the issuer indicated willingness to undergo such reviews and are implementing a third-party assessment in certain operations, noting difficulties given costs.

On the decarbonisation front, to reduce Scope 1 emissions, the issuer is testing the use of biofuels in processes and is increasing efforts to electrify transportation vehicles. The company also has ambitions to expand renewable energy usage to global operations. With regards to downstream scope 3 reduction targets, even though the company does not have an immediate intention to establish such targets, they are in the process of measuring their downstream Scope 3 emissions. The MSIM teams involved in the engagement recommended the issuer set these goals next year, in line with peers’ practices.

OUTCOME

In response to investors’ concerns around some of the issuer’s local operations, in late 2024 the issuer committed to undergo a third-party audit for one of its large nickel mines, making the resulting report public. We see this as a positive step from the company as this would provide a solid basis to continue the dialogue with some of the relevant stakeholders in a more transparent way.

Investor coalitions

Objectives

MSIM may participate in or lead investor coalitions in order to achieve various objectives including, for example: to access a broader range of expertise (academic, industry, NGO) to improve our ability to work with companies; to undertake policy engagement for example to provide feedback on global sustainability regulations and requirements; to address systemic issues; to enhance our sustainability knowledge and share best practices;

and/or to act as the voice of our clients on issues of relevance to them.

PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI)

MSIM has been a signatory to the PRI since 2013. Our membership allows us to pool resources, share information and enhance our influence on financially material issues. It is also a hub for us to connect and engage with other PRI signatories and to contribute our voice and practical experiences to a widely recognised responsible-investment framework.

SPOTLIGHT #16

Private Infrastructure

Morgan Stanley Infrastructure Partners (MSIP) looks to engage with key external stakeholders to understand best practice and trends in sustainability where applicable and relevant to MSIP’s business.

In 2023, MSIP participated in the GRESB Infrastructure Net Zero Working Group, which supported an independent review of existing net zero frameworks and methodologies to improve understanding of potential approaches.

MSIP also joined the PRI Infrastructure Advisory Committee (IAC), which helps identify and understand different approaches to responsible investment in infrastructure.

In 2024, MSIP participated in the PRI IAC physical risk working group, which is aimed at supporting investors to better understand their potential exposure to physical climate risks.

CASE STUDY 10.1

INVESTMENT TEAM	Portfolio Solutions Group
ASSET CLASS	Custom Solutions
MSIM ENGAGEMENT THEME(S)	Decarbonisation and climate action
COMPANY SECTOR/INDUSTRY	Utility
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	North America
MATERIALITY	The team engaged twice with an American utility company, known as one of the largest purchasers of renewable energy, as part of the PRI Advance programme. The company faced project delays in the past when solar panels failed certification under the Uyghur Forced Labor Prevention Act (ULFPLA). Its current supply contracts forbid sourcing from regions where the legislation focuses its attention, and the company is assisting suppliers to diversify from high-risk regions.
ISSUES	<p>Renewable energy supply chains are complex, and critical components are often concentrated in areas with potential exposure to labour rights violations. Regulators have to date focused their attention on restricting the import of goods potentially tainted with forced labour. In the US, the ULFPLA prohibits the import of certain goods, such as solar panels, that fail to demonstrate forced labour was not used.</p> <p>Failing to address these complex human rights issues could therefore not only result in project delays but pose legal, reputational and social license risks. Disappointed by limited human rights disclosures despite the scale of the issue, the team pressed the company for more detail around traceability and asked about indigenous community engagement and land rights regarding planned development and overall human rights efforts.</p>
ACTIONS	<p>Acknowledging the team's feedback, the company explained its new organisational partnerships focused on enabling expanded disclosure. Since the team last spoke with the company, it has instituted a new, stricter supplier code of conduct and hired a third-party auditor for supply chain and operational human rights reviews. On traceability it detailed supply chain monitoring while admitting upstream mapping difficulties and historically unreliable supplier information.</p> <p>Regarding indigenous rights, the company confirmed dedicated personnel working with divisional departments to incorporate indigenous considerations.</p>
OUTCOME/NEXT STEPS	The company has so far responded positively to the team's requests, and the team plans to continue to collaborate on enhancing the company's disclosures and practices on human rights. While complete transparency and origin level traceability are ideal for avoiding human rights violations, this aspiration remains difficult to achieve due to limited upstream capacity and unreliable data.
INVESTMENT DECISION	The team continues to hold and engage with the company given its positive momentum on this material issue.

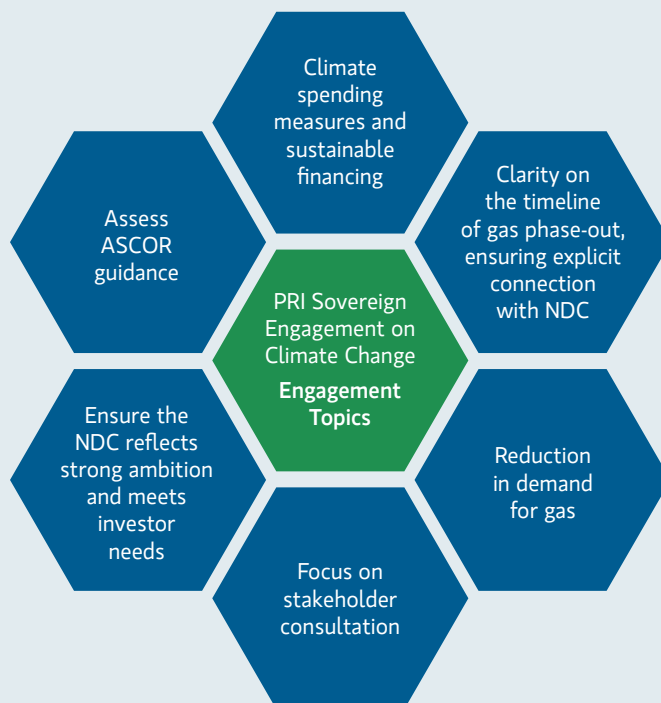
SPOTLIGHT #17

Collaborative sovereign engagement on climate change.

Led by the PRI, the Fixed Income organisation and 26 international investors (collectively responsible for \$9.5 trillion in AUM) have been engaging with various stakeholders in the Australian government.

This initiative, which we joined in 2023, aims to provide a platform for investors to collectively engage with sovereign issuers to mitigate climate risks and capitalise on potential opportunities. As sovereigns continue to access global debt markets to finance the investment needed to meet their Nationally Determined Contributions (NDCs), we believe they benefit from the feedback provided by us to establish ambitious NDCs, robust sectorial targets and appropriate sovereign climate risk disclosures. The initiative has also proven helpful to underscore to various stakeholders— from treasury officers to policy makers—how highly ambitious intermediate and long-term targets, backed by a comprehensive roadmap to achieve them, can support economies' transitions to net zero and unlock investment in low-carbon industries.

We have been engaging on the topics shown in the diagram below.



CERES PRIVATE EQUITY WORKING GROUP

Our PC&E business is a member of Ceres' Private Equity Working Group. This group facilitates sessions that provide General Partners (GP) and Limited Partners (LP) with the latest climate-centric and sustainable investment practices, policies, frameworks and tools to: assess, manage and mitigate financially material ESG and climate risks, adopt investment practices in alignment with the Net Zero Investment Framework, provide guidance on aligning environmental and social impacts of investments to support sustainable development, and develop and implement investor climate action plans.

Ongoing Progress

Ceres, in partnership with the Institutional Investors Group on Climate Change (IIGCC) and Anthesis, a consultancy, released a Net Zero framework specific to the private equity industry to help firms develop practical approaches to align their investments to the goals of the Paris Agreement. PC&E continues to explore how its various strategies should approach these frameworks given limitations that private market participants are challenged by (e.g., data availability, applicability, level of influence, etc.).

PC&E's relationship with Ceres is also reinforced by the fact that Morgan Stanley is a member of Ceres' Investor

SPOTLIGHT #18

Human rights and labour risk management

Through the PRI Advance Collaborative Stewardship Initiative, the Fixed Income group co-led an ongoing engagement with a global mining company on their human rights and labour risk management. This platform has enabled the team to gain unique insights, that otherwise would have been less accessible.

For instance, in Q4 2023, the team participated in a meeting with NGOs representing affected communities in Latin America to understand the main issues of concern for the company's local

operations and thus inform their asks of the company. The NGO representatives outlined certain gaps in the company's process in their engagement with local communities, such as obtaining Free Prior and Informed Consent (FPIC) from Indigenous groups.

The information gained from the NGOs helped the analyst reach a better understanding of the scope and nature of the company's ESG controversies, and hear directly from representatives of affected communities.

Network on Climate Risk and Sustainability, and that the CEO of Ceres is a member of the Morgan Stanley Institute for Sustainable Investing Advisory Board.

Contributing to the development of industry standards

Objectives

MSIM participates in initiatives that contribute to the development of industry standards to help improve industry practices and disclosure standards, sharing feedback on structuring sustainable products/securities, to increase the transparency and quality of market instruments and to act as the voice of our clients.

INTERNATIONAL CAPITAL MARKETS ASSOCIATION (ICMA)

The Fixed Income organisation takes part in multiple ICMA working groups under the Green, Social and Sustainability-Linked Bond Principles, including those on Sustainability-Linked Bonds, and Impact Reporting.

Outcome

Over the reporting period, representatives from the Fixed Income organisation provided comments on green-enabling projects categorisation and eligibility criteria, as well as

inputs into the Sustainability-Linked Bond data disclosure checklist. Team members also contributed to ICMA's "Harmonised Framework for Impact Reporting," published in June 2024.

EUROPEAN LEVERAGED FINANCE ASSOCIATION (ELFA)

The Fixed Income organisation joined ELFA as a member in 2021, and through its High Yield investment team helps promote sustainability awareness and best-practice reporting among high-yield bond issuers.

Outcome

In 2024, a senior research analyst in the High Yield investment team was appointed Disclosure and Transparency Committee co-chair, tasked with improving the quality of disclosures in the High Yield space. The committee works closely with ELFA's ESG committee, with the aim of improving issuer governance and reporting practices.

Overall

MSIM and Morgan Stanley are active participants in a number of external sustainability initiatives. Please see [Appendices](#) for a full list of our current initiatives.

Principle 11: Escalation

As active owners, MSIM's investment teams generally seek to engage regularly with portfolio companies/issuers as part of their investment approach, where relevant and possible. In cases where a team is seeking to encourage improvement through engagement and a company is not receptive or where engagements do not lead to desired results, it may decide to escalate engagement by, for example, casting votes against management, requesting meetings with board members, or writing letters to boards and management. In some cases, repeated, unsuccessful engagements in relation to a financially material issue may contribute to a decision to decrease or exit a holding. Additionally, while teams prioritise constructive engagement in private forums to build trust and foster open dialogue, if this is not leading to the desired outcome they may consider collaborative engagement or filing a shareholder proposal as an escalation method, where appropriate.

In line with MSIM's decentralised approach to investment decision-making, our portfolio managers are ultimately responsible for the decision to prioritise companies for engagement or escalation. Hence the type of escalation method used depends on a variety of different factors including, but not limited to, the investment, prior

engagement activities, outlook and a judgement call made by the investment team as to the financial materiality of the issue and the best interests of our clients, being cognisant of the fact that it may take years to effect substantive change on certain issues.

Below we set out how a number of MSIM's investment teams approach escalation and some examples of where this has happened during this reporting period.

International Equity

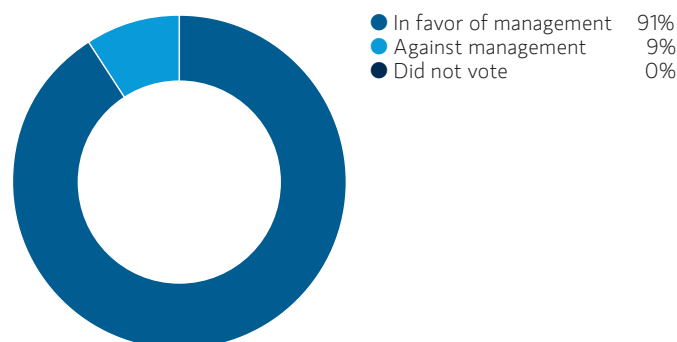
Given the high-quality nature of the team's companies, the regular cadence of its engagements and its position as a long-term active owner, the need for escalation is generally limited. However, if a company does not respond sufficiently to engagement, raising concerns with the company CEO is one form of escalation the team may use. In addition, where appropriate, voting may also be used as a form of escalation. For example, in instances where the team has voted against company pay plans multiple times, it may vote against members of remuneration committees to further emphasise its message. The team does not discuss its voting intentions as part of engagement activity.

FIGURE 11.1

International Equity voting activities 1 January 2023 – 31 December 2023²⁸

% total number of meetings held	96 (100%)
% total proposals voted	1,715 (100% of all proposals)
% votes against management as a proportion of resolutions	9%
% meetings with at least one vote against management	69%

% of voting instruction

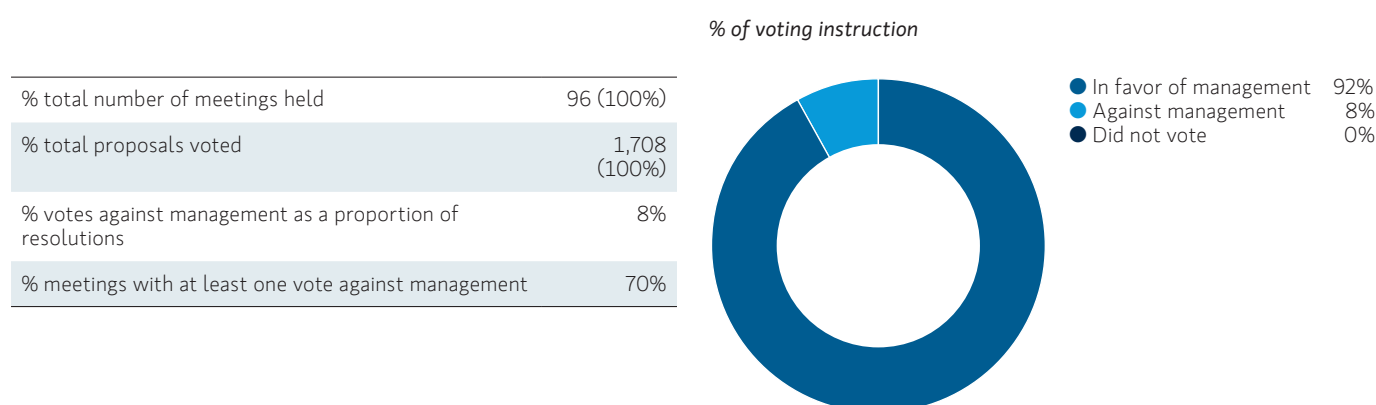


²⁸ Data excludes votes on liquidity funds. Votes against management include withheld votes and abstentions.

In the 12 months to 31 December 2023, the team voted at 96 meetings (100% of all meetings held by its companies) and on 1,715 proposals (100% of all votable proposals). Common reasons for voting against management were related to executive compensation, election of directors and shareholder ESG proposals.

If, after regular engagement, voting and ongoing monitoring, the team believes that a company is not taking adequate steps the team may choose to take investment actions that ultimately could include divestment, though the team will typically consider a range of factors in making this decision, and ESG considerations alone are unlikely to be the sole reason for an investment decision.

FIGURE 11.2
International Equity voting activities 1 January 2024 – 31 December 2024²⁹



In the 12 months to 31 December 2024, the team voted at 96 meetings (100% of all meetings held by its companies) and on 1,708 proposals (100% of all votable proposals). Common reasons for voting against management were related to executive compensation, election of directors and shareholder ESG proposals.

CASE STUDY 11.1

INVESTMENT TEAM	International Equity
MSIM ENGAGEMENT THEME(S)	Executive compensation
BACKGROUND	<p>The International Equity team believes poorly structured and outsized company management incentive schemes can be a potentially financially material risk, inviting short-termism, capital misallocation, excessive risk taking, misaligned objectives and poor shareholder returns.</p> <p>The team has voted against the executive compensation plan at a leading home and personal care company every year since 2020, but, despite engaging with the company, concerns persist.</p> <p>The team's primary concerns are twofold: 50% of the Long-Term Incentive Plan (LTIP) is delivered in the form of non-performance shares/options and there is a lack of disclosure of the targets used to determine the annual bonus. The team would like to see a pay plan entirely based on performance with clear disclosure of targets, enabling the team to assess whether these are sufficiently challenging.</p>
VOTING OUTCOME	<p>The team engaged with the company prior to the 2024 Annual General Meeting (AGM). Given the current lack of improvement, the team voted against the pay plan once again. As a form of escalation, the team voted also against the re-election of the chair of the remuneration committee to signal its view to the company.</p> <p>The team does not discuss its voting intentions as part of engagement activity.</p>

²⁹ Data excludes votes on liquidity funds. Votes against management include withheld votes and abstentions.

Emerging Markets Equity

EME evaluates escalation on a case-by-case basis. The escalation protocols include varying practices and timelines, and each investor determines the approach for each company as determined by the investment guidelines for each strategy.

Typically, EME will initially request a dedicated call with the company to discuss the issue and implications for/negative effects on the business. Where a company is not adequately addressing a risk the team considers important to the business strategy over a relevant period, the team may re-evaluate the investment thesis in the context of this issue. Other approaches the team may use include following up in writing to send best practices and/or suggest next steps for improvement on a particular issue and raising the issue further with senior management. The

team will then monitor improvements at the company on an ongoing basis, where appropriate.

In addition, where appropriate, depending on the timeline and the severity of the issue, voting may also be used as a form of voicing our concerns on items when they come for a vote. For example, in instances where the team has voted against company pay plans multiple times, it may vote against members of remuneration committees to further emphasise its message. The team does not discuss its voting intentions as part of engagement activity, nor do we vote against board members for items unrelated to what is on the proxy.

Depending on the strategy, divestment may be considered if the team believes the issue could have an adverse effect on the business model or stock price, or the team loses confidence in management.

FIGURE 11.3

Emerging Markets Equity voting activities 1 January 2023 – 31 December 2023

	2023	VOTES AGAINST MANAGEMENT BY TOPIC	
Total Votes Cast	3608	Compensation	36%
Number of Meetings Held	403	Directors Related	27%
Management Proposals Voted On	3555	Capitalization	11%
Shareholder Proposals Voted On	53	Company Articles	9%
Votes With Management	3194	Routine Business	7%
Votes Against Management (including abstentions)	414	Strategic Transactions	6%
		Other	4%

"Other" category includes audit related, E&S blended, environmental, miscellaneous, non-routine business, social and takeover-related proposals.

During 2023, EME voted at 403 meetings on 3608 proposals in its portfolios. The number of meetings was 7% higher than 2022 and the team increased its votes against management to 12% of proposals (versus 11% in 2022). The most common rationale for votes against management was compensation, which overtook last year's most common topic of directors related. The team had a higher percentage of votes against management on compensation compared

to 2022 (36% vs 26%) and slightly fewer votes against management on director elections. The team believes this is due to better communication of its expectations for the board earlier in its engagement strategy, giving management more time to improve. The team continues with the goal of voting against non-independent board members where the board is not majority independent or where key committees are less than two-thirds independent.

FIGURE 11.4**Emerging Markets Equity voting activities 1 January 2024 – 31 December 2024**

	2024	VOTES AGAINST MANAGEMENT BY TOPIC	
Total Votes Cast	3696	Directors Related	38%
Number of Meetings Held	447	Compensation	21%
Management Proposals Voted On	3636	Capitalisation	14%
Shareholder Proposals Voted On	60	Routine Business	9%
Votes With Management	3290	Strategic Transactions	8%
Votes Against Management (including abstentions)	406	Company Articles	5%
		Other	5%

"Other" category includes audit related, E&S blended, environmental, miscellaneous, non-routine business, social and takeover-related proposals.

During 2024, EME voted at 447 meetings on 3696 proposals in its portfolios. The number of meetings was 11% higher than 2023 and the team voted against 11% of the proposals. The most common proposal topic for votes against management was Directors Related, which overtook last year's most common topic of Compensation. The team continues with its goal of voting against non-independent board members where the board is not majority independent or where key committees are less than two-thirds independent.

Fixed Income

GENERAL APPROACH

As mentioned in [Principle 9](#), the Fixed Income organisation identifies a target pipeline of key names with which to prioritise engagement, including those issuers that are severely lagging on a particular issue or where the team is a large bondholder. In cases where engagements do not have the desired outcome, for example when recommendations are not taken on board, the team may choose to escalate engagements. As engagement priorities may differ based on sector and location, the factors influencing teams' escalation approaches may also differ.

- **Example 1:** A persistent lack of a coal phase-out plan might be a trigger for escalation in the engagement with an energy or mining company operating and distributing mainly in a developed market, given the risks associated with new low-carbon regulation. However, the Fixed Income organisation might concede a longer time buffer for a company with most of their coal-related operations and distribution in emerging markets, with lower transition risk or where other ESG considerations—such as access to affordable power—warrant a longer timeline. The team is also enhancing its consideration of the just transition in its assessment of issuers operating in global markets.
- **Example 2:** On social concerns, the Fixed Income investment teams would not apply the same flexibility with respect to issues related to human and labour rights as they may do on an environmental issue such as that described in example 1, as they believe issuers must abide by established international norms. The team, where appropriate, engages with issuers operating in global markets to aim to ensure robust human rights policies and processes are in place across regions and value chains, as appropriate.

CASE STUDY 11.2

INVESTMENT TEAM	Emerging Markets Equity
ASSET CLASS	High Conviction Equities
MSIM ENGAGEMENT THEME(S)	Decent work and resilient jobs Decarbonisation and climate action Circularity
COMPANY SECTOR/INDUSTRY	Apparel
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	Asia ex. Japan
MATERIALITY	During the reporting period, the team engaged with an apparel manufacturer with operations across China and the ASEAN region. Material issues included: 1) supply chain transparency, specifically as it relates to labour risks; 2) decarbonisation, as the company is a relatively high emitter with many of its top clients committed to reducing carbon emissions in their production; and 3) circularity, driven by its largest clients' increasing focus on the use of recycled materials.
ISSUES	On labour risks, the team felt the company needed to have more awareness of and make better use of well-established global norms on grievance mechanisms, both for its own operations and across its supply chain. The company lacked due diligence on its own supply chain, which the team viewed as an important area for improvement. Regarding decarbonisation, the company is a relatively high emitter but lacks a long-term roadmap for decarbonisation and is relatively reliant on renewable energy certificates to meet client commitments. Despite being a member of RE100, the company has not been able to develop a plan for investing in renewables. On circularity, the company has not invested significantly in developing this capacity.
ACTIONS	During the team's engagement with this company, it became clear that progress has been relatively slow, prompting the team to conduct additional due diligence to better understand the associated risks. This led the team to join a group meeting with one of the company's top clients regarding sustainability commitments, where the team gained insights into the types of covenants that would likely be put on its portfolio holding. Following this discussion with the top client, and after another round of disclosures from the company, the team then had another meeting with the company's Head of Sustainability, focused solely on decarbonisation.
OUTCOME/NEXT STEPS	Following this engagement, the team concluded that sustainability risks and industry-related costs were likely to continue rising due to growing client and regulatory pressure. The team felt the company lacked sufficient awareness of these risks and costs and was not providing enough transparency to investors on labour management, suppliers and decarbonisation.
INVESTMENT DECISION	This engagement eroded the team's trust in management as the team believed the company was not conducting adequate due diligence to understand these risks. Consequently, the conversation with management led the team to re-evaluate its conviction in the company.

- **Example 3:** Governance standards may also differ across geographies, with certain countries or regions being more prone to company family ownership, for example, which in some instances can be associated with less transparent remuneration practices. The Fixed Income investment teams have, on multiple occasions, escalated concerns around executive overcompensation, board entrenchment and family ownership within these types of companies.

While the ownership rights conferred by equity tend to permit better corporate access and therefore more options with respect to escalating engagements, in the fixed income context the team typically escalates engagements by either voting against a bondholder resolution (although this is quite rare as an option) or, more often, by raising relevant issues with other internal and/or external stakeholders in order to facilitate a collaborative engagement.

CASE STUDY 11.3

Escalation to encourage greater supply chain disclosure

INVESTMENT TEAM	Fixed Income
ASSET CLASS	Active fixed income
MSIM ENGAGEMENT THEME(S)	Decent work and resilient jobs
COMPANY SECTOR/INDUSTRY	Automotive
COMPANY LOCATION (WHERE IT IS HEADQUARTERED)	Europe
MATERIALITY	<p>The automotive industry is exposed to complex raw material supply chain labour risks, particularly following the rise of electric vehicle manufacturing and the critical minerals required for such vehicles. Separately, multiple companies across varying sectors have been exposed to human rights-related controversies involving forced labour in the Xinjiang Uyghur Autonomous Region in China (Uyghur Region).</p> <p>Coupling these elements can result in material regulatory and reputational risks. For instance, the German Supply Chain Due Diligence Act will likely result in German automakers passing on disclosure obligations to companies within their own supply chain or, in cases of non-compliance, facing fines of up to 2% of average annual global turnover.</p>
ISSUES	<p>The team has been engaging with this company since 2020, with multiple meetings taking place over the period from July 2023 to December 2024.</p> <p>The company had owned a plant in the Uyghur Region through a joint venture, which in 2022 had been flagged by third-party ESG data providers as breaching the UN Global Compact Principles. This was due to forced labour allegations related to the hiring of Uyghur workers. Given the severity of the issue, this red flag caused analysts to further investigate the matter to assess the credibility of the company's remediation amid investor pressure.</p> <p>In Q4 2022, the team attended an investor forum hosted by the company's human rights officer. The team then met with the company again to obtain information on its internal controls, beyond the narrow legal view of the issue shared at the wider investor forum. In this meeting, the company displayed some reluctance around raising labour rights issues with domestic partners out of a fear of offending local sensibilities.</p>
ACTIONS	<p>In Q4 2023, the company published a human rights audit summary related to the allegations of forced labour. However, the company did not provide, in the team's view, exhaustive information, such as disclosure on the local entity that conducted the audit. There were no plans to publish anything more detailed, given the company's main concern was removing the red flags assigned by ESG data providers.</p> <p>The team's analysts had concerns regarding the credibility of the audit, as well as whether a satisfactory audit was possible at all in that region. The actions taken by the company to remediate the controversy appeared once again to be conducted through a narrow view of solving an immediate problem, in this case the third-party ESG downgrades. Questions remained with respect to how the company was managing the issue of supply chain monitoring more broadly and how it might be applying lessons learned to other global operations.</p> <p>In Q2 2024, the team followed up on the company's progress on human rights. One of the plants supplying one of the company's suppliers was reported to be connected to the forced labour controversy, details of which the company had shared with U.S. customs. While the company had suggested this to be an example of their grievance mechanisms working to flag such exposure, the team sought to maintain oversight of the company's progress and subsequently engaged again on the issue in Q4 2024.</p> <p>The company took a more proactive approach in the team's latest meeting. The company had been developing its CSRD reporting and an ESG factbook and sought to solicit feedback from the team on both sets of disclosures. The team's analysts recommended that the company focus its reporting on statistics related to the use and outcomes of code of conduct and whistleblower systems, as well as emphasising new reporting to investors that can be expected relating to the German Supply Chain Due Diligence Act.</p> <p>Following broader investor criticism mirroring that of the Fixed Income team, in late 2024 the company made the entire audit report available on their website as the team had originally requested. The company's new Sustainability Council is also due to present at the next Sustainability Forum, comprised of independent experts working on topics such as people and society. The aim of the reorganisation is to improve operational implementation in the company, something the team's analysts plan to monitor closely.</p>
OUTCOME/NEXT STEPS	<p>While the original controversy did not raise concerns over the company's direct practices given the nature of the exposure was through a joint venture, the issuer's response raised concerns about the level of care it was taking regarding the issue. After the team's interactions on the topic, it found that there appears to have been a notable improvement in the issuer's management of this risk globally, despite there still being room for more progress. In addition, in Q4 2024, the company's joint venture sold the plant that had been the source of the forced labour allegations.</p>
INVESTMENT DECISION	<p>As a result, the team does not expect there to be an elevated risk of the company's operations causing significant harm going forward, despite a constrained response to this incident. In aggregate, the team expects the issuer to comply with minimum standards and safeguards around human rights and labour rights. The team remains invested in the name.</p>

SECTION 4

Exercising Rights and Responsibilities

Principle 12: Exercising Rights and Responsibilities

Overview

As previously noted, MSIM's investment teams exercise the rights and responsibilities associated with the assets they manage in alignment with their respective investment strategies, considering factors such as asset type, risk assessments and investment convictions. At the forefront of this is our collective organisational purpose and firm core value to seek to always "Put Clients First" and act in their best interests when managing their assets.

Throughout this report, we have demonstrated how our decentralised business model allows investment teams to approach stewardship differently when exercising their rights and responsibilities. This is reflected in our Purpose and Governance (Principles 1–5), Investment Approach (Principles 6–8), and Engagement (Principles 9–11) across various investment teams, asset classes and geographies (although as active owners, our approach to exercising rights and responsibilities does not generally vary by region). We do so by also leveraging support, resources and expertise from across the organisation.

Over the past 12 months, we have strengthened governance, oversight and processes to aim to ensure our stewardship approach remains aligned with evolving client interests and regulatory developments. Additionally, we continue to provide support to our investment teams as our product platforms and engagement activities expand.

Monitoring shares and voting rights

MSIM's Proxy Review Committee is responsible for overseeing the [MSIM Proxy Voting Policy](#). The policy addresses a broad range of issues and provides general parameters on voting on proposals that arise most frequently. Our investment teams align proxy voting considerations with investment goals and engagement objectives, using votes to encourage portfolio companies to enhance long-term shareholder value and to provide high standards of transparency to enable markets to value assets appropriately.

MSIM's Global Stewardship Team (GST) has developed a proprietary system, "Provosys," that tracks and monitors shares and voting rights, including a ballot reconciliation module. The team is notified of upcoming voting events by ISS through electronic feeds. The system performs an automated reconciliation comparing our shareholding data with the ballots received and highlights exceptions for review. The GST tries to ensure that exceptions are investigated and resolved by MSIM, which may require communication with intermediaries and vendors to resolve or document explanations for discrepancies. MSIM's proxy voting-related controls are part of our System and Organisational Controls (SOC) examination. As noted under [Principle 5](#), MSIM maintains voting records of individual agenda items at company meetings in a searchable database on its website on a rolling

TABLE 12.1

Exercise of rights and responsibilities by asset

The following table summarises examples of approaches that may be taken by investment teams as appropriate across asset classes.

ASSET CLASS	EXAMPLES OF APPROACHES
High Conviction Equities	<ul style="list-style-type: none"> ■ One-to-one direct engagement ■ Proxy voting ■ Industry and external collaboration
Fixed Income and Liquidity	<ul style="list-style-type: none"> ■ Stewardship throughout investment stages ■ Collaborative engagements ■ Escalation with issuers to seek amendments to terms and conditions in contracts and/or indentures
Alternative Investments	<ul style="list-style-type: none"> ■ Engagement with management through representation on boards of portfolio companies in controlling ownership situations ■ Negotiation upfront and working alongside management to improve governance standards and transparency in non-controlling ownership situations ■ Use of third-party due diligence services
Customised Solutions	<ul style="list-style-type: none"> ■ Rights and responsibilities are exercised via the above methods outlined in relation to the relevant asset classes, depending on the type of customised/bespoke investment solutions, while incorporating the clients' ESG priorities and requirements

12-month basis. These [Proxy Voting Records](#) are published periodically on our website.

ISS serves as MSIM's voting agent, but all voting decisions are made by MSIM's investment teams. MSIM is responsible for ensuring that voting instructions for client accounts are communicated to the proxy adviser. Our proxy advisers assist us in monitoring the voting rights we have in relation to shares we hold by aggregating proxies and notifying us of all upcoming shareholder meetings and the relevant voting rights we have at these. The GST maintains a control process seeking to ensure eligible holdings are voted at shareholder meetings.

MSIM's equities teams vote proxies in a prudent and diligent manner and in the best interest of clients, including beneficiaries of and participants in a client's benefit plan(s), consistent with our overarching investment objective of maximising long-term investment returns ([Principle 1](#) and [Principle 6](#)). We consider voting to be an important stewardship and investment responsibility that impacts shareholder value, and portfolio managers have in-depth knowledge of the companies and markets in which they invest so are best placed to make voting decisions. The proprietary system also handles workflow around proxy voting, documenting the views of various parties at MSIM, as well as voting rationale for the final decisions.

Individual circumstances and client preferences

As noted under [Principle 3](#), there are occasions where different portfolio teams may view an issue differently, and, in those cases, we may split our votes to accommodate those different views. Some clients may also wish to retain voting rights for their shares or accounts. Any client with a separately managed account that has delegated proxy-voting authority to MSIM is permitted to request, at any time, a certain meeting or ballot item to be voted according to their instructions. We do not currently facilitate clients directly voting in a pooled vehicle because of the practical difficulties in proportioning a ballot, and because we are mindful of potential legal and regulatory hurdles that may restrict or prevent client-directed voting in pooled fund structures.

Retention and oversight of proxy advisory firms

As noted in [Principle 7](#) and [Principle 8](#), MSIM retains the services of ISS and Glass Lewis as independent advisers that specialise in providing a variety of proxy-related services. We only rely on them for proxy vote execution,

reporting record-keeping and, where appropriate, to provide company-level reports that summarise key data elements within an issuer's proxy statement or on specific thematic/market topics.

During the period 1 July 2023-31 December 2024, MSIM voted differently from our primary proxy adviser, ISS, 5% of the time across ballot items, which further reinforces our direct stewardship/proxy voting philosophy.

Securities lending

Many MSIM funds or any other investment vehicle sponsored, managed or advised by an MSIM-affiliated entity may participate in a securities lending programme through a third-party provider. The voting rights for shares that are on loan are transferred to the borrower and, therefore, the lender (for example, an MSIM fund or another investment vehicle sponsored, managed or advised by an MSIM-affiliated entity) is not entitled to vote the lent shares at the company meeting. In general, MSIM will not recall shares for the purpose of voting. However, in cases in which MSIM believes the matters being put to vote are critical for the investment thesis or client interests, we reserve the right to recall the shares on loan on a best-efforts basis. To effectively monitor whether recalling shares may be necessary, ISS provides electronic feeds that populate Provosys with meeting details, including ballot-level holdings. The GST performs ballot reconciliation to aim to ensure appropriate ballots are received and shares out on loan are identified for review. We generally do not encounter scenarios where all holdings associated with a meeting are out on loan. The scenarios would be limited to a few portfolios and, even then, the entire holding may not be out on loan.

Equity voting statistics, select topics and case studies

Between 1 July 2023 and 31 December 2024, MSIM voted 99% of the ballots in which it was eligible to vote. The residual 1% not voted were generally due to various issues that can arise when voting proxies of companies located in certain overseas jurisdictions, where local processes can often 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 organisation 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, in some regions we vote clients' proxies on a best-efforts basis only, after weighing the costs and benefits of doing so.

MSIM provides rationales for votes against key resolutions such as re-elections of directors and approval of executive remuneration and rationales for voting decisions on shareholder resolutions. We disclose vote rationales in all cases to clients upon request. For a full disclosure of how we voted in any meeting, please visit our [website for full voting records](#), which are updated on a rolling monthly basis. We also disclose our proxy votes globally through annual N-PX requirements with the US SEC for all mutual funds under the US Investment Advisers Act of 1940.

The following tables illustrate how the engagement and proxy voting processes are interconnected in the exercise of our stewardship duties. These cover some of the most common proposals we review each year.

Shareholders in the US and certain other markets may submit proposals encouraging changes in company disclosure and practices related to sustainability issues. MSIM's investment teams, with support from the GST as required, consider how to vote on such proposals on a case-by-case basis by determining the relevance of the

issues identified in the proposal and their likely impacts on shareholder value. Investment teams may also take account of a company's current disclosures and their understanding of its management of financially material ESG issues in comparison to peers.

Investment teams generally seek to balance concerns about reputational and other financially material risks that may underlie a proposal against costs of implementation. Teams may abstain from voting on proposals that do not have a readily determinable impact on shareholder value and may oppose proposals that intrude excessively on management prerogatives and/or board discretion. Investment teams generally vote against proposals requesting reports or actions that they believe are duplicative, related to matters not material to the business, or that would impose unnecessary or excessive costs. Investment teams did not support proposals where, as a result of their analysis, they concluded the company has sufficiently addressed the requirement.

Between 1 July 2023 and 31 December 2024, MSIM's investment teams supported 40% of shareholder proposals and abstained on 0.3% of shareholder proposals. On environmental issues, notwithstanding thematic updates below, teams have generally voted in support of an increased number of proposals seeking to promote sustainable packaging efforts by reducing the use of plastic

Overall voting statistics

Total number of meetings voted	10,224
Total proposals	103,266
(of which shareholder proposals)	1,146
Number of markets voted	74
% of meetings with at least one vote against management	54%
% votes against management	13%
% with management	87%

Shareholder proposals by region

REGION	NUMBER OF SHAREHOLDER PROPOSALS	NUMBER OF VOTES SUPPORTING SHAREHOLDER PROPOSALS	% OF VOTES SUPPORTING SHAREHOLDER PROPOSALS
Asia	72	19	26%
EMEA	173	19	11%
North America	844	408	48%
South America	0	0	0%
Rest of World	57	8	14%
Total	1,146	454	40%

packaging, where considered financially material. With respect to political lobbying and spending, there has been an increased number of proposals requesting companies assess the congruency between their stated values and their political lobbying activities. MSIM's investment teams are generally supportive of proposals requesting increased disclosure of political contributions to enhance transparency, where considered financially material. However, they generally do not support such proposals if they determine that the company already provides sufficient transparency in its lobbying-related disclosure.

Corporate governance and executive compensation

MSIM's investment teams have a long history of focusing on corporate governance. They believe that good corporate governance is a signal of quality management and that well-managed companies should produce long-term returns for clients. Executive compensation is an

important indicator of effective board oversight. Our investment teams consider advisory votes on remuneration on a case-by-case basis and may evaluate the alignment between executive remuneration and performance. This assessment may consider operating trends and total shareholder return across multiple performance periods. In addition, investment teams may review remuneration structures and potential poor-pay practices, including relative magnitude of pay, discretionary bonus awards, poorly defined target metrics, tax gross-ups, change-in-control features and internal pay equity. As long-term investors, teams support remuneration policies that are aligned with long-term shareholder value creation.

Between 1 July 2023 and 31 December 2024, MSIM's investment teams supported 73% of say-on-pay proposals and voted against 27% of proposals. They voted against say-on-pay proposals primarily due to excessive compensation relative to company performance, upfront and mega grants, and poor pay practices.

Votes on executive remuneration by region³⁰

REGION	NUMBER OF PROPOSALS	NUMBER OF VOTES AGAINST	% OF VOTES AGAINST
Asia	3	1	33%
EMEA	1,863	626	34%
North America	2,518	528	21%
South America	0	0	0%
Rest of World	446	145	33%
Total	4,830	1,300	27%

CASE STUDY 12.1

INVESTMENT TEAM Emerging Markets Equity

MSIM ENGAGEMENT THEME(S) Corporate governance

BACKGROUND The Emerging Markets Equity Team voted against remuneration policies at two Indonesian banks last year that were very similar in nature. The policies pay out to both management and board using the same plans and targets, with the only difference being that independent board members are paid in cash while non-independent board members are paid partially in shares. Furthermore, they do not have short- and long-term plans, just a single set of long-term targets. While this aligns with market practice and regulatory requirements, the team felt it was important to express its view that this is not best practice. It believes this structure fails to incentivise independent board oversight and does not allow for a clear differentiation between short-term and long-term targets.

VOTING OUTCOME The team voted against management on this issue and discussed it with each of the banks during an in-person engagement in Jakarta later in the year. Dissent levels have been broadly the same as previous years, at roughly 10-15%, which the team hopes will continue to make management aware that investors would like to see change on this market practice.

³⁰ This only covers say-on-pay votes as categorised by ISS.

CASE STUDY 12.2

INVESTMENT TEAM	Emerging Markets Equity
MSIM ENGAGEMENT THEME(S)	Corporate governance
BACKGROUND	The EME team voted against a board member up for vote at an Indian auto conglomerate who the team felt had a conflict of interest as a senior partner of a law firm that provided services to the company and one of its subsidiaries.
VOTING OUTCOME	At the meeting, he withdrew his nomination in order to focus on his professional commitments. This company has gone through a corporate transformation over the previous several years and the team continues to see signs of this positive momentum.

Artificial intelligence**CASE STUDY 12.3**

INVESTMENT TEAM	International Equity
MSIM ENGAGEMENT THEME(S)	Artificial intelligence
BACKGROUND	<p>The International Equity team voted in favour of two shareholder proposals relating to artificial intelligence (AI) at one of the world's largest software companies.</p> <p>One of the proposals asked the company to report on AI misinformation and disinformation risks. The team voted in favour given the evolving threat landscape and the potential risks facing the company, as well as the team's view that its existing disclosures fall short in discussing whether its risk mitigation measures are adequate.</p> <p>The other proposal asked the company to report on AI data sourcing accountability. The team voted in favour given its view that the company faces a variety of legal, regulatory and reputational risks due to the use of external data in the development and training of its AI offerings, especially those relating to copyright infringement. The team noted the company's planned disclosures on the matter but believed a vote in favour of the proposal was warranted to signal the significance of this issue to management given the potentially financial materiality of the associated risks.</p>
VOTING OUTCOME	The proposal relating to AI misinformation and disinformation risks received 18.7% support, while the proposal relating to AI data sourcing accountability received 36.2%, reflecting a significant level of shareholder concern on these topics.

CASE STUDY 12.4

INVESTMENT TEAM	Portfolio Solutions Group
MSIM ENGAGEMENT THEME(S)	Artificial intelligence
BACKGROUND	At the 2024 annual general meeting of a US technology company the team voted in support of a shareholder proposal requesting reporting on the risks related to AI. Our support was predicated on the lack of clear disclosure from the company on the material issues resulting from the use of AI technology such as discriminatory outcomes, job automation, privacy, cybersecurity and intellectual property lawsuits.
VOTING OUTCOME	While the resolution didn't ultimately pass it did receive significant shareholder support, with 43.3% of votes cast in favour

Topics aligned with MSIM's engagement themes

CATEGORY	NUMBER OF SHAREHOLDER PROPOSALS	NUMBER OF VOTES SUPPORTING SHAREHOLDER PROPOSALS	% OF VOTES IN SUPPORT OF SHAREHOLDER PROPOSALS
Climate action	65	33	51%
Board and employee diversity	25	21	84%
Human rights	40	22	55%
Political lobbying and spending	64	34	53%
Environmental – Other	132	65	49%
Social – Other	150	43	29%

Climate- and environment-related proposals

Between 1 July 2023 and 31 December 2024 MSIM's investment teams supported 51% of climate-related proposals. They voted on multiple proposals seeking disclosures on GHG emissions reduction targets and have supported companies where disclosures are lagging peers and such issues are considered potentially financially material.

Of the 49% of proposals not supported, various factors were considered as investment teams sought to balance concerns about reputational, financial and other potentially financially material risks that may underlie a proposal against costs of implementation, while considering appropriate shareholder and management prerogatives.

Diversity and inclusion proposals

Between 1 July 2023 and 31 December 2024, MSIM's investment teams supported 84% of shareholder proposals to increase board and employee diversity. The most prominent proposals under this category called for companies to report on the effectiveness of their diversity, equity and inclusion efforts. MSIM's investment teams reviewed these on a case-by-case basis and generally supported them where potentially financially material.

Investment teams generally support proposals that, if implemented, would enhance useful disclosure on employee and board diversity. Investment teams generally

support shareholder proposals promoting board and employee diversity with respect to gender, race or other characteristics where considered potentially financially material, and they believe the board has failed to take these factors into account. They may oppose proposals where the expected cost of giving due consideration to the proxy does not justify the potential benefits or if the company has sufficiently addressed requirements of the proposal.

Human rights proposals

Between 1 July 2023 and 31 December 2024, MSIM's investment teams supported 55% of shareholder proposals to improve human rights disclosure and risk management. Investment teams generally support shareholder proposals seeking to enhance useful disclosure and improvements on financially material issues related to human rights risks, labour practices and supply chain management, including the support of freedom of association and collective bargaining rights. Investment teams review these proposals on a case-by-case basis.

Gender pay-gap proposals

Between 1 July 2023 and 31 December 2024, MSIM's investment teams supported 81% of shareholder proposals on gender pay-gap disclosure. The proposals were analysed on a case-by-case basis, and our investment teams supported where they observed the company's disclosures did not provide adequate transparency.

CASE STUDY 12.5

INVESTMENT TEAM	Portfolio Solutions Group
MSIM ENGAGEMENT THEME(S)	Diverse and inclusive business; Artificial intelligence
BACKGROUND	At the 2024 Annual General Meeting of a U.S. Technology Company the team voted in favour of two shareholder proposals seeking reporting on median gender/racial pay gap and on the use of artificial intelligence. For the first proposal the team noted that the company did not publish the same gender pay gap statistics for its US or global workforce as it published in the UK. The team believes that shareholders and the company would both benefit from further disclosure on pay transparency. The team's support for the second proposal concerning AI was predicated on the lack of clear disclosure on the potential risks/challenges (including reputational, financial and operational) resulting from the use of AI technology.
VOTING OUTCOME	While neither of the shareholder resolutions passed they both received strong support from shareholders, with the proposal on gender and racial pay equity receiving 31.5% support and the proposal on AI receiving 37.5% of the votes cast in favour. The level of support for both resolutions clearly highlights the significant interest from investors in the company providing more disclosure and reporting on both issues.

Fixed Income

APPROACH TO SEEKING AMENDMENTS IN TERMS AND CONDITIONS, CONTRACTS AND OTHER LEGAL DOCUMENTATION

The Fixed Income organisation exercises its rights and responsibilities through good stewardship efforts both at the preinvestment stage and throughout the holding period for a security. It uses engagement and escalation (if needed) to inform investment decisions, which ultimately can have an impact on issuers.

Prior to investment, credit analysts conduct due diligence across a wide range of factors, including material ESG issues, and may request to engage with an issuer to obtain additional insights. The team draws upon a variety of data sources for ESG-related information preinvestment, including both third-party and proprietary analysis. Engagement is also used as an opportunity to provide granular feedback to issuers on the structure of their deals.

The Fixed Income organisation's approach to seeking amendments to terms and conditions, contracts, and other legal documentation depends on the issue in question, type of security held, investment strategy and its fiduciary duty to act in clients' best interests. Credit analysts work closely with the ESG analysts, with several training sessions over the course of the reporting period to enhance credit analysts' understanding of the ESG research and engagement process. Furthermore, there are additional training opportunities available from rating agencies, law firms and associations, such as the European Leveraged Finance Association ([Principle 10](#)). Our in-house legal team also provides support and in-depth analysis where needed, especially in ESG-related areas when evaluating the terms of any potential transaction.

The following are examples of different approaches based on different types of fixed income securities:

GREEN/LABELLED SUSTAINABLE BONDS – TRANSPARENCY AND REPORTING

In the context of green and other labelled sustainable bonds, the team may organise one-to-one dialogues with management where reporting and transparency practices do not align with commitments outlined in labelled bond frameworks. The team advises issuers to commit to annual reporting where relevant and possible; however, as part of the monitoring process, the team may engage with issuers that do not fulfil these criteria.

For example, the Fixed Income organisation has been engaging with a climate solutions provider on its green bond reporting since 2021³¹ due to concerns around transparency and granularity in both allocation and impact reporting. Following the team's engagement last year, the issuer published relevant supplementary information on their green notes' impact within two weeks of their request, enhancing the company's commitments on sustainability disclosure. The team views this as evidence of a positive outcome, linked to governance and reporting.

The team followed up with the issuer a year later in June 2024, ahead of its inaugural green bond offering as an IG issuer, and continued to suggest best practices on impact reporting. This included recommending a breakdown of component KPIs used to derive its proprietary carbon accounting metric and requesting an auditor attestation to be included with the company's more granular report, which itself was an outcome of the team's engagement in 2023.

SUSTAINABILITY-LINKED BONDS – SUSTAINABLE TARGETS AND POTENTIAL COUPON STEP-UPS; CALL DATES/PRICES

In the case of sustainability-linked bonds associated with specific targets and potential coupon step-ups, the Fixed Income organisation engages with issuers ahead of the transaction through one-to-one meetings or group roadshow calls to provide our views on the appropriateness of the trigger event date and the size of the step-up, and request changes if necessary to increase the level of ambition and accountability. For example, there has been a surge in the number of high-yield bond issuers using the sustainability-linked format, often setting call dates very close to the trigger date of the coupon step-up. In such cases, the investment team has recommended that, whenever the step-up trigger date is close to the call date, the penalty should be reflected in the call price as well to avoid creating an incentive to call the bond.

As mentioned in [Principle 10](#), the Fixed Income organisation also addressed these issues by collaborating with industry organisations such as ICMA to establish more detailed guidance on best practices around the issuance of these bonds.

HIGH-YIELD – PROSPECTUS REVIEW; BOND STRUCTURE AND COVENANTS

In relation to high-yield issuance more broadly, investors tend to receive a prospectus a few days in advance. The credit research analysts review each prospectus. Using a combination of in-house expertise (several team members

³¹ The Calvert Engagement team initiated an engagement with this company in 2021, which was later picked up by the Fixed Income team with a specific focus on green financing.

have either investment banking or loan experience) and Covenant Review (legal research available via a paid subscription), the High Yield Investment Team determines whether covenants and/or structures are too aggressive. In cases where the team thinks the documentation is too aggressive, they provide written feedback directly to the syndicate desks involved in marketing the bond deal. If there is significant pushback from the investor base, either the documentation is tightened up or the pricing of the deal makes up for the looseness of the documentation. Loose documentation does not preclude the team from participating in a deal if they believe it is being appropriately compensated on the issuance level. Equally, they have chosen to withdraw from deals because of loose documentation where no changes were made despite their feedback.

SECURITISATIONS – LOAN COLLECTION AND MODIFICATION POLICIES, CONDITIONS

For securitisations, the Mortgage and Securitised Investment Team constructs and then monitors its portfolios with the aim of avoiding exposure to predatory lending practices, severe malpractices in payment collections or breaches of consumer protection standards, all of which can increase the probability of default of the involved lenders or servicers.

Over the past year, the team continued to engage with securitisation issuers to assess loan originators and servicers' collection and loan modification policies, and the conditions imposed on borrowers.

SECTION 5

Appendices

Policy Glossary

Firm Code of Conduct	Our Code of Conduct reflects our continued commitment to act in accordance with our core values and in full alignment with the letter and spirit of applicable laws and regulations, and our policies. Our values are as follows, and inform everything we do: Put Clients First, Lead with Exceptional Ideas, Do the Right Thing, Commit to Diversity and Inclusion, and Give Back.
Global Confidential and Material Non-Public Information Policy	The Global Confidential and Material Non-Public Information Policy addresses handling confidential information in a manner that protects Morgan Stanley's reputation for integrity, promotes relationships with our clients, safeguards Firm assets and works to ensure compliance with the complex regulations governing the financial services and banking industry
Global Conflicts of Interest Policy ("Global Conflicts Policy") and related procedures	<p>The Global Conflicts of Interest Policy addresses business conduct and practices at Morgan Stanley that give rise to an actual or potential conflict of interest. For example, conflicts can occur when there is a divergence of interests between Morgan Stanley and a client, or among clients. Conflicts can also occur when there is a divergence of interests between an employee on the one hand and the Firm or a client on the other. This Policy sets forth guidance on the identification of conflicts and the Firm's conflicts governance framework.</p> <p>MSIM 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.</p>
Global Employee Trading and Outside Business Activities Policy	The Global Employee Trading, Investing and Outside Business Activities Policy sets forth general rules that employees must follow with respect to personal trading and investing, including transactions in Morgan Stanley securities, and specific rules for particular types of transactions and accounts.
Global Gifts, Entertainment and Charitable Giving Policy	The Global Gifts, Entertainment and Charitable Giving Policy sets forth guidance and limitations with respect to the provision or receipt of gifts and entertainment, as well as the provision of charitable contributions, in connection with business relationships as a Morgan Stanley employee. This Policy addresses gifts, business entertainment (including payment for travel, lodging and meals), charitable contributions, and assumption or forgiveness of debt, or any other item of value.
Global Incentive Compensation Discretion (GICD) Policy	The Global Incentive Compensation Discretion Policy sets forth the terms under which an employee of Morgan Stanley, its subsidiaries and affiliates may be eligible to receive a discretionary incentive compensation award; establishes standards with respect to the process for determining the discretionary incentive compensation to be awarded to an employee; and provides guidance for the escalation of a possible clawback of previously awarded incentive compensation.
Global Investment Management Risk Management Policy	Effective risk management is vital to the success of Morgan Stanley and Morgan Stanley Investment Management. Accordingly, the Global IM Risk Management Policy establishes a framework to integrate the diverse roles of the Risk Management functions into a holistic structure and facilitates the incorporation of risk assessment in decision-making processes. This Policy helps members of senior management understand and monitor all significant risk categories on a consistent, proactive basis and defines the roles, responsibilities, guidelines and other elements that formalize the governance framework, which is central to risk management and embodies the Firm's risk management culture.

Global Side-by-Side Management Policy and Procedures	When an adviser manages multiple portfolios (side-by-side management) with different structures (e.g., registered funds and unregistered funds) and/or fee structures (e.g., performance-based fees versus flat management fees), certain perceived or actual conflicts may arise. To address these types of conflicts, we have adopted policies and procedures, including the Global Side-by-Side Management Policy and Procedures, pursuant to which allocation decisions may not be influenced by fee arrangements and investment opportunities will be allocated in a manner that we believe to be consistent with obligations as an investment adviser. To further manage these types of conflicts, we have formed a Side-by-Side Management Subcommittee to aim to ensure that side-by-side management guidelines are met.
Global Third Party Risk Management Policy	The Global Third Party Risk Management Policy sets forth the standards and requirements for Morgan Stanley's Third Party Risk Management Program. The Firm manages overall third-party risk within risk-tolerance levels established and updated periodically by the Firm. The Programme implemented through the Policy is designed to support effective identification, assessment, management and mitigation of risks associated with third-party relationships. The Programme requires that outsourcing and sourcing decisions incorporate a risk-based assessment of the associated risks that may impact the Firm.
Global Third Party Selection and Engagement Policy	The Global Third Party Selection and Engagement Policy establishes a framework for Morgan Stanley's sourcing activities from external, unaffiliated third parties for which the Firm's sourcing team is engaged. This Policy is designed to help ensure that the sourcing of goods and services by Morgan Stanley is done in a fair, competitive, independent and objective manner, and with appropriate due diligence. Additionally, sourcing decisions must be made in accordance with all applicable laws and regulatory requirements, and sound business practices.
Investment Management Public Markets Enhanced Vendor Management Programme Procedures	These procedures describe the Investment Management Public Markets Enhanced Vendor Management Program. The goal of the Enhanced Programme is to seek to ensure that service providers that support the Public Markets business are monitored and payments made to the vendors are reviewed by designated personnel.
Investment Private Enhanced Vendor Management Programme Procedures	These procedures describe the Investment Management Private Enhanced Vendor Management Program. The goal of the Enhanced Program is to ensure that service providers that support the Private Markets business are monitored and their payments are reviewed by designated personnel.
Morgan Stanley ESG Report	The Morgan Stanley 2023 ESG Report can be found here .
Morgan Stanley Environmental and Social Risk Policy Statement	Morgan Stanley's Environmental and Social Policy Statement reflects the Firm's global commitment to our stakeholders and communities, and the environment to identify and address environmental and social risks. To help us deliver long-term value for our clients and shareholders, we employ comprehensive risk management policies that include environmental and social risk, as laid out in this policy.
Morgan Stanley Europe SE – EU SFDR disclosures	The EU SFDR disclosures for Morgan Stanley Europe SE can be found in this link here .
Morgan Stanley Modern Slavery & Human Trafficking Statement	The Morgan Stanley Modern Slavery & Human Trafficking Statement is published in accordance with Section 54 of the United Kingdom's Modern Slavery Act 2015 and Section 16 of Australia's Modern Slavery Act 2018. It outlines the steps taken by Morgan Stanley to address the risk of modern slavery in our own global operations or of the suppliers of Morgan Stanley and its consolidated subsidiaries, as well as Morgan Stanley's future plans in that regard.

Morgan Stanley SGR S.p.A. Disclosures under Regulation (EU) 2019/2088	The Disclosures under Regulation (EU) 2019/2088 for Morgan Stanley SGR S.p.A. can be found in this link here .
Morgan Stanley Supplier Code of Conduct	We expect our suppliers, and our suppliers' suppliers, to adhere to these key values and apply them to how they do business with Morgan Stanley and in general.
Morgan Stanley UK Gender Pay Gap Report	The Morgan Stanley UK Gender Pay Gap Report can be found in this link here .
Morgan Stanley UK Regulated Entities Supplement to the Global Third Party Risk Management Policy	The Morgan Stanley UK Regulated Entities Supplement (the "Policy Supplement") to the Global Third Party Risk Management Policy establishes requirements specific to UK Regulated Entities. The Policy Supplement is designed to enable UK Regulated Entities to manage risks within the Morgan Stanley International Group's Third Party Risk Appetite in compliance with SYSC of the FCA Handbook, the Outsourcing section of the PRA Rulebook, the EBA Guidelines on Outsourcing and other relevant regulations.
MSIM's Counterparty Risk Policy	The Morgan Stanley Investment Management Counterparty Risk Policy sets forth the broad principles that serve as the foundation for managing globally, in a consistent and integrated manner, counterparty risk for all IM businesses. The objective of the Policy is to avoid or mitigate risk of loss arising from the default or inability of a counterparty to meet its financial obligations.
MSIM's Proxy Voting Policy and Procedures ("MSIM Proxy Voting Policy")	Our MSIM Proxy Voting Policy addresses a broad range of issues and provides general voting parameters on proposals that arise most frequently. We endeavour 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. The MSIM Proxy Review Committee ("Committee") has responsibility for overseeing the implementation of the MSIM Proxy Voting Policy.
Remuneration Policy of MSIM Fund Management (Ireland) Limited	The Remuneration Policy of MSIM Fund Management (Ireland) Limited can be found in this link here .
Sustainable Investing Policy	MSIM's Sustainable Investing Policy outlines our approach to stewardship and sustainable investing. Our sustainable investment beliefs, strategy and culture are collectively guided by the key principles laid out in the policy here .

Mapping to UK Stewardship Code Principles

PRINCIPLE	PAGE	ADDITIONAL KEY DETAILS REFERENCED IN OTHER PRINCIPLES	START PAGE
Principle 1: Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.	5	How MSIM's investment beliefs and core values are embedded in the stewardship function and engagement priorities [Principles 2 , 5 , 6 & 9]	13, 32, 35, 54
		Highlights of key stewardship achievements [Principles 2 & 12]	13, 88
		MSIM's investment teams' integration of stewardship and investment [Principle 7]	40
Principle 2: Signatories' governance, resources and incentives support stewardship.	13	Overview of MSIM's investment teams [Principle 1]	5
		MSIM's investment teams' approach to ESG integration and stewardship [Principle 7]	40
		Details and application of MSIM Proxy Voting Policy [Principles 5 & 12]	32, 88
		Use of third-party ESG data by investment teams [Principle 7]	40
		Use of service providers [Principle 7]	40
Principle 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	19	Monitoring of service providers and activities [Principle 8]	50
		Details of MSIM 2024 Proxy Voting Policy update [Principle 5]	32
Principle 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.	22	Subject matter expertise of MSIM's sustainability and stewardship teams [Principle 2]	13
		MSIM's sustainability oversight [Principle 5]	32
		Counterpoint Global SR Tailwinds process [Principle 7]	40
		Global Opportunity HELP & ACT framework [Principle 7]	40
		How MSIM supports or participates in industry initiatives and organisations [Principle 10]	76
Principle 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities.	32	MSIM's governance and processes [Principle 2]	13
		MSIM Proxy Voting Policy and Review Committee [Principles 1 & 2]	5, 13
		Internal assurance of stewardship [Principles 6 , 7 & 10]	35, 40, 76
		MSIM Due Diligence and monitoring of ESG data providers [Principle 8]	50
Principle 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.	35	MSIM's culture and business principles [Principle 1]	5
		Individual circumstances and client preferences in relation to voting [Principle 12]	88
Principle 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.	40	International Equity's proprietary approach to material ESG risks [Principle 4]	22
		MSIM's thematic engagement priorities [Principle 9]	54
		Details on the investment teams' approaches to engagement [Principle 9]	54

PRINCIPLE	PAGE	ADDITIONAL KEY DETAILS REFERENCED IN OTHER PRINCIPLES	START PAGE
Principle 8: Signatories monitor and hold to account managers and/or service providers.	50	Information on vote splitting due to client preference or differing investment team convictions [Principle 3]	19
		MSIM Proxy Voting Policy [Principle 5]	32
		MSIM's use of third-party ESG data service providers and proxy voting providers [Principle 7]	40
Principle 9: Signatories engage with issuers to maintain or enhance the value of assets.	54	MSIM's core values and commitment to act as responsible long-term investors [Principles 1 & 6]	5, 35
		Details of MSIM's collaborative engagement activities with MSIM [Principle 10]	76
		Details on the investment teams' approaches to escalation [Principle 11]	81
		Highlights from the 2024 Proxy season [Principle 12]	88
Principle 10: Signatories, where necessary, participate in collaborative engagement to influence issuers.	76	-	
Principle 11: Signatories, where necessary, escalate stewardship activities to influence issuers.	81	MSIM's investment teams' approach to engagement [Principle 9]	54
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MSIM Collaborative Initiatives

Through its various businesses and internal functions, MSIM and Morgan Stanley participate in, belong to or take a leading role in many ESG-related initiatives and organisations.

This includes participating in industry conference panels, exploring joint research and supporting the work of groups focused on ESG-related issues.

Notwithstanding their participation in and collaboration with ESG-focused initiatives, MSIM and Morgan Stanley make all decisions without external influence, on a case-by-case basis, according to the specific financial risks and opportunities present in each case.

MSIM and Morgan Stanley's external sustainability/ESG-related initiatives and organisations include, but are not limited to, the following:

SUSTAINABILITY/ ESG-RELATED INITIATIVES	KEY AREA OF FOCUS
CDP (formerly the Carbon Disclosure Project)	<p>An institutional investor-led nonprofit organisation that collects and publishes energy and greenhouse gas emissions data from corporations.</p> <p>CDP runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. Since its founding, it has created a system that has resulted in unparalleled engagement on environmental issues worldwide. It seeks a thriving economy that works for people and the planet in the long term. It focuses investors, companies, cities and governments on building a sustainable economy by measuring and acting on their environmental impact.</p> <p>Morgan Stanley has submitted data to CDP since 2006.</p>
CERES	<p>Ceres is a nonprofit organisation working with the most influential capital market leaders to solve the world's greatest sustainability challenges. Through their powerful networks and global collaborations of investors, companies and nonprofits, it drives action and inspires equitable market-based and policy solutions throughout the economy to build a just and sustainable future. It makes the financial business case for sustainability to the largest, most influential investors, companies, policymakers and regulators. It encourages individual and collective actions that help stabilise the climate, protect water and natural resources, build a just and inclusive economy, and accelerate sustainable capital markets. Ceres moves capital, influences systems and strengthens policy to drive large-scale economic transformation. Ceres also offers company and policy networks.</p>
Council for Institutional Investors (CII)	<p>The Council of Institutional Investors (CII) is a nonprofit, nonpartisan association with members who are asset owners, asset managers and other service providers representing assets under management of approximately \$40 trillion. CII is a leading voice for effective corporate governance, strong shareowner rights and vibrant, transparent and fair capital markets. CII promotes policies that enhance long-term value for U.S. institutional asset owners and their beneficiaries.</p>
Emerging Markets Investors Alliance (EMIA) – Investor Engagement Portal	<p>The Emerging Markets Investors Alliance enables institutional emerging market investors to support good governance, promote sustainable development and improve investment performance in the governments and companies in which they invest.</p>

SUSTAINABILITY/ ESG-RELATED INITIATIVES	KEY AREA OF FOCUS
FAIRR	<p>The FAIRR Initiative believes intensive livestock production poses material risks to the global financial system and hinders sustainable development. Its mission is to build a global network of investors who are aware of the issues linked to intensive animal production and seek to minimise the risks within the broader food system. There is extensive evidence that ESG issues can impact the performance of companies involved in animal factory farming. Now the world's fastest-growing ESG network, the FAIRR Initiative continues to make its mark, working closely with investors to change the conversation around animal agriculture and transform the way food is produced.</p> <p>MSIM joined FAIRR in 2022 with the objective of forging new partnerships and delivering sustainable outcomes.</p>
Intentional Endowments Network (IEN)	<p>The Intentional Endowments Network is a nonprofit peer-learning network advancing intentionally designed endowments—those that seek to enhance financial performance by making investments that advance an equitable, low-carbon and regenerative economy. Working closely with leading organisations, the network engages leaders and key stakeholders from higher education, foundations, business and nonprofits. It provides opportunities for learning and education, peer networking, convening, thought leadership, and information exchange around a variety of strategies (e.g., ESG integration, impact investing and shareholder engagement).</p>
Investment Company Institute (ICI)	<p>The Investment Company Institute (ICI) is the leading association representing regulated investment funds. ICI's mission is to strengthen the foundation of the asset management industry for the ultimate benefit of the long-term individual investor. Its members include mutual funds, exchange-traded funds (ETFs), closed-end funds and unit investment trusts (UITs) in the United States, and UCITS and similar funds offered to investors in Europe, Asia and other jurisdictions. The ICI carries out its international work through ICI Global, with offices in London, Hong Kong and Washington, D.C. The ICI also serves as a focal point for collaboration among members in proactively addressing the industry's most critical strategic issues and in setting robust standards that help the industry grow in a sustainable way.</p>
One Planet Summit Asset Managers Initiative	<p>MSIM became a member of the One Planet Asset Managers Initiative in 2020. The initiative was established by eight global asset management firms to support the members of the One Planet Sovereign Wealth Funds in accelerating the integration of climate change analysis into the management of large, long-term diversified asset pools.</p>
Principles for Responsible Investment (PRI)	<p>The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance issues and to support signatories in integrating these issues into investment and ownership decisions. MSIM is a signatory of the PRI. In 2020, MSIM also became a signatory to PRI's Credit Risk and Ratings initiative, which promotes the incorporation of ESG into credit ratings and analysis in a systematic and transparency way.</p>
PRI Sovereign Engagement on Climate Change	<p>The Collaborative Sovereign Engagement on Climate Change is a pilot PRI-led investor initiative to support governments to act on climate change. The initiative's aim is for investors to work collaboratively to support governments to take all possible steps to mitigate climate change in line with the Paris Agreement and keep average global warming to 1.5°C.</p>
PRI Spring Initiative	<p>Spring is a PRI stewardship initiative for nature, convening investors to use their influence to halt and reverse global biodiversity loss by 2030. Spring is a PRI stewardship initiative for nature, convening institutional investors to use their influence to halt and reverse global biodiversity loss by 2030. Spring aims to address the systemic risk of nature loss to societies and long-term portfolio value creation by enhancing corporate practices on forest loss and land degradation. The Spring investor statement sets out the initiative's aims and approach in more detail.</p>

SUSTAINABILITY/ ESG-RELATED INITIATIVES	KEY AREA OF FOCUS
Sustainability Accounting Standards Board (SASB) - rebranded to ISSB International Reporting Financial Standards (IFRS) Sustainability Alliance	<p>As of August 2022, the International Sustainability Standards Board (ISSB) of the IFRS Foundation assumed responsibility for the SASB Standards.</p> <p>SASB is dedicated to enhancing the efficiency of capital markets by fostering high-quality disclosure of material sustainability information that meets investor needs. Morgan Stanley's Chief Sustainability Officer is a board member of the SASB Foundation, aiming to ensure that emerging sustainability metrics are relevant to investors. MSIM is also a member of ISSB Investor Advisory Group (IIAG), which replaced the SASB's Investor Advisory Group as of March 2023. This group brings asset managers and owners together to promote the adoption of the SASB reporting framework among corporate issuers.</p>
Tailwinds Sustainability Working and Academic Group	<p>A working group for active discussion on sustainability topics that may be relevant to the recently launched CG Tailwinds investment strategy, or other CG strategies that consider sustainability as part of the investment process. T-SWAG will discuss perspectives on sustainability themes, such as macro/directional sustainability trends in the global economy, in broad industries, academic research and sustainability investing.</p>
UN PRI Nature Reference Group	<p>A group to support UNPRI and investors awareness and action on nature (including biodiversity), with a particular focus on investment practices</p>
World Benchmarking Alliance	<p>The WBA is a global organisation that works to drive change with 2000 of the world's largest companies on SDGs by assessing/ranking publicly on their performance. MSIM UK Ltd joined the World Benchmarking Alliance (WBA) as an ally in 2022.</p>

IMPORTANT INFORMATION

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