

A photograph of a dense tropical forest with a wooden suspension bridge crossing a river. The bridge is made of wooden planks and is supported by ropes. The forest is lush with green foliage and trees. The lighting is natural, suggesting a daytime setting.

Morgan Stanley

INVESTMENT MANAGEMENT

2023

# Emerging Markets Annual Stewardship Report

**Emerging Markets Equity Team**

EMERGING MARKETS LEADERS | NEXT GEN EM | GLOBAL EMERGING MARKETS |  
SUSTAINABLE EMERGING MARKETS | SUSTAINABLE ASIA | CHINA A EQUITY |  
CHINA EQUITY | INDIA EQUITY | LATIN AMERICA EQUITY

02

OUR ACTIVE APPROACH

07

EM CORE STRATEGIES

19

SUSTAINABLE STRATEGIES

04

PROXY VOTING

11

EM LEADERS

25

SUSTAINABLE DEVELOPMENT

05

OUR ENGAGEMENT & STEWARDSHIP RESULTS

15

NEXT GEN EM

32

2023 OUTLOOK

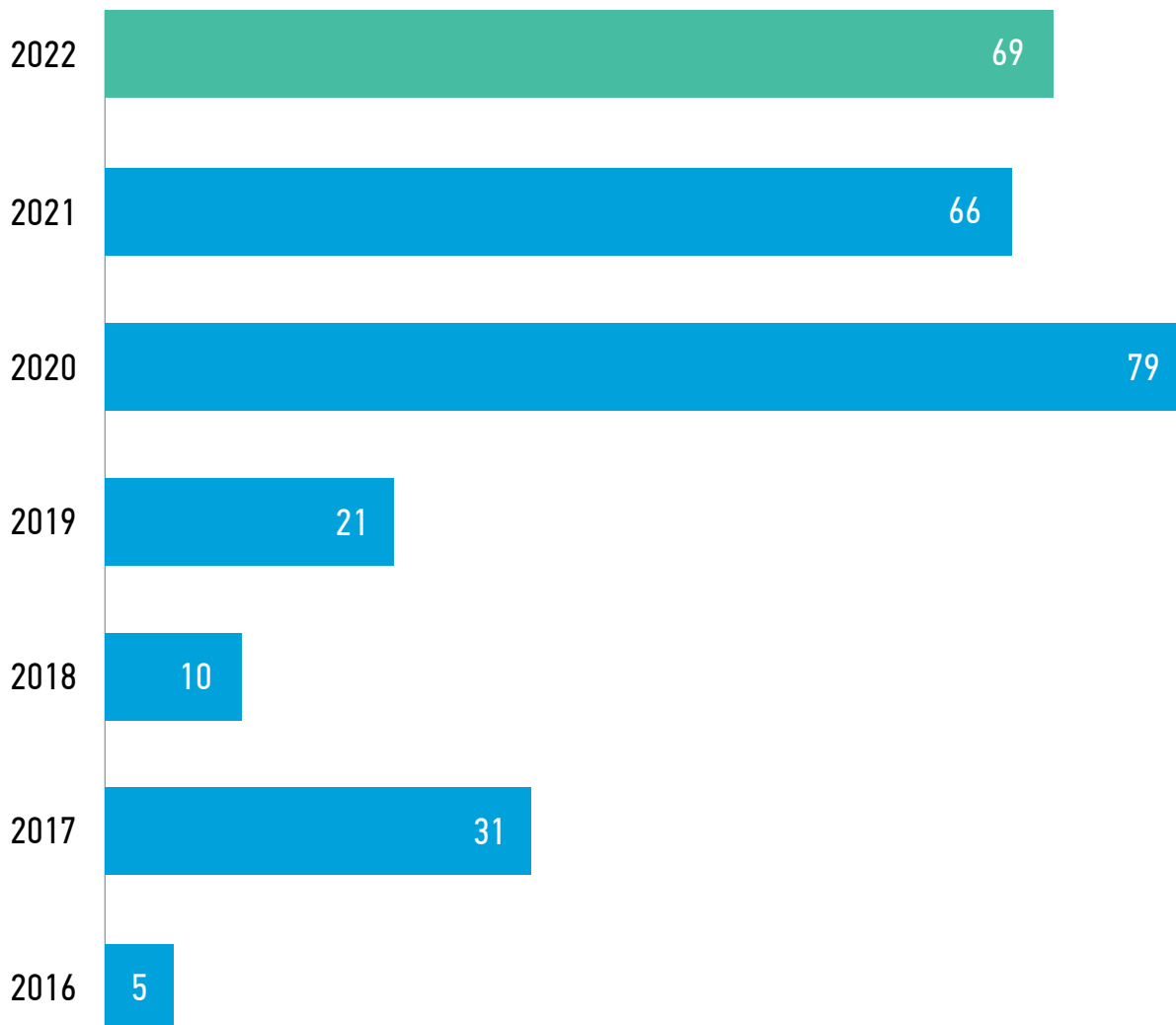
# Our Active Approach

As long-term investors with more than three decades experience managing dedicated Emerging Markets (EM) strategies, we have consistently focused on stewardship with the companies in our portfolios. We believe in active ownership, and the foundation of our approach to stewardship has always been actively voting our shares. Voting represents a right for us to participate directly in corporate governance, and an opportunity to initiate dialogue on material issues related to governance including board structure, corporate ethics, executive compensation and issues of strategy and capital allocation. We engage with managements and boards directly on items put to vote and proactively on governance issues throughout the year.

We are also committed to using our platform and extensive institutional knowledge not only to actively vote our shares, but also to engage constructively with the management of our portfolio companies throughout the year on issues in addition to governance. We have found in recent years that our discussions are covering more than strategy, operations and finance. In particular, we are having dedicated discussions increasingly around issues of environmental and social risks and responsibilities, both global and local in nature. Dedicated management engagements offer opportunities to gain broader insights into how companies are approaching these issues and give our input as shareholders on our expectations and how we see the evolving risk and opportunity set. We believe our approach to engagement has facilitated more meaningful discussions with management, as we focus on being more strategic and process-oriented in our approach to active engagements, rather than seeking short-term outcomes. As active investors, we have always believed that dialogue with management is a critical element in identifying quality companies.

We have been engaging specifically on environmental and social sustainability issues since 2016 (Display 1). Over time, we have refined our focus, leading to more material and thematic discussions that often span multiple years. For instance, in 2022, one of our priority sustainability themes was decarbonization. When engaging with companies on decarbonization, we encourage management to articulate detailed decarbonization plans which incorporate both long and short-term targets that are high-quality, technologically feasible and integrated within their business strategy. We leverage resources like Transition Pathway Initiative (TPI) and Climate Action 100+ to guide large emitters to adopt a long-term plan that's both economically viable and aligned with global climate commitments. This is all part of a process as it takes time for these conversations to lead to tangible results, and often even longer to see an actual reduction in emissions.

Nonetheless, progress is being made. We have noticed greater corporate leadership on sustainability in recent years across emerging markets. We have also noticed the higher quality companies generally taking the lead, as management teams anticipate risks and look for opportunities in the changing policy landscape. Many of our portfolio companies have already integrated plans to improve their environmental footprint, often lowering costs or increasing reliability, including key inputs like electricity and water. Forward thinking companies are also taking a more proactive approach to social issues, realizing the importance to brand positioning and value, social license to operate (e.g., miners) and of developing human capital. We also see companies offering innovations that can provide a competitive edge and serve as a model to enable better ESG performance for other companies. All in all, we are starting to see improvements, which we believe will unlock long term value for companies—and that is our area of focus.

**DISPLAY 1****MSIM EM Team Dedicated Engagements on ESG Topics***Total by Year<sup>1</sup>*

<sup>1</sup> This statistic does not include integrated discussions, i.e. ESG topics brought up in the course of regular business meetings with management.

# Proxy Voting

During 2022, we voted at 376 meetings on 3,557 proposals in our emerging markets portfolios (Display 2). The number of meetings was 43% higher than 2021 (263), and we increased our voting against management to 11% of proposals (versus 8% the previous year). The most common reasons for voting against management in 2022 remained compensation and directors related, the same as in 2021.

While companies in Developed Markets have seen an increase in shareholder proposals, those proposals constitute a very low percentage in EM, making up less than 3% of the proposals we reviewed from shareholders in 2022.<sup>2</sup> We supported 68% of those shareholder proposals. Regarding say on pay proposals, we voted against management 26% of the time and of all director elections, we voted against management 10% of the time.

In Asia, we voted against several outside directors due to our assessment of poor risk oversight at companies such as a large Korean electronics company, a large food delivery company in China and an auto company in India. We also voted against directors who sat on multiple boards, directors whose attendance was below our standards or where we expected greater gender diversity.

In voting at an annual meeting of a South African bank in 2022, we voted against management and ISS on compensation proposals and against the appointment of two directors, one of whom was the chairman of the board and the other who was a member of the remuneration committee on concerns of compensation, overboarding, tenure and inadequate gender diversity. While both directors were elected, other shareholders voted against, with enough dissent to send a

signal to management. On compensation, we disagreed with the proposed shortening of performance to be considered for long-term pay to two years, noting long-term compensation should be based on three to five years' performance. Management certainly heard our dissent, as the vote failed; more than 47% voted against. We have since engaged with the company on these measures, with the goal of improving governance.

In our core EM strategies, we set some additional proxy goals for the year, including: to vote against all non-independent directors where boards are less than 50% independent; to vote against those boards where key committees are less than two-thirds independent (remuneration, nominating and audit); and to vote against those boards with gender diversity below the country's benchmark. These goals are especially challenging to put into practice, particularly in EM markets such as India where even the quality growth companies have a promoter shareholder that remains important to the direction of the company, or in China where the government can have material decision-making power on boards. On these goals, we voted against 25% of boards with less than 50% independence.<sup>3</sup>

## DISPLAY 2

### 2022 EM Team Proxy Voting Overview

Total Votes Cast	3,557
Number of Meetings Held	376
Management Proposals Voted On	3,459
Shareholder Proposals Voted On	98
Votes With Management	3,155
Votes Against Management (including abstentions)	402

### VOTING AGAINST MANAGEMENT BY TOPIC

Directors Related	36%
Compensation	29%
Routine Business	13%
Capitalization	11%
Strategic Transactions	5%
Other	6%

Other includes audit related, corporate governance, social, takeover, and non-routine related.

<sup>2</sup> Not all the companies we voted on are Emerging Markets based, therefore there may be a few developed names in this statistic.

<sup>3</sup> This figure includes all elections for board members, including those board members who are already independent and within our expectations.

# Our Engagement and Stewardship Results

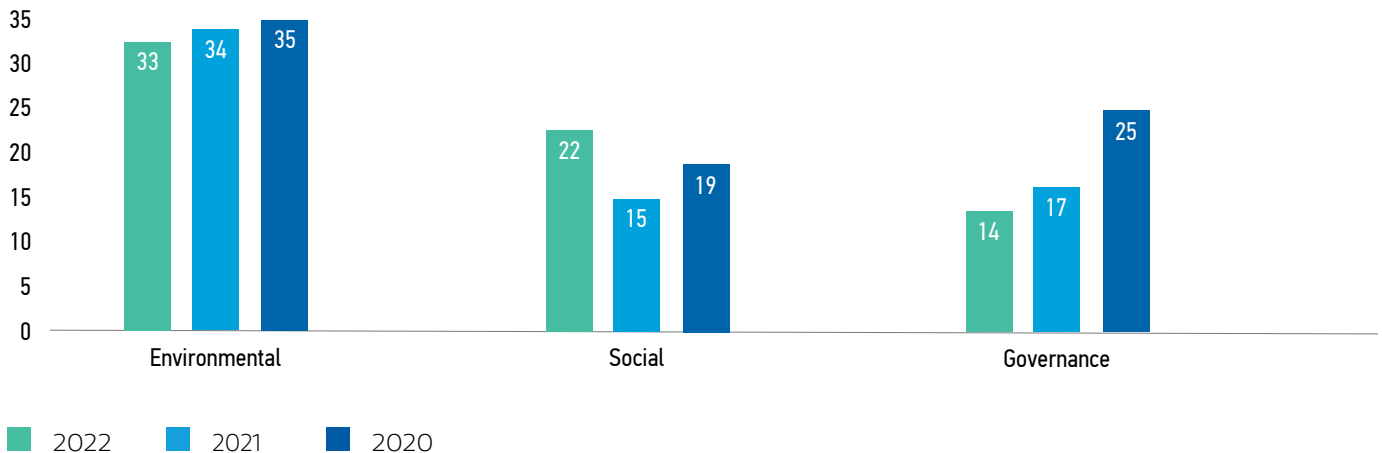
As active managers, we have always believed in the importance of direct dialogue with company management. These engagements are an opportunity for us to discuss with the company key material risks we have identified during our research. In the past two years, our engagements have become more focused and process oriented, rather than geared towards short-term outcomes. We recognize that progress is not instantaneous and so we seek to engage with companies on multiple occasions to accelerate improvement.

In 2022, we continued to focus on environmental issues, especially in light of major climate policies coming into effect such as the U.S. Inflation Reduction Act (IRA) and the EU Carbon Border Adjustment Mechanism (CBAM). We believe that the path to net zero can only potentially be achieved through a combination of economic incentives and the influence of external stakeholder pressures. Above all, we believe addressing climate change requires collective action across all sectors, as physical and transition risks can affect all companies. We spent several months assessing decarbonization pathways, monitoring the different stages in the journey for the highest emitters and the progress we would expect. As an example of our approach the mining perspective is described in our paper **Mining for a Greener Future**, which discussed how the mining industry can tackle decarbonization as an opportunity to lower its cost base, discover new sources of demand, and improve its reputation with the larger public.

Last year, we also experienced a notable increase in our engagements on social issues (Display 3). In our previous annual engagement report, we covered the importance of labor management, especially health and safety in the workforce. During 2022, we continued to engage on this issue, but our focus shifted more towards human rights risks within the supply chains of companies that are susceptible to forced labor. For our financials, fast-moving consumer goods and healthcare companies, the majority of our engagements centered on the theme of access and affordability (Display 4). We cover these topics in detail in the sustainable strategies section of this paper.

**DISPLAY 3**

**MSIM EM Team Dedicated Engagements**



On governance, we continue to push for enhanced transparency and disclosure on issues relating to applicable sustainability metrics. In particular, we engaged with companies on board composition, especially independence and gender diversity. We believe that boards need to have a range of skills, opinions and experiences for optimal decision making and shareholder representation. Specifically, gender diversity acts as a proxy for stakeholders to evaluate whether the vetting and decision-making process on the board is thorough. When there is a lack of diversity represented at the board or management level, this can act as a red flag. For instance, we started to engage during the year with a cosmetics company that has a majority female customer base yet there were no women on the board. In this instance, we expect the conversations will be long-term and ongoing as the company does not have board elections until 2024. We also engaged with company managements on the issue of gender pay gap. In many cases, the first step of these conversations is merely obtaining of the data, as complex subsidiary structures within our markets can make this particularly hard to determine.

**DISPLAY 4**

**Team Engagements by ESG Topic 2022**

The team conducted 69 engagements, covering:

**DECARBONIZATION & CLIMATE CHANGE RISK: 31%**

- Greenhouse Gas
- Energy Usage & Renewables
- Physical Risks

**CIRCULAR ECONOMY & RESOURCE MANAGEMENT: 15%**

- Biodiversity
- Water & Waste Management
- Recycling & Reuse

**SUPPLY CHAIN MANAGEMENT: 6%**

- Materials Sourcing
- Scope 3 Emissions
- Environmental Criteria For Suppliers



**OTHER SOCIAL: 5%**

- Customer Privacy
- Cybersecurity

**LABOR MANAGEMENT: 14%**

- Human Rights
- Employee Diversity & Inclusion
- Employment Practices

**ACCESS & AFFORDABILITY: 12%**

- Financial Inclusion
- Customer Diversity
- Access To Basic Goods & Services

**SUSTAINABILITY GOVERNANCE: 15%**

- Sustainable Disclosures & Transparency
- Sustainability Oversight

**BOARD COMPOSITION: 2%**

- Board Diversity

■ Environmental    ■ Social    ■ Governance

# Engagement and Stewardship in our EM Core Strategies

Global Emerging Markets, Sustainable and Regional Strategies





**EM CORE STRATEGIES**

## Chinese Dairy Producer Discloses Antibiotic Usage

We had a follow-up engagement with a large dairy producer in China on their decarbonization efforts, supply chain risk management, circular economy initiatives and product quality and safety. Since our last conversation in June 2021, we believe that the company has made progress, including adding a female board member, embedding qualitative sustainability requirements into management remuneration, becoming a member of the U.N. Global Compact and introducing a formalized climate strategy. The company's ESG team has been working on setting reasonable targets and identifying key action areas. By the end of last year, the company was able to take stock of Scope 1, 2 and 3 emissions inventories. We discussed the company's plans to engage with Science-Based Target Initiative (SBTI) to set reduction targets and will follow up on progress in a future engagement.

Another key issue discussed during this engagement was product quality and safety, which has been a major long-term priority for the company. During our previous engagement, we encouraged the company to publish their antibiotic usage and commitment. In their 2021 report, they disclosed the company's management system and process for the use of veterinary drugs. When it comes to assessing product quality, the company benchmarks themselves against EU standards and ensures product traceability, tracking every batch of raw milk that enters their plants.

We believe the company is demonstrating that sustainability is a high priority for management through their improvements in transparency, reporting and initiatives. In addition, as a dairy company, they could play an important role in addressing malnutrition and improving access to nutritional products for consumers.

**EM CORE STRATEGIES**

## Assessing an Indian Aluminum Producer's Decarbonization Pathway

During our follow-up engagement with this Indian aluminum producer, we wanted to focus exclusively on the company's climate strategy and decarbonization efforts. From previous engagements, we believe that the company has best-in-class recycling practices in place relative to some of their industry peers. The company has found uses for their waste products and is able to recycle 96% of total waste generated. In addition, 66% of the company's 2022 revenue was derived from their sustainable product offering—recycled aluminum. The company's subsidiary is the largest aluminum recycler in the world.

Regarding the company's climate strategy, we believe that they are improving from a high base—with an announced net-zero target for 2050, with a 2025 target to achieve a 25% reduction in GHG emissions with 2011-12 as a baseline. Compared to competitors, this company has among the highest carbon intensity profiles, so the pathway to net zero will take several years and a clear pervasive plan throughout the company that will include a mix of installing renewables capacity while transitioning current operations (including carbon removal technologies). We encouraged the company to work towards developing a science-based target, which we believe is now in progress, and to align their disclosures towards Task Force on Climate-Related Financial Disclosures (TCFD). The company has already started setting an internal shadow carbon price as well, which is important for awareness and tracking even as the carbon pricing markets are still in their infancy.





# Engagement in Our Emerging Markets Leaders Strategy



**EMERGING MARKETS LEADERS**

# Enhancing Asset Quality Through ESG Integration

We had our first engagement with a Taiwanese-based leasing company that primarily engages in traditional leasing, installment payment and receivables transfer businesses. The company has demonstrated their commitment to sustainable investing while integrating ESG criteria into their operational strategy when selecting customers and partners. ESG is an area of incremental focus for the company, and they are moving towards the setting of measurable goals.

Financial inclusion is a key focus for us as investors. Approximately 80% of the business is associated with small and medium-sized enterprises (SMEs). The company also offers micro-SME loans and consumer-level car and motorcycle loans. The company has also branched outside of Taiwan to offer financial services in developing countries within the ASEAN region.

In addition, ESG parameters are embedded in their credit evaluation process, requiring credit companies to assume responsibility for their employees, society and the environment. The company has a credit scoring mechanism and a strict review process consisting of two phases. At the first stage, the company has a non-investment and no-loan policy to screen credit applications. At the second phase, the company looks at the loan applicant's background and incorporates their ESG footprint. Industries with significant social risks or those that hinder environmental and sustainable development are filtered out.

During the engagement, the company also placed a strong emphasis on their solar business, which began in 2015. Green energy is important for Taiwan's economic development as the country heavily relies on energy imports. The company not only offers leases for solar projects but also generates surplus solar energy. The company has a very strict environmental pre-assessment before agreeing to make any investments for their solar business.

As a customer-centric business that handles vast quantities of customer data, cybersecurity is crucial for the company. We learned that the company has four different audit trails every year to ensure cyber compliance. They also have strong policies in place to escalate cybersecurity issues and detection, overseen by their chief information officer. The company continues to increase their investment in security technologies. In 2021, the security investment allocation doubled from the prior year, mainly for software upgrades to meet the ISO 27001 requirements. They plan to continue investing in enhanced customer data security and establish specialized information security officers to comprehensively raise the level of data protection.

While we believe the company is one of the leading Taiwanese companies on ESG matters, we felt that the company could improve on their disclosures and target setting. The company assured us that they would continue to improve their ESG reporting to better communicate their ESG efforts. They were also working with an external consultant to better understand their materiality and better structure their ESG efforts. We plan to continue monitoring the company's progress on ESG metrics tracking and their efforts towards achieving their goals. We believe that this commitment will enhance the company's opportunities for sustainable growth.

## EMERGING MARKETS LEADERS

## Cosmetic Company Improves Transparency and Disclosure

In the first half of 2022, we conducted a follow-up engagement with a leading Chinese domestic cosmetics company. Riding the wave of rising nationalism, “guochao,” the company has been quick and agile in adapting to fast-changing consumer trends, with a focus on R&D investments.

During our previous engagement with the company in 2021, we encouraged the company to enhance their ESG metrics tracking and to implement more detailed disclosures. Following that, their ESG report had disclosed more data although it was still inadequate. This time, we voiced our concerns over the lack of transparency for material ESG topics, particularly on chemical and waste management, packaging and carbon emissions. The company assured us that their newly formed ESG committee planned to formalize a long-term ESG plan to further improve disclosures and introduce carbon neutrality plans. Efforts would include energy efficiency initiatives through their manufacturing process and introducing circular economy goals for packaging and water reduction.

On governance, we focused on board composition, as the board has no female representation even though the overwhelming majority of their customer base is female. The lack of gender diversity at the top, especially for a female-oriented company, can be indicative that the board may not be sufficiently equipped to steer the company in the right direction. With board elections coming up in 2024, we continue to engage with the company to prioritize board diversity.

The company has only engaged with investors in Mandarin, which limits their visibility by international third-party ESG data providers. We pushed the company to increase their English disclosures and to have active discussions with these providers. The company has long-term plans to break into the international market, which further emphasizes the need for accessible engagements.

At the time of engagement, the company was given the lowest possible rating by a reputable ESG third-party rating provider. Given the receptivity of management to our suggestions, we believe the company is making good progress with ESG as a key priority, and this was evidenced by the upgrade of the company’s ESG rating last year. As active investors, we continue to monitor key issues, such as board composition, improved English disclosures and carbon neutrality plans.





# Engagement in Our Next Gen Emerging Markets Strategy





**NEXT GEN EMERGING MARKETS STRATEGY**

## Encouraging a Small Cap to Set Tangible Goals

We conducted a baseline engagement with a family-owned, small-cap company, the largest herbal medicine manufacturer in Indonesia. We analyzed the company's view of materiality, focused on product quality, supply chain management, emissions and energy and circular economy. Despite awareness of these issues, the company has yet to set measurable targets. During the engagement, the company was very receptive to feedback and especially eager to learn best practices around Scope 3 emissions measurement, in addition to investor expectations on sustainability.

Following the call, we shared with management our detailed assessment of the company's sustainability practices with them, including key milestones needed for more progress and providing best practices in each category.

We were encouraged by the company's disclosures and measurement of certain ESG metrics, specifically around water, waste and emissions, but identified scope 3 emissions measurement and supply chain oversight as key areas of future improvement. We recommended multiple next steps for the company, including, but not limited to:

- Set targets that include a base year, target year and percentage reduction
- Include tangible specific mechanisms/levers to reduce emissions
- Increase public visibility and accessibility of the supplier code of conduct
- Ensure alignment to ILO (International Labour Organization) standards and other international norms
- Increase transparency around suppliers, auditing process and assessment criteria

We were impressed by the company's willingness to engage and improve and we will be following up in our next engagement to see if they have made progress on the above recommendations. As stewards of capital, we have a responsibility to help guide companies during the early phases of their sustainability journey towards adopting best practices within the industry.

**NEXT GEN EMERGING MARKETS STRATEGY**

## Prompting an Aluminum Manufacturer to Focus on Human Rights

As a team, we hold aluminum companies that span the spectrum of mining and manufacturing. We were very eager to understand this Polish manufacturer's sustainability strategy, as the company had already achieved their 2025 interim targets in recycled materials, emissions reductions and worker safety, and was focused on revising their goals to be even more ambitious. This company has a naturally low carbon profile for an aluminum manufacturer, as energy efficiency has been integrated into their operations for quite some time and nearly 70% of their materials used are from secondary aluminum, which can be produced with just 5% of the carbon footprint of primary aluminum.

However, we believe the company could do more on social issues, especially on human rights risks within the supply chain, and improve gender diversity and gender pay gap. We encouraged the company to provide more transparency around standards used to evaluate suppliers' performance, as we felt the company's answers during our engagement lacked enough detail to show they know the risks. On gender diversity, although the company's workforce metrics were significantly below the country average, management stated they had not previously received shareholder pressure on the topic. We believe the demand for greater gender diversity in the workplace will become an increasing factor on which investors will focus.





# Sustainable Strategies

## Sustainable Emerging Markets, Sustainable Asia Equity

Sustainability issues present a major challenge globally, and solutions must involve policy, as well as corporate and consumer participation. For Emerging Markets specifically, our focus as investors is to encourage businesses to achieve measurable and continual improvements that are economically beneficial over the medium and long term. In managing Emerging Markets portfolios for more than 30 years, we have deep knowledge of how governments, industries and companies operate. We believe that experience provides us with the unique ability to synthesize ESG data and add a qualitative overlay to enable EM-specific solutions to nuanced global challenges.

In 2022, out of the 69 total ESG-dedicated meetings, 33 of those were thematically targeted towards human rights within the supply chain (10) and decarbonization (23). While we believe that each company has material issues, ESG challenges and opportunities are distinct and we strive to engage with companies on individual topics as we have found that a focused approach can lead to more tangible outcomes.





## SUSTAINABLE STRATEGIES

# Assessing and Implementing Viable Decarbonization Pathways

With Russia's invasion of Ukraine and its consequences contributing to oil and gas distribution disruptions, many countries in 2022 turned to coal to achieve energy security and, in the process, set back decarbonization efforts. Increasing awareness of climate change and the need to decarbonize have pushed most companies to begin assessing their own environmental impact, resulting in an acceleration of companies committing to net-zero goals. We believe that most stakeholders focus too much on companies having a climate target, whereas we are more concerned with the **quality** of these targets and the **process** of achieving them. While it is important for companies to have a commitment to help measure progress, we have found that corporate climate targets can lead to greenwashing and box-ticking behavior, given the lack of oversight and standardization in the design of transition pathways.

When it comes to evaluating our own portfolio's carbon footprint, we focus on companies that have practical decarbonization pathways that will bring change in the emissions landscape over the next three to five years. More than 60% of global CO<sub>2</sub> emissions are from emerging markets, which makes decarbonization plans more urgent for these countries. Most companies' decarbonization journey, however, transpires over several years, and we have found that simply measuring the success of our engagements through emissions reduction is not enough. We want our portfolio companies to have the right tools and framework in place to help them achieve their goals.

The best practice to decarbonize is to reduce direct Scope 1 emissions as much as possible using conventional mitigation technologies and solutions. This means a combination of improving energy efficiency and reducing overall energy consumption. While Scope 2 emissions can be a bit trickier, companies typically implement reductions by increasing their share of renewables. However, even after reducing emissions as much as possible, there will always be unavoidable emissions that will require either nature-based or technological carbon removal solutions to achieve net-zero emissions. Throughout our assessments and engagements with these companies, we primarily focused on the first part of the equation. While we believe Scope 3 emissions are important to measure and address, we are also cognizant that the quality of Scope 3 reporting is rather lackluster and insufficient across both developed and emerging markets, given its complicated nature. Our goal was to first focus on what the company can practically and reasonably achieve before tackling Scope 3 emissions.



Over the course of 2022, the team engaged directly with 11 companies from high-polluting sectors to analyze the viability of and push for progress on transition pathways (Display 5). While there are many similar strategies and levers to decarbonize, the reality is that there is no standard answer, and each company's road map is quite dependent on their sector and business model. Through our engagements, we identify key drivers of these companies' emissions and potential opportunities for improvement. In 2022, we focused on encouraging companies to formalize both long- and short-term feasible targets that are integrated in business operations, with accountable oversight at the board level and carbon analysis to support and measure progress on. Of the 11 companies we engaged with, the team found that six were leading the pack on each of these metrics, with four metals and mining companies and two materials companies. Of the remaining five, three were improving on decarbonization with feasible targets and plans to integrate those further into the business with oversight and carbon analysis. The other two companies were assessed as laggards in their respective industries, given the lack of interim targets or integration planning. We have shared industry-specific best practices with those companies and will continue stewardship efforts to effectuate progress towards integration of transition plans.

## DISPLAY 5

### Assessing Decarbonization Pathways of Heavy Emitters

Sorted by Our Assessment

Company	Sector	Our Assessment	Reporting & Transparency	Long Term Targets	Short/ Mid Term Targets	Clear & Integrated Roadmap	Accountable Oversight	Internal Carbon Analysis	Measurable Reasonable Progress
Leading supplier of aluminum and aluminum products	Metals & Mining	Leader	✓	✓	✓	✓	✓	✓	✓
South African paper and packaging company	Materials	Leader	✓	✓	✓	In Progress	✓	✓	✓
Chilean copper company	Metals & Mining	Leader	✓	✓	✓	✓	✓	✓	✓
Brazilian aluminum processing company	Metals & Mining	Leader	✓	✓	✓	✓	✓	✓	✓
South African mining company	Metals & Mining	Leader	✓	✓	✓	✓	✓	✓	✓
Global food and beverage packaging company	Materials	Leader	✓	✓	✓	✓	✓	✓	✓
World's largest aluminum rolling and recycling company	Metals & Mining	Improver	✓	✓	✓	In Progress	✓	In Progress	Improving
Korean metal producer	Metals & Mining	Improver	✓	✓	✓	In Progress	In Progress	✓	Lagging
Indian auto manufacturer	Autos	Improver	✓	In Progress	In Progress	In Progress	✗	In Progress	Improving
Indian energy company	Oil & Gas	Laggard	✓	✓	✗	✗	✗	✗	Lagging
Chinese auto manufacturer	Autos	Laggard	✓	✗	✗	✗	✗	✗	Lagging

## SUSTAINABLE STRATEGIES

# Identifying Labor and Human Rights Risks Within Global Supply Chains

In the first half of 2022, we addressed human and labor rights within the supply chain. Specifically, we engaged with apparel and IT companies, which tend to be most exposed to labor rights risks within their global supply chains. While this can be a highly sensitive issue, we believe it is important to address, and we encourage companies to take the appropriate actions to ensure that they are upholding responsible labor practices. Given the increasing international awareness and scrutiny over such issues, we believe that these companies face significant reputational and regulatory risks if they lack oversight and proper supply chain management.

In the past few years, human rights groups have published reports of forced labor in the Xinjiang region of China involving millions of indigenous Uyghur and Kazakh citizens. Xinjiang is a popular location for factories due to cheap and reliable energy derived from abundant coal resources. The region has a large role in the global production of apparel and semiconductors—about 20% of the world's cotton and 45% of the world's supply of solar-grade polysilicon are sourced from this area.

Given Xinjiang's material presence in the supply chains of apparel, solar, autos and electronic equipment companies, we embarked on a series of ten engagements to assess and evaluate responsible supply chains. We assessed each company on the evaluation criteria in Display 5, including traceability, oversight, compliance, audit and transparency with stakeholders. By comparing one company's answers to another's, we developed a more nuanced view of management quality—an investors' "litmus test" on human rights.

Most companies acknowledged the regulatory and brand perception risks with guidelines in place to ensure international standards were followed, except for one, which not only denied any ties to forced labor but refused to provide any transparency on auditing and procurement processes. This concerned us enough to exit the position in our sustainable strategies.

Across the spectrum of companies that we engaged with, disclosure needed improvement. We encouraged companies to follow global best practices by providing more transparency around supply chain audits, both in terms of percentage audited and supplier grievance channels, including how many were filed, addressed and resolved. We inquired about common findings and remedies and how each company assesses effectiveness of these channels. In 2023 and beyond, supply chain traceability will also be important to provide disclosure on but is still in development phase.

A few of the companies reported bifurcating production for overseas business versus local customers, in addition to increasing scrutiny with those suppliers they still use in the Xinjiang region. In addition, those companies that take international standards seriously provided additional assurances that best practices would be followed. We encouraged membership to relevant organizations, such as the U.N. Global Compact, an SA8000-certified organization (a Socially Accountability Certification), the Responsible Business Alliance (RBA) and engaging with third-party organizations, such as Know the Chain, to improve supply chain management.

---

**Source:** US State Department, Xinjiang Supply Chain Business Advisory Title: Risks and considerations. (2021, July 13), from <https://www.state.gov/wp-content/uploads/2021/07/Xinjiang-Business-Advisory-13July2021-1.pdf>



**DISPLAY 6****Evaluating Responsible Supply Chains****TRACEABILITY & TRANSPARENCY**

- *Transparency and disclosure*
- *Process in place to identify and assess potential labor and human risks within the supply chain*
- *Protocol in place to prevent forced labor practices*

**OVERSIGHT & ACCOUNTABILITY**

- *Responsibility at the executive level for the implementation of supply chain policies*

**SUPPLIER CODE OF CONDUCT**

- *Supplier code of conduct aligned to ILO core labor standards and other Modern Slavery laws*

**SUPPLY CHAIN AUDITS**

- *Details on supply chain audits, risk assessment approach and other due diligence efforts*

**STAKEHOLDER ENGAGEMENT**

- *Engage with relevant stakeholders to address supply chain issues*

# Seeking Alignment with Sustainable Development

In 2022, we conducted original research on the implications for the energy transition post Russia's invasion of Ukraine, decarbonization challenges and opportunities, human rights risks within supply chains, and thematic alignment to sustainable themes.

On the latter, we built out metrics associated with sustainable alignment, including assessing positive environmental and social characteristics of a company (i.e., revenue and/or operational alignment metrics) by theme: responsible energy transition, circular economy and sustainable production, access, affordability and economic growth, and decent work and innovation.

When assessing positive contribution, we use a mix of qualitative and quantitative elements to understand how these companies fit into each theme. In addition, we strive to understand and measure each company's progress towards these themes and how they support the main investment case. The following engagements are with companies that are aligned with at least one of our sustainability themes:





## SUSTAINABLE DEVELOPMENT OF EMERGING MARKETS

# Energy Transition

We look for companies that are enabling the energy transition and/or companies in high-emitting sectors with viable decarbonization pathways.

## The Green Pivot

We had our first ESG dedicated call with this company—a smelter of zinc, lead and other precious metals. The company has had a long history in the smelting business, but over the years, the company has adopted different technologies to reduce the use of fossil fuels, which is often the largest expense for smelters. There is no denying that smelters are known to have a negative environmental impact. However, this company sees the global energy transition as a key future growth driver for their business and has made several strategic investments in scrap metals recycling infrastructure and renewables. The company has consistently expanded their renewable energy capacities, with the ambition to build a full-value chain in the green hydrogen business, enabling them to decarbonize their operations and achieve their goal of carbon neutrality by 2050. While according to the company, it is not yet economical to produce ammonia for hydrogen transportation, they have made several key partnerships that could help accelerate progress. In addition to decarbonizing their own operations, the company plans to enter the electric vehicles (EV) battery market to take advantages of the growth in global EVs. The company has already cut costs by about 25% thanks to the increased use of renewables, and we believe the company will have a strong competitive advantage relative to industry peers.

The company is making innovative strategic moves into green technologies and is pivoting from a traditional smelter to become a renewable energy player. Nevertheless, there is still room for improvement in the company's current emissions profile through more investments in renewables and recycling and increasing efforts to develop an internal emissions reduction strategy/target.

The company's future growth strategy is well aligned with the global energy transition, but we believe more tangible progress needs to be made around the company's current carbon profile (as shown in Display 5, Korean metal producer).

**SUSTAINABLE DEVELOPMENT OF EMERGING MARKETS**

## Circular Economy and Sustainable Production

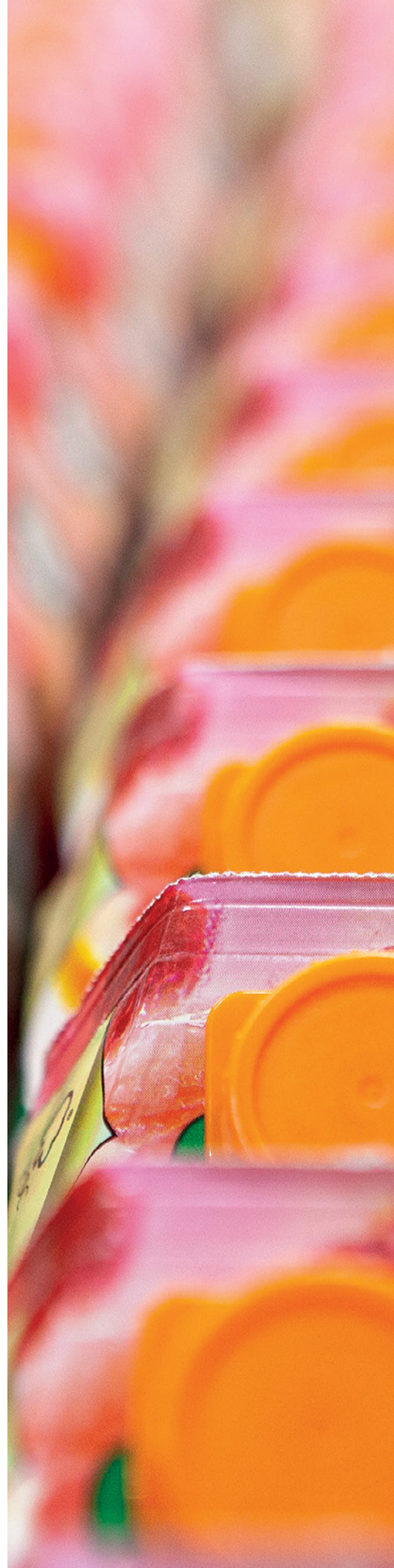
We seek companies making the transition from a linear to a circular economy, focusing more on producing sustainably while eliminating waste and circulating materials, thus optimizing resources.

### Delivering Nutritional Foods in Sustainable Packaging

As food and beverage companies face pressure from consumers to reduce their own environmental footprints and meet ESG targets, the need for sustainable solutions becomes increasingly imperative. This trend has been particularly important in Europe where there is greater emphasis on recycling. We engaged with an aseptic carton packaging company that serves food and beverage worldwide. In terms of ESG performance, we believe that the company is an industry leader, especially when it comes to sustainable production and circular economy. The company's strategy is rooted in the life cycle assessment approach, which allows the company to identify key emissions drivers, which they can target. This has allowed the company to become a sustainability leader and offer a suite of sustainable packaging solutions, including cartons that are FSC-certified (Forest Stewardship Council), aluminum-free, and made from 100% recycled materials. The company hopes to grow their sustainable packaging offerings, which helps customers meet their own circular economy goals and improves the company's environmental footprint.

We still see areas for improvement, especially around environmental management within the value chain and specifically related to end-of-life treatment and post-consumer collection. The company has partnered with multiple stakeholders and local programs to develop tailored strategies to boost recycling rates. We encouraged the company to be more transparent around the progress of their efforts and will continue to monitor their progress.

We believe that the company's innovation around sustainable packaging has produced net positive benefits for both consumers and the company. Looking forward, we believe that the demand for sustainable packaging will continue to be a persistent theme, providing a major tailwind for the company.





**SUSTAINABLE DEVELOPMENT OF EMERGING MARKETS**

## Access, Affordability and Economic Growth

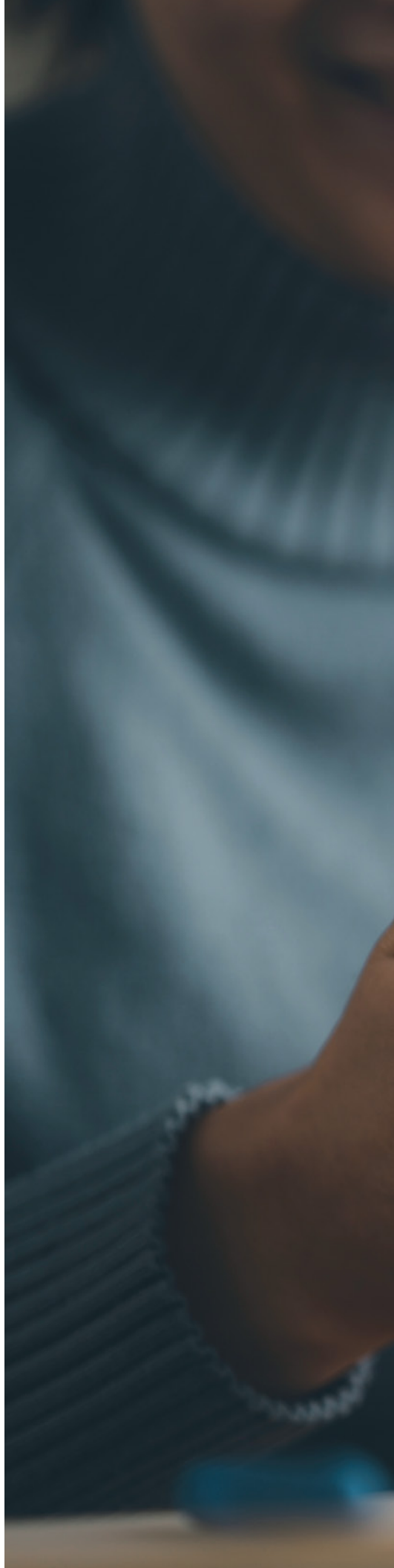
In this theme, we aim to identify companies that are focused on increasing access and affordability of necessary goods and services, including foods, medicines, health care, banking, telecommunications, insurance and education. These companies help foster productivity and improve overall quality of life, driving income and sustainable economic growth.

### Driving Both Financial Inclusion and Accessibility in South Korea

Compared to other countries in Asia, South Korea has a very low unbanked population of only 5%. Yet poverty, especially among elderly women, persists as a serious social issue, as women participating in the workforce remains low. One of our portfolio companies is among the largest banks in South Korea and has potential to help improve financial inclusion and accessibility among financially vulnerable groups. On the commercial banking side, the company offers many socially responsible financial products, including online financial services and loan products geared towards low-income workers, elderly people and disabled customers. As for corporate lending, the bank aims to increase investments that support renewable energy projects and help the financially vulnerable population. As of 2022, the bank has devoted less than 10% of their corporate loan book to this but are targeting to double this percentage by 2030.

Given the fast-paced digitalization of financial services, the bank is aware that for some customers, such as the disabled and the elderly, accessing digital financial services may be cumbersome. The bank also offers services such as voice recognition, customized counseling services and specialized digital banking education.

We believe that banks can empower individuals and SMEs, consequently driving economic growth while also broadening the client base. This South Korean bank is still in the early stages of incorporating ESG considerations into their lending practices. We are encouraged by their efforts and will continue to engage with them and monitor improvements.





**SUSTAINABLE DEVELOPMENT OF EMERGING MARKETS**

## Decent Work & Innovation

Private sector job creation and innovation are critical drivers of sustainable economic growth and social development. We invest in companies that are creating high-quality jobs, developing human capital and investing in research and development.

### Enabling Digital Talent at Scale

One of our portfolio companies provides IT consulting and software services. While this company is headquartered in India, they have a presence in more than 50 countries with a workforce of more than 300,000. The company has a comprehensive ESG strategy and goals. As part of their strategy, they are committed to strengthening diversity, equity and inclusion (DEI) in the corporation. Given that there are over 150 nationalities in their workforce, DEI is a core part of the company's ESG strategy. One area of focus for the company is to achieve a workforce of 45% women by 2030. They are already a signatory to the U.N. Women's Empowerment Principles with a workforce of about 40% women as of 2022. To improve recruiting, the company focuses on hiring women from career breaks, irrespective of direction or reason for the break and have already hired more than 500 women this way. To further incentivize progress, DEI goals are included as part of their corporate scorecard and flow into leader and manager targets. The company was recognized as a Global Top Employer 2022 in 22 countries, ranking among the top three employers in Asia Pacific, Middle East and North America.

In addition to empowering their own workforce, the company creates products that help empower the workforce of other companies. The COVID-19 pandemic has changed the future of work. The company created and deployed a solution that helps facilitate employees to improve their effectiveness and enhance collaboration. The goal is to retain the benefits of remote working while also promoting employee engagement to help prevent so-called "remote fatigue." Through this platform, companies are able to smoothly transition to a hybrid work model and maintain employee satisfaction.

We believe that this company is not only creating high-quality jobs through innovative and digital solutions, but the company is also doing the same for their clients through their products and services.





# 2023 Outlook

Process-focused stewardship can take many years to bring about tangible outcomes. For 2023, we are looking to advance the themes of decarbonization, human rights and diversity, with companies that we feel we can have the biggest potential impact for change. Our priorities are to partner with companies to address insufficiencies at this stage—providing best practices we have seen from the leaders in our portfolio to those who need to improve to keep up with a sustainable transition—whether environmentally or socially.

Our work in decarbonization has made us increasingly cognizant of related topics that are driven by climate change and are key aspects of decarbonization itself. Climate change is a multifaceted issue, and we are seeing other topics, including circular economy and biodiversity, become more relevant in our research and conversations with companies. We expect this trend to continue in 2023.

On supply chain, our focus is on awareness of the human rights risks inherent in the portfolio—and forming our own opinion on each company's practices using our own framework as a litmus test. Post our first assessment, we are following up in 2023 with those that either have new controversies, or where investigations are now complete, and more findings are available to review.

Gender diversity is a relatively new theme for us, but we do believe it is important not only across an organization when compared to local labor force participation rates, but at the board level, where studies have shown that gender and ethnically diverse companies are more likely to outperform. As a first step, we will be having conversations with those companies we own that have zero gender diversity at the board level—especially where we feel the customer or workforce base is underrepresented on the board. These conversations may take place over a period of time, as change would be subject to the nominating process, term limits of existing board members and potentially a proxy vote. Nonetheless, we are eager to see where this process takes us, and we watch managements' receptivity with a careful eye, looking for potential for marginal progress as we make our case.

---

## Dedicated Emerging Markets Sustainability Team



### ERIC CARLSON

Head of EM Sustainability &  
EM Portfolio Manager  
[eric.carlson@morganstanley.com](mailto:eric.carlson@morganstanley.com)



### DANA PHILLIPS

EM Engagement Co-Lead &  
Sustainability Practice  
[dana.phillips@morganstanley.com](mailto:dana.phillips@morganstanley.com)



### CANDY CHAO

EM Engagement Co-Lead  
Sustainability & Latam Research Analyst  
[candy.chao@morganstanley.com](mailto:candy.chao@morganstanley.com)



### HARRISON JAMIN

EM Sustainability Data  
Research Analyst  
[harrison.jamin@morganstanley.com](mailto:harrison.jamin@morganstanley.com)

---

**Source:** Dixon-Fyle, S., Dolan, K., Hunt, D. V., & Prince, S. (2020, May 19). Diversity wins: How inclusion matters. McKinsey & Company. Retrieved February 24, 2023, from <https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters#/>

## DEFINITIONS

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

## IMPORTANT INFORMATION

References to individual companies are provided solely for informational purposes only and are intended only to illustrate certain relevant environmental, social and governance factors. This information does not constitute an offer to sell or the solicitation to buy securities.

### Risk Considerations

**ESG strategies** that incorporate impact investing and/or Environmental, Social and Governance (ESG) factors could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. As a result, there is no assurance ESG strategies could result in more favorable investment performance. There is no assurance that a Portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by the Portfolio will decline and that the value of Portfolio shares may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g., natural disasters, health crises, terrorism, conflicts, and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing in this Portfolio. Please be aware that this Portfolio may be subject to certain additional risks. In general, **equities securities** values also fluctuate in response to activities specific to a company. Investments in foreign markets entail special risks such as currency, political, economic, market and liquidity risks. The risks of investing in **frontier emerging** markets are greater than risks associated with investments in other foreign or U.S. issuers and they are often considered highly speculative in nature. Investment opportunities in many **frontier emerging markets** may be concentrated in the **banking industry**, which could have a disproportionate impact on the portfolio's performance. Stocks of **small and medium capitalization companies** entail special risks, such as limited product lines, markets and financial resources, and greater market volatility than securities of larger, more established companies. By investing in **investment company securities**, the portfolio is subject to the underlying risks of that investment company's portfolio securities. In addition to the Portfolio's fees and expenses, the Portfolio generally would bear its share of the investment company's fees and expenses. **Derivative instruments** may disproportionately increase losses and have a significant impact on performance. They also may be subject to counterparty, liquidity, valuation, correlation and market risks. **Illiquid securities** may be more difficult to sell and value than public traded securities (liquidity risk). **Nondiversified portfolios** often invest in a more limited number of issuers. As such, changes in the financial condition or market value of a single issuer may cause greater volatility.

There is no guarantee that any investment strategy will work under all market conditions, and each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market.

**A separately managed account may not be appropriate for all investors. Separate accounts managed according to the Strategy include a number of securities and will not necessarily track the performance of any index. Please consider the investment objectives, risks and fees of the Strategy carefully before investing. A minimum asset level is required.**

**For important information about the investment managers, please refer to Form ADV Part 2.**

The views and opinions and/or analysis expressed are those of the author or the investment team as of the date of preparation of this material and are subject to change at any time without notice due to market or economic conditions and may not necessarily come to pass. Furthermore, the views will not be updated or otherwise revised to reflect information that subsequently becomes available or circumstances existing, or changes occurring, after the date of publication. The views expressed do not reflect the opinions of all investment personnel at Morgan Stanley Investment Management (MSIM) and its subsidiaries and affiliates (collectively "the Firm"), and may not be reflected in all the strategies and products that the Firm offers.

Forecasts and/or estimates provided herein are subject to change and may not actually come to pass. Information regarding expected market returns and market outlooks is based on the research, analysis and opinions of the authors or the investment team. These conclusions are speculative in nature, may not come to pass and are not intended to predict the future performance of any specific strategy or product the Firm offers. Future results may differ significantly depending on factors such as changes in securities or financial markets or general economic conditions.

This material has been prepared on the basis of publicly available information, internally developed data and other third-party sources believed to be reliable. However, no assurances are provided regarding the reliability of such information and the Firm has not sought to independently verify information taken from public and third-party sources.

This material is a general communication, which is not impartial and all information provided has been prepared solely for informational and educational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The information herein has not been based on a consideration of any individual investor circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

The Firm does not provide tax advice. The tax information contained here in is general and is not exhaustive by nature. It was not intended or written to be used, and it cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer. Each Jurisdiction tax laws are complex and constantly changing. You should always consult your own legal or tax professional for information concerning your individual situation.

Charts and graphs provided herein are for illustrative purposes only. **Past performance is no guarantee of future results.**

This material is not a product of Morgan Stanley's Research Department and should not be regarded as a research material or a recommendation.

The Firm has not authorised financial intermediaries to use and to distribute this material, unless such use and distribution is made in accordance with applicable law and regulation. Additionally, financial intermediaries are required to satisfy themselves that the information in this material is appropriate for any person to whom they provide this material in view of that person's circumstances and purpose. The Firm shall not be liable for, and accepts no liability for, the use or misuse of this material by any such financial intermediary.

This material may be translated into other languages. Where such a translation is made this English version remains definitive. If there are any discrepancies between the English version and any version of this material in another language, the English version shall prevail.

The whole or any part of this material may not be directly or indirectly reproduced, copied, modified, used to create a derivative work, performed, displayed, published, posted, licensed, framed, distributed or transmitted or any of its contents disclosed to third parties without the Firm's express written consent. This material may not be linked to unless such hyperlink is for personal and non-commercial use. All information contained herein is proprietary and is protected under copyright and other applicable law.

Morgan Stanley Investment Management is the asset management division of Morgan Stanley.

## DISTRIBUTION

**This material is only intended for and will only be distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations.**

**MSIM, the asset management division of Morgan Stanley (NYSE: MS), and its affiliates have arrangements in place to market each other's products and services. Each MSIM affiliate is regulated as appropriate in the jurisdiction it operates. MSIM's affiliates are: Eaton Vance Management (International) Limited, Eaton Vance Advisers International Ltd, Calvert Research and Management, Eaton Vance Management, Parametric Portfolio Associates LLC, and Atlanta Capital Management LLC.**

This material has been issued by any one or more of the following entities:

## EMEA

This material is for Professional Clients/Accredited Investors only.

In the EU, MSIM and Eaton Vance materials are issued by MSIM Fund Management (Ireland) Limited ("FMIL"). FMIL is regulated by the Central Bank of Ireland and is incorporated in Ireland as a private company limited by shares with company registration number 616661 and has its registered address at The Observatory, 7-11 Sir John Rogerson's Quay, Dublin 2, D02 VC42, Ireland. Outside the EU, MSIM materials are issued by Morgan Stanley Investment Management Limited (MSIM Ltd) is authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No. 1981121. Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA. In Switzerland, MSIM materials are issued by Morgan Stanley & Co. International plc, London (Zurich Branch) Authorised and regulated by the Eidgenössische Finanzmarktaufsicht ("FINMA"). Registered Office: Beethovenstrasse 33, 8002 Zurich, Switzerland.

Outside the US and EU, Eaton Vance materials are issued by Eaton Vance Management (International) Limited ("EVM") 125 Old Broad Street, London, EC2N 1AR, UK, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority.

**Italy:** MSIM FMIL (Milan Branch), (Sede Secondaria di Milano) Palazzo Serbelloni Corso Venezia, 16 20121 Milano, Italy. **Netherlands:** MSIM FMIL (Amsterdam Branch), Rembrandt Tower, 11th Floor

Amstelplein 1 1096HA, Netherlands. **France:** MSIM FMIL (Paris Branch), 61 rue de Monceau 75008 Paris, France. **Spain:** MSIM FMIL (Madrid Branch), Calle Serrano 55, 28006, Madrid, Spain. **Germany:** MSIM FMIL Frankfurt Branch, Große Gallusstraße 18, 60312 Frankfurt am Main, Germany (Gattung: Zweigniederlassung (FDI) gem. § 53b KWG). **Denmark:** MSIM FMIL (Copenhagen Branch), Gorrissen Federspiel, Axel Towers, Axeltorv2, 1609 Copenhagen V, Denmark.

## MIDDLE EAST

**Dubai:** MSIM Ltd (Representative Office, Unit Precinct 3-7th Floor-Unit 701 and 702, Level 7, Gate Precinct Building 3, Dubai International Financial Centre, Dubai, 506501, United Arab Emirates. Telephone: +97 (0)14 709 7158).

This document is distributed in the Dubai International Financial Centre by Morgan Stanley Investment Management Limited (Representative Office), an entity regulated by the Dubai Financial Services Authority ("DFSA"). It is intended for use by professional clients and market counterparties only. This document is not intended for distribution to retail clients, and retail clients should not act upon the information contained in this document.

This document relates to a financial product which is not subject to any form of regulation or approval by the DFSA. The DFSA has no responsibility for reviewing or verifying any documents in connection with this financial product. Accordingly, the DFSA has not approved this document or any other associated documents nor taken any steps to verify the information set out in this document, and has no responsibility for it. The financial product to which this document relates may be illiquid and/or subject to restrictions on its resale or transfer. Prospective purchasers should conduct their own due diligence on the financial product. If you do not understand the contents of this document, you should consult an authorised financial adviser.

## U.S.

**NOT FDIC INSURED | OFFER NO BANK GUARANTEE | MAY LOSE VALUE | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY | NOT A DEPOSIT**

**Latin America (Brazil, Chile Colombia, Mexico, Peru, and Uruguay)**

This material is for use with an institutional investor or a qualified investor only. All information contained herein is confidential and is for the exclusive use and review of the intended addressee, and may not be passed on to any third party. This material is provided for informational purposes only and does not constitute a public offering, solicitation or recommendation to buy or sell for any product, service, security and/or strategy. A decision to invest should only be made after reading the strategy documentation and conducting in-depth and independent due diligence.

## ASIA PACIFIC

**Hong Kong:** This material is disseminated by Morgan Stanley Asia Limited for use in Hong Kong and shall only be made available to "professional investors" as defined under the Securities and Futures Ordinance of Hong Kong (Cap 571). The contents of this material have not been reviewed nor approved by any regulatory authority including the Securities and Futures Commission in Hong Kong. Accordingly, save where an exemption is available under the relevant law, this material shall not be issued, circulated, distributed, directed at, or made available to, the public in Hong Kong. **Singapore:** This material is disseminated by Morgan Stanley Investment Management Company and should not be considered to be the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor under section 304 of the Securities and Futures Act, Chapter 289 of Singapore ("SFA"); (ii) to a "relevant person" (which includes an accredited investor) pursuant to section 305 of the SFA, and such distribution is in accordance with the conditions specified in section 305 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. This publication has not been reviewed by the Monetary Authority of Singapore. **Australia:** This material is provided by Morgan Stanley Investment Management (Australia) Pty Ltd ABN 22122040037, AFSL No. 314182 and its affiliates and does not constitute an offer of interests. Morgan Stanley Investment Management (Australia) Pty Limited arranges for MSIM affiliates to provide financial services to Australian wholesale clients. Interests will only be offered in circumstances under which no disclosure is required under the Corporations Act 2001 (Cth) (the "Corporations Act"). Any offer of interests will not purport to be an offer of interests in circumstances under which disclosure is required under the Corporations Act and will only be made to persons who qualify as a "wholesale client" (as defined in the Corporations Act). This material will not be lodged with the Australian Securities and Investments Commission.

**Japan:** For professional investors, this material is circulated or distributed for informational purposes only. For those who are not professional investors, this material is provided in relation to Morgan Stanley Investment Management (Japan) Co., Ltd. ("MSIMJ")'s business with respect to discretionary investment management agreements ("IMA") and investment advisory agreements ("IAA"). This is not for the purpose of a recommendation or solicitation of transactions or offers any particular financial instruments. Under an IMA, with respect to management of assets of a client, the client prescribes basic management policies in advance and commissions MSIMJ to make all investment decisions based on an analysis of the value, etc. of the securities, and MSIMJ accepts such commission. The client shall delegate to MSIMJ the authorities necessary for making investment. MSIMJ exercises the delegated authorities based on investment decisions of MSIMJ, and the client shall not make individual instructions. All investment profits and losses belong to the clients; principal is not guaranteed. Please consider the investment objectives and nature of risks before investing. As an investment advisory fee for an IAA or an IMA, the amount of assets subject to the contract multiplied by a certain rate (the upper limit is 2.20% per annum (including tax)) shall be incurred in proportion to the contract period. For some strategies, a contingency fee may be incurred in addition to the fee mentioned above. Indirect charges also may be incurred, such as brokerage commissions for incorporated securities. Since these charges and expenses are different depending on a contract and other factors, MSIMJ cannot present the rates, upper limits, etc. in advance. All clients should read the Documents Provided Prior to the Conclusion of a Contract carefully before executing an agreement. This material is disseminated in Japan by MSIMJ, Registered No. 410 (Director of Kanto Local Finance Bureau (Financial Instruments Firms)), Membership: the Japan Securities Dealers Association, The Investment Trusts Association, Japan, the Japan Investment Advisers Association and the Type II Financial Instruments Firms Association.

