

Morgan Stanley

INVESTMENT MANAGEMENT

# Engagement and Stewardship Principles

Public Markets

June 2023



# Engagement and Stewardship Principles<sup>1</sup>

## 1 Our Stewardship Philosophy

As long-term investors, and active owners, we believe we have a duty to be good stewards of the capital we manage. We fulfill this duty by engaging with the companies in which we are invested and by exercising our proxy voting rights. These stewardship activities give us the opportunity to guide companies in which we invest toward better governance practices, which we believe produce long-term, sustainable returns.

## 2 Our Engagement Priorities

A key input in our investment selection process is an assessment of the quality of the board and senior management. To develop that knowledge, Morgan Stanley Investment Management (“MSIM”) engages with company management at regular intervals, and prioritizes active dialogues where positions are significant and issues are viewed as material.

## 3 Our Engagement Process and Methods

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

Investment teams engage with companies throughout their investment process on a broad range of issues including a company’s strategy, financial and non-financial performance, risk management, corporate governance, sustainability initiatives, and capital structure.

MSIM is a predominately active investor and 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 a number of 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, including sustainability management. Others approach portfolio construction using a top down, macro approach to strategic asset allocation and undertake thematic engagements with selected companies across the portfolio, as needed. Monitoring of companies in which MSIM invests may include, but is not limited to:

- Reviewing and analyzing relevant public information published by the company (which may include a company’s quarterly financials, earnings calls, general company reporting and/or disclosures, including sustainability-related disclosures);
- Developing proprietary quantitative models to forecast performance, leveraging third party data services;
- Conducting proprietary and reviewing external research;
- Attending company presentations and/or analyst conferences;
- Where appropriate, engaging directly with companies in which MSIM invests (which can include engagement with company executives and board members through in-person meetings, conference calls and email correspondence);
- Ongoing monitoring of external events that may impact company performance, e.g. regulatory changes, news events;

As long-term investors and active owners, MSIM believes that good corporate governance and sustainability practices are a signal of management quality and that well-managed companies produce long-term sustainable returns. To identify strong corporate governance and sustainability practices, a range of non-financial performance metrics are reviewed by Investment Teams and the Global Stewardship team. Non-financial performance metrics may include corporate ESG disclosures and third party ESG data providers.

A majority of engagements led by the Global Stewardship Team focus on shareholder meetings and take place during proxy season. During these engagements, the Global Stewardship Team and members of relevant Investment teams, meet with company management and when appropriate, a member or members of the board of directors to discuss the company’s proxy, including but not limited to executive compensation, board structure, ESG issues and shareholder proposals. Topics of routine engagements focus on governance best practices such as board independence, succession planning, and executive pay. Other topics of consideration include the company’s sustainability initiatives and goals, and corporate culture. The Global Stewardship team may

<sup>1</sup> Morgan Stanley Investment Management Engagement & Stewardship Principles represents Morgan Stanley Investment Management’s engagement policy for the purposes of Shareholder Rights Directive II (Directive (EU) 2017/828 amending Directive 2007/36/EC)

request engagement outside of the normal proxy process in response to a company headline event or to proactively discuss thematic ESG issues. In these cases, the Global Stewardship team may contact the company and request a meeting with the appropriate management team and/or a member or members of the board of directors. MSIM selectively interacts with company boards when necessary and beneficial to the engagement process. MSIM engagements are carried out through a mix of conference calls, in-person meetings and email correspondence.

#### 4 Engagement Monitoring and Escalation

Our regular touchpoints with company management provide an opportunity to monitor and track the performance of our investments. Both investment teams and the Global Stewardship Team regularly monitor and engage with companies throughout the investment process and maintain engagement records to track progress and to allow engagement insights to be incorporated in investment and proxy voting decisions. Given the regular cadence of our engagements, and our position as long-term owners, the need for escalation is generally limited. Further, we appreciate that in some cases it can take years to move the dial on certain issues.

We consider an engagement successful when a company is receptive to our viewpoints and suggestions and takes concrete steps to implement them. In cases where a company is not receptive or where our engagements do not lead to desired results, we may cast votes against management, request meetings with board members, or write letters to boards and management. In some cases, repeated, unsuccessful engagements may contribute to a decision to decrease or exit a holding. Additionally, we may consider collective engagement as an escalation method. Ultimately, portfolio managers are responsible for interpreting and integrating information gained through engagements into their investment decision-making process, as appropriate.

#### 5 Collective Engagement

Morgan Stanley Investment Management frequently engages with portfolio companies and generally finds that these one on one discussions are the most effective way to articulate our views to a company's management. However, we are supportive of collective engagement where such engagement appears necessary in order to materially enhance portfolio values and where we can do so in a manner that is in full compliance with applicable laws, regulations and judicial precedents. For example, we occasionally participate in collective engagements organized by issuers, which provide an open forum for investors. In addition, as a signatory to the Principles for Responsible Investment (UN PRI) and the 2020 U.K. Stewardship Code and members of other international investor networks, we have the ability to collectively engage when appropriate. For example, as a member of the Sustainability Accounting Standards Board (SASB) Investor Advisory Group, we

engage with fellow investors to promote the SASB reporting standards. Morgan Stanley Investment Management's decision to participate in collective engagement will always consider the impact on our clients. Other considerations include, but are not limited to: potential conflicts of interest, materiality of the issue, and probability of change.

#### 6 Transparency and Reporting

The Global Stewardship team and portfolio teams track engagements to inform investment and proxy voting decisions, and future engagements. The Global Stewardship Team shares engagement highlights, including a total count of engagements broken down by region, in an annual Stewardship report. The Global Stewardship Team and individual investment teams may also share additional engagement details with interested clients.

MSIM does not seek or solicit insider information through our engagement efforts. Rather, the purpose of our engagement efforts is to obtain clarity around public disclosures and to establish productive dialogue with management and the board. Like all Morgan Stanley Investment Management employees, the Global Stewardship Team and portfolio teams regularly undergo compliance training regarding non-public information and conflicts of interest. MSIM's Proxy Voting Policy outlines its approach to material conflicts of interest in the voting process.

If you have any questions on this document, please contact the MSIM Stewardship Team at [mbproxy@morganstanley.com](mailto:mbproxy@morganstanley.com).

Related Documents: publicly available by accessing the "About Us" section on our website – [www.morganstanley.com/im](http://www.morganstanley.com/im);

- [Morgan Stanley Investment Management's Proxy Voting Policy and Procedures](#)
- [Morgan Stanley Investment Management Sustainable Investing Policy](#)
- [Morgan Stanley Investment Management's Global Stewardship Report](#)
- [Morgan Stanley Investment Management's U.K. Stewardship Code Report](#)

#### Further Information

If you have any questions about this document, please contact the MSIM Stewardship Team at [mbproxy@morganstanley.com](mailto:mbproxy@morganstanley.com).

Related documents are publicly available on [www.morganstanley.com/im/sustainability](http://www.morganstanley.com/im/sustainability).

- Morgan Stanley Investment Management's Proxy Voting Policy and Procedures
- Morgan Stanley Investment Management's Sustainable Investing Policy
- Morgan Stanley Investment Management's Global Stewardship Report
- Morgan Stanley Investment Management's U.K. Stewardship Code Report

## **Risk Considerations**

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

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.

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

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