



## **ASSESSMENT REPORT**

### **2021 PILOT**

**Morgan Stanley Investment Management**

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## ABOUT THIS REPORT

The assessment report is designed to provide feedback to signatories and support ongoing learning and development. The high-level assessment methodology can be found [here](#) and question-level assessment criteria can be found after each indicator in the Investor Reporting Framework, [here](#). Note that the 2021 scoring methodology has changed to reflect the new Reporting Framework, and is incomparable with scores from previous PRI years.

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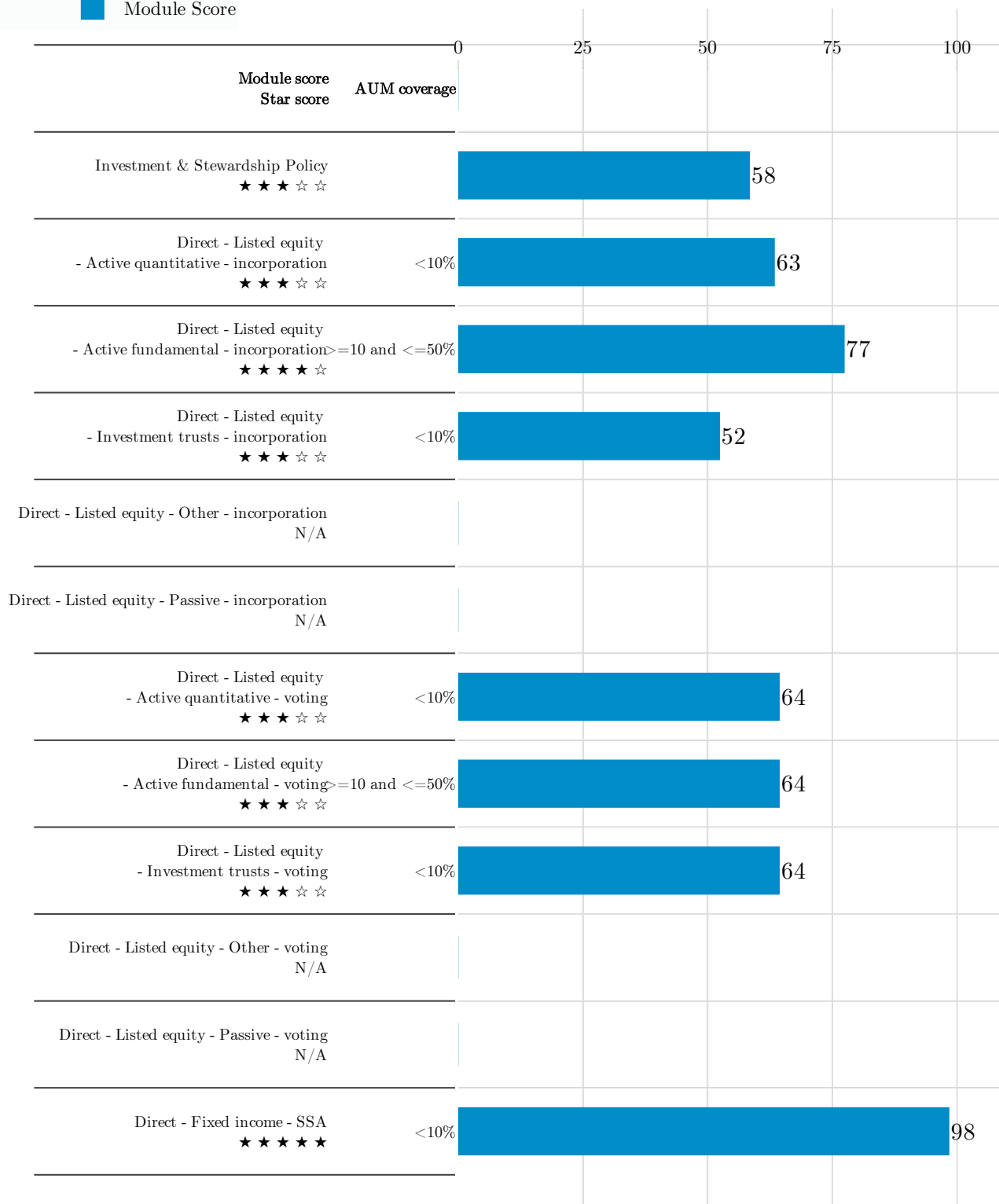
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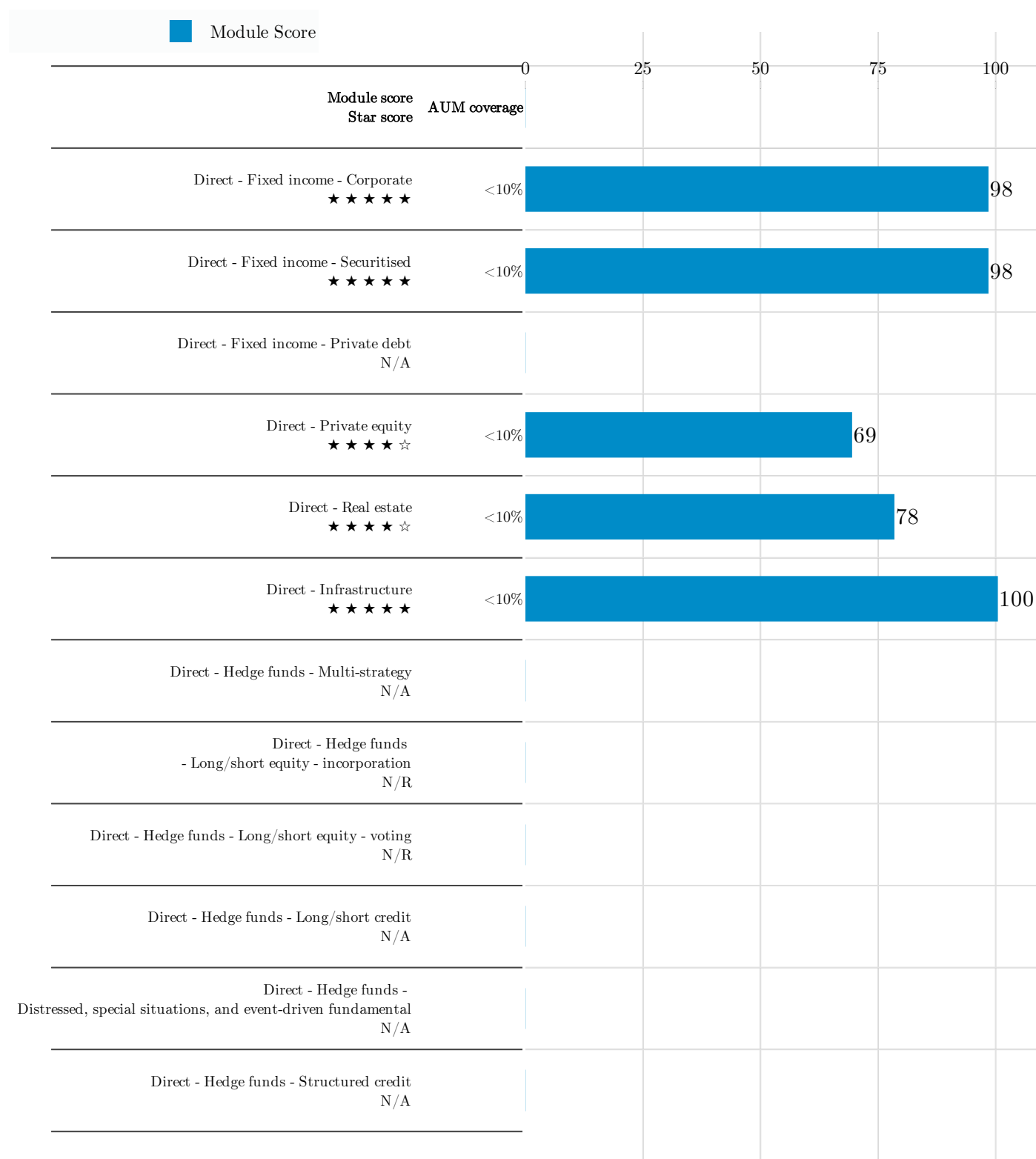
# Summary Scorecard

Module Score



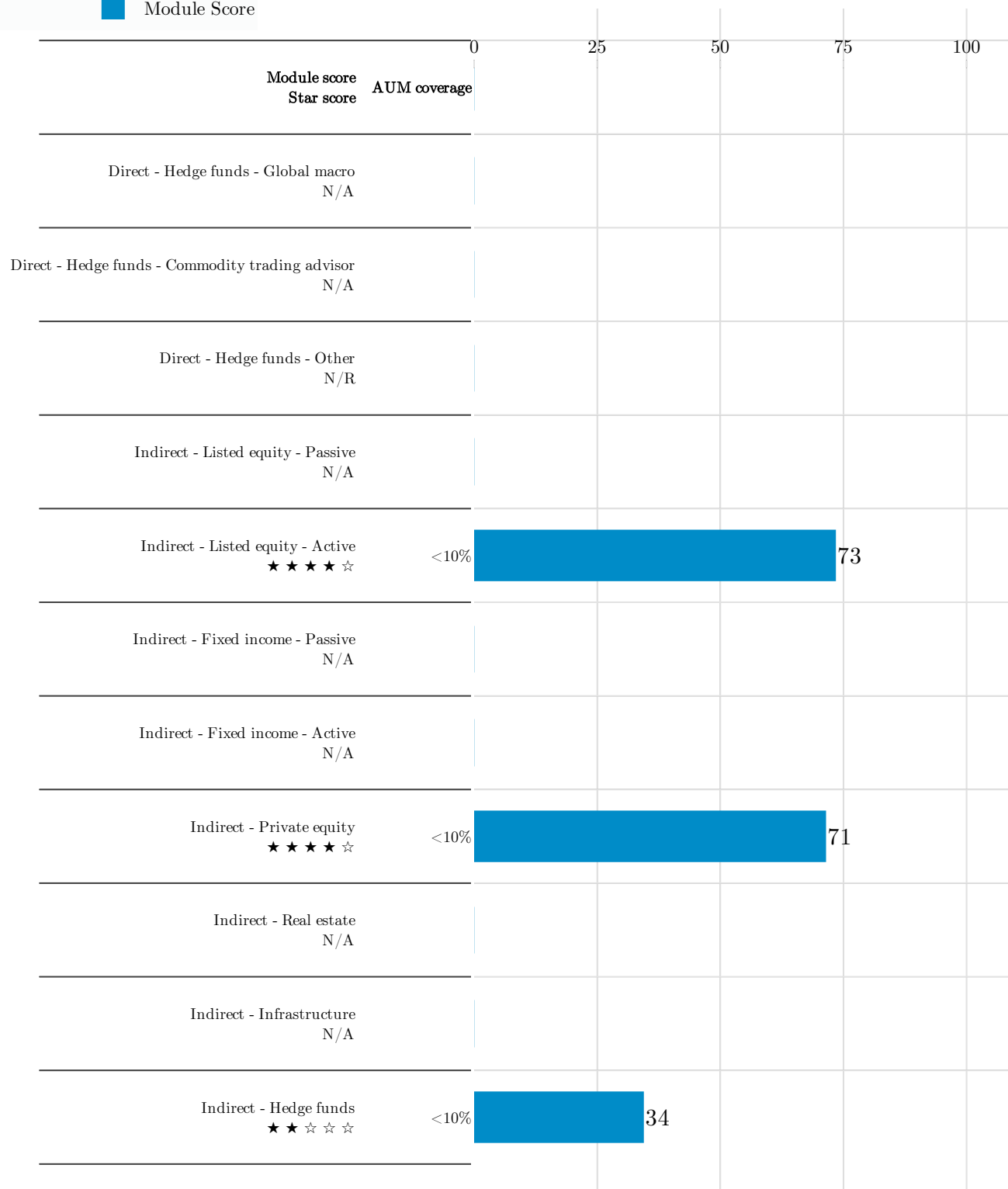


## Summary Scorecard (continued)



## Summary Scorecard (continued)

Module Score



## Indicator Level Scores For Direct - Fixed income - SSA

Section	Sub-section	Topic	Indicator	Your Score
Pre-investment phase	Materiality analysis	AUM coverage of ESG materiality assessment process	FI 1	200/200
Pre-investment phase	Materiality analysis	How ESG is incorporated into materiality assessment process	FI 1.1	200/200
Pre-investment phase	ESG risk management	AUM coverage of ESG incorporation in risk management	FI 2.1	150/150
Pre-investment phase	ESG incorporation in asset valuation	AUM coverage of ESG incorporation in investment research	FI 3.1	200/200
Pre-investment phase	ESG incorporation in portfolio construction	Portion of cases where ESG affected portfolio construction	FI 5.1	200/200
Pre-investment phase	ESG incorporation in assessment of issuers	Incorporation of ESG in credit quality analysis	FI 7	200/200
Pre-investment phase	ESG performance	Incorporation of relative ESG performance in investment analysis	FI 8	150/150
Post-investment phase	ESG risk management	Incorporation of ESG in regular reviews	FI 12	150/150
Post-investment phase	ESG risk management	Identification of ESG incidents	FI 13	200/200
Post-investment phase	Time horizons	Time frame for which ESG risks taken into account	FI 14	150/150
Post-investment phase	Long-term ESG trend analysis	Continuous monitoring of long-term ESG trends	FI 15	150/150
Post-investment phase	Thematic bonds	Selection of non-labelled thematic bonds	FI 19	100/100
Post-investment phase	Thematic bonds	Escalation strategies used in the majority of cases when thematic bond proceeds are not allocated as promised	FI 20	150/150
Reporting/Disclosure	ESG screens	Communication of the side-effects of fixed income screening to clients or beneficiaries	FI 21	150/200
Engagement	Engaging with issuers/borrowers	Timing of fixed income engagement	FI 22	200/200
Engagement	Sovereign bonds	SSA bonds: non-issuer parties engaged with	FI 23	150/150

## Indicator Level Scores For Direct - Fixed income - Corporate

Section	Sub-section	Topic	Indicator	Your Score
Pre-investment phase	Materiality analysis	AUM coverage of ESG materiality assessment process	FI 1	200/200
Pre-investment phase	Materiality analysis	How ESG is incorporated into materiality assessment process	FI 1.1	200/200
Pre-investment phase	ESG risk management	AUM coverage of ESG incorporation in risk management	FI 2.1	150/150
Pre-investment phase	ESG incorporation in asset valuation	AUM coverage of ESG incorporation in investment research	FI 3.1	200/200
Pre-investment phase	ESG incorporation in portfolio construction	Portion of cases where ESG affected portfolio construction	FI 5.1	200/200
Pre-investment phase	ESG incorporation in assessment of issuers	Incorporation of ESG in credit quality analysis	FI 7	200/200
Pre-investment phase	ESG performance	Incorporation of relative ESG performance in investment analysis	FI 8	150/150
Pre-investment phase	ESG risk management	Corporate bonds: coverage of framework for ESG risks at country and sector level	FI 9.1	150/150
Post-investment phase	ESG risk management	Incorporation of ESG in regular reviews	FI 12	150/150
Post-investment phase	ESG risk management	Identification of ESG incidents	FI 13	200/200
Post-investment phase	Time horizons	Time frame for which ESG risks taken into account	FI 14	150/150
Post-investment phase	Long-term ESG trend analysis	Continuous monitoring of long-term ESG trends	FI 15	150/150
Post-investment phase	Thematic bonds	Selection of non-labelled thematic bonds	FI 19	100/100
Post-investment phase	Thematic bonds	Escalation strategies used in the majority of cases when thematic bond proceeds are not allocated as promised	FI 20	150/150
Reporting/Disclosure	ESG screens	Communication of the side-effects of fixed income screening to clients or beneficiaries	FI 21	150/200
Engagement	Engaging with issuers/borrowers	Timing of fixed income engagement	FI 22	200/200

## Indicator Level Scores For Direct - Fixed income - Securitised

Section	Sub-section	Topic	Indicator	Your Score
Pre-investment phase	Materiality analysis	AUM coverage of ESG materiality assessment process	FI 1	200/200
Pre-investment phase	Materiality analysis	How ESG is incorporated into materiality assessment process	FI 1.1	200/200
Pre-investment phase	ESG risk management	AUM coverage of ESG incorporation in risk management	FI 2.1	150/150
Pre-investment phase	ESG incorporation in asset valuation	AUM coverage of ESG incorporation in investment research	FI 3.1	200/200
Pre-investment phase	ESG incorporation in portfolio construction	Portion of cases where ESG affected portfolio construction	FI 5.1	200/200
Pre-investment phase	ESG incorporation in assessment of issuers	Incorporation of ESG in credit quality analysis	FI 7	200/200
Pre-investment phase	ESG performance	Incorporation of relative ESG performance in investment analysis	FI 8	150/150
Pre-investment phase	Securitised products	Securitised debt: parties to which ESG analysis is applied	FI 11	200/200
Post-investment phase	ESG risk management	Incorporation of ESG in regular reviews	FI 12	150/150
Post-investment phase	ESG risk management	Identification of ESG incidents	FI 13	200/200
Post-investment phase	Time horizons	Time frame for which ESG risks taken into account	FI 14	150/150
Post-investment phase	Long-term ESG trend analysis	Continuous monitoring of long-term ESG trends	FI 15	150/150
Post-investment phase	Thematic bonds	Selection of non-labelled thematic bonds	FI 19	100/100
Post-investment phase	Thematic bonds	Escalation strategies used in the majority of cases when thematic bond proceeds are not allocated as promised	FI 20	150/150
Reporting/Disclosure	ESG screens	Communication of the side-effects of fixed income screening to clients or beneficiaries	FI 21	150/200
Engagement	Engaging with issuers/borrowers	Timing of fixed income engagement	FI 22	200/200

## Indicator Level Scores For Direct - Infrastructure

Section	Sub-section	Topic	Indicator	Your Score
Policy	Investment guidelines	Infrastructure specific elements of responsible investment policy	INF 1	200/200
Fundraising	Commitments to investors	Formal responsible investment commitments made	INF 2	150/150
Pre-investment phase	Materiality analysis	Level at which materiality is assessed	INF 3	200/200
Pre-investment phase	Materiality analysis	Tools used in materiality analysis	INF 3.1	150/150
Pre-investment phase	Due diligence	Effect of ESG on selection of infrastructure investments	INF 4	200/200
Pre-investment phase	Due diligence	Processes used to conduct ESG due diligence	INF 5	200/200
Post-investment phase	Monitoring	Tracking of core ESG KPIs	INF 9	100/100
Post-investment phase	Monitoring	Reasoning for ESG targets	INF 10	200/200
Post-investment phase	Monitoring	Processes that support investees in meeting ESG targets	INF 11	150/150
Post-investment phase	Monitoring	Management of post-investment ESG risks and opportunities	INF 12	200/200
Post-investment phase	Monitoring	Processes for ensuring asset-level ESG competence	INF 14	200/200
Post-investment phase	Exit	Responsible investment information shared with buyers at exit	INF 15	100/100
Reporting/Disclosure	ESG portfolio information	Methods for reporting core ESG metrics and targets	INF 16	150/150

## Indicator Level Scores For Investment & Stewardship Policy

Section	Sub-section	Topic	Indicator	Your Score
Responsible investment policy & governance	Responsible investment policy	Signatories responsible investment policy	ISP 1	200/200
Responsible investment policy & governance	Responsible investment policy	Signatories with elements of responsible investment policy	ISP 1.1	120/200
Responsible investment policy & governance	Responsible investment policy	Signatories with public responsible policy elements	ISP 2	200/200
Responsible investment policy & governance	Responsible investment policy	Coverage of responsible policy elements	ISP 3	200/200
Responsible investment policy & governance	Responsible investment policy	Contents of exclusion policy	ISP 4	32/100
Responsible investment policy & governance	Governance	Roles with formal oversight and accountability for responsible investment	ISP 6	150/150
Responsible investment policy & governance	Governance	Roles with implementation responsibilities for responsible investment	ISP 7	100/100
Responsible investment policy & governance	People and capabilities	Staff objectives for responsible investment practices	ISP 8	150/150
Responsible investment policy & governance	People and capabilities	Bonuses for responsible investment practices	ISP 8.2	100/100
Responsible investment policy & governance	People and capabilities	Frequency at which staff training for responsible investment is reassessed	ISP 9	64/100
Stewardship	Stewardship policy	Coverage of stewardship policy	ISP 11	67/200
Stewardship	Stewardship policy	Elements of stewardship policy	ISP 12	120/150
Stewardship	Stewardship policy implementation	Primary mechanism of stewardship policy	ISP 13	0/150
Stewardship	Stewardship objectives	Primary objective of stewardship policy	ISP 15	50/200
Stewardship	Stewardship prioritisation	Criteria for prioritising engagement targets	ISP 16	83/100
Stewardship	Collaborative stewardship	Positions on collaborative engagement	ISP 18	75/150
Stewardship	Escalation strategies	Escalation strategies not used in stewardship	ISP 20	100/150
Stewardship	Engaging policymakers	Signatories who engage with public policy makers	ISP 23	150/200
Stewardship	Engaging policymakers	Methods used to engage with public policy makers	ISP 23.1	200/200

## Indicator Level Scores For Investment & Stewardship Policy (continued)

Section	Sub-section	Topic	Indicator	Your Score
Stewardship	Engaging policymakers	Signatories with governance processes to ensure alignment of political activity with stance on responsible investment	ISP 23.2	200/200
Stewardship	Engaging policymakers – Policies	Signatories with policies to ensure alignment of political activity with stance on responsible investment	ISP 24	0/200
Stewardship	Engaging policymakers – Policies	Public disclosure of political influence policies	ISP 24.1	0/150
Stewardship	Engaging policymakers – Transparency	Disclosure of political influence activities	ISP 25	0/200
Climate change	Public support	Signatories publicly supporting the Paris Agreement	ISP 26	150/150
Climate change	Public support	Signatories publicly supporting the TCFD	ISP 27	150/150
Climate change	Governance	Board oversight for climate-related risks and opportunities [TCFD Governance A]	ISP 28	50/200
Climate change	Governance	Management responsibility for climate-related risks and opportunities [TCFD Governance B]	ISP 29	150/200
Climate change	Strategy	Time horizon for climate risks and opportunities [TCFD Strategy A]	ISP 30.1	100/200
Climate change	Strategy	Climate risks and opportunities identified beyond investment horizon [TCFD Strategy A]	ISP 31	150/200
Climate change	Strategy: Scenario analysis	Use of climate scenario analysis	ISP 33	0/200
Sustainability outcomes	Identify sustainability outcomes	Tools and frameworks used to identify and map activities onto sustainability outcomes	ISP 44	128/200
Sustainability outcomes	Identify sustainability outcomes	Levels at which sustainability outcomes are identified and mapped	ISP 44.1	150/150
Sustainability outcomes	Identify sustainability outcomes	Processes for identifying most salient sustainability outcomes	ISP 45	200/200
Transparency & Confidence-Building Measures	Information disclosed – ESG assets	Information shared regarding ESG products	ISP 46	150/150
Transparency & Confidence-Building Measures	Client reporting – ESG assets	Information included in regular client reporting for ESG products	ISP 48	112/150
Transparency & Confidence-Building Measures	Information disclosed – All assets	Information shared	ISP 49	150/150
Transparency & Confidence-Building Measures	Client reporting – All assets	ESG information included in regular client reporting	ISP 50	50/200
Transparency & Confidence-Building Measures	Frequency of client reporting – All assets	Frequency of client reporting of ESG information	ISP 51	50/100



## Indicator Level Scores For Investment & Stewardship Policy (continued)

Section	Sub-section	Topic	Indicator	Your Score
Transparency & Confidence-Building Measures	Confidence-building measures	Confidence building measures	ISP 52	0/200
Transparency & Confidence-Building Measures	Confidence-building measures	Third party assurance: coverage	ISP 53	0/150
Transparency & Confidence-Building Measures	Confidence-building measures	Third party assurance: standards	ISP 54	0/100
Transparency & Confidence-Building Measures	Confidence-building measures	Internal audit: coverage	ISP 56	0/150
Transparency & Confidence-Building Measures	Confidence-building measures	Internal review: coverage	ISP 58	0/100

## Indicator Level Scores For Direct - Listed equity - Active quantitative - incorporation

Section	Sub-section	Topic	Indicator	Your Score
Pre-investment phase	Materiality analysis	AUM coverage of ESG materiality assessment process	LE 1	96/150
Pre-investment phase	Materiality analysis	How ESG is incorporated into materiality assessment process	LE 1.1	160/200
Pre-investment phase	Long-term ESG trend analysis	Continuous monitoring of long-term ESG trends	LE 2	96/150
Pre-investment phase	ESG incorporation	Coverage of valuation and financial modelling incorporating ESG risks	LE 3.1	0/150
Pre-investment phase	Assessing ESG performance	AUM coverage of information used in incorporating ESG in financial modelling	LE 4.1	94/150
Pre-investment phase	ESG incorporation in portfolio construction	Portion of cases where ESG affected portfolio construction	LE 6.1	112/150
Pre-investment phase	ESG risk management	Compliance processes for negative screening	LE 8	64/200
Post-investment phase	ESG risk management	Incorporation of ESG in regular reviews	LE 9	150/150
Post-investment phase	ESG risk management	Identification of ESG incidents	LE 10	75/100
Reporting/Disclosure	Sharing ESG information with stakeholders	Communication of the side-effects of listed equity screening to clients or beneficiaries	LE 13	100/100
Reporting/Disclosure	Sharing ESG information with stakeholders	ESG information included in client reporting	LE 14	125/200

## Indicator Level Scores For Direct - Listed equity - Active quantitative - voting

Section	Sub-section	Topic	Indicator	Your Score
Stewardship	Voting policy	Voting policies	LE 15	200/200
Stewardship	Voting policy	Coverage of voting policy	LE 15.1	200/200
Stewardship	Voting policy	Guidance on specific ESG issues in voting policy	LE 16	150/150
Stewardship	Security lending policy	Securities lending	LE 18	200/200
Stewardship	Security lending policy	Voting and securities lending	LE 18.1	38/150
Stewardship	Security lending policy	Exclusions in securities lending	LE 18.2	0/100
Stewardship	Shareholder resolutions	Stance on shareholder resolutions	LE 19	112/150
Stewardship	Pre-declaration of votes	Pre-declaration of votes	LE 20	0/150
Stewardship	Voting disclosure post AGM/EGM	Disclosure of voting activities	LE 21	200/200
Stewardship	Voting disclosure post AGM/EGM	Time between vote and disclosure of voting activities	LE 21.1	112/150
Stewardship	Voting disclosure post AGM/EGM	Coverage of communication of the rationale for voting abstain/against management recommendations	LE 22.1	0/150
Stewardship	Voting disclosure post AGM/EGM	Coverage of communication of the rationale for voting abstain/against PRI signatory resolutions	LE 23.1	0/100

## Indicator Level Scores For Direct - Listed equity - Active fundamental - incorporation

Section	Sub-section	Topic	Indicator	Your Score
Pre-investment phase	Materiality analysis	AUM coverage of ESG materiality assessment process	LE 1	150/150
Pre-investment phase	Materiality analysis	How ESG is incorporated into materiality assessment process	LE 1.1	200/200
Pre-investment phase	Long-term ESG trend analysis	Continuous monitoring of long-term ESG trends	LE 2	96/150
Pre-investment phase	ESG incorporation	Coverage of valuation and financial modelling incorporating ESG risks	LE 3.1	138/150
Pre-investment phase	Assessing ESG performance	AUM coverage of information used in incorporating ESG in financial modelling	LE 4.1	112/150
Pre-investment phase	ESG incorporation in portfolio construction	Portion of cases where ESG affected portfolio construction	LE 6.1	94/150
Pre-investment phase	ESG risk management	Compliance processes for negative screening	LE 8	64/200
Post-investment phase	ESG risk management	Incorporation of ESG in regular reviews	LE 9	150/150
Post-investment phase	ESG risk management	Identification of ESG incidents	LE 10	50/100
Reporting/Disclosure	Sharing ESG information with stakeholders	Communication of the side-effects of listed equity screening to clients or beneficiaries	LE 13	100/100
Reporting/Disclosure	Sharing ESG information with stakeholders	ESG information included in client reporting	LE 14	150/200

## Indicator Level Scores For Direct - Listed equity - Active fundamental - voting

Section	Sub-section	Topic	Indicator	Your Score
Stewardship	Voting policy	Voting policies	LE 15	200/200
Stewardship	Voting policy	Coverage of voting policy	LE 15.1	200/200
Stewardship	Voting policy	Guidance on specific ESG issues in voting policy	LE 16	150/150
Stewardship	Security lending policy	Securities lending	LE 18	200/200
Stewardship	Security lending policy	Voting and securities lending	LE 18.1	38/150
Stewardship	Security lending policy	Exclusions in securities lending	LE 18.2	0/100
Stewardship	Shareholder resolutions	Stance on shareholder resolutions	LE 19	112/150
Stewardship	Pre-declaration of votes	Pre-declaration of votes	LE 20	0/150
Stewardship	Voting disclosure post AGM/EGM	Disclosure of voting activities	LE 21	200/200
Stewardship	Voting disclosure post AGM/EGM	Time between vote and disclosure of voting activities	LE 21.1	112/150
Stewardship	Voting disclosure post AGM/EGM	Coverage of communication of the rationale for voting abstain/against management recommendations	LE 22.1	0/150
Stewardship	Voting disclosure post AGM/EGM	Coverage of communication of the rationale for voting abstain/against PRI signatory resolutions	LE 23.1	0/100

## Indicator Level Scores For Direct - Listed equity - Investment trusts - incorporation

Section	Sub-section	Topic	Indicator	Your Score
Pre-investment phase	Materiality analysis	AUM coverage of ESG materiality assessment process	LE 1	150/150
Pre-investment phase	Materiality analysis	How ESG is incorporated into materiality assessment process	LE 1.1	160/200
Pre-investment phase	Long-term ESG trend analysis	Continuous monitoring of long-term ESG trends	LE 2	0/150
Pre-investment phase	ESG incorporation	Coverage of valuation and financial modelling incorporating ESG risks	LE 3.1	98/150
Pre-investment phase	Assessing ESG performance	AUM coverage of information used in incorporating ESG in financial modelling	LE 4.1	98/150
Pre-investment phase	ESG incorporation in portfolio construction	Portion of cases where ESG affected portfolio construction	LE 6.1	150/150
Pre-investment phase	ESG risk management	Compliance processes for negative screening	LE 8	64/200
Post-investment phase	ESG risk management	Incorporation of ESG in regular reviews	LE 9	38/150
Post-investment phase	ESG risk management	Identification of ESG incidents	LE 10	25/100
Reporting/Disclosure	Sharing ESG information with stakeholders	Communication of the side-effects of listed equity screening to clients or beneficiaries	LE 13	100/100
Reporting/Disclosure	Sharing ESG information with stakeholders	ESG information included in client reporting	LE 14	0/200

## Indicator Level Scores For Direct - Listed equity - Investment trusts - voting

Section	Sub-section	Topic	Indicator	Your Score
Stewardship	Voting policy	Voting policies	LE 15	200/200
Stewardship	Voting policy	Coverage of voting policy	LE 15.1	200/200
Stewardship	Voting policy	Guidance on specific ESG issues in voting policy	LE 16	150/150
Stewardship	Security lending policy	Securities lending	LE 18	200/200
Stewardship	Security lending policy	Voting and securities lending	LE 18.1	38/150
Stewardship	Security lending policy	Exclusions in securities lending	LE 18.2	0/100
Stewardship	Shareholder resolutions	Stance on shareholder resolutions	LE 19	112/150
Stewardship	Pre-declaration of votes	Pre-declaration of votes	LE 20	0/150
Stewardship	Voting disclosure post AGM/EGM	Disclosure of voting activities	LE 21	200/200
Stewardship	Voting disclosure post AGM/EGM	Time between vote and disclosure of voting activities	LE 21.1	112/150
Stewardship	Voting disclosure post AGM/EGM	Coverage of communication of the rationale for voting abstain/against management recommendations	LE 22.1	0/150
Stewardship	Voting disclosure post AGM/EGM	Coverage of communication of the rationale for voting abstain/against PRI signatory resolutions	LE 23.1	0/100

## Indicator Level Scores For Indirect - Listed equity - Active

Section	Sub-section	Topic	Indicator	Your Score
Investment consultants	Investment consultant selection	Criteria for selecting investment consultants	SAM 1	0/150
Selection	Responsible investment policy	Compliance with responsible investment policy - coverage	SAM 2.1	112/150
Selection	Research and screening	Manager selection criteria: conduct and capabilities	SAM 3	150/150
Selection	Investment practices	Manager selection criteria: investment practices	SAM 4	200/200
Selection	Documentation and track record	Review of information in manager selection	SAM 11	142/200
Monitoring	Investment practices	Manager monitoring: investment practices	SAM 14	150/150
Monitoring	Review	Manager monitoring: reporting	SAM 20	100/100
Monitoring	Engagement and escalation	Manager monitoring: formal grievance processes	SAM 22	60/150



## Indicator Level Scores For Indirect - Private equity

Section	Sub-section	Topic	Indicator	Your Score
Investment consultants	Investment consultant selection	Criteria for selecting investment consultants	SAM 1	0/150
Selection	Responsible investment policy	Compliance with responsible investment policy - coverage	SAM 2.1	150/150
Selection	Research and screening	Manager selection criteria: conduct and capabilities	SAM 3	150/150
Selection	Investment practices	Manager selection criteria: investment practices	SAM 4	156/200
Selection	Documentation and track record	Review of information in manager selection	SAM 11	142/200
Monitoring	Investment practices	Manager monitoring: investment practices	SAM 14	129/150
Monitoring	Review	Manager monitoring: reporting	SAM 20	100/100
Monitoring	Engagement and escalation	Manager monitoring: formal grievance processes	SAM 22	60/150

## Indicator Level Scores For Indirect - Hedge funds

Section	Sub-section	Topic	Indicator	Your Score
Investment consultants	Investment consultant selection	Criteria for selecting investment consultants	SAM 1	0/150
Selection	Responsible investment policy	Compliance with responsible investment policy - coverage	SAM 2.1	112/150
Selection	Research and screening	Manager selection criteria: conduct and capabilities	SAM 3	112/150
Selection	Investment practices	Manager selection criteria: investment practices	SAM 4	48/200
Selection	Stewardship	Manager selection criteria: stewardship policy	SAM 6	0/200
Selection	Stewardship	Manager selection criteria: stewardship practices	SAM 7	0/200
Selection	Documentation and track record	Review of information in manager selection	SAM 11	142/200
Appointment	Pooled funds	Manager appointment for pooled funds	SAM 12	125/200
Appointment	Segregated mandates	Contractual requirements in manager appointment for segregated funds	SAM 13	0/200
Monitoring	Investment practices	Manager monitoring: investment practices	SAM 14	69/150
Monitoring	Stewardship	Manager monitoring: stewardship	SAM 17	0/150
Monitoring	Review	Manager monitoring: reporting	SAM 20	82/100
Monitoring	Engagement and escalation	Manager monitoring: formal grievance processes	SAM 22	60/150

## Indicator Level Scores For Direct - Private equity

Section	Sub-section	Topic	Indicator	Your Score
Policy	Investment guidelines	Private equity specific elements of responsible investment policy	PE 1	200/200
Fundraising	Commitments to investors	Formal responsible investment commitments made	PE 2	96/150
Pre-investment phase	Materiality analysis	Level at which materiality is assessed	PE 3	132/200
Pre-investment phase	Materiality analysis	Tools used in materiality analysis	PE 3.1	150/150
Pre-investment phase	Due diligence	Effect of ESG on selection of private equity investments	PE 4	162/200
Pre-investment phase	Due diligence	Processes used to conduct ESG due diligence	PE 5	190/200
Post-investment phase	Monitoring	Tracking of core ESG KPIs	PE 6	32/100
Post-investment phase	Monitoring	Reasoning for ESG targets	PE 7	0/200
Post-investment phase	Monitoring	Processes that support investees in meeting ESG targets	PE 8	122/150
Post-investment phase	Monitoring	Management of post-investment ESG risks and opportunities	PE 10	142/200
Post-investment phase	Monitoring	Processes for ensuring investee-level ESG competence	PE 12	162/200
Post-investment phase	Exit	Responsible investment information shared with buyers at exit	PE 13	75/100
Reporting/Disclosure	ESG portfolio information	Methods for reporting core ESG metrics and targets	PE 14	48/150

## Indicator Level Scores For Direct - Real estate

Section	Sub-section	Topic	Indicator	Your Score
Policy	Investment guidelines	Real estate specific elements of responsible investment policy	RE 1	200/200
Fundraising	Commitments to investors	Formal responsible investment commitments made	RE 2	150/150
Pre-investment phase	Materiality analysis	Level at which materiality is assessed	RE 3	132/200
Pre-investment phase	Materiality analysis	Tools used in materiality analysis	RE 3.1	150/150
Pre-investment phase	Due diligence	Effect of ESG on selection of real estate investments	RE 4	175/200
Pre-investment phase	Due diligence	Processes used to conduct ESG due diligence	RE 5	190/200
Selection, appointment and monitoring of third-party property managers	Selection process	ESG factors in selection of third party property managers	RE 6	64/200
Selection, appointment and monitoring of third-party property managers	Appointment process	ESG factors in appointment of third party property managers	RE 7	131/150
Selection, appointment and monitoring of third-party property managers	Monitoring process	ESG factors in monitoring of third party property managers	RE 8	200/200
Construction and development	Construction requirements	Sustainability requirements in developments and major renovations	RE 9	200/200
Construction and development	Minimum building requirements	Minimum building requirements for developments and major recommendations	RE 10	150/200
Post-investment phase	Monitoring	Operational ESG data collected	RE 11	150/200
Post-investment phase	Monitoring	Target setting for core ESG KPIs	RE 12	64/200
Post-investment phase	Monitoring	Processes that support investees in meeting ESG targets	RE 13	141/150
Post-investment phase	Monitoring	Management of post-investment ESG risks and opportunities	RE 14	175/200
Post-investment phase	Monitoring	Percentage of real estate assets with external certification	RE 16	32/100
Post-investment phase	Stewardship	Engagement with tenants	RE 17	106/150
Post-investment phase	Exit	Responsible investment information shared with buyers at exit	RE 18	100/100
Reporting/Disclosure	ESG portfolio information	Methods for reporting core ESG metrics and targets	RE 19	48/150



**PUBLIC RI REPORT**

**2021 PILOT**

**Morgan Stanley Investment Management**

**Generated 2022-08-18**

# About this report

The PRI Reporting Framework helps to build a common language and industry standard for reporting responsible investment activities. **Public RI Reports** provide accountability and transparency on signatories' responsible investment activities and support dialogue within signatories' organisations, as well as with their clients, beneficiaries and other stakeholders.

This **Public RI Report** is an export of the signatory's responses to the PRI Reporting Framework during the 2021 reporting period. It includes the signatory's responses to mandatory indicators, as well as responses to voluntary indicators that the signatory has agreed to make public.

The information is presented exactly as it was reported. Where an indicator offered a multiple-choice response, all options that were available to select from are included for context. While presenting the information verbatim results in lengthy reports, the approach is informed by signatory feedback that signatories prefer that the PRI does not summarise the information.

## Context

In consultation with signatories, between 2018 and 2020 the PRI extensively reviewed the Reporting and Assessment processes and set the ambitious objective of launching in 2021 a completely new investor Reporting Framework, together with a new reporting tool.

We ran the new investor Reporting and Assessment process as a pilot in its first year, and such process included providing additional opportunities for signatories to provide feedback on the Reporting Framework, the online reporting tool and the resulting reports. The feedback from this pilot phase has been, and is continuing to be analysed, in order to identify any improvements that can be included in future reporting cycles.

## PRI disclaimer

This document presents information reported directly by signatories in the 2021 reporting cycle. This information has not been audited by the PRI or any other party acting on its behalf. While this information is believed to be reliable, no representations or warranties are made as to the accuracy of the information presented.

The PRI has taken reasonable action to ensure that data submitted by signatories in the reporting tool is reflected in their official PRI reports accurately. However, it is possible that small data inaccuracies and/or gaps remain, and the PRI shall not be responsible or liable for such inaccuracies and gaps.

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# Senior Leadership Statement (SLS)

## Senior leadership statement

### Our commitment

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
SLS 1 S1	CORE	N/A	N/A	PUBLIC	Our commitment	GENERAL

- Why does your organisation engage in responsible investment?
- What is your organisation's overall approach to responsible investment?
- What are the main differences between your organisation's approach to responsible investment in its ESG practice and in other practices, across asset classes?

We believe a commitment to sustainable and responsible investment matters now more than ever as the world battles the significant challenges posed by a global pandemic and an accelerating climate emergency. The civil unrest that was witnessed around the world over the past year has also highlighted the inequalities that continue to exist in our society. We recognize that these are structural issues affecting markets, economies, and communities, and that all investors will be effected by these trends in the decades to come. Therefore, as a global investment manager that has been creating value for our clients for over 40 years, we believe we have an obligation to be responsive to environmental, social and governance ("ESG") factors that can present both risks and opportunities to investment portfolios in a manner that is consistent with our fiduciary duties and the investment strategies of our clients. MSIM's commitment to sustainability is expressed in three key ways:

(i) Stewardship and Engagement: investment teams employ the shareholder rights and stakeholder influence that MSIM exercises on behalf of its clients to encourage, where relevant, strong ESG practices with issuers, borrowers, and counterparties.

(ii) ESG Integration Across All Asset Classes: thoughtful consideration of material ESG factors as appropriate for MSIM's investment strategies and asset classes.

(iii) Sustainable Investing Solutions: providing our clients with investment solutions that are aligned with their returns objectives alongside their sustainability preferences and needs.

We believe the strength of MSIM lies in the independence of its diverse investment teams united in their commitment to delivering compelling investment results for our clients over the long term. This commitment includes the consideration of ESG factors, which our teams recognize can be an important driver of long-term investment returns from both an opportunity and a risk-mitigation perspective. The specific approach to ESG integration deployed by each portfolio management team will depend on multiple factors including the objectives of the product, asset class and investment time horizon, as well as the specific research and portfolio construction, philosophy and process used by that team.



Through our Investment Management Sustainability Council, we ensure that sustainable and responsible investing is integrated into our purpose and beliefs as an investment management firm, and that all senior decision makers are engaged in executing on our business strategy in this regard. With our acquisition in early 2021 of Calvert Research and Management and Parametric Portfolio Associates, we expect to rapidly expand our sustainable investing offerings for clients in the years to come. Notwithstanding this acquisition, as of the date of this report MSIM, Calvert Research Management and Parametric Portfolio Associates have not yet fully integrated and as such ESG investing and research remain separate.

## Annual overview

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
SLS 1 S2	CORE	N/A	N/A	PUBLIC	Annual overview	GENERAL

- Discuss your organisation’s progress during the reporting year on the responsible investment issue you consider most relevant or material to your organisation or its assets.
- Reflect on your performance with respect to your organisation’s responsible investment objectives and targets during the reporting year. This might involve e.g. outlining your single most important achievement, or describing your general progress, on topics such as the following:
  - refinement of ESG analysis and incorporation
  - stewardship activities with investees and/or with policy makers
  - collaborative engagements
  - attainment of responsible investment certifications and/or awards

In 2020, we evolved a robust framework which outlines how we define ‘Sustainable Investing’ and how we embed ESG integration across public and private market portfolios. While a majority of our funds already integrate ESG factors as an intrinsic part of the investment process, under this new framework MSIM defines a labeled “Sustainable Fund” as a portfolio that is driven, in part, by a strong philosophical conviction in sustainability as a secular economic growth trend and a source of investment performance. This conviction is demonstrated through the use of a variety of implementation levers such as inclusionary approaches based on sustainability factors (for example, introducing positive tilts or identifying thematic exposures), baseline sector or norms-based exclusions, and strong and active engagement and stewardship activities with explicit objectives with outcomes tracked. We implement several minimum standards across these portfolios to ensure a credible product offering to our clients and mitigate the risk of greenwashing.

We believe this decade and beyond will be defined by our collective response to mitigate climate change. To that end, MSIM is committed to use our influence and global footprint to drive change and foster innovation by proactively engaging with portfolio companies to encourage a transition to a low-carbon world and by growing the number of climate-oriented products and solutions available to our clients. This is aligned to the climate-focused ambitions of our parent company, Morgan Stanley, which in 2020 became the first US bank to commit to reach net-zero financed emissions by 2050. Morgan Stanley also sits on the Steering Committee of the Partnership for Carbon Accounting Financials (PCAF), which is developing the tools and methodologies to measure and disclose our carbon-related activities.

We dedicate time and effort to 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, viewing our involvement in these initiatives as opportunities to influence and encourage the adoption of consistent and clear standards. For example, as a member of the Sustainability Accounting Standards Board (SASB) Investor Advisory Group, MSIM engaged companies with fellow investors to promote the SASB reporting standards. We also promoted disclosures aligned with SASB and other recognized frameworks, such as the Taskforce for Climate Related Financial Disclosures (TCFD), in our direct engagements with portfolio companies. In 2020, MSIM also became a member of the One Planet Sovereign Wealth Fund Asset Manager Initiative, which was formed to advance the understanding of the implications of climate-related risks and opportunities through the sharing of investment practices.

2020 also saw an increased focus on diversity and inclusion. Morgan Stanley published an inaugural report to reflect the Firm's commitment to transparency and accountability with respect to Diversity and Inclusion and established new core value, "Commit to Diversity and Inclusion". At MSIM, we established a senior-level Diversity Council and appointed a new Head of Diversity and Inclusion to help drive our representation and inclusivity efforts in line with the focus of Morgan Stanley.

## Next steps

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
SLS 1 S3	CORE	N/A	N/A	PUBLIC	Next steps	GENERAL

**What specific steps has your organisation outlined to advance your commitment to responsible investment in the next two years?**

Over the next two years, MSIM aims to significantly invest in increasing our sustainability resources especially within data/technology and specialist personnel. In addition, we will improve sustainability knowledge of all our current staff through commencing regular sustainable investing-focused training programs.

We also aim to further adopt and strengthen sustainability policy documents at firm, asset class and investment team levels. Additionally, we aim to grow the number of sustainable investing products and solutions available to our clients particularly through the newly acquired Calvert Research and Management, and Parametric Portfolio Associates.

## Endorsement

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
SLS 1 S4	CORE	N/A	N/A	PUBLIC	Endorsement	GENERAL

**The Senior Leadership Statement has been prepared and/or reviewed by the undersigned and reflects our organisation-wide commitment and approach to responsible investment.**

Name

Daniel Simkowitz

Position

Head of Investment Management

Organisation's name

Morgan Stanley Investment Management

☒ This endorsement is for the Senior Leadership Statement only and is not an endorsement of the information reported by Morgan Stanley Investment Management in the various modules of the Reporting Framework. The Senior Leadership Statement is simply provided as a general overview of Morgan Stanley Investment Management's responsible investment approach. The Senior Leadership Statement does not constitute advice and should not be relied upon as such, and is not a substitute for the skill, judgement and experience of any third parties, their management, employees, advisors and/or clients when making investment and other business decisions.

# Organisational Overview (OO)

## Organisational information

### Categorisation

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 1	CORE	Signatory category	Multiple, see guidance	PUBLIC	Categorisation	GENERAL

Select the type that best describes your organisation or the services you provide.

☐ (O) Fund management

(1) This is our only (or primary) type

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☐ (P) Fund of funds, manager of managers or sub-advised products

(2) This is an additional (secondary) type

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### Subsidiary information

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 2	CORE	N/A	OO 2.1	PUBLIC	Subsidiary information	GENERAL

Does your organisation have subsidiaries that are also PRI signatories in their own right?

- ☐ (A) Yes
- ☒ (B) No

## Reporting year

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 3	CORE	N/A	N/A	PUBLIC	Reporting year	GENERAL

Indicate the year-end date for your reporting year.

	Month	Day	Year
Reporting year end date:	December	31	2020

## Assets under management

### All asset classes

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 4	CORE	OO 4.1, OO 4.2	N/A	PUBLIC	All asset classes	GENERAL

What were your total assets under management (AUM) at the end of the indicated reporting year? Provide the amount in USD.

(A) AUM of your organisation, including subsidiaries	US\$ 781,281,921,379.00
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(B) AUM of subsidiaries that are PRI signatories in their own right and excluded from this submission	US\$ 0.00
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(C) AUM subject to execution, advisory, custody, or research advisory only	US\$ 0.00
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## Asset breakdown

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 5	CORE	Multiple, see guidance	Multiple, see guidance	PUBLIC	Asset breakdown	GENERAL

**Provide a percentage breakdown of your total assets under management at the end of your indicated reporting year.**

Percentage of AUM	
(A) Listed equity – internal	10-50%
(B) Listed equity – external	0-10%
(C) Fixed income – internal	10-50%
(D) Fixed income – external	0.0%
(E) Private equity – internal	0-10%
(F) Private equity – external	0-10%
(G) Real estate – internal	0-10%
(H) Real estate – external	0.0%
(I) Infrastructure – internal	0-10%
(J) Infrastructure – external	0.0%
(K) Hedge funds – internal	0-10%
(L) Hedge funds – external	0-10%
(M) Forestry – internal	0.0%
(N) Forestry – external	0.0%
(O) Farmland – internal	0.0%

(P) Farmland – external 0.0%

(Q) Other – internal, please specify:

Global Liquidity, Solutions and Multi-Asset 10-50%

(R) Other – external, please specify: 0.0%

(S) Off-balance sheet – internal 0.0%

(T) Off-balance sheet – external 0.0%

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 5.1	CORE	OO 5	Multiple, see guidance	PUBLIC	Asset breakdown	GENERAL

**Provide a breakdown of your organisation's externally managed assets between segregated mandates and pooled funds or investments.**

	(1) Listed equity	(3) Private equity	(6) Hedge funds
(A) Segregated mandate(s)	0.0%	0.0%	>75%
(B) Pooled fund(s) or pooled investment(s)	>75%	>75%	10-50%

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 5.2 LE	CORE	OO 5, OO 5.1	Multiple, see guidance	PUBLIC	Asset breakdown	GENERAL

**Provide a further breakdown of your listed equity assets.**

	(A) Internal allocation	(C) External allocation – pooled
(1) Passive equity	0.0%	0.0%
(2) Active – quantitative	10-50%	>75%
(3) Active – fundamental	>75%	0.0%
(4) Investment trusts (REITs and similar publicly quoted vehicles)	0-10%	0.0%
(5) Other, please specify:	0.0%	0.0%

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 5.2 FI	CORE	OO 5, OO 5.1	Multiple, see guidance	PUBLIC	Asset breakdown	GENERAL

**Provide a further breakdown of your fixed income assets.**

	(A) Internal allocation
(1) Passive – SSA	0.0%
(2) Passive – corporate	0.0%
(3) Passive – securitised	0.0%
(4) Active – SSA	10-50%

(5) Active – corporate	50-75%
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(6) Active – securitised	10-50%
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(7) Private debt	0.0%
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Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 5.2 PE	CORE	OO 5, OO 5.1	N/A	PUBLIC	Asset breakdown	GENERAL

**Provide a further breakdown of your private equity assets.**

	(A) Internal allocation	(C) External allocation – pooled
(1) Venture capital	0-10%	0.0%
(2) Growth capital	0-10%	0.0%
(3) (Leveraged) buyout	10-50%	0.0%
(4) Distressed, turnaround or special situations	0-10%	0.0%
(5) Secondaries	10-50%	0.0%
(6) Other, please specify:	10-50%	>75%

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 5.2 RE	CORE	OO 5, OO 5.1	N/A	PUBLIC	Asset breakdown	GENERAL

**Provide a further breakdown of your real estate assets.**

	(A) Internal allocation
(1) Retail	10-50%
(2) Office	10-50%



(3) Industrial	10-50%
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(4) Residential	10-50%
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(5) Hotel	0-10%
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(6) Lodging, leisure and recreation	0.0%
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(7) Education	0.0%
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(8) Technology/science	0.0%
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(9) Healthcare	0.0%
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(10) Mixed use	0-10%
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(11) Other, please specify:	10-50%
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Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 5.2 INF	CORE	OO 5, OO 5.1	N/A	PUBLIC	Asset breakdown	GENERAL

**Provide a further breakdown of your infrastructure assets.**

**(A) Internal allocation**

(1) Data infrastructure	10-50%
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(2) Energy and water resources	10-50%
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(3) Environmental services	0-10%
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(4) Network utilities	0.0%
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(5) Power generation (excl. renewables)	10-50%
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(6) Renewable power	0-10%
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(7) Social infrastructure	0.0%
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(8) Transport	10-50%
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(9) Other, please specify:	0.0%
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Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 5.2 HF	CORE	OO 5, OO 5.1	OO 9 HF, OO 10	PUBLIC	Asset breakdown	GENERAL

**Provide a further breakdown of your hedge fund assets.**

	(A) Internal allocation	(B) External allocation – segregated	(C) External allocation – pooled
(1) Multi strategy	0.0%	>75%	>75%
(2) Long/short equity	0.0%	0.0%	0.0%
(3) Long/short credit	0.0%	0.0%	0.0%
(4) Distressed, special situations and event-driven fundamental	0.0%	0.0%	0.0%
(5) Structured credit	0.0%	0.0%	0.0%
(6) Global macro	0.0%	0-10%	10-50%
(7) Commodity trading advisor	0.0%	0.0%	0.0%
(8) Other, please specify:	>75%	0.0%	0.0%

# ESG strategies

## Listed equity

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 6 LE	CORE	OO 5.2 LE	OO 6.1 LE, LE 13	PUBLIC	Listed equity	1

Which ESG incorporation strategy and/or combination of strategies do you apply to your internally managed active listed equity?

Percentage out of total internally managed active listed equity:

(A) Screening alone 0-25%

(B) Thematic alone 0.0%

(C) Integration alone >75%

(D) Screening and integration 0-25%

(E) Thematic and integration 0-25%

(F) Screening and thematic 0.0%

(G) All three strategies combined 0-25%

(H) None 0-25%

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 6.1 LE	CORE	OO 6 LE	LE 8	PUBLIC	Listed equity	1

What type of screening is applied to your internally managed active listed equity assets?

Percentage coverage out of your total listed equities where screening strategy is applied

(A) Positive/best-in-class screening only 0.0%

(B) Negative screening only 0-25%

(C) A combination of positive/best-in-class and negative screening >75%

## Fixed income

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 6 FI	CORE	OO 5.2 FI	Multiple, see guidance	PUBLIC	Fixed income	1

Which ESG incorporation strategy and/or combination of strategies do you apply to your internally managed active fixed income?

	(1) Fixed income – SSA	(2) Fixed income – corporate	(3) Fixed income – securitised
(A) Screening alone	0.0%	0.0%	0.0%
(B) Thematic alone	0.0%	0.0%	0.0%
(C) Integration alone	0.0%	0.0%	0.0%
(D) Screening and integration	>75%	>75%	>75%
(E) Thematic and integration	0.0%	0.0%	0.0%
(F) Screening and thematic	0.0%	0.0%	0.0%
(G) All three strategies combined	0-25%	0-25%	0-25%
(H) None	0.0%	0.0%	0.0%

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 6.1 FI	CORE	OO 6 FI	N/A	PUBLIC	Fixed income	1

**What type of screening is applied to your internally managed active fixed income?**

	(1) Fixed income – SSA	(2) Fixed income – corporate	(3) Fixed income – securitised
(A) Positive/best-in-class screening only	0.0%	0.0%	0.0%
(B) Negative screening only	>75%	>75%	>75%
(C) A combination of positive/best-in-class and negative screening	0-25%	0-25%	0-25%

## Externally managed assets

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 6 SAM	CORE	OO 5.2 LE, OO 5.2 FI	OO 6.1 SAM	PUBLIC	Externally managed assets	1

**Which ESG incorporation strategy and/or combination of strategies apply to your externally managed active listed equity and fixed income?**

	(1) Listed equity - external
(A) Screening alone	0.0%
(B) Thematic alone	0-25%
(C) Integration alone	0.0%
(D) Screening and integration	0.0%
(E) Thematic and integration	0.0%

(F) Screening and thematic 0.0%

(G) All three strategies combined 0.0%

(H) None >75%

## Hedge funds

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 6 HF	CORE	OO 5	HF 10	PUBLIC	Hedge funds	1

Do you conduct negative screening on your hedge fund assets?

☒ (A) Yes

☐ (B) No

## Externally managed assets

### Captive relationships

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 7	CORE	OO 5	Multiple, see guidance	PUBLIC	Captive relationships	GENERAL

Does your organisation have a captive relationship with some or all of its external investment managers?

☐ (A) Yes

☒ (B) No

## Investment consultants

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 8	CORE	OO 5	SAM 1	PUBLIC	Investment consultants	GENERAL

Does your organisation engage investment consultants in the selection, appointment or monitoring of your external investment managers?

☒ (A) Yes

☐ (B) No

## Stewardship

### Listed equity

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 9 LE	CORE	OO 5, OO 5.2 LE	Multiple, see guidance	PUBLIC	Listed equity	2

Does your organisation conduct stewardship activities for your listed equity assets?

	(1) Engagement on listed equity – active	(3) (Proxy) voting on listed equity – active
(A) Through service providers	<input type="checkbox"/>	<input type="checkbox"/>
(B) Through external managers	<input type="checkbox"/>	<input type="checkbox"/>
(C) Through internal staff	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(D) Collaboratively	<input type="checkbox"/>	<input type="checkbox"/>
(E) We did not conduct this stewardship activity	<input type="checkbox"/>	<input type="checkbox"/>

## Fixed income

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 9 FI	CORE	OO 5, OO 5.2 FI	Multiple, see guidance	PUBLIC	Fixed income	2

Does your organisation conduct stewardship activities for your fixed income assets?

	(4) Active – SSA	(5) Active – corporate	(6) Active – securitised
(A) Through service providers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(C) Through internal staff	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(D) Collaboratively	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(E) We did not conduct this stewardship activity for this strategy/asset type	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## Private equity, real estate and infrastructure

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 9 ALT	CORE	OO 5	Multiple, see guidance	PUBLIC	Private equity, real estate and infrastructure	2

Does your organisation conduct stewardship activities in the following asset classes?

	(1) Private equity	(2) Real estate	(3) Infrastructure
(A) Through service providers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(B) Through external managers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(C) Through internal staff	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(D) Collaboratively	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



(E) We did not conduct stewardship activities for this asset class	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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## Hedge funds

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 9 HF	CORE	OO 5, OO 5.2 HF	Multiple, see guidance	PUBLIC	Hedge funds	2

**Does your organisation conduct stewardship activities for your hedge fund assets?**

### (1) Engagement

(A) Through service providers	<input type="checkbox"/>
(B) Through external managers	<input type="checkbox"/>
(C) Through internal staff	<input type="checkbox"/>
(D) Collaboratively	<input type="checkbox"/>
(E) We did not conduct this stewardship activity	<input checked="" type="checkbox"/>

# ESG incorporation

## Internally managed assets

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 10	CORE	Multiple, see guidance	Multiple, see guidance	PUBLIC	Internally managed assets	1

For each internally managed asset class, select whether or not you incorporate ESG into your investment decisions.

	(1) ESG incorporated into investment decisions	(2) ESG not incorporated into investment decisions
(B) Listed equity – active – quantitative	<input checked="" type="radio"/>	<input type="radio"/>
(C) Listed equity – active – fundamental	<input checked="" type="radio"/>	<input type="radio"/>
(D) Listed equity – investment trusts (REITs and similar publicly quoted vehicles)	<input checked="" type="radio"/>	<input type="radio"/>
(F) Fixed income – SSA	<input checked="" type="radio"/>	<input type="radio"/>
(G) Fixed income – corporate	<input checked="" type="radio"/>	<input type="radio"/>
(H) Fixed income – securitised	<input checked="" type="radio"/>	<input type="radio"/>
(J) Private equity	<input checked="" type="radio"/>	<input type="radio"/>
(K) Real estate	<input checked="" type="radio"/>	<input type="radio"/>
(L) Infrastructure	<input checked="" type="radio"/>	<input type="radio"/>
(T) Hedge funds - Other	<input checked="" type="radio"/>	<input type="radio"/>

(W) Other [as specified]



## External manager selection

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 11	CORE	Multiple, see guidance	Multiple, see guidance	PUBLIC	External manager selection	1

For each externally managed asset class, select whether or not you incorporate ESG into external manager selection. Your response should refer to the selection of the external managers who managed the relevant asset classes during the reporting year, regardless of when such selection took place.

(1) ESG incorporated into external manager selection

(2) ESG not incorporated into external manager selection

(B) Listed equity – active



(E) Private equity



(H) Hedge funds



## External manager appointment

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 12	CORE	Multiple, see guidance	Multiple, see guidance	PUBLIC	External manager appointment	1

For each externally managed asset class, select whether or not you incorporate ESG into external manager appointment. Your response should refer to the appointment of the external managers who managed the relevant asset classes during the reporting year, regardless of when their appointment took place.

(1) ESG incorporated into external manager appointment

(2) ESG not incorporated into external manager appointment

(H) Hedge funds



The following externally managed asset classes are reported in OO 5.1 as 100% pooled funds or pooled investments and, therefore, ESG incorporation into external manager appointment is not applicable.

(3) ESG incorporation into external manager appointment is not applicable as we only invest in pooled funds

(B) Listed equity – active



(E) Private equity



## External manager monitoring

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 13	CORE	Multiple, see guidance	Multiple, see guidance	PUBLIC	External manager monitoring	1

For each externally managed asset class, select whether or not you incorporated ESG into external manager monitoring during the reporting year.

(1) ESG incorporated into external manager monitoring

(2) ESG not incorporated into external manager monitoring

(B) Listed equity – active



(E) Private equity



(H) Hedge funds



# Voluntary reporting

## Voluntary modules

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 14	CORE	Multiple, see guidance	Multiple, see guidance	PUBLIC	Voluntary modules	GENERAL

The following modules are voluntary to report on in the separate PRI asset class modules as they account for less than 10% of your total AUM and are under USD 10 billion. Please select if you wish to voluntarily report on the module.

	(1) Yes, report on the module	(2) No, opt out of reporting on the module
(F) Private equity	<input checked="" type="radio"/>	<input type="radio"/>
(H) Infrastructure	<input checked="" type="radio"/>	<input type="radio"/>
(I) Hedge funds	<input type="radio"/>	<input checked="" type="radio"/>
(J) External manager selection, appointment and monitoring (SAM) – listed equity	<input checked="" type="radio"/>	<input type="radio"/>
(L) External manager selection, appointment and monitoring (SAM) – private equity	<input checked="" type="radio"/>	<input type="radio"/>

The following modules are mandatory to report on as they account for 10% or more of your total AUM or are over USD 10 billion. The ISP (Investment and Stewardship Policy) module is always applicable for reporting.

	(1) Yes, report on the module
ISP: Investment and Stewardship Policy	<input checked="" type="radio"/>
(A) Listed equity	<input checked="" type="radio"/>

(B) Fixed income – SSA ☒

(C) Fixed income – corporate ☒

(D) Fixed income – securitised ☒

(G) Real estate ☒

(O) External manager selection,  
appointment and monitoring  
(SAM) – hedge funds ☒

## Pooled funds governance: Appointment

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 15	CORE	OO 5.1	SAM 12	PUBLIC	Pooled funds governance: Appointment	GENERAL

Would you like to voluntarily report on ESG incorporation in the appointment of your external managers for pooled funds?

☒ (A) Yes

☐ (B) No

# ESG/sustainability funds and products

## Labelling and marketing

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 16	CORE	Multiple, see guidance	Multiple, see guidance	PUBLIC	Labelling and marketing	GENERAL

What percentage of your assets under management in each asset class are ESG/sustainability marketed funds or products, and/or ESG/RI certified or labelled assets? Percentage figures can be rounded to the nearest 5% and should combine internally and externally managed assets.

	Percentage
(B) Listed equity – active	0-25%
(D) Fixed income – active	0-25%
(E) Private equity	0.0%
(F) Real estate	0.0%
(G) Infrastructure	0.0%
(H) Hedge funds	0.0%
(K) Other	0.0%

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 16.1	CORE	OO 16	ISP 52	PUBLIC	Labelling and marketing	GENERAL

What percentage of your total assets (per asset class) carry a formal ESG/RI certification or label? Percentage figures can be rounded to the nearest 5%.

#### Coverage of ESG/RI certification or label:

(A) Listed equity 0.0%

(B) Fixed income 0.0%

## Climate investments

### Asset breakdown

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 17	CORE	N/A	N/A	PUBLIC	Asset breakdown	GENERAL

What percentage of your assets under management is in targeted low-carbon or climate-resilient investments?

0-25%



# Other asset breakdowns

## Geographical breakdown

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 18	CORE	Multiple, see guidance	N/A	PUBLIC	Geographical breakdown	GENERAL

What is the geographical breakdown of your organisation's assets under management by investment destination (i.e. where the investments are located)?

	(1) Listed equity	(2) Fixed income – SSA	(3) Fixed income – corporate	(4) Fixed income – securitised
(A) Developed	>75%	50-75%	>75%	>75%
(B) Emerging	0-25%	25-50%	0-25%	0-25%
(C) Frontier	0.0%	0-25%	0-25%	0.0%
(D) Other	0.0%	0-25%	0-25%	0-25%
	(6) Private equity	(7) Real estate	(8) Infrastructure	(9) Hedge funds
(A) Developed	50-75%	>75%	>75%	>75%
(B) Emerging	25-50%	0-25%	0-25%	0-25%
(C) Frontier	0.0%	0-25%	0.0%	0-25%
(D) Other	0.0%	0.0%	0.0%	0.0%

## Management by PRI signatories

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 19	CORE	OO 5	N/A	PUBLIC	Management by PRI signatories	GENERAL

What approximate percentage (+/-5%) of your externally managed assets are managed by PRI signatories?

25-50%

## Fixed income constraints

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 20	CORE	OO 5.2 FI	OO 20.1	PUBLIC	Fixed income constraints	GENERAL

What percentage of your fixed income assets are subject to constraints? The constraints may be regulatory requirements, credit quality restrictions, currency constraints or similar.

### Internal and external fixed income assets subject to constraints

(A) Fixed income – SSA >75%

(B) Fixed income – corporate >75%

(C) Fixed income – securitised >75%

## Private equity: Sectors

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 21	CORE	OO 5	N/A	PUBLIC	Private equity: Sectors	GENERAL

What is the percentage breakdown of your organisation's internally managed private equity investments by sector?

### Percentage of total internally managed private equity AUM

(A) Energy 0-25%

(B) Materials 0-25%

(C) Industrials 0-25%

(D) Consumer discretionary 0-25%

(E) Consumer staples 0-25%

(F) Health care 0-25%

(G) Financials 0-25%

(H) Information technology 25-50%

(I) Communication services 0-25%

(J) Utilities 0-25%

(K) Real estate 0-25%

## Real estate: Building type

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 24	CORE	OO 5	RE 1, RE 9, RE 10	PUBLIC	Real estate: Building type	GENERAL

What is the percentage breakdown of your direct physical real estate assets by strategy?

### Percentage total of direct physical real estate AUM

(A) Standing investments >75%

(B) New construction 0-25%

(C) Major renovation 0-25%

## Infrastructure: Strategy

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 30	CORE	OO 5	N/A	PUBLIC	Infrastructure: Strategy	GENERAL

What is the percentage breakdown of your organisation's internally managed infrastructure assets by investment strategy?

### Percentage of total internally managed infrastructure AUM

(A) Core 0.0%

(B) Value added >75%

(C) Opportunistic 0.0%

## Infrastructure: Type of asset

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 31	CORE	OO 5	INF 1	PUBLIC	Infrastructure: Type of asset	GENERAL

What is the percentage breakdown of your infrastructure assets by strategy?

### Percentage of total internally managed infrastructure AUM

(A) Standing investments/operating assets >75%

(B) New construction 0-25%

(C) Major renovation 0.0%

## Context and explanation

### Appointment: Pooled funds

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 33	CORE	OO 5.1	N/A	PUBLIC	Appointment: Pooled funds	GENERAL

For your externally managed pooled funds, please describe any other mechanisms in place to set expectations as part of the appointment or commitment process.

This varies based on the individual team:

MSIM's GBaR team have an established fund selection process which focus on both qualitative and quantitative attributes of the target funds. The team leverages an external consultant in the initial screening. The team then apply our own proprietary screening process which included both quantitative scores and qualitative analysis of the team, process, and portfolio construction etc through an interview with the portfolio managers in order to access the fund suitability for investment. For impact funds, the team has additional ESG criteria in addition to the aforementioned due diligence process, including but not limited to the themes the funds pursue, the purity of their ideas, the impact measurement and reporting process.

MSIM's AIP Private Markets team incorporates ESG considerations into its process in a multi-dimensional fashion that includes both top-down analysis and investment specific factors. AIP PM has a responsibility to manage its business and resources in such a way as to promote a healthy and sustainable environment, uphold global standards for responsible business, and advocate for strong standards of governance. Within this context, AIP PM has long recognized the importance of these issues to our investment program and indeed believes that the integration of ESG considerations into our investment process is critical to long-term success. AIP PM conducts an ESG risk assessment of external managers, evaluating whether they operate in accordance with AIP's ESG standards. This diligence process includes an ESG-focused dialogue with each manager to understand their policies and procedures when determining whether to invest in any opportunity.

For MSIM Hedge Funds, an ESG questionnaire is part of the information gathering process at the time of onboarding and updated annually thereafter, except in the case of specific ESG mandates that may require more frequent monitoring and oversight of ESG guidelines.

## ESG in other asset classes

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 34	CORE	Multiple, see guidance	N/A	PUBLIC	ESG in other asset classes	1

Describe how you incorporate ESG into the following asset classes.

	Description
(C) Other – internal	Investment platforms and teams outside of the PRI asset class breakdown also apply ESG Integration. For example, our Liquidity business follows a similar approach to ESG integration as our Fixed Income business and the Head of Sustainable Investing for Fixed Income also oversees ESG integration in our Liquidity business. The Liquidity business has one MSIM labeled sustainable fund that applies ESG exclusions and minimum scoring thresholds based on the Fixed Income team's corporate bond scoring framework. Within our Solutions & Multi-Asset business, select there is one labeled sustainable fund that applies ESG tilts, includes a small impact allocation and is net-zero aligned. Other mandates within our Solutions & Multi-Asset business may apply ESG exclusions or tilts at the request of clients as this part of our business tends to be highly customized.

## ESG not incorporated

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 35	CORE	Multiple, see guidance	N/A	PUBLIC	ESG not incorporated	1, 2

Describe why you currently do not incorporate ESG into your assets and/or why you currently do not conduct stewardship.

### Description

(J) Internally managed: Hedge funds

Our Hedge Fund team is working on building out their approach to stewardship.

(U) Externally managed: Hedge funds

Our Hedge Fund team is working on building out their approach to stewardship. For example, the team is seeking to partner with external managers to expand their ESG policies and procedures based on best practices.

## Investment and Stewardship Policy (ISP)

## Responsible investment policy & governance

### Responsible investment policy

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 1	CORE	N/A	ISP 1.1, ISP 1.2	PUBLIC	Responsible investment policy	1

Does your organisation have a formal policy or policies covering your approach to responsible investment? Your approach to responsible investment may be set out in a standalone guideline, covered in multiple standalone guidelines or be part of a broader investment policy. Your policy may cover various responsible investment elements such as stewardship, ESG guidelines, sustainability outcomes, specific climate-related guidelines, RI governance and similar.

- (A) Yes, we do have a policy covering our approach to responsible investment
- (B) No, we do not have a policy covering our approach to responsible investment

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 1.1	CORE	ISP 1	Multiple, see guidance	PUBLIC	Responsible investment policy	1

What elements does your responsible investment policy cover? The responsible investment elements may be set out in one or multiple standalone guidelines, or they may be part of a broader investment policy.

- ☒ (A) Overall approach to responsible investment
- ☐ (B) Guidelines on environmental factors
- ☐ (C) Guidelines on social factors
- ☐ (D) Guidelines on governance factors
- ☒ (E) Approach to stewardship
- ☐ (F) Approach to sustainability outcomes
- ☒ (G) Approach to exclusions
- ☐ (H) Asset class-specific guidelines that describe how ESG incorporation is implemented
- ☒ (I) Definition of responsible investment and how it relates to our fiduciary duty
- ☒ (J) Definition of responsible investment and how it relates to our investment objectives
- ☒ (K) Responsible investment governance structure
- ☐ (L) Internal reporting and verification related to responsible investment
- ☒ (M) External reporting related to responsible investment
- ☒ (N) Managing conflicts of interest related to responsible investment
- ☐ (O) Other responsible investment aspects not listed here, please specify:

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 1.2	PLUS	ISP 1	N/A	PUBLIC	Responsible investment policy	1

What mechanisms do you have in place to ensure that your policies are implemented in an aligned and consistent way across the organisation?

We have established the appropriate governance systems, risk management and controls to support our efforts to integrate sustainability considerations across our business. Our portfolio managers and investment teams take the lead in implementing sustainability for their investment portfolios, supported by the Investment Management Sustainability team, the Investment Management Sustainability Council, and Morgan Stanley's world-class resources. The Sustainability Council is composed of senior, cross-functional business and investment leaders who oversee and guide Investment Management's support for the sustainable investment strategies of each business.



In 2020, MSIM appointed a Global Head of Sustainability for Investment Management to lead a centralized Sustainability team that implements our sustainability business efforts and governance processes and supports and partners with MSIM investment teams on enhancements to their ESG investment integration standards. The Sustainability team also helps launch thematic sustainable funds, advises clients, and produces sustainability data, tools and research to support our investment teams. In addition, the team partners with the Sustainable Investing leads for each of our investment platforms to coordinate global sustainable investing initiatives, enhance ESG integration practices and deliver best-in-class sustainability products and solutions. Our Sustainability team also includes the Global Stewardship function, which supports and where relevant, coordinates our stewardship and investee engagement activity. During 2020, Investment Management also appointed Heads of Sustainable Investing for our Real Assets and Fixed Income platforms.

#### MSIM Sustainability Council

MSIM's Sustainability Council is chaired by the Global Head of Sustainability for Investment Management. The Council consists of a group of investment leaders and senior, cross-functional business leaders who oversee and guide MSIM's support for the sustainable investment strategies of each investment business, including: promoting definitions and frameworks for Sustainable Investing (as defined below); supporting the continued innovation of ESG products and solutions; championing Sustainable Investing (as defined below) across MSIM's staff and culture; and ensuring business readiness for evolving client/regulator demands. The Council is responsible for this Sustainable Investing Policy, which it reviews at least annually to ensure that it accurately reflects the philosophy and processes that govern MSIM's sustainability strategy.

#### Sustainable Investing Team Leads

It is the investment teams' responsibility to define their approach to ESG integration. Each of our largest investment teams or asset class platforms has appointed at least one dedicated Sustainable Investing/ESG research specialist to co-ordinate and support this work for the relevant group. A key responsibility of these specialists is to work with the portfolio managers in their respective team to help ensure strong ESG integration, in line with each team's investment philosophy and strategy. Other elements of the role include supporting investment staff to continuously enhance ESG integration in investment processes through research, training, knowledge-sharing, helping define methodology and resourcing for dedicated Sustainable Funds (where relevant), engagement with investee management teams, and representing their asset class/team in client meetings, consultant meetings and other forums and groups as necessary.

#### MSIM Sustainability Team

The MSIM Sustainability Team acts as a centralized support resource for MSIM's portfolio managers, investment professionals and Sustainable Investing/ESG research specialists—who are responsible for devising appropriate ESG policies for their investment strategies and for evaluating risks and opportunities for their investments, including analyzing relevant ESG issues at industry, company and portfolio levels.

The MSIM Sustainability Team is responsible for implementing MSIM's sustainability business efforts and governance processes, supporting and working with MSIM's investment teams on enhancements to their ESG investment integration practices, helping to launch Sustainable Funds, advising clients on sustainability matters, and producing sustainability data, tools and research to support our investment teams.

#### Morgan Stanley Institute for Sustainable Investing and Global Sustainable Finance Group

MSIM's Sustainable Investing efforts are also supported by Morgan Stanley's decade-plus commitment to sustainable finance and Firm-level resources. The Morgan Stanley Institute for Sustainable Investing and the Global Sustainable Finance ("GSF") group are positioned at the nexus of the Firm's three business pillars (i.e. Institutional Securities Group, Wealth Management, and MSIM), and serve as expert resources and partners on innovation, knowledge sharing and thought leadership across the Firm.

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 2	CORE	ISP 1.1	N/A	PUBLIC	Responsible investment policy	6

Indicate which of your responsible investment policy elements are publicly available and provide links.

☒ (A) Overall approach to responsible investment. Add link(s):

[https://www.morganstanley.com/im/publication/resources/sustainable\\_investing\\_policy\\_us.pdf?1614350508197](https://www.morganstanley.com/im/publication/resources/sustainable_investing_policy_us.pdf?1614350508197)

☒ (E) Approach to stewardship. Add link(s):

[https://www.morganstanley.com/im/publication/resources/sustainable\\_investing\\_policy\\_us.pdf?1614350508197](https://www.morganstanley.com/im/publication/resources/sustainable_investing_policy_us.pdf?1614350508197)

☒ (G) Approach to exclusions. Add link(s):

[https://www.morganstanley.com/im/publication/msinvf/prospectus/prospectus\\_msinvf\\_engr.pdf](https://www.morganstanley.com/im/publication/msinvf/prospectus/prospectus_msinvf_engr.pdf),  
[https://www.morganstanley.com/im/publication/resources/sustainable\\_investing\\_policy\\_us.pdf?1614350508197](https://www.morganstanley.com/im/publication/resources/sustainable_investing_policy_us.pdf?1614350508197)

☒ (I) Definition of responsible investment and how it relates to our fiduciary duty. Add link(s):

[https://www.morganstanley.com/im/publication/resources/sustainable\\_investing\\_policy\\_us.pdf?1614350508197](https://www.morganstanley.com/im/publication/resources/sustainable_investing_policy_us.pdf?1614350508197)

☒ (J) Definition of responsible investment and how it relates to our investment objectives. Add link(s):

[https://www.morganstanley.com/im/publication/resources/sustainable\\_investing\\_policy\\_us.pdf?1614350508197](https://www.morganstanley.com/im/publication/resources/sustainable_investing_policy_us.pdf?1614350508197)

☒ (K) Responsible investment governance structure. Add link(s):

[https://www.morganstanley.com/im/publication/resources/sustainable\\_investing\\_policy\\_us.pdf?1614350508197](https://www.morganstanley.com/im/publication/resources/sustainable_investing_policy_us.pdf?1614350508197)

☒ (M) External reporting related to responsible investment. Add link(s):

[https://www.morganstanley.com/im/publication/resources/sustainable\\_investing\\_policy\\_us.pdf?1614350508197](https://www.morganstanley.com/im/publication/resources/sustainable_investing_policy_us.pdf?1614350508197)

☒ (N) Managing conflicts of interest related to responsible investment. Add link(s):

[https://www.morganstanley.com/im/publication/resources/proxyvotingpolicy\\_msinvf\\_en.pdf?1583844799689](https://www.morganstanley.com/im/publication/resources/proxyvotingpolicy_msinvf_en.pdf?1583844799689),  
[https://www.morganstanley.com/im/publication/resources/sustainable\\_investing\\_policy\\_us.pdf?1614350508197](https://www.morganstanley.com/im/publication/resources/sustainable_investing_policy_us.pdf?1614350508197)


☐ (P) Our responsible investment policy elements are not publicly available

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 3	CORE	ISP 1.1	N/A	PUBLIC	Responsible investment policy	1

What percentage of your total assets under management are covered by your policy elements on overall approach to responsible investment and/or guidelines on environmental, social and governance factors?

- (A) Overall approach to responsible investment

AUM coverage of all policy elements in total:

 >75%

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 4	CORE	ISP 1.1	N/A	PUBLIC	Responsible investment policy	1

Which elements does your exclusion policy include?

- ☒ (A) Legally required exclusions (e.g. those required by domestic/international law, bans, treaties or embargoes)
- ☐ (B) Exclusions based on our organisation's values or beliefs (e.g. regarding weapons, alcohol, tobacco and/or avoiding other particular sectors, products, services or regions)
- ☐ (C) Exclusions based on screening against minimum standards of business practice based on international norms (e.g. OECD guidelines, the UN Human Rights Declaration, Security Council sanctions or the UN Global Compact)

## Governance

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 6	CORE	N/A	ISP 8	PUBLIC	Governance	1

**Do your organisation's board, chief-level staff, investment committee and/or head of department have formal oversight and accountability for responsible investment?**

- ☒ (A) Board and/or trustees
- ☒ (B) Chief-level staff (e.g. Chief Executive Officer (CEO), Chief Investment Officer (CIO) or Chief Operating Officer (COO))
- ☒ (C) Investment committee
- ☐ (D) Other chief-level staff, please specify:
- ☒ (E) Head of department, please specify department:  

MSIM Head of Sustainability, CIO for all asset classes, Head of Sustainability Real Assets
- ☐ (F) None of the above roles have oversight and accountability for responsible investment

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 7	CORE	N/A	ISP 8	PUBLIC	Governance	1

**In your organisation, which internal or external roles have responsibility for implementing responsible investment?**

- ☐ (A) Board and/or trustees
- ☐ (B) Chief-level staff (e.g. Chief Executive Officer (CEO), Chief Investment Officer (CIO) or Chief Operating Officer (COO))
- ☒ (C) Investment committee
- ☐ (D) Other chief-level staff [as specified]
- ☒ (E) Head of department [as specified]
- ☒ (F) Portfolio managers
- ☒ (G) Investment analysts
- ☒ (H) Dedicated responsible investment staff
- ☐ (I) Investor relations
- ☐ (J) External managers or service providers
- ☐ (K) Other role, please specify:
- ☐ (L) Other role, please specify:
- ☐ (M) We do not have roles with responsibility for implementing responsible investment.

## People and capabilities

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 8	CORE	ISP 6, ISP 7	ISP 8.1, ISP 8.2	PUBLIC	People and capabilities	General

What formal objectives for responsible investment do the roles in your organisation have?

	(1) Board and/or trustees	(2) Chief-level staff	(3) Investment committee	(5) Head of department [as specified]
(A) Objective for ESG incorporation in investment activities	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(B) Objective for contributing to the development of the organisation's ESG incorporation approach	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
(C) Objective for contributing to the organisation's stewardship activities (e.g. through sharing findings from continuous ESG research or investment decisions)	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(D) Objective for ESG performance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(E) Other objective related to responsible investment [as specified]	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
(F) Other objective related to responsible investment [as specified]	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(G) No formal objectives for responsible investment exist for this role	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	(6) Portfolio managers	(7) Investment analysts	(8) Dedicated responsible investment staff
(A) Objective for ESG incorporation in investment activities	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(B) Objective for contributing to the development of the organisation's ESG incorporation approach	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(C) Objective for contributing to the organisation's stewardship activities (e.g. through sharing findings from continuous ESG research or investment decisions)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(D) Objective for ESG performance	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(E) Other objective related to responsible investment [as specified]	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(F) Other objective related to responsible investment [as specified]	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(G) No formal objectives for responsible investment exist for this role	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Please specify for "(E) Other objective related to responsible investment".**

■ Developing and launching labelled sustainable funds

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 8.1	PLUS	ISP 8	N/A	PUBLIC	People and capabilities	General

**Describe the key responsible investment performance indicators (KPIs) or benchmarks that your organisation uses to compare and assess the performance of your professionals in relation to their responsible investment objectives.**

We have implemented an ESG Integration Framework that serves as an internal guide for promoting best practices in ESG integration. The framework is used to guide investment teams as they develop ESG expertise and practices across their portfolios. The framework is applied across team practices annually.

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 8.2	CORE	ISP 8	N/A	PUBLIC	People and capabilities	General

**Which responsible investment objectives are linked to variable compensation for roles in your organisation?**

**RI objectives linked to variable compensation for roles in your organisation:**

**(3) Investment committee**

(A) Objective for ESG incorporation in investment activities ☐

(C) Objective for contributing to the organisation's stewardship activities (e.g. through sharing findings from continuous ESG research or investment decisions) ☐

(D) Objective for ESG performance ☐

**(5) Head of department**

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(A) Objective for ESG incorporation in investment activities	<input type="checkbox"/>
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(B) Objective for contributing to the development of the organisation's ESG incorporation approach	<input type="checkbox"/>
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(C) Objective for contributing to the organisation's stewardship activities (e.g. through sharing findings from continuous ESG research or investment decisions)	<input type="checkbox"/>
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(D) Objective for ESG performance	<input type="checkbox"/>
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(E) Other objective related to responsible investment (as specified in ISP 8 option E)	<input type="checkbox"/>
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**(6) Portfolio managers**

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(A) Objective on ESG incorporation in investment activities	<input type="checkbox"/>
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(B) Objective for contributing to the development of the organisation's ESG incorporation approach	<input type="checkbox"/>
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(C) Objective for contributing to the organisation's stewardship activities (e.g. through sharing findings from continuous ESG research or investment decisions)	<input type="checkbox"/>
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(D) Objective for ESG performance	<input type="checkbox"/>
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(E) Other objective related to responsible investment (as specified in ISP 8 option E)	<input type="checkbox"/>
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**(7) Investment analysts**

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(A) Objective for ESG incorporation in investment activities	<input checked="" type="checkbox"/>
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(B) Objective for contributing to the development of the organisation's ESG incorporation approach	<input type="checkbox"/>
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(C) Objective for contributing to the organisation's stewardship activities (e.g. through sharing findings from continuous ESG research or investment decisions)	<input checked="" type="checkbox"/>
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(D) Objective for ESG performance	<input type="checkbox"/>
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(E) Other objective related to responsible investment (as specified in ISP 8 option E)	<input type="checkbox"/>
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**(8) Dedicated responsible investment staff**

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(A) Objective for ESG incorporation in investment activities	<input type="checkbox"/>
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(B) Objective for contributing to the development of the organisation's ESG incorporation approach	<input checked="" type="checkbox"/>
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(C) Objective for contributing to the organisation's stewardship activities (e.g. through sharing findings from continuous ESG research or investment decisions)	<input type="checkbox"/>
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(D) Objective for ESG performance	<input type="checkbox"/>
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(E) Other objective related to responsible investment (as specified in ISP 8 option E)	<input type="checkbox"/>
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(G) We have not linked any RI objectives to variable compensation	<input type="checkbox"/>
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Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 9	CORE	N/A	N/A	PUBLIC	People and capabilities	General

**How frequently does your organisation assess the responsible investment capabilities and training needs among your investment professionals?**

- ☐ (A) Quarterly or more frequently
- ☐ (B) Bi-annually
- ☒ (C) **Annually**
- ☐ (D) Less frequently than annually
- ☐ (E) On an ad hoc basis
- ☐ (F) We do not have a process for assessing the responsible investment capabilities and training needs among our investment professionals

## Strategic asset allocation

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 10	CORE	N/A	ISP 10.1	PUBLIC	Strategic asset allocation	1

**Does your organisation incorporate ESG factors into your strategic asset allocation?**

- ☐ (A) We incorporate ESG factors into calculations for expected risks and returns of asset classes
- ☐ (B) We specifically incorporate physical, transition and regulatory changes related to climate change into calculations for expected risks and returns of asset classes
- ☐ (C) No, we do not incorporate ESG considerations into our strategic asset allocation
- ☒ (D) **Not applicable, we do not have a strategic asset allocation process**

# Stewardship

## Stewardship policy

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 11	CORE	Multiple, see guidance	N/A	PUBLIC	Stewardship policy	2

What percentage of your assets under management does your stewardship policy cover?

(A) Listed equity >75%

(B) Fixed income >75%

(C) Private equity 0.0%

(D) Real estate 0.0%

(E) Infrastructure 0.0%

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 12	CORE	ISP 1.1	ISP 12.1	PUBLIC	Stewardship policy	2

Which elements does your organisation's stewardship policy cover? The policy may be a standalone guideline or part of a wider RI policy.

- ☒ (A) Key stewardship objectives
- ☒ (B) Prioritisation approach of ESG factors and their link to engagement issues and targets
- ☐ (C) Prioritisation approach depending on entity (e.g. company or government)
- ☒ (D) Specific approach to climate-related risks and opportunities
- ☐ (E) Stewardship tool usage across the organisation, including which, if any, tools are out of scope and when and how different tools are used and by whom (e.g. specialist teams, investment teams, service providers, external investment managers or similar)
- ☒ (F) Stewardship tool usage for specific internal teams (e.g. specialist teams, investment teams or similar)
- ☐ (G) Stewardship tool usage for specific external teams (e.g. service providers, external investment managers or similar)
- ☒ (H) Approach to collaboration on stewardship
- ☒ (I) Escalation strategies
- ☒ (J) Conflicts of interest

- ☐ (K) Details on how the stewardship policy is implemented and which elements are mandatory, including how and when the policy can be overruled
- ☒ (L) **How stewardship efforts and results should be communicated across the organisation to feed into investment decision-making and vice versa**
- ☐ (M) None of the above elements are captured in our stewardship policy

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 12.1	PLUS	ISP 12	N/A	PUBLIC	Stewardship policy	2

**Describe any additional details related to your stewardship policy elements or your overall stewardship approach.**

#### Voting Approach

MSIM views proxy voting as an integral part of the investment process and ownership oversight. All proxy voting decisions are made in-house by investment teams with input from the Global Stewardship team and in line with the principles laid out in our Proxy Voting Policy and Procedures. We do not automatically support management recommendations. The Global Stewardship team has an internal voting system that facilitates communication with the investment teams and documents vote rationale. We combine the in-depth knowledge of the investment teams with the global governance expertise of the Global Stewardship team to make informed voting decisions, rather than relying on external advisory firms or making proxy voting a rote, box-ticking exercise. The Global Stewardship team oversees the proxy voting process to ensure policies and procedures are applied consistently across our global portfolios. The MSIM Proxy Review Committee has overall responsibility for our firm's voting policy and procedures. The Committee meets at least quarterly and considers changes to the voting policy at least annually. The Committee is composed of the Global Stewardship team, portfolio managers and other investment staff.

#### Engagement

A key input in our investment selection process is an assessment of the quality of the board and senior management. To develop that knowledge, MSIM engages with company management at regular intervals, and prioritizes active dialogues where positions are significant and issues are viewed as material. Investment teams engage with companies throughout their investment process on a broad range of issues including a company's strategy, financial and nonfinancial performance, risk management, sustainability initiatives, and capital structure. MSIM uses a central tracking system to monitor engagement progress over time.

## Stewardship policy implementation

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 13	CORE	ISP 1.1	N/A	PUBLIC	Stewardship policy implementation	2

**How is your stewardship policy primarily applied?**

- ☐ (A) It requires our organisation to take certain actions
- ☐ (B) It describes default actions that can be overridden (e.g. by investment teams for certain portfolios)
- ☐ (C) It creates permission for taking certain measures that are otherwise exceptional
- ☒ (D) **We have not developed a uniform approach to applying our stewardship policy**

## Stewardship objectives

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 15	CORE	Multiple, see guidance	N/A	PUBLIC	Stewardship objectives	2

For the majority of assets within each asset class, which of the following best describes your primary stewardship objective?

	(1) Listed equity	(2) Fixed income	(3) Private equity	(4) Real estate	(5) Infrastructure
(A) Maximise the risk–return profile of individual investments	<input checked="" type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
(B) Maximise overall returns across the portfolio	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(C) Maximise overall value to beneficiaries/clients	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(D) Contribute to shaping specific sustainability outcomes (i.e. deliver impact)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

## Stewardship prioritisation

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 16	CORE	Multiple, see guidance	N/A	PUBLIC	Stewardship prioritisation	2

What key criteria does your organisation use to prioritise your engagement targets? For asset classes such as real estate, private equity and infrastructure, you may consider this as key criteria to prioritise actions taken on ESG factors for assets, portfolio companies and/or properties in your portfolio. Select up to 3 options per asset class from the list.

	(1) Listed equity	(2) Fixed income	(3) Private equity	(4) Real estate	(5) Infrastructure
(A) The size of our holdings in the entity or the size of the asset, portfolio company and/or property	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(B) The materiality of ESG factors on financial and/or operational performance	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(C) Specific ESG factors with systemic influence (e.g. climate or human rights)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(D) The ESG rating of the entity	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(E) The adequacy of public disclosure on ESG factors/performance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(F) Specific ESG factors based on input from clients	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(G) Specific ESG factors based on input from beneficiaries	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(H) Other criteria to prioritise engagement targets, please specify:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(I) We do not prioritise our engagement targets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## Stewardship methods

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 17	PLUS	Multiple, see guidance	N/A	PUBLIC	Stewardship methods	2

**Please rank the methods that are most important for your organisation in achieving its stewardship objectives. Ranking options: 1 = most important, 5 = least important.**

(A) Internal resources (e.g. stewardship team, investment team, ESG team or staff)	1
(B) External investment managers, third-party operators and/or external property managers (if applicable)	2
(C) External paid services or initiatives other than investment managers, third-party operators and/or external property managers (paid beyond a membership fee)	We do not use this method
(D) Informal or unstructured collaborations with peers	3
(E) Formal collaborative engagements (e.g. PRI-coordinated collaborative engagements, Climate Action 100+, the Initiative Climat International (ICI) or similar)	4

## Collaborative stewardship

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 18	CORE	Multiple, see guidance	ISP 18.1	PUBLIC	Collaborative stewardship	2

**Which of the following best describes your organisation's default position, or the position of the service providers/external managers acting on your behalf, with regards to collaborative stewardship efforts such as collaborative engagements?**

- (A) We recognise that stewardship suffers from a collective action problem, and, as a result, we actively prefer collaborative efforts
- (B) We collaborate when our individual stewardship efforts have been unsuccessful or are likely to be unsuccessful, i.e. as an escalation tool
- (C) We collaborate in situations where doing so would minimise resource cost to our organisation

- (D) We do not have a default position but collaborate on a case-by-case basis
- (E) We generally do not join collaborative stewardship efforts

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 18.1	PLUS	ISP 18	N/A	PUBLIC	Collaborative stewardship	2

#### Describe your position on collaborating for stewardship.

Morgan Stanley Investment Management (“MSIM”) 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 collaborative 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 collaborative engagements organized by issuers, which provide an open forum for investors. In addition, as a signatory to the Principles for Responsible Investment (UNPRI) and members of other international investor networks, we have the ability to collaboratively 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. MSIM's decision to participate in collaborative 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.

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, for example the One Planet Sovereign Wealth Fund Asset Manager Initiative.

As an example - In 2020, MSIM Fixed Income team participated in two collaborative workshops organized by the PRI, contributing their views on the materiality of ESG factors in the credit analysis of various sectors, with the aim to encourage standardization in sustainability disclosure.

## Escalation strategies

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 19	PLUS	Multiple, see guidance	N/A	PUBLIC	Escalation strategies	2

Which of these measures did your organisation, or the service providers/external managers acting on your behalf, use most frequently when escalating initial stewardship approaches that were deemed unsuccessful?

	(1) Listed equity	(2) Fixed income
(A) Collaboratively engaging the entity with other investors	<input type="checkbox"/>	<input type="checkbox"/>



(B) Filing/co-filing/submitting a shareholder resolution or proposal	<input type="checkbox"/>	<input type="checkbox"/>
(C) Publicly engaging the entity (e.g. open letter)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(D) Voting against the re-election of one or more board directors	<input checked="" type="checkbox"/>	<input type="checkbox"/>
(E) Voting against the chair of the board of directors	<input checked="" type="checkbox"/>	<input type="checkbox"/>
(F) Voting against the annual financial report	<input type="checkbox"/>	<input type="checkbox"/>
(G) Divesting or implementing an exit strategy	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(H) We did not use any escalation measures during the reporting year. Please explain why below	<input type="checkbox"/>	<input type="checkbox"/>

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 20	CORE	Multiple, see guidance	N/A	PUBLIC	Escalation strategies	2

**If initial stewardship approaches were deemed unsuccessful, which of the following measures are excluded from the potential escalation actions of your organisation or those of the service providers/external managers acting on your behalf?**

	(1) Listed equity	(2) Fixed income
(A) Collaboratively engaging the entity with other investors	<input type="checkbox"/>	<input type="checkbox"/>
(B) Filing/co-filing/submitting a shareholder resolution or proposal	<input type="checkbox"/>	<input type="checkbox"/>
(C) Publicly engaging the entity (e.g. open letter)	<input type="checkbox"/>	<input type="checkbox"/>

(D) Voting against the re-election of one or more board directors	<input type="checkbox"/>	<input type="checkbox"/>
(E) Voting against the chair of the board of directors	<input type="checkbox"/>	<input type="checkbox"/>
(F) Voting against the annual financial report	<input type="checkbox"/>	<input type="checkbox"/>
(G) Divesting or implementing an exit strategy	<input type="checkbox"/>	<input type="checkbox"/>
(H) We do not have any restrictions on the escalation measures we can use	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

## Alignment and effectiveness

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 21	PLUS	Multiple, see guidance	N/A	PUBLIC	Alignment and effectiveness	2

**Describe how you coordinate stewardship across your organisation to ensure that stewardship progress and results feed into investment decision-making and vice versa.**

While engagement and Sustainable Investing approaches differ across our individual equity teams, all have appointed Sustainable Investing leads who coordinate and support and lead their respective team approaches. The investment teams' regular touchpoints with company management provide an opportunity to monitor and track the performance of our investments. Both the investment teams and the Global Stewardship Team regularly monitor and engage with companies and maintain engagement records to track progress and to allow engagement insights to be incorporated in investment and proxy voting decisions. Ultimately, portfolio managers are responsible for interpreting and integrating information gained through engagements into their investment decision-making process, as appropriate.

### Process and Methods

MSIM investment teams work 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 they invest. 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 investment manager 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, however the process is typically as follows:

1. The investment team will identify engagement targets based on materiality analysis

2. The investment team will set engagement objectives for companies.
3. The investment team will then engage with company management. Some investment teams (e.g. Fixed Income) have an engagement liaison officer who coordinates their engagement effort with the broader firm.
4. Engagement notes from each engagement are tagged and recorded in the engagement system used by the investment team
5. The investment teams will follow up with the company on a periodic cadence

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 select companies across the portfolio, as needed. Investment teams may take different approaches depending on asset class and type of security and certain issues may be deemed more material for issuers in certain geographies.

#### Escalation Strategy

Given the regular cadence of our engagements, and our position as active owners, the need for escalation is generally limited. Further, we appreciate that in some cases it can take years to effect change 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 collaborative engagement or filing a shareholder proposal as an escalation method in appropriate cases. Ultimately, portfolio managers are responsible for interpreting and integrating information gained through engagements into their investment decision-making process, as appropriate.

#### Supportive Function of Global Stewardship Team

A majority of engagements coordinated 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 issues raised by the company's proxy, including but not limited to executive compensation, board structure, ESG issues and shareholder proposals. Topics of routine engagement include but are not limited to governance best practices such as board independence, succession planning, and executive pay.

#### Proxy Voting Approach:

MSIM's voting process directly involves portfolio teams. Our internal voting platform notifies portfolio managers when there is a meeting for one of their holdings. It includes the Stewardship team's analysis and voting recommendations, which portfolio managers may reference when they make their voting decision. Additionally, this interactive process offers the opportunity for discussion between the Global Stewardship Team and investment teams about a holding's material ESG issues, if required.

## Stewardship examples

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 22	PLUS	Multiple, see guidance	N/A	PUBLIC	Stewardship examples	2

Describe stewardship activities that you participated in during the reporting year that led to desired changes in the entity you interacted with. Include what ESG factor(s) you engaged on and whether your stewardship activities were primarily focused on managing ESG risks and opportunities or delivering sustainability outcomes.

	(1) Engagement type	(2) Primary goal of stewardship activity
(A) Example 1	a) Internally (or service provider) led	c) Both managing ESG risks and delivering outcomes
(B) Example 2	a) Internally (or service provider) led	c) Both managing ESG risks and delivering outcomes
(C) Example 3	a) Internally (or service provider) led	c) Both managing ESG risks and delivering outcomes
	(3) The ESG factors you focused on in the stewardship activity	(4) Description of stewardship activity and the desired change(s) you achieved
(A) Example 1	Decarbonization	An investment team, in collaboration with the Global Stewardship Team, contacted ten utility companies in the portfolio to discuss the transition to a low carbon economy. MSIM held discussions with companies in developed Europe and the United States. Other topics included 'just transition' (A just transition seeks to ensure that the substantial benefits of a green economy transition are shared widely, while also supporting those who stand to lose economically), political spending and executive compensation. <b>(response continued in row below)</b>

MSIM's objective was to learn which companies had developed strategies with targets that were aligned with a 1.5 and 2.0 degree per the International Energy Agency (IEA) or the Intergovernmental Panel on Climate Change (IPCC). The focus was on pushing the companies to expand their renewables operations while accelerating the decommissioning of their coal-based assets. In addition, concerns were articulated on companies' involvement in lobbying groups with anti-climate rhetoric. **(response continued in row below)**

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The plan is to monitor each company's progress on alignment and target setting, and to potentially vote against board directors at the next annual shareholders meeting for companies that did not have any or had less rigorous targets and transition plans. Each company will be re-engaged in 2021 to monitor and judge progress..

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(B) Example 2

Labor Supply Chain

An MSIM equities team engaged with the management team of an electronics company to discuss the company's management of its supply chain with a focus on human capital. The investment team engaged this company because it was a large weight in the portfolio and the team viewed the issue as material to the company's business. The objective was to understand how the company could play an active role in working with suppliers to enhance their ESG commitment and performance on human capital. **(response continued in row below)**

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		<p>In addition, the investment team reviewed how the company views its suppliers' ESG performance in the overall supplier evaluation. Key metrics for the company were to monitor its suppliers for compliance with the company's Code of Ethics and Business Conduct and adherence to human rights and conflict-free mineral guidelines. They also encouraged critical suppliers to join the Responsible Business Alliance (RBA). <b>(response continued in row below)</b></p>
		<p>The team was pleased with the progress the company had made in supplier oversight and will continue to monitor progress. In the next meeting with management, the investment team plans to follow up on their progress toward defining net zero targets, achievement of targets on shifts to reclaimed/recycled water, and updates on work with suppliers related to environmental and labor standards..</p>
(C) Example 3	Diversity and Inclusion	<p>An MSIM equities team engaged an audio streaming platform to discuss culture, diversity and inclusion strategy. The team engaged this company as it was a large weight in its portfolio and social issues such as diversity and inclusion are material to the business. The objective was to understand the company's current efforts and programs to promote diversity and inclusion and foster an inclusive culture. In addition, the team wanted to share with the company its observations on best practices in disclosure. <b>(response continued in row below)</b></p>

The company's unique culture of innovation was forged as a disruptor negotiating with the record label cartel under intense competitive pressures. The company views diversity and inclusion as central to unlocking the potential of human creativity and has established teams focused on Diversity & Belonging and Trust & Safety. The audio platform's extensive audience reach is viewed as a vehicle for promoting cross-cultural understanding through music and podcasts. By curating educational content on topics such as climate science and the environment and using its sorting algorithm to elevate diverse creator voices, the platform can amplify new differentiated content that can drive user engagement, thereby extending the platform's moat. **(response continued in row below)**

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The company's key stakeholders include both the listening audience and content creators, and the company recognizes the need for thoughtful content moderation as music and podcasts include both user-generated and professionally-produced content. The team suggested the company disclose more data on their efforts as the programs in place and senior leadership's attention on the issue was deemed to be impressive. The team plans to monitor progress on diversity and inclusion data disclosure..

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## Engaging policymakers

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 23	CORE	N/A	Multiple, see guidance	PUBLIC	Engaging policymakers	2

**How does your organisation, or the external investment managers or service providers acting on your behalf, engage with policymakers for a more sustainable financial system?**

☒ (A) We engage with policymakers directly

☐ (B) We provide financial support, are members of and/or are in another way affiliated with third-party organisations, including trade associations and non-profit organisations, that engage with policymakers

☐ (C) We do not engage with policymakers directly or indirectly

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 23.1	CORE	ISP 23	N/A	PUBLIC	Engaging policymakers	2

**What methods do you, or the external investment managers or service providers acting on your behalf, use to engage with policymakers for a more sustainable financial system?**

☐ (A) We participate in "sign-on" letters on ESG policy topics. Describe:

☐ (B) We respond to policy consultations on ESG policy topics. Describe:

☒ (C) We provide technical input on ESG policy change. Describe:

As an example, MSIM's London office has participated in consultations regarding revisions to the EU Shareholder Directive (II) and proposed EU regulations on non-financial reporting requirements

☒ (D) We proactively engage financial regulators on financial regulatory topics regarding ESG integration, stewardship, disclosure or similar. Describe:

For example, we are members of the working group convened by the Chartered Financial Analyst Institute (CFA) to create a global product disclosure standard for sustainability-focused products, which is supporting the CFA's engagement with regulators on this topic. We are also members of the UK Investment Association's working group on Fund-Level Communication of Responsible Investment, which is focused on fund disclosure requirements applicable to UK-based asset managers. MSIM has endorsed written submissions by the Investment Company Institute (ICI) to the Securities and Exchange Commission (SEC) to prevent the increase of ownership thresholds for filing shareholder proposals and to protect proxy advisory firms, which we believe provide an essential service allowing us to fulfill our stewardship activities

☐ (E) We proactively engage regulators and policymakers on other policy topics. Describe:

☐ (F) Other methods used to engage with policymakers. Describe:



Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 23.2	CORE	ISP 23	N/A	PUBLIC	Engaging policymakers	2

**Do you have governance processes in place (e.g. board accountability and oversight, regular monitoring and review of relationships) that ensure your policy activities, including those through third parties, are aligned with your position on sustainable finance and your commitment to the 6 Principles of the PRI?**

● (A) Yes, we have governance processes in place to ensure that our policy activities are aligned with our position on sustainable finance and our commitment to the 6 Principles of the PRI. Describe your governance processes:

All of MSIM's policy activities are reviewed by relevant stakeholders, including our Legal and Compliance department. Any material policy decisions are reviewed and signed-off by our internal Sustainability Council. Morgan Stanley's Chief Sustainability Officer, Morgan Stanley's Corporate Secretary, and Morgan Stanley's Head of Franchise Risk are also informed of policy activities when matters are deemed to be of interest and relevance.

○ (B) No, we do not have these governance processes in place. Please explain why not:

## Engaging policymakers – Policies

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 24	CORE	ISP 23	ISP 24.1	PUBLIC	Engaging policymakers – Policies	2

**Do you have policies in place that ensure that your political influence as an organisation is aligned with your position on sustainable finance and your commitment to the 6 Principles of the PRI?**

○ (A) Yes, we have a policy(ies) in place. Describe your policy(ies):

● (B) No, we do not have a policy(ies) in place. Please explain why not:

We do not have specific policies in place ensuring our political influence as an organization is aligned with our position on sustainable finance and our commitment to the 6 Principles of the PRI

## Engaging policymakers – Transparency

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 25	CORE	ISP 23	N/A	PUBLIC	Engaging policymakers – Transparency	2

During the reporting year, did your organisation publicly disclose your policy engagement activities or those conducted on your behalf by external investment managers/service providers?

- ☐ (A) We publicly disclosed details of our policy engagement activities. Add link(s):
- ☐ (B) We publicly disclosed a list of our third-party memberships in or support for trade associations, think-tanks or similar that conduct policy engagement activities with our support or endorsement. Add link(s):
- ☒ (C) No, we did not publicly disclose our policy engagements activities during the reporting year. Explain why:  
 We do not publicly disclose all our policy engagements during the year
- ☐ (D) Not applicable, we did not conduct policy engagement activities

## Climate change

### Public support

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 26	CORE	N/A	N/A	PUBLIC	Public support	General

Does your organisation publicly support the Paris Agreement?

- ☒ (A) Yes, we publicly support the Paris Agreement Add link(s) to webpage or other public document/text expressing support for the Paris Agreement:  
[https://www.morganstanley.com/assets/pdfs/Morgan\\_St Stanley\\_TCFD\\_Report\\_2020.pdf](https://www.morganstanley.com/assets/pdfs/Morgan_St Stanley_TCFD_Report_2020.pdf)
- ☐ (B) No, we currently do not publicly support the Paris Agreement

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 27	CORE	N/A	N/A	PUBLIC	Public support	General

**Does your organisation publicly support the Task Force on Climate-Related Financial Disclosures (TCFD)?**

☒ (A) Yes, we publicly support the TCFD Add link(s) to webpage or other public document/text expressing support for the TCFD:

[https://www.morganstanley.com/assets/pdfs/Morgan\\_Stanley\\_TCFD\\_Report\\_2020.pdf](https://www.morganstanley.com/assets/pdfs/Morgan_Stanley_TCFD_Report_2020.pdf), <https://www.fsb-tcfid.org/supporters/>

☐ (B) No, we currently do not publicly support the TCFD

## Governance

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 28	CORE	N/A	N/A	PUBLIC	Governance	General

**How does the board or the equivalent function exercise oversight over climate-related risks and opportunities?**

☒ (A) By establishing internal processes through which the board or the equivalent function are informed about climate-related risks and opportunities. Specify:

Morgan Stanley, parent company to MSIM, takes an integrated approach to climate change management, with oversight from firm leadership and input from across the business. The Risk Committee of our Board of Directors assumed responsibility for oversight of climate-related risks in 2019. The Committee was briefed on climate change matters in 2020 where our Chief Risk Officer provided an overview of climate-related work to date. In 2019, climate risk was covered as a dedicated session in the Morgan Stanley International Group Board strategy day.

☐ (B) By articulating internal/external roles and responsibilities related to climate. Specify:

☐ (C) By engaging with beneficiaries to understand how their preferences are evolving with regard to climate change. Specify:

☐ (D) By incorporating climate change into investment beliefs and policies. Specify:

☐ (E) By monitoring progress on climate-related metrics and targets. Specify:

☐ (F) By defining the link between fiduciary duty and climate risks and opportunities. Specify:

☒ (G) Other measures to exercise oversight, please specify:

The Nominating and Governance Committee oversees corporate governance principles and Environmental, Social and Governance (ESG) initiatives, including sustainability reporting. The Committee receives periodic updates from the Chief Sustainability Officer and the Environmental and Social Risk Management (ESRM) Group, including relevant climate-related matters.

☐ (H) The board or the equivalent function does not exercise oversight over climate-related risks and opportunities

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 29	CORE	N/A	N/A	PUBLIC	Governance	General

**What is the role of management in assessing and managing climate-related risks and opportunities?**

☒ (A) Management is responsible for identifying climate-related risks/opportunities and reporting them back to the board or the equivalent function. Specify:

The Climate Change Risk Committee advises on key decisions with respect to our net-zero-financed emissions goal and the integration of climate risk into firm decision-making. Members are senior leaders from across our business units and functions, including Risk Management. The Working Group tracks significant internal and external developments, coordinates and aligns climate initiatives across the firm, and elevates significant issues to the Steering Committee and senior management.

☒ (B) Management implements the agreed-upon risk management measures. Specify:

Morgan Stanley appointed a Climate Change Risk Lead for Firm Risk Management in 2019 to help coordinate climate risk integration across our business divisions.

☒ (C) Management monitors and reports on climate-related risks and opportunities. Specify:

Within MSIM, during FY2020, the Global Risk Analysis team produced an ESG risk dashboard report for the Investment Management Risk Committee which included carbon risk data on various pricing scenarios and oil price shocks. The IM Risk Committee includes members from management, Risk, Compliance Product and Legal teams. While the ESG risk dashboard report was not a regular standing agenda item at these meetings it was reviewed several times throughout the course of 2020.

☐ (D) Management ensures adequate resources, including staff, training and budget, are available to assess, implement and monitor climate-related risks/opportunities and measures. Specify:

☐ (E) Other roles management takes on to assess and manage climate-related risks/opportunities, please specify:

☐ (F) Our management does not have responsibility for assessing and managing climate-related risks and opportunities

## Strategy

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 30	CORE	N/A	Multiple, see guidance	PUBLIC	Strategy	General

**Which climate-related risks and opportunities has your organisation identified within its investment time horizon(s)?**

☒ (A) Specific financial risks in different asset classes. Specify:

Each of MSIM's investment teams takes the lead in integrating ESG into their investment processes, including climate analysis. As a result, the consideration of climate risks and opportunities varies across MSIM's asset class platforms and even within asset classes, across individual teams. For example, the Fixed Income team has adopted the view that environmental factors may influence their view on duration and spread duration for individual assets and sectors. Their assessment of environmental challenges may present near term risk (risk of flooding, wildfires, carbon pricing) or longer term risk (stranded asset risk), which may affect their view on the duration/spread duration of the individual securities they wish to own (distinct from the actual holding period) given the amount of risk that's implied. Sustainability risks can materialize for assets and investments in a range of ways, for example: impaired or stranded asset values, increased operational costs, unforeseen liabilities and penalties, loss of access to markets/customers, and reputational damage.

In addition to the team's sector-by-sector analysis of physical risk, they also implement a stress testing scenario analysis approach to transition risk in their investment management platform, looking at various different carbon price scenarios, implementation schedules, and their impact on company P&L. The result is an indication of a company or portfolio's vulnerability to carbon prices. Along with risk analysis, the Fixed Income team's ESG integration approach also focuses on the potential opportunities from climate-related trends, such as increased consumer demand for low carbon products and policy measures that might favor green investment. The aim of this exercise is to identify issuers that are best positioned to benefit from these tailwinds, potentially contributing to the generation of outperformance for the team's portfolios.

☐ (B) Specific sectors and/or assets that are at risk of being stranded. Specify:

☒ (C) **Assets with exposure to direct physical climate risk. Specify:**

Our private sector Real Assets investors have focused more on the integration of physical risks such as the costs associated with property loss or damage and climate adaptation and mitigation. Climate risks include both discrete events such as flooding (acute physical risks) or longer-term shifts in climate patterns such as more frequent and prolonged drought (chronic physical risks). Physical risks may have financial implications for organizations, such as direct damage to assets and indirect impacts from supply chain disruption. Financial performance may also be affected by changes in water availability, sourcing and quality, and food security and agricultural productivity. Extreme temperature changes may affect an organization's physical locations, operations, supply chain, transport needs and employee safety.

For equity investments, we recognize that fossil fuel industry poses significant risks to climate and engagements are not always effective in changing company behavior. As a result we look to exclude the most carbon-intensive companies to mitigate our climate-related financial and reputational risks. Currently within the Global Balanced Risk Control (GBaR) team, coal and oil sands are the two assets that we identified as most at risk of being stranded through the low carbon transition. We exclude companies that derive 10% or more of their revenue from the mining of thermal coal and companies that derives 5% or more revenue from the extraction or production of oil sands. Markets is pricing in stranded asset risk for oil and gas companies as well, but that is happening a lot more gradual in our opinion, unless we see sudden shift in climate policy.

☐ (D) Assets with exposure to indirect physical climate risk. Specify:

☐ (E) Specific sectors and/or assets that are likely to benefit under a range of climate scenarios. Specify:

☒ (F) **Specific sectors and/or assets that contribute significantly to achieving our climate goals. Specify:**

Our AIP Private Markets team Global Climate Impact Solutions Fund seeks to deliver commercial, high impact solutions targeting investments that result in measurable sustainability outcomes ranging from tons of GHG emissions offset and liters of water saved to reduction in air pollution levels. Closed in 2020, the strategy aims to address critical climate-related issues including global warming and pollution, depleting natural resources and ecological diversity.

☐ (G) Other climate-related risks and opportunities identified. Specify:

☐ (H) We have not identified specific climate-related risks and opportunities within our organisation's investment time horizon

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 30.1	CORE	ISP 30	N/A	PUBLIC	Strategy	General

For each of the identified climate-related risks and opportunities, indicate within which investment time-horizon they were identified.

	(1) 3–5 months	(2) 6 months to 2 years	(3) 2–4 years	(4) 5–10 years
(A) Specific financial risks in different asset classes [as specified]	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(C) Assets with exposure to direct physical climate risk [as specified]	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(F) Specific sectors and/or assets that contribute significantly to achieving our climate goals [as specified]	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	(5) 11–20 years	(6) 21–30 years	(7) >30 years	
(A) Specific financial risks in different asset classes [as specified]	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>
(C) Assets with exposure to direct physical climate risk [as specified]	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
(F) Specific sectors and/or assets that contribute significantly to achieving our climate goals [as specified]	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 31	CORE	N/A	N/A	PUBLIC	Strategy	General

**Which climate-related risks and opportunities has your organisation identified beyond its investment time horizon(s)?**

☒ **(A) Specific financial risks in different asset classes. Specify:**

Some investment teams have identified certain sectors, such as the ICT sector or consumer packaged goods sectors, as being exposed to less acute climate risks such as slowly increasing operating costs as certain goods and services become more difficult to render under certain carbon pricing/transition scenarios. These risks are usually difficult to quantify on a specific time horizon and/or are deemed outside of the relevant investment time horizon.

☒ **(B) Specific sectors and/or assets that are at risk of being stranded. Specify:**

The small proportion of MSIM investment teams that do invest in fossil fuels consider the sector's risk of being stranded under different carbon pricing and policy scenarios. Some of these teams tend to invest on shorter time horizons and therefore currently assess the risks associated with stranded assets as being outside of their investment time horizon.

☒ **(C) Assets with exposure to direct physical climate risk. Specify:**

As mentioned above, our private sector Real Assets investors have focused on the integration of physical risks such as the costs associated with property loss or damage and climate adaptation and mitigation. While the team has identified some risks within its investment horizon, they have also identified assets at risk beyond the investment horizon (greater than 30 years). For example, areas where sea level rise is probable on a longer term horizon after the current investment lifecycle.

☒ **(D) Assets with exposure to indirect physical climate risk. Specify:**

Some investment teams have identified certain sectors that may be at risk of more indirect climate impacts such as supply chain disruption caused by physical climate risks, droughts, and other severe weather. However, the teams have assessed these risks as having a low probability within their investment horizons.

☐ (E) Specific sectors and/or assets that are likely to benefit under a range of climate scenarios. Specify:

☐ (F) Specific sectors and/or assets that contribute significantly to achieving our climate goals. Specify:

☐ (G) Other climate-related risks and opportunities identified, please specify:

☐ (H) We have not identified specific climate-related risks and opportunities beyond our organisation's investment time horizon

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 32	PLUS	N/A	N/A	PUBLIC	Strategy	General

**Describe the impact of climate-related risks and opportunities on your organization's investment strategy, products (where relevant) and financial planning.**

MSIM's investment teams have begun to identify transition and physical climate-related risks in their investment analysis, which in some cases has led to decisions to exclude or size certain investments based on these risks. Generally our Equity and Fixed Income investors have been focused on transition risks, often looking first at the carbon footprint of portfolios as a proxy for transition risks, such as regulatory risk and market/technology risk. Meanwhile our Real Assets investors have focused more on the integration of physical risks such as the costs associated with property loss or damage and climate adaptation and mitigation.

In addition to integrating climate risks into the investment due diligence process, some investment teams have begun to consider the upside potential of decarbonization and the transition to a low carbon economy and have integrated this perspective into their portfolio construction process. For example, several of our MSIM labelled Sustainable Funds have adopted net zero and/or Paris Aligned targets, while others have adopted portfolio construction approaches that tilt towards issuers that are identified as having products or services aligned with climate mitigation or adaptation. In 2020, our AIP Private Markets team closed on a strategy to address critical climate-related issues including global warming and pollution, depleting natural resources and ecological diversity. The Global Climate Impact Solutions Fund seeks to deliver commercial, high impact solutions to clients. It targets investments that result in measurable sustainability outcomes ranging from tons of GHG emissions offset and liters of water saved to reduction in air pollution levels.

## Strategy: Scenario analysis

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 33	CORE	N/A	ISP 33.1	PUBLIC	Strategy: Scenario analysis	General

**Does your organisation use scenario analysis to assess climate-related investment risks and opportunities? Select the range of scenarios used.**

- ☐ (A) An orderly transition to a 2°C or lower scenario
- ☐ (B) An abrupt transition consistent with the Inevitable Policy Response
- ☐ (C) A failure to transition, based on a 4°C or higher scenario
- ☒ (D) **Other climate scenario, specify:**

At the enterprise level, Morgan Stanley is conducting scenario analysis in the two major categories identified by TCFD: transition risk and physical risk. Our leadership will use the findings to refine our climate-related strategy and risk management processes, with a view to ultimately inform business strategy. In particular, we are evaluating where our business may be vulnerable to outsized, climate-driven losses. MSIM recognizes the important role scenario analysis plays in helping organizations to understand the risks and opportunities associated with climate change and is collaborating with Morgan Stanley at the enterprise level to inform its own risk management processes. We are also actively onboarding data and tools that enable us to conduct transition and physical scenario analysis at the portfolio level. In the meantime, MSIM's Global Risk Analysis team has integrated carbon pricing and oil price shock scenarios into its regular risk monitoring approach. These stress tests include three different types of policy responses to climate change: a phased implementation over time, a more accelerated global implementation in response to extreme weather events, and a redistribution carbon price scenario, which measures the impact of policymakers introducing legislation to simultaneously fight climate change and economic inequality.

- ☐ (E) We do not use scenario analysis to assess climate-related investment risks and opportunities



Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 33.1	PLUS	ISP 33	N/A	PUBLIC	Strategy: Scenario analysis	General

**Describe how climate scenario analysis is used to test the resilience of your organisation's investment strategy and inform investments in specific asset classes.**

☒ **(D) Other climate scenario**

To date, the enterprise-level analysis has focused on two short term scenarios, one focused on physical risk and one on transition risk. We are looking at the exploration and development of other scenarios for MSIM that are in alignment with the work Morgan Stanley is doing at the enterprise level

## Risk management

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 34	PLUS	ISP 30	N/A	PUBLIC	Risk management	General

**Which risk management processes do you have in place to identify and assess climate-related risks?**

☒ **(A) Internal carbon pricing. Describe:**

MSIM's Global Risk Analysis team includes carbon pricing scenarios as part of its ESG risk monitoring approach across public markets.

☐ **(B) Hot spot analysis. Describe:**

☒ **(C) Sensitivity analysis. Describe:**

MSIM's Global Risk Analysis team conducts regular beta analysis to measure the sensitivity of portfolios to changes in fossil fuel prices as part of its risk monitoring approach across public markets.

☐ **(D) TCFD reporting requirements on external investment managers where we have externally managed assets. Describe:**

☐ **(E) TCFD reporting requirements on companies. Describe:**

☐ **(F) Other risk management processes in place, please describe:**

☐ **(G) We do not have any risk management processes in place to identify and assess climate-related risks**

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 35	PLUS	Multiple, see guidance	N/A	PUBLIC	Risk management	General

**In which investment processes do you track and manage climate-related risks?**

☒ **(A) In our engagements with investee entities, and/or in engagements conducted on our behalf by service providers and/or external managers. Describe:**

We track engagements related to decarbonization and climate risk. In FY2020, these represented the largest proportion of our overall engagements accounting for 37% of total engagements.

☒ **(B) In (proxy) voting conducted by us, and/or on our behalf by service providers and/or external managers. Describe:**

We track climate-related shareholder proposals.

☐ **(C) In our external investment manager selection process. Describe:**

☐ **(D) In our external investment manager monitoring process. Describe:**

☐ **(E) In the asset class benchmark selection process. Describe:**

☒ **(F) In our financial analysis process. Describe:**

Within Investment Management, the carbon emissions footprint of investment portfolios were monitored by select investment teams throughout FY2020. As of FY2021, the Global Risk Analysis group has incorporated carbon emissions metrics into its suite of risk metrics across our public markets business. For some of our equity teams, climate-related risks and carbon intensity of company profits are part of the internal ESG assessment that forms part of the investment thesis for each holding. For fixed income holdings, ESG analysis is used to adjust the internal credit assessments of issuers and adjust forecasted financials and future cash flow estimates. We are more likely not to invest/or negatively adjust forecasted cash-flows of a non ESG-friendly issuer which is more likely to face penalties. The weight we place on an ESG factor is determined by the size of the risk the ESG factor represents to the cash flows of the bond, and the ESG objectives of our clients.

☒ **(G) Other investment process(es). Describe:**

Our Global Balanced Risk Control (GBaR) team tracks and manages climate related risks at portfolio implementation stage of the investment process. The team builds ESG-tilt equity baskets to implement their asset class views. Within each region and each sector, the team builds a basket that tilts towards companies with top quartile ESG and low carbon transition performances. When aggregating these sector baskets, the team favors those with lower carbon intensity so they are able to decarbonize the total portfolio incrementally over time.

☐ **(H) We are not tracking and managing climate-related risks in specific investment processes**

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 36	PLUS	N/A	N/A	PUBLIC	Risk management	General

**How are the processes for identifying, assessing and managing climate-related risks incorporated into your organisation's overall risk management?**

☒ **(A) The risk committee or the equivalent function is formally responsible for identifying, assessing and managing climate risks. Describe:**

The Climate Change Risk Committee advises on key decisions with respect to our net-zero-financed emissions goal and the integration of climate risk into firm decision-making. Its membership includes senior leaders across business units and functions, including representatives from MSIM. The Working Group tracks significant internal and external developments, coordinates and aligns climate initiatives across Morgan Stanley, and elevates significant issues to the Steering Committee and senior management, as appropriate

☒ **(B) Climate risks are incorporated into traditional risks (e.g. credit risk, market risk, liquidity risk or operational risk). Describe:**

As an example, for MSIM fixed income, ESG analysis is used to adjust the internal credit assessments of issuers and adjust forecasted financials and future cash flow estimates. We are more likely not to invest/or negatively adjust forecasted cash-flows of a non ESG-friendly issuer which is more likely to face penalties. The weight we place on an ESG factor is determined by the size of the risk the ESG factor represents to the cash flows of the bond, and the ESG objectives of our clients.

☒ **(C) Climate risks are prioritised based on their relative materiality, as defined by our organisation's materiality analysis. Describe:**

Different climate risks are relevant for different asset classes - Generally our Equity and Fixed Income investors have been focused on transition risks, often looking first at the carbon footprint of portfolios as a proxy for transition risks such as regulatory risk and market/technology risk. Meanwhile our Real Assets' investors have focused more on the integration of physical risks such as the costs associated with property loss or damage and climate adaptation and mitigation.

☐ (D) Executive remuneration is linked to climate-related KPIs. Describe:

☐ (E) Management remuneration is linked to climate-related KPIs. Describe:

☒ **(F) Climate risks are included in the enterprise risk management system. Describe:**

In 2019, Morgan Stanley appointed a Climate Change Lead in Firm Risk Management (FRM) to help coordinate climate risk integration across our business divisions. For the Prudential Regulatory Authority (PRA) regulated entities in the U.K., the Europe, Middle East and Africa (EMEA) a CRO has been appointed as the senior manager responsible for Financial Risks arising from climate change by the relevant board.

☐ (G) Other methods for incorporating climate risks into overall risk management, please describe:

☐ (H) Processes for identifying, assessing and managing climate-related risks are not integrated into our overall risk management

## Metrics and targets: Transition risk

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 38	PLUS	N/A	ISP 38.1	PUBLIC	Metrics and targets: Transition risk	General

What climate-related metric(s) has your organisation identified for transition risk monitoring and management?

- ☒ (A) Total carbon emissions  
☒ (B) Carbon footprint  
☒ (C) Carbon intensity  
☒ (D) Weighted average carbon intensity  
☐ (E) Implied temperature warming  
☐ (F) Percentage of assets aligned with the EU Taxonomy (or similar taxonomy)  
☐ (G) Avoided emissions metrics (real assets)  
☒ (H) Other metrics, please specify:  
     1) Carbon Earnings at Risk; 2) Climate Aligned Revenues; 3) Companies with Science Based Emissions Reduction Targets  
☐ (I) No, we have not identified any climate-related metrics for transition risk monitoring

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 38.1	PLUS	ISP 38	N/A	PUBLIC	Metrics and targets: Transition risk	General

Provide details about the metric(s) you have identified for transition risk monitoring and management.

	(1) Coverage of AUM	(2) Purpose
(A) Total carbon emissions	(2) for the majority of our assets	Total GHG emissions aggregate an issuer's or an asset's total annual scope 1 and 2 carbon emissions. At the portfolio level, the metric sums all emissions of all underlying investment issuers/assets, but does not account for ownership share/amount invested.

(B) Carbon footprint	(2) for the majority of our assets	Indicates a portfolio's 'financed emissions'. Shows the total carbon emissions for which an investor is responsible based on their ownership share of emissions based on size of investment.
(C) Carbon intensity	(2) for the majority of our assets	Shows the extent to which the portfolio is invested in carbon intensive companies
(D) Weighted average carbon intensity	(2) for the majority of our assets	WACI captures the carbon intensity of a portfolio based on the carbon intensity of the underlying holdings. WACI uses issuer-level carbon intensity and issuer weight within the portfolio as inputs. Allows for comparison of portfolios across asset classes, including fixed income.
(H) Other metrics [as specified]	(2) for the majority of our assets	1. Carbon Earnings at Risk - Indicates a company's or portfolio's current vulnerability to carbon prices. 2. Climate Aligned Revenues - Indicates the amount of revenue at an issuer level that is aligned with activities that mitigate climate change. Can be used as an indicator of a company's upside potential in a low carbon or transition economy. 3. Companies with Science Based Emissions Reduction Targets - Shows whether a company has set a carbon reduction goal in line with the Science Based Targets Initiative methodology. Emissions reduction targets are a forward-looking metric that can indicate a company's "direction of travel" on carbon emissions.
(3) Metric unit		(4) Methodology

(A) Total carbon emissions	Tons CO2E	Self reported by companies or estimated by data providers. Scope 1 emissions include emissions from sources owned or controlled by the company and scope 2 emissions are derived from electricity, heat, or steam and the transmission and distribution losses associated with some purchased utilities.
(B) Carbon footprint	Tons of CO2E per million invested	Sum of owned emissions; based on a portfolio's ownership share of underlying issuers/assets. Typically expressed as per million invested.
(C) Carbon intensity	Tons CO2E per million revenue	Sum of owned emissions; based on a portfolio's ownership share of underlying issuers/assets. Typically expressed as per million invested.
(D) Weighted average carbon intensity	Tons CO2E per million revenue	The sum of each issuer's emissions intensity (emissions divided by sales) adjusted for portfolio weights.
(H) Other metrics [as specified]	1. Unpriced Carbon Cost 2. Percent of revenue 3. Concrete Targeted, Committed, No Commitment	1. CEaR is calculated by dividing the Unpriced Carbon Cost (UCC) by EBITDA. The UCC is the difference between what a company pays for emitting carbon today and what it may pay in the future given its level of carbon emissions, sector, region and various carbon price scenarios. <b>(response continued in row below)</b>

Subtracting UCC from EBITDA shows that companies with a higher profit are better positioned to absorb potential carbon prices<sup>2</sup>. A function of the relevance of products/services to climate change and the portion of revenue that an issuer derives from those products/service<sup>3</sup>. "Committed" indicates that an issuer has communicated that they will have a science based emissions reduction target but has not published a specific target yet. "Concrete Target" indicates that an issuer has published a specific science based emissions reduction target. "No Commitment" indicates that an issuer has not made a science based emissions reduction target..

(5) Disclosed value	
(A) Total carbon emissions	Tons CO2E
(B) Carbon footprint	Tons of CO2E per million invested.
(C) Carbon intensity	Tons CO2E per million revenue
(D) Weighted average carbon intensity	Tons CO2E per million revenue
(H) Other metrics [as specified]	1. Unpriced Carbon Cost as a % of total weighted avg EBITDA for the portfolios 2. Issuer revenues aligned with climate mitigation and issuer weight in portfolio 3. Issuers that have set science based targets according to portfolio weight

# Sustainability outcomes

## Identify sustainability outcomes

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 43	CORE	N/A	Multiple, see guidance	PUBLIC	Identify sustainability outcomes	1

Has your organisation identified the intended and unintended sustainability outcomes from any of its activities?

- ☐ (A) No, we have not identified the sustainability outcomes from our activities
- ☒ (B) Yes, we have identified one or more sustainability outcomes from some or all of our activities

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 44	CORE	ISP 43	ISP 44.1	PUBLIC	Identify sustainability outcomes	1

What frameworks/tools did your organisation use to identify the sustainability outcomes from its activities? Indicate the tools or frameworks you have used to identify and map some or all of your sustainability outcomes.

- ☒ (A) The UN Sustainable Development Goals (SDGs) and targets
- ☒ (B) The Paris Agreement
- ☐ (C) The UN Guiding Principles on Business and Human Rights (UNGPs)
- ☐ (D) The OECD Guidelines for Multinational Enterprises, including guidance on Responsible Business Conduct for Institutional Investors
- ☐ (E) The EU Taxonomy
- ☐ (F) Other taxonomies (e.g. similar to the EU Taxonomy), please specify:
- ☐ (G) Other framework/tool, please specify:
- ☐ (H) Other framework/tool, please specify:
- ☐ (I) Other framework/tool, please specify:



Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 44.1	CORE	ISP 44	N/A	PUBLIC	Identify sustainability outcomes	1

**At what level(s) did your organisation identify the sustainability outcomes from its activities?**

- ☐ (A) At the asset level  
☐ (B) At the economic activity level  
☒ (C) At the company level  
☐ (D) At the sector level  
☐ (E) At the country/region level  
☐ (F) At the global level  
☒ (G) Other level(s), please specify:  
 Portfolio level

☐ (H) We do not track at what level(s) our sustainability outcomes were identified

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 45	CORE	ISP 43	SO 1	PUBLIC	Identify sustainability outcomes	1

**How has your organisation determined your most important sustainability outcome objectives?**

- ☒ (A) Identifying sustainability outcomes that are closely linked to our core investment activities  
☐ (B) Consulting with key clients and/or beneficiaries to align with their priorities  
☐ (C) Assessing the potential severity (e.g. probability and amplitude) of specific negative outcomes over different timeframes  
☒ (D) Focusing on the potential for systemic impacts (e.g. due to high level of interconnectedness with other global challenges)  
☒ (E) Evaluating the potential for certain outcome objectives to act as a catalyst/enabler to achieve a broad range of goals (e.g. gender or education)  
☐ (F) Analysing the input from different stakeholders (e.g. affected communities, civil society or similar)  
☐ (G) Understanding the geographical relevance of specific sustainability outcome objectives  
☐ (H) Other method, please specify:  
☐ (I) We have not yet determined our most important sustainability outcome objectives

# Transparency & Confidence-Building Measures

## Information disclosed – ESG assets

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 46	CORE	OO 16	N/A	PUBLIC	Information disclosed – ESG assets	6

For the majority of your ESG/sustainability marketed funds or products, and/or your ESG/RI certified or labelled assets, what information about your ESG approach do you (or the external investment managers/service providers acting on your behalf) include in material shared with clients, beneficiaries and/or the public? The material may be marketing material, information targeted towards existing or prospective clients or information for beneficiaries.

- ☒ (A) A commitment to responsible investment (e.g. that we are a PRI signatory)
- ☒ (B) Industry-specific and asset class-specific standards that we align with (e.g. TCFD, or GRESB for property and infrastructure)
- ☒ (C) Our responsible investment policy (at minimum a summary of our high-level approach)
- ☒ (D) A description of our investment process and how ESG is considered
- ☒ (E) ESG objectives of individual funds
- ☒ (F) Information about the ESG benchmark(s) that we use to measure fund performance
- ☒ (G) Our stewardship approach
- ☒ (H) A description of the ESG criteria applied (e.g. sectors, products, activities, ratings and similar)
- ☒ (I) The thresholds for the ESG criteria applied in our investment decisions or universe construction
- ☒ (J) A list of our main investments and holdings
- ☐ (K) ESG case study/example from existing fund(s)
- ☐ (L) We do not include our approach to ESG in material shared with clients/beneficiaries/the public for the majority of our ESG/sustainability marketed funds or products, and/or our ESG/RI certified or labelled assets

## Client reporting – ESG assets

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 48	CORE	Multiple, see guidance	N/A	PUBLIC	Client reporting – ESG assets	6

What ESG information is included in your client reporting for the majority of your ESG/sustainability marketed funds or products, and/or your ESG/RI certified or labelled assets?

- ☒ (A) Qualitative analysis, descriptive examples or case studies
- ☒ (B) Quantitative analysis or key performance indicators (KPIs) related to ESG performance
- ☐ (C) Progress on our sustainability outcome objectives
- ☒ (D) Stewardship results
- ☐ (E) Information on ESG incidents, where applicable
- ☐ (F) Analysis of ESG contribution to portfolio financial performance
- ☐ (G) We do not include ESG information in client reporting for the majority of our ESG/sustainability marketed funds or products, and/or our ESG/RI certified or labelled assets

## Information disclosed – All assets

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 49	CORE	N/A	N/A	PUBLIC	Information disclosed – All assets	6

For the majority of your total assets under management, what information about your ESG approach do you (or the external managers/service providers acting on your behalf) include in material shared with clients, beneficiaries and/or the public? The material may be marketing material, information targeted towards existing or prospective clients or information for beneficiaries.

- ☒ (A) A commitment to responsible investment (e.g. that we are a PRI signatory)
- ☒ (B) Industry-specific and asset class-specific standards that we align with (e.g. TCFD, or GRESB for property and infrastructure)
- ☒ (C) Our responsible investment policy (at minimum a summary of our high-level approach)
- ☒ (D) A description of our investment process and how ESG is considered
- ☐ (E) ESG objectives of individual funds
- ☐ (F) Information about the ESG benchmark(s) that we use to measure fund performance
- ☒ (G) Our stewardship approach
- ☐ (H) A description of the ESG criteria applied (e.g. sectors, products, activities, ratings and similar)
- ☐ (I) The thresholds for the ESG criteria applied in our investment decisions or universe construction
- ☐ (J) A list of our main investments and holdings
- ☐ (K) ESG case study/example from existing fund(s)

☐ (L) We do not include our approach to ESG in material shared with clients/beneficiaries/the public for the majority of our assets under management

## Client reporting – All assets

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 50	CORE	Multiple, see guidance	N/A	PUBLIC	Client reporting – All assets	6

**What ESG information is included in your client reporting for the majority of your assets under management?**

- ☒ (A) Qualitative ESG analysis, descriptive examples or case studies
- ☐ (B) Quantitative analysis or key performance indicators (KPIs) related to ESG performance
- ☐ (C) Progress on our sustainability outcome objectives
- ☒ (D) Stewardship results
- ☐ (E) Information on ESG incidents where applicable
- ☐ (F) Analysis of ESG contribution to portfolio financial performance
- ☐ (G) We do not include ESG information in client reporting for the majority of our assets under management

## Frequency of client reporting – All assets

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 51	CORE	Multiple, see guidance	N/A	PUBLIC	Frequency of client reporting – All assets	6

**For the majority of each asset class, how frequently do you report ESG-related information to your clients?**

(A) Listed equity	(3) Annually
(B) Fixed income	(2) Bi-annually
(C) Private equity	(3) Annually
(D) Real estate	(3) Annually
(E) Infrastructure	(3) Annually
(F) Hedge funds	(4) On an ad hoc basis or upon request

## Confidence-building measures

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
ISP 52	CORE	OO 16.1	Multiple, see guidance	PUBLIC	Confidence-building measures	6

**What verification has your organisation had regarding the information you have provided in your PRI Transparency Report this year?**

- ☐ (A) We received third-party independent assurance of selected processes and/or data related to our responsible investment processes, which resulted in a formal assurance conclusion
- ☐ (B) We conducted a third-party readiness review and are making changes to our internal controls/governance or processes to be able to conduct an external assurance next year
- ☐ (C) The internal audit function team performed an independent audit of selected processes/and or data related to our responsible investment processes reported in this PRI report
- ☐ (D) Our board, CEO, other C-level equivalent and/or investment committee has signed off on our PRI report
- ☐ (F) We conducted an external ESG audit of our ESG/sustainability marketed funds or products (excluding ESG/RI certified or labelled assets)
- ☐ (G) We conducted an external ESG audit of our holdings to check that our funds comply with our RI policy (e.g. exclusion list or investee companies in portfolio above certain ESG rating)
- ☐ (H) We conducted an external ESG audit of our holdings as part of risk management, engagement identification or investment decision-making
- ☐ (I) Responses related to our RI practices documented in this report have been internally reviewed before submission to the PRI
- ☒ (J) **None of the above**

# Manager Selection, Appointment and Monitoring (SAM)

## Investment consultants

### Investment consultant selection

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
SAM 1	CORE	OO 8	N/A	PUBLIC	Investment consultant selection	4

During the reporting year, what responsible investment requirements did you include in all of your selections of investment consultants? (If you did not select any investment consultants during the reporting year, refer to the last reporting year in which you did select investment consultants.)

- ☐ (A) We required evidence that they incorporated responsible investment criteria in their advisory services
- ☐ (B) We required them to be able to accommodate our responsible investment priorities
- ☐ (C) We required evidence that their staff had adequate responsible investment expertise
- ☐ (D) We required them to have access to ESG data and quantitative ESG analytical tools to support their recommendations
- ☐ (E) We required evidence that the consultants working directly with us would receive additional ESG training where needed
- ☐ (F) We required them to analyse the external managers' impact on sustainability outcomes
- ☐ (G) Other, please specify:
- ☒ (H) We did not include responsible investment requirements in our selection(s) of investment consultants

# Selection

## Responsible investment policy

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
SAM 2	CORE	OO 11	SAM 2.1	PUBLIC	Responsible investment policy	1, 4

During the reporting year, did your organisation include compliance with your responsible investment policy as a pre-requisite when selecting external managers? (If you did not select any external managers during the reporting year, refer to the last reporting year in which you did select external managers.)

	(1) Yes, only when selecting external managers of ESG/sustainability funds	(2) Yes, when selecting external managers of ESG/sustainability funds and mainstream funds (This option also applies to signatories who may not hold ESG/sustainability funds)	(3) We did not include compliance with our responsible investment policy as a pre-requisite when selecting external managers
(A) Listed equity (active)	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
(E) Private equity	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
(H) Hedge funds	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
SAM 2.1	CORE	SAM 2	N/A	PUBLIC	Responsible investment policy	1,4

**In what proportion of cases did your organisation include compliance with your responsible investment policy as a pre-requisite when selecting external managers?**

**(1) Listed equity (active)**

(A) When selecting external managers of ESG/sustainability funds (1) in all cases

**(5) Private equity**

(B) When selecting external managers of ESG/sustainability funds and mainstream funds (1) in all cases

**(8) Hedge funds**

(A) When selecting external managers of ESG/sustainability funds (1) in all cases

## Research and screening

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
SAM 3	CORE	OO 11	N/A	PUBLIC	Research and screening	1

**When selecting external managers, which aspects of their organisation do you, or the investment consultant acting on your behalf, assess against responsible investment criteria? (Per asset class, indicate the proportion of your AUM to which each of these selection practices applies, regardless of when you selected your different external managers.)**

	(1) Listed equity (active)	(5) Private equity	(8) Hedge Funds
(A) Firm culture	(1) for all of our externally managed AUM	(1) for all of our externally managed AUM	(2) for the majority of our externally managed AUM



(B) Investment approach, objectives and philosophy	(1) for all of our externally managed AUM	(1) for all of our externally managed AUM	(2) for the majority of our externally managed AUM
(C) Investment policy or guidelines	(1) for all of our externally managed AUM	(1) for all of our externally managed AUM	(2) for the majority of our externally managed AUM
(D) Governance structure and management oversight, including diversity	(1) for all of our externally managed AUM	(1) for all of our externally managed AUM	(2) for the majority of our externally managed AUM
(E) Investment strategy and fund structure	(1) for all of our externally managed AUM	(1) for all of our externally managed AUM	(2) for the majority of our externally managed AUM
(F) Investment team competencies	(1) for all of our externally managed AUM	(1) for all of our externally managed AUM	(2) for the majority of our externally managed AUM
(G) Other, please specify:	<div> <div></div> NA </div> (4) for none of our externally managed AUM	<div> <div></div> NA </div> (4) for none of our externally managed AUM	<div> <div></div> NA </div> (4) for none of our externally managed AUM

## Investment practices

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
SAM 4	CORE	OO 11	N/A	PUBLIC	Investment practices	1

Which responsible investment practices does your organisation, or the investment consultants acting on your behalf, require as part of your external manager selection criteria? (Per asset class, indicate the proportion of your AUM to which each of these selection practices applies, regardless of when you selected your different external managers.) As part of the selection criteria, we require that external managers:

	(1) Listed equity (active)	(5) Private equity	(8) Hedge funds
(A) Incorporate material ESG factors in all of their investment analyses and decisions	(1) for all of our externally managed AUM	(2) for the majority of our externally managed AUM	(3) for a minority of our externally managed AUM

(B) Incorporate their own responsible investment policy into their asset allocation decisions	(1) for all of our externally managed AUM	(2) for the majority of our externally managed AUM	(3) for a minority of our externally managed AUM
(C) Have adequate resources and processes to analyse ESG factors	(1) for all of our externally managed AUM	(2) for the majority of our externally managed AUM	(4) for none of our externally managed AUM
(D) Incorporate material ESG factors throughout their portfolio construction	(1) for all of our externally managed AUM	(2) for the majority of our externally managed AUM	(3) for a minority of our externally managed AUM
(E) Engage with underlying portfolio assets to address ESG risks and opportunities	(1) for all of our externally managed AUM	(2) for the majority of our externally managed AUM	(4) for none of our externally managed AUM
(F) Comply with their own exclusions policy	(1) for all of our externally managed AUM	(2) for the majority of our externally managed AUM	(4) for none of our externally managed AUM
(G) Embed ESG considerations in contractual documentation	(4) for none of our externally managed AUM	(1) for all of our externally managed AUM	(4) for none of our externally managed AUM
(H) Implement adequate disclosure and accountability mechanisms	(1) for all of our externally managed AUM	(2) for the majority of our externally managed AUM	(4) for none of our externally managed AUM
(I) Are willing to work in partnership with our organisation to develop their responsible investment approach	(1) for all of our externally managed AUM	(2) for the majority of our externally managed AUM	(2) for the majority of our externally managed AUM
(J) Track the positive and negative sustainability outcomes of their activities	(1) for all of our externally managed AUM	(2) for the majority of our externally managed AUM	(4) for none of our externally managed AUM

(K) Other, please specify:

NA

(4) for none of our externally managed AUM

NA

(4) for none of our externally managed AUM

NA

(4) for none of our externally managed AUM

## Documentation and track record

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
SAM 11	CORE	OO 11	N/A	PUBLIC	Documentation and track record	1

As part of your selection process, which documents does your organisation, or the investment consultants acting on your behalf, review to gain confidence in external managers' responsible investment practices? (Indicate the proportion of your AUM to which each of these selection practices applies, regardless of when you selected your different external managers.)

(A) Standard client reporting, responsible investment reports or impact reports

(2) for the majority of our externally managed AUM

(B) Responsible investment methodology and its influence on past investment decisions

(2) for the majority of our externally managed AUM

(C) Historical voting and engagement activities with investees

(3) for a minority of our externally managed AUM

(D) Historical engagement activities with policymakers

(4) for none of our externally managed AUM

(E) Compliance manuals and portfolios to ensure universal construction rules are applied (e.g. exclusions, thematic, best-in-class definitions and thresholds)

(2) for the majority of our externally managed AUM

(F) Controversies and incidence reports

(3) for a minority of our externally managed AUM

(G) Code of conduct or codes of ethics

(2) for the majority of our externally managed AUM

(H) Other, please specify:

NA

(4) for none of our externally managed AUM

# Appointment

## Pooled funds

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
SAM 12	CORE	OO 12, OO 5.1, OO 15	N/A	PUBLIC	Pooled funds	4

**How did your organisation, or the investment consultants acting on your behalf, include responsible investment requirements for pooled funds in your current contracts with external managers? (Indicate the proportion of your AUM invested in pooled funds to which each of these requirements applies, regardless of when you appointed your different external managers.)**

(A) We amended or instituted side letters or equivalent legal documentation to include responsible investment requirements

(3) for a minority of our AUM invested in pooled funds

(B) We encouraged the external manager to include responsible investment requirements into the investment mandate, the investment management agreement or equivalent legal documentation

(3) for a minority of our AUM invested in pooled funds

## Segregated mandates

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
SAM 13	CORE	OO 12, OO 5.1	N/A	PUBLIC	Segregated mandates	4

**When setting up segregated mandates with external managers, which responsible investment clauses did your organisation, or the investment consultants acting on your behalf, include in your current contractual agreements? (Indicate the proportion of your AUM invested in segregated funds to which each of these requirements applies, regardless of when you appointed your different external managers.)**

(A) The manager's commitment to follow our responsible investment strategy in the management of our assets

(4) for none of our AUM invested in segregated mandates

(B) The manager's commitment to incorporate material ESG factors into its investment and stewardship activities

(4) for none of our AUM invested in segregated mandates

(C) Exclusion list(s)

(4) for none of our AUM invested in segregated mandates

(D) Responsible investment communication and reporting obligations, including on stewardship activities and results	(4) for none of our AUM invested in segregated mandates
(E) Stewardship commitments in line with the PRI's guidance and focused on seeking sustainability outcomes and prioritising common goals and collaborative action	(4) for none of our AUM invested in segregated mandates
(F) Where applicable, commitment to fulfil a clear policy on security lending aligned with our own security lending policy or with the ICGN Securities Lending Code of Best Practice	(4) for none of our AUM invested in segregated mandates
(G) Incentives and controls to ensure alignment of interests	(4) for none of our AUM invested in segregated mandates
(H) Commitments on climate-related disclosure in line with internationally recognised frameworks such as the TCFD	(4) for none of our AUM invested in segregated mandates
(I) If applicable, commitment to disclose against the EU Taxonomy	(4) for none of our AUM invested in segregated mandates
(J) Commitment to respect human rights as defined in the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights	(4) for none of our AUM invested in segregated mandates
(K) The manager's acknowledgement that their appointment was conditional on their fulfilment of their responsible investment obligations	(4) for none of our AUM invested in segregated mandates
(L) Other, please specify: NA	(4) for none of our AUM invested in segregated mandates

# Monitoring

## Investment practices

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
SAM 14	CORE	OO 13	N/A	PUBLIC	Investment practices	1

During the reporting year, which aspects of your external manager's responsible investment practices did you, or your investment consultant acting on your behalf, monitor?

	(1) Listed equity (active)	(5) Private equity	(8) Hedge funds
(A) We monitored their alignment with our organisation's responsible investment strategy	(1) for all of our externally managed AUM	(1) for all of our externally managed AUM	(2) for the majority of our externally managed AUM
(B) We monitored any changes in their responsible investment-related policies, resourcing, oversight and responsibilities or investment processes	(1) for all of our externally managed AUM	(1) for all of our externally managed AUM	(2) for the majority of our externally managed AUM
(C) We monitored their use of ESG data, benchmarks, tools and certifications	(1) for all of our externally managed AUM	(2) for the majority of our externally managed AUM	(2) for the majority of our externally managed AUM
(D) We monitored how ESG incorporation affected investment decisions	(1) for all of our externally managed AUM	(3) for a minority of our externally managed AUM	(4) for none of our externally managed AUM
(E) We monitored how ESG incorporation affected the fund's financial and ESG performance	(1) for all of our externally managed AUM	(3) for a minority of our externally managed AUM	(4) for none of our externally managed AUM

(F) We monitored any changes in ESG risk management processes	(1) for all of our externally managed AUM	(1) for all of our externally managed AUM	(2) for the majority of our externally managed AUM
(G) We monitored their response to material ESG incidents	(1) for all of our externally managed AUM	(1) for all of our externally managed AUM	(4) for none of our externally managed AUM
(H) Other, please specify:	<div> <div></div> NA </div> (4) for none of our externally managed AUM	<div> <div></div> NA </div> (4) for none of our externally managed AUM	<div> <div></div> NA </div> (4) for none of our externally managed AUM

## Review

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
SAM 20	CORE	OO 13	N/A	PUBLIC	Review	1

**During the reporting year, how often did your organisation, or the investment consultants acting on your behalf, require your external managers to report to you on their responsible investment practices?**

	(1) Listed equity (active)	(5) Private equity	(8) Hedge funds
(A) Quarterly or more often	(4) for none of our externally managed AUM	(4) for none of our externally managed AUM	(4) for none of our externally managed AUM
(B) Every six months	(4) for none of our externally managed AUM	(4) for none of our externally managed AUM	(4) for none of our externally managed AUM
(C) Annually	(1) for all of our externally managed AUM	(1) for all of our externally managed AUM	(2) for the majority of our externally managed AUM
(D) Less than once a year	(4) for none of our externally managed AUM	(4) for none of our externally managed AUM	(4) for none of our externally managed AUM
(E) On an ad hoc basis (e.g. whenever significant changes, incidents or ESG-linked events occur)	(1) for all of our externally managed AUM	(4) for none of our externally managed AUM	(4) for none of our externally managed AUM

## Engagement and escalation

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
SAM 22	CORE	OO 13	N/A	PUBLIC	Engagement and escalation	1

Which actions does your organisation, or the investment consultants acting on your behalf, include in its formal escalation process to address concerns raised during monitoring?

	(1) Listed equity (active)	(5) Private equity	(8) Hedge funds
(A) We notify the external manager about their placement on a watch list	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(B) We engage the external manager's board or investment committee	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(C) We reduce exposure with the external manager until any non-conformances have been rectified	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(D) We terminate the contract with the external manager if failings persist over a (notified) period of time and explain the reasons for the termination	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(E) Other, please specify	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(F) Our organisation does not have a formal escalation process to address concerns raised by monitoring	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please specify for "(E) Other" above.



For Private Equity - Once a major ESG incident is identified, we notify our Investment Committee and Business Committee and then engage with the external manager until the situation is resolved

For Hedge Funds - Managers that were lacking from an ESG monitoring perspective have expressed intention to expand ESG practices for which AIP is seeking to partner with managers to expand their policies and procedures based on best practices

## Listed Equity (LE)

### Pre-investment phase

#### Materiality analysis

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 1	CORE	OO 10	LE 1.1	PUBLIC	Materiality analysis	1

Does your organisation have a formal investment process to identify material ESG factors across listed equities?

	(2) Active – quantitative	(3) Active – fundamental	(4) Investment trusts (REITs and similar publicly quoted vehicles)
(A) Yes, we have a formal process to identify material ESG factors for all of our assets	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
(B) Yes, we have a formal process to identify material ESG factors for the majority of our assets	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
(C) Yes, we have a formal process to identify material ESG factors for a minority of our assets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(D) No, we do not have a formal process. Our investment professionals identify material ESG factors at their own discretion	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(E) No, we do not have a formal process to identify material ESG factors	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 1.1	CORE	LE 1	N/A	PUBLIC	Materiality analysis	1

**How does your current investment process incorporate material ESG factors?**

	(2) Active - Quantitative	(3) Active - Fundamental	(4) Investment Trusts (REITs and similar publicly quoted vehicles)
(A) The investment process incorporates material governance factors	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(B) The investment process incorporates material environmental and social factors	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(C) The investment process incorporates material ESG factors beyond our organisation's typical investment time horizon	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
(D) The investment process incorporates the effect of material ESG factors on revenues and business operations	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

## Long-term ESG trend analysis

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 2	CORE	OO 10	N/A	PUBLIC	Long-term ESG trend analysis	1

Do you continuously monitor a list of identified long-term ESG trends related to your listed equity assets?

	(2) Active – quantitative	(3) Active – fundamental	(4) Investment trusts (REITs and similar publicly quoted vehicles)
(A) We monitor long-term ESG trends for all assets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(B) We monitor long-term ESG trends for the majority of assets	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
(C) We monitor long-term ESG trends for a minority of assets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(D) We do not continuously monitor long-term ESG trends in our investment process	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>

## ESG incorporation

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 3	CORE	OO 10	LE 3.1	PUBLIC	ESG incorporation	1

How does your financial modelling and equity valuation process incorporate material ESG risks?

	(2) Active – quantitative	(3) Active – fundamental	(4) Investment trusts (REITs and similar publicly quoted vehicles)
(A) We incorporate governance-related risks into financial modelling and equity valuations	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

(B) We incorporate environmental and social risks into financial modelling and equity valuations	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
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(C) We incorporate environmental and social risks related to companies' supply chains into financial modelling and equity valuations	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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(D) ESG risk is incorporated into financial modelling and equity valuations at the discretion of individual investment decision-makers, and we do not track this process	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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(E) We do not incorporate ESG risks into our financial modelling and equity valuations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 3.1	CORE	LE 3	N/A	PUBLIC	ESG incorporation	1

**In what proportion of cases do you incorporate the following material ESG risks into your financial modelling and equity valuation process?**

### (3) Active - Fundamental

(A) We incorporate governance-related risks into financial modelling and equity valuations	(1) in all cases
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(B) We incorporate environmental and social risks into financial modelling and equity valuations	(1) in all cases
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(C) We incorporate environmental and social risks related to companies' supply chains into financial modelling and equity valuations	(2) in the majority of cases
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### (4) Investment Trusts (REITs and similar publicly quoted vehicles)

(A) We incorporate governance-related risks into financial modelling and equity valuations	(1) in all cases
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(B) We incorporate environmental and social risks into financial modelling and equity valuations

(1) in all cases

## Assessing ESG performance

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 4	CORE	OO 10	LE 4.1	PUBLIC	Assessing ESG performance	1

**What information do you incorporate when you assess the ESG performance of companies in your financial modelling and equity valuation process?**

	(2) Active – quantitative	(3) Active – fundamental	(4) Investment trusts (REITs and similar publicly quoted vehicles)
(A) We incorporate information on current performance across a range of ESG metrics	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
(B) We incorporate information on historical performance across a range of ESG metrics	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
(C) We incorporate information enabling performance comparison within a selected peer group across a range of ESG metrics	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(D) We incorporate information on ESG metrics that may impact or influence future corporate revenues and/or profitability	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(E) We do not incorporate ESG factors when assessing the ESG performance of companies in our financial modelling or equity valuation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 4.1	CORE	LE 4	N/A	PUBLIC	Assessing ESG performance	1

**In what proportion of cases do you incorporate the following information when assessing the ESG performance of companies in your financial modelling and equity valuation process?**

**(2) Active – quantitative**

(A) We incorporate information on current performance across a range of ESG metrics (3) in a minority of cases

(C) We incorporate information enabling performance comparison within a selected peer group across a range of ESG metrics (3) in a minority of cases

(D) We incorporate information on ESG metrics that may impact or influence future corporate revenues and/or profitability (3) in a minority of cases

**(3) Active – fundamental**

(A) We incorporate information on current performance across a range of ESG metrics (2) in the majority of cases

(B) We incorporate information on historical performance across a range of ESG metrics (3) in a minority of cases

(C) We incorporate information enabling performance comparison within a selected peer group across a range of ESG metrics (2) in the majority of cases

(D) We incorporate information on ESG metrics that may impact or influence future corporate revenues and/or profitability (2) in the majority of cases

**(4) Investment trusts (REITs and similar publicly quoted vehicles)**

(C) We incorporate information enabling performance comparison within a selected peer group across a range of ESG metrics (1) in all cases

(D) We incorporate information on ESG metrics that may impact or influence future corporate revenues and/or profitability (1) in all cases

## ESG incorporation in portfolio construction

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 5	PLUS	OO 10	N/A	PUBLIC	ESG incorporation in portfolio construction	1

### Outline one best practice or innovative example where ESG factors have been incorporated into your equity selection and research process.

Active Quantitative Equities – The Investment Adviser will take into account the long-term global warming objectives of the Paris Agreement. To reach this environmental objective the Investment Adviser's ESG integration process has two distinct climate tilts: 1) stock-specific and 2) sector-specific. For the stock-specific, the Investment Adviser creates – for all 11 GICS sectors within each regional equity market – individual baskets that tilt towards the top quartile ESG and low-carbon transition leaders. For the sector-specific, the Investment Adviser aggregates the sector baskets subject to an overall carbon budget, aligned with a science-based climate trajectory subject to tracking error.

Active Fundamental Equities – Our Counterpoint Global Team analyses environmental and socially oriented programs within companies – connecting that work to incremental growth, efficiency (profitability), competitive advantage, risk reduction, or thematic alignment. The team has existing processes that we integrate this analysis into, which feeds into the valuation of the company and is a component of the quality of the opportunity, which is expressed in ownership and/or weighting. The team uses ESG and sustainability analysis in combination with other forms of fundamental research.

Applied Equity Advisors - The Applied Equity Advisors investment process is built on the basis of two engines. The first engine is the team's proprietary Factor Timing Engine, designed to determine positioning with regard to broad market factors, such as growth, valuation or quality. The second engine is the team's Stock Selection Engine, which integrates ESG analysis based on the SASB Materiality Map®. The SASB Materiality map helps analysts quickly identify sustainability issues likely to affect the financial condition or operating performance of companies and most relevant to stakeholders within a given industry. Research has shown that stocks whose companies invest more in areas deemed material and less in those that are not material as defined by SASB should demonstrate better stock price performance over the longer term. In addition, the team is able to use the SASB Materiality Map as a discussion framework for corporate engagement, in an effort to understand if a company is moving in a positive direction on sustainability and ESG investment.

Emerging Market Equities Team - The team developed a new country dashboard that tracks climate risks and opportunities across sixty-seven developed, frontier, and emerging markets. A 2021 oil spill caused by the combination of aging infrastructure and thawing permafrost increased the urgency in creating a dashboard by which investors can better anticipate climate-related events. The climate change dashboard allows investors to compare markets on forty different climate-related metrics which are grouped into four categories: physical risks, transition risks, climate change governance/policy, and opportunities. By creating this dashboard, team members can access climate-related information when enables them to systematically incorporate geographical climate change considerations into their research.

International Equity team - The team has developed a Material Risk Indicator (A Proprietary Framework for Assessing ESG Risks and Opportunities). Over the years, the team has continued to innovate and refine their approach to capturing ESG risks and opportunities, most recently developing a proprietary ESG scoring framework—the Material Risk Indicator (MRI). It is designed to record portfolio managers' ESG company assessments in a consistent and comparable way over time.

The MRI helps to:

- identify material ESG risks and opportunities at the company level
- reflect these risks and opportunities in valuation and portfolio construction, if appropriate

- identify priority areas for future company engagement

When we assess stocks, we focus on the elements we believe are most impactful on the long-term sustainability of a company's return on operating capital, including ESG factors. We believe the MRI strengthens our approach. It adds further structure, reference and integrity to our long-standing investment process, which is designed to identify reasonably priced, well-managed, high-quality compounders with a strong or improving ESG profile.

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 6	CORE	OO 10	LE 6.1	PUBLIC	ESG incorporation in portfolio construction	1

#### How do ESG factors influence your portfolio construction?

	(2) Active – quantitative	(3) Active – fundamental	(4) Investment trusts (REITs and similar publicly quoted vehicles)
(A) The selection of individual assets within our portfolio is influenced by ESG factors	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(B) The holding period of individual assets within our portfolio is influenced by ESG factors	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
(C) The portfolio weighting of individual assets within our portfolio or benchmark is influenced by ESG factors	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(D) The allocation of assets across multi-asset portfolios is influenced by ESG factors through the strategic asset allocation process	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(E) Other expressions of conviction (please specify below)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>



(F) The portfolio construction or benchmark selection does not explicitly include the incorporation of ESG factors

☐
☐
☐

Please specify for "(E) Other expressions of conviction".

For Active Quantitative - Client ESG objectives may influence our portfolio construction. For Active Fundamental - We employ a range of methods to reflect the outcome of our ESG analysis in the portfolio. The ESG assessment is an important component of the research process, helping us understand the direction of companies' future returns on capital, a key metric for us.

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 6.1	CORE	LE 6	N/A	PUBLIC	ESG incorporation in portfolio construction	1

In what proportion of cases did ESG factors influence your portfolio construction?

## (2) Active – quantitative

(A) The selection of individual assets within our portfolio is influenced by ESG factors	(2) in the majority of cases
(B) The holding period of individual assets within our portfolio is influenced by ESG factors	(2) in the majority of cases
(C) The portfolio weighting of individual assets within our portfolio or benchmark is influenced by ESG factors	(2) in the majority of cases
(D) The allocation of assets across multi-asset portfolios is influenced by ESG factors through the strategic asset allocation process	(2) in the majority of cases
(E) Other expressions of conviction	(3) in a minority of cases

## (3) Active – fundamental

(A) The selection of individual assets within our portfolio is influenced by ESG factors	(3) in a minority of cases
(C) The portfolio weighting of individual assets within our portfolio or benchmark is influenced by ESG factors	(3) in a minority of cases

(E) Other expressions of conviction (3) in a minority of cases

**(4) Investment trusts (REITs and similar publicly quoted vehicles)**

(A) The selection of individual assets within our portfolio is influenced by ESG factors (1) in all cases

(B) The holding period of individual assets within our portfolio is influenced by ESG factors (1) in all cases

(C) The portfolio weighting of individual assets within our portfolio or benchmark is influenced by ESG factors (1) in all cases

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 7	PLUS	OO 10	N/A	PUBLIC	ESG incorporation in portfolio construction	1

**Please provide two examples of how ESG factors have influenced weightings and tilts in either passive or active listed equity.**

**Provide examples below:**

(A) Example 1:

International Equity team - In 2020, we sold out of a cement company and two mainstream oil and gas companies in one of our funds. This was driven by our analysis of climate transition risk, in particular regulatory (carbon pricing) and technological (electric vehicles, renewable power generation, alternative building materials) disruption. In the context of these two industries this represents a significant uncertainty in terms of operating margins, capital expenditure requirements and returns on capital, as well as long-term demand for their products. This uncertainty meant the valuation was no longer justified, in our view.

(B) Example 2:

Active Quantitative Equities - For our Global Balanced Sustainable Fund, the Investment Adviser will allocate 5% to 30% of the Fund for investment in assets with a measurable positive social or environmental impact (based on the Investment Adviser's methodology), alongside a competitive long term financial return. These investments can be held directly through equity or Fixed Income Securities, or indirectly through collective investment schemes.

## ESG risk management

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 8	CORE	OO 6.1 LE	N/A	PUBLIC	ESG risk management	1

**What compliance processes do you have in place to ensure that your listed equity assets subject to negative exclusionary screens meet the screening criteria?**

- ☐ (A) We have an independent committee that oversees the screening implementation process, but only for our ESG/sustainability labelled funds that are subject to negative exclusionary screening
- ☐ (B) We have an independent committee that oversees the screening implementation process for all of our listed equity assets that are subject to negative exclusionary screening
- ☐ (C) We have an independent committee that verifies that we have correctly implemented pre-trade checks in our internal systems to ensure no execution is possible without their pre-clearance

☒ (D) Other, please specify:

Our Compliance and Portfolio Surveillance teams collaborate with investment teams to ensure that screening is robust, comprehensive and regularly monitored.

Policies and procedures on trading restrictions are maintained by the Compliance department and regularly checked and monitored for breaches in screening criteria. To assist equity portfolio managers in ensuring trades are executed in compliance with client guidelines, Morgan Stanley Investment Management has installed a guideline compliance system called Sentinel, supplied by the vendor Fidessa. The Sentinel system provides pre- and post- trade account guideline checking for all equity accounts. All investment guidelines including ESG-related policies and practices are coded in Sentinel to ensure compliance with portfolio guidelines.

Systematic checks are performed to ensure that stocks meet the fund's screening criteria and automated IT systems prevent investment managers from investing in excluded stocks or those that do not meet positive screening criteria

- ☐ (E) We do not have compliance processes in place to ensure that we meet our stated negative exclusionary screens

# Post-investment phase

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 9	CORE	OO 10	N/A	PUBLIC	ESG risk management	1

Do your regular reviews incorporate ESG risks?

	(2) Active – quantitative	(3) Active – fundamental	(4) Investment trusts (REITs and similar publicly quoted vehicles)
(A) Our regular reviews include quantitative information on material ESG risks specific to individual listed equities	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
(B) Our regular reviews include aggregated quantitative information on material ESG risks at a fund level	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
(C) Our regular reviews only highlight fund holdings where ESG ratings have changed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(D) We do not conduct regular reviews. Risk reviews of ESG factors are conducted at the discretion of the individual fund manager and vary in frequency	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
(E) We do not conduct reviews	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 10	CORE	OO 10	N/A	PUBLIC	ESG risk management	1

**Do you regularly identify and incorporate ESG incidents into the investment process for your listed equity assets?**

	(2) Active – quantitative	(3) Active – fundamental	(4) Investment trusts (REITs and similar publicly quoted vehicles)
(A) Yes, we have a formal process in place for regularly identifying and incorporating ESG incidents into all of our investment decisions	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(B) Yes, we have a formal process in place for regularly identifying and incorporating ESG incidents into the majority of our investment decisions	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
(C) Yes, we have a formal process in place for regularly identifying and incorporating ESG incidents into a minority of our investment decisions	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
(D) Yes, we have an ad hoc process in place for identifying and incorporating ESG incidents	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
(E) Other	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(F) We currently do not have a process in place for regularly identifying and incorporating ESG incidents into our investment decision-making	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

## Performance monitoring

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 11	PLUS	OO 10	N/A	PUBLIC	Performance monitoring	1

Provide an example of an ESG factor that your organisation incorporated into your equity valuation or fund construction and describe how that affected the returns of those assets.

Provide examples below:

(A) Example from your active listed equity:

Example from Counterpoint Global Team:  
For all of our portfolio companies we utilize a valuation methodology, which is similar to a DCF, but uses both a mid and end-game analysis informed by bottom-up and top-down evaluation of the opportunities. This tool also captures the assumption on margin profile of the company at those stages. Sustainability research specifically the total addressable market or margin expansion directly feed into our models – in each of our centralized valuation models, the covering analyst will state the most material opportunities and risks that environmental and social trends present the business.

Example from International Equities - Fair taxation:  
We see the impact of potential OECD international tax changes as an ESG risk for multi-national corporations, as companies with aggressive tax optimization practices may impair their social license to operate and attract regulatory scrutiny. We have assessed the tax rate structuring for our holdings and the potential impact on the target price.  
**(response continued in row below)**

In the case of the consumer goods companies that we hold, we engaged with the Head of Tax of one of our holdings to understand why their rate was higher than a peer. We then engaged with the CFO and COO of the second company. We learned that they charge royalties to a principal in lower tax jurisdictions rather than where the sales are booked. Accordingly, their tax rate is 18-19%, vs peers at 23%.  
**(response continued in row below)**

We have incorporated this company-specific material ESG risk into our target price: at a 23% tax rate, the target price falls mid-single digit percent.

This tax structuring is an example of the previously centralized decision-making culture of the consumer goods multi-national. A factor in our decision to purchase the company in 2020 was its shift towards a more decentralized approach, which potentially includes a change in tax structures. While the OECD tax plans are not on the immediate horizon and therefore have reduced the potential ESG risk for this particular investment, we continue to monitor it..

## Reporting/Disclosure

### Sharing ESG information with stakeholders

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 13	CORE	OO 6 LE	N/A	PUBLIC	Sharing ESG information with stakeholders	6
How do you ensure that clients and/or beneficiaries understand ESG screens and their implications?						
		(1) for all of our listed equity assets subject to ESG screens	(2) for the majority of our listed equity assets subject to ESG screens	(3) for a minority of our listed equity assets subject to ESG screens	(4) for none of our assets subject to ESG screens	
(A) We publish a list of ESG screens and share it on a publicly accessible platform such as a website or through fund documentation		<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
(B) We publish any changes in ESG screens and share them on a publicly accessible platform such as a website or through fund documentation		<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	

(C) We outline any implications of ESG screens, such as deviation from a benchmark or impact on sector weightings, to clients and/or beneficiaries



Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 14	CORE	OO 10	N/A	PUBLIC	Sharing ESG information with stakeholders	6

**What ESG information is covered in your regular reporting to stakeholders such as clients or beneficiaries?**

**(2) Active – quantitative**

(A) Our regular stakeholder reporting includes qualitative examples of engagement and/or ESG incorporation	3) In a minority of our stakeholder reporting
(B) Our regular stakeholder reporting includes quantitative ESG engagement data	3) In a minority of our stakeholder reporting
(C) Our regular stakeholder reporting includes quantitative ESG incorporation data	3) In a minority of our stakeholder reporting

**(3) Active – fundamental**

(A) Our regular stakeholder reporting includes qualitative examples of engagement and/or ESG incorporation	1) In all of our regular stakeholder reporting
(B) Our regular stakeholder reporting includes quantitative ESG engagement data	3) In a minority of our stakeholder reporting
(C) Our regular stakeholder reporting includes quantitative ESG incorporation data	3) In a minority of our stakeholder reporting

**(4) Investment trusts (REITs and similar publicly quoted vehicles)**

(A) Our regular stakeholder reporting includes qualitative examples of engagement and/or ESG incorporation	4) In none of our stakeholder reporting
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(B) Our regular stakeholder reporting includes quantitative ESG engagement data

4) In none of our stakeholder reporting

(C) Our regular stakeholder reporting includes quantitative ESG incorporation data

4) In none of our stakeholder reporting

## Stewardship

### Voting policy

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 15	CORE	OO 9 LE	LE 15.1, LE 16	PUBLIC	Voting policy	2

Does your organisation have a publicly available (proxy) voting policy? (The policy may be a standalone policy, part of a stewardship policy or incorporated into a wider RI policy.)

☒ (A) Yes, we have a publicly available (proxy) voting policy Add link(s):

[https://www.morganstanley.com/im/publication/resources/proxyvotingpolicy\\_msim\\_en.pdf?1583844799689](https://www.morganstanley.com/im/publication/resources/proxyvotingpolicy_msim_en.pdf?1583844799689)

☐ (B) Yes, we have a (proxy) voting policy, but it is not publicly available

☐ (C) No, we do not have a (proxy) voting policy

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 15.1	CORE	OO 9 LE, LE 15	N/A	PUBLIC	Voting policy	2

What percentage of your listed equity assets does your (proxy) voting policy cover?

(A) Actively managed listed equity covered by our voting policy

(12) 100%

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 16	CORE	LE 15	N/A	PUBLIC	Voting policy	2

Does your organisation's policy on (proxy) voting cover specific ESG factors?

☒ (A) Our policy includes voting guidelines on specific governance factors Describe:

Yes – e.g. We consider withholding support from or voting against nominees if in our view there has been insufficient board renewal (turnover), particularly in the context of extended poor company performance. Also, We consider withholding support from or voting against a nominee if he or she is affiliated with a major shareholder that has representation on a board disproportionate to its economic interest.

☒ (B) Our policy includes voting guidelines on specific environmental factors Describe:

We generally support proposals that if implemented would enhance useful disclosure, such as disclosures aligned with SASB (Sustainability Accounting Standards Board) and the TCFD (Taskforce on Climate-related Financial Disclosures). We also generally support proposals that aim to meaningfully reduce or mitigate a company's impact on the global climate.

☒ (C) Our policy includes voting guidelines on specific social factors Describe:

We generally support proposals that if implemented would enhance useful disclosure on employee and board diversity, including gender, race, and other factors. We consider proposals on other social issues on a case by case basis but generally support proposals that seek to enhance useful disclosure on material issues such as human rights risks, supply chain management and human capital management.

☐ (D) Our policy is high-level and does not cover specific ESG factors Describe:

## Security lending policy

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 18	CORE	OO 9 LE	LE 18.1, LE 18.2	PUBLIC	Security lending policy	2

Does your organisation have a public policy that states how voting is addressed in your securities lending programme? (The policy may be a standalone guideline or part of a wider RI or stewardship policy.)

☒ (A) We have a public policy to address voting in our securities lending programme. Add link(s):

[https://www.morganstanley.com/im/publication/resources/proxyvotingpolicy\\_msim\\_en.pdf?1583844799689](https://www.morganstanley.com/im/publication/resources/proxyvotingpolicy_msim_en.pdf?1583844799689)

- ☐ (B) We have a policy to address voting in our securities lending programme, but it is not publicly available
- ☐ (C) We rely on the policy of our service provider(s)
- ☐ (D) We do not have a policy to address voting in our securities lending programme
- ☐ (E) Not applicable, we do not have a securities lending programme

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 18.1	CORE	LE 18	N/A	PUBLIC	Security lending policy	2

**How is voting addressed in your securities lending programme?**

- ☐ (A) We recall all securities for voting on all ballot items
- ☐ (B) We always recall all holdings in a company for voting on ballot items deemed important (e.g. in line with specific criteria)
- ☐ (C) We always recall some securities so that we can vote on their ballot items (e.g. in line with specific criteria)
- ☐ (D) We maintain some holdings so that we can vote at any time
- ☒ (E) We recall some securities on an ad hoc basis so that we can vote on their ballot items
- ☐ (F) We empower our securities lending agent to decide when to recall securities for voting purposes
- ☐ (G) Other, please specify:
- ☐ (H) We do not recall our securities for voting purposes

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 18.2	CORE	LE 18	N/A	PUBLIC	Security lending policy	2

**What exclusions do you apply to your organisation's securities lending programme?**

- ☐ (A) We do not lend out shares of companies that we are engaging with either individually or as a lead or support investor in collaborative engagements
- ☐ (B) We do not lend out shares of companies if we own more than a certain percentage of them
- ☐ (C) We do not lend out shares of companies in jurisdictions that do not ban naked short selling
- ☐ (D) We never lend out all our shares of a company to ensure that we always keep voting rights in-house
- ☐ (E) Other, please specify:
- ☒ (F) We do not exclude any particular companies from our securities lending programme

## Shareholder resolutions

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 19	CORE	OO 9 LE	N/A	PUBLIC	Shareholder resolutions	2

Which of the following best describes your decision-making approach regarding shareholder resolutions, or that of your service provider(s) if decision-making is delegated to them?

- ☐ (A) In the majority of cases, we support resolutions that, if passed, are expected to advance progress on the underlying ESG factors or on our stewardship priorities
- ☒ (B) In the majority of cases, we support resolutions that, if passed, are expected to advance progress on the underlying ESG factors but only if the investee company has not already committed publicly to the action requested in the proposal
- ☐ (C) In the majority of cases, we only support shareholder resolutions as an escalation tactic when other avenues for engagement with the investee company have not achieved sufficient progress
- ☐ (D) In the majority of cases, we support the recommendations of investee company management by default
- ☐ (E) In the majority of cases, we do not vote on shareholder resolutions

## Pre-declaration of votes

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 20	CORE	OO 9 LE	N/A	PUBLIC	Pre-declaration of votes	2

How did your organisation or your service provider(s) pre-declare votes prior to AGMs/EGMs?

- ☐ (A) We pre-declared our voting intentions publicly through the PRI's vote declaration system
- ☐ (B) We pre-declared our voting intentions publicly (e.g. through our own website) Link to public disclosure:
- ☐ (C) We pre-declared our voting intentions publicly through the PRI's vote declaration system, including the rationale for our (proxy) voting decisions where we planned to vote against management proposals or abstain
- ☐ (D) We pre-declared our voting intentions publicly, including the rationale for our (proxy) voting decisions where we planned to vote against management proposals or abstain Link to public disclosure:
- ☐ (E) Prior to the AGM/EGM, we privately communicated our voting decision to investee companies in cases where we planned to vote against management proposals or abstain
- ☒ (F) We did not privately or publicly communicate our voting intentions
- ☐ (G) We did not cast any (proxy) votes during the reporting year

## Voting disclosure post AGM/EGM

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 21	CORE	OO 9 LE	LE 21.1	PUBLIC	Voting disclosure post AGM/EGM	2

Do you publicly report your (proxy) voting decisions, or those made on your behalf by your service provider(s), in a central source?

☒ (A) Yes, for >95% of (proxy) votes Link:

<https://www.morganstanley.com/im/en-us/financial-advisor/about-us/proxy-voting/vote-summary-report.desktop.html>

☐ (B) Yes, for the majority of (proxy) votes Link:

☐ (C) Yes, for a minority of (proxy) votes 1) Add link and 2) Explain why you only publicly disclose a minority of (proxy) voting decisions:

☐ (D) No, we do not publicly report our (proxy) voting decisions Explain why you do not publicly report your (proxy) voting decisions:

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 21.1	CORE	LE 21	N/A	PUBLIC	Voting disclosure post AGM/EGM	2

In the majority of cases, how soon after an investee's AGM/EGM do you publish your voting decisions?

☐ (A) Within one month of the AGM/EGM

☒ (B) Within three months of the AGM/EGM

☐ (C) Within six months of the AGM/EGM

☐ (D) Within one year of the AGM/EGM

☐ (E) More than one year after the AGM/EGM

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 22	CORE	OO 9 LE	LE 22.1	PUBLIC	Voting disclosure post AGM/EGM	2

**Did your organisation and/or the service provider(s) acting on your behalf communicate the rationale for your voting decisions?**

- ☐ (A) In cases where we voted against management recommendations or abstained, the rationale was provided privately to the company
- ☐ (B) In cases where we voted against management recommendations or abstained, the rationale was disclosed publicly
- ☒ (C) In cases where we voted against management recommendations or abstained, we did not communicate the rationale
- ☐ (D) We did not vote against management or abstain

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 23	CORE	OO 9 LE	LE 23.1	PUBLIC	Voting disclosure post AGM/EGM	2, 5

**Did your organisation and/or the service provider(s) acting on your behalf communicate the rationale for your voting decisions when voting against a shareholder resolution proposed/filed by a PRI signatory?**

- ☐ (A) In cases where we voted against a shareholder resolution proposed/filed by a PRI signatory, the rationale was disclosed publicly
- ☒ (B) In cases where we voted against a shareholder resolution proposed/filed by a PRI signatory, the rationale was not disclosed publicly
- ☐ (C) We did not vote against any shareholder resolution proposed/filed by a PRI signatory

## Alignment & effectiveness

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 24	PLUS	OO 9 LE	N/A	PUBLIC	Alignment & effectiveness	2

**How are you contributing to the integrity of the end-to-end voting chain and confirmation process?**

MSIM's Global Stewardship Team is responsible for consistently applying the MSIM Proxy Voting Policy and Procedures to proxy votes at issuer shareholder meetings.

MSIM's voting process directly involves portfolio teams. Our internal voting platform notifies portfolio managers when there is a meeting for one of their holdings and they are given the opportunity to input on the Stewardship team's analysis and voting recommendations. This interactive process facilitates ongoing discussion between the governance team and portfolio teams about a holding's material ESG issues. Generally, the voting process is as follows:

- GST first flags companies for which MSIM may have a potential conflict of interest, for its own use in managing the process to ensure that potential conflicts are managed appropriately so that all ballots are voted in the best interest of the relevant clients.
- GST then reviews research from our third party research providers (presently ISS and Glass Lewis) and other sources as appropriate and provides its own recommendations and analysis in light of the MSIM Proxy Voting Policy. The GST escalates meetings to portfolio managers for their review and input.
- Portfolio managers review voting decisions and provide feedback to GST. GST makes the final decisions on votes, reflecting portfolio manager views. When difference of opinion arises, GST works with portfolio managers to reach consensus.
- The MSIM Proxy Review Committee ratifies votes involving a conflict of interest. If the GST concludes the conflict of interest is material, and there is a difference in view among our research providers and/or MSIM managers and GST, the vote decision is escalated to a Special Committee that includes a representative from MSIM Compliance and Legal.

Our Proxy Voting Policy and Procedures allow for enough flexibility and case by case analysis that we have not found the need to make exceptions to this policy in our voting decisions.

## Example

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 25	PLUS	OO 9 LE	N/A	PUBLIC	Example	2

**Provide examples of the most significant (proxy) voting activities that your organisation and/or the service provider acting on your behalf carried out during the reporting year.**

**Provide examples below:**

(A) Example 1:

Say-on-Pay: The investment team met with a large-cap, multinational health care products company prior to the annual general meeting. They had some concerns with certain aspects of the company's remuneration plan especially focused on the disclosure of certain affiliate) 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 benefits provided to clients, we reserve the right to recall the shares on loan on a best efforts basis. In 2020, fewer than one percent of MSIM shares were out on loan at the time of any vote.

(B) Example 2:

Board Structure: An investment team met with a large-cap, professional services company prior to the annual general meeting. They discussed a shareholder resolution asking the company to separate the position of chairperson and CEO. MSIM reviews these types of proposals on a case-by-case basis, as they believe there are various board structures that can be effective. The team articulated to the company that they prefer strong, independent board leadership and, with the company's announcement of the Chair/CEOs retirement, they felt this was the perfect time for the board to review the current structure. The investment team supported the shareholder resolution, which received support from 56% of the shares that voted. However, at the end of the year we learned that the company had selected a new CEO and kept the roles combined. The team plans to reengage the company in 2021 to understand why the company has chosen to ignore a majority supported shareholder resolution.

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(C) Example 3:

Board Succession Planning: An investment team met with a large-cap, real estate investment trust company prior to the annual general meeting. They had concerns around board succession planning as the company had four directors with more than three decades of board service. The team encouraged the company to move up the timetable for board refreshment to ensure an orderly succession plan. This was the second time the team had made this request. The team decided to vote against the long-tenured directors. Each received at least 89% support. The team followed up with the company and expressed our resolve to keep voting against until the board demonstrates a real effort to improve board refreshment.

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# Fixed Income (FI)

## Pre-investment phase

### Materiality analysis

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
FI 1	CORE	OO 10	FI 1.1	PUBLIC	Materiality analysis	1

Does your organisation have a formal investment process to identify material ESG factors for its fixed income assets?

	(1) SSA	(2) Corporate	(3) Securitised
(A) Yes, we have a formal process to identify material ESG factors for all of our assets	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
(B) Yes, we have a formal process to identify material ESG factors for the majority of our assets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(C) Yes, we have a formal process to identify material ESG factors for a minority of our assets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(D) No, we do not have a formal process. Our investment professionals identify material ESG factors at their own discretion	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(E) No, we do not have a formal process to identify material ESG factors	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
FI 1.1	CORE	FI 1	N/A	PUBLIC	Materiality analysis	1

**How does your current investment process incorporate material ESG factors?**

	(1) SSA	(2) Corporate	(3) Securitised
(A) The investment process incorporates material governance factors	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(B) The investment process incorporates material environmental and social factors	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(C) The investment process incorporates material ESG factors beyond our organisation's typical investment time horizon	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(D) The investment process incorporates the effect of material ESG factors on revenues and business operations	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

## ESG risk management

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
FI 2	CORE	OO 10	FI 2.1	PUBLIC	ESG risk management	1

**How are material ESG factors incorporated into your portfolio risk management process?**

	(1) SSA	(2) Corporate	(3) Securitised
(A) Investment committee members, or the equivalent function/group, have a qualitative ESG veto	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

(B) Companies, sectors, countries and currency are monitored for changes in ESG exposure and for breaches of risk limits	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
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(C) Overall exposure to specific ESG factors is measured for our portfolio construction, and sizing or hedging adjustments are made depending on individual issuers' sensitivity to these factors	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
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(D) Other method of incorporating ESG factors into risk management process, please specify below:	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
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(E) We do not have a process to incorporate ESG factors into our portfolio risk management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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**Please specify for "(D) Other method of incorporating ESG factors into risk management process".**

In addition to the above, MSIM Fixed Income also utilizes scenario analysis to evaluate the potential impacts of changes in various ESG-related conditions on individual issuers and securities, as well as on the portfolio as a whole. For example, we run a variety of different scenarios examining the sensitivity of individual issuers and their earnings to variations in carbon prices, and corresponding impact on the portfolio. In addition to specific ESG factor scenario analysis, we have also developed a range of macro ESG scenarios that aim to consider the broader economic consequences of a particular ESG issue. For example, we have developed scenarios that look at the implications of a rise in populism and social unrest in Latin America, and scenarios that consider the potential consequences of a second Covid-19 pandemic. Finally, we are evaluating progressive methodologies to identify emerging risks early, using Natural Language Processing to monitor and assess news flow and systematically identify positive or negative trends in sustainability affecting specific issuers.

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
FI 2.1	CORE	FI 2	N/A	PUBLIC	ESG risk management	1

**For what proportion of your fixed income assets are material ESG factors incorporated into your portfolio risk management process?**

**(1) SSA**

(A) Investment committee members, or the equivalent function/group, have a qualitative ESG veto	(1) for all of our assets
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(B) Companies, sectors, countries and currency are monitored for changes in ESG exposure and for breaches of risk limits	(1) for all of our assets
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(C) Overall exposure to specific ESG factors is measured for our portfolio construction, and sizing or hedging adjustments are made depending on individual issuers' sensitivity to these factors	(1) for all of our assets
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(D) Other method of incorporating ESG factors into risk management process	(1) for all of our assets
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**(2) Corporate**

(A) Investment committee members, or the equivalent function/group, have a qualitative ESG veto	(1) for all of our assets
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(B) Companies, sectors, countries and currency are monitored for changes in ESG exposure and for breaches of risk limits	(1) for all of our assets
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(C) Overall exposure to specific ESG factors is measured for our portfolio construction, and sizing or hedging adjustments are made depending on individual issuers' sensitivity to these factors	(1) for all of our assets
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(D) Other method of incorporating ESG factors into risk management process	(1) for all of our assets
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**(3) Securitised**

(A) Investment committee members, or the equivalent function/group, have a qualitative ESG veto	(1) for all of our assets
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(B) Companies, sectors, countries and currency are monitored for changes in ESG exposure and for breaches of risk limits	(1) for all of our assets
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(C) Overall exposure to specific ESG factors is measured for our portfolio construction, and sizing or hedging adjustments are made depending on individual issuers' sensitivity to these factors	(1) for all of our assets
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(D) Other method of incorporating ESG factors into risk management process	(1) for all of our assets
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## ESG incorporation in asset valuation

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
FI 3	CORE	OO 10	FI 3.1	PUBLIC	ESG incorporation in asset valuation	1

How do you incorporate the evolution of ESG factors into your fixed income asset valuation process?

	(1) SSA	(2) Corporate	(3) Securitised
(A) We incorporate it into the forecast of cash flow, revenues and profitability	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(B) We anticipate how the evolution of ESG factors may change the ESG profile of the debt issuer	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(C) We do not incorporate the evolution of ESG factors into our fixed income asset valuation process	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
FI 3.1	CORE	FI 3	N/A	PUBLIC	ESG incorporation in asset valuation	1

In what proportion of cases do you incorporate the evolution of ESG factors into your fixed income asset valuation process?

### (1) SSA

(A) We incorporate it into the forecast of cash flow, revenues and profitability	(1) in all cases
(B) We anticipate how the evolution of ESG factors may change the ESG profile of the debt issuer	(1) in all cases

## (2) Corporate

(A) We incorporate it into the forecast of cash flow, revenues and profitability (1) in all cases

(B) We anticipate how the evolution of ESG factors may change the ESG profile of the debt issuer (1) in all cases

## (3) Securitised

(A) We incorporate it into the forecast of cash flow, revenues and profitability (1) in all cases

(B) We anticipate how the evolution of ESG factors may change the ESG profile of the debt issuer (1) in all cases

## Performance monitoring

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
FI 4	PLUS	OO 5.2 FI, OO 10	N/A	PUBLIC	Performance monitoring	1

Provide an example of an ESG factor that your organisation incorporated into your fixed income valuation or portfolio construction and describe how that affected the returns of those assets.

### Example:

(A) Example from your active management strategies:

ESG Factor: Climate Change  
For some of the strategies that we manage, we aim to construct a portfolio with a stronger low-carbon strategy than the Paris-aligned index it tracks. In order to do this, it is important not only to consider the target level of emissions, but also the mechanism by which it is achieved. Many indices that claim to aim for alignment with the Paris Agreement actually display significant sectoral bias. The carbon footprint can be lowered by simply underweighting carbon intensive sectors such as energy, utilities and industrials. **(response continued in row below)**

However this has not actually resulted in meaningful positive change or facilitation of the low-carbon economy. MSIM Fixed Income's approach to low-carbon portfolio construction is more structured and impactful. The process is designed to avoid distorting returns through sectoral bias or impaired portfolio diversification, but also to improve longer-term risk adjusted returns, through isolating and lowering the potential for adverse climate risks within the portfolio, and favoring long-term climate change mitigation solutions. Below are the key steps in MSIM Fixed Income's process:

- Sector Selection: We consider the appropriate sector allocation based on credit fundamentals and macroeconomic views, as well as ESG headwinds and tailwinds; we also exclude sectors that are wholly incompatible with the ambition of a low carbon footprint (e.g. **(response continued in row below)**)

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thermal coal mining) but allow sectors that may be high emission but are critical to carbon transition (e.g. utilities).

- Issuer Selection: On a sector-by-sector basis, we evaluate issuers' carbon footprints, as well as credit fundamentals and valuation, also including any adjustments that need to be incorporated for ESG factors; in particular, we assess issuers' commitment to decarbonization through the establishment of carbon reduction targets, and their current carbon footprint trajectories.
  - Green Bonds Allocations: We invest in instruments like labelled Green Bonds that are carbon neutral or negative, and support projects that help deliver climate change mitigation objectives.
  - Engagement: We use an active engagement approach to push issuers in the portfolio to continue to improve their carbon footprints, and establish ambitious science-based targets, thereby organically bringing down the carbon footprint of the portfolio over time..
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## ESG incorporation in portfolio construction

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
FI 5	CORE	OO 10	FI 5.1	PUBLIC	ESG incorporation in portfolio construction	1

### How do ESG factors influence your portfolio construction?

	(1) SSA	(2) Corporate	(3) Securitised
(A) The selection of individual assets within our portfolio is influenced by ESG factors	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(B) The holding period of individual assets within our portfolio is influenced by ESG factors	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(C) The portfolio weighting of individual assets within our portfolio or benchmark is influenced by ESG factors	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(D) The allocation of assets across multi-asset portfolios is influenced by ESG factors through the strategic asset allocation process	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(E) Other expressions of conviction, please specify below:	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(F) The portfolio construction or benchmark selection does not explicitly include the incorporation of ESG factors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please specify "(E) Other expressions of conviction".



ESG factors will also influence our view on duration and spread duration for individual assets and sectors. For example, governance deficiencies can present near term challenges to issuers. Social factors may manifest in the medium term, through for example, workforce upskilling (positive) or labor disputes (negative) in the case of corporates, or increasing levels of education among the population in the case of sovereigns. Finally, environmental challenges may present near term (risk of flooding, wildfires, carbon pricing) or longer term (stranded asset risk). Our assessment of these factors may affect our view on the duration / spread duration of the individual securities we wish to own (distinct from the actual holding period) given the amount of risk that's implied.

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
FI 5.1	CORE	FI 5	N/A	PUBLIC	ESG incorporation in portfolio construction	1

### In what proportion of cases do ESG factors influence your portfolio construction?

#### (1) SSA

(A) The selection of individual assets within our portfolio is influenced by ESG factors (1) in all cases

(B) The holding period of individual assets within our portfolio is influenced by ESG factors (1) in all cases

(C) The portfolio weighting of individual assets within our portfolio or benchmark is influenced by ESG factors (1) in all cases

(D) The allocation of assets across multi-asset portfolios is influenced by ESG factors through the strategic asset allocation process (1) in all cases

(E) Other expressions of conviction (1) in all cases

#### (2) Corporate

(A) The selection of individual assets within our portfolio is influenced by ESG factors (1) in all cases

(B) The holding period of individual assets within our portfolio is influenced by ESG factors (1) in all cases

(C) The portfolio weighting of individual assets within our portfolio or benchmark is influenced by ESG factors (1) in all cases

(D) The allocation of assets across multi-asset portfolios is influenced by ESG factors through the strategic asset allocation process (1) in all cases

(E) Other expressions of conviction (1) in all cases

### (3) Securitised

(A) The selection of individual assets within our portfolio is influenced by ESG factors (1) in all cases

(B) The holding period of individual assets within our portfolio is influenced by ESG factors (1) in all cases

(C) The portfolio weighting of individual assets within our portfolio or benchmark is influenced by ESG factors (1) in all cases

(D) The allocation of assets across multi-asset portfolios is influenced by ESG factors through the strategic asset allocation process (1) in all cases

(E) Other expressions of conviction (1) in all cases

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
FI 6	PLUS	OO 10	N/A	PUBLIC	ESG incorporation in portfolio construction	1

Please provide two examples of how ESG factors have influenced weightings and tilts in either passive or active fixed income.

Please provide examples below:

(A) Example 1:

Example 1: Improvement on Decarbonization agenda led us to buy back the company's bonds

Background: During 2019, MSIM Fixed Income engaged with a Utility company whose bonds we held in our portfolios that was involved in litigation around remediation related to coal ash, a toxic by-product of coal-fired power generation that had resulted in significant contamination affecting the local communities where the Utility operated. We found that the company had significant deficiencies in managing these risks and mitigation, and furthermore, the company had no clear climate-related strategy to transition to a more sustainable, lower-carbon intensity business model. **(response continued in row below)**

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As a result, based on the thesis that we were not being adequately compensated for the environmental risk taken, we decided to sell our entire holdings in the company's bonds.

ESG Factors Analyzed & Rationale: Following this very negative episode, we observed that the company started to make progress in taking its sustainability obligations seriously, and improving its footprint. **(response continued in row below)**

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During 2020, the company resolved pending controversies and accelerated their climate strategy, with a commitment to retire coal, and new targets to reduce their carbon emissions from power generation by at least 50% by 2030, and achieve net-zero by 2050.

Evaluation & Decision: As a result of these positive developments, our Analyst changed their recommendation from underweight to neutral, and we bought back some of the company's bonds. We have also assessed the company's Green Bonds (focused on renewable energy) in our portfolios based on our Sustainable Bond Evaluation Model, which provide us with an extra window of transparency on the company's strategy and progress, and will inform our future engagements with the company..

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Example 2: Opportunities in low carbon transportation services and positive community impact led us to increase our positions in the name

(B) Example 2:

Background: The company, an EM rail operator, came to market with a new green bond transaction. The company is not well rated from an ESG perspective by external agencies, who highlight an absence of clear sustainability strategy, and question the robustness of the company's governance structure in being able to effectively deliver a sustainable business model.

ESG Factors Analyzed & Rationale: Given the low score from external agencies, we conducted some deeper analysis to understand whether sustainability factors presented risks or opportunities to our potential investment in the company.  
**(response continued in row below)**

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We performed a detailed analysis of the company's business plan and operations from a sustainability perspective, looking at both Environmental and Social factors, as well as discussing with company management some of the approaches and policies that they had developed and were looking to implement.

Evaluation & Decision: From an Environmental perspective, we found the company presented a compelling business strategy to move freight off roads and on to rail, with potentially 75%+ reduction in GHGs as a consequence, as well as a program of railway, rolling stock and infrastructure development which would also bring down their own carbon footprint. They also carry out detailed environmental due diligence on all their projects, considering the broader externalities beyond the climate impact. **(response continued in row below)**

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From a Social perspective, they work closely with the local communities where they operate on socioeconomic development, so that the company's growth and expansion has an inclusion element to it as well. Our comprehensive analysis led us to the conclusion that the company will continue to play an integral role as a sustainable, reliable and cost-efficient option that connects to key export ports in the country. We observed a strong sustainability opportunity, perceiving that the company provided an environmentally positive logistics solution that would continue to capture market share and is likely to be the preferred provider as production and exports expand. Consequently, we took the decision to add to our existing positions in the name..

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## ESG incorporation in assessment of issuers

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
FI 7	CORE	OO 10	N/A	PUBLIC	ESG incorporation in assessment of issuers	1

When assessing issuers'/borrowers' credit quality, how does your organisation incorporate material ESG risks in the majority of cases?

	(1) SSA	(2) Corporate	(3) Securitised
(A) In the majority of cases, we incorporate material governance-related risks	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(B) In addition to incorporating governance-related risks, in the majority of cases we also incorporate material environmental and social risks	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
(C) We do not incorporate material ESG risks for the majority of our credit quality assessments of issuers/borrowers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

## ESG performance

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
FI 8	CORE	OO 10	N/A	PUBLIC	ESG performance	1

In the majority of cases, how do you assess the relative ESG performance of a borrower within a peer group as part of your investment process?

	(1) SSA	(2) Corporate	(3) Securitised
(A) We use the relative ESG performance of a borrower to adjust the internal credit assessments of borrowers by modifying forecasted financials and future cash flow estimates	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(B) We use the relative ESG performance of a borrower to make relative sizing decisions in portfolio construction	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(C) We use the relative ESG performance of a borrower to screen for outliers when comparing credit spreads to ESG relative performance within a similar peer group	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(D) We consider the ESG performance of a borrower only on a standalone basis and do not compare it within peer groups of other benchmarks	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(E) We do not have an internal ESG performance assessment methodology	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## ESG risk management

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
FI 9	CORE	OO 10	FI 9.1	PUBLIC	ESG risk management	1

**For your corporate fixed income, does your organisation have a framework that differentiates ESG risks by issuer country and sector?**

- ☒ (A) Yes, it differentiates ESG risks by country/region (for example, local governance and labour practices)
- ☒ (B) Yes, it differentiates ESG risks by sector
- ☐ (C) No, we do not have a framework that differentiates ESG risks by issuer country/region and sector

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
FI 9.1	CORE	FI 9	N/A	PUBLIC	ESG risk management	1

For what proportion of your corporate fixed income assets do you apply your framework for differentiating ESG risks by issuer country/sector?

	(1) for all of our corporate fixed income assets	(2) for the majority of our corporate fixed income assets	(3) for a minority of our corporate fixed income assets
(A) We differentiate ESG risks by country/region (for example, local governance and labour practices)	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
(B) We differentiate ESG risks by sector	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>

## Securitised products

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
FI 11	CORE	OO 10	N/A	PUBLIC	Securitised products	1

How do you incorporate ESG factors into the financial analysis of securitised products?

- ☒ (A) We analyse ESG risks and returns for both the issuer or debtor and the underlying collateral or asset pool
- ☐ (B) We perform ESG analysis that covers the issuer or debtor only
- ☐ (C) We perform ESG analysis that covers the underlying collateral or asset pool only
- ☐ (D) We do not incorporate ESG factors into the financial analysis of securitised products

# Post-investment phase

## ESG risk management

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
FI 12	CORE	OO 10	N/A	PUBLIC	ESG risk management	1

**Do your regular reviews incorporate ESG risks?**

	(1) SSA	(2) Corporate	(3) Securitised
(A) Our regular reviews include quantitative information on material ESG risks specific to individual fixed income assets	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(B) Our regular reviews include aggregated quantitative information on material ESG risks at a fund level	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(C) Our regular reviews only highlight fund holdings where ESG ratings have changed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(D) We do not conduct regular reviews. Risk reviews of ESG factors are conducted at the discretion of the individual fund manager and vary in frequency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(E) We do not conduct reviews that incorporate ESG risks	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
FI 13	CORE	OO 10	N/A	PUBLIC	ESG risk management	1

**Do you regularly identify and incorporate ESG incidents into the investment process for your fixed income assets?**

	(1) SSA	(2) Corporate	(3) Securitised
(A) Yes, we have a formal process in place for regularly identifying and incorporating ESG incidents into all of our investment decisions	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
(B) Yes, we have a formal process in place for regularly identifying and incorporating ESG incidents into the majority of our investment decisions	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(C) Yes, we have a formal process in place for regularly identifying and incorporating ESG incidents into a minority of our investment decisions	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(D) Yes, we have an ad hoc process in place for identifying and incorporating ESG incidents	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(E) We do not have a process in place for regularly identifying and incorporating ESG incidents into our investment decision-making	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

## Time horizons

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
FI 14	CORE	OO 10	N/A	PUBLIC	Time horizons	1

In the majority of cases, how does your investment process account for differing time horizons of holdings and how they may affect ESG factors?

	(1) SSA	(2) Corporate	(3) Securitised
(A) We take into account current risks	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(B) We take into account medium-term risks	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(C) We take into account long-term risks	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(D) We do not take into account differing time horizons of holdings and how they may affect ESG factors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## Long-term ESG trend analysis

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
FI 15	CORE	OO 10	N/A	PUBLIC	Long-term ESG trend analysis	1

Do you continuously monitor a list of identified long-term ESG trends related to your fixed income assets?

	(1) SSA	(2) Corporate	(3) Securitised
(A) We monitor long-term ESG trends for all of our assets	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>

(B) We monitor long-term ESG trends for the majority of our assets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(C) We monitor long-term ESG trends for a minority of our assets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
(D) We do not continuously monitor long-term ESG trends in our investment process	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

### Examples of leading practice

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
FI 17	PLUS	OO 10	N/A	PUBLIC	Examples of leading practice	1 to 6

Describe any leading responsible investment practices that you have adopted for some or all of your fixed income assets.

Description per fixed income asset type:

(A) SSA

Sovereign: The MSIM Fixed Income team has developed a framework for benchmarking Sovereign ESG factors, which allows investment teams to quantify and compare ESG performance across the entire array of emerging and developed markets – from Papua New Guinea to Portugal. The methodology was recently upgraded in Q4 2020. By correcting ESG scores for income-per-capita, adjusting the weights of E, S and G factors, and adding an MSIM analyst-driven momentum factor, our approach rewards positive changes from countries with the greatest opportunity for ESG improvements.

Starting from underlying ESG data from independent third-party providers (including UNDP, World Bank Group, the Emission Database for Global Atmospheric Research (EDGAR), and the University of Notre Dame) for 107 emerging and developed countries on an annual basis, and spanning a 20-year period, we have conducted statistical analyses to develop our own proprietary indicators for the E, S and G factors that underpin economic progress and resilience of sovereign nations, and which we consider most material to the performance of their debt.

Specifically, our model integrates the following key elements:

1. A materiality-based selection of ESG factors, seeking to capture metrics pertaining to a country's usage of natural resources, GHG emissions and climate change vulnerability, human development based on living standards, education and health, as well as the quality of institutions, political stability and rule of law.
  2. Adjustments of our E, S, G scores by GDP per capita to help remove bias against emerging markets. **(response continued in row below)**
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By adjusting against GDP per capita, we believe we can control for wealth and rank of each country based on their expected performance on ESG metrics relative to their income level.

3. Incorporation of a momentum factor that combines our analysts' qualitative view with a quantitative assessment of track-record.

4. Embedded flexibility to change the weights applied to E, S and G factors, acknowledging that the relative importance of these factors may vary depending on the time horizon of the debt instrument.

5. Adoption of the UN SDGs as the reference framework for interpreting countries' progress on economic and social development, which helps determine the qualitative momentum factor.

6. Final ranking of countries in our dataset based on our assessment scale, from "Significant ESG Outperformer" to "Significant ESG Underperformer".

Our Sovereign Sustainability Model provides our Research Analysts and Portfolio Managers with a multifaceted tool to inform and enhance our investment process. For example, it helps us determine whether bond valuations appropriately reflect countries' sustainability related risks/opportunities, and identify sovereigns exhibiting strong positive sustainability momentum, which could turn into an opportunity to capture alpha.

Finally, for Sustainable Funds, we are able to use our ranking to help construct a sovereign portfolio that is tilted towards what we consider to be the stronger performing countries and can positively contribute towards the SDGs.

Supranationals, Agencies and Munis: Our sustainability assessment of Supranational organizations, Agencies and Municipal issuers is based on a combination of third-party data, in-house asset class-specific expertise, and our proprietary Sustainable Bond Evaluation Model. **(response continued in row below)**

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We believe these issuers, along with Sovereigns, have an intrinsic mandate to contribute towards positive social and environmental outcomes for the populations and communities they operate in, and should abide by market best practice when it comes to transparency and disclosure. We use the UN SDGs as the main reference framework to assess their ESG credentials and the impact of their activities, and to inform our thematic allocations across portfolios. For example, our MSIM Sustainable Bond Evaluation Model – which we use to assess all labelled and unlabeled thematic bonds across Corporates, SSA and ABS – maps the issuer’s projects to the relevant SDGs, to facilitate impact tracking, and provides the investment team with a score that reflects the robustness of the issuer’s strategy, the rigor of their project selection criteria, and their reporting standards. We also leverage sustainable bond issuance as an opportunity to engage – independently or collaboratively – with these issuers to gain additional insights into their governance and future priorities, and provide them with constructive feedback on how to provide investors with meaningful outcome-based reporting. More details on our engagement approach are provided in section FI 22.1..

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(B) Corporate

We firmly believe that ESG factors have the ability to impact the fundamental risk, price and liquidity of a bond. As for the other asset classes described above, the MSIM Fixed Income team relies on a proprietary ESG scoring methodology that explicitly considers the risks and opportunities ESG factors pose to Corporate bonds. We source ESG data from leading third-party providers, selected based on universe coverage and quality considerations, as an input to our model. We then apply our in-house sector views and issuer-specific adjustments which allow us to create an approach that is unique in its characteristics, bespoke to fixed income investors, and scalable across the thousands of issuers in the credit space. Our ESG credit scoring model is a multi-step process which includes the analysis of:

- Sector Risk: Our credit analysts, who are sector-specialists, rely on external ESG-focused research as well as on the interaction with the MSIM Fixed Income Sustainable Investing team to derive their own risk weightings for E, S and G factors across 47 sub-sectors. **(response continued in row below)**
-

Risk weightings will vary from low to high for environmental and social factors, but will likely always be high for governance, as we view it as the pillar from which strong social and environmental credibility is built, and the strongest ESG driver of portfolio risk and return in fixed income.

- Company Risk & Opportunity: We incorporate in the analysis specific Controversy and Momentum indicators:
  - o Controversy: We make a numerical adjustment against companies that have continued exposure to severe ESG controversies.
  - o Momentum: We make numerical adjustments in favor of companies that demonstrate positive ESG momentum – in the form of an upward trend in third-party ESG ratings – and against companies that demonstrate negative momentum (downward trend). Our momentum indicator for Corporates is data-driven; however, we complement it with qualitative insights where we have an opportunity to engage with the company.

The final output is a numerical MSIM ESG Credit Score that is comparable across sectors and used as one of multiple inputs into the final investment decision on a security-by-security basis, as well as the metric to implement best-in-class sustainable investing strategies, for example in our Sustainable Funds.

In addition, we also use our MSIM Sustainable Bond Evaluation Model to assess labelled and unlabeled thematic investments in a transparent and systematic way. As an active fund manager, the MSIM Fixed Income team relies on the extensive experience of the Sustainable Investing team in this market to look through the labelling and projects, and critically assess the sustainable bonds that come to market, to ensure our evaluation of their sustainability characteristics is integrated into the investment process, for the benefit of our clients. **(response continued in row below)**

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The Model – which is fully integrated across all of our sustainable and mainstream portfolios – is aimed at informing portfolio managers and research analysts and is an integral component of the investment decision process for these instruments.

Climate risk analysis and carbon reporting is also an area of continuous focus for MSIM Fixed Income, across asset classes but in particular for Corporates, given the increasing availability of data on this category. Decarbonization & Climate Risk is one of the four priority themes in our thematic investment and engagement framework, and we systematically include it in our ESG analysis and dialogues with companies, especially those in carbon-intensive industries such as energy, utilities, automotive and industrials. In addition, we monitor, track and regularly report on our portfolios' carbon footprint, based on Carbon Intensity (tons of Scope 1 and 2 CO<sub>2</sub> emissions / \$million revenue), which is the TCFD recommended metric, and we are committed to align our Sustainable Funds to a Net Zero transition path to 2050, in line with the Paris Agreement. We have also started trialing an enhanced form of climate reporting developed by our Global Sustainable Finance Group, which draws upon multiple climate datasets. We are consulting a number of climate-focused investors on which additional metrics and measures of climate risk they would find most useful as part of our periodic reporting, with a view to operationalizing the new tool in the course of 2021..

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(C) Securitised

Environmental, Social and Governance (ESG) factors are frequently considered in the context of corporate and sovereign issuers, but have been largely neglected when it comes to mortgage- and asset-backed securities. This is due to the complex legal structure of securitized transactions, combined with the lack of an independent, centralized repository of quality ESG data for these investments.

However, at MSIM Fixed Income we believe that ESG considerations are an essential component to investing in securitized markets, and that a thoughtful ESG integration approach can result in better performance as well as in positive impact on the environment and society. This is why we have developed a proprietary ESG scoring framework for our portfolios, leveraging the specialist knowledge of our analysts and investment team.

Our approach is based on three key steps:

1. In-depth analysis of the specific E, S, G characteristics of each deal: We analyze deal documents, have due diligence discussions with originators and servicers, and monitor public announcements from the various government regulatory agencies to identify the key E, S or G risks and opportunities associated with the collateral as well as the lending practices.  
**(response continued in row below)**
-

Due to the wide variations in the structure of mortgage- and asset-backed securities, ESG considerations can take different forms and degrees of materiality. For example, for commercial mortgage-backed securities (CMBS), our focus is on the energy performance of the properties, as we view green certified buildings as a safer investment, thanks to the associated lower operating costs and higher occupancy and rental rates, translating in reduced credit risk opportunities for bondholders. For residential mortgage-backed securities (RMBS) and consumer loan asset-backed securities (ABS), our main focus is instead on social factors related to the affordability of lending and the distribution to more vulnerable and underserved borrowers. Governance issues in the form of lenders and servicers' practices, as well as property owners' behavior, are an essential component of our assessment across all types of deals, as we aim to avoid exposure to predatory lending and to mitigate litigation risk.

2. Scoring of the deal on a 1-5 scale, based on the estimated ESG impact: We have taken a transparent and conservative approach, by assigning a score of 3 (Neutral) to standard responsible lending practices, with the thesis that this should be interpreted as a baseline and not a plus, while giving a positive score of 4 or 5 only in relation to practices and/or assets and loans that embed some additionally in the environmental or social impact they generate. **(response continued in row below)**

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We aim to avoid any investment in deals with the lowest score of 1.

3. Mapping of the positive and/or negative impacts of each deal towards the applicable UN Sustainable Development Goals (SDGs): This is consistent with our broader sustainable investing approach at MSIM Fixed Income, which involves the monitoring and reporting of our portfolios' net alignment with the SDGs and the respective targets across asset classes. Given the nature of underlying loans and assets, we find that most of the environmental impact of our securitized portfolios tends to be related to SDGs 7 (Affordable and Clean Energy), 9 (Industry, Innovation and Infrastructure) and 13 (Climate Action) in terms of carbon emissions. On the social side, the portfolios mainly contribute towards SDGs 3 (Good Health and Wellbeing), 4 (Quality Education), 10 (Reduced Inequalities) and 11 (Sustainable Cities and Communities), with a focus on social wellbeing, access to and affordability of essential services as milestones for more sustainable communities.

Our MSIM Securitized Sustainability Framework aims to ensure an objective and transparent ESG integration approach is applied across our mortgage- and asset-backed investments. Our approach also provides the flexibility, if required by our Clients, to tilt portfolios in favor of investments that have an overall positive sustainability alignment. We are actively engaging with leading ESG research and data providers in the market, and collaborating closely with sustainability experts across our MSIM Real Assets Team and Morgan Stanley Global Sustainable Finance Group, to closely monitor developments in this market and continue evolving our approach over time..

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## Thematic bonds

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
FI 18	PLUS	OO 6 FI	FI 18.1	PUBLIC	Thematic bonds	1

**What proportion of your total thematic investments are labelled green bonds, social bonds and/or sustainability bonds by the issuers in accordance with the four ICMA Social/Green Bond Principles?**

**Proportion out of total thematic fixed income investments:**

(A) Proportion of green/SDG bonds linked to environmental goals 0-25%

(B) Proportion of social/SDG bonds linked to social goals 0-25%

(C) Proportion of sustainability/SDG bonds (i.e. combination of green and social bonds linked to multiple SDG categories) 0-25%

(D) None of the above >75%

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
FI 18.1	PLUS	FI 18	N/A	PUBLIC	Thematic bonds	3

**What proportion of your social, green and/or sustainability labelled bonds has been subject to an independent review arranged by the issuer?**

(A) Second-party opinion (5) >75%

(B) Third-party assurance (5) >75%

(C) Green bond rating (2) 1–10%

(D) Climate Bonds Certification according to the Climate Bonds Standard (2) 1–10%

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
FI 19	CORE	OO 6 FI	N/A	PUBLIC	Thematic bonds	1

**How do you determine which non-labelled thematic bonds to invest in?**

- ☒ (A) By reviewing the bond's use of proceeds
- ☒ (B) By reviewing companies' ESG targets
- ☒ (C) By reviewing companies' progress towards achieving ESG targets
- ☐ (D) We do not invest in non-labelled thematic bonds

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
FI 20	CORE	OO 6 FI	N/A	PUBLIC	Thematic bonds	1, 2, 6

**What action do you take in the majority of cases where proceeds of a thematic bond issuer are not allocated to the original plan?**

- ☒ (A) We engage with the issuer
- ☐ (B) We alert regulators
- ☒ (C) We alert thematic bond certification agencies
- ☒ (D) We sell the security
- ☐ (E) We publicly disclose the breach
- ☒ (F) We blacklist the issuer
- ☒ (G) Other action, please specify:  

We would also follow up with the Auditor, should one have been used. We revise our evaluation in our proprietary Sustainable Bond Assessment Model
- ☐ (H) We do not take any specific actions when proceeds from bond issuers are not allocated in accordance with the original plan

# Reporting/Disclosure

## ESG screens

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
FI 21	CORE	OO 6 FI	N/A	PUBLIC	ESG screens	6

### How do you ensure that clients and/or beneficiaries understand ESG screens and their implications?

(A) We publish a list of ESG screens and share it on a publicly accessible platform such as a website or through fund documentation Voluntary URL link(s) to list of ESG screens:

[https://www.morganstanley.com/im/publication/msinvf/material/msinvf\\_restrictionscreeningpolicy\\_sustainablestrategicbond\\_sustainablecorporatebond\\_en.pdf](https://www.morganstanley.com/im/publication/msinvf/material/msinvf_restrictionscreeningpolicy_sustainablestrategicbond_sustainablecorporatebond_en.pdf),  
[https://www.morganstanley.com/im/publication/msinvf/material/msinvf\\_restrictionscreeningpolicy\\_sustainablestrategicbond\\_sustainablecorporatebond\\_en.pdf?1612181984549](https://www.morganstanley.com/im/publication/msinvf/material/msinvf_restrictionscreeningpolicy_sustainablestrategicbond_sustainablecorporatebond_en.pdf?1612181984549),  
[https://www.morganstanley.com/im/publication/msfundsuk/material/msfundsuk\\_restrictionscreeningpolicy\\_sustainablefixedincomeopportunitiesfund\\_en.pdf?1612181627118](https://www.morganstanley.com/im/publication/msfundsuk/material/msfundsuk_restrictionscreeningpolicy_sustainablefixedincomeopportunitiesfund_en.pdf?1612181627118),  
[https://www.morganstanley.com/im/publication/msinvf/prospectus/prospectus\\_msinvf\\_en.lu.pdf?1612181613365](https://www.morganstanley.com/im/publication/msinvf/prospectus/prospectus_msinvf_en.lu.pdf?1612181613365)

(2) for the majority of our fixed income assets subject to ESG screens

(B) We publish any changes in ESG screens and share it on a publicly accessible platform such as a website or through fund documentation Voluntary URL link(s) to ESG screen changes:

[https://www.morganstanley.com/im/publication/msinvf/material/msinvf\\_restrictionscreeningpolicy\\_sustainablestrategicbond\\_sustainablecorporatebond\\_en.pdf](https://www.morganstanley.com/im/publication/msinvf/material/msinvf_restrictionscreeningpolicy_sustainablestrategicbond_sustainablecorporatebond_en.pdf),  
[https://www.morganstanley.com/im/publication/msinvf/material/msinvf\\_restrictionscreeningpolicy\\_sustainablestrategicbond\\_sustainablecorporatebond\\_en.pdf?1612181984549](https://www.morganstanley.com/im/publication/msinvf/material/msinvf_restrictionscreeningpolicy_sustainablestrategicbond_sustainablecorporatebond_en.pdf?1612181984549),  
[https://www.morganstanley.com/im/publication/msfundsuk/material/msfundsuk\\_restrictionscreeningpolicy\\_sustainablefixedincomeopportunitiesfund\\_en.pdf?1612181627118](https://www.morganstanley.com/im/publication/msfundsuk/material/msfundsuk_restrictionscreeningpolicy_sustainablefixedincomeopportunitiesfund_en.pdf?1612181627118),  
[https://www.morganstanley.com/im/publication/msinvf/prospectus/prospectus\\_msinvf\\_en.lu.pdf?1612181613365](https://www.morganstanley.com/im/publication/msinvf/prospectus/prospectus_msinvf_en.lu.pdf?1612181613365)

(2) for the majority of our fixed income assets subject to ESG screens

(C) We outline any implications of ESG screens, such as deviation from a benchmark or impact on sector weightings, to clients and/or beneficiaries

(2) for the majority of our fixed income assets subject to ESG screens

# Engagement

## Engaging with issuers/borrowers

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
FI 22	CORE	OO 9 FI	FI 22.1	PUBLIC	Engaging with issuers/borrowers	2

At which stages does your organisation engage with issuers/borrowers?

	(1) SSA	(2) Corporate	(3) Securitised
(A) At the pre-issuance/pre-deal stage	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(B) At the pre-investment stage	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(C) During the holding period	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(D) At the refinancing stage	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(E) When issuers/borrowers default	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
FI 22.1	PLUS	FI 22	N/A	PUBLIC	Engaging with issuers/borrowers	2

Describe your approach to engagement.

Engagement approach per fixed income asset type or general description for all your fixed income engagement:

(A) Description of engagement approach for all of our fixed income

As active owners with a focus on long-term value creation, MSIM views ESG engagement as an indispensable and powerful tool to implement our sustainable investing strategy. While engagement and stewardship have historically been an equity investor remit, we believe debt investor engagement is becoming increasingly relevant. Firstly, the vast majority of issuer primary market financing is conducted in the debt market rather than the equity market, giving Fixed Income investors a regular, direct interface with issuers seeking their cash. Secondly, the magnitude of debt financing requirements increases in stressed scenarios such as the recovery phase after the COVID-19 pandemic. Thirdly, the responses to some of the key sustainability challenges, such as climate change and access to basic services, are going to be largely financed via debt instruments. **(response continued in row below)**

ESG factors can also have a material impact on bond performance if the underlying risks are not managed and/or priced in adequately. Conversely, a focus on positive ESG outcomes and improvements in ESG by issuers can lead to better fundamentals, which should be reflected in tighter credit spreads.

As a team, we pursue 3 main objectives through our active engagement program:

1. Deepen our insight and understanding of the issuer;
2. Capture alpha opportunities that may not be appreciated by the market; and
3. Push for better sustainability outcomes.

To this end, we have established a thematic framework aligned with the UN Sustainable Development Goals (SDGs), based on which we focus our active security selection and engagement efforts on four priority areas: (1) Decarbonization & Climate Risk (in line with the Net Zero by 2050 path), (2) Circular Economy & Waste Reduction, (3) Diverse & Inclusive Business, and (4) Decent Work & Resilient Jobs.

Our engagement process is led by the Credit Research team based on an analytical, data-driven approach to evaluate ESG risk for the targeted issuers. The Sustainable Investing team contributes specific ESG expertise, ensures consistency across teams in thematic engagement, and coordinates with the MSIM Global Stewardship team for equity-side insights, or to facilitate access to companies' management. In cases where we identify significant sustainability risks, we may conduct multi-team engagement with the issuer, to leverage the power of our MSIM franchise and pass a clear, coordinated message with respect to the corrective action we expect. **(response continued in row below)**



We also collaborate with external stakeholders in these efforts: for example, we are members of the PRI ESG in Credit Risk and Ratings Initiative.

We track and report our engagements on a quarterly basis, including on their outcome – i.e. whether they influenced our investment strategy through the Analyst’s recommendations. In 2020, the MSIM Fixed Income conducted 145 ESG-focused engagements with companies across multiple sectors, IG and HY, as well as with sovereign, supranational and agency (SSA) issuers. Over a fifth of the engagements led the investment team to increase our positions in those companies. On the other hand, where the company’s response to our enquiries and/or action based on our expectations has not been satisfactory, we may also decide to “watch-list” the name for our Sustainable portfolios, until more progress is made by the company on the specific E, S or G issue of concern. Analysts file detailed notes of every engagement session onto our portfolio management platform, which are available to the investment teams to inform their decisions..

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(B) Description of engagement approach for our securitised fixed income

In the securitized space, a rigorous due diligence process allows our teams to collect deal-level data and information, including on the environmental and social characteristics of the assets and loans involved (e.g. energy performance certifications of buildings, type of borrowers and costs). We then integrate this information with discussions with originators and servicers, to delve deeper into their lending and servicing practices, as well as into property owners’ behavior. This is an essential component of our assessment across all types of securitizations, as we aim to avoid exposure to predatory lending and to mitigate litigation risk. **(response continued in row below)**

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For all consumer loan ABS, for instance, one of our standard due diligence questions involves asking about the lender's current status with the Consumer Financial Protection Bureau (CFPB) and all other regulatory agencies.

We provide below a few examples of engagements we conducted on securitized products:

- US residential mortgages: In 2017, one of the top-five US mortgage servicers for non-government sponsored residential mortgages was sued by the CFPB and the NY Department of Financial Services (DFS) for potential predatory mortgage servicing practices (charging excess fees on delinquent mortgages). MSIM Fixed Income responded by reducing our exposure to their serviced mortgages, and initiated calls with other non-agency mortgage servicers to ask about their servicing practices and if they were facing similar investigations by the CFPB, DFS, and any other regulatory agency. Our actions were motivated by both ESG considerations and potential credit risk. The mortgage servicer in question was at risk of being shut down and having the mortgages that they serviced transferred to another servicer, which could have caused a deterioration of credit performance. **(response continued in row below)**
- 

- Student Loans: We have focused our student loan ABS investments on government-sponsored student loan programs, as our due diligence and discussions with originators raised our concerns over the proliferation of student loans and the loan underwriting practices of some private student programs. Plus, government student loan programs have the potential for allowing loan modifications and potential loan forgiveness that private programs do not.
  - Commercial real estate: We have invested in nearly every "green" office and residential building CMBS, both in the US (LEED certified buildings) and in Europe (BREEAM certified). This is based on our analysis of the properties and conversations with the owners, which revealed that certified buildings tend to be associated with lower operating costs and higher occupancy and rental rates, translating in reduced credit risk opportunities for bondholders..
-

(C) Description of engagement approach for our SSA fixed income

Fixed income investors are uniquely positioned to engage with SSA issuers, leveraging both primary bond issuances and participation in multi-stakeholder initiatives as opportunities for one-on-one as well as collaborative engagement. In 2020, almost a fifth of MSIM Fixed Income engagements were with SSA issuers.

MSIM Fixed Income relies on a proprietary Sustainable Bond Evaluation model to assess all labelled and unlabeled thematic bonds, and to identify any flags or points for engaging with issuers on their sustainable financing programs, commitments and priorities. We also rely on our Sovereign Sustainability Model to monitor countries' progress on material ESG factors, and integrate the insights and outcomes of our engagements into our analyst-driven assessment of momentum.

We recognize that, when compared to corporate engagement, Sovereign engagement can be more challenging for investors in terms of claiming a direct impact on the issuer's strategy. MSIM Fixed Income's approach is to encourage Debt Management Offices (DMOs) to align their financing priorities with the SDG agenda as a globally recognized impact framework – specifically intended for States – that facilitates progress tracking. **(response continued in row below)**

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We also apply our thematic framework, described above, to SSA issuers. For example, when engaging with an EM Sovereign issuer ahead of their inaugural green bond transaction, we gained comfort about their significant progress on the clean energy agenda. However, we also suggested that their efforts on waste and wastewater management could have been much more ambitious, and raised concerns about persisting social challenges, in particular with respect to gender equality, in their country. These considerations were reflected in our models, and as a result, we maintained its position in the regular bonds of this Sovereign but decided not to participate in their green bond, based on the thesis that the country is making progress, but their overall approach to ESG is still not holistic. In another case, we praised another EM Sovereign for their decision to work in partnership with an established development institution to prepare their inaugural sustainability bond issuance and subsequent reporting. **(response continued in row below)**

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We scored the bond highly in our model, and we added it to our sustainable portfolios. During an engagement with them the following quarter, their DMO confirmed that as a result of the positive feedback they had decided to use the labelled format for issuance in more currencies, to build an SDG bond curve.

Our engagement with supranational organizations and agencies is mainly focused on disclosure and impact reporting. For example, we encouraged a multi-lateral development bank to improve their website sustainability disclosure, as most of their information was out of date, and to improve the mapping of their projects to the SDGs. With another European municipal agency, we expressed concerns that the selection criteria for the eligible education projects in their social bond issuance were not sufficiently targeted at the more vulnerable youth, and advised them to make those criteria more stringent going forward, as well as to provide outcome-based reporting on the projects.

Finally, MSIM's Municipal investment team is part of a group of impact and institutional investors who are developing a plan to engage with U.S. municipal issuers to enhance their disclosure on the diversity & inclusion theme..

(D) Description of engagement approach for our corporate fixed income

Corporate engagement represents the core of our MSIM Fixed Income engagement program. We engage with companies across our coverage sectors and IG/HY. Our engagement is:

- Fully integrated in our regular touchpoints with company management; we may also request ad-hoc sessions in cases where we believe there is urgency to address a specific ESG issue (e.g. violation of labor rights);
- Targeted, as we prioritize engagement with issuers that score poorly or have "red flags" in our MSIM ESG scoring model; and
- Thematic, by applying our MSIM thematic framework described above on a sector-by-sector basis. We may also conduct targeted thematic engagement series. For example, in 2019 we engaged with the insurance sector on their approaches to climate risk and scenario analysis. In 2020, we designed a Diversity & Inclusion engagement series with European HY issuers that we are planning to launch in Q1 2021. **(response continued in row below)**

As part of our dialogues with companies, we systematically encourage them to:

- Develop a sustainability strategy that is fully integrated in the company's business plan and implemented through an adequate Governance structure;
- Set corporate-level targets in relation to the material ESG issues for the sector, with a focus on Paris-aligned Net-Zero targets specifically on decarbonization;
- Provide transparent disclosure of progress towards those targets and of key ESG data in line with market standards (e.g. SASB, TCFD);
- Focus on impact and outcomes, with robust monitoring and evaluation procedures, in the context of labelled Sustainable Bonds.

We provide below a couple of examples of corporate engagements we conducted during 2020, and their outcomes.

Example 1: Risk from poor employee management

- Background: In mid-2020, the MSIM Fixed Income team, in collaboration with our Global Stewardship and Multi-asset teams, engaged with an Energy company who had launched a redundancy process where they asked employees to submit feedback on the lowest acceptable package. We expressed significant concerns about the process, the well-being and privacy of the employees who would be affected by this, and made a number of recommendations of alternative solutions (theme: Decent Work & Resilient Jobs).
  - ESG Factors Analyzed: For an Energy company, we would normally focus on environmental factors, as we view those as being material to investing in the sector. However, in the pandemic crisis backdrop, we view responsible management of employees as critical to ensuring a motivated and productive workforce through the recovery phase, particularly in sectors, such as Energy, where talent retention is critical to a successful low carbon transition strategy.
  - Evaluation & Decision: Our discussion with the company was unsatisfactory, and we concluded that their actions could negatively affect employee morale and impede the company's ability to succeed in the economic recovery. Our Analysts recommended taking profits on any strength in the bonds, and we also elected to omit the issuer from some of our Sustainable Funds. **(response continued in row below)**
-

- Subsequent Performance: The company's Q2 results significantly missed expectations, sending both its stock and its bonds considerably down.

Example 2: Opportunities in low carbon transportation services

- Background: The company, an EM rail operator, came to market with a new green bond transaction. They are not well-rated from an ESG perspective by external agencies, for example, MSCI rates it BB.
  - ESG Factors Analyzed: Given the low external score, we conducted some deeper analysis of their business plan to understand whether sustainability factors presented risks or opportunities to our potential investment.
  - Evaluation & Decision: From an environmental perspective, we found the company presented a compelling business strategy to move freight off roads and on to rail with a significant GHG emissions reduction as a result, as well as a program of railway, rolling stock and infrastructure development which would also bring down their own carbon footprint (theme: Decarbonization). From a social perspective, they work closely with the local communities where they operate (theme: Diversity & Inclusion). Our comprehensive analysis led us to conclude that the company will continue to play an integral role as a sustainable and cost-efficient option that connects to key export ports in the country. We observed a strong sustainability opportunity, and we took the decision to add to our existing positions in the name.
  - Subsequent Performance: Since issuance, the bonds have been trading significantly tighter..
-

## Sovereign bonds

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
FI 23	CORE	OO 9 FI	N/A	PUBLIC	Sovereign bonds	2

For the majority of your sovereign bond engagements, which non-issuer stakeholders do you engage with to promote your engagement objectives?

- ☐ (A) Non-ruling parties
- ☒ (B) Originators and primary dealers
- ☒ (C) Index and ESG data providers
- ☒ (D) Multinational companies/state-owned enterprises (SOEs)
- ☒ (E) Supranational organisations
- ☒ (F) Credit rating agencies (CRAs)
- ☒ (G) Business associations
- ☒ (H) Media
- ☒ (I) NGOs, think tanks and academics
- ☐ (J) Other non-issuer stakeholders, please specify:
- ☐ (K) We do not engage with any of the above stakeholders for the majority of our sovereign bond engagements

## Private Equity (PE)

### Policy

#### Investment guidelines

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PE 1	CORE	N/A	N/A	PUBLIC	Investment guidelines	1 to 6

What private equity-specific ESG guidelines are currently covered in your organisation's responsible investment policies?

- ☐ (A) Guidelines on how we adapt our ESG approach for the different sectors and geographies we invest in
- ☒ (B) Guidelines on how we adapt our ESG approach for the different strategies and company stages we invest in (e.g. venture capital, buy-out, distressed etc.)
- ☒ (C) Guidelines on screening investments
- ☒ (D) Guidelines on minimum ESG due diligence requirements
- ☒ (E) Guidelines on our approach to ESG integration into 100-day plans (or equivalent) and long-term value creation efforts
- ☒ (F) Guidelines on our approach to monitoring ESG risks, opportunities and incidents
- ☒ (G) Guidelines on our approach to ESG reporting

- ☒ (H) Identification of individuals or a group with ultimate responsibility for ESG
- ☐ (I) Our policies do not cover private equity-specific ESG guidelines

# Fundraising

## Commitments to investors

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PE 2	CORE	N/A	N/A	PUBLIC	Commitments to investors	1, 4

For all of your funds that you closed during the reporting year, what type of formal responsible investment commitments did you make in Limited Partnership Agreements (LPAs) or side letters? (If you did not close any funds during this reporting year, refer to the last reporting year in which you did close funds.)

- ☐ (A) We incorporated responsible investment commitments in LPAs as a standard, default procedure
- ☒ (B) We added responsible investment commitments in LPAs upon client request
- ☒ (C) We added responsible investment commitments in side letters upon client request
- ☐ (D) We did not make any formal responsible investment commitments for the relevant reporting year
- ☐ (E) Not applicable as we have never raised funds
- ☐ (F) Not applicable as we have not raised funds in the last 5 years

# Pre-investment phase

## Materiality analysis

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PE 3	CORE	N/A	PE 3.1	PUBLIC	Materiality analysis	1

During the reporting year, how did you conduct ESG materiality analysis for your potential private equity investments?

- |   |  |
|---|--|
| (A) We assessed materiality at the portfolio company level, as each case is unique        | (3) for a minority of our potential private equity investments   |
| (B) We performed a mix of industry-level and portfolio company-level materiality analysis | (2) for the majority of our potential private equity investments |



(C) We assessed materiality at the industry level only

(4) for none of our potential private equity investments

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PE 3.1	CORE	PE 3	N/A	PUBLIC	Materiality analysis	1

During the reporting year, what tools, standards and data did you use in your ESG materiality analysis of potential private equity investments?

- ☐ (A) We used GRI Standards to inform our private equity materiality analysis
- ☐ (B) We used SASB to inform our private equity materiality analysis
- ☒ (C) We used environmental and social factors detailed in the IFC Performance Standards (or other similar standards) in our private equity materiality analysis
- ☐ (D) We used climate risk disclosures such as the TCFD recommendations (or other climate risk analysis tools) to inform our private equity materiality analysis
- ☒ (E) We used geopolitical and macro-economic considerations in our private equity materiality analysis
- ☒ (F) Other, please specify:

Regulatory standards for certain industries; local jurisdictional requirements; customised operational due diligence

## Due diligence

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PE 4	CORE	N/A	N/A	PUBLIC	Due diligence	1

During the reporting year, how did ESG factors affect the selection of your private equity investments?

- (A) ESG factors helped identify risks (1) for all of our private equity investments selected
- (B) ESG factors were discussed by the investment committee (or equivalent) (1) for all of our private equity investments selected
- (C) ESG factors helped identify remedial actions for our 100-day plans (or equivalent) (1) for all of our private equity investments selected
- (D) ESG factors helped identify opportunities for value creation (3) for a minority of our private equity investments selected
- (E) ESG factors led to the abandonment of potential investments (3) for a minority of our private equity investments selected

(F) ESG factors impacted investments in terms of price offered and/or paid by having an effect on revenue assumptions

(3) for a minority of our private equity investments selected

(G) ESG factors impacted investments in terms of price offered and/or paid by having an effect on CAPEX assumptions

(3) for a minority of our private equity investments selected

(H) ESG factors impacted investments in terms of price offered and/or paid by having an effect on OPEX assumptions

(3) for a minority of our private equity investments selected

(I) ESG factors impacted investments in terms of price offered and/or paid by having an effect on the cost of capital or discount rate assumptions

(3) for a minority of our private equity investments selected

(J) Other, please specify:

NA

(4) for none of our private equity investments selected

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PE 5	CORE	N/A	N/A	PUBLIC	Due diligence	1

**Once material ESG factors have been identified, what processes do you use to conduct due diligence on these factors for potential investments?**

(A) We do a high-level/desktop review against an ESG checklist for initial red flags

(1) for all of our potential private equity investments

(B) We send detailed ESG questionnaires to target companies

(2) for the majority of our potential private equity investments

(C) We hire third-party consultants to do technical due diligence on specific issues

(3) for a minority of our potential private equity investments

(D) We conduct site visits and in-depth interviews with management and personnel

(1) for all of our potential private equity investments

(E) We incorporate actions based on the risks and opportunities identified in the due diligence process into the 100-day plan (or equivalent)

(1) for all of our potential private equity investments

(F) We incorporate ESG due diligence findings in all of our relevant investment process documentation in the same manner as for other key due diligence (e.g. commercial, accounting and legal)

(2) for the majority of our potential private equity investments

(G) Our investment committee (or an equivalent decision-making body) is ultimately responsible for ensuring all ESG due diligence is completed in the same manner as for other key due diligence (e.g. commercial, accounting and legal)

(1) for all of our potential private equity investments

(H) Other, please specify:

Speaking to participants in market to assess reputation / check references

(3) for a minority of our potential private equity investments

## Post-investment phase

### Monitoring

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PE 6	CORE	N/A	PE 6.1	PUBLIC	Monitoring	1

During the reporting year, did you track one or more core ESG KPIs across all your private equity investments?

- ☐ (A) Yes, we tracked environmental KPIs
- ☐ (B) Yes, we tracked social KPIs
- ☒ (C) Yes, we tracked governance KPIs
- ☐ (D) We did not track ESG KPIs across our private equity investments

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PE 7	CORE	N/A	N/A	PUBLIC	Monitoring	1

For the majority of the core KPIs that you tracked, how did you set targets across your private equity investments?

- ☐ (A) We set targets to achieve incremental improvements based on past performance
- ☐ (B) We set targets using industry benchmarks/standards
- ☐ (C) We set targets against global benchmarks or thresholds (e.g. on climate change and/or the SDGs)
- ☒ (D) We did not set targets for the core ESG KPIs that we tracked
- ☐ (E) We did not set targets as we don't track core ESG KPIs

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PE 8	CORE	N/A	PE 8.1	PUBLIC	Monitoring	1,2

**What processes do you have in place to support meeting your ESG targets for your private equity investments?**

(A) We use operational-level benchmarks to assess and analyse the performance of portfolio companies against sector performance	(3) for a minority of our private equity investments
(B) We implement international best practice standards such as the IFC Performance Standards to guide ongoing assessment and analysis	(2) for the majority of our private equity investments
(C) We implement certified environmental management systems across our portfolio	(3) for a minority of our private equity investments
(D) We make sufficient budget available to ensure that the systems and procedures needed to achieve the target are put in place	(2) for the majority of our private equity investments
(E) We hire external verification services to audit performance, systems and procedures	(2) for the majority of our private equity investments
(F) We develop minimum health and safety standards	(1) for all of our private equity investments
(G) We conduct ongoing engagement with all key stakeholders at the portfolio company level (e.g. local communities, NGOs, governments and end-users)	(3) for a minority of our private equity investments
(H) Other, please specify: NA	(4) for none of our private equity investments

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PE 9	PLUS	N/A	N/A	PUBLIC	Monitoring	1, 2

**Describe ESG risks and opportunities that you integrate into your 100-day plans, including who is accountable for their successful completion and how the process is monitored.**

For strategies where we have the greatest ability to exercise influence and control, sector reviews identify and prioritize investment opportunities and the investment team considers ESG implications both when selecting sub-sector focus areas within core sectors and evaluating individual deals. Factors such as the target company's health and safety records, environmental footprint, employee satisfaction scores, labor relations and hiring history, business approach, data protection and overall compliance systems are factored into the selection and vetting process. Subsectors or companies with a history of issues in these and other key ESG areas are not pursued. In certain situations, the completion of a transaction may be contingent upon key risks identified during diligence being mitigated or remediated. Many of our portfolio companies have identified and established, or are working to identify, a series of ESG opportunities and initiatives that they are actively undertaking. Moreover, many portfolio companies in our buyout strategies have or are working towards a designated ESG champion to lead and support the company's ESG journey, develop a formal ESG program and advance the portfolio company's ESG mission and goals. Different sectors may present different opportunities (e.g. reduction of emissions in the energy sector) and as such, ESG leads work with investment teams to determine measurement, monitoring and tracking, and longer term targets. These may be reported as part of a regular Operating Committee meetings as well as quarterly board meetings as relevant. In some strategies, investment teams are adding ESG representation on the fund's strategic advisory board to increase the focus on ESG related matters in both strategic and operational issues across the portfolio.

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PE 10	CORE	N/A	N/A	PUBLIC	Monitoring	1, 2

**Post-investment, how do you manage material ESG-related risks and opportunities to create value during the holding period of your investments?**

(A) We develop company-specific ESG action plans based on pre-investment research, due diligence and materiality findings	(2) for the majority of our private equity investments
(B) We adjust our ESG action plans regularly based on performance monitoring findings	(2) for the majority of our private equity investments
(C) We hire external advisors to provide support with specific ESG value creation opportunities	(3) for a minority of our private equity investments
(D) Other, please specify: Ongoing engagement / advise portfolio companies on ESG matters even in minority control situations	(3) for a minority of our private equity investments

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PE 11	PLUS	N/A	N/A	PUBLIC	Monitoring	2

**Describe how your long-term ESG action plans are currently defined, implemented and monitored.**

Where we have greater ability to influence companies, findings and recommendations for both risks and opportunities identified during the diligence process are included during the negotiations of terms and the ultimate investment agreements executed. In certain situations, the mitigation of a risk can be considered a critical precursor to a transaction being finalized. ESG related conditions may also be represented in legal documents where appropriate. These conditions and terms are often developed with the input of external ESG experts hired to conduct deeper ESG diligence, the results of which can be further augmented by internal ESG experts who provide guidance to investment teams leading up to the completion of an investment.

While each portfolio company is at a different stage in its ESG journey, many of our companies are working to establish a comprehensive ESG program, with distinct ESG initiatives and KPIs. Some of these initiatives will be identified during the diligence process; many others will be identified during post investment discussions and strategic planning sessions with management teams and included in longer term (i.e. 100-day equivalent) plans. ESG champions at our portfolio companies will help build and lead the company's ESG program, raise awareness within its organization and embed ESG into management practices. Some investment teams share an ESG Playbook with the portfolio company CEOs and ESG Champions to support their efforts in building a robust ESG program, including best in class initiatives, ESG KPIs and best practices. Ongoing monitoring and reporting may occur during board meetings and operating committee meetings where applicable as well as regular reporting by portfolio companies on an annual or twice yearly basis (the latter for higher risk areas).

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PE 12	CORE	N/A	PE 12.1	PUBLIC	Monitoring	1, 2

**How do you ensure that adequate ESG-related competence exists at the portfolio company level?**

(A) We assign the board responsibility for ESG matters	(1) for all of our private equity investments
(B) We mandate that material ESG matters are discussed by the board at least once a year	(2) for the majority of our private equity investments
(C) We provide training on ESG aspects and management best practices relevant to the portfolio company to C-suite executives only	(3) for a minority of our private equity investments
(D) We provide training on ESG aspects and management best practices relevant to the portfolio company to employees (excl. C-suite executives)	(3) for a minority of our private equity investments
(E) We support the portfolio company in developing and implementing its ESG strategy	(2) for the majority of our private equity investments

(F) We support portfolio companies by finding external ESG expertise (e.g. consultants or auditors)	(2) for the majority of our private equity investments
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(G) We share best practices across portfolio companies (e.g. educational sessions or implementation of environmental and social management systems)	(2) for the majority of our private equity investments
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(H) We include incentives to improve ESG performance in management remuneration schemes	(4) for none of our private equity investments
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(I) Other, please specify: NA	(4) for none of our private equity investments
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Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PE 12.1	PLUS	PE 12	N/A	PUBLIC	Monitoring	1, 2

Describe up to two initiatives taken as part of your ESG competence-building efforts during the reporting year.

#### ESG competence-building initiatives

(A) Initiative 1

For all strategies, we look to find opportunities to increase education and awareness amongst our portfolio company management teams as well as staff. Cybersecurity is one area where we're able to leverage the internal expertise of Morgan Stanley to share industry-wide trends, incorporating intelligence information from government agencies and other industry partners -- information that is difficult, if not impossible, for many of our small/medium sized portfolio companies to access. Cybersecurity experts have walked portfolio company management teams and/or staff through different types of threats commonly observed, including real case studies, followed by a discussion on the types of defense mechanisms companies could consider. While large corporations have the benefit of scale and resources to mount significant defenses against such threats, smaller companies will clearly find it difficult to protect themselves to the same level degree. However, education can play a crucial role given many security breaches are unwittingly facilitated by a company's own employees falling victim to an attack.

(B) Initiative 2

For one of our larger buyout strategies, our Operating Partners host sessions with portfolio company executives during the fund's annual meeting to increase ESG awareness, solicit feedback on initiatives being contemplated, and gain alignment on the importance of sound ESG practices to enterprise value and success. Reputable consulting organizations with deep experience in the ESG space are engaged to conduct training sessions with portfolio company ESG leads to review the current ESG landscape, discuss how it's evolving, provide industry specific information as it pertains to ESG, and conduct in-depth reviews of case studies of companies across sectors and how they drive value. In the spirit of sharing best practices and valuable information across portfolio company management teams, teams from specific portfolio companies may present their ESG program to other portfolio company ESG leads for in-depth discussions on how programs were implemented, challenges they faced, how they overcame obstacles, and lessons learned.

## Exit

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PE 13	CORE	N/A	N/A	PUBLIC	Exit	4, 6

**During the reporting year, what responsible investment information has your organisation shared with potential buyers of private equity investments?**

(A) We shared our firm's high-level commitment to responsible investment (e.g. that we are a PRI signatory)	(1) for all of our private equity investments
(B) We shared a description of what industry and asset class standards our firm aligns with (e.g. TCFD or GRESB)	(4) for none of our private equity investments
(C) We shared our firm's responsible investment policy (at minimum, a summary of key aspects and firm-specific approach)	(3) for a minority of our private equity investments
(D) We shared our firm's ESG risk assessment methodology (topics covered, in-house and/or with external support)	(3) for a minority of our private equity investments
(E) We shared the outcome of our latest ESG risk assessment on the asset or portfolio company	(3) for a minority of our private equity investments



(F) We shared key ESG performance data on the asset or portfolio company being sold

(3) for a minority of our private equity investments

(G) Other, please specify:

NA

(4) for none of our private equity investments

## Reporting/Disclosure

### ESG portfolio information

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PE 14	CORE	N/A	N/A	PUBLIC	ESG portfolio information	6

During the reporting year, how did you report on core ESG data and targets to your investors or beneficiaries?

- ☐ (A) We reported in aggregate through a publicly disclosed sustainability report
- ☐ (B) We reported in aggregate through formal reporting to investors or beneficiaries
- ☒ (C) We reported on the portfolio company level through formal reporting to investors or beneficiaries
- ☐ (D) We reported through a limited partners advisory committee
- ☒ (E) We reported back at digital or physical events or meetings with investors or beneficiaries
- ☒ (F) We did ad hoc or informal reporting on serious ESG incidents
- ☐ (G) Other, please specify:
- ☐ (H) We did not report on core ESG data and targets to our investors or beneficiaries during the reporting year

# Real Estate (RE)

## Policy

### Investment guidelines

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
RE 1	CORE	OO 24, OO 26	N/A	PUBLIC	Investment guidelines	1 to 6

What real estate-specific ESG guidelines are currently covered in your organisation's responsible investment policies?

- ☒ (A) Guidelines on our ESG approach to real estate depending on use (e.g. retail, education etc.)
- ☒ (B) Guidelines on our ESG approach to new construction
- ☒ (C) Guidelines on our ESG approach to major renovations
- ☒ (D) Guidelines on our ESG approach to standing real estate investments
- ☐ (E) Guidelines on our engagement approach related to property managers
- ☒ (F) Guidelines on our engagement approach related to tenants
- ☒ (G) Guidelines on our engagement approach related to construction contractors
- ☐ (H) Guidelines on excluding certain tenants based on responsible investment considerations
- ☐ (I) Our policies do not cover real estate-specific ESG guidelines

# Fundraising

## Commitments to investors

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
RE 2	CORE	N/A	N/A	PUBLIC	Commitments to investors	1, 4

For all of your funds that you closed during the reporting year, what type of formal responsible investment commitments did you make in Limited Partnership Agreements (LPAs) or side letters? (If you did not close any funds during this reporting year, refer to the last reporting year in which you did close funds.)

- ☒ (A) We incorporated responsible investment commitments in LPAs as a standard, default procedure
- ☐ (B) We added responsible investment commitments in LPAs upon client request
- ☒ (C) We added responsible investment commitments in side letters upon client request
- ☐ (D) We did not make any formal responsible investment commitments for the relevant reporting year
- ☐ (E) Not applicable as we have never raised funds
- ☐ (F) Not applicable as we have not raised funds in the last 5 years

## Pre-investment phase

### Materiality analysis

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
RE 3	CORE	N/A	RE 3.1	PUBLIC	Materiality analysis	1

During the reporting year, how did you conduct ESG materiality analysis for your potential real estate investments?

- |  |   |
|--|---|
| (A) We assessed materiality at the asset level, as each case is unique       | (3) for a minority of our potential real estate investments   |
| (B) We performed a mix of property type and asset-level materiality analysis | (2) for the majority of our potential real estate investments |
| (C) We assessed materiality according to property type only                  | (4) for none of our potential real estate investments         |

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
RE 3.1	CORE	RE 3	N/A	PUBLIC	Materiality analysis	1

During the reporting year, what tools, standards and data did you use in your ESG materiality analysis of potential real estate investments?

- ☒ (A) We used GRI Standards to inform our real estate materiality analysis
- ☐ (B) We used SASB to inform our real estate materiality analysis
- ☒ (C) We used climate risk disclosures such as the TCFD recommendations (or other climate risk analysis tools) to inform our real estate materiality analysis
- ☒ (D) We used geopolitical and macro-economic considerations in our real estate materiality analysis
- ☒ (E) Other, please specify:
- Morgan Stanley real estate funds participate in the GRESB assessment and utilize its framework to help establish material ESG issues to address.

## Due diligence

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
RE 4	CORE	N/A	N/A	PUBLIC	Due diligence	1

During the reporting year, how did ESG factors affect the selection of your real estate investments?

- |   |   |
|---|---|
| (A) ESG factors helped identify risks   | (1) for all of our potential real estate investments          |
| (B) ESG factors were discussed by the investment committee (or equivalent)  | (1) for all of our potential real estate investments          |
| (C) ESG factors helped identify remedial actions for our 100-day plans (or equivalent)                                | (3) for a minority of our potential real estate investments   |
| (D) ESG factors helped identify opportunities for value creation  | (2) for the majority of our potential real estate investments |
| (E) ESG factors led to the abandonment of potential investments   | (3) for a minority of our potential real estate investments   |
| (F) ESG factors impacted investments in terms of price offered and/or paid by having an effect on revenue assumptions | (2) for the majority of our potential real estate investments |

(G) ESG factors impacted investments in terms of price offered and/or paid by having an effect on CAPEX assumptions	(2) for the majority of our potential real estate investments
(H) ESG factors impacted investments in terms of price offered and/or paid by having an effect on OPEX assumptions	(2) for the majority of our potential real estate investments
(I) ESG factors impacted investments in terms of price offered and/or paid by having an effect on the cost of capital or discount rate assumptions	(3) for a minority of our potential real estate investments
(J) Other, please specify: NA	(4) for none of our potential real estate investments

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
RE 5	CORE	N/A	N/A	PUBLIC	Due diligence	1

**Once material ESG factors have been identified, what processes do you use to conduct due diligence on these factors for potential investments?**

(A) We do a high-level/desktop review against an ESG checklist for initial red flags	(1) for all of our potential real estate investments
(B) We send detailed ESG questionnaires to target properties	(2) for the majority of our potential real estate investments
(C) We hire third-party consultants to do technical due diligence on specific issues	(2) for the majority of our potential real estate investments
(D) We conduct site visits and in-depth interviews with management and personnel	(1) for all of our potential real estate investments
(E) We incorporate actions based on the risks and opportunities identified in the due diligence process into our post-investment plans	(2) for the majority of our potential real estate investments
(F) We incorporate ESG due diligence findings in all of our relevant investment process documentation in the same manner as for other key due diligence (e.g. commercial, accounting and legal)	(1) for all of our potential real estate investments
(G) Our investment committee (or an equivalent decision-making body) is ultimately responsible for ensuring all ESG due diligence is completed in the same manner as for other key due diligence (e.g. commercial, accounting and legal)	(1) for all of our potential real estate investments

(H) Other, please specify:

NA

(4) for none of our potential real estate investments

## Selection, appointment and monitoring of third-party property managers

### Selection process

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
RE 6	CORE	OO 26	N/A	PUBLIC	Selection process	1, 4

During the reporting year, how did you include ESG factors in all of your selections of external property managers? (If you did not select external property managers during the reporting year, report on the most recent year in which you selected external property managers.)

- ☒ (A) We requested information from potential managers on their overall approach to ESG
- ☐ (B) We requested track records and examples from potential managers on how they manage ESG factors
- ☐ (C) We requested information from potential managers on their engagement process(es) with stakeholders
- ☐ (D) We requested documentation from potential managers on their responsible procurement practices (including responsibilities, approach and incentives)
- ☐ (E) We requested the assessment of current and planned availability and aggregation of metering data from potential managers
- ☐ (F) Other, please specify:
- ☐ (G) We did not include ESG factors in our selection of external property managers

### Appointment process

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
RE 7	CORE	OO 26	N/A	PUBLIC	Appointment process	1, 4

How did you include ESG factors in the appointment of your current external property managers?

- (A) We set dedicated ESG procedures in all relevant property management phases (1) for all of our external property managers
- (B) We set clear ESG reporting requirements (1) for all of our external property managers

(C) We set clear ESG performance targets	(3) for a minority of our external property managers
(D) We set incentives related to ESG targets	(4) for none of our external property managers
(E) We included responsible investment clauses in property management contracts	(3) for a minority of our external property managers
(F) Other, please specify: <div> <div></div> <div>Include clear and detailed expectations for incorporating ESG</div> </div>	(2) for the majority of our external property managers

## Monitoring process

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
RE 8	CORE	OO 26	N/A	PUBLIC	Monitoring process	1, 4

### How do you include ESG factors in the monitoring of external property managers?

(A) We monitor performance against quantitative and/or qualitative environmental targets	(1) for all of our external property managers
(B) We monitor performance against quantitative and/or qualitative social targets	(1) for all of our external property managers
(C) We monitor performance against quantitative and/or qualitative governance targets	(1) for all of our external property managers
(D) We monitor progress reports on engagement with tenants	(2) for the majority of our external property managers
(E) We require formal reporting on an annual basis as a minimum	(3) for a minority of our external property managers
(F) We have regular discussions about ESG factors with all relevant stakeholders	(1) for all of our external property managers
(G) We conduct a performance review of key staff based on ESG alignment linked to KPIs and a financial incentive structure	(4) for none of our external property managers

(H) We have internal/external parties conduct site visits at least once a year

(1) for all of our external property managers

(I) Other, please specify:

NA

(4) for none of our external property managers

# Construction and development

## Construction requirements

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
RE 9	CORE	OO 24	N/A	PUBLIC	Construction requirements	1

What sustainability requirements do you currently have in place for all development projects and major renovations?

- ☒ (A) We require the management of waste by diverting construction and demolition materials from disposal
- ☐ (B) We require the management of waste by diverting reusable vegetation, rocks and soil from disposal
- ☒ (C) We require the minimisation of light pollution to the surrounding community
- ☒ (D) We require the minimisation of noise pollution to the surrounding community
- ☒ (E) We require the performance of an environmental site assessment
- ☒ (F) We require the protection of the air quality during construction
- ☒ (G) We require the protection and restoration of the habitat and soils disturbed during construction and/or during previous development
- ☒ (H) We require the protection of surface and ground water and aquatic ecosystems by controlling and retaining construction pollutants
- ☒ (I) We require the constant monitoring of health and safety at the construction site
- ☐ (J) Other, please specify:
- ☐ (K) We do not have sustainability requirements in place for development projects and major renovations



## Minimum building requirements

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
RE 10	CORE	OO 24	N/A	PUBLIC	Minimum building requirements	1

### What minimum building requirements do you have in place for development projects and major renovations?

(A) We require the implementation of the latest available metering and IoT technology	(3) for a minority of our development projects and major renovations
(B) We require that the building be able to obtain a recognised green building certification for new buildings	(2) for the majority of our development projects and major renovations
(C) We require the use of certified (or labelled) sustainable building materials	(3) for a minority of our development projects and major renovations
(D) We require the installation of renewable energy technologies where feasible	(4) for none of our development projects and major renovations
(E) We require that development projects and major renovations become net-zero carbon emitters within five years of completion of the construction	(4) for none of our development projects and major renovations
(F) We require water conservation measures	(2) for the majority of our development projects and major renovations
(G) We require common occupant health and well-being measures	(2) for the majority of our development projects and major renovations
(H) Other, please specify: Environmental Site Selection requirements and Resilient Building Design considerations	(2) for the majority of our development projects and major renovations

# Post-investment phase

## Monitoring

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
RE 11	CORE	N/A	N/A	PUBLIC	Monitoring	1

During the reporting year, what ESG building performance data did you collect for your real estate assets?

### Through metering

(A) Electricity consumption	(2) for the majority of our real estate assets
(B) Water consumption	(2) for the majority of our real estate assets
(C) Waste production	(4) for none of our real estate assets

### Through another method

(A) Electricity consumption	(4) for none of our real estate assets
(B) Water consumption	(4) for none of our real estate assets
(C) Waste production	(2) for the majority of our real estate assets

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
RE 12	CORE	N/A	N/A	PUBLIC	Monitoring	1

**For the majority of the core KPIs that you tracked, how did you set targets across your real estate investments?**

- ☒ (A) We set targets to achieve incremental improvements based on past performance
- ☐ (B) We set targets using industry benchmarks/standards
- ☐ (C) We set targets against global benchmarks or thresholds (e.g. on climate change and/or the SDGs)
- ☐ (D) We did not set targets for the core ESG KPIs that we tracked
- ☐ (E) We did not set targets as we don't track core ESG KPIs

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
RE 13	CORE	OO 26	RE 13.1	PUBLIC	Monitoring	1, 2

**What processes do you have in place to support meeting your ESG targets for your real estate investments?**

(A) We use operational-level benchmarks to assess and analyse the performance of assets against sector performance (2) for the majority of our real estate investments

(B) We implement certified environmental and social management systems across our portfolio (2) for the majority of our real estate investments

(C) We make sufficient budget available to ensure that the systems and procedures needed to achieve the target are put in place (2) for the majority of our real estate investments

(D) We hire external verification services to audit performance, systems and procedures (1) for all of our real estate investments

(E) We collaborate and engage with our external property managers to develop action plans to achieve targets (1) for all of our real estate investments

(F) We develop minimum health and safety standards (1) for all of our real estate investments

(G) Other, please specify:

Fund and asset managers work with our external property managers to identify and implement proven efficiency improvement projects at appropriate assets and Funds across the portfolio. We also include a green lease clause with sustainability provisions to better assess and improve performance in collaboration with tenants.

(1) for all of our real estate investments

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
RE 13.1	PLUS	RE 13	N/A	PUBLIC	Monitoring	1, 2

**Describe up to two processes that you put in place during the reporting year to support meeting your ESG targets.**

#### **Processes to support meeting ESG targets**

(A) Process 1

In 2020, MSREI created a holistic Sustainability Framework (the “Framework”) to ensure sustainability commitments are met at the Real Estate level. The Framework’s four pillars include integrating ESG criteria throughout the investment process, driving operating performance across our assets, improving transparency and disclosure, and advancing ESG thought leadership within the industry. MREI’s framework aspires to be industry leading with respect to sustainability management and performance.

(B) Process 2

Morgan Stanley has continued to allocate dedicated resources to drive Sustainability across the firm – Morgan Stanley Investment Management (MSIM) hired a Head of Sustainability for Global Real Assets in 2Q 2020 who partners with MSREI’s investment teams to enhance existing practices and develop and execute a comprehensive sustainability strategy. Additionally MSIM has established 3 regional sustainability councils that are led by MSIM’s Head of Sustainability and work closely with the portfolio management and investment teams to ensure implementation of MSREI’s sustainability initiatives.

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
RE 14	CORE	N/A	N/A	PUBLIC	Monitoring	1, 2

**Post-investment, how do you manage material ESG-related risks and opportunities to create value during the holding period of your investments?**

(A) We develop property-specific ESG action plans based on pre-investment research, due diligence and materiality findings

(1) for all of our real estate investments

(B) We adjust our ESG action plans regularly based on performance monitoring findings (3) for a minority of our real estate investments

(C) We hire external advisors to provide support with specific ESG value creation opportunities (1) for all of our real estate investments

(D) Other, please specify:  
Community Engagement (2) for the majority of our real estate investments

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
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RE 15	PLUS	N/A	N/A	PUBLIC	Monitoring	1, 2
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**Describe how your long-term ESG action plans are currently defined, implemented and monitored.**

Morgan Stanley Investment Management (MSIM) has adopted a Sustainable Investing Policy, and Morgan Stanley Real Estate Investing (“MSREI”) takes MSIM’s Sustainable Investing Policy into consideration in managing the investment activities. When feasible, MSREI will measure and track asset-level environmental data annually, including energy, GHG emissions, water, waste and green building certification levels. Where possible, we will assess or measure the impact of our development projects, including green building certifications, biodiversity, material sourcing, sustainable procurement as well as energy, water, waste, and GHG emissions performance during development, design and construction.

MSREI integrates sustainability risks and opportunities throughout the investment lifecycle starting in the investment due diligence phase, as part of the investment decision-making process and management of individual assets. MSREI uses various software platforms to manage asset-level environmental data. We will strive to expand the tracking and reporting capabilities, where appropriate, with an objective of capturing monthly data across the portfolio. Overall improvements in Fund- and asset-level performance may be reported to investors via GRESB, investor reports and disclosures. MSREI measure and report annually on ESG metrics and indicators and have shown year-over-year ESG performance improvements, validated by increasing GRESB scores.

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
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RE 16	CORE	N/A	N/A	PUBLIC	Monitoring	1
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**What proportion of your real estate assets have obtained an ESG/RI certification or label?**

- (A) All of our real estate assets have obtained an ESG/RI certification or label
- (B) The majority of our real estate assets have obtained an ESG/RI certification or label
- (C) A minority of our real estate assets have obtained an ESG/RI certification or label
- (D) None of our real estate assets have obtained an ESG/RI certification or label

## Stewardship

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
RE 17	CORE	OO 26	N/A	PUBLIC	Stewardship	1, 2

**How does your property manager engage with tenants? (If you are a property manager, please report on your direct tenant engagement.)**

### Tenants without operational control

(A) We engage with real estate tenants through organising tenant events focused on increasing sustainability awareness, ESG training and guidance	(3) for a minority of our buildings or properties
(B) We engage with real estate tenants on energy and water consumption and/or waste production	(2) for the majority of our buildings or properties
(C) We engage with real estate tenants by offering green leases	(2) for the majority of our buildings or properties
(D) We engage with real estate tenants through identifying collaboration opportunities that support net-zero targets	(4) for none of our buildings or properties
(E) We engage with real estate tenants by offering shared financial benefits from equipment upgrades	(3) for a minority of our buildings or properties
(F) Other, please specify: NA	(4) for none of our buildings or properties

## Exit

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
RE 18	CORE	N/A	N/A	PUBLIC	Exit	4, 6

**During the reporting year, what responsible investment information has your organisation shared with potential buyers of real estate investments?**

(A) We shared our firm's high-level commitment to responsible investment (e.g. that we are a PRI signatory)	(1) for all of our real estate investments
(B) We shared a description of what industry and asset class standards our firm aligns with (e.g. TCFD, GRESB)	(1) for all of our real estate investments
(C) We shared our firm's responsible investment policy (at minimum, a summary of key aspects and firm-specific approach)	(1) for all of our real estate investments
(D) We shared our firm's ESG risk assessment methodology (topics covered, in-house and/or with external support)	(2) for the majority of our real estate investments
(E) We shared the outcome of our latest ESG risk assessment on the property(s)	(2) for the majority of our real estate investments
(F) We shared key ESG performance data on the property(s) being sold	(3) for a minority of our real estate investments
(G) Other, please specify: NA	(4) for none of our real estate investments

# Reporting/Disclosure

## ESG portfolio information

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
RE 19	CORE	N/A	N/A	PUBLIC	ESG portfolio information	6

During the reporting year, how did you report on core ESG data and targets to your investors or beneficiaries?

- ☐ (A) We reported in aggregate through a publicly disclosed sustainability report
- ☒ (B) We reported in aggregate through formal reporting to investors or beneficiaries
- ☐ (C) We reported at the property level through formal reporting to investors or beneficiaries
- ☒ (D) We reported through a limited partners advisory committee (or equivalent)
- ☐ (E) We reported back at digital or physical events or meetings with investors or beneficiaries
- ☐ (F) We did ad hoc or informal reporting on serious ESG incidents
- ☒ (G) Other, please specify:
- ☐ We respond to the GRESB Real Estate Assessment at the fund level and allow investors access to the results.
- ☐ (H) We did not report on core ESG data and targets to our investors or beneficiaries during the reporting year

## Infrastructure (INF)



# Policy

## Investment guidelines

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
INF 1	CORE	OO 31, OO 32	N/A	PUBLIC	Investment guidelines	1 to 6

What infrastructure-specific ESG guidelines are currently covered in your organisation's responsible investment policies?

- ☒ (A) Guidelines on how we adapt our ESG approach for each infrastructure sector we invest in
- ☐ (B) Guidelines on our ESG approach to new construction
- ☒ (C) Guidelines on our ESG approach to standing investments or operating assets
- ☒ (D) Guidelines on our engagement approach related to workforce
- ☒ (F) Guidelines on our engagement approach related to contractors
- ☐ (G) Guidelines on our engagement approach related to other external stakeholders (e.g. government, local communities and end-users)
- ☐ (H) Our policies do not cover infrastructure-specific ESG guidelines

# Fundraising

## Commitments to investors

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
INF 2	CORE	N/A	N/A	PUBLIC	Commitments to investors	1, 4

For all of your funds that you closed during the reporting year, what type of formal responsible investment commitments did you make in Limited Partnership Agreements (LPAs) or side letters? (If you did not close any funds during this reporting year, refer to the last reporting year in which you did close funds.)

- ☒ (A) We incorporated responsible investment commitments in LPAs as a standard, default procedure
- ☐ (B) We added responsible investment commitments in LPAs upon client request
- ☐ (C) We added responsible investment commitments in side letters upon client request
- ☐ (D) We did not make any formal responsible investment commitments for the relevant reporting year
- ☐ (E) Not applicable as we have never raised funds
- ☐ (F) Not applicable as we have not raised funds in the last 5 years

# Pre-investment phase

## Materiality analysis

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
INF 3	CORE	N/A	INF 3.1	PUBLIC	Materiality analysis	1

During the reporting year, how did you conduct ESG materiality analysis for your potential infrastructure investments?

- |   |  |
|---|--|
| (A) We assessed materiality at the asset level, as each case is unique        | (1) for all of our potential infrastructure investments  |
| (B) We performed a mix of industry-level and asset-level materiality analysis | (4) for none of our potential infrastructure investments |
| (C) We assessed materiality at the industry level only                        | (4) for none of our potential infrastructure investments |

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
INF 3.1	CORE	INF 3	N/A	PUBLIC	Materiality analysis	1

During the reporting year, what tools, standards and data did you use in your ESG materiality analysis of potential infrastructure investments?

- ☒ (A) We used GRI Standards to inform our infrastructure materiality analysis
- ☐ (B) We used SASB to inform our infrastructure materiality analysis
- ☒ (C) We used GRESB Materiality Assessment (RC7) or similar in our infrastructure materiality analysis
- ☒ (D) We used environmental and social factors detailed in the IFC Performance Standards (or other similar standards) in our infrastructure materiality analysis
- ☐ (E) We used climate risk disclosures such as the TCFD recommendations (or other climate risk analysis tools) to inform our infrastructure materiality analysis
- ☒ (F) We used geopolitical and macro-economic considerations in our infrastructure materiality analysis
- ☒ (G) Other, please specify:  
Internally developed tool, third-party ESG due diligence reports, UN SDGs

## Due diligence

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
INF 4	CORE	N/A	N/A	PUBLIC	Due diligence	1

**During the reporting year, how did ESG factors affect the selection of your infrastructure investments?**

(A) ESG factors helped identify risks	(1) for all of our infrastructure investments selected
(B) ESG factors were discussed by the investment committee (or equivalent)	(1) for all of our infrastructure investments selected
(C) ESG factors helped identify remedial actions for our 100-day plans (or equivalent)	(1) for all of our infrastructure investments selected
(D) ESG factors helped identify opportunities for value creation	(1) for all of our infrastructure investments selected
(E) ESG factors led to the abandonment of potential investments	(1) for all of our infrastructure investments selected
(F) ESG factors impacted investments in terms of price offered and/or paid by having an effect on revenue assumptions	(2) for the majority of our infrastructure investments selected
(G) ESG factors impacted investments in terms of price offered and/or paid by having an effect on CAPEX assumptions	(2) for the majority of our infrastructure investments selected
(H) ESG factors impacted investments in terms of price offered and/or paid by having an effect on OPEX assumptions	(2) for the majority of our infrastructure investments selected
(I) ESG factors impacted investments in terms of price offered and/or paid by having an effect on the cost of capital or discount rate assumptions	(2) for the majority of our infrastructure investments selected
(J) Other, please specify: NA	(4) for none of our infrastructure investments selected

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
INF 5	CORE	N/A	N/A	PUBLIC	Due diligence	1

**Once material ESG factors have been identified, what processes do you use to conduct due diligence on these factors for potential investments?**

(A) We do a high-level/desktop review against an ESG checklist for initial red flags	(1) for all of our potential infrastructure investments
(B) We send detailed ESG questionnaires to target assets	(3) for a minority of our potential infrastructure investments
(C) We hire third-party consultants to do technical due diligence on specific issues	(2) for the majority of our potential infrastructure investments
(D) We conduct site visits and in-depth interviews with management and personnel	(1) for all of our potential infrastructure investments
(E) We incorporate actions based on the risks and opportunities identified in the due diligence process into the 100-day plan (or equivalent)	(1) for all of our potential infrastructure investments
(F) We incorporate ESG due diligence findings in all of our relevant investment process documentation in the same manner as for other key due diligence (e.g. commercial, accounting and legal)	(1) for all of our potential infrastructure investments
(G) Our investment committee (or an equivalent decision-making body) is ultimately responsible for ensuring all ESG due diligence is completed in the same manner as for other key due diligence (e.g. commercial, accounting and legal)	(1) for all of our potential infrastructure investments
(H) Other, please specify: NA	(4) for none of our potential infrastructure investments

# Post-investment phase

## Monitoring

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
INF 9	CORE	N/A	INF 9.1	PUBLIC	Monitoring	1

During the reporting year, did you track one or more core ESG KPIs across all your infrastructure investments?

- ☒ (A) Yes, we tracked environmental KPIs
- ☒ (B) Yes, we tracked social KPIs
- ☒ (C) Yes, we tracked governance KPIs
- ☐ (D) We did not track ESG KPIs across our infrastructure investments

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
INF 9.1	PLUS	INF 9	N/A	PUBLIC	Monitoring	1

Provide examples of the core ESG KPIs you tracked across all of your infrastructure investments.

- ☒ (A) ESG KPI #1  
Energy use (MWh)
- ☒ (B) ESG KPI #2  
Greenhouse gas emissions (tCO<sub>2</sub>e)
- ☒ (C) ESG KPI #3  
Employee fatalities (#)
- ☒ (D) ESG KPI #4  
Employee reportable injuries (#)
- ☒ (E) ESG KPI #5  
Employee lost time injury frequency rate (#/million hours worked)
- ☒ (F) ESG KPI #6  
Employee total recordable injury frequency rate (#/million hours worked)
- ☒ (G) ESG KPI #7  
Employee gender diversity (# male, # female)
- ☒ (H) ESG KPI #8

■ Bribery and corruption

☒ (I) ESG KPI #9

■ Fraud

☒ (J) ESG KPI #10

■ Political contributions

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
INF 10	CORE	N/A	N/A	PUBLIC	Monitoring	1

**For the majority of the core KPIs that you tracked, how did you set targets across your infrastructure investments?**

☐ (A) We set targets to achieve incremental improvements based on past performance

☒ (B) We set targets using industry benchmarks or standards

☐ (C) We set targets against global benchmarks or thresholds (e.g. on climate change and/or the SDGs)

☐ (D) We did not set targets for the core ESG KPIs that we track

☐ (E) We did not set targets as we don't track core ESG KPIs

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
INF 11	CORE	OO 32	INF 11.1	PUBLIC	Monitoring	1,2

**What processes do you have in place to support meeting your ESG targets for your infrastructure investments?**

(A) We use operational-level benchmarks to assess and analyse the performance of assets against sector performance

1/ For all of our infrastructure investments

(B) We implement international best practice standards such as the IFC Performance Standards to guide ongoing assessment and analysis

1/ For all of our infrastructure investments

(C) We implement certified environmental and social management systems across our portfolio

3/ For a minority of our infrastructure investments

(D) We make sufficient budget available to ensure that the systems and procedures needed to achieve the target are put in place

2/ For the majority of our infrastructure investments

(E) We hire external verification services to audit performance, systems and procedures

1/ For all of our infrastructure investments

(G) We develop minimum health and safety standards

1/ For all of our infrastructure investments

(H) We conduct ongoing engagement with all key stakeholders (e.g. local communities, NGOs, governments and end-users)

1/ For all of our infrastructure investments

(I) Other, please specify:

NA

4/ For none of our infrastructure investments

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
INF 11.1	PLUS	INF 11	N/A	PUBLIC	Monitoring	1,2

**Describe up to two processes that you put in place during the reporting year to support meeting your ESG targets.**

#### Processes to support meeting ESG targets

(A) Process 1

During 2020, MSIP continued to support portfolio companies in the North Haven Infrastructure Partners II fund to participate in the annual GRESB Infrastructure Asset Assessment to understand current performance, identify gaps and opportunities, and implement value-add improvements. For example, in 2020, MSIP portfolio companies: set internal ESG performance targets; began monitoring additional ESG KPIs; developed or enhanced stakeholder engagement strategies; and participated in employee surveys. The results of the GRESB Infrastructure Assessment help MSIP to assess and analyze portfolio companies against sector peers and sustainable infrastructure best practices, and inform improvement opportunities to achieve ESG targets.

(B) Process 2

During 2020, MSIP sought third-party assurance of portfolio company ESG performance metrics for the first time, enhancing confidence and transparency of reported results. ESG performance metrics are reported in the GRESB Infrastructure Asset Assessment, included in MSIP's inaugural annual ESG report circulated to investors.

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
INF 12	CORE	N/A	N/A	PUBLIC	Monitoring	1, 2

**Post-investment, how do you manage material ESG-related risks and opportunities to create value during the holding period of your investments?**

(A) We develop company-specific ESG action plans based on pre-investment research, due diligence and materiality findings	(1) for all of our infrastructure investments
(B) We adjust our ESG action plans regularly based on performance monitoring findings	(1) for all of our infrastructure investments
(C) We hire external advisors to provide support with specific ESG value creation opportunities	(1) for all of our infrastructure investments
(D) Other, please specify: NA	(4) for none of our infrastructure investments

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
INF 13	PLUS	N/A	N/A	PUBLIC	Monitoring	2

**Describe how your long-term ESG action plans are currently defined, implemented and monitored.**

MSIP consults the GRESB Infrastructure Asset Assessment framework and resulting benchmark reports for each portfolio company to define key gaps and opportunities for company ESG management and performance. MSIP and its external consultants work closely with portfolio companies to develop action plans including defining internal and external responsibilities, prioritize key actions for near-term implementation – often within the calendar year, and monitor progress in implementing action plans.



Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
INF 14	CORE	N/A	INF 14.1	PUBLIC	Monitoring	1, 2

**How do you ensure that adequate ESG-related competence exists at the asset level?**

(A) We assign the board responsibility for ESG matters	(1) for all of our infrastructure investments
(B) We mandate that material ESG matters are discussed by the board at least once a year	(1) for all of our infrastructure investments
(C) We provide training on ESG aspects and management best practices relevant to the asset to C-suite executives only	(1) for all of our infrastructure investments
(D) We provide training on ESG aspects and management best practices relevant to the asset to employees (excl. C-suite executives)	(1) for all of our infrastructure investments
(E) We support the asset in developing and implementing its ESG strategy	(1) for all of our infrastructure investments
(F) We support the asset by finding external ESG expertise (e.g. consultants or auditors)	(1) for all of our infrastructure investments
(G) We share best practices across assets (e.g. educational sessions, implementation of environmental and social management systems)	(1) for all of our infrastructure investments
(H) We include incentives to improve ESG performance in management remuneration schemes	(1) for all of our infrastructure investments
(I) Other, please specify:  MSIP confirms that all assets provide relevant ESG training to employees and/or contractors	(1) for all of our infrastructure investments

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
INF 14.1	PLUS	INF 14	N/A	PUBLIC	Monitoring	1, 2

Describe up to two initiatives taken as part of your ESG competence-building efforts during the reporting year.

#### ESG competence-building initiatives

(A) Initiative 1

MSIP arranges presentations on ESG in general and on specific ESG topics (e.g. climate change, cybersecurity) to build ESG competence among portfolio company executives

(B) Initiative 2

MSIP engages an external consultant to provide portfolio company employees and executives with informal ESG training such as:

- Kick-off and progress calls to develop GRESB Infrastructure disclosures, and to implement new ESG best practices (e.g. policy development, KPI definition, target-setting)
- Answer questions about ESG best practices and ESG disclosure frameworks (e.g. GRESB Infrastructure)

## Exit

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
INF 15	CORE	N/A	N/A	PUBLIC	Exit	4, 6

During the reporting year, what responsible investment information has your organisation shared with potential buyers of infrastructure investments?

(A) We shared our firm's high-level commitment to responsible investment (e.g. that we are a PRI signatory)

(1) for all of our infrastructure investments

(B) We shared a description of what industry and asset class standards our firm aligns with (e.g. TCFD or GRESB)

(1) for all of our infrastructure investments

(C) We shared our firm's responsible investment policy (at minimum, a summary of key aspects and firm-specific approach)

(1) for all of our infrastructure investments

(D) We shared our firm's ESG risk assessment methodology (topics covered, in-house and/or with external support)	(1) for all of our infrastructure investments
(E) We shared the outcome of our latest ESG risk assessment on the asset or portfolio company	(1) for all of our infrastructure investments
(F) We shared key ESG performance data on the asset or portfolio company being sold	(1) for all of our infrastructure investments
(G) Other, please specify: GRESB Infrastructure assessments	(1) for all of our infrastructure investments

# Reporting/Disclosure

## ESG portfolio information

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
INF 16	CORE	N/A	N/A	PUBLIC	ESG portfolio information	6

During the reporting year, how did you report on core ESG data and targets to your investors or beneficiaries?

- ☒ (A) We reported in aggregate through a publicly disclosed sustainability report
 ☒ (B) We reported in aggregate through formal reporting to investors or beneficiaries
 ☒ (C) We reported on the asset level through formal reporting to investors or beneficiaries
 ☒ (D) We reported through a limited partners advisory committee (or equivalent)
 ☒ (E) We reported back at digital or physical events or meetings with investors or beneficiaries
 ☒ (F) We did adhoc or informal reporting on serious ESG incidents
 ☒ (G) Other, please specify:
 

GRESB Infrastructure assessments
- ☐ (H) We did not report on core ESG data and targets to our investors or beneficiaries during the reporting year