

Morgan Stanley

INVESTMENT MANAGEMENT

2024

Emerging Markets Equity Annual Stewardship Report

GLOBAL EMERGING MARKETS | GLOBAL EMERGING MARKETS EX CHINA
SUSTAINABLE EMERGING MARKETS | SUSTAINABLE ASIA
ASIA EX JAPAN | CHINA A | CHINA | INDIA | LATIN AMERICA
EMERGING MARKETS LEADERS | NEXTGEN EM



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In 2023, we maintained our commitment to active proxy voting and addressing sustainability issues across emerging markets, leveraging our investment platform and institutional knowledge to engage with management teams of our portfolio companies. Throughout our engagements, we focused on material issues, such as governance, decarbonization and supply chain management. We addressed specific challenges including the changing regulatory landscape across carbon emissions and asked for more transparency in executive compensation. We engaged with companies on technologies required for the global energy transition. We believe that our ongoing advocacy for transparency and accountability has led to notable progress and improvements, which we detail in this paper. Our understanding of EM-specific sustainability issues, supported by our team's macro and thematic research, has enabled us to engage thoughtfully and constructively with our portfolio companies in a way that benefits the best interests of shareholders and supports sustainable development.¹

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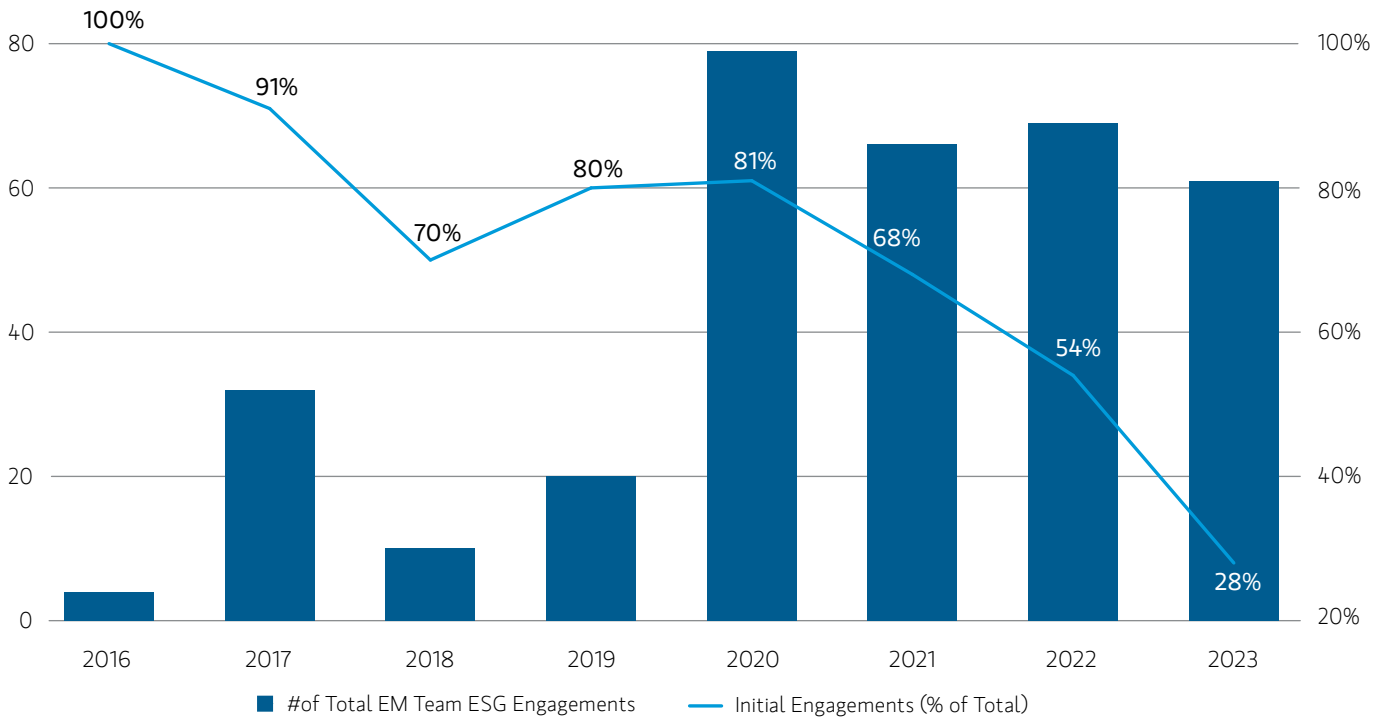
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¹ For more information on MSIM level stewardship and engagement principles please refer to our most recent Sustainable Investing Policy report. <https://www.morganstanley.com/im/publication/resources/msim-sustainable-investing-policy-en.pdf>

DISPLAY 1A

EM Team ESG Engagements²

We have progressed from initial to follow-up engagements



Source: Investment team

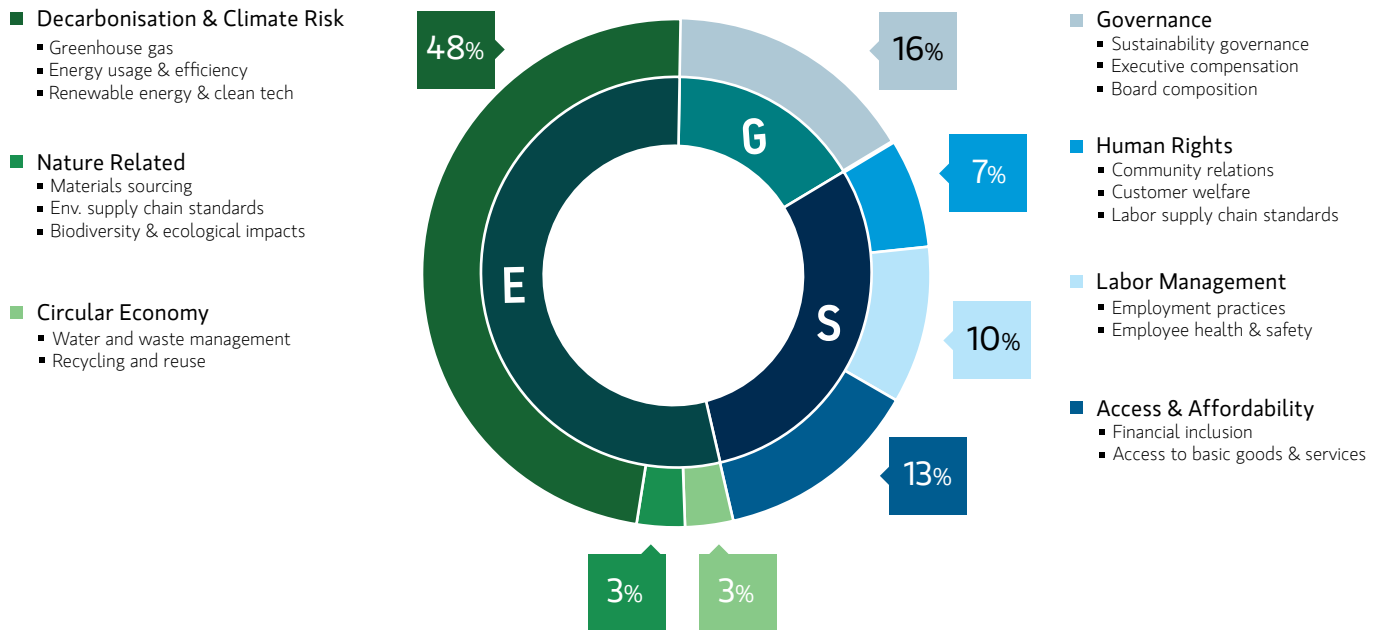
In 2023, we conducted 61 dedicated engagements on sustainability.² Environmental topics, such as decarbonization and water, were at the forefront of our discussions with company management (53%). We also covered social topics (35%), including worker safety, human rights and employment practices such as living wages and diversity programs more broadly. Notably, less than a third of our engagements in 2023 were initial conversations (*Displays 1A and 1B*). Our engagement program has naturally progressed towards targeted follow-up engagements on key issues that are integral to our investment thesis. Our engagements spanned multiple countries both in person and virtually (*See Display 2*). As our EM investors are based

regionally in Hong Kong, Singapore, Mumbai and New York, we bring a local perspective to these conversations which allows us to navigate both cultural and regulatory differences in our engagement strategy. Our opportunity to influence change hinges on our ability to bridge local norms with global best practices.

Governance was a consistent topic in 90% of our dedicated engagements. These conversations revolved around general disclosure, board transparency and incentives, providing us with insight into decision-making and alignment between management and shareholders. We proactively engaged with management about board composition well ahead

² All statistics in the following paper cover our dedicated engagement discussions. The Emerging Markets Equity team defines each meeting with a company on a sustainability topic as a separate engagement. We also incorporate environmental, social and governance (ESG) topics in our regular business meetings with management; however, we do not include these as part of our dedicated engagement statistics. Our engagements may include letters to management as a follow up to meetings and/or where we engaged the company directly ahead of sending the letter.

DISPLAY 1B

2023 Engagements by Topic^{2,3}

Both Primary and Secondary Topic. Source: Emerging Markets Equity Team data as of December 31, 2023

of a vote. In addition, we deepened our understanding of incentives, advocating for increased transparency on the topic that has yet to be standardized in emerging markets (EM). In many cases, the issue is not the magnitude of pay, but rather the absence of long-term incentives and lack of performance-based metrics that are significant for shareholders.

Decarbonization was a focal point in 79% of our engagements, as we sought to understand how companies are balancing the often divergent needs of the energy transition with growth and production objectives. These engagements have gained even more relevance in the wake of new carbon regulatory schemes such as the EU Carbon Border Adjustment Mechanism (CBAM). Several jurisdictions are considering the implementation

of domestic carbon pricing schemes to prevent carbon tax revenue being diverted to the EU. In fact, 63% of emerging markets already have active carbon markets, albeit with varying levels of ambition and efficacy.³

We also maintained our focus on **supply chains**, particularly in relation to human rights and nature-related issues, addressing the topic in 54% of our engagements. While human rights regulations are widespread, nature-related regulations have so far been localized in Europe. However, this is likely to change by 2025 when more than 51% of EMs are expected to adopt disclosure standards covering the supply chain (*Display 8*). We seek to understand management's accountability, processes and culture, as these elements offer insights into the company's risk management capabilities.

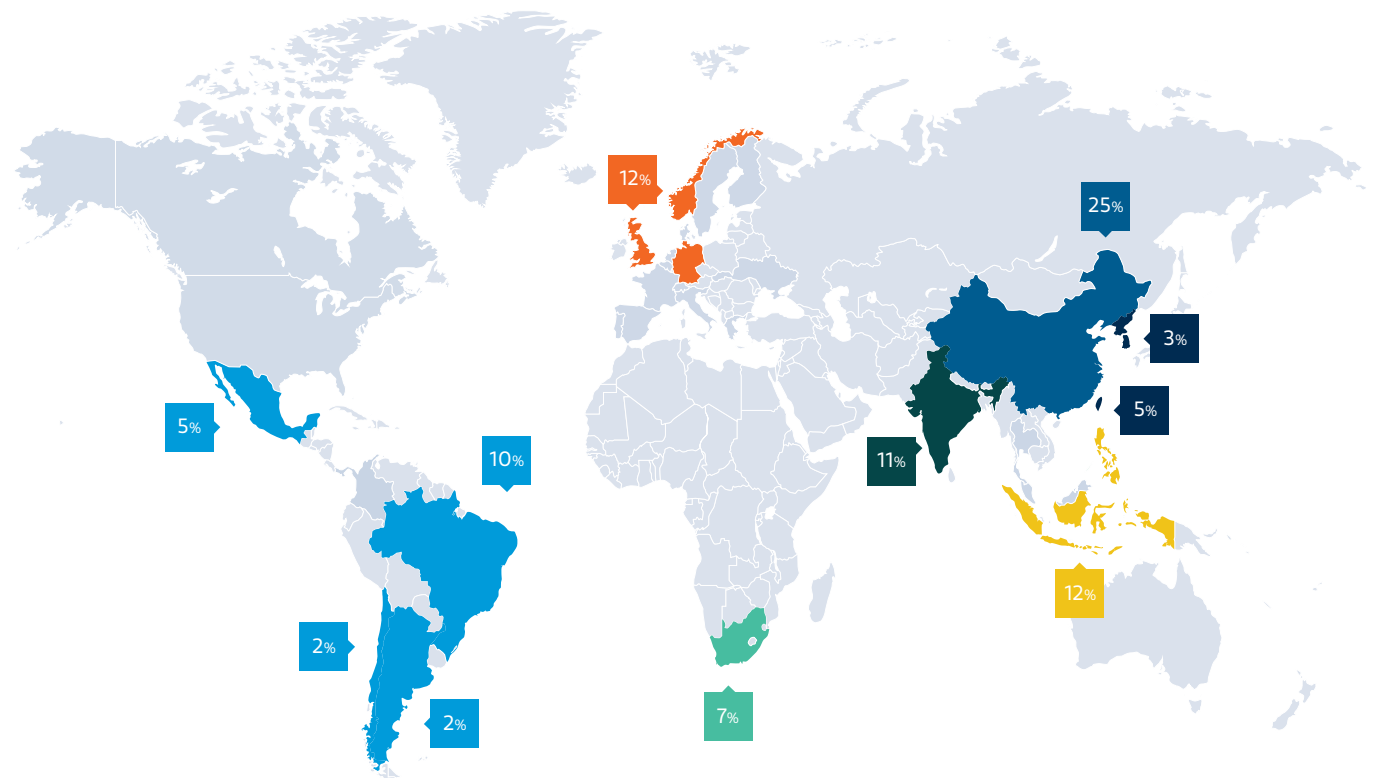
³ MSCI EM weights for China, Korea, Taiwan and India as of 31 March 2024.

Our engagements play a critical role in enhancing our research and investment process through the following:

Management Quality	We have found that the way company management identifies and approaches sustainability issues enhances our overall understanding of management quality and depth.
Transparency & Disclosure	Engagements offer us a platform to discuss transparency and disclosure practices with corporates, particularly with measuring and reporting non-financial data. Key operational metrics across environmental, social and governance issues can help us identify potential operating, regulatory and financial risks.
Best Practices	We encourage companies to think about moving toward global best practices in areas such as disclosures, board composition, executive compensation, environmental performance and employee health and safety. We believe improvements in disclosure practices and process can support long-term value creation.

DISPLAY 2

Engagements by Company Location²



Source: Emerging Markets Equity Team data as of December 31, 2023



GEM & Regional

The Challenge of Decarbonization

GLOBAL EMERGING MARKETS | GLOBAL EMERGING
MARKETS EX CHINA | SUSTAINABLE EMERGING MARKETS
SUSTAINABLE ASIA | ASIA EX JAPAN | CHINA A
CHINA | INDIA | LATIN AMERICA

While momentum towards decarbonization continues, absolute emissions are rising year over year, primarily driven by a few major emerging market economies (*Display 3*). Over the past two years we have taken a sectoral approach and focused on companies from high-emitting sectors given that these companies tend to face more public scrutiny and higher regulatory risks. Within EM, we believe that there are signs that companies are taking decarbonization more seriously with nearly half of EM companies now targeting net zero, a 32% increase from 2022.

Nonetheless, actual progress towards decarbonization remains limited. Our research and engagement approach is done on a company-by-company basis, taking into account that each company has differentiated levers and pathways for emissions reduction. As demonstrated in the following examples, we are mindful of the need to balance decarbonization progress with the appropriate expectations for each industry and region. We aim to understand these companies' climate commitments, as well as their plans to actualize change within their operations in order to mitigate both financial and regulatory risks, such as the EU's CBAM.

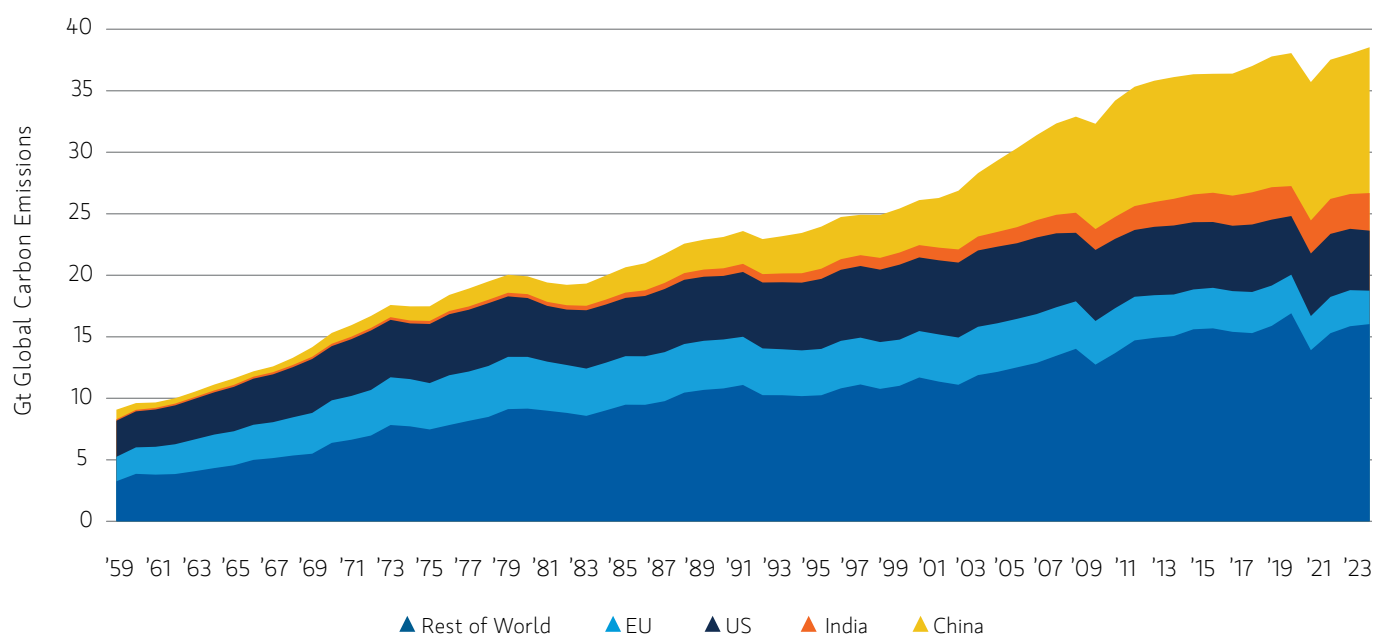
We closely monitor the regulatory landscape around emissions and decarbonization, considering how these regulations may impact not just where companies operate but also where they export to so that we can prioritize and proactively engage with the companies that could be most impacted by these risks. As we engage with companies on reducing emissions, we focus on:

1. Feasibility of the company’s emissions trajectory – We seek to determine if management’s emission reduction plan aligns with their growth strategy and whether they are accountable for meeting targets.
2. Mapping out the impact of decarbonization – We analyze how regulation will affect the company, including potential cost increases, savings, or spending that might affect our investment thesis.

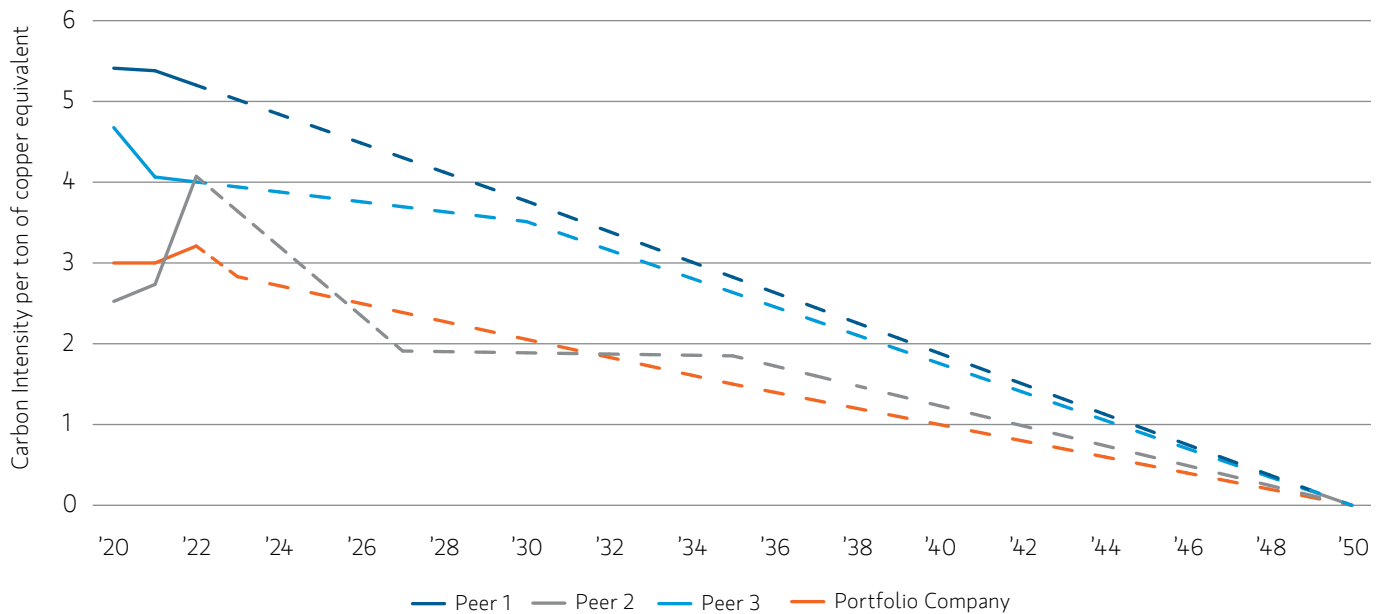
In many cases, we request greater transparency to understand the actual emissions reduction pathway, or we share best practices observed in the sector while the company is still in the planning stage. For example, in the **metals and mining** sector, decarbonization efforts are directly related to the company’s operations and energy

derived from the grid. In our Latin America and global portfolios, we have invested in a major copper miner with operations in Chile. When we first engaged in 2022, the company was working on decarbonization but had not published any plans. We recommended the company draft a detailed roadmap and provided best practices. By 2023, the company not only published a decarbonization plan but had achieved full energy replacement with renewables. We continued to engage with the company, asking for more details on the full decarbonization plan. Recently, the company published an updated emissions reduction pathway. The process of engaging not only contributed to improved disclosures but demonstrates the company has the potential to reduce emissions while improving operational efficiency and robust production results. As shown in *Display 4*, the company’s carbon intensity is already lower than industry peers’, and based on the company’s current emissions trajectory, we believe they will continue to be a leading player in the mining sector for decarbonization. We are conducting similar work with other metals and mining companies in our portfolios.

DISPLAY 3
Global Carbon Emissions From Fossil Fuels by Region, 1959-2023



Source: Global Carbon Budget

DISPLAY 4**Decarbonization Pathways for Copper Mining Companies to 2050**

Portfolio company held in our Latin America and Global EM portfolios. Peers 1, 2 and 3 are global companies whom the investment team believe are the closest competitors to the portfolio company. Source: Transition Pathway Initiative, Company Data. Forecasts/estimates are subject to change and may not necessarily come to pass.

For the auto sector, the majority of decarbonization efforts globally are focused on Scope 3 emissions, which account for more than 70% of a car's total lifetime emissions.⁴ Initially, car manufacturers believed electric vehicles (EVs) would be the solution. However, some manufacturers are scaling back EV targets, with a near-term shift towards plug-in hybrid electric vehicles due to consumer adoption challenges, particularly in the US and Europe. China, on the other hand, has been more successful with EV adoption primarily due to better affordability and charging infrastructure availability.

We engaged with two car manufacturers in our Asian and global portfolios to evaluate their ability to meet fleet-wide CO₂ emissions requirements for Europe. In the EU, to sell a new vehicle, each manufacturer receives its own emissions target with the region-wide target set at 93.6 g CO₂/km starting in 2025, and 49.5 g CO₂/km by 2030.⁵ The EU

will require car manufacturers to cut CO₂ emissions 55% and 100% for new cars by 2030 and 2035, respectively, versus 2021 levels. Non-compliance could expose car manufacturers to potential fines, which could also impact our long-term investment thesis. As shown in *Display 5*, each car manufacturer receives a specific annual emissions target for the vehicles they sell in Europe. While the majority of manufacturers met their target in 2022, our portfolio companies' average emissions were the lowest amongst European and other developed market peers. Both car manufacturers are strategically navigating more stringent requirements in the EU by optimizing their portfolio mix of traditional internal combustion engines (ICEs), plug-in hybrids and EVs. The two car manufacturers still aim to boost annual EV sales in the coming years but more recently, we have seen a distinct shift towards hybrids driven by better profitability and changing consumer preferences. Following

⁴ BNEF. The Lifecycle Emissions of EVs: 2024 Edition.

⁵ Regulation (EU) 2019 / 631.

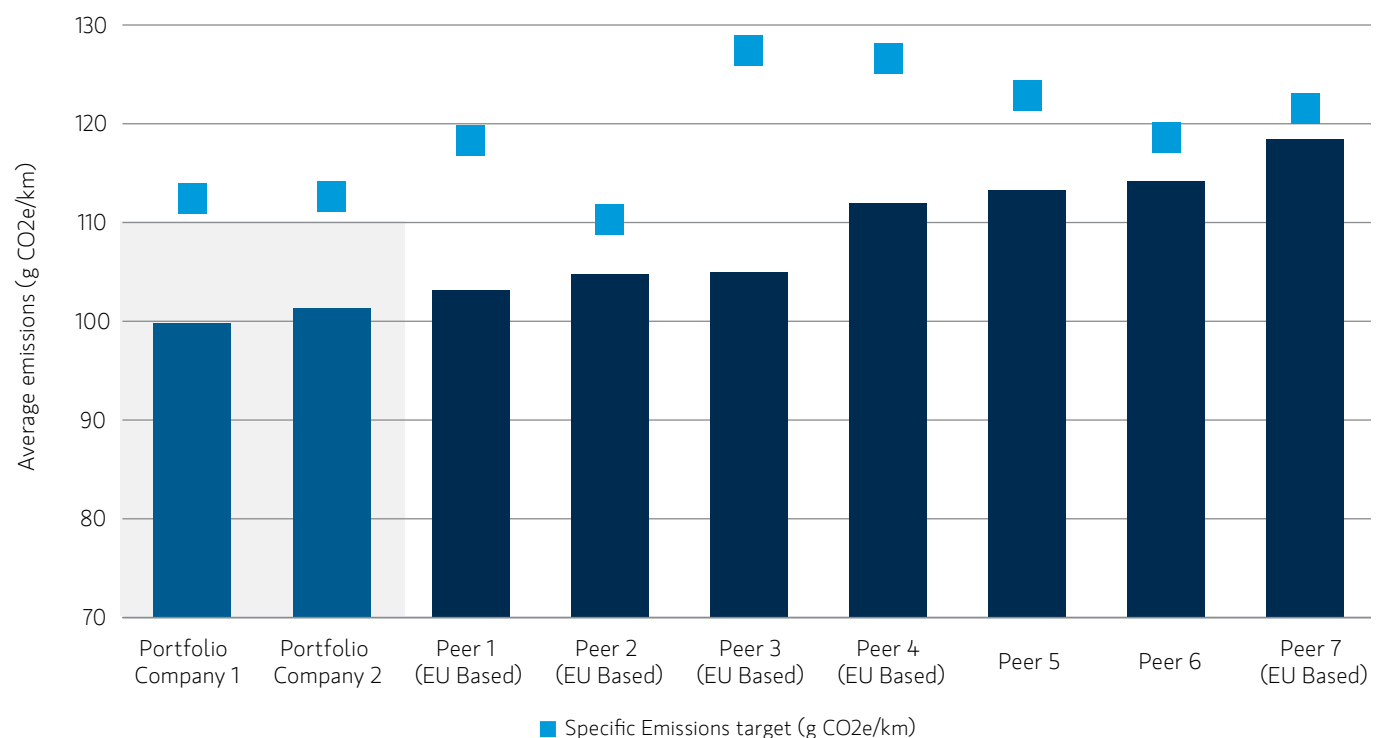
our engagements, we concluded that both companies will continue to maintain compliance in the next few years. We believe these two car manufacturers demonstrate strong quality management and production capabilities, allowing them to be flexible in their operations, which enables them to not only meet stringent emission standards, but also capitalize on current market dynamics and maintain long-term resilience.

In our global, Asia and India-dedicated portfolios, we hold an Indian conglomerate that is a key player in India's decarbonization progress. As one of the country's top polluters with a legacy **oil and gas business**, the company's initial goal is to build enough renewable capacity to meet their own energy demands. Subsequently, the company plans to establish a supply chain for solar panels outside of China, leveraging competitive labor dynamics and the availability of key input materials such as silica sand. As their renewables and clean energy business is part of our investment thesis, we wanted to follow up.

In the beginning of 2023, we provided management with a letter detailing previously discussed decarbonization best practices and requested more public disclosure. In addition to asking for interim targets with key initiatives to reduce emissions, we suggested that the company engage with third party climate ratings providers. We also recommended the company assign decarbonization oversight at the board-level and incentivize management accordingly. We soon started to see positive momentum as an external agency upgraded the company's score. Later in the year, the company released a new sustainability report which included sections addressing our specific recommendations, including annual milestones and the pathway for achieving emissions reduction. Further, the company also assigned oversight at the board and management levels. We believe this shows management is willing to take progressive steps towards operationalizing decarbonization goals.

DISPLAY 5

Carbon Dioxide Emissions of EU Fleets for Car Manufacturers in 2022



Portfolio companies held in our Global EM and Asia Equity Portfolios. Source: European Environment Agency



GEM & Regional

Aligning Executive Pay with Shareholder Value

GLOBAL EMERGING MARKETS | GLOBAL EMERGING
MARKETS EX CHINA | SUSTAINABLE EMERGING MARKETS
SUSTAINABLE ASIA | ASIA EX JAPAN | CHINA A
CHINA | INDIA | LATIN AMERICA

Executive compensation has long been a topic of scrutiny in developed markets (DM), especially in the U.S. Unlike in DM, where executive compensation is openly discussed, these conversations in EM are uncommon, and public disclosures are more limited. For EM companies, we encourage them to adopt long-term and/or performance-based pay, which demonstrates an alignment with shareholder interests and leads to long-term value creation. We understand that improvements in pay and incentives do not happen overnight, and our engagements with companies on this topic will be a longer-term, multi-year effort.

While there is no one-size-fits-all solution for analyzing pay and incentives, we have identified key principles and best-in-class practices (*Display 6*). We believe that incentives drive behavior. We are increasingly encouraged by the growing number of companies integrating ESG factors into their executive compensation programs. Over 80% of incentive plans now include at least one ESG metric, leading to greater accountability for ESG performance.⁶

DISPLAY 6

Emerging Markets Equity Views on Executive Compensation Schemes

COMPONENT	BEST PRACTICES	COMMON MISSTEPS
Objectives and Plan Types	<ul style="list-style-type: none"> ✓ Align incentives with both short- and long-term company financial and operational targets ✓ Long term incentive plans ranging from 50 – 70% of total pay ✓ Incentive pay should largely be based on performance share units (PSUs) ✓ Vesting over 3 years with performance linked clawbacks 	<ul style="list-style-type: none"> ✗ Lacking a long-term incentive plan, which is a missed opportunity to create longer-term alignment ✗ Too much pay in cash or time-based Restricted Stock Units (RSUs) can lead to lame ducks ✗ Revisions in the middle of the year ✗ Special equity grants and/or retention packages that is not reflective of company performance
Long Term Incentive Plans	<ul style="list-style-type: none"> ✓ Based on 3 – 5 year financially material metrics such as ROIC, ROE, Revenue growth, free cashflow ✓ Potential for total shareholder return modifiers can be a good incentive 	<ul style="list-style-type: none"> ✗ Too much weight given to total shareholder return ✗ Too few financial metrics ✗ Board discretion over vesting schedules ✗ Non-financial metrics do not belong in long term plans given overlap with annual milestones
Short Term Incentive Plans	<ul style="list-style-type: none"> ✓ Annual metrics such as operating income, working capital ✓ If relevant, adding sustainability targets such as improvements in workplace safety metrics, annual emissions or energy usage reduction, circularity and/or recycling targets, etc. 	<ul style="list-style-type: none"> ✗ Too much focus on total shareholder return ✗ Overlapping metrics with long-term plans ✗ Linking to external ratings agencies or scores
Governance & Accountability	<ul style="list-style-type: none"> ✓ Majority independent remuneration committee ✓ Public and individualized disclosure including details on how schemes are calculated 	<ul style="list-style-type: none"> ✗ Company executives on the compensation committee ✗ Overly complicated plans ✗ Too much regulatory involvement

⁶ 2023 Global Report on ESG Metrics in Executive Incentive Plans, Willis Towers Watson (WTW).



Sustainable

The Green Capex Opportunity in EM

SUSTAINABLE EMERGING MARKETS
SUSTAINABLE ASIA

We believe capital expenditures associated with green energy and technologies (“green capex”) will be a major driver of the global capex cycle in the next decade. Green capex jumped 17% from 2022 levels to reach a record \$1.8 trillion in 2023, with most investments deployed towards renewable energy and electrified transport.⁷ We are also seeing increasing momentum in power grid investments, including the replacement, upgrading, and the addition of power grid infrastructure as major markets struggle with the issues of constrained grid capacity and reliability. As the world’s largest emitter, China continues to be the largest market for energy transition spending, reaching \$676 billion, with Brazil and India also in the top 10 (*Display 7*). We anticipate this momentum to continue to be supported by regulatory tailwinds but ultimately driven by the private sector actualizing decarbonization progress through investments towards green technologies and innovation.

Many EM companies across industries, such as electrical equipment manufacturers and semiconductors, will benefit from the green capex theme. In the industrials space, we engaged with Brazil’s largest company that manufactures electric motors, industrial

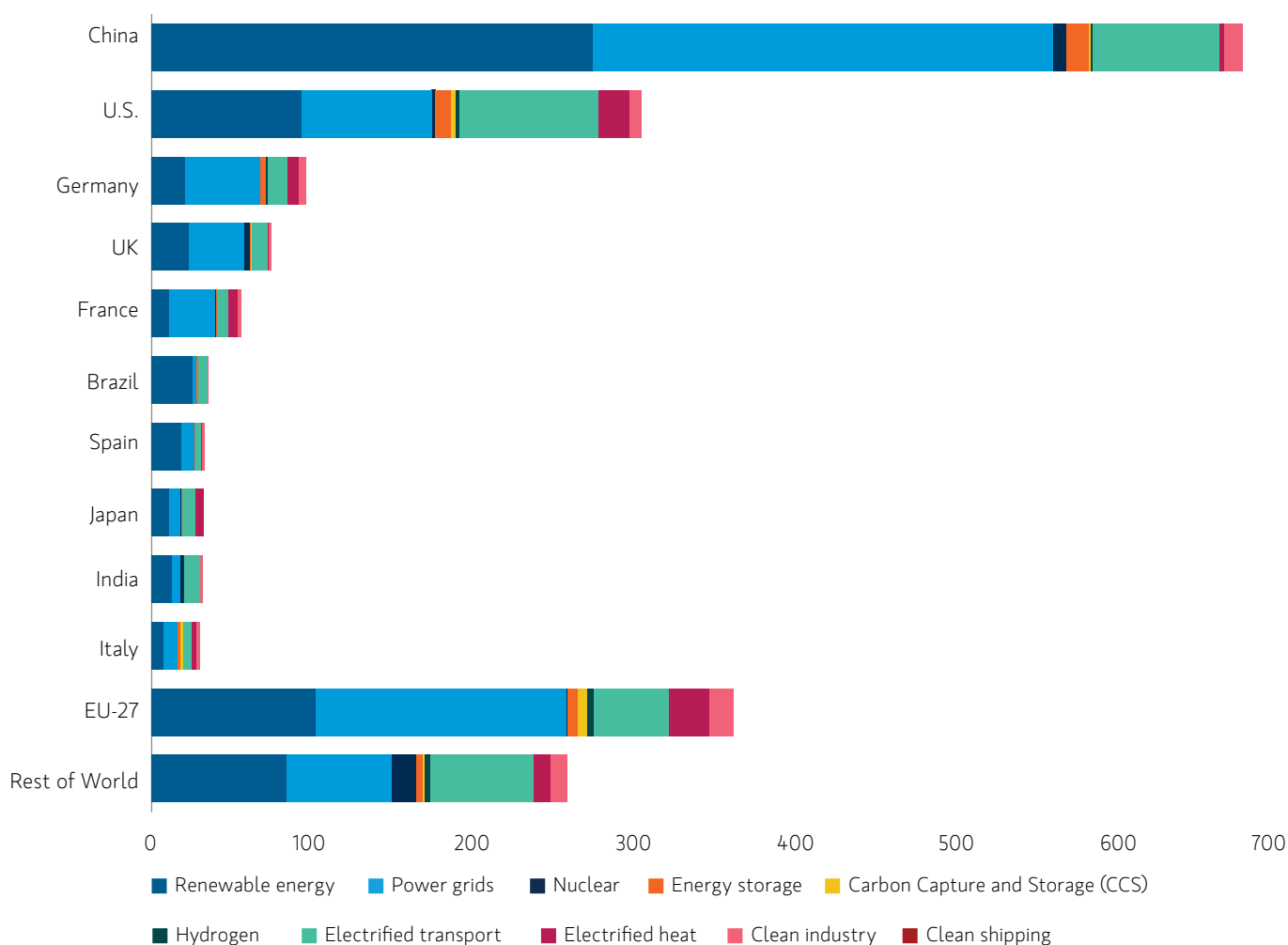
⁷ Bloomberg NEF. December 31, 2023.

automation equipment and equipment for energy generation, transmission and distribution. We believe that this company is a major beneficiary of the structural growth in green capex due to the sale of products in the renewable energy and generation, transmission and distribution segment in Brazil and Latin America, and also the US.

In order to accomplish this sustainably, the company needs to focus operationally on reducing emissions. During our engagement with this company, we emphasized this point, as the company has targets but has not provided enough details for investors to understand

the pathway to net zero emissions. As the company's vertical integration allows them more direct control over production, they have been able to decrease emissions intensity by 30% while revenues expanded 9%. We believe the company can achieve their targets but needs more time to operationalize them and have asked the company to improve disclosures to reflect this. The company demonstrates a commitment to reduce their own environmental footprint while remaining aligned with secular growth trends, including electrification, renewable energy and electric mobility globally.

DISPLAY 7
Top 10 Economies for 2023 Energy Transition Investment
 USD Billions



Source: Bloomberg NEF, January 30, 2024

Sustainable

Supply Chains in Focus

SUSTAINABLE EMERGING MARKETS
SUSTAINABLE ASIA

We have observed a sharp rise in regulatory interventions directed to enhance transparency and reporting within supply chains. The EU is at the forefront of this movement, introducing mandatory supply chain disclosure and due diligence schemes (*Display 8*). Implementing these requirements can be complex, as they put the burden of disclosure on companies, a practice unfamiliar to many EM suppliers. Many of these companies have never assessed the risks within their supply chains, or considered their broader, more localized impacts. We anticipate that companies leading the way in supply chain sustainability and transparency could gain a competitive edge relative to peers and potentially increase market share.

DISPLAY 8**Recent Regulations and Disclosure Requirements on Supply Chain**

COUNTRY	REGULATION	DATE
U.S.	Tariff Act of 1930 Section 307 Uyghur Forced Labor Prevention Act	2022
Germany	Supply Chain Act	2023
Mexico	Forced Labor Regulation	2023
EU	Corporate Sustainability Reporting Directive (CSRD) Corporate Sustainability Due Diligence Directive (CSDDD) Regulation on Prohibiting Products Made with Forced Labor (Proposed) Regulation on Traceability on Food (Proposed) Task Force for Nature Related Disclosures (TFND)	2024
Canada	Fighting Against Forced Labor and Child Labor in Supply Chains Act	2024
India	Supply Chain Disclosures required by the Bureau of Indian Standards	2024
Korea and Taiwan	Proposed Supply Chain Disclosure required in country framework based on International Sustainability Standards Board	2025
China	Proposed Guidelines on supply chain disclosure for larger cap and dual-listed issuers	2026

DISPLAY 9

Follow-Up Engagements on Supply Chain Risks in 2023

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

✓ Requested change was implemented ✗ Change requested but not yet implemented

In 2022, we engaged with several companies in apparel and IT sectors to assess their risk management practices concerning human and labor rights within their supply chains. In 2023, we followed-up with many of the same companies to monitor their progress (*Display 9*). While more than 65% of MSCI EM companies have pledged to respect human rights, 93% of developed market companies have already made this commitment.⁸ Despite their commitments, we have found that most EM companies still lack basic disclosures, including details of their suppliers and key metrics used for assessments.

As shown in *Display 10*, when engaging with corporates on supply chain, our approach is centered around four goals that enable us to assess companies' preparedness for supply chain regulations and the quality of their risk management strategies.

Disclosures on nature-related risks, such as biodiversity and raw materials sourcing have primarily been confined to companies operating in or exporting to Europe, with new regulations coming into effect, such as the Corporate Sustainability Due Diligence Directive (CSDDD) and the EU deforestation ban, as well as the Taskforce for Nature-

⁸ Bloomberg. March 31, 2024.

Related Financial Disclosures (TNFD). We are increasingly seeing a spillover effect into EM with more than half of emerging markets putting in place disclosure requirements (Display 8). Given our time horizon for investing, we integrate these risks for companies which are facing regulations over the next 2-3 years, and are currently engaging on the effects. For many companies, these disclosure requirements can lead to complications. During a recent visit to India, a leading personal and home goods company told us that they may have to cut ties with 80% of their raw materials suppliers due to new transparency regulations from the Bureau of Indian Standards. Suppliers unwilling to provide needed transparency and details could be replaced by companies that can comply with disclosure standards.

Companies with significant nature-related risks are increasingly a focus of collaborative investor-led initiatives, such as the UN PRI Spring Initiative launching later this year and Nature Action 100.⁹ In addition to these groups, third parties are starting to rate companies on nature related risks, often without any direct input from the companies themselves. This can lead to poor ranking for companies who may already be sufficiently managing risks, but are not yet showcasing it. A case in point is a dairy producer that we encouraged to disclose antibiotic usage and other food safety standards in their annual report last year. Recently the company made a commitment to zero deforestation by 2030 but did not provide detailed operational plans. Last year, we engaged with the

company and asked for more transparency on their plans. This year, the company published a nature-related report in line with the TNFD, with some details showing that they understand the risks and the required actions to take but have yet to fully operationalize the plan. In addition, the company completed a risk mapping exercise to measure their potential exposure to environmental risks, including water and palm oil. We believe that given the company's willingness to make changes, they will continue to make progress on improving disclosures on nature-related risks.

We also engaged for the first time with one of the world's largest tortilla and corn flour manufacturers. 60% of the company's cost structure is from raw materials such as corn and wheat. As a result, responsible sourcing practices are a key component of their sustainability strategy and efforts, and the company has established various criteria for supplier selection. The main obstacle for the company is a lack of awareness and education on sustainable agricultural practices amongst Mexican farmers. The company is addressing this challenge through several programs that engage with farmers on sustainable corn production and enhancing the productivity of crops through investments in research and development. The company still has room for improvement around disclosures and goal setting which we continue to engage on, but we believe that the company has a solid strategy in place regarding their exposure to nature-related risks.

DISPLAY 10

Engagement Goals on Supply Chain Risks



To understand **commitments** and how **embedded** they are in company culture, and whether they are translated into **action**.



Seek **transparency** and increased **disclosure** from management, in order to conduct our own due diligence.



Push for specific **accountability** including direct **oversight**, linked incentives, well communicated grievance channels, and responsible audits.



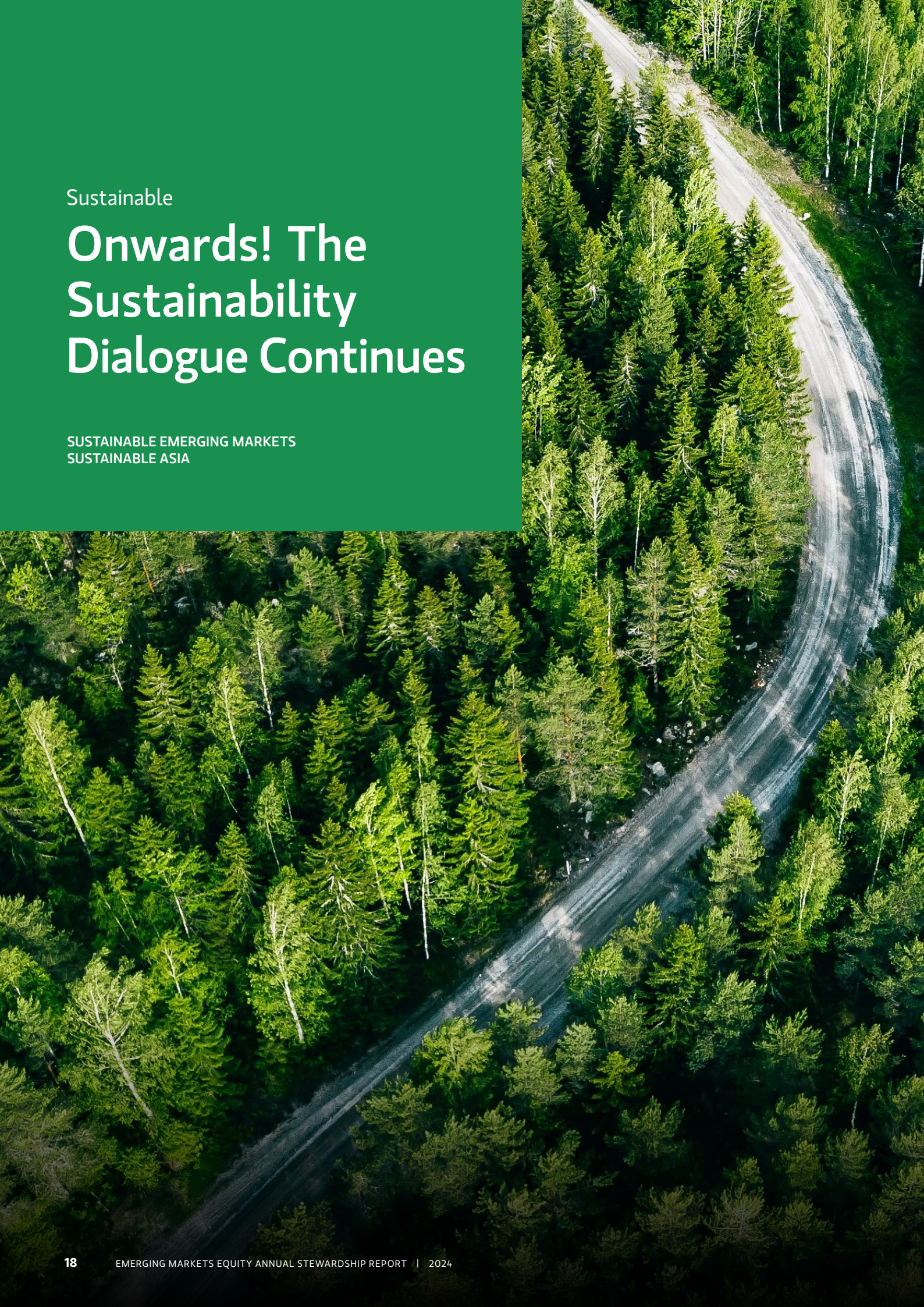
Help bridge the gap between policy and implementation by **sharing best practices** from other engagements and our own research.

⁹ Nature Action 100 is a global investor-led engagement initiative focused on supporting greater corporate ambition and action to reverse nature and biodiversity loss. Spring is a UN PRI Stewardship initiative for nature, convening investors to use their influence to halt and reverse global biodiversity loss by 2030.

Sustainable

Onwards! The Sustainability Dialogue Continues

SUSTAINABLE EMERGING MARKETS
SUSTAINABLE ASIA



Looking ahead, we will continue to engage on decarbonization, supply chain management, human rights, board composition and management incentives. Our engagement strategy is disciplined and process oriented with a focus on long-term results.

We believe this year will be an important one for making progress on decarbonization, especially with many companies' 2030 climate goals fast approaching. We expect to see continued focus on investment in renewables and energy efficiency as companies strive to reduce emissions while maximizing output and productivity. There is also growing awareness around the secondary impacts of climate change, such as biodiversity and nature-related risks. In particular, we are seeing more companies addressing water stress and scarcity in their sustainability and operational strategies, with increasing attention on water usage reduction, recycling and desalination technologies.

While we observed an increase in companies reporting on biodiversity and nature-related risks in 2023, we believe real progress will be highly dependent on corporates improving their approach towards supply chain risk management. For many companies, nature-related impacts and dependences are closely linked to their supply chains. EM companies, in particular, are still at early stages of mapping out these relationships, a process that can take several years to accomplish. In 2024, we expect a much greater focus on supply chain sustainability and accountability, driven by not only increasing materiality of nature-related risks but also domestic policies such as the US IRA (Inflation Reduction Act), as well as laws on human rights, coming into play.

Decisions about executive pay can have a material impact on a company. When compensation is well-managed, it aligns behavior with the company strategy and generates better performance, unlocking long-term value creation. Many EM companies are just beginning to increase disclosure and transparency around management incentives and compensation. Looking ahead, we believe there is still much progress to be made in ensuring that the incentive and pay structures in place are aligned with shareholder interests.

We expect 2024 to be a year of improving corporate sustainability disclosures and governance. We believe the regulations and new reporting standards shown in *Display 8* will help catalyze positive change and push companies to enhance disclosures, an area in which EM companies historically lag.

NextGen

Feeding Progress With Affordable Nutrition

NEXTGEN EM



One of the significant challenges to accessing nutritious foods is its affordability. It's estimated that nearly 46% of the ASEAN population struggles to afford a healthy diet.¹⁰ While we've seen an improvement in access as the population gravitates towards modern supermarkets and convenience stores, this shift has also consequently led to an increase in processed foods in diets across the region, exacerbating the existing levels of malnutrition and deficiencies. In 2023, we engaged with two FMCG (fast moving consumer goods) companies, one in the Philippines and the other in Indonesia.

In the Philippines, we sought to understand the company's strategic shift toward enhancing the nutritional value of their staple foods, such as canned fish, meat and powdered dairy. While the company has always

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Emerging Markets Equity Team*

¹⁰ International Institute for Sustainable Development, July 2023.



prioritized affordability and access, management recently added nutrition as part of their sustainability framework, adding protein delivery as a main pillar. The company has started to fortify the nutrients being delivered in their core products and introduce plant-based milks, as well as reduced sodium in certain foods. We also discussed consumer preferences such as plastic reduction and traceability. The company has been purchasing offsets for plastic and we recommended that they focus on finding a proper packaging alternative as customers ultimately prefer that over offsets. The engagement reinforced our confidence in the company as we recognize management's sustainability program as a key value proposition that differentiates their products from competitors.

We also conducted a follow-up engagement with an Indonesian dairy and consumer food products company. We believe that the company positively contributes to

access and affordability through their product offerings and distribution channels. An important and growing channel is door-to-door sales which is projected to increase from 9% of sales to 30%. This initiative employs more than 4,000 medium- to low-income women, providing them with an opportunity to earn extra income. While we commend the growth of this program, we encouraged the company to measure and disclose metrics to demonstrate its efficacy. We also urged the company to operationalize gender diversity in the company and the board. Regarding product offerings, the company began focusing on lower-income consumers in 2023, with affordable items such as yogurt stick packs costing 15 cents (USD) each and single-serve ready-to-eat meat products. We believe the company can be a leader in the affordable segment, leveraging its understanding of local consumer preferences and can produce quality nutritional products at an affordable price.

EM Leaders

Latin America's First E-Commerce Company To Publish a TCFD-Aligned Disclosure

EMERGING MARKETS LEADERS

We had a follow up ESG engagement call with one of our top 10 holdings, a Latin American e-commerce company.¹¹ Since our last engagement, the company has made ESG a priority and published extensive reports such as their annual ESG report, Task Force for Climate-Related Disclosures (TCFD), Impact Report and Sustainable Bond Report. The focus of the call was to touch base with the company and get updates on their ESG efforts and initiatives. We also wanted to address certain points that were highlighted by third-party rating agencies 1) Carbon intensity 84% higher than industry average 2) Data security and privacy.

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¹¹ Holdings subject to change daily. Portfolios may differ due to specific investment guidelines and restrictions.





We commend the company for taking the step to be the first regional operator to complete TCFD-aligned disclosure. Unlike peers, the company is leading the industry in Scope 3 emissions reporting. The company attributed the high carbon intensity to the internalization of its logistics chain, which saw a shift of its emissions from Scope 3 to Scope 1. Given that third-party rating agencies currently focus on Scope 1 and 2 emissions, this led to the company seemingly having higher Scope 1 emissions relative to its industry peers that typically outsource their logistics network (Scope 3). The company is cognizant of their emissions and is looking to reduce this using renewables and electric fleets. The company aims to publicly disclose their Science Based Targets initiative (SBTi) targets on net zero by the end of the year.

For data security, the company has 300 engineers dedicated to cybersecurity. As an online commerce platform that handles a significant amount of user data, we communicated that we noticed the lack of ISO 27001 certification which is the international standard for information security. The company assured that it adheres to other robust global standards but are exploring this certification for the future. Given that the company has had breaches in the past, we will monitor and continue to encourage the company to obtain the ISO certification.

We also discussed board diversity given that only 22% of the board are female. The company assured that this was on their radar and they have been discussing this internally. Given the complex company structure and regional landscape, they hope to find a balance between board stability for the long term while improving board diversity. The company has been very open to feedback, and it is commendable that management actively encourages regular feedback from external stakeholders. We will continue to actively engage with the company and monitor their ESG targets such as Net-Zero, use of renewables, data security and board diversity.

EM Leaders

Encouraging Key Contributor of Energy Transition Movement To Implement Internal Emissions Reduction Target

EMERGING MARKETS LEADERS

We had a follow-up ESG engagement call with a Taiwan-based original design manufacturer (ODM) of uninterruptible power supply (UPS), one of our longest-held companies.¹² The company provides an array of clean technology products such as photovoltaic (PV) inverters, energy storage systems and related components, making it a key contributor to energy transition. Despite their green product line, the company currently doesn't use renewable energy in its own operations. Instead, it relies on suppliers "to increase the proportion of green energy." To achieve their Net-Zero targets, the company relies on carbon offsets from customers' usage of their green products.

Although the company is leading in the green energy transition, it is important they display equal commitment to sustainable practice and responsible production in their own day-to-day operations. In a step toward that direction, the company plans to launch a 1.8-megawatt solar panel. This initiative is set to generate 25-30% of the company's energy supply.

On supply chain management, the company has received an EcoVadis silver rating for the past 2 years positioning them in the top 25th percentile compared to other businesses. The company assured us that they do not have any material sourcing from regions where forced labor risks are high and have implemented audits on major suppliers to ensure agreement with policy compliance. This includes provisions around employee protection, non-discrimination and respect for human rights, among others.

We urged the company to address their own Scope 1, 2 and 3 emissions directly rather than through carbon offsets from their products. We also suggested the inclusion of a list of specific ESG criteria used for supplier screening in their reports. The manufacturer has agreed to include these metrics into future ESG reports. Overall, the company is committed to the low carbon transition. We anticipate that the company will actively work towards reducing its own carbon emissions without fully relying on carbon offsets.

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Voting

Our Voting Results

GLOBAL EMERGING MARKETS | GLOBAL EMERGING MARKETS EX CHINA | SUSTAINABLE EMERGING MARKETS | SUSTAINABLE ASIA | ASIA EX JAPAN | CHINA A | CHINA | INDIA | LATIN AMERICA | EMERGING MARKETS LEADERS | NEXTGEN EM

Voting is an important element of our investment and portfolio management process. Voting gives investors a say in the management and governance of their investments. The proxy voting process has become more visible to EM managements and boards, and we have found, as shareholders, an opportunity for more proactive discussions around expectations for board independence, executive compensation and disclosure and transparency.

During 2023, the Emerging Markets team voted at 403 meetings on 3608 proposals in our portfolios (*Display 11*). The number of meetings was 7% higher than 2022 and we increased our votes against management to 12% of proposals (versus 11% in 2022).

The most common proposal topic for votes against management was Compensation, which overtook last year's most common topic of Directors Related. The team had a higher percentage of votes against management on compensation compared to 2022 (36% vs 26%) and slightly fewer votes against management on director elections. We believe this is due to better communication of our expectations for the board earlier in our engagement strategy, giving management more time to improve. We continue to uphold our goal of voting against non-independent board members where the board is not majority independent or where key committees are less than 2/3 independent. We also supported more shareholder proposals than last year (87% in 2023 vs 68% in 2022).

DISPLAY 11 2023 EM Proxy Voting Overview

	2023	VOTES AGAINST MANAGEMENT BY TOPIC	
Total Votes Cast	3608	Compensation	36%
Number of Meetings Held	403	Directors Related	27%
Management Proposals Voted On	3555	Capitalization	11%
Shareholder Proposals Voted On	53	Company Articles	9%
Votes With Management	3194	Routine Business	7%
Votes Against Management (including abstentions)	414	Strategic Transactions	6%
		Other ¹³	4%

Source: Emerging Markets Equity Team data as of December 31, 2023

¹³ "Other" category includes Audit Related, E&S Blended, Environmental, Miscellaneous, Non-Routine Business, Social and Takeover Related proposals.

Risk Considerations

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

DEFINITIONS

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

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