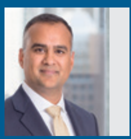
Morgan Stanley
INVESTMENT MANAGEMENT

2024

Fixed Income Engagement Report

FIXED INCOME TEAM | December 2024

"We strongly believe that engagement driven by investors is a vital component to supplementing our credit research, driving enhanced disclosure, and ultimately seeking to encourage long-term positive sustainable outcomes."



ANUJ GULATI
Managing Director
Global Head of Fixed Income ESG Strategy & Research

Contents

These examples represent how the portfolio management team(s) generally implements its investment process under normal market conditions. These examples are provided for illustrative purposes only. There is no assurance that the engagements will be successful and/or result in positive investment outcomes. Individual funds and client accounts may have specific ESG-related goals and restrictions. Please refer to governing documents of individual vehicles to understand their binding ESG criteria.

Foreword

Across Morgan Stanley Investment Management's Fixed Income group,[1] we view engagement as a marathon, not a sprint. We believe in the importance of conducting value-added engagements and seek to play a part in supporting debt issuers to accelerate their sustainable transition.

We strongly believe that engagement driven by investors is a vital component to supplementing our credit research, driving enhanced disclosure and ultimately seeking to encourage long-term positive sustainable outcomes.

In the 12-month period between July 2023 to June 2024, we conducted over 150 meetings focused on sustainability topics. In line with increasing regulation focused on disclosure for both investors and issuers, we doubled our engagement focus on ESG reporting and disclosure quality.[2] We also followed up with companies we had started to engage with in 2022,[3] as part of our ongoing biodiversity engagement series, and we initiated an engagement series focused on human rights.

Beyond the realm of corporates, we continued to roll out our engagement strategy with different issuers, conducting over two times the number of engagements with sovereigns, supranationals and government agencies versus the same period last year. We began to engage with issuers of securitisations in a more targeted manner, as part of our broader mandate to encourage positive change in markets that suffer from a systemic lack of ESG data, and to extend engagement efforts across all areas of our fixed income platform.

Our goals for the upcoming engagement period are to continue to expand our dialogue with non-corporate issuers, and to further our efforts to embed ESG-focused engagement into the daily work of our fundamental credit analysts and portfolio managers. Given our position to positively influence issuers of sustainable debt,[4] we also plan to focus specifically on engaging with these stakeholders to enhance their sustainable debt frameworks and impact reporting practices.

>150

ESG engagements conducted across the Fixed Income platform (12-month rolling basis)

>25%

Engagement themes covered Reporting & Disclosure, up 100% from last year

x2

Engagements with Sovereigns, Supras & Agencies

2

Detailed thematic series: Biodiversity & Human Rights

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[1] The engagement figures and examples in this report relate to activities conducted by investment teams within the MSIM Fixed Income group. This information does not represent engagement activities led by Calvert Research and Management ("Calvert"), MSIM's responsible investment affiliate, unless otherwise stated. Some team members of the MSIM Fixed Income group may, however, be dual-hatted by MSIM and Calvert.

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

[3] Over the second half of 2022 and 2023, we engaged with issuers on Biodiversity, in sectors such as food & beverage, utilities & financials.

[4] Sustainable Debt includes any labelled sustainable bond issuance, including, but not limited to, Green, Social, Sustainability or Sustainability-Linked bonds.

Introduction

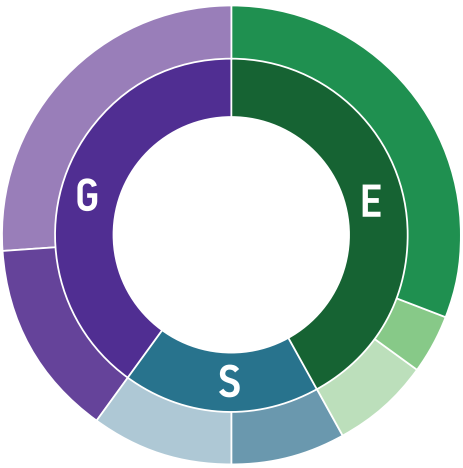
Environmental topics continued to play a core part in our discussions with issuers. A number of engagements focused on environmental target setting, on topics such as Scope 3 target setting, adoption of science-based targets, methane emissions reduction goals, or upstream and downstream risk management, among others. Our recommendations post-engagement increasingly comprised of biodiversity-related issues, as part of our ongoing biodiversity engagement series, including the implementation of formal biodiversity policies, and setting clear, time-bound commitments.

Over the past year, there was an uptick in governance-related engagements covering issuers' reporting and corporate governance practices. Discussing ESG disclosure became particularly prominent, as we saw more sophisticated reporting from some issuers which in turn helped us advise others on potential improvements, aiming to enable them to increase transparency with wider investors.

Away from corporates, we doubled the proportion of our engagements with Sovereign, Supranational, and Agency issuers ('SSAs'), as we continued to meet with governments as part of sustainable bond roadshows, collaborative initiatives, and direct engagement efforts. The insights gained from these meetings can help to facilitate our evaluation of a government's sustainability trajectory, informing our proprietary Sovereign Sustainability Model and investment process.

DISPLAY 1

Thematic Breakdown[5,6]



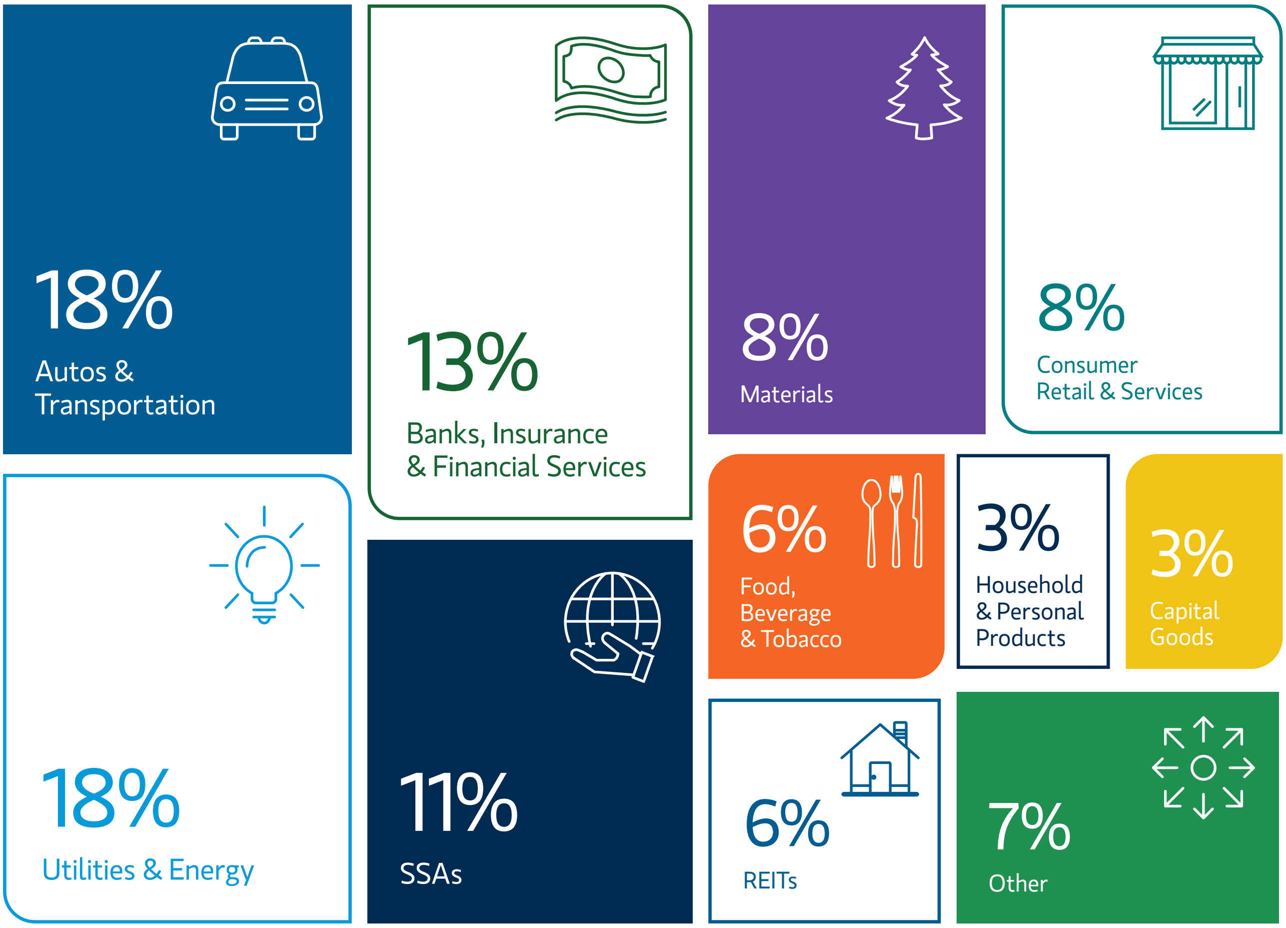
E	Decarbonisation & Climate Risk	31%
	Circular Economy & Waste Reduction	4%
	Natural Capital & Biodiversity	7%
S	Diverse & Inclusive Business	8%
	Decent Work & Resilient Jobs	10%
G	Corporate Governance	14%
	Reporting	26%

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

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

DISPLAY 2

Sector Breakdown



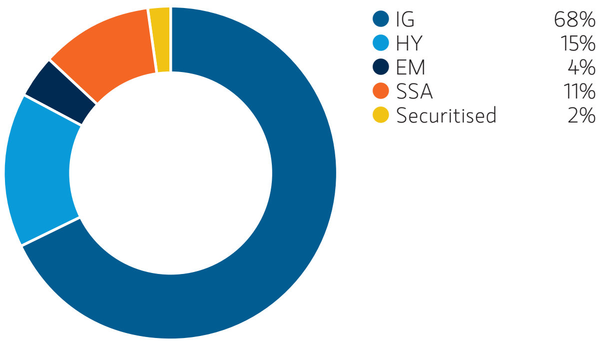
As illustrated in *Display 2,* carbon-intensive sectors such as Utilities and Autos continued to represent a large proportion of our dialogues with issuers, driven by the financially material nature of ESG considerations to their business as part of their low-carbon transition. Tertiary sectors such as Consumer Retail & Services, and Household & Personal Products, feature as a growing portion of our engagements, reflecting our increased thematic focus on encouraging human rights within these sectors (see 'Driving Human Rights across the Supply Chain').

Dialogues with Investment Grade (IG) issuers dominated our conversations. However, we have seen a significant increase in the number of our engagement meetings with sovereign issuers.

Engagement within the High Yield (HY) universe represents a significant opportunity to seek to induce positive change in issuers, and gain knowledge on ESG issues which may be factored in our credit evaluation process. Our share of bond holdings in HY companies tends to be larger compared to IG Credit issuers, which can in turn make our views more influential. Many HY issuers lack external ESG ratings and provide limited disclosure; we believe encouraging these issuers to level up their standard of public disclosure, in tandem with increasing awareness of sustainability within their C-suites, is beneficial for both investors and issuers.

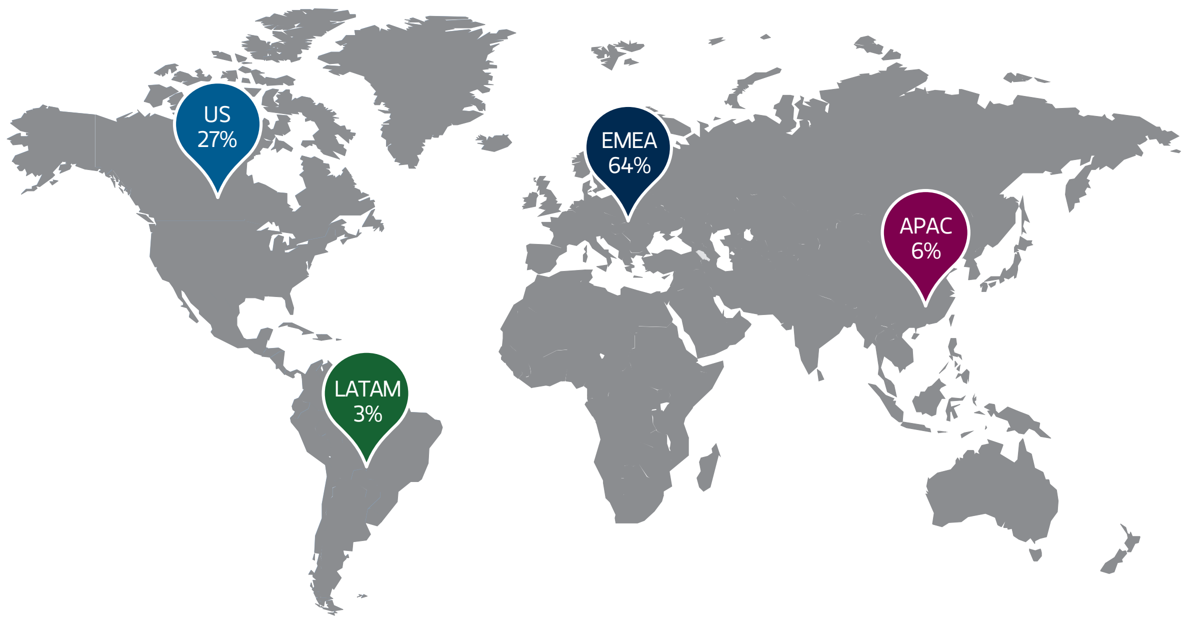
Finally, we expanded our engagement platform to incorporate a more explicit tracking of engagements with stakeholders involved in securitised deals. Whilst currently limited in scope, we engaged across a range of topics as appropriate, including environmental and climate risks, green building certifications, and bribery & fraud allegations.

DISPLAY 3
Breakdown by Issuer Type



As seen in *Display 4*, meetings with issuers based in the EMEA region comprised the majority of our engagements. This was, in part, attributed to the presence of a more sophisticated sustainable debt capital market, and developed sustainability strategies and resources, enabling more touchpoints with issuers.

DISPLAY 4
Regional Breakdown



Engagement

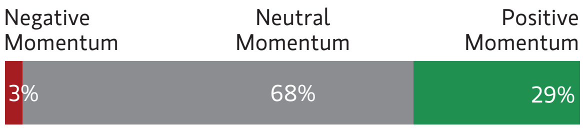
Relevance for Both Investors and Issuers

The purpose of our engagement strategy is to fulfil two key goals:

1. Gathering relevant ESG information which may not be available in disclosure, supplementing our investment decisions, and supporting objectives of avoiding downside risk whilst pursuing positive sustainable outcomes; and,
2. Targeting specific objectives across the spectrum of ESG factors, to promote sustainable products, solutions, operations, and governance, as appropriate.

DISPLAY 5

Analyst View of Sustainability Trajectory

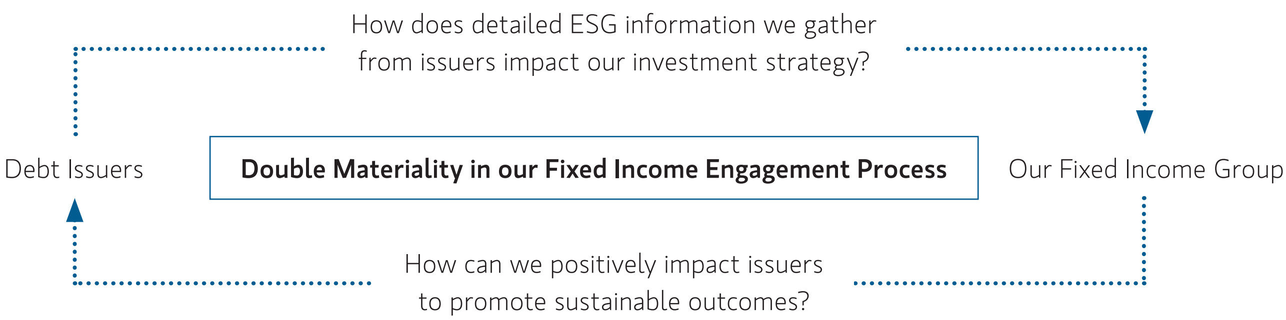


> "Through our engagement strategy, we seek to employ a 'double materiality' approach. In this process, we aim to assess how ESG information gathered in engagements impacts our investment strategy and, conversely, how we can positively impact issuers to promote sustainable outcomes."
>
> —Rachel Smith, *Fixed Income ESG Strategy Specialist*

Additional ESG information garnered from engagement is critical to our assessment of a company's sustainability strategy and importantly, their trajectory. In over a quarter of our engagements, we identified positive momentum from the company's response to our questions. Our evaluation of a company's efforts to drive towards sustainability best practice is conducted through a qualitative assessment, and helps to reinforce our fundamental credit analysts' viewpoints on company governance processes—and ultimately credit worthiness.

DISPLAY 6

Double materiality chart



The following are examples of engagements impacting our investment decisions, such as eligibility for certain portfolios, or contributions towards our decision to buy, sell, or remain invested in an issuance:

1 Integrating engagement information

As an example, in late 2023 we requested a meeting with a high yield toll road operator to discuss the company's approach to maintenance and safety following significant ownership changes. In early 2024, the company clarified that exposure to high-risk assets, such as bridges, was now only 0.01% of highways managed by the group. The group also provided detail on the safety of its highways and corporate strategy, which our team considered as a marked improvement from the previous management's approach to safety. This included the intention to identify a Climate Change Adaptation Plan in 2024, which will detail measures to mitigate the highest priority risks found in their assets.

Our analysts concluded that the company was displaying positive momentum with respect to their management of these risks, with our fundamental analyst noting a positive impact on our investment strategy. Due to the use of external personnel for inspections, multiple levels of internal oversight, and elevated maintenance expenditure as a percentage of toll-road revenues versus levels observed under less effective management regimes, our ESG analyst upgraded our ESG evaluation of the company, making the company eligible for certain ESG strategies. Our fundamental analyst has assessed the company's operating performance to have been strong since January 2024.

2 Targeting positive sustainable outcomes

In addition to tracking impact of engagement activities on investment decisions, we seek to evaluate whether there has been any tangible positive outcomes from the issuers with whom we engage. We aim to follow-up with issuers that we provided specific recommendations to, and evaluate the success of the engagement.

For example, we have been engaging with a high-yield climate solutions provider on their green bond reporting since 2021[7] due to concerns around transparency and granularity in both allocation and impact reporting. In our engagement last year, the issuer published relevant supplementary information on their green notes' impact within two weeks of our request, enhancing the company's commitments on sustainability disclosure. We view this as evidence of a positive sustainability outcome, linked to governance and reporting. We followed-up with the issuer a year later in June 2024, ahead of its inaugural green bond offering as an IG issuer and continued to provide best practices on impact reporting. This included recommending a breakdown of component KPIs used to derive its proprietary carbon accounting metric, and requesting an auditor attestation to be included with the company's more granular report, which itself was an outcome of our engagement in 2023.

[7] Calvert initiated the engagement in 2021, which is now run by the relevant Fixed Income ESG Analyst separately to the Calvert Corporate Engagement team's activities.

Collaborative Engagement

Collaborative engagement enables us to have a stronger voice and reach as fixed income investors, as we raise our concerns with issuers. Issuers, on the other-hand, benefit from receiving more consistent feedback and recommendations to implement in their strategies and frameworks.

PRI ADVANCE

Through the PRI Advance Collaborative Stewardship Initiative, the Fixed Income group is a co-lead investor for an ongoing engagement with a global mining company on their human rights and labour risk management. This platform has enabled us to gain unique insight, which otherwise would have been less accessible. For instance, in Q4 2023, we participated in a meeting with NGOs representing affected communities in Latin America, to understand the main issues of concern for the company's local operations and inform our asks of the company. The NGO representatives outlined certain gaps in the company's process in their engagement with local communities, such as obtaining Free Prior and Informed Consent (FPIC) from indigenous groups.

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

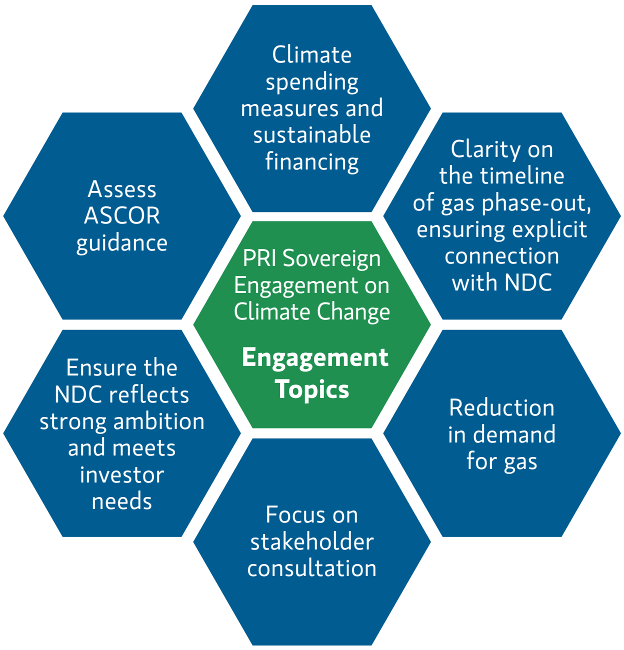
PRI COLLABORATIVE SOVEREIGN ENGAGEMENT ON CLIMATE CHANGE

Led by the Principles for Responsible Investment (PRI), MSIM and 26 international investors, collectively responsible for $9.5 trillion in Assets under Management, have been engaging with various stakeholders in the Australian government.

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

We have been engaging on the topics shown in Display 7:

DISPLAY 7



[8] Free Prior and Informed Consent – An Indigenous Peoples' right and a good practice for local communities – FAO | United Nations For Indigenous Peoples.

Case Studies

Driving Human Rights Across Operations and the Supply Chain

The UN Universal Declaration of Human Rights enshrines key rights and protections to all human beings, importantly—the right to live with dignity, the right to free choice of employment, and to just remuneration, among others. Introduced in 2011, the UN Guiding Principles on Business and Human Rights (UNGP) highlights the role that businesses play in ensuring these basic, untenable rights of workers, local communities and affected stakeholders. However, given that the UNGP are non-binding, implementation lies with the company. Further recent developments, such as the EU Corporate Sustainability Due Diligence Directive (EU CSDDD),[9] incentivised the roll-out of our thematic series focused on human rights in 2024, targeting engagement with retail companies to encourage their alignment to the core UNGP indicators.[10] We believe that through prioritising conversation with companies that either have low scores on the World Benchmark Alliance (WBA) Corporate Human Rights Benchmark, or names we have large exposure to, and diversification across investment grade, high-yield, and emerging market issuer types, we can effectively leverage our influence and prompt improved human rights management. Our assessment framework was structured around the company's performance based on the six indicators shown in Display 8:

> "According to the International Labour Organisation, 450 million people work in supply chain related jobs. As investors, we believe in the importance of incentivising companies to ensure protection of human rights in all tiers of the supply chain, especially given the non-binding nature of the UNGP enabling powerful global companies to act without accountability."
>
> —Chiara Sirani, *Associate, Fixed Income ESG Research Specialist*

DISPLAY 8

[9] EU CSDDD: European Corporate Sustainability Due Diligence Directive, which came into force on 25th July 2024.

[10] 13 Core UNGP indicators formulated by the World Benchmark Alliance ('WBA') Corporate Human Rights Benchmarking Alliance, https://www.worldbenchmarkingalliance.org/research/corporate-human-rights-benchmark-core-ungp-indicators/.

Calling for Better Disclosure of Human Rights Protections in Complex Supply Chains

BACKGROUND

Our Fixed Income ESG research and Emerging Markets fundamental analyst engaged with an EM consumer retail company in Q2 2024, as part of our thematic human rights series, to drive better disclosure regarding the scope of the company's businesses covered by the human rights policy. In our analysis of the company's Human Rights policies, prior to the engagement, we noted that whilst some subsidiaries were signatories to the UN Global Compact ('UNGC'), it was not clear whether the whole company was a UNGC signatory. We also had queries around the company's Human Rights Due Diligence reporting. We met with representatives from the company's investor relations team.

ISSUER RESPONSE

The company stated that the scope of their human rights policy does not include all companies in their business, and they are working to get companies signed up and get board approval. The company also noted that not all of their businesses are signatories to the UNGC. Given this, we encouraged the company to provide clarity on the scope of their policy, as this is important for us as investors to understand potential risks involved. We also encouraged the company to set a commitment to have all companies covered in the future and highlighted that participation in the UNGC is best practice in the market, promoting the fulfilment of fundamental human rights responsibilities.

In terms of due diligence, the company confirmed that its human rights due diligence included topics such as labour rights, diversity and equality, well-being, and lack of corruption, among others. However, we found that the scope of application of these rights was unclear, particularly whether these extended to broader operations and multiple tiers of the supply chain. The company representatives elaborated that their human rights due diligence covered most business units and Tier 1 suppliers, and they are still in the risk assessment process, with assessments focused on social impact and tailored to each specific supplier. We were pleased to clarify the scope of the diligence processes and encouraged the company to add both the scope, and results of due diligence by topic and risk, in the next report.

OUTCOME

Our analysts found that the company's human rights efforts were moving in a positive direction, given that representatives were eager to hear our perspectives, and volunteered to follow-up with more information where relevant in the meeting. Upon our follow-up review later in 2024, we found that the company had partially implemented two of our key asks: their 2024 human rights report clarified a list of issues that the company reviews under its human rights due diligence, and the company had published a list of the related key risks.

Engagement Impacting our Investment Decisions in Action: Avoiding Deforestation and Human Rights Risk

BACKGROUND

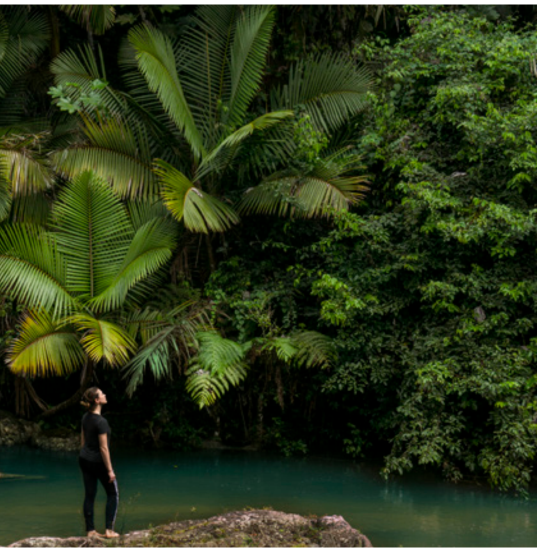
In Q2 2024, we engaged with a chocolate manufacturer as part of their pre-issuance roadshow for a conventional bond. The fundamental credit and ESG research analysts had identified some financially material ESG risks, and aimed to specifically engage on:

- The company's large upstream risk on human rights, including child labour in West Africa; and,
- Potential sourcing from a palm oil producer flagged for alleged deforestation in the Indonesian rainforest.

ISSUER RESPONSE

The company responded to our questions post-meeting.

We questioned company representatives on the escalation, audit, and monitoring processes in place to tackle the high volume of reported cases of the use of child labour by cocoa suppliers. The company noted that they rely on suppliers to conduct their own human rights impact assessments and may assist them in developing human rights impact and grievance mechanisms. No proper explanations were provided on the volume of misconduct, escalation process, and remediation mechanisms available to the victims, and affected communities.



On the issue of deforestation, our team asked the company for details on their engagement with the palm oil supplier accused of deforestation. The company noted they do not source directly from this supplier and have commissioned an independent assessment of all the palm oil mills they source from globally. However, the company had not yet imposed a suspension on Tier 1 suppliers who source from the high risk identified upstream supplier and are engaging with them currently to obtain more details of the allegations.

Our fundamental credit and ESG research analysts found that whilst the deforestation controversy appeared to be addressed to a sufficient level, the risk of child labour and human rights abuses appeared to be ongoing. The company faces significant NGO scrutiny, and our analysts noted this could present future regulatory risk due to upcoming EU requirements to identify and address adverse human rights and environmental impact within the supply chain.

OUTCOME

As a result, we passed on the deal, with the engagement having a negative impact on our investment view of the company. The response from the company highlighted the presence of financially material ESG risk, which our team sought to avoid. Our analysts are continuing to monitor the company and maintain open avenues for discussion. Recently, our ESG analyst attended a webinar hosted by the company on their approach to the EU Deforestation Regulation.

Encouraging Investor-Sovereign Dialogue to Improve Labelled Sustainable Bond Frameworks

BACKGROUND

Since 2021, we have been engaging with an APAC sovereign on ESG issues. We met with members of the issuer's financial management and treasury offices in Q3 2023 to discuss their upcoming green bond issuance, to clarify the use of proceeds allocation and understand their intended reporting practices.

ISSUER RESPONSE

We raised the issue of double counting proceeds, given that the country is a federation, and this could result in inappropriate allocation of funds to eligible programmes already covered by local state financing. The representatives assured us that appropriate preventative mechanisms are in place, with an ongoing committee to reduce the risk of double counting of impact or assets. On the reporting and allocation front, we recommended that the issuer focus on evidencing outcomes and provide reporting annually, as frequency of reporting reflects an issuer's level of ambition.

> "Sovereigns aim to be at the forefront of the sustainable finance market, focusing on setting best practices for corporates and other issuers. Fixed income investors play a key role in this process by providing feedback on how sustainable bond issuance frameworks can be improved to respond to an evolving and demanding market, increasingly more focused on impact measuring."
>
> —Mariana Jordao, *Vice President, Fixed Income ESG Research Specialist*

The issuer had a particular interest in eligible projects linked to its low-carbon transition, such as climate change mitigation, adaptation and natural capital. The representatives asked us, in relation to their efforts to decarbonise the fossil fuel sector, if it was problematic for green bond financing to be allocated to this sector. Our team responded that we would need to assess the extent of the financing, relevant lock-in risk, and whether this allocation would prolong the life span of these assets.

OUTCOME

Our analyst found the initial meeting to be positive, allowing our analysts to provide meaningful recommendations on the structure of the issuer's green bond framework. We planned to schedule a follow-up meeting upon the publishing of the framework.

In Q2 2024, our ESG and macro research analysts met again with members of the issuer's financial management office. We were pleased to learn that the issuer's green bond framework, published in Q4 2023, had been supplemented by feedback from both investors and regional sovereign green bond issuers.

The issuer had incorporated many of our recommendations into their framework. Most notably, this included: a strict eligibility process to exclude any projects managed by other entities, to avoid double counting; adding fossil fuels to the framework's exclusion list based on our feedback; and, plans to report annually on the issuance's impact and allocation. As a result, we found that the dialogue with the issuer was successful in delivering our key asks.

Addressing the Need to Protect the Planet's Natural Capital & Biodiversity

BACKGROUND

As mentioned in our 2023 Engagement Report, Natural Capital & Biodiversity is a key thematic priority for the Firm and our Fixed Income engagement strategy. The 2024 Global Risks Report, produced by the World Economic Forum, ranks biodiversity loss and ecosystem collapse as one of the most critical risks we face, requiring united, private-public sector collaboration.[11]

Over the reporting period, we followed up on previous biodiversity engagements, and conducted a thematic biodiversity engagement series. We focused on high-risk sectors, including agriculture, consumer, and paper and packaging companies. Our assessment was based on the following indicators:

DISPLAY 9

In Q4 2023 we met with a household and personal products company, following an initial discussion with representatives on biodiversity and deforestation in 2022. In our previous engagement, the company's Chief of Sustainability had limited awareness of biodiversity. We had encouraged the company to:

1. Familiarise with the outcomes from COP15;[12]
2. Consider Taskforce on Nature-related Financial Disclosures (TNFD) recommendations and conduct a biodiversity impact and dependency assessment;[13]
3. Reconsider the materiality of biodiversity to prioritise the theme in their agenda and integrate biodiversity more in business considerations;
4. Set a clear time-bound company-wide commitment to ending deforestation; and,
5. Publish a deforestation grievance log.

[11] Businesses are recognizing the threat of nature-related risks | World Economic Forum (weforum.org); WEF_The_Global_Risks_Report_2024.pdf (weforum.org)

[12] UN Biodiversity Conference 2022 ('COP15').

[13] The Taskforce on Nature-related Financial Disclosures ('TNFD') have published a series of recommendations for companies to meet corporate sustainability disclosure requirements and be in line with the Kunming-Montreal Global Biodiversity Framework.

The aim of our meeting in Q4 2023 was to clarify the company's efforts to implement our previous recommendations, and to continue to push for monitoring and measurement of biodiversity interdependencies; company wide-deforestation goals; and the publication of the related grievance log.

ISSUER RESPONSE

In the 2023 call, the company confirmed the recent creation of a team specifically focused on biodiversity, familiarising with related reporting frameworks including the TNFD and developing a double materiality assessment. Our analyst encouraged the company to prioritise familiarisation with the TNFD framework and to publish biodiversity dependency and impact reporting. The company confirmed that they had not considered reporting on TNFD recommendations and noted the suggestion.

With respect to deforestation, a grievance log had not been published at the time of our second meeting, yet the company confirmed that it was working on publishing it, clarifying grievance procedures with excluded suppliers and any escalation practices. The company highlighted to us that our discussion in 2022 was helpful for them to push internally for this disclosure, as they were able to evidence to their Sustainability Committee that not only NGOs, but also investors, were requesting this information.

OUTCOME

A few months after our meeting, the company published a grievance log for palm oil suppliers, improving their reporting and transparency on this forest-risk commodity.[14] Our team views this as a partial success; we aim to continue engaging to discuss the potential publication of grievance logs for their other material forest-risk commodities, including soy, pulp and paper; as well as continuing the discussion on company-wide deforestation goals and biodiversity assessments.

[14] Forest risk commodities as defined under the EUDR include commodities such as Palm oil, cattle and cocoa; and are high risk of being linked to deforestation. Per, the regulation, any company producing/ exporting these commodities on the EU market, must prove that the products do not originate from recently deforested land or have contributed to forest degradation.

Working Together with Investee Companies to Drive Improved Policies, Governance, and Disclosure

BACKGROUND

In Q2 2023, we engaged with a metals and mining company on a broad range of sustainability issues, including their decarbonisation plans, human rights practices, and the just transition. Specifically on human rights, our analysts found that the company was lagging peers, and provided recommendations to increase accountability on human rights issues.

As a result of this engagement, the company reached out to our analysts to request investor feedback on their Modern Slavery Statement. Our ESG research and fundamental credit analysts met with the company's representatives for human rights in Q4 2023, to discuss the statement and provide recommendations to improve their disclosure and human rights approach.

ISSUER RESPONSE

Whilst the company's statement was comprehensive, and first-line management systems clear,[15] our analysts found the company to lag peers on their human rights governance process. In particular, second and third-line management appeared to be less developed versus peers, including the responsibilities for the monitoring of human rights risk mitigation or follow-up actions. The company's statement was abstract and high-level compared to peers, and our analysts recommended further granularity on their risk management approach.

The company uses a high/medium/low risk rating approach to audit suppliers, which we found to be unclear in defining the scope, recurrence, and sites identified within the statement. Hence, we recommended disclosure on the specifics of methodology used, and more details on grievance and misconduct mechanisms.

Furthermore, whilst the company has some audits in place, they have no clear goals and wanted to gain feedback on how to better integrate auditing into their risk assessment process. Our analysts encouraged the company to use audits as a proactive form of risk assessment, and highlighted our preference for independent, unannounced audits (especially for high-risk assets). We also made clear to the company that we prefer seeing forward-looking audit targets as proof of active monitoring and prevention, rather than seeing audits triggered only once a controversy has occurred. The forward-looking targets, together with broader forward-looking goals related to human rights are best practice to understand the direction of travel of a company.

The company noted our feedback during the meeting, which was timely given they were planning to refresh their Modern Day Slavery Statement in Q1 2024.

OUTCOME

After publication of the report, our team found that the company had defined a three lines of defence model including Tier-1, Tier-2 and Tier-3, for its risk management approach, and a new goal in relation to the auditing of their suppliers, successfully delivering on two of our key asks. The company had also appointed a social auditor panel, with supplier audits to commence in 2024.

On our other key asks, several had been partially met. We plan to follow up with the company to continue to drive enhancements within their Modern Slavery Statement, and broader human rights policies.

[15] First line management refers to company leadership responsible for managing risk, second line refers to internal risk management teams, and third line management systems include internal audit teams, providing independent objective assurance.

Meet the Team

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Team members may change without notice from time to time.

PRI Principles for Responsible Investment

MSIM has been a signatory to the UNPRI since October 2013. Please refer to Section on Collaborative Engagement for more information on the Fixed Income organization's participation with PRI-led initiatives.

As part of the 2023 PRI assessment, MSIM Fixed Income received 5/5 stars and scored well above the median scores in the following modules:

MSIM received 5 stars in all Direct - Fixed Income modules	MSIM received 5 stars in the Direct - Infrastructure module	
MODULE NAME	**MSIM AND MEDIAN SCORES (/100)**	**MSIM STAR SCORE (1 TO 5)**
Direct - Fixed income - SSA	95 / 59	★★★★★
Direct - Fixed income - Corporate	95 / 68	★★★★★
Direct - Fixed income - Securitised	98 / 67	★★★★★

Source: PRI Assessment Report for Morgan Stanley Investment Management, 2023. Signatories report on their responsible investment activities by responding to asset-specific modules in the Reporting Framework. Each module houses a variety of indicators that address specific topics of responsible investment. Signatories' answers are then assessed and results are compiled into an Assessment Report. The Assessment Report includes: indicator scores – summarising the individual scores achieved; module scores – grouping similar indicator scores together into modules (e.g. Policy Governance and Strategy) and comparing them to the median scores; and an aggregation of all the indicator scores within a module to assign a rating of 1 to 5 stars. More information is available on PRI website at https://www.unpri.org/reporting-and-assessment/how-investors-are-assessed-on-their-reporting/3066.article

Please refer to MSIM's 2023 Transparency and Assessment Reports through the following link: https://www.morganstanley.com/im/publication/resources/msim_pri_transparencyreport_en.pdf

Risk Considerations

ESG ratings are relative and subjective and are not absolute standards of quality. Ratings apply only to portfolio holdings and do not remove the risk of loss. 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.

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. **Fixed-income securities** are subject to the ability of an issuer to make timely principal and interest payments (credit risk), changes in interest rates (interest rate risk), the creditworthiness of the issuer and general market liquidity (market risk). In a rising interest-rate environment, bond prices may fall and may result in periods of volatility and increased portfolio redemptions. In a declining interest-rate environment, the portfolio may generate less income. **Longer-term securities** may be more sensitive to interest rate changes. Certain **U.S. government securities** purchased by the strategy, such as those issued by Fannie Mae and Freddie Mac, are not backed by the full faith and credit of the U.S. It is possible that these issuers will not have the funds to meet their payment obligations in the future. **Public bank loans** are subject to liquidity risk and the credit risks of lower-rated securities. **High-yield securities** (junk bonds) are lower-rated securities that may have a higher degree of credit and liquidity risk. **Sovereign debt** securities are subject to default risk. **Mortgage- and asset-backed securities** are sensitive to early prepayment risk and a higher risk of default, and may be hard to value and difficult to sell (**liquidity risk**). They are also subject to credit, market and interest rate risks. **Municipal securities** are subject to early redemption risk and sensitive to tax, legislative and political changes. The **currency market** is highly volatile. Prices in these markets are influenced by, among other things, changing supply and demand for a particular currency; trade; fiscal, money and domestic or foreign exchange control programs and policies; and changes in domestic and foreign interest rates. Investments in **foreign markets** entail special risks such as currency, political, economic and market risks. The risks of investing in **emerging market** countries are greater than the risks generally associated with foreign investments. **Derivative instruments** may disproportionately increase losses and have a significant impact on performance. They also may be subject to counterparty, liquidity, valuation, and correlation and market risks. **Restricted and illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk). Due to the possibility that prepayments will alter the cash flows on **collateralized mortgage obligations (CMOs)**, it is not possible to determine in advance their final maturity date or average life. In addition, if the collateral securing the CMOs or any third-party guarantees are insufficient to make payments, the portfolio could sustain a loss.

UN SUSTAINABLE DEVELOPMENT GOALS

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