

2024 Stewardship Trends

OUTLOOK | GLOBAL STEWARDSHIP TEAM | April 2024

Executive Summary

As the 2024 proxy season kicks off, the Morgan Stanley Investment Management (“MSIM”)¹ Global Stewardship Team² (“GST”, or “we”) highlights three key themes: Natural Capital and Biodiversity, Workers’ Rights, and Artificial Intelligence (AI) that we believe³ will be high on the agenda for investors.

- **Natural Capital and Biodiversity Stewardship:** Increased focus around portfolio companies’ impact and dependencies on natural resources, in consideration of the new guidance from the Taskforce on Nature-related Financial Disclosures (TNFD).
- **Workers’ Rights:** We expect shareholder resolutions focused on workers’ rights to maintain higher investor support compared to other social issues in 2024.
- **AI Transparency and Oversight:** The GST expects proposals to establish AI oversight and transparency as a new emerging issue across sector in the 2024 proxy season. For instance, the U.S. Securities and Exchange Commission (SEC) published letters suggesting that Apple⁴ and Disney⁵ should put their AI-related shareholder proposals to a vote has set a precedent.

¹ MSIM refers to the investment management business segment of Morgan Stanley, a global financial services firm. MSIM is composed of a number of wholly-owned subsidiaries of Morgan Stanley, including MSIM Fund Management (Ireland) Limited. References to “Morgan Stanley” or the “Firm” in this document refer to the parent company and its consolidated subsidiaries. In some instances, MSIM may leverage or be a part of Morgan Stanley’s processes and/ or initiatives related to sustainable investing. Certain subsidiaries of Morgan Stanley in its Investment Management business, including but not limited to Calvert Research and Management and Parametric Portfolio Associates LLC, may differ in their approach to sustainable investing and maintain separate sustainability policies. Accordingly, the discussion of sustainable investing described herein may not be applicable to each Morgan Stanley affiliate or investment team. Further, some investment strategies may not consider ESG factors where it is not currently feasible or appropriate to do so, e.g., passive investment strategies, certain asset allocation strategies, or where requested by clients.

² The MSIM Global Stewardship Team (the “Global Stewardship Team”), as part of the MSIM Sustainability team, supports and helps investment teams coordinate MSIM proxy voting and investee engagement activities.

³ Not all of these are current engagement themes on which MSIM investment teams are focused, but rather, areas where the Global Stewardship Team see potential for further investor engagement in 2024.

⁴ U.S. Securities and Exchange Commission, [Apple Inc.](#), 2024-01-03 (Retrieved 2024-04-08)

⁵ U.S. Securities and Exchange Commission, [The Walt Disney Company](#), 2024-01-03. (Retrieved 2024-02-27)

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DISPLAY 1

Natural Capital and Biodiversity Stewardship: An Evolving Frontier for Investor Engagement in 2024

MSIM Engaging Companies Themes

- MSIM has identified five common themes that many of our investment teams include in their engagements.
- These five engagement themes are aligned with the United Nations Sustainable Development Goals.
- In 2023 MSIM added Natural Capital & Biodiversity as our fifth engagement theme, formalising existing engagement efforts by our investment teams

 <p>DECARBONIZATION & CLIMATE RISK</p>	<p>Supporting the transition to a low carbon economy in line with Paris Agreement goals</p>	<ul style="list-style-type: none"> ■ Renewable energy and clean tech ■ Energy efficiency ■ Physical impact adaptation ■ Just transition 	   
 <p>DIVERSE & INCLUSIVE BUSINESS</p>	<p>Supporting business practices that create a more just and inclusive society</p>	<ul style="list-style-type: none"> ■ Affordable access to essential services ■ Investing in communities ■ Racial justice ■ Pay equity ■ Board/employee diversity 	   
 <p>NATURAL CAPITAL & BIODIVERSITY</p>	<p>Supporting business models that reduce negative impact on biodiversity in line with the Post 2020 Biodiversity Framework</p>	<ul style="list-style-type: none"> ■ Sustainable sourcing and use of resources ■ Land and sea use change ■ Deforestation ■ Pollution reduction 	   
 <p>CIRCULAR ECONOMY & WASTE REDUCTION</p>	<p>Supporting business models that reduce impact on natural resources and that innovate to reduce waste generation, with a focus on plastic waste</p>	<ul style="list-style-type: none"> ■ Recycling and reuse ■ Sustainable sourcing ■ Lifecycle analysis ■ Water stewardship 	   
 <p>DECENT WORK & RESILIENT JOBS</p>	<p>Supporting decent work across the entire value chain and making workforces resilient in the face of innovation and change</p>	<ul style="list-style-type: none"> ■ Automation and the workforce ■ Supply chain management ■ Living wage ■ Workforce well-being 	   

Investment teams may also engage on other areas not limited to these five themes. MSIM recognises that the UN Sustainable Development Goals (SDGs) were written by Governments for Governments and therefore engagement themes with corporates and the SDGs may not be perfectly aligned. The content of this publication has not been approved by the United Nations and does not reflect the views of the United Nations or its officials or Member States. See <https://www.un.org/sustainabledevelopment/sustainable-development-goals> for more details on the Sustainable Development Goals

In January 2024, following the World Economic Forum in Davos, over 320⁶ businesses committed to align their reporting with TNFD recommendations. This indicates that potential TNFD adopters may standardize and enhance reporting on nature-related impacts, risks, and opportunities. The GST expects to see a significant advancement in corporate environmental accountability and action.

In addition, the GST expects further industry awareness and activities to help drive commitments and strategies at the national level in many countries. For example, COP 16⁷ will be held in 2024 and will also be key as countries are expected to deliver national biodiversity strategies alongside more detailed targets as outlined by the Global Biodiversity Framework.⁸

MSIM has identified five common themes that many of our investment teams include in their engagements, based on respective strategies, where relevant and appropriate. These five engagement themes are aligned with the United Nations Sustainable Development Goals and are issues that may cause risk to our society and wellbeing, global economy, and/or capital markets, but can also present

⁶ Taskforce on Nature-related Financial Disclosures (TNFD), [320 companies and financial institutions to start TNFD nature-related corporate reporting](#). 2024-01-16. (Retrieved 2024-02-26)

⁷ Convention on Biological Diversity, [Colombia Will Host the Next United Nations Biodiversity Conference](#). 2023-12-11. (Retrieved 2024-02-26)

⁸ Convention on Biological Diversity, [2030 Targets \(with Guidance Notes\)](#). 2024-02-14. (Retrieved 2024-03-07).

opportunities for improved sustainable and financial outcomes. In 2023, MSIM formalized Natural Capital and Biodiversity as the fifth engagement theme.⁹ This decision was due to key sectors with high negative impacts and dependencies on biodiversity and natural capital becoming more identifiable, companies becoming more open to feedback and discussion on this topic, and the introduction of new regulatory frameworks such as the TNFD¹⁰ encouraging companies to disclose their dependencies, risks, impacts, and opportunities related to nature, setting a clear expectation for enhanced corporate reporting in the coming years.

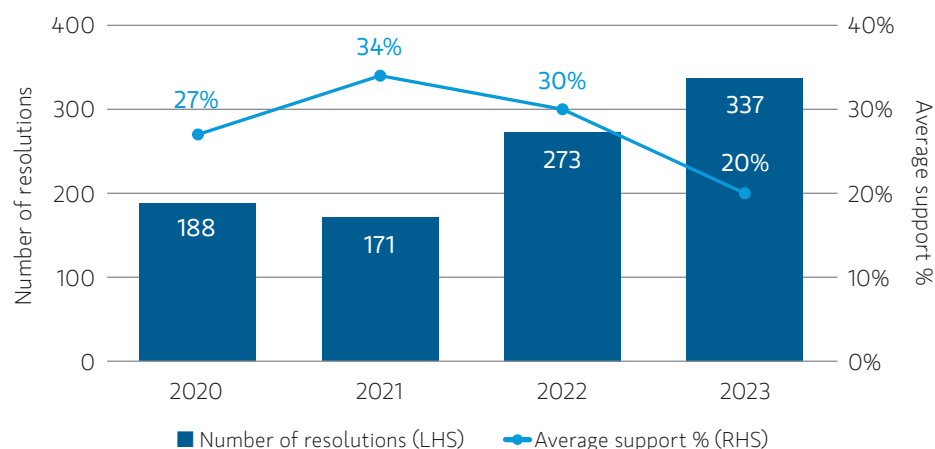
We believe stewardship efforts related to Natural Capital and Biodiversity are poised for significant evolution with companies facing expectations to disclose and mitigate their impacts and dependencies on nature. As a result, certain MSIM investment teams have identified several sectors, including materials, infrastructure, consumer staples, energy, and utilities, for which biodiversity-related factors may pose a significant material financial risk. Examples of investment team specific engagement approaches on these topics are provided in our 2023 UK Stewardship Code report and in relevant investment team's own engagement reports, which can be found in the 'Insights' section on the MSIM [Sustainable Investing](#) webpage.

Increasing Investor Appetite to Support Workers' Rights

The 2023 proxy season highlighted that while the volumes of shareholder proposals focused on Environmental

DISPLAY 2 Shareholder Resolutions on Environmental and Social Themes: Volume and Average Support

U.S. Companies, 2020 to 2023 Proxy Years



Source: Morningstar Proxy-Voting Database, Data as of Aug. 28, 2023. Note Chart shows Proxy years ended June 30.

and Social (E&S) resolutions in the US grew (to 337¹¹ vs 273 in 2022), the overall level of investor support declined dramatically, falling to an average of 20% in 2023 vs 30%¹² in 2022. Among all topics, environmental initiatives experienced the most significant decline in average endorsement. The backing for these proposals fell markedly from 34%¹³ in 2022 to 20% in 2023, paralleled by a similar reduction for climate-focused proposals from 35% to 21%.

However, the GST noted that shareholder proposals focused on labour rights actions and disclosures were more likely to be supported by investors. In response to new transparency laws and shareholder advocacy,¹⁴ companies faced stronger investment commitment to labour rights, with shareholder proposals on

labour practices such as collective bargaining receiving increasing support (36% on average),¹⁵ thereby highlighting a commitment to collective bargaining and worker representation.

The GST expects this trend to continue in 2024, with shareholder resolutions focused on workers' rights, despite the overall decline in E&S resolutions.

The Rise of AI: Investors Demanding More Transparency and Oversight

We believe that businesses face both opportunities and risks with the emergence of AI. For example, while AI can create innovative products, improve customer experiences, and boost efficiency, it also carries risks like data bias, privacy violations, and ethical concerns. As such, companies can expect growing pressure from investors

⁹ Morgan Stanley Investment Management, [Sustainable Investing Policy](#) (October 2023)

¹⁰ Taskforce on Nature-related Financial Disclosures (TNFD), [Taskforce on Nature-related Financial Disclosures \(TNFD\) Recommendations](#). 2023-09-18. (Retrieved 2024-02-26)

¹¹ Harvard Law School Forum on Corporate Governance, [Proxy Voting Insights: Key ESG Resolutions](#). 2023-10-04. (Retrieved 2024-02-26)

¹² Harvard Law School Forum on Corporate Governance, [Proxy Voting Insights: Key ESG Resolutions](#). 2023-10-04. (Retrieved 2024-02-26)

¹³ The Conference Board, [2023 Proxy Season Review](#). 2023-10-19. (Retrieved 2024-03-07)

¹⁴ Financial Reporting Council, [UK Corporate Governance Code](#). 2024-01-22. (Retrieved 2024-02-26); Financial Crimes Enforcement Network, [U.S. Beneficial Ownership Information Registry Now Accepting Reports](#). 2024-01-01. (Retrieved 2024-02-26)

¹⁵ Sullivan & Cromwell, [Lessons from the 2023 Proxy Season](#). 2023-09-14. (Retrieved 2024-03-27)

to assess and disclose their own use of AI technology.

For instance, the U.S. Securities and Exchange Commission (SEC) published letters suggesting that Apple and Disney should put their AI-related shareholder proposals to a vote has set a precedent. These proposals requested each company to create transparency reports on their AI usage and disclose any related ethical guidelines they have adopted. The SEC deemed these

proposals significant enough to be included in shareholder proxy materials, stating they transcended ordinary business matters and did not constitute micromanagement. The GST expects a significant increase in AI-related proposals this proxy season, especially targeting tech and media giants.

As AI continues to have a transformative impact on the global economy, the demand from investors for greater accountability

on how companies are developing and deploying AI will increase.¹⁶ As such it is imperative that boards closely examine how AI technology and processes are being implemented, particularly as this technology is increasingly integrated into corporate strategy and day-to-day business activities. In our view, this will allow boards to establish effective AI governance based on the implementation of enterprise-wide policies and procedures, and increased shareholder engagement.

Risk Considerations

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

There is no assurance that a Portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by the Portfolio will decline and that the value of Portfolio shares may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events.

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

¹⁶ Thomson Reuters, [Lack of clarity and consistency on AI use and ESG disclosure standards slow efficiency in reporting](#), 2023-09-22. (Retrieved 2024-02-27)

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