

Morgan Stanley Prime Asia



MS Prime Asia – a diversified APAC fund – was lagging behind peers based on our EPF framework. We challenged them to commit to setting Paris aligned decarbonization targets, and to improve their climate risk management.

Michael Sylvester, Portfolio Manager

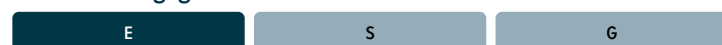
Engagement rationale

MS Prime Asia lagged behind its peer group when looking at the Environmental Pathway Framework scores. This fund is strategic investment for two of our biggest clients. We want to hold the private side of Real Estate as accountable as the listed side.

Background

As Morgan Stanley Prime is required to follow the decarbonization plans set by the broader Morgan Stanley Real Assets organization, the fund is late in setting these goals and targets. This results in MS Prime lagging behind their peers. Having refined our proprietary climate change environmental pathway model, we are launching sector-wide climate related engagements. We have identified numerous common themes with precise points of improvements, suggestions as well as noting the increased need for transparency, as listed below.

Theme for engagement



Engagement objectives

- Formal setting of decarbonization targets (Paris-aligned);
- Transparency on decarbonization strategy;
- Climate risk management

Development

Neutral

Milestone



Engagement results

- The EPF score is currently 42% for MS Prime.
- During a formal call in February 2023, with the Head of ESG for Morgan Stanley Real Assets, we had no reason to update the score until formal. The following points were noted:

Emission targets & decarbonization strategy:

- MS Prime Asia currently have no formal targets. There are plans to formally commit to be net zero (for Scope 1 and 2 only) by 2050, with a 30% reduction target by 2030 off a 2019 baseline. This has to be 'allowed' to be publicly announced by MS parent company. The delay is due to the legal and compliance implications of such commitments – MS parent do not want to 'greenwash';
- Tackling Scope 3 emissions is tough. This is particularly difficult to achieve for Japanese Residential (19% of portfolio value), where tenant data is very hard to obtain. Scope 3 data is also challenging for all industrial properties (35% of portfolio value).
- They are focusing on their dirtiest assets first which make up about 80% of Scope 1 and Scope 2 emissions;
- We urged them to communicate their decarbonization plans – even regarding small updates/progress rather than being kept in the dark until big announcements. This seems to have been positively received by the ESG team. We will see if there is a change in communication going forward.

Climate risk management:

- We were informed that this was actually improved considerably, but not officially announced. We urged them to provide us with an update when they could.

Next steps

Follow-up with the company later in July 2023 to update the EPF score by reviewing progress on target setting, decarbonization plans and climate risk management.



Company

Morgan Stanley Prime Asia

Country

Asia-Pacific

Sector

Non-Listed Real Estate

Market cap / GAV

\$3.6 billion

Materiality

Improving ESG efforts can lead a lower risk profile and multiple benefits for all stakeholders.

ESG Research

GRESB score (2022) – 85

Engagement initiated

Q3 2022

Latest update

Q1 2023

Kempen Fund

AIS clients

