

Morgan Stanley Investment Management (ACD) Limited Details of Remuneration Policy

1. Background

Under the requirements of the AIFM Directive (Directive 2011/61/EU of 8 June 2011) and the UCITS Directive (Directive 2014/91/EU of 23 July 2014) Morgan Stanley Investment Management (ACD) Limited (“MSIM (ACD) Ltd”) is subject to the Remuneration Codes set out in Chapters 19B and 19E of the FCA’s Senior Management Arrangements, Systems and Controls (SYSC) Handbook (together “the Remuneration Codes”).

MSIM (ACD) has in place a remuneration policy (“the Remuneration Policy”) which is intended to comply with the Remuneration Codes and, in particular, to ensure that MSIM (ACD)’s remuneration policies and practices:

- are consistent with and promote sound and effective risk management;
- do not encourage risk-taking which is inconsistent with the risk profiles, instruments or prospectuses of the funds it manages;
- do not impair its compliance with its duty to act in the best interests of those funds; and
- include fixed and variable components of remuneration including salaries and pension benefits.

The Remuneration Policy is overseen by the Compensation, Management Development and Succession (CMDS) Committee of the Morgan Stanley Board of Directors (Global Remuneration Committee) and the UK Remuneration Director.

2. Members of staff covered by the Remuneration Policy

MSIM (ACD) must extend the Remuneration Policy to:

- senior management;
- risk takers;
- staff engaged in control functions;
- delegated portfolio managers;
- any employee receiving total remuneration that takes them into the same bracket as senior management and risk takers whose professional activities are considered to have a material impact on the risk profile of ACD or of the UCITS funds it manages (known as **UCITS Remuneration Code Staff**) or

whose professional activities are considered to have a material impact on the risk of ACD and the AIFs it manages (known as **AIFM Remuneration Code Staff**), in a way and to the extent appropriate, given the size, internal organisation and the nature, scope, risk profile and complexity of ACD and the AIFs and UCITS funds it manages.

3. Application of the Remuneration Code and proportionality

Under the Remuneration Codes, a firm must comply with the relevant rules in a way and to the extent that is appropriate to its size, internal organisation and the nature, scope and complexity of its activities. It is proposed that the concept of proportionality may be used to dis-apply certain aspects of the remuneration rules. Any AIFM Remuneration Code Staff or UCITS Remuneration Code Staff who fall out of scope are identified and documented, along with rationale for them falling out of scope. The concept of proportionality may be used to dis-apply certain rules of the “Pay-Out Process Rules” of the AIFM Remuneration Code and UCITS Remuneration Code.

4. Structure of remuneration

The remuneration structure for Remuneration Code Staff typically consists of:

- Fixed pay
- Variable remuneration (potentially consisting of annual bonus and long term incentives).

Variable remuneration is paid or vests only if it is sustainable according to the financial situation of MSIM (ACD) and the relevant AIF or UCITS fund and justified according to performance of the employee, the AIF in question, the UCITS fund in question, their risks, the business unit and the overall results of the management company.

As part of the Morgan Stanley group, remuneration paid to AIFM Remuneration Code Staff and UCITS Remuneration Code Staff of MSIM (ACD) is awarded in accordance with Morgan Stanley group principles relating to remuneration. As such, employee eligibility for annual incentive compensation (variable remuneration) is discretionary and subject to a

multi-dimensional performance measurement, which considers individual, MSIM (ACD) and business segment performance. The fixed and variable components of total remuneration are appropriately balanced.

In order to maintain a fully flexible annual remuneration policy, including the possibility to pay zero annual incentive compensation, pre-established performance priorities are non-formulaic in nature, do not require specific performance targets or pre-set goals to be met prior to the awarding of compensation and are not assigned any specific weighting.

The Morgan Stanley group has a global incentive compensation discretion policy that sets forth standards for exercise of managerial discretion in annual incentive compensation decisions. The policy requires consideration of performance, including feedback elicited through the talent development process; client service; contribution to revenue and profitability (with consideration of risk taken); teamwork; management abilities (including the ability to attract and retain key talent); technical, substantive skills; adherence to core franchise values, business principles and policies; and market and competitive conditions.

The measurement of performance used to calculate variable remuneration components, or pools of variable remuneration components, includes comprehensive risk adjustment mechanism to integrate all relevant types of future and current risks. In particular, the global incentive compensation discretion policy, noted above, also provides guidelines to help ensure that annual incentive compensation decisions take relevant factors into consideration, including actual and potential risks to MSIM (ACD) and Morgan Stanley group that the employee may be able to control or influence. The policy specifically provides that all managers must consider whether or not an employee managed risk appropriately and effectively managed and supervised the risk control practices of his or her employee reports during the performance year. Managers are required to certify that they have followed the requirements of Morgan Stanley policies and escalated situations potentially requiring attention.

Other performance criteria that may be taken into account in deciding whether to award, and the amount of any variable remuneration or deferred incentives to award, include (but are not limited to): business and market conditions, individual conduct, including but not limited to, adherence to the Code of Conduct and policies, contribution to the performance and profitability of both the business unit and MSIM (ACD) and the strategic objectives of MSIM (ACD), business unit and the team and the associated value attributed to the role.

Further policies apply in relation to further matters and factors including individuals' eligibility, their seniority, the use personal hedging strategies or any remuneration and liability related insurance to undermine the risk alignment of the Remuneration Policy, the Morgan Stanley group's benefits policy and provision of pension benefits.

5. Delegates

MSIM (ACD) delegates portfolio management to affiliates within the Morgan Stanley group. MSIM (ACD) is required, under the ESMA guidance on remuneration of AIFs and UCITS, to ensure that where portfolio management activities are delegated to other entities then either:

- those entities are subject to regulatory requirements on remuneration that are equally as effective as those applicable to MSIM (ACD); or
- appropriate contractual arrangements must be in place to ensure that there is no circumvention of the remuneration rules in respect of the delegates/AIFM Remuneration Code Staff/UCITS Remuneration Code Staff in respect of the portfolio management activity carried out on behalf of MSIM (ACD).

Except for delegates who are subject to equivalent regulatory requirements on remuneration, MSIM (ACD) shall ensure the above referenced contractual provisions are in place and shall complete appropriate due diligence.

May 2016