MORGAN STANLEY ENVIRONMENTAL POLICY STATEMENT

Morgan Stanley recognizes the critical importance of a healthy environment to our global society, our economy, our business and our people. We also realize the potential impacts that today’s environmental challenges will have if left unaddressed.

Given our position as one of the world’s leading financial services firms and our ongoing commitment to good corporate citizenship, we have a responsibility to manage and leverage our resources in a way that promotes a healthy and sustainable environment. As such, we are committed to considering environmental issues in all aspects of our business, including how we evaluate companies, transactions and risk; how we collaborate with and educate our clients, financing partners and employees; how we conduct our own operations; and how we promote and develop new market opportunities. We believe that our approach to environmental issues helps us pursue our principal focus of creating long-term value for our shareholders and serving the long-term interests of our clients.

This Policy Statement reflects Morgan Stanley’s ongoing commitment to the environment and highlights the ways our business decisions and policies address the opportunities and challenges raised by today’s most significant environmental matters.

I. Sustainable Development

Morgan Stanley recognizes it has a role and a responsibility in advancing sustainable global development, which requires a sound economy, strong social institutions and a healthy environment. We also realize our long-term business goals are best achieved in societies that embrace sustainable development. Contributions we make with our clients to help minimize environmental and social risks, such as making sound investments in environmentally beneficial technologies, encouraging investors to mitigate environmental risks and engaging stakeholders in open and constructive dialogue, can have positive impacts for communities, businesses, governments and the environment.

In turn, Morgan Stanley benefits from stronger relationships with clients and communities as well as from healthier, safer and more sustainable societies. Progress towards these outcomes, which are aligned with the United Nations Millennium Development Goals,¹ will create benefits to be shared today and by future generations, including by fostering more sustainable development patterns. Indeed, we believe that adequate progress cannot be made without the creative participation of the financial sector. We also believe that we are in a position to promote, encourage and develop solutions that contribute to sustainable development, including by leveraging our Research capability to help inform sound investment strategies and by promoting market-based structures for the efficient allocation of scarce resources.

¹ http://www.unmillenniumproject.org/reports/goals_targets.htm
II. Climate Change

Morgan Stanley recognizes that the climate is changing and that emissions from human activity are one of the leading factors requiring immediate attention. We are aware of the benefits of reducing greenhouse gas emissions. We also are aware that many countries have policies regulating greenhouse gas emissions and that there are efforts underway to create inventories, registries and trading platforms; to invest in energy efficiency; and to lower carbon-based energy consumption.

Morgan Stanley is committed to engagement with clients, regulators and policy makers to establish and enhance strong climate policy globally. We believe that the best way to reduce emissions is through a mix of technology changes, encouraging the transfer of clean energy technologies, improved energy efficiency and well-structured global markets for financing and trading emissions reductions. Markets are necessary to facilitate managed reductions in emissions and to ensure that an appropriate balance between economic and environmental factors is achieved. As carbon-related markets develop, Morgan Stanley is committed to participating in them actively as a financial advisor, underwriter, trader and investor.

Specifically, Morgan Stanley is committed to:

- Helping clients in greenhouse gas intensive industries to develop financial strategies for responding to emerging regulatory mandates regarding emission reductions;
- Devoting resources towards sustainable and renewable sources of energy;
- Continuing to provide investment research that enhances understanding of the impact of climate change or carbon constraints on businesses;
- Encouraging clients to evaluate the issue of greenhouse gas emissions and to consider investing in and taking advantage of emerging environmental technologies;
- Conducting enhanced environmental due diligence, consistent with the Carbon Principles;\(^2\) and
- Enhancing the dialogue regarding strategic public policy solutions to climate change.

III. Environmental Risk Management

Environmental risk management is important to Morgan Stanley. We seek to understand and to mitigate significant risks that may confront us or our clients. Morgan Stanley will encourage clients to assess and appropriately mitigate material environmental risks in their business.

Our due diligence and risk management processes are designed to give appropriate attention to significant environmental issues. We have robust due diligence processes

\(^2\) http://carbonprinciples.org/
and procedures to refer individual transactions for review to committees including senior employees and sector specialists.

In the context of sustainable development where there are significant environmental risks, we will use the Equator Principles (which are based on the policies of the World Bank and its private sector arm, the International Finance Corporation) as general guidelines for evaluating financings (including debt and equity underwriting transactions, loans and investment banking advisory assignments) of potentially damaging projects where Morgan Stanley is acting as lead bookrunner or arranger and can trace the transaction proceeds to a particular asset. Subject to the foregoing:

- **Biodiversity and Sustainable Natural Resource Management.**

  - Morgan Stanley will not finance or invest in industrial activity where the specified use of proceeds would significantly convert or degrade a critical habitat.\(^3\)
  
  - In addition, we will not knowingly finance extractive activities or commercial logging in World Heritage sites.\(^4\)
  
  - Morgan Stanley prefers to only finance preservation and light, non-extractive use of forest resources for projects in forests whose high conservation values are endangered.\(^5\)
  
  - Morgan Stanley will strive to protect the highest conservation values in forests with respect to its execution of financings in the logging and forest products industries. We prefer to finance logging companies that employ, or are actively considering, credible third-party verified management systems (such as the system developed by the Forest Stewardship Council (“FSC”)), when we finance forestry projects that impact high conservation value forests. In this regard, for operations that are not already certified, we will introduce or refer relevant clients to credible experts who can help establish a rigorous, time-bound, step-wise approach to achieve certification.

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\(^3\) Critical habitats are: (i) existing protected areas and areas officially proposed by governments as protected areas (e.g., reserves that meet the criteria of the World Conservation Union [IUCN] classifications), areas initially recognized as protected by traditional local communities (e.g., sacred groves), and sites that maintain conditions vital for the viability of these protected areas (as determined by the environmental assessment process); or (ii) sites identified on supplementary lists prepared by the World Bank or an authoritative source determined by the International Finance Corporation’s (“IFC”) Environment Division. Such sites may include areas recognized by traditional local communities (e.g., sacred groves); areas with known high suitability for biodiversity conservation; and sites that are critical for rare, vulnerable, migratory or endangered species. Listings are based on systematic evaluations of such factors as species richness; the degree of endemism, rarity, and vulnerability of component species; representativeness; and integrity of ecosystem processes.

\(^4\) World Heritage sites are nominated by member countries and selected by independent review panels for their natural and cultural values.

\(^5\) Our policy will include the following conservation values: rare, endemic, threatened and endangered species, legally protected areas and forests that house vulnerable or threatened cultural sites.
We will not knowingly finance companies or projects that collude with or are knowingly engaged in illegal logging. As part of our due diligence where we are in a position to direct or influence such process, we will examine whether clients that process, purchase, or trade wood products from high risk countries (and we will encourage such clients to) have certifiable systems in place to ensure that the wood they process, purchase or trade comes from legal sources. Due diligence will include discussions with client representatives as to its practices and monitoring and whether it uses chain of custody certification (e.g., FSC controlled wood standard) for illegal logging. The results of such due diligence will be an important factor in our determination whether or not to engage in financings for such client.

- **Pollution Prevention.** Generally, we will not knowingly finance projects unless they adhere to local and World Bank standards, have pollution prevention plans and offer training programs for environment, health and safety professionals.

- **International Environmental Agreements.** We will not knowingly finance projects that contravene international environmental agreements that have been enacted into the law of, or otherwise have the force of law in, the country in which the project is located.

- **Indigenous Peoples.** Morgan Stanley recognizes that the identities and cultures of indigenous peoples are inextricably linked to the lands on which they live and the natural resources on which they depend. We respect the rights of indigenous peoples regarding issues affecting their lands and territories, traditionally owned or otherwise occupied and used.

When financing projects in indigenous territories, Morgan Stanley will aim to ensure that the project sponsor or borrower, as appropriate, will have demonstrated that: (i) free, prior and informed consultation with the affected indigenous peoples results in support of the project by the affected indigenous peoples; (ii) approaches rely on existing customary institutions and allow

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6 Illegal logging takes place where timber is harvested in violation of local and national laws intended to stop illegal logging. Illegal logging includes: (i) using corrupt means to gain access to forests, (ii) extraction without permission or from a legally unauthorized area, and (iii) the cutting of protected species or the extraction of timber in excess of legal limits or in violation of legally approved forest management plans. Illegal logging has not yet been written into international law although issues relating to illegal logging have been addressed in some fashion by international treaties such as the Convention on Biological Diversity.

7 Based on data regarding illegal logging published by the World Bank, World Wildlife Fund and others, Morgan Stanley understands that a high risk country is one where greater than 50% of the annual harvest is illegal.

8 The term “Indigenous Peoples” refers to a distinct, vulnerable, social and cultural group possessing the following characteristics in varying degrees: (i) self-identification as members of a distinct indigenous cultural group and recognition of this identity by others; (ii) collective attachment to geographically distinct habitats or ancestral territories in the project area and to the natural resources in these habitats and territories; (iii) customary cultural, economic, social, or political institutions that are separate from those of the dominant society and culture; and (iv) an indigenous language, often different from the official language of the country or region.
adequate time to review information; (iii) governmental authorities at the local, regional or national level have provided mechanisms for the affected communities to be represented, consulted or to air grievances; (iv) information on the expected adverse impacts of the project on the indigenous peoples was provided to them; and (v) the project includes measures to avoid, reduce or compensate for significant adverse impacts on traditional or customary lands under use by indigenous peoples and relocation of indigenous peoples from traditional or customary lands.

- **Mountain Top Removal Mining.** The surface mining of coal using mountain top removal ("MTR") can have a material long-term environmental impact. Therefore, we have implemented an enhanced environmental due diligence process on any commercial lending and investment banking transactions involving a client engaged in the practice of MTR as an extraction method. Our enhanced due diligence analyzes the company's policy framework regarding mining techniques, operating practices and track record of legal compliance, reclamation and litigation. The escalation process includes subject matter experts, the risk division and ultimately, as appropriate, the Franchise Committee. We will not finance companies for which a predominant portion of their annual coal production is from MTR activities as an extraction method. We will periodically disclose the process by which we are implementing these commitments including case studies of the types of effect the due diligence process has on transactions.

## IV. Markets and Investments

Morgan Stanley’s commitment to the environment is reflected in its approach to markets and investments, including the following:

- **Capital Markets.** Morgan Stanley fosters client awareness of environmental concerns in the context of capital raising by companies in securities markets. In addition to the environmental due diligence that we undertake in connection with securities offerings, Morgan Stanley will encourage clients to assess and appropriately mitigate or disclose material environmental risks in offering materials and disclosure documents. Furthermore, we plan to continue being active in providing underwriting services to alternative energy businesses, including solar power and bio-fuel companies.

- **Principal Investing.** Environmental issues are important when we invest as a principal, including in our Private Equity business, and we undertake appropriate environmental due diligence when making investment decisions. If Morgan Stanley has a member on the governing body (e.g., board of directors) of the company in which we invest, we will use reasonable efforts to monitor the company’s operations with respect to environmental compliance issues. As further evidence of our commitment to the environment, and building on our previous investments in this field, Morgan Stanley will continue to actively consider investments in businesses related to renewable energy and other sustainable projects.

- **Commodities Trading.** The development of emissions quotas trading can be a major factor in helping to drive a reduction in environmentally harmful emissions.
Morgan Stanley is a world leader in the trading of carbon. Morgan Stanley also is one of the most active traders of environmental commodities, including sulfur dioxide, nitrogen oxides, biodiesel, ethanol and weather derivatives. Building on our strong position in emissions trading, we are well-equipped to expand our involvement in markets for other environmental commodities, such as water and water rights.

- **Investment Research.** Investment research raises awareness of environmental issues and contributes to the understanding of the diverse and complex impact environmental issues may have on business. Accordingly, we have expanded our capacity to produce investment research that explores the financial and market impacts of risks and opportunities relating to environmental issues. Our approach encourages industry analysts to integrate environmental factors into their core company coverage by exploring the financial and market impact of these issues and by highlighting resulting investment opportunities or risks.

V. Operations

Morgan Stanley believes that a meaningful commitment to protecting the environment must begin with a commitment to conduct our internal operations in a manner consistent with the goals of this Policy Statement. To this end, we are committed to enhancing the conduct of our internal operations and carrying out policies and programs that minimize our direct impact on the environment. Morgan Stanley aspires to best practices in facilities management and product procurement. In addition, we seek to develop effective relationships with contractors and suppliers to encourage their environmental awareness and to promote support for Morgan Stanley’s environmental objectives (e.g., environmental purchasing policies, assessing vendor compliance with accepted environmental standards).

**Energy and Greenhouse Gas Management.**

- We continually strive to reduce our facilities’ greenhouse gas emissions. We disclose information on the greenhouse gases produced by our largest office facilities through the Carbon Disclosure Project and will report progress on our greenhouse gas emissions reduction efforts in our Sustainability Report. We will educate and engage our employees on reducing the carbon emissions generated by their work-related transportation, undertaking initiatives such as encouraging the use of energy efficient vehicles and cycle-to-work programs, providing mass transit incentives, discouraging unnecessary travel and by promoting technological alternatives to travel such as video conferencing, telecommuting and working from home.
- **Green Building.** Wherever practical, we will enhance standards for buildings that Morgan Stanley owns to incorporate specifications on location, design, energy and water efficiency, air quality and materials used, with the goal of enabling certification of the buildings under regional programs that identify environmental best practice (e.g., U.S. Green Building Council’s LEED certification program; U.K. BREEAM system). We will regularly review the environmental performance of our facilities with a view to continual improvement.

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9 [http://www.cdproject.net/aboutus.asp](http://www.cdproject.net/aboutus.asp)
• **Procurement and Use Reduction.** We will evaluate opportunities to increase sustainable product sourcing and will adopt an Environmental Purchasing Policy that encourages the purchase of environmentally preferable paper and other recycled products. Morgan Stanley will examine the feasibility of introducing suitable biodegradable materials for products that cannot be recycled. We also will consider ways to maximize product efficiency (e.g., double-sided printing equipment and energy saving computers).

• **Disposal, Recycling.** Morgan Stanley will take steps to minimize waste throughout our premises. We will conduct waste stream audits at our larger facilities to identify areas needing improvement and initiate efforts to reduce waste volumes. We will endeavor to increase recycling opportunities and volumes and seek to use low-impact product disposal methods for our waste.

**VI. Implementation and Governance**

Morgan Stanley has a strong governance system in place and will take the appropriate steps to implement and review this Policy Statement.

• **Governance.** Morgan Stanley’s Global Sustainable Finance group reports to the Firm’s Chief Financial Officer, who is a member of the Firm’s Management Committee and one of the Firm’s most senior officers. The Morgan Stanley Environmental Committee, composed of senior personnel from across the Firm, including the Firm’s business units, provides guidance and support to the Global Sustainable Finance group regarding the management and implementation of Morgan Stanley’s environmental commitment. Global Sustainable Finance is also supported by the Environmental Risk group within Morgan Stanley’s Operational Risk Department. Additionally, environmental risk management falls under the auspices of the Firm’s internal operational risk management. The Morgan Stanley Board of Directors has reviewed this Policy Statement and will periodically review it and the Firm’s related environmental efforts.

• **Training, Education and Encouragement.** Employees and executives across the firm are responsible for implementing our environmental commitments. We train our employees to understand and manage the environmental risks and opportunities affecting our businesses and operations.

• **Reporting.** In our Sustainability Report and on our corporate website, we will highlight our progress implementing and fulfilling the goals of this Policy Statement, including achievements, investments and projects related to it. We will continue to provide access to this Policy Statement on our website.

• **Review.** Global Sustainable Finance, in conjunction with the Environmental Committee, will review this Policy Statement periodically to consider whether to modify it in light of developments in Morgan Stanley’s business operations or developments regarding environmental issues.

• **Public Engagement/Consultation.** We contribute to the discussion of environmental issues through meetings and open dialogue with other financial institutions, shareholders, clients (particularly those in environmentally sensitive industries such as extractive industries and utilities), environmental experts in
non-governmental organizations and academia and representatives of governments globally.

- We also seek to maintain a dialogue with a range of external parties, including environmental organizations, shareholders, experts, opinion leaders and clients, regarding our role in advising about, implementing and approaching environmental issues. We believe that this dialogue is important to informing our efforts and achieving our goals as defined under this Statement.

Adopted 2002
Revised 2011