

# **Morgan Stanley Investment Management Limited**

**Investment Firm Prudential Regime Disclosures Report**

**As at 31 December 2022**

## Table of Contents

1. Overview and Key Metrics .....	3
2. Regulatory Frameworks .....	5
3. Capital Management .....	6
4. Risk Management .....	7
5. Governance and Board of Directors .....	13
6. Capital Resources.....	17
7. Capital Instruments Template .....	19
8. Appendix I: IFPR Article Reference Mapping .....	20
9. Appendix II: Abbreviations.....	22

## Tables

Table 1: Key Metrics .....	3
Table 2: Composition of regulatory own funds .....	17
Table 3: Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements.....	18
Table 4: Own funds: main features of own instruments issued by the firm .....	19

## 1. Overview and Key Metrics

The principal activity of Morgan Stanley Investment Management Limited (“MSIM”) is the provision of investment management services to clients.

MSIM is an investment firm authorised under the UK Markets in Financial Instruments Directive (“MiFID”) to provide a range of services and activities to investors in financial markets. MSIM is prudentially authorised and regulated in the UK by the Financial Conduct Authority (“FCA”).

MSIM’s disclosure as at 31 December 2022 has been prepared on a standalone basis. The disclosures fulfil MSIM’s regulatory obligation to disclose to market participants key pieces of information on its risk management objectives and policies, own funds, own funds requirements and remuneration policies.

The information presented below is reflective of the facts and circumstances that existed as at 31 December 2022.

**Table 1: Key Metrics**

<b>MSIM</b>	<b>Amount (GBP thousands)</b>
Common Equity Tier 1 Capital (“CET1”)	140,138
Additional Tier 1 Capital (“AT1”)	-
<b>Tier 1 Capital</b>	<b>140,138</b>
<b>Tier 2 Capital</b>	<b>48,507</b>
<b>Total Own Funds</b>	<b>188,645</b>
Permanent Minimum Capital Requirement	750
Fixed Overheads Requirement	67,038
Total K-Factor Requirement	28,934
Assets for which the firm is responsible (K-AUM, K-CMH & K-ASA)	28,431
Execution activity undertaken by the firm (K-COH & K-DTF)	-
Exposure-based risks (K-NPR, K-CMG, K-TCD & K-CON)	503
<b>Own Funds Requirement</b>	<b>67,038</b>

The Own Funds Requirement is equal to the higher of: a) Permanent minimum capital requirement, b) Fixed Overheads Requirement (“FOR”) or c) K-Factor Requirement (“KFR”).

The FOR is a proxy for the amount of own funds which must be held to allow the firm to wind-down in an orderly way. The FOR is equal to 25% of the firm’s annual relevant expenditure.

The KFR is the amount of own funds required to cover the risk of harm from the ongoing operation of the firm’s business falling within the following risk categories:

- Assets for which the firm is responsible captures the value of assets an investment firm manages for its clients (“K-AUM”), amount of client money it holds (“K-CMH”) and the value of assets it safeguards and administers for clients (“K-ASA”).
- Execution activity undertaken by the firm captures the value of orders that an investment firm handles for clients (“K-COH”) and the daily value of transactions it enters through dealing on own account or the execution of orders on behalf of clients (“K-DTF”).
- Exposure-based risks captures standardised market risk provisions (“K-NPR”), margin required by a clearing member or qualifying central counterparty (“K-CMG”), trading activity giving rise to risk of trading counterparty default (“K-TCD”) and concentration risk to a client or group of connected clients in the trading book (“K-CON”).

The KFR provides for risk sensitive capital requirements based on the activities of the firm. The relevant K-Factors to MSIM’s activities are K-AUM, K-NPR and on an exception basis K-CMH.

**Morgan Stanley Group**

Morgan Stanley International Limited (“MSI”) is the ultimate United Kingdom (“UK”) parent undertaking of MSIM. MSI, together with all of its subsidiary undertakings, forms the “MSI Group.”

MSIM operates within the financial services industry and is subject to extensive supervision and regulation. MSIM shares elements of its corporate governance and its supervision with MSI and the MSI Group. This disclosure may reference policies, procedures and practices of MSI and the MSI Group that are relevant to MSIM.

MSIM’s ultimate parent undertaking and controlling entity is Morgan Stanley, a Delaware corporation which, together with its consolidated subsidiaries, form the Morgan Stanley Group. Morgan Stanley is a “Financial Holding Company” as defined by the Bank Holding Company Act of 1956, as amended, and is subject to regulation and oversight of the Board of Governors of the Federal Reserve System.

MSIM is a wholly owned subsidiary of the Morgan Stanley Group. The information disclosed in this document is not necessarily indicative of the Morgan Stanley Group as a whole, nor is it comprehensively representative of the Morgan Stanley Group’s activity in any particular region. Investors, stakeholders, creditors or other users seeking information on capital adequacy, liquidity, risk exposure and risk management policies should consult the public disclosures of Morgan Stanley Group.

Details of the latest Morgan Stanley Group Pillar 3 disclosure can be accessed at <http://www.morganstanley.com/about-us-ir/pillar-us>.

Morgan Stanley is listed on the New York Stock Exchange and is required, by the US Securities and Exchange Commission, to file public disclosures, including Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q. These can be accessed at <https://www.morganstanley.com/pub/content/msdotcom/en/about-us-ir/sec-filings>.

## 2. Regulatory Frameworks

The Investment Firm Prudential Regime (“IFPR”), effective date 1 January 2022, sets out a regulatory framework applicable to UK investment firms authorised under the UK Markets in Financial Instruments Directive (“MiFID”). Prior to the implementation of the IFPR, investment firms, such as MSIM, were subject to the application of Basel Committee Banking Supervision (“BCBS”) standards which are designed for internationally active banking groups. The IFPR aims to provide a proportionate and streamlined regulatory framework for non-systemic investment firms prudentially regulated in the UK.

Under the IFPR Framework, investment firms are split into three categories:

1. Designated Investment Firms - firms designated by the Prudential Regulation Authority (“PRA”) under article 3 of the PRA-regulated Activities Order will remain subject to a BCBS based capital regime.
2. Non small and non-interconnected (“non-SNI”) firms - firms that do not meet definition of a small and non-interconnected (“SNI”) investment firm, which are subject to full IFPR requirements.
3. SNI firms - firms which meet all the required SNI thresholds and conditions set out by the FCA, will be subject to reduced IFPR requirements.

MSIM is a non-SNI investment firm and is subject to full IFPR requirements implemented by the FCA via the MIFIDPRU Prudential sourcebook.

The IFPR framework applies: 1) minimum capital and liquidity requirements, 2) additional own funds requirements calculated based on additional risks as identified by the firm or relevant competent authority, and 3) for non-SNI firms, a public disclosures requirement.

MSIM has policies and procedures in place to assess the appropriateness of its disclosures. MSIM’s disclosures are not required to be, and have not been, audited. The disclosures have been prepared as at 31 December 2022 on the basis of the IFPR and related legislation requirements.

MSIM does not hold, directly or indirectly, any voting rights in any company and as such no IFPR investment policy disclosures are relevant.

### 3. Capital Management

MSIM views capital as an important source of financial strength. It manages and monitors its capital in line with established policies and procedures and in compliance with local regulatory requirements. In line with Morgan Stanley Group capital management policies, MSIM manages its capital position based upon, among other things, business opportunities, risks, capital availability and rate of return together with, internal capital policies and regulatory requirements. Therefore, in the future it may adjust its capital base in reaction to the changing needs of its businesses. The appropriate level of capital is determined at a legal entity level to safeguard that entity's ability to continue as a going concern and ensure that it meets all regulatory capital requirements. The key components of the capital management framework used by MSIM are set out in the MSI Group Capital Planning and Management Policy and include a point in time risk capital assessment, forward looking capital projections and stress testing. MSIM conducts an Internal Capital Adequacy and Risk Assessment ("ICARA") at least annually in order to meet its obligations under the FCA Handbook.

The ICARA is a key tool to ensure that MSIM has appropriate systems and controls in place to identify, monitor, and, if proportionate, reduce all material potential harms:

- a) that the ongoing operation of the business may cause to: clients and counterparties, the markets in which the firms operate, and the firm itself; and
- b) that may result from winding down the business, to ensure that MSIM can be wound down in an orderly manner.

The ICARA enables MSIM to:

- a) remain financially viable throughout the economic cycle, with the ability to address any potential material harms that may result from its ongoing activities; and
- b) to enable MSIM to conduct an orderly wind-down while minimising harm.

If required, the FCA may provide individual guidance to MSIM about the amount of own funds that the FCA considers is necessary to comply with the overall financial adequacy rule. Alternatively, the FCA may apply a requirement to the firm that specifies an amount of own funds that the firm must hold for that purpose.

In order to maintain or adjust its capital structure, MSIM may pay dividends, return capital to its shareholders, issue new shares, or issue or repay subordinated debt.

## 4. Risk Management

### Risk Management Framework

The MSIM Risk Management Framework is embedded and operating appropriately and continues to evolve in line with the scale and complexity of the business.

The MSIM Risk Management Framework includes a well-defined comprehensive risk governance structure with appropriate risk management expertise, including processes for periodically assessing the efficacy of the Risk Management Framework.

### Risk Appetite Statement

The MSIM Risk Appetite Statement is the articulation of the aggregate level and types of risk that MSIM is willing to accept in order to execute its business strategy and protect its capital and liquidity resources, as set by the MSIM Board.

The MSIM Risk Appetite Statement is reviewed and approved by various Risk Committees and the MSIM Board, at least annually. The annual review of the MSIM Risk Appetite Statement takes into account any new risks identified through the comprehensive Risk Identification process, changes in MSIM's Business Strategy or Capital / Liquidity resources, as well as any changes in risk appetite given changes in market conditions.

### Risk Identification and Assessment

MSIM continues to build and improve its risk management processes to keep pace with the growing complexity of its business and market developments.

The process of Risk Identification is performed on a continuous basis as part of the day-to-day activities of the EMEA Business Units and EMEA independent Risk Management functions including, for example, the EMEA Risk Division and EMEA Compliance Department.

The objectives of the Risk Identification process include identifying material risks that inform risk measurement, monitoring and management, and inform the scenarios that drive the MSIM ICARA, as well as guiding MSIM's Risk Appetite.

The MSIM Risk Identification process is aligned to the MSI Group and leverages firm-wide best practices.

### Material Potential Harms

MSIM is required to identify, monitor and reduce all material potential harms that may result from its ongoing operations, or the entity winding down. For each material risk, an internal capital adequacy and / or liquid assets assessment is performed to ensure that each risk is managed, governed and subject to effective internal controls, and where appropriate additional own funds and / or liquid assets are proposed to be held to address material potential harms.

The selection of risks reviewed as part of the ICARA is subject to governance through the EMEA ICAAP Steering Committee, EMEA Risk Committee, MSI Risk Committee and ultimately the MSIM Board as part of the overall ICARA.

The following risks were assessed as part of the ICARA process.

### Operational Risk

Operational Risk refers to the risk of loss or damage to MSIM's reputation resulting from inadequate or failed processes or systems, from human factors or external events (e.g., fraud, theft, legal and compliance risks, cyber attacks or damage to physical assets).

Operational Risk is MSIM's most material risk and manifests itself through the Risk to Client and Risk to Firm categories.

MSIM acknowledges that Operational Risk is inherent to the asset management business and cannot, therefore, be entirely eliminated. As such, MSIM has articulated an Operational Risk Appetite and, within this, an aggregate quantitative Operational Risk Tolerance.

MSIM manages its Operational Risk within the overall Risk Management Framework. The framework includes the application of specific Operational Risk related policies and procedures, the Operational Risk control framework, delivered primarily by MSIM's Three Lines of Defence model, and a governance structure designed to oversee the overall level of Operational Risk taken by MSIM.

### **Business Risk (Earnings at Risk)**

Business Risk ("Earnings at Risk" as referred to in the MSIM Risk Appetite Statement) is defined as the risk arising from:

- Changes to MSIM's business, including the acute risk to earnings posed by falling or volatile income, and the broader risk of MSIM's business model or strategy proving inappropriate due to macroeconomic, geopolitical, industry, regulatory or other factors;
- The risk that MSIM may not be able to carry out its business plan and desired strategy;
- Risk arising from MSIM's remuneration policy.

For MSIM, Business Risk manifests itself through the Risk to Firm category. Material potential harms include key persons leaving the firm (e.g., Portfolio Manager); fee pressures and client behaviour resulting from a negative perception of active versus passive fund management. Business Risk also includes the evolving regulatory landscape.

MSIM consistently seeks to accrete capital using allocated resources within the MSIM Board's approved Risk Appetite.

MSIM's strategy and business plan enable it to deliver against its capital, risk and control agenda ensuring the overall safety and soundness of MSIM. The strategy includes a range of initiatives and performance indicators, including specific qualitative and quantitative business targets and goals for the control and support functions. MSIM also has a robust New Product Approval (NPA) framework, reflecting the importance of the NPA process as a gatekeeping control in preventing MSIM from taking on risks which its management do not fully understand or are outside its strategy and risk appetite.

### **Liquidity Risk**

Liquidity and funding risk refers to the risk that MSIM will be unable to finance its operations due to a loss of access to the capital markets, or difficulty in liquidating its assets. Liquidity risk also encompasses MSIM's ability (or perceived ability) to meet its financial obligations without experiencing significant business disruption or reputational damage that might threaten its viability as a going concern as well as the associated funding risks triggered by the market or idiosyncratic stress events that may cause unexpected changes in funding needs or an inability to raise new funding.

MSIM has an inherently low liquidity risk profile given it continues to generate positive cash flows even under stress (post-management actions). In addition, MSIM does not rely on liquidity support from the MSI Group and, given client funds are fully segregated, does not have any direct exposure to liquidity risk from assets held within the funds for which MSIM acts as investment advisor.

MSIM's Board of Directors sets the liquidity risk appetite to ensure adequate liquid resources are held to meet potential outflows under normal and stressed conditions and to meet its operating expenses while simultaneously ensuring durability of funding. The entity manages its liquidity risk appetite through the overall Required Liquidity Framework ("RLF"). The RLF establishes the amount of liquidity the entity must hold in both normal and stressed environments to ensure that the entity's financial condition and overall soundness are not adversely affected by an inability (or perceived inability) to meet financial obligations in a timely manner. The RLF ensures the entity holds sufficient liquidity to meet both the Regulatory and Internal Liquidity Requirements.

MSIM maintains its liquidity reserves in the form of short-term cash deposits within its credit and liquidity risk limit frameworks to remove any risk from liquidating assets.

The RLF includes the application of specific liquidity risk related policies and procedures in addition to a governance structure designed to oversee the overall level of liquidity risk taken.

### **Legal, Regulatory and Compliance Risk**

Legal, Regulatory and Compliance Risk includes the risk of legal or regulatory sanctions, material financial loss; including fines, penalties, judgements, damages and/or settlements, limitations on our business, or loss to reputation which the Company may suffer as a result of a failure to comply with laws, regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to the MSIM's business activities. This risk also includes contractual and commercial risk, such as the risk that a counterparty's performance obligations will be unenforceable. It also includes compliance with anti-money laundering, anti-corruption and terrorist financing rules and regulations. MSIM is generally subject to extensive regulation in the different jurisdictions in which it conducts its business.

Compliance Risk manifests itself through the Risk to Client and Risk to Firm categories.

MSIM seeks to comply with the applicable laws, rules and regulations, including those related to financial crimes, and has no appetite for transactions, business activities or conduct by employees, contingents, customers or counterparties that give rise to a significant breach of MSIM's compliance obligations.

MSIM and its employees and contingents are subject to the Global Compliance Policy. MSIM has a robust compliance framework in place to monitor and mitigate Compliance Risk.

### **Reputational Risk**

Reputational Risk is also referred to as Franchise Risk. Reputational Risk describes the potential risks associated with the way in which MSIM conducts its business and the perception of MSIM by external parties, including the MSI Group's shareholders, clients, regulators and the public. Reputational Risk may be triggered by the nature of the transaction, business practice, the identity or reputation of the client/counterparty or jurisdictional considerations.

Reputational Risk manifests itself in the Risk to Firm category.

MSIM does not have any appetite for transactions, business practices, clients or counterparties that pose a significant franchise risk and jeopardise the firm's reputation.

The Global Franchise Risk Policy sets out examples of "red flags" that may be indicative of potential Reputational Risk. The primary mitigant to Reputational Risk is a robust Reputational Risk Management Framework, encompassing monitoring, escalation and review.

### **Conduct Risk**

Conduct Risk is defined as the risk arising from misconduct by individual employees or contingent workers (collectively, "Covered Persons") or groups of Covered Persons, or the risk arising from conduct by the firm where the outcome has an adverse impact on clients, markets or the firm's reputation. Conduct includes both intentional and unintentional behaviours.

MSIM has no risk appetite for Conduct Risk. It acknowledges, however, that Conduct Risk remains inherent in doing business and thus cannot be entirely eliminated. MSIM has an approved Global Conduct Risk Management Policy and an EMEA and MSI Group Conduct Risk Management Supplement ('EMEA Supplement'). The EMEA Supplement will be reconsidered annually and updated and reissued where necessary.

### **Credit Risk**

Credit Risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to MSIM.

For MSIM, Credit Risk manifests itself through the Risk to Firm category, as cash in the form of deposits at other institutions or outstanding payments or loans due.

MSIM has no exposure to traded products (i.e. Over-the-Counter (“OTC”) derivatives, Secured Financing Transactions (“SFTs”)) and no direct exposure to the Credit Risk of the Assets under Management (“AuM”).

### **Market Risk**

Market Risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities, correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio.

For MSIM, Market Risk is limited to foreign exchange (“FX”) risk on non USD revenues and expenses. There is no direct Market Risk exposure to the AuM.

### **Model Risk**

Model Risk is the potential for adverse consequences from decisions based on incorrect or misused model outputs. Model Risk can lead financial loss, poor business and strategic decision making, or damage to MSIM’s reputation.

For MSIM, Model Risk manifests itself in the Risk to Client and Risk to Firm categories.

In line with the Morgan Stanley firm-wide approach, MSIM risk appetite includes Model Risk. The Model Risk appetite is set to a level that, after considering MSIM’s model governance and control processes, does not pose a material risk to the MSIM capital adequacy, reputation and regulatory standing.

Model Risk is assessed qualitatively; (i) Model Risk is managed through the Global Model Risk Management (“MRM”) Framework, which includes policies and procedures, as well as enhanced standards for Model Risk governance, roles and responsibilities and reporting, and; (ii) all models are captured in the Model Inventory and are subject to Global MRM standards, including independent review (validation), with the progress of the review being monitored by the appropriate senior management governance forum, including the MSIM Model Oversight Committee (“MSIMMOC”).

### **Concentration Risk**

Concentration Risk is the risk of loss due to an outsized exposure to counterparty, group of connected counterparties and/or counterparties in the same industry or geographic region.

Concentration Risk manifests itself through the Risk to Firm category.

Credit Risk exposures that would give rise to Concentration Risk are not material. As MSIM has no direct exposure to the Credit Risk of funds, there is no further Concentration Risk from the AuM.

### **Group Risk**

Group Risk is the risk that the financial position of an entity may be adversely affected by its relationships (financial or non-financial) with other entities in the same group or by risks which may affect the financial position of the whole group (for example, through reputational contagion).

As a subsidiary of a global firm, MSIM has multiple relationships of both a financial and non-financial nature with the Morgan Stanley Group through the execution of its business strategy and global booking model. Given this organisational structure, and common shareholder, the MSI Group’s business strategy is aligned with that of affiliates and the Morgan Stanley Group as a whole.

Group Risk does not pose a material risk to MSIM’s capital or liquidity adequacy, robust risk management, internal governance and control frameworks are applied to relationships with Morgan Stanley affiliates. This covers both financial and non-financial affiliate relationships.

MSIM actively manages its exposures to affiliates in the normal course through a combination of (i) a net assets test, excluding loans to affiliates and subordinated debt, which must be above 0 at all times, and (ii) regular review and monitoring of payables and receivables vs. affiliates with accelerated paydowns.

MSIM is a Material Operating Entity of the Morgan Stanley Group and is within the scope of the single point entry resolution strategy adopted by the Morgan Stanley Group.

### **Taxation Risk**

Taxation (Tax) Risk is defined globally as the risk that (i) potential future tax benefits are not fully realised prior to expiration; (ii) a tax authority may successfully assert that Morgan Stanley Group is subject to more tax liability than expected; or (iii) unanticipated tax rule changes result in potential reduction in capital.

Taxation Risk does not post a material risk to MSIM's capital or liquidity adequacy.

### **Climate and Environmental Risk**

Environmental risk may include impacts to biodiversity, pollution of land, water or air, climate change, deforestation and forest degradation, and other significant negative impacts on the environment as a result of human activities. Within environmental risk, the risks arising from climate change are a particular area of focus.

The Morgan Stanley Group divides climate and environmental risks into two main categories: transition risk and physical risks.

- **Transition Risks:** Transitioning to a low-carbon and more environmentally sustainable economy will entail extensive regulatory, policy, legal, technology and market initiatives as society adapts to climate change, mitigates its causes and promotes a more sustainable environment. Depending on the nature, speed and focus of these changes, transition risks may pose varying types and levels of financial and reputational risk to businesses and other organisations.
- **Physical Risks:** These risks include both acute physical events such as flooding, and chronic physical risks related to longer-term shifts in climate patterns such as more frequent and prolonged drought and progressive shifts like biodiversity loss, land use change, habitat destruction and resource scarcity. Financial implications for organisations can range from direct damage to assets to indirect impacts from supply chain disruption, driven by factors such as changes in water availability, food security and agricultural productivity. Extreme temperature changes may affect an organisation's physical locations, operations, supply chain, transport needs and employee safety.

In addition, the Company may be exposed to litigation risk or reputational risk losses arising from reliance on statements or representations in relation to ESG matters which are later discovered to be incorrect or misleading.

Environmental risk is managed by integrating climate change and other environmental considerations into the MSI Group Risk Framework as drivers of credit, market, operational, and liquidity risks. Climate and environmental risks are also integrated into policies and procedures. The Framework continues to be developed to meet the requirements set out in new and evolving regulations.

The primary Transition Risk for MSIM is ensuring compliance with sustainability-related regulation, primarily the Sustainable Finance Disclosure Regulation ("SFDR") in the EU. For funds that include environmental, social and governance ("ESG") related guidelines or consider ESG characteristics of issuers, the Company firm has a control environment in place to ensure portfolios operate within their objectives and guidelines on a pre and post-trade basis. In addition, there is an independent risk process to monitor adherence to objectives and guidelines such as carbon emissions targets and sector exclusions.

Given the strategy and risk profile of the entity, the MSIM Board is satisfied that the risk management framework is appropriate for the identification and mitigation of the potential for harm associated with its business strategy. The effectiveness of the framework is reviewed at least annually and, where appropriate, elements are updated to reflect best practice, evolving market conditions, lessons learned following market-wide or idiosyncratic risk events, and in response to changing regulatory expectations and requirements.

## 5. Governance and Board of Directors

### Governance Arrangements

As part of the MSI Group, MSIM falls within the overall MSI Group governance structure designed to oversee:

- the management of risks across the MSI Group's businesses within the parameters of the control and risk management framework established by the MSI Group.
- that the MSI Group's systems of internal controls are appropriate and operate as expected; and
- that there is independent oversight and challenge of the executive of the MSI Group.

This is achieved through a framework of boards and committees shared across the MSI Group, whose members include independent Non-Executive Directors ("NEDs"), the chief executive and senior representatives across business units and control functions.

The MSI Board has appointed: (i) the MSI Risk Committee ("RiskCo"); (ii) the MSI Audit Committee ("AuditCo"); (iii) the MSI Nomination & Governance Committee ("NomCo"); (iv) the MSI Remuneration Committee ("RemCo"); and (v) the MSI EMEA 2022 Enhancement Programme Committee ("EPCCo") (collectively, the "Committees") to assist and provide guidance to the MSI Board in respect of various matters.

While the Committees have been appointed by the MSI Board, under their terms of reference they are concerned with the business of the MSI Group including MSIM in relation to matters falling within their terms of reference. On this basis, the FCA has granted MSIM a waiver from the requirement to establish its own risk committee, nomination committee, and remuneration committee, which would otherwise have applied to it as a significant IFPRU firm. The Chair of the MSIM Board is the Chair of the RiskCo, and is a member of the AuditCo, NomCo, RemCo and EPCCo.

FCA prescribed responsibilities are allocated across the Senior Manager Functions within MSIM. Ruairi O'Heal is the Chief Executive Officer of MSIM (the "CEO") and an executive director on the Board. As CEO he is responsible, under the authority of the Board, for the executive management of the business and operations of MSIM.

The EMEA IM Operating Committee is established to assist the CEO in the coordination of the EMEA IM Business, including the business conducted by MSIM. Its authority and responsibilities extend to a wide range of matters including strategy; performance; investment oversight and product development; risks and controls; operational, conflicts, legal and regulatory matters; and human resources and culture-related matters. Connectivity with the wider EMEA governance structure is facilitated by cross membership between the EMEA IM Operating Committee and other EMEA Executive-Level and Management-Level Committees. In particular, the CEO is also a member of the EMEA Operating Committee and the EMEA Risk Committee.

The EMEA IM Operating Committee is supported in its activities by a layer of EMEA IM Management-Level committees. Namely the EMEA IM Operations Committee, the EMEA IM Product Governance Committee, the EMEA IM Regulatory Management Committee, the EMEA IM Investment Committee, the EMEA IM Conflicts of Interest Committee and EMEA IM Risk Committee.

MSIM is also supported by a number of global committees which consider certain processes that are relevant to Morgan Stanley's IM business globally. Where appropriate, the CEO or other senior executives within the EMEA IM Business are members of these committees.

The CEO is responsible for reviewing the global IM strategy and the EMEA strategy and leading the development of proposals regarding its application and implementation for the EMEA IM Business and MSIM, for discussion with and approval by MSIM Board.

### **Appointments to the MSIM Board**

When identifying and recommending candidates to join the MSIM Board, the NomCo will consider a broad range of qualities and characteristics, giving due regard to ensuring a broad range of backgrounds, skills and experience is present on the MSIM Board. It will also take into account regulatory requirements and relevant policies of the MSI Group. When identifying and selecting NEDs, the NomCo may also consult with executive search firms. New directors go through tailored induction programmes and all directors are provided with ongoing training.

### **Diversity and the Composition of the MSIM Board**

The MSIM Board recognises the importance and benefits of diversity both within business operations and at a board level. All appointments to the MSIM Board are made on merit, in the context of the skills and experience that the MSIM Board as a whole requires to be effective, with due regard given to the benefits of diversity. When assessing the composition of the MSIM Board and recommending new directors; the NomCo considers the benefits of diversity, including gender and ethnic diversity.

The MSIM Board aspires to continue to meet or exceed diversity targets, including a minimum of 33% female representation\* and (ii) one Board director from an ethnic minority background by 2025. As at 31 December 2022, the MSIM Board had exceeded its gender target with 50% female representation. Selection of diverse candidates to join the MSIM Board will be, in part, dependent on the pool of candidates with the necessary background, skills and experience. In order to promote the specific objective of diversity at Board level, the NomCo expects short-lists of potential candidates prepared by external executive search firms to be diverse and balanced.

*\* In February 2023 the target for female representation on the MSIM Board was increased to 40% by 2025.*

### **Non-Executive Directors**

#### **Terri Duhon**

Terri was appointed a non-executive director and Chair of the MSIM Board on 10 January 2018. Terri is also a non-executive director of MSI and Chair of the RiskCo and a member of the AuditCo, NomCo, RemCo and EPCCo.

Terri has over twenty five years' risk and financial markets experience. She worked for JPMorgan as a derivatives trader for eight years and was Global Head of Structured Credit at ABN AMRO. In 2004 she founded an expert advisory company and has been retained as a financial risk expert for major regulators.

Terri has held a number of non-executive director appointments and is currently a director of Rathbones plc and Wise plc. She is an Associate Fellow at Oxford University Said Business School. She graduated from MIT in Mathematics in 1994.

#### **David Best**

David was appointed a non-executive director of the MSIM Board on 23 February 2021.

He is Chief Operating Officer (COO) for Continental Europe and a member of the Management Boards of Morgan Stanley Europe Holding SE, Morgan Stanley Europe SE and Morgan Stanley Bank AG (since April 2022).

David joined Morgan Stanley in 1997 in London, initially holding a number of roles supporting the Institutional Securities Group and from 2014 to 2022 he was Deputy Chief Operating Officer for EMEA.

He is an Alumnus of the Victoria University of Manchester, a qualified Chartered Accountant and a Freeman of the City of London.

## **Executive Directors**

### **Ruairi O'Healai**

Ruairi was appointed as an executive director of the MSIM Board on 16 November 2011 and as CEO on 19 April 2017. Ruairi is Morgan Stanley Investment Management's EMEA Chief Operating Officer. Prior to his current role, Ruairi served as International Chief Risk Officer for Morgan Stanley Investment Management until January 2017.

Ruairi has over twenty years' industry experience. Prior to joining Morgan Stanley Investment Management, he was the Global Head of Risk Management for Pioneer Investments, where he worked for 12 years.

Ruairi holds a B.A. Banking and Finance degree from the University of Ulster and a Master of Commerce from the Graduate School of Business, University College Dublin.

### **Fiona Kelly**

Fiona was appointed as an executive director of the MSIM Board on 10 January 2018. Fiona is EMEA Head of Operations and the Global Head of Transformation. She is a member of the EMEA Operating Committee and EMEA Risk Committee.

Fiona joined Morgan Stanley in 1991 and has held various positions within Global Operations, covering both line management and change management, including her prior role as the Global Head of ISG Client Operations.

Prior to joining the firm, Fiona worked in the Audit department of Ernst & Young.

Fiona holds a BSc in Maths and Computer Science from the University of Manchester.

### **Richard Lockwood**

Richard was appointed as an executive director of the MSIM Board on 11 January 2018.

Richard is Head of Northern European Distribution for Morgan Stanley Investment Management.

Richard joined Morgan Stanley in 2004 and has over thirty five years of industry experience.

Prior to joining the firm, Richard worked at ABN Amro as director of institutional business development. Previously, he worked as business development director at Fleming Asset Management and prior to that, as finance director at Fleming Pooled Pensions.

Richard received a B.Sc. in Mathematics from the University of Manchester and is a fellow of the Institute and Faculty of Actuaries.

### **Zoë Parish**

Zoë was appointed as an executive director of the MSIM Board on 16 March 2022.

Zoë is the Head of International Product and Board Governance for Morgan Stanley Investment Management.

Before returning to Morgan Stanley in 2019, Zoë spent 4 years at Coutts and Co. From 1993 to 2014, Zoë held leadership and product roles in Morgan Stanley's Private Wealth Management business in EMEA.

Zoë holds a B. A. (Hons) in Politics and History and an LLB (Hons) in Law, both from the University of London.

**Directorships Held by the Board**

<b>Director</b>	<b>Number of Directorships as at 31 December 2022</b>	<b>Directorships adjusted For SYSC4.3A.7(2)</b>
Terri Duhon	9	4
David Best	11	2
Fiona Kelly	5	1
Richard Lockwood	3	1
Ruairi O'Healai	13	3
Zoe Parish	11	3

## 6. Capital Resources

The capital resources of MSIM as at 31 December 2022 are set out in Table 2. The main terms and conditions of the capital instruments are disclosed in Table 4.

**Table 2: Composition of regulatory own funds**

<b>MSIM</b>	<b>Amount (GBP thousands)</b>	<b>Source based on reference numbers / letters of the balance sheet in the audited financial statements</b>
<b>1 OWN FUNDS</b>	<b>188,645</b>	
<b>2 TIER 1 CAPITAL</b>	<b>140,138</b>	
<b>3 COMMON EQUITY TIER 1 CAPITAL</b>	<b>140,138</b>	
4 Fully paid up capital instruments	827	A
5 Share premium	-	
6 Retained earnings	141,288	B
7 Accumulated other comprehensive income	(1,969)	C
8 Other reserves	-	
9 Adjustments to CET1 due to prudential filters	-	
10 Other funds	-	
11 (-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	(8)	D
19 CET1: Other capital elements, deductions and adjustments	-	
<b>20 ADDITIONAL TIER 1 CAPITAL</b>	<b>-</b>	
21 Fully paid up, directly issued capital instruments	-	
22 Share premium	-	
23 (-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	-	
24 Additional Tier 1: Other capital elements, deductions and adjustments	-	
<b>25 TIER 2 CAPITAL</b>	<b>48,507</b>	
26 Fully paid up, directly issued capital instruments	48,507	E
27 Share premium	-	
28 (-) TOTAL DEDUCTIONS FROM TIER 2	-	
29 Tier 2: Other capital elements, deductions and adjustments	-	

Own Funds of MSIM are based on audited financial statements. Table 3 provides a reconciliation of regulatory own funds to balance sheet information as at 31 December 2022.

**Table 3: Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements**

<b>MSIM<sup>1</sup></b>	<b>a</b> <b>Balance sheet<sup>2</sup> as in published / audited financial statements (GBP thousands)</b>	<b>c</b> <b>Cross-reference to Table 2</b>
<b>Assets – Breakdown by asset classes according to the balance sheet in the audited financial statements</b>		
1 Cash and short-term deposits	221,551	
2 Loans and advances	173,748	
3 Investment securities	3	
4 Trade and other receivables	92,473	
5 Current tax assets	74	
6 Deferred tax assets	8	D
7 Other assets	71,889	
8 Property, plant and equipment	194	
<b>Total Assets</b>	<b>559,940</b>	
<b>Liabilities – Breakdown by liability classes according to the balance sheet in the audited financial statements</b>		
1 Trade and other payables	156,787	
2 Debt and other borrowings	48,751	
Of which: Subordinated Debt	48,507	E
Of which: Intercompany Funding Payables	244	
3 Provisions	118	
4 Current tax liabilities	46,458	
5 Other liabilities	80,453	
<b>Total Liabilities</b>	<b>332,567</b>	
<b>Shareholders' Equity</b>		
1 Share capital	827	A
2 Currency translation reserve	(1,969)	C
3 Retained earnings	228,515	
Of which: Previous years retained earnings	141,288	B
Of which: Current years retained earnings	87,227	
<b>Total Shareholders' Equity</b>	<b>227,373</b>	

1. "Under regulatory scope of consolidation" column has been omitted as the investment firm's accounting and regulatory consolidation is the same.

2. MSIM's financial statements are prepared in its functional currency, USD. The balance sheet has been converted to GBP using fx rate 1.2094.

## 7. Capital Instruments Template

Table 4 provides a description of the main features of the capital instruments issued by MSIM as at 31 December 2022.

<b>MSIM</b>			
<b>Description</b>	<b>A</b>	<b>B</b>	<b>C</b>
Instrument Type	Common Equity Tier 1	Common Equity Tier 1	Subordinated Debt
Accounting classification	Shareholder's Equity	Shareholder's Equity	Liability – Amortised Cost
Amount recognised in Regulatory Capital	£826,856	£2	£48,506,812
Nominal amount of instrument	\$1 per ordinary share	£1 per ordinary share	\$60,000,000
Original date of issuance	04/02/2016	22/01/1986	27/09/2021
Perpetual/Dated	Perpetual	Perpetual	Dated
Fixed or Floating Dividend/Coupon	Floating	Floating	Floating
Convertible or non-convertible	Non-Convertible	Non-Convertible	Non-Convertible
Issue Price	N/A	N/A	\$60,000,000
Redemption Price	N/A	N/A	\$60,000,000
Original Maturity Date	N/A	N/A	27/09/2032
Issuer call subject to prior supervisory approval	N/A	N/A	Yes
Option Call Date, Contingent call dates and redemption amount	N/A	N/A	Prepayment Option Call Date: 27/09/2026 at 100% Plus tax and regulatory calls at 100%
Coupon rate and any related index	N/A	N/A	SOFR + 1.29 per cent, per annum
Subsequent Call Dates	N/A	N/A	Daily thereafter
Write-down Features	N/A	N/A	Yes The Bank of England ("BoE"), as the UK Resolution Authority, has the authority to direct the write-down or the conversion of this subordinated debt instrument to equity according to its contractual terms and under certain circumstances.

## 8. Appendix I: IFPR Article Reference Mapping

Articles	Summary of Requirements	Compliance Reference MSIM
<b>8.1 Disclosure</b>		
8.1.1	All disclosure requirements apply to a Non-SNI firm, with the exception of: (4) Investment policy only applies if the firm does not fall within MIFIDPRU 7.1.4R(1).	MSIM is a Non-SNI firm.
8.1.2		
8.1.3	SNI MIFIDPRU Investment Firms 1. A Non-SNI investment firm may be reclassified as an SNI MIFIDPRU Investment firm in certain circumstances and be subject to reduced disclosure requirements. When reclassified to a SNI investment firm, full disclosure requirements apply the year of reclassification.	Not applicable
8.1.4		
8.1.5	2. When an SNI investment firm is reclassified as a non-SNI investment firm, reduced disclosure requirements apply the year of reclassification, but it can choose to fully disclose in line with Non-SNI investment firms requirements.	
8.1.6		
8.1.7	Disclosure required on an individual basis, unless exempt.	Disclosure prepared for MSIM on an individual basis.
8.1.8	Qualitative disclosure detail must be appropriate to the size and complexity of the investment firm.	Meet requirement.
8.1.9	E.g., Non-SNI investment firms should disclose more detailed remuneration detail than an SNI investment firm.	
8.1.10	Disclosure is required annually on the date the investment firm publishes its annual financial statements.	
8.1.11	More frequent disclosure should be considered in particular circumstances, such as a major change in business model or merger.	
8.1.12	MIFIDPRU TP12 details transitional provisions for disclosure requirements.	Not applicable
8.1.13	Disclosure must be easy to easily accessible, free to obtain, clearly presented and easy to understand.	Meet requirement.
8.1.14	For future disclosures, the format should be consistent with previous disclosure periods, and any significant changes should be highlighted.	
8.1.15	A firm is not required to disclose items which in doing so would breach the law of another jurisdiction.	
8.1.16		
8.1.17	Disclosures should be published on a website.	
<b>8.2 Risk management objectives and policies</b>		
8.2.1	An investment firm must disclose its risk management objectives and policies relating to Own funds requirements, concentration risk and liquidity.	Section 4: Risk Management.
8.2.2	This must include a concise statement approved by the investment firm's governing body describing the potential for hard associated with the business strategy and a summary of the strategies and processes used to manage each risk category, highlighting how this helps reduce the potential for harm.	
8.2.3	An investment firm may draw information from the ICARA process to comply with disclosing it's approach to risk management referencing its risk management policies, details of risk management structure and operations, how risk appetite is set and summary of how it assesses the effectiveness of its risk management processes.	
<b>8.3 Governance arrangements</b>		
8.3.1	Information relating to internal governance arrangements: 1. an overview of how it complies with governance arrangements; 2. number of directorships (executive and non-executive) held by each board member; 3. a summary of the policy promoting diversity in the board; 4. if the firm has a risk committee and whether the firm is required to establish a risk committee.	Section 5: Governance and Board of Directors.
<b>8.4 Own Funds</b>		
8.4.1	Information on own funds: 1. a reconciliation of CET1, AT1 and T2 to calculate own funds; 2. a reconciliation of own funds to its audited financial statements; and 3. a description of the main features of CET1, AT1 and T2 instruments issued by the firm. A firm that is not required to publish annual financial statements is not required to disclose (2)	Section 6: Capital Resources. Table 2: Composition of regulatory own funds. Table 3: Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements.
8.4.2	A firm must use the template available at MIFIDPRU 8 Annex 1R in order to disclose the information requested at MIFIDPRU 8.4.1R.	Section 7: Capital Instruments Template. Table 4: Own funds: main features of own instruments issued by the firm.
<b>8.5 Own Funds Requirements</b>		
8.5.1	An investment firm must disclose: 1. The K-Factor requirement broken down into a. Sum of K-SUM, K-CMH and K-ASA; b. Sum of K-COH and K-DTF; c. Sum of K-NOR, K-CMG, K-TCD and K-CON. 2. Fixed overheads requirement.	Section 1: Overview and Key Metrics. Table 1: Key Metrics.
8.5.2	An investment first must disclose its approach to assessing the adequacy of its own funds in accordance with the overall financial adequacy rule.	Section 3: Capital Management.

8.6 Remuneration policy and practices- Disclosed separately	For remuneration disclosures: <a href="#">Pillar 3 Disclosures - UK - Investor Relations   Morgan Stanley</a>
8.7 Investment policy	Not applicable

## 9. Appendix II: Abbreviations

<b>Term</b>	<b>Definition</b>
AT1	Additional Tier 1
AuditCo	MSI Audit Committee
AuM	Assets Under Management
BCBS	Basel Committee Banking Supervision
CEO	Chief Executive Officer
CET1	Common Equity Tier 1 Capital
COO	Chief Operating Officer
EMEA	Europe, Middle East, and Africa
EPCCO	Enhancement Programme Committee
ESG	Environmental, Social and Governance
EU	European Union
FCA	Financial Conduct Authority
FOR	Fixed Overheads Requirement
FX	Foreign Exchange
GBP	British Pound Sterling
ICAAP	Internal Capital Adequacy Assessment Process
ICARA	Internal Capital Adequacy and Risk Assessment
IFPR	Investment Firms Prudential Regime
IM	Investment Management
ISG	Institutional Securities Group
K-ASA	Assets Safeguarded and Administered K-Factor Requirement
K-AUM	Assets Under Management K-Factor Requirement
K-CMG	Clearing Margin Given K-Factor Requirement
K-CMH	Client Money Held K-Factor Requirement
K-COH	Client Orders Handled K-Factor Requirement
K-CON	Concentration Risk K-Factor Requirement
K-DTF	Daily Trading Flow K-Factor Requirement
KFR	K-Factor Requirement
K-NPR	Net Position Risk K-Factor Requirement
K-TCD	Trading Counterparty Default Risk K-Factor Requirement
MiFID	Markets in Financial Instruments Directive
MRM	Model Risk Management
MSI	Morgan Stanley International Limited
MSI Group	Morgan Stanley International Limited (and its subsidiaries)
MSIM	Morgan Stanley Investment Management Limited
MSIMMOC	MSIM Model Oversight Committee
NED's	Non-Executive Directors
NomCo	MSI Nomination & Governance Committee
Non-SNI	Non Small and Non-Interconnected
NPA	New Product Approval
OTC	Over the Counter
PRA	Prudential Regulation Authority
RemCo	MSI Remuneration Committee
RiskCo	MSI Risk Committee
RLF	Required Liquidity Framework
SFDR	Sustainable Finance Disclosure Region
SFTs	Securities Financing Transactions
SNI	Small and Non-Interconnected
UK	United Kingdom
USD	United States Dollar