

MORGAN STANLEY | INSTITUTIONAL SECURITIES GROUP

GENERAL RISKS RELATING TO OUR PRODUCTS AND SERVICES FOR PROFESSIONAL CLIENTS

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Introduction

This notice has been published by Morgan Stanley & Co. International plc for and on behalf of itself and any undertaking in the Morgan Stanley group of companies from time to time and includes but is not limited to those companies listed in the Annex to this notice (separately and together *Morgan Stanley*). In this notice “we”, “us” and similar expressions means Morgan Stanley where the context so admits. This notice has been published pursuant to our obligations under the Markets in Financial Instruments Directive (Directive 2014/65/EU), the UK Markets in Financial Instruments Directive as implemented by SI 2021/774 and the Swiss Federal Act on Financial Services (FinSA) to provide you with a general description of the risks of financial instruments.

This notice describes generally the most significant risks of investing in financial instruments such as shares, debt securities, exchange traded funds, derivatives and structured notes, which may also be linked to the performance of other financial instruments or products such as interest rates, swap rates, equity indices, foreign exchange rates or commodities. Any investment in financial instruments involves a degree of risk and some financial instruments are riskier than others. Prices can fall as well as rise and there is a risk you may lose your entire investment in any financial instrument.

The risks can include but are not limited to credit risk, market risk, liquidity risk, volatility, interest rate risk, dividend risk, foreign exchange risk, insolvency risk (and related events such as the risks that a regulator may exercise its bail-in powers), regulatory risk, operational risk, tax risk, legal risk and risks relating to leverage including margin requirements.

This notice cannot disclose all the risks and other significant aspects of financial instruments. You should also read any relevant documentation, for example term sheets and offering documents which may include more information on the risks relating to a financial instrument. We also make available from time to time information relating to more specific risks such as those relating to the transition away from LIBOR. More detailed disclosures in relation to OTC derivative transactions are included in the General Disclosure Statement for Transactions published by ISDA. These are available on Matrix or our website at <https://www.morganstanley.com/disclosures>. If you do not have access to Matrix you should contact your Morgan Stanley client representative.

You should not make any investment decision unless you understand the nature of your exposure to risk and potential loss and you should carefully consider whether any financial instrument is suited to your circumstances before making any investment decision. Unless otherwise agreed in writing, we will not provide investment advice to you and any communication with you should not be relied upon as such. No investment decision should be made in reliance on such communications, which do not include all risk factors or other matters that may be material, do not take into account individual investment objectives, financial conditions, or needs, and are not personal recommendations or investment advice, or a basis to consider any Morgan Stanley entity to be a fiduciary or other type of advisor.

1 Products

Different financial instruments involve different levels of exposure to risk, as further described below.

1.1 Equities

A share is an instrument representing a shareholder's rights in a company which means that you are exposed to the financial performance of the company. Shares may be issued in bearer or registered form and may be certificated or non-certificated. A shareholder has financial and ownership rights which are determined by law and the company's constitutional documents. Shares may be subject to transfer restrictions. Shareholders may also receive dividend payments.

Investing in shares involves risks including, but not limited to, the following:

- **Issuer risk:** As a member of the company you participate in its financial performance. In the event of the insolvency of an issuer, your claims will generally be subordinated to all other creditors of the company and you may not receive anything at all.
- **Market risk:** share prices may change quickly and unpredictably. Share prices can be influenced by general market conditions as well as factors more specific to the company.
- **Dividend risk:** dividend payments largely depend on the company's financial performance and its dividend policy and may fluctuate significantly, and at certain times a company may pay no dividend at all.
- **Liquidity risk:** there may be a limited market for certain shares and the share price of a company may be influenced by a lack of demand or supply for the share. There may also be differences in the liquidity available on-exchange or off-exchange/over the counter.

1.2 Depositary Receipts

Depositary receipts (ADRs, GDRs, etc.) are negotiable certificates, typically issued by a bank, which represent a specific number of shares in a company, traded on a stock exchange which is local or overseas to the issuer of the receipt. They may facilitate investment in the companies due to the widespread availability of price information, lower transaction costs and timely dividend distributions. The risks involved relate both to the underlying share (see above) and to the bank issuing the receipt. In addition, there are important differences between the rights of holders of ADRs and GDRs, and the rights of holders of the shares of the underlying share issuer. For example, a company may make distributions in respect of its underlying shares that are not passed on to the holders of its depositary receipts. Any such differences between the rights of holders of the depositary receipts and holders of the underlying shares may be significant and may materially and adversely affect the value of your instruments.

1.3 Debt Securities

Debt securities are negotiable instruments issued by a company, government body or other entity and are a loan from you to the issuer. The duration of the debt, as well as the terms and conditions of repayment, are determined in advance. Debt securities are generally issued for a fixed term and redeemed at the maturity date. The interest payments on the securities may be either (i) fixed for the entire term or (ii) variable and often linked to reference rates.

Money market instruments are short-term fixed-income debt securities, which generally have remaining maturities of one year or less, and may include Treasury Bills, commercial paper and certificates of deposit.

Investing in debt securities involves risks including, but not limited to, the following:

- **Issuer risk:** the issuer may become insolvent, meaning that it is unable to repay the interest or redeem the principal amount. The solvency of an issuer may change due to one or more of a range of factors including the issuer's business sector or the political and economic status of the countries in which the company is operating. The deterioration of the issuer's solvency will influence the price of the debt securities that it issues.
- **Credit risk:** the value of a debt security will fall in the event of a default or reduced credit rating of the issuer. Generally speaking, the higher the relative rate of interest (that is, relative to the interest rate on a risk-free security of similar maturity), the higher the perceived credit risk of the issuer.
- **Interest rate risk:** uncertainty relating to interest rate movements means that investors of fixed-rate securities carry the risk of a fall in the prices of the securities if interest rates rise. The longer the duration of the security and the lower the interest rate, the higher a debt security's sensitivity to a rise in rates.
- **Additional risks specific to certain types of debt securities:** additional risks may be associated with certain types of debt securities, for example zero coupon notes, floating rate notes, convertible or exchangeable securities and subordinated debt securities. Investors in such securities will be exposed to additional risks and you are advised to familiarise yourself with such additional risks before making any investment decision.
- **Early redemption risk:** certain debt securities may include a provision allowing for early redemption of the debt securities in certain circumstances. Any such early redemption may result in a change to the expected yield of the security.

1.4 OTC Derivatives A derivative is a contract entered into between parties for the exchange of payments calculated by reference to an underlying asset, rate or index. such as government or corporate debt securities, shares, interest rates, swap rates, equity indices, proprietary indices, exchange traded funds, commodities or commodity indices, inflation indices, other indices, currencies, funds, one or more preference shares or futures contracts.

A derivative can be traded "over-the-counter" (i.e. outside of an exchange or other trading venue) (**OTC**) or on an exchange (**exchange-traded**). In general, OTC derivatives involve the following risks:

- **Market Risk:** as derivatives are priced on the basis of an underlying asset or other value, the client will be exposed to the market risks that affect the underlying. However, the economic return of a derivative transaction may not be identical to the economic return of holding the underlying, and may include an adjustment for fees or commissions, financing charges, hedging costs or break costs.
- **Counterparty credit risk:** where the derivative transaction is uncleared and uncollateralised, the counterparties are exposed to the credit risk of the other party. Your entire investment could be lost in the event of default by, or the insolvency of, your counterparty.
- **Contingent liabilities:** derivatives such as credit default swaps or options may involve contingent liabilities (see below). This can result in you incurring losses much greater than your original investment (if any) or premium received (in the case of sold options) should certain conditions be met, such as the occurrence of a credit event or an asset reaching a strike price.
- **Unlimited loss:** losses under certain derivatives can theoretically be unlimited. In the context of an interest rate or FX swap, for as long as the interest or exchange rate continues to rise, so too will your loss if you are required to pay the variable rate under the transaction.
- **Leverage risk:** derivatives may be entered into on a highly geared or leveraged basis. This may mean that even a relatively small movement in the value of the underlying asset or other specified factor(s) could result in a disproportionately large movement, unfavourable or favourable, in the amount payable between the parties to the transaction.

- **Legal risk:** if a counterparty goes into default and the derivative is terminated, the ability to recover value from the transaction is ordinarily dependent on netting gains against losses across different transactions and the value of the transactions against the value of the collateral. If the legal netting mechanism is not recognised in any jurisdiction, it may be that losses will be incurred.
- **Collateral risk:** parties to derivatives contracts are often required to post collateral to mitigate their credit exposure to one another. If the market value moves against your position, you may be called upon to pay substantial additional collateral on short notice. Failure to post collateral may lead to the contracts being closed out, which could crystallise a loss position. There is no guarantee that collateral which is posted by you will be returned. Where collateral is held by a third-party custodian, the return of such collateral is subject to the credit and operational risk of that custodian.
- **Basis risk:** where a derivative transaction has been entered into to hedge price or other risks arising from ownership of a particular underlying, the performance of the derivative and the performance risk of the underlying may not be perfectly correlated, resulting in residual 'basis' risk.
- **Operational risk:** losses may occur due to the failures of processes and systems used in monitoring derivative transactions, including calculating and making payments or deliveries, exercising rights (such as options rights) before their expiry, monitoring lifecycles events and delivering notices in a timely manner. Such failures in third party systems may be subject to limitations on liability.
- **Delivery risk:** if you have entered into a physically settled derivative, you may be obliged to deliver/take delivery of the relevant asset. In respect of commodities and natural resources, this may require significant operational resources to achieve.
- **Early termination:** derivative transactions may be subject to early termination due to a voluntary or agreed early termination, 'events of default' or 'termination events' relating to one of the parties (e.g. failure to pay, insolvency, force majeure, illegality, tax events) or extraordinary events relating to the underlying (e.g. merger, nationalisation or delisting of an equity, market disruptions, cancellation of an index, disruptions in the ability of one or more parties to hedge the transaction). Such events may be outside of your control and such termination may, depending on the value of the transaction at such time, result in a substantial payment due from/to you (even where the provider is in default or the termination arises from an external event). You may not be able to establish replacement transactions, or may incur significant costs in doing so, such as charges for early termination even where such early termination is voluntary or agreed between the parties.
- **Liquidity risk:** uncleared derivative contracts can be amended or transferred only pursuant to their express terms or by agreement of the parties. Where consent of a party to transfer or unwind an OTC derivative transaction is required, it may not provide such consent, for reasons which it is not obliged to disclose. In addition, there may not be another party who is willing to provide the same or a similar transaction. OTC derivative transactions on standardised terms (e.g. credit default swaps with set payment dates and maturity dates) will be more liquid than bespoke transactions. OTC derivative transactions may involve greater risk than investing in exchange-traded derivatives (see below) because there is no exchange market on which to close out an open position. It may therefore be impossible to liquidate an existing position, to assess the value of the position arising from an off-exchange transaction or to assess the exposure to risk.
- **Risk of Adjustments:** the occurrence of certain events relating to the underlying of the derivative transaction may trigger the right of the calculation agent to make certain adjustments to the economic terms (e.g. market disruption events, stock splits, or the payment of unexpected or extraordinary dividends, currency controls, cessation of a benchmark). Such adjustments may involve an element of discretion on the part of the calculation agent. Exposure to an underlying via a derivative may not correspond in all cases with exposure obtained by holding the underlying directly.
- **Clearing risk:** cleared OTC derivatives are OTC derivatives which have been submitted to and accepted for clearing by a clearing house. Such cleared derivatives are subject to the rules of the

clearing house, including collateral arrangements required by the clearing house. Participants may be required to post collateral on short notice to cover losses incurred under the cleared OTC derivative contracts. Failure to post collateral may lead to the contracts being closed out, which could crystallise a loss position. The terms and conditions of cleared OTC derivatives contracts (including the strike or forward price) may be modified by the clearing house without notice to reflect changes or events in respect of the underlying asset or otherwise.

- **Changes to exchange or clearing house rules:** the terms and conditions of OTC derivatives contracts (including the strike or forward price) may be modified by the exchange or clearing house to reflect changes or events in respect of the underlying asset or otherwise.

Different types of OTC derivatives have different features and risks, which are set out below:

Futures and Forwards

Transactions in futures and forwards involve the obligation to make, or to take, delivery of the underlying asset of the contract at a future date or, in some cases, to settle the position with cash. They carry a high degree of risk. The 'gearing' or 'leverage' often obtainable in futures and forwards trading means that entering into such transactions can lead to large losses as well as gains. It also means that a relatively small movement can lead to a proportionately much larger movement in the value of your investment, and this can work against you as well as for you.

The length of a futures or forwards contract is typically fixed on the trade date and therefore timing is an important component impacting performance of the product. Between the date on which the futures or forwards contract is entered into and the settlement date of that contract, the value of the transaction may vary positively or negatively as a result of changes in market factors such as the price of the underlying asset, interest rates, dividends and volatility.

Futures transactions have a contingent liability.

Options

An option is a financial derivative which represents a contract sold by one party (the one writing the option) to another (the one buying the option). The option buyer has the right, but not the obligation, to buy or sell a security or other financial asset at an agreed price during a certain period of time or on a specific date.

There are many different types of options with different characteristics and risks subject to the following conditions.

Buying options involves less risk than selling options because if the price of the underlying asset moves against you, you can simply allow the option to lapse. The maximum loss is limited to the premium, plus any commission or other transaction charges. However, if you buy a call option on a futures contract or a forward and you later exercise the option, you will acquire the future or the forward. This will expose you to the risks described above.

If you write an option, the risk involved is considerably greater than buying options. You may be liable for margin to maintain your position and a loss may be sustained well in excess of the premium received. By writing an option, you accept a legal obligation to purchase or sell the underlying asset if the option is exercised against you, however far the market price has moved away from the exercise price. If you already own the underlying asset which you have contracted to sell (when the options will be known as 'covered call options') the risk is reduced. If you do not own the underlying asset ('uncovered call options') the risk can be unlimited. Only experienced persons should contemplate writing uncovered options, and then only after securing full details of the applicable conditions and potential risk exposure.

Certain options markets operate on a margined basis under which buyers do not pay the full premium on their option at the time they purchase it. In this situation, you may subsequently be called upon to pay Margin (defined below) on the option up to the level of your premium. If you fail to do so as required, your position may be closed or liquidated in the same way as a futures position.

Swaps

Transactions in swaps involve an exchange of different cash flows between the parties. Parties are exposed to the market risk of the relevant underlying asset. For example, an interest rate swap will involve one party paying the other a variable rate of interest in exchange for payment by the other party of a fixed rate of interest, each calculated on the same notional amount. The party that pays the variable rate of interest will be exposed to the risk of a rise in the variable interest rate but will benefit from a fall in that interest rate. The receiver of the variable rate of interest will be exposed to the risk of a fall in the variable interest rate but will benefit from a rise in that interest rate.

Credit Default Swaps

A credit default swap is a contract under which one party (the buyer of credit protection) pays regular fixed amounts to the other party (the seller of credit protection) in return for a payment upon the occurrence of a “**credit event**” (e.g. payment default, insolvency, restructuring) in respect of the underlying reference entity or entities, linked to the loss incurred by a holder of debt of the reference entity (typically calculated by reference to a recovery rate determined via an auction process run by ISDA).

The performance of standard credit default swaps is significantly influenced by the ISDA Credit Derivatives Determinations Committees which make binding decisions on critical issues such as whether a credit event has occurred, whether there is a successor to the specified “reference entity” underlying the credit default swap, which obligations of the reference entity are deliverable, the terms of an auction to determine the recovery price and whether or not an auction will be held.

Commodity derivatives

Commodity derivatives may be subject to position limits. Certain regulators are required to impose position limits on the size of net positions investors can hold in commodity derivatives traded on particular trading venues and economically equivalent OTC contracts. The limits will apply on the basis of all positions held by an investor and those held on its behalf at an aggregate group level, including by its parent undertaking. There is a risk that it may be necessary for us, in certain circumstances, to unwind positions in commodity derivatives to avoid a breach of a position limit.

1.5 Structured Products

Structured products provide economic exposure to a wide range of underlying asset classes, such as government or corporate debt securities, shares, interest rates, swap rates, shares, equity indices, proprietary indices, exchange traded funds, commodities or commodity indices, inflation indices, other indices, currencies, funds, one or more preference shares or futures contracts. The level of income/capital derived from a structured product is usually linked to the performance of the relevant underlying asset.

In addition to the risks set out in 1.2 above, the potential return from the structured product may be different to that which may be achieved from a direct investment in the asset. These financial instruments may involve a high degree of gearing or leverage, so that a relatively small movement in the relevant underlying asset results in a disproportionately large movement, unfavourable or favourable, in the amount paid on maturity of the structured product.

Certain structured products provide capital protection while others provide conditional or no capital

protection. Some of the products include an element of principal protection, at a level stated at the time of the initial investment, so that on maturity the product is designed to return, at a minimum, the stated proportion of your initial capital invested (subject always to the credit of the issuer). For some products, the return of the stated proportion of your initial capital invested may depend on a pre-agreed level of performance being achieved or the product being held to maturity. If the performance is not attained or the product is not held to maturity the element of principal protection will not apply. Different products involve different levels of exposure to risk and reward and if your investment does not perform as planned, you could lose some or all the capital that you put in. It may be difficult to liquidate or sell a structured product, or to identify an independently determined fair valuation for a structured product.

1.6 Securitised Derivatives

These instruments may give a time-limited or an absolute right to acquire or sell one or more types of investment, which are normally exercisable against someone other than the issuer of that investment. Alternatively, they may give you rights under a contract for differences which allow for speculation on fluctuation in the value of an underlying asset.

They often involve a high degree of gearing or leverage, so that a relatively small movement in the price of the underlying asset results in a much larger movement, unfavourable or favourable, in the price of the instrument. The price of these instruments can therefore be volatile.

These instruments have a limited life and may expire worthless if the underlying instrument does not perform as expected. You should only buy this product if you are prepared to sustain a total or substantial loss of the money that you have invested plus any commission or other transaction charges.

1.7 Exchange Traded Derivatives

Exchange-traded derivatives are typically standardised futures or options contracts traded through an exchange or other recognised trading venue. Before entering into a transaction, you should obtain a clear explanation of all commission, fees and other charges for which you will be liable. These charges will affect your net profit (if any) or increase your loss.

Transactions in Exchange-Traded Derivatives may expose you to following specific risks:

- **Leverage risk:** Futures contracts are leveraged instruments as the amount of initial margin required is smaller relative to the potential gains or losses under the contracts.
- **Margin risk:** A relatively small market movement will have a proportionately larger impact on the margin you have deposited or will have to deposit: this may work against you as well as for you. You may sustain a total loss of initial margin funds and any additional margin deposited with the firm to maintain your position. However, if the market moves against your position or margin levels are increased, you may be called upon to pay substantial additional collateral on short notice to cover losses incurred under the futures contracts and maintain your position. Failure to provide collateral may lead to the contracts being closed out which could crystallise a loss position.
- **Changes to exchange or clearing house rules:** The terms and conditions of exchange-traded contracts (including the strike or forward price) may be modified by the exchange or clearing house to reflect changes or events in respect of the underlying asset or otherwise.
- **Market risk:** “stop loss” or “stop limit” orders intended to limit losses may not be effective if market conditions make it impossible to execute such orders. Market conditions (e.g. illiquidity) and/or the operation of the rules of certain markets (e.g. the suspension of trading in any contract or contract month because of price limits or “circuit breakers”) may increase the risk of loss by making it difficult

or impossible to effect transactions or liquidate/offset positions.

- **Operational risk:** Trading facilities utilise computer systems for the order routing, execution, matching, registration or clearing of trades. As with all facilities and systems, they are vulnerable to temporary disruption or failure. An investor's ability to recover certain losses may be subject to limits on liability imposed by the system provider, the market, the clearing house and/or member firms.

1.8 Contracts for Differences

Futures and options contracts can also be referred to as a 'contract for differences'. These can be options and futures on an index (such as the CAC 40, DAX 30 and the FTSE 100), as well as currency and interest rate swaps. However, unlike other futures and options, these contracts can only be settled in cash. Investing in a contract for differences carries the same risks as investing in a future or an option and you should be aware of these as described above. Transactions in contracts for differences may also have a contingent liability.

1.9 Funds

Funds are collective investment schemes such as investment funds and open-ended investment companies which pool the funds of investors to make investments in accordance with the investment objectives of the fund. Funds can be either open-ended or closed-ended. Open-ended funds are valued on the value of the assets held. Closed-ended funds are valued on what investors are prepared to pay/sell for a unit in the fund. Different types of funds are subject to differing levels of regulatory supervision.

Investing in funds may involve risks including, but not limited to, the following:

- **Market risk:** the value of an interest in a fund depends on the value of the assets it holds. If general market conditions deteriorate, it is likely that the value of the investment in the fund will also deteriorate.
- **Liquidity risk:** Open-ended funds may not be able to liquidate their assets and return funds to investors if there is poor liquidity in the market generally and substantial redemptions by fund holders within a short period of time could require the manager to liquidate positions more rapidly than would otherwise be desirable, which could adversely affect the value of the fund's assets. Closed-ended funds can be subject to risks of low liquidity, making it difficult for you to realise your investment.
- **Key personnel risk:** the performance of a fund will be heavily dependent on the performance of investments selected by the investment manager and the expertise of such investment managers making profitable investment decisions. Such skill and expertise may be concentrated in a small number of key personnel. Should these key personnel leave, the value or profitability of the fund's investments may be adversely affected as a result.
- **Interest rate risk:** a leveraged fund will be exposed to interest rate rises. This could reduce the returns investors receive or even lead to losses.
- **Leverage risk:** funds may have varying restrictions on leverage. Leverage presents the potential for a higher rate of return but also increases the volatility of the fund and increases the risk of a total loss of the amount invested.
- **Currency risk:** if investments in the fund are denominated in a currency other than that in which your initial investment was made, returns could be reduced (or losses incurred) due to currency fluctuations.
- **Counterparty risk:** the insolvency of any institution providing services to the fund such as safekeeping

of assets or acting as counterparty to the fund in derivatives transactions or other instruments, may expose the fund to financial loss.

- **Derivatives risk:** a fund may utilise derivative instruments to seek to enhance investment returns. While this can potentially have the effect of enhancing the fund's performance, it can also be detrimental if there are losses on the derivatives
- **Operational risk:** an investment in a fund can involve operational risks arising from a wide range of possible operational errors, including system breakdowns, human errors or external events and errors caused by service providers such as the investment manager, which may affect the value of the fund and (if applicable) its ability to pay redemptions within the scheduled timeframe.
- **Limited diversification risk:** unless the fund is subject to investment restrictions and diversification requirements, the number and diversity of investments held by a fund may be limited.
- **Restrictions on subscription:** an investor in the fund's units/shares may be prevented from subscribing and redeeming such units/shares, either at the official net asset value (for example, as a result of the imposition of any charges by the fund) or at all, or the prescribed notice period, timing cut-offs and minimum/maximum amounts in respect of subscriptions and redemptions for the fund's units/shares may be changed.
- **Compulsory redemption risk:** the fund may compulsorily redeem the shares/units upon the occurrence of certain events (for example, if, following the insolvency of the investment manager, the fund becomes unable to fulfil its investment objections).

Exchange Traded Funds

Exchange traded funds ("ETFs") are closed-ended collective investment schemes, traded as shares on stock exchanges, and typically replicate a stock market index, market sector, commodity or basket of assets. ETFs may expose you to similar risks as detailed in respect of Equities and Funds. ETF managers may employ a synthetic structure to provide the stated return, whereby the return is based on a derivative executed with a counterparty. The return may therefore be dependent on the credit quality of the counterparty and/or the collateral held to support the position. Investors may also be exposed to the risks outlined below in respect of derivatives.

Alternative Investment Funds

Hedge funds and other private investment fund investments may involve complex tax and legal considerations and can give rise to considerable risks over and above the risks set out in 1.14 above. Alternative investments funds are often subject to different regulatory requirements or supervision as mutual funds or UCITS. Alternative investment funds often engage in leverage and other speculative investment practices, which involve a high degree of risk. Such practices may increase the volatility of performance and the risk of investment loss, including the loss of the entire amount that is invested. Alternative investment funds are often highly illiquid as there is no public market for such interests and are often only transferable with consent. The illiquid nature of such investments can mean interests can be difficult to value and can make transfer difficult. Alternative investment funds may themselves invest in instruments that may be highly illiquid and difficult to value. Such funds may also not be required to provide you with periodic pricing or valuation information, which may limit your ability to redeem or transfer your investment or delay receipt of redemption proceeds. They also may impose significant fees and charges,

including management fees that are based upon a percentage of the realised and unrealised gains or management fees that are set at a fixed percentage of assets under management regardless of performance returns.

1.10 Emission Allowances

Emission allowances are tradeable units recognised for compliance with the requirements of EU Emissions Trading Scheme. Their value is principally derived from the overall cap on emissions set at an EU level. The price of emission allowances is also affected by the amount of emissions of those companies covered by the cap, by how much and how quickly those companies are able to reduce their emissions and by the use of any available scheme credits by those companies. The amount of emissions of those companies covered by the cap may in turn be affected by factors such as fuel prices and weather patterns. Emission allowances may be traded in the spot markets but may also be traded in the derivatives markets (e.g. as the reference instrument for forwards, options or swaps)

1.11 Packaged Products

Where a financial instrument is composed of two or more different financial instruments, the associated risks may be affected by the interaction between the different components. As a result, the risk profile of the packaged product may be greater than that of the individual components. For example, the risk profile of a product embedding a derivative will depend on how the risks arising in respect of the embedded derivative interact with the other components of the product. For example, a convertible security may be regarded as composed of a debt security together with an option over the shares in the issuer which may be exercised by converting the debt security into equity. As a result, an investment in a convertible bond may give rise to debt security risks and equity risks. These risks may interact in that, for example, the equity related risk of unforeseeable price fluctuations may be correlated with heightened credit risk in the issuer.

Certain derivative products may themselves have derivatives as underliers. Where this is the case, the risk profile of the product may depend on how the risks arising in respect of the derivative combine with those of its derivative underlier. For example, a swaption may be regarded as composed of both a swap and an option. As a result, an investment in a swaption may give risk to risks relating to the option and risks relating to the underlying swap. These risks may interact in that, for example, the risk that the option is not in the money at the time it is exercised may be correlated with market risks relating to the underlying cash flows.

1.12 Repo and Securities Lending

Under a repurchase transaction, the parties enter into two simultaneous transactions: (i) one party (the **Seller**) transfers title to securities to the other party (the **Buyer**) for immediate settlement (or for settlement on a forward start date) at an agreed purchase price paid by the Buyer to the Seller; and (ii) with the agreement for the Seller to repurchase equivalent securities from the Buyer on a specified future date, or on demand, at an agreed repurchase price (representative of the purchase price plus the repo rate reflective of the financing charge during the term of the transaction).

Under a securities lending transaction, one party (the **Lender**) transfers title to securities to the other party (the **Borrower**) for a defined period of time, or open and terminable on demand, in return for a fee paid by the Borrower to the Lender during the term of the loan (based on market value of the securities). The Borrower provides cash or securities collateral (by way of title transfer) to the Lender on commencement of the loan. On termination of the loan, the Borrower delivers equivalent securities to the Lender and, simultaneously, the Lender returns to the Borrower any collateral provided by the Borrower.

Repo/Stock Lending transactions may be subject to the following risks:

- **Credit risk:** a party to a repo or stock lending transaction is exposed to credit risk
 - its counterparty may become insolvent or otherwise unable to meet its obligations and such party may not be adequately collateralised in order to mitigate this counterparty credit risk.
- **Settlement Risk:** operational risk may arise due to the non-settlement or delay in settlement of securities, or failure to deliver securities due to illiquid market conditions in respect of the specific securities at any given time, with the securities difficult to source. Delivery failure could result in an event of default and termination of the repo or stock lending transaction.
- **Market Risk:** the economic risks and rewards remain with the Seller (or Lender). Therefore, there is also a potential opportunity cost to a repo or stock lending transaction. If the value of the securities transferred to Buyer (or Borrower) has fallen before equivalent securities are returned, the Seller (or Lender) may have missed the opportunity to dispose of those securities for a higher price which may exceed the price received for the use of its securities under the transaction.
- **Interest Rate Risk:** for longer-dated repos, there can be interest rate risk, in that parties are locked into paying/receiving a specific interest rate that is higher/lower than the prevailing rate.
- **Collateral:** repo and stock lending transactions also involve risks relating to the re- use of collateral provided to the counterparty.

2 Foreign Markets and Foreign Denominated Securities

Transactions on foreign markets will involve different risks from transactions on the UK, EEA and Swiss markets. In some cases, the risks will be greater. The potential for profit or loss from transactions on foreign markets or in foreign denominated contracts and securities will be affected by fluctuations in foreign exchange rates.

An investment in a financial instrument denominated in, or the payment of which is linked to the value of, currencies other than your home currency entails significant risks. These risks include the possibility of significant changes in rates of exchange between your home currency and the other relevant currencies and the possibility of the imposition or modification of exchange controls by the relevant governmental authorities. These risks generally depend on economic and political events over which issuers of financial instruments have no control. Such risks may impact the payments due to you under your investments.

3 Contingent Liability Transactions

A contingent liability transaction is a transaction under the terms of which you will or may be liable to make further payments (other than charges) at the time when the transaction is due to be completed or upon the earlier closing out of your position. These payments may or may not be secured by an amount in money (or represented by securities) deposited with a counterparty or a broker as a provision against loss on transactions made on account (**Margin**).

Contingent liability investment transactions for which Margin is deposited require you to make a series of payments against the purchase price instead of paying the whole purchase price immediately.

If you trade in futures, contracts for differences or sell options, you may sustain a total loss of the Margin you deposit with us to establish or maintain a position. If the market moves against you, you may be called upon to pay substantial additional Margin at short notice to maintain the position. If you fail to do so within the time required, your position may be liquidated at a loss and you will be responsible for the resulting

deficit.

Even if a transaction is not margined, you may still have an obligation to make further payments in certain circumstances over and above any amount paid when you entered the contract. The risks associated with margined or contingent liability transactions carried out with or for you on or under the rules of a regulated market may differ depending on the rules of the regulated market. Contingent liability transactions which are not traded on or under the rules of a regulated market may expose you to substantially greater risk.

4 Limited Liability Transactions

A limited liability transaction means a transaction where you and we agree to limit the amount of liability that you can sustain. Before entering into a limited liability transaction, you should obtain from us a formal written statement confirming that your liability on each transaction will be limited to an amount agreed between you and us before you enter into the transaction.

5 Collateral

If you deposit collateral as security with us, the way in which it will be treated will vary according to the type of transaction and where it is traded. There could be significant differences in the treatment of your collateral, depending on whether you are trading on a regulated market, with the rules of that exchange (and the associated clearing house) applying, or trading off-exchange. Deposited collateral may lose its identity as your property once dealings on your behalf are undertaken. Even if your dealings should ultimately prove profitable, you may not get back the same assets which you deposited, and you may have to accept payment in cash.

6 Off-Exchange Derivative Transactions

While some off-exchange markets are highly liquid, transactions in off-exchange or 'non-transferable' derivatives may involve greater risk than investing in on-exchange derivatives because there is no exchange market on which to close out an open position. It may be impossible to liquidate an existing position, to assess the value of the position arising from an off-exchange transaction or to assess the exposure to risk. Bid and offer prices need not be quoted, and, even where they are, they will be established by dealers in these instruments and consequently, it may be difficult to establish what is a fair price.

7 Suspensions of Trading

Under certain trading conditions, it may be difficult or impossible to liquidate a position. This may occur, for example, at times of rapid price movement if the price rises or falls in one trading session to such an extent that under the rules of the relevant exchange, trading is suspended or restricted. Placing a stop-loss order will not necessarily limit your losses to the intended amounts because market conditions may make it impossible to execute such an order at the stipulated price.

8 Clearing House Protections

On many exchanges, the performance of a transaction by us (or a third party with whom we are dealing on your behalf) is 'guaranteed' by the exchange or clearing house. However, this guarantee is unlikely in most circumstances to cover our or another person's obligations to you and may not protect you if we or another party defaults on its obligations to you. On request, we will explain any protection provided to you under the clearing guarantee applicable to the relevant clearing house. There may also be a clearing house for off-exchange instruments (such as interest rate swaps) which are not traded under the rules of an exchange.

9 Insolvency

In the event of our insolvency or default, or that of any other brokers involved with your transaction, it may

lead to positions being liquidated or closed out without your consent. In certain circumstances, you may not get back the actual assets which you lodged as collateral and you may have to accept any available payments in cash. On request, we will provide an explanation of whether, and the extent to which, we will accept liability for any insolvency of, or default by, other firms involved with your transactions.

10 The Bank Recovery and Resolution Directive Resolution Regime

The Bank Recovery and Resolution Directive ((EU) 2014/59), as updated by BRRD II (EU) 2019/879), and related national implementing legislation, as amended from time to time (“BRRD”) aims to reduce threats to financial stability by establishing a framework for the recovery and resolution of EEA and UK credit institutions and investment firms. The BRRD give “resolution authorities” the power to rescue failing European and UK financial institutions by using a bail-in tool that involves either the cancellation of the liabilities (typically unsecured) of the failing entity, in whole or in part, or the conversion of such liabilities into another security, including ordinary shares of the surviving entity (if any).

The BRRD resolution regimes (in particular, the exercise of the bail-in tool) could cause you to lose some or all of any investment in financial instruments issued by EEA or UK entities in scope of the BRRD (which would include EEA and UK credit institutions, certain EEA and UK investment firms and potentially other entities within their group). The terms and rights associated with such financial instruments (e.g. date of maturity or interest rate payable) may be varied or payments suspended, or the instruments may be converted into ordinary shares or other instruments of ownership, which have different risks or rights associated with them.

Your investment in any such instruments issued by an institution that is subject to the BRRD resolution regime may therefore be written down to zero and you will lose the entire capital you have invested in that instrument or security. Even when you have not invested directly into such instruments, where you have invested into instruments which are exposed to such “in-scope” instruments, where such underlying instruments are subjected to “bail in” there may be an adverse impact to the value and return of your investments. The exercise of the “bail in” and other powers under the BRRD resolution regime may not constitute an event of default under the terms of your investments and you will have limited recourse to challenge the use of such measures

11 Emerging Markets

Countries with emerging markets are characterised by an underdeveloped or developing infrastructure, with significant potential for economic growth and increased capital market participation by foreign investors. There are significant risks inherent in investing in emerging markets not typically associated with investing in more developed countries, which may result in significant fluctuations in the trading prices of financial instruments related to emerging markets. Changes may result over time from the interaction of many factors directly or indirectly affecting economic and political conditions in the related countries or member nations, including economic and political developments in other countries, social and religious instability, changes in government policies, taxation and interest rates, currency repatriation restrictions or redenomination risk, organised crime and other political, social and economic developments in laws or regulations and, in particular, the risks of expropriation, nationalisation and confiscation of assets and changes in legislation imposing restrictions on foreign ownership.

Of particular importance to potential economic risks are (i) rates of inflation; (ii) interest rate levels; (iii) balance of payments; and (iv) the extent of governmental surpluses or deficits in the relevant country. All of these factors are, in turn, sensitive to the monetary, fiscal and trade policies pursued by the related countries, the governments of the related countries and member nations (if any), and other countries important to international trade and finance.

Government intervention could materially and adversely affect the value of any such financial instruments, including intervention techniques such as such as intervention by the central bank or imposition of regulatory controls or taxes.

Financial instruments related to emerging markets may be more volatile than financial instruments related to more developed markets and could result in you losing the entire value of your investment.

11.1 Settlement Risk and Corporate Actions

The absence of a developed securities market as well as potentially underdeveloped banking and telecommunications systems may mean that difficulties arise in relation to settlement, clearing and registration of transactions in securities. The regulations, procedures and practices of issuers and registrars may be basic compared to developed markets, subject to significant delays and occasionally fraud, creating a risk that an investor may not be registered as a shareholder, or having been registered, may be removed.

Legislation governing corporate actions may be different from that in more developed countries and in general terms, management may not be expected to be as accountable to shareholders. Certain practices of companies and financial intermediaries which may be restricted in developed markets may be commonplace. No guarantee can be given that all entitlements and rights attaching to investments, including in relation to dividends, can be realised or exercised.

11.2 Accounting Practice and Information

Accounting, auditing and financial reporting standards may not be equivalent to those applicable in more developed market economies and the amount, quality and reliability of information available to investors may be considerably less than in respect of investments in more developed countries. There may also be limited reporting requirements for companies compared to standards in developed securities markets and a lack of trading history.

11.3 Foreign Currency and Exchange Rates

Local currencies may not be freely convertible and restrictions may be placed on the conversion and repatriation of investors' funds including any profits or dividends. The value of investments as measured in major international currencies may be affected by fluctuations in currency rates and exchange control regulations.

11.4 Investment Restrictions

Foreign investment in companies in emerging markets may be, in certain cases, legally restricted. Sometimes these types of restrictions may be contained in constitutional documents of an enterprise and such documents may not be publicly available.

11.5 Taxation

Tax law and practice may not be as clearly established as that of the more developed countries. It is possible therefore that the current interpretation of the law or understanding of practice may change or, indeed, that the law may be changed with retrospective effect. Accordingly, it is possible that you could become subject to taxation that is not anticipated when investments are made, valued or disposed of. There is no guarantee that double tax treaties, entered into or confirmed by emerging market countries, will remain in place or will not be modified, or that they will in practice be honoured by local tax inspectorates. You should consult your own professional tax advisers on the implications of making an investment in, holding, or disposing of investments in companies in emerging markets.

Annex

Morgan Stanley Entities

Country	Name	Registered Office	Regulator(s)
United Kingdom	Morgan Stanley & Co. International plc	25 Cabot Square, Canary Wharf London E14 4QA England	<p>Financial Conduct Authority (FCA) 12 Endeavour Square, London E20 1JN, United Kingdom</p> <p>Prudential Regulation Authority (PRA) 20 Moorgate, London EC2R 6DA, United Kingdom</p> <p>Bank of England Threadneedle St, London EC2R 8AH, United Kingdom</p>
Germany	Morgan Stanley Europe SE	Grosse Gallusstrasse 18 60312 Frankfurt am Main Germany	<p>Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) Marie-Curie-Str. 24-28, 60439 Frankfurt am Main, Germany</p> <p>Deutsche Bundesbank Wilhelm-Epstein-Straße 14, 60431 Frankfurt am Main, Germany</p> <p>European Central Bank (ECB) Sonnemannstrasse 22, 60314 Frankfurt am Main, Germany</p>
Switzerland	Morgan Stanley & Co. International plc, London, Zurich Branch <i>Authorized and supervised as a branch of a foreign securities firm</i>	Beethovenstrasse 33 CH-8002 Zurich Switzerland	<p>Swiss Financial Market Supervisory Authority (FINMA) Laupenstrasse 27, 3003 Bern, Switzerland</p>

United States	Morgan Stanley & Co. LLC	1585 Broadway Avenue New York, NY 10036 United States	<p>Securities and Exchange Commission (SEC) 100 F Street, NE, Washington, DC 20549,</p> <p>USA Financial Industry Regulatory Authority (FINRA) 1735 K Street, NW, Washington, DC 20006, USA</p> <p>Commodity Futures Trading Commission (CFTC) 1155 21st Street, NW, Washington, D.C.</p>
United States	Morgan Stanley Capital Group Inc.	1585 Broadway Avenue New York, NY 10036 United States	<p>Commodity Futures Trading Commission (CFTC) 1155 21st Street, NW, Washington, D.C.</p> <p>Federal Energy Regulatory Commission (FERC) 888 First Street, NE, Washington, DC 20426</p>
United States	Morgan Stanley Capital Services LLC	1585 Broadway Avenue New York, NY 10036 United States	<p>Securities and Exchange Commission (SEC) 100 F Street, NE, Washington, DC 20549</p> <p>Commodity Futures Trading Commission (CFTC) 1155 21st Street, NW, Washington, D.C.</p>
United States	Morgan Stanley Bank N.A.	680 West 10000 South South Jordan, UT 84095 United States	<p>Office of the Comptroller of the Currency (OCC) 400 7th St., SW, Suite 3E-218, Washington, DC 20219</p> <p>Commodity Futures Trading Commission (CFTC) 1155 21st Street, NW, Washington, D.C.</p>