Morgan Stanley Europe SE – SFDR disclosures

1 Introduction

Morgan Stanley recognizes that global sustainability challenges, including climate change, resource scarcity and human rights, are of critical importance and must be addressed. As a global financial services provider, Morgan Stanley partners with clients and stakeholders to mobilize capital at scale to help find solutions these challenges.

In this regard, MSESE's businesses coordinate with the Firm's Environmental and Social Risk Management ("**ESRM**") group to address any potential environmental and social due diligence considerations that may cause material harm and/or pose reputational risk to the firm, as per the Morgan Stanley Environmental and Social Risk Management Policy. This allows potential significant concerns to be escalated to the Firm Franchise Committee as relevant.

This disclosure has been prepared in accordance with Articles 3, 4 and 5 of the Sustainable Finance Disclosure Regulation (EU) 2019/2088 ("**SFDR**"), which apply to Morgan Stanley Europe SE ("**MSESE**") as a financial adviser under Directive 2014/64/EU (MiFID II) in the context of the following businesses:

- Morgan Stanley Investment Management ("**MSIM**") private investment funds business ("**MSIM Private**"); and
- Institutional Securities Group ("**ISG**").

This document provides information on how these MSESE businesses consider (i) sustainability risks; and (ii) the principal adverse impacts on sustainability factors, of the investment advice they provide. It also summarises how MSESE's remuneration policy integrates sustainability risks.

For the purposes of this disclosure, a "**sustainability risk**" (as defined in SFDR) is an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment. These risks include, but are not limited to, climate change transition and physical risks; natural resources depletion; waste intensity; labor retention, turnover and unrest; supply chain disruption; corruption and fraud; and human rights violations. A sustainability risk trend may arise and impact a specific investment or may have a broader impact on an economic sector (e.g. IT or Healthcare), geography (e.g. emerging market) or political region or country. The impacts following the occurrence of a sustainability risk may be numerous and vary depending on the specific risk, region and asset class.

2 MSIM Private

2.1 Integration of sustainability risks in investment advice

As a global investment manager, MSIM recognizes that various sustainability factors can pose actual or potential material risks to our investments at individual asset and/or portfolio levels. MSIM also recognizes that the universe of relevant sustainability risks may grow and evolve over time as the universe of sustainability factors considered relevant to the investment community also grows. The materiality of such risks on an individual asset and on a portfolio as a whole depends on factors such as the industry sector, country, asset class, and/or investment type. Sustainability risks can also materialize for assets and investments in a range of ways, for example: impaired or stranded asset values, increased operational costs, unforeseen liabilities and penalties, loss of access to markets/customers, and reputational damage.

MSIM Private investment teams within MSESE are responsible for the due diligence of proposed investments and will advise affiliated MSIM investment managers on the associated risks and opportunities. Those affiliated managers will make the final investment recommendation regarding the proposed investments, will define the risk profile of the portfolio, and will ultimately be responsible for advising their funds on the incorporation of materially relevant sustainability risks across the investment process (due diligence and research, valuation, asset selection, portfolio construction, and ongoing investment monitoring) as appropriate.

MSIM Private investment teams will (in line with global MSIM Sustainable Investment policies and procedures) consider materially relevant sustainability risks in their due diligence of proposed investments and will advise MSIM affiliates and funds accordingly. These may include, for example the review and ongoing monitoring of energy, greenhouse gas, water and waste data of assets and the implementation of any relevant ESG initiatives at asset level. The MSIM Private investment teams will raise ESG issues or opportunities for review as part of the Investment Committee process, as highlighted in the Investment Committee checklist. Any ESG risks and opportunities which are identified by the MSIM Private investment teams as part of asset management activities are escalated to the private investment funds advised by the MSIM investment managers, on a continuous basis.

Finally, within the Morgan Stanley Infrastructure and Real Estate Investing divisions, the relevant MSIM teams seek to maintain insurance coverage against liability to third parties and property damage in amounts and on terms that it considers customary and appropriate for its business.

2.2 Consideration of principal adverse impacts in investment advice

As a global investment manager, MSIM recognizes that an unintended consequence of certain investments may include some level of adverse impact on broader systemic sustainability factors such as environmental matters, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

MSIM acknowledges that the systemic nature of sustainability issues, where relevant to a given investment strategy, needs to be addressed in a coordinated and concerted manner across the value chain. Through MSIM's Global Sustainability Team and GRA Team, MSIM periodically defines areas of potential principal adverse impact which require attention. For example, these include potential contributions to:

(i) the increase of greenhouse gas emissions and systemic climate risk;

(ii) the increased use of finite natural resources;

(iii) the volume of hazardous and non-recyclable waste; and

(iv) violations of social norms and employee rights.

MSIM uses reasonable efforts to obtain the required data to monitor these potential impacts, and to understand any remediation efforts undertaken by companies. As noted above, MSIM

Private investment teams within MSESE will due diligence investment opportunities, and in doing so will have regard to MSIM policies and procedures regarding principal adverse impacts and will advise their affiliates accordingly. MSIM investment managers will ultimately maintain discretion over the extent to which the outcomes of this due diligence affect buy/sell decisions, portfolio construction, and ongoing engagement and asset stewardship.

The broader MSIM business considers potential adverse impacts through a combination of actions including its global stewardship program, its thematic research, and its collaborative efforts in the broader investment industry. Additionally, MSIM strives to adhere to several normative business conduct codes and standards. For example, the Sustainability Team monitors potential violators of the principles enshrined in the United Nations Global Compact and OECD Guidelines and seeks to work with the relevant investment teams to engage with these companies on remediation strategies.

Finally, the collaboration of our MSIM Private investing teams with the Firm's ESRM group to identify and address potential environmental and social sensitivities, as outlined in the Morgan Stanley Environmental and Social Risk Policy, also supports our monitoring and consideration of potential principal adverse impacts.

3 ISG

3.1 Integration of sustainability risks

The ISG business of MSESE does not generally conduct advisory activities but may provide investment advice to clients on an ad hoc and infrequent basis. As these advisory activities represent a very limited part of the ISG business, and the ISG team does not advise clients on sustainable products or the sustainability aspects / risks of specific investments, the team does not have a process in place to specifically consider and integrate sustainability risks when providing investment advice.

The ISG team will however have regard to general market risks when advising clients, which may include consideration of relevant sustainability risks that are expected to materially impact on the market value of the investment(s).

In line with the BaFin Guidance Notice on Dealing with Sustainability Risks, MSESE however ensures that sustainability risks are adequately considered within MSESE's risk management framework

3.2 Consideration of principal adverse impacts in investment advice

As the advisory activities represent a very limited part of the ISG business, the team does not specifically consider their principal adverse impacts on sustainability factors. In fact, given the very limited, ad hoc and infrequent nature of ISG's investment advisory activities, they are generally unlikely to have a principal adverse impact on any particular sustainability factor(s).

In line with Firmwide statements and objectives regarding sustainability, the ISG business of MSESE remains committed to integrating sustainability considerations within its business more broadly and will generally endeavour to minimise any significant detrimental impacts on sustainability factors that it considers arise directly from its business activities.

4 Integration of sustainability risks in remuneration policies

MSESE's remuneration policy promotes sound and effective risk management, and does not encourage excessive risk-taking, including with respect to sustainability risks. Sustainability risks are also factored in when determining the risk-adjusted performance of relevant employees.