

Morgan Stanley Investment
Management
Best Execution Report

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1 Standard Factors Impacting Best Execution

When effecting transactions for its Clients MSIM takes into consideration a number of factors (together referred to as the “Relevant Factors”) including, but not limited to:

- price/spread
- cost of execution
- speed and likelihood of execution
- order size
- nature of the order
- broker or counterparty selection
- availability of liquidity
- likelihood of settlement
- market impact of the transaction
- MSIM's operational costs
- any other considerations that MSIM deems relevant to the transaction

MSIM will determine the relative importance of each factor using the following criteria:

- characteristics of the Client
- characteristics and nature of the transaction, including whether the Client has given specific instructions
- characteristics of the financial instruments
- liquidity of the financial instrument
- characteristics of the execution venues through which the transaction may be executed

2 Selection of Execution Venues

When selecting execution venues, MSIM takes into account all of the Relevant Factors which include the standard and quality of individual execution venues, and other factors that MSIM believes to be relevant to the efficient execution of Client's orders.

Trading in some financial instruments, may only be available via a limited number of execution venues. When such an instance occurs, it will be deemed that MSIM has obtained the best possible result if it effects a transaction through the available venues.

MSIM may use one or more of the following venue types:

- Regulated Markets
- Multilateral Trading Facilities (“MTF”)
- Organised Trading Facilities (“OTF”)
- Systematic Internalisers
- Third party investment firms (including affiliates)
- Non-EU entities performing similar functions

When MSIM places an order with a broker for execution, MSIM will conduct the appropriate due diligence on the brokers venue selection process, and monitor the execution of transactions effected by the broker.

3 Commission Rates

MSIM effects transactions based on commission rates for specific markets. These rates are negotiated periodically with each broker to ensure competitiveness by taking into account market trends and seek to strike a commercial balance between the quality of services provided in relation to order execution for our Clients.

Commission rates are reviewed annually at a minimum. From January 2018, MSIM Ltd will absorb the cost of research for all MSIM Ltd mandates, including where all such mandates have been delegated in whole or part to other MSIM entities.

4 Change in Significant Execution Venues

MSIM discloses a list of significant execution venues and broker-dealers in the Global Order Execution Policy ("OEP") available on the website. There have been no changes made to the list since the last reporting of the OEP.

5 Aggregation and Allocation of Orders

MSIM aims to allocate buy and sell orders among its Clients subject to prevailing market conditions, Clients' restrictions and the Relevant Factors (as defined in Section 1) in accordance with its Aggregation and Allocation of Orders Policy.

MSIM does not provide any of its Clients, or a group of Clients, with preferential treatment in connection with investment opportunities. The Clients participate in the aggregation process on a pro rata basis, and in line with any concentration or liquidity restrictions applicable as per their investment guidelines.

6 Execution Policy

MSIM's trading desks seek to deliver an industry leading service that aims to offer a performance advantage to its clients by reducing both implicit and explicit costs of trade execution, while leveraging a cohesive global trading platform.

The objective of the trading desks are to achieve superior execution outcomes, reduce implicit costs (trading costs/opportunity costs), and diminish explicit costs (commissions/exchange fees) using innovative trading solutions, and a variety of trading platforms.

MSIM's trading desks execute transactions with approved brokers and trading venues listed in the Approved Broker List ("ABL"), and have the expertise to execute trades based on the objectives of MSIM's clients. The approved brokers and trading venues list is approved by the MSIM Counterparty Governance Committee ("CGC").

MSIM traders weigh multiple factors when determining which approved broker or venue with which to execute any transaction. These factors include, but are not limited to: the reason for the trade (cash flow or strategic/fundamental security selection), the number of securities involved, the liquidity profile of the order, and indications of interest.

MSIM's multi-regional trading desks, enables the Firm to leverage the location expertise and local market knowledge of its traders.

6.1 Equity

Broker-dealers are selected from the ABL based on their competitive pricing, access to liquidity, quality of service, access to markets, and their track record in executing MSIM's client orders. MSIM utilises a variety of trading strategies and tools including strategic blocks, direct market access (via broker channels), algorithms, dark pools, and alternative trading systems. The utilization of multiple strategies aims to reduce implicit and explicit costs, and aims to increase sources and levels of liquidity.

6.2 Fixed Income/ Convertibles

Broker-dealers are selected from the ABL based on their competitive pricing, access to liquidity, quality of service, access to markets, and their track record in executing MSIM's client orders. In certain circumstances, it is not possible to obtain three independent price estimates from the market. These conditions include:

- the size of transaction,
- type of transaction,
- liquidity constraints of the traded instrument,
- broker/counterparty execution constraints, and
- situations in which approaching multiple counterparties is detrimental to the interest of MSIM's clients.

In such instances, MSIM traders have the discretion to execute in such a fashion so as to achieve their primary objective of obtaining the best possible result when executing securities, taking into account the circumstances existing at the time of the trade.

6.3 Money Market Instruments

Money market transactions are frequently large in nominal value and have short settlement periods. As a result, the selection of broker-dealers from the ABL will depend on factors such as: product offers, pricing, timely execution, settlement ability, capacity to trade in large volume, and access to sources of liquidity.

6.4 Foreign Exchange

When entering into FX forward transactions for Clients, brokers are selected from the ABL based on their competitive pricing, access to liquidity, variety of FX pairs, credit rating, track record in order execution, and timely settlement capability. During times of execution, FX spot prices are continually monitored for best execution using price sources such as Reuters and Bloomberg.

6.5 Derivatives, OTC Derivatives and Tailored Products

The selection of broker-dealers for derivatives depends on, but is not limited to the size of the transaction, the liquidity of the underlying instrument, counterparty and credit risk, and settlement and clearing capabilities.

When executing orders in OTC derivative products and tailored products, MSIM will ascertain the fairness of the price of the product. This is accomplished by gathering market data to estimate the price of such products, and where possible, by comparing the estimated price with prices on comparable products.

The availability of data used in the estimation of product prices may be impacted when transaction parameters exceed standard market sizes in times of restricted market liquidity, or in cases when a mere declaration of intention to transact may result in either market or price sensitivity. In such instances, it may not be possible to source a sufficient number of price estimates from the market.

As a result, MSIM shall determine what is likely to be the best method of execution by considering the aforementioned factors.

6.6 Fund of Funds

Available investment capacity in a fund is allocated on a pro-rata basis as determined by an Investment Committee vote in accordance with portfolio guidelines, strategy, tax considerations, legal or regulatory considerations, and other relevant business considerations. Allocation rationale is documented in the Investment Committee minutes.

6.7 Client Directed Trades

When a Client provides MSIM with specific instructions in relation to a proposed transaction or any particular aspect of that transaction (including, but not limited to, a direction to execute on a particular venue or a broker-dealer) MSIM effects that transaction in accordance with those instructions. Specific instructions may prevent MSIM from following some or all of the steps outlined in this Policy. In such instances, MSIM is required to obtain the best possible result within the confines of the Client's instructions. To the extent that specific instructions are not comprehensive, MSIM will determine any non-specified components in accordance with this Policy.

7 Transaction Cost Analysis

MSIM employs an independent third-party Transaction Cost Analysis ("TCA") vendor to monitor and analyse the implicit costs of transactions. This analysis enables MSIM to evaluate the quality of trade execution, the quality of the broker selection process, and the value of the investment manager's decision process in an effort to better assess the value added to each trade placed for MSIM clients.

A summary of the analysis is provided to the Global Best Execution Committee, senior management and at the Independent Investment Review meeting.