

Morgan Stanley

# 2019 Sustainability Report





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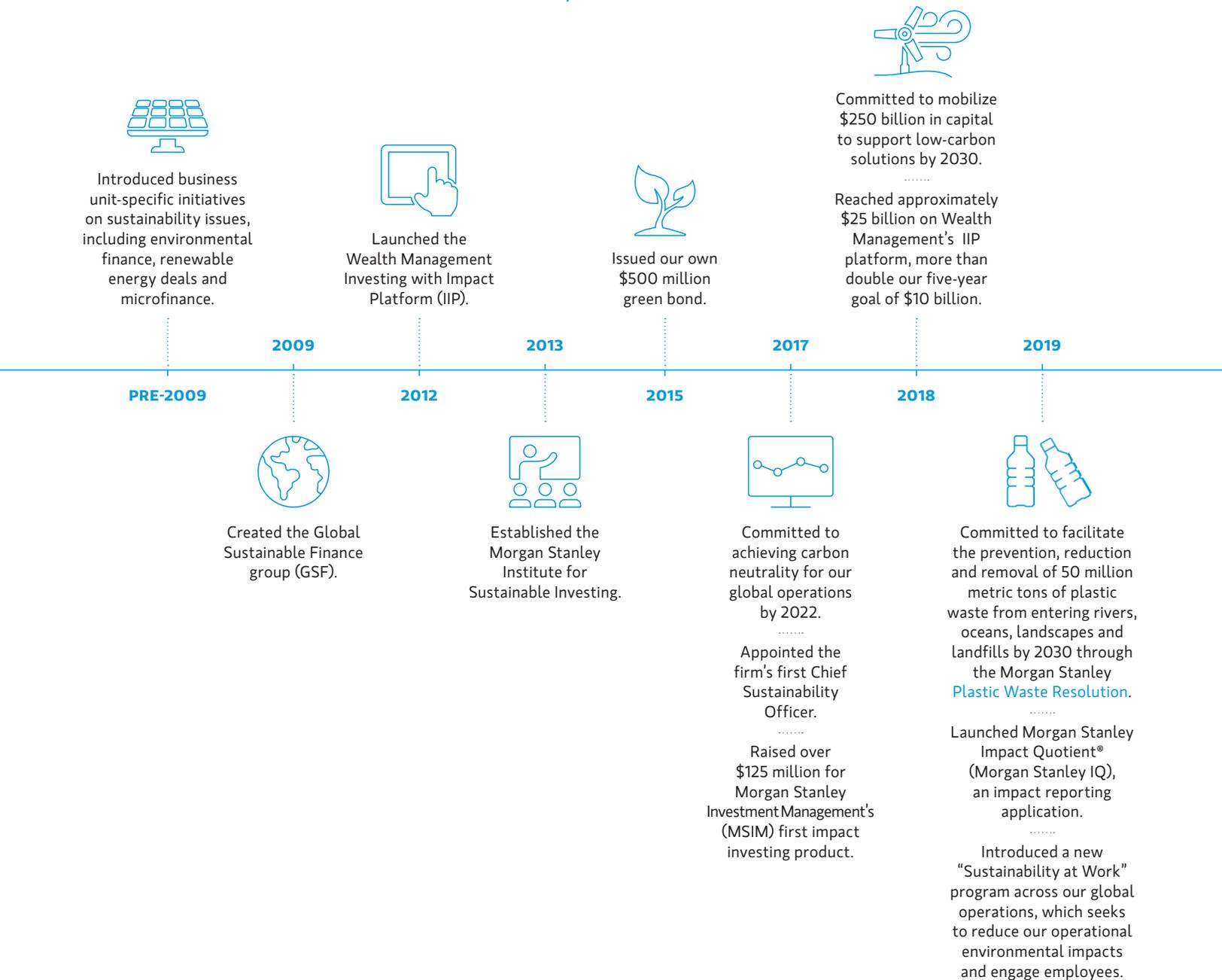
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# Our Sustainability Journey

As a global financial services provider, Morgan Stanley partners with clients and stakeholders to mobilize capital at scale to tackle global sustainability challenges, including climate change and inequality. We are deeply committed to delivering long-term value for clients and shareholders in ways that also benefit the environment and society.



# Our Business

Morgan Stanley is a global financial services firm. Our subsidiaries and affiliates advise, originate, trade, manage and distribute capital for governments, corporations, institutions and individuals. We maintain significant market positions in our three business segments—Institutional Securities, Wealth Management and Investment Management. These businesses provide a wide variety of products and services to a large and diversified group of clients and customers.

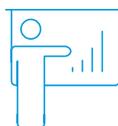
Our core values—Doing the Right Thing, Putting Clients First, Leading With Exceptional Ideas and Giving Back—guide everything we do. Through the talents and effort of our over 60,000 employees in more than 36 countries, we aim to deliver results for our stakeholders today while setting strategic goals for the future.

## OUR THREE BUSINESS SEGMENTS



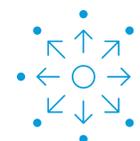
### Institutional Securities

Provides investment banking, sales and trading, lending, and other services to corporations, governments, financial institutions and high to ultra high net worth clients. Other activities include Asia Wealth Management services, investments and research.



### Wealth Management

Provides a comprehensive array of financial services and solutions to individual investors and small- to medium-sized businesses and institutions. These offerings cover brokerage and investment advisory services; financial and wealth planning services; stock plan administration services; annuity and insurance products; securities-based lending, residential real estate loans and other lending products; banking; and retirement plan services.

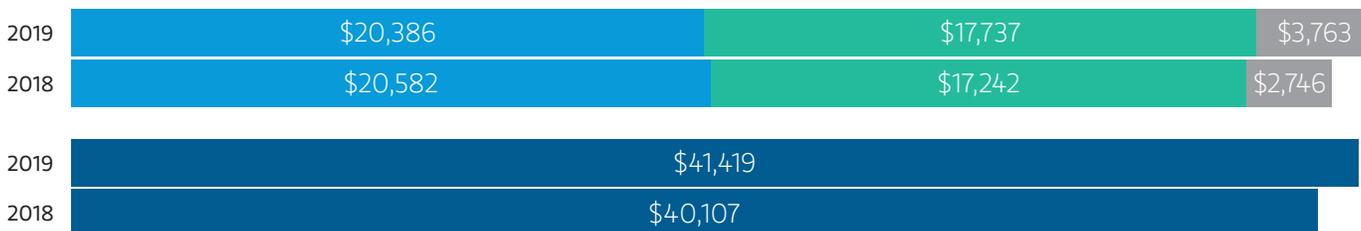


### Investment Management

Provides a broad range of investment strategies and products that span geographies, asset classes, and public and private markets to a diverse group of clients across institutional and intermediary channels. Strategies and products, which are offered through a variety of investment vehicles, include equity, fixed income, liquidity and alternative/other products.

## Financial Performance

(Net Revenue, USD millions)



■ Institutional Securities ■ Wealth Management ■ Investment Management ■ Firm

For more information, please see our Annual Report on Form 10-K for the year ending December 31, 2019 (2019 Form 10-K).

# From Our CEO



It has been an extremely challenging few months thus far in 2020. We are in the midst of a global health crisis, and a period of great economic uncertainty. During this difficult time, the resilience of our team is more important than ever. I am proud that our employees are doing what they do best: supporting our clients and our firm, and helping their loved ones and communities through the physical and mental stress of this crisis. I know that together we can support one another in navigating these challenges.

While it's only April 2020, the year of 2019 feels very distant. Looking back, throughout 2019, sustainable investing gained momentum. Mainstream investment managers and large corporations stepped forward with bold statements and long-term commitments. 2019 ended with Time Magazine naming a young climate activist as its person of the year. 2020 kicked off with climate change and sustainable investing as central themes at Davos.

When the global pandemic hit, we turned our energy toward taking care of our employees, our clients and our communities. It is a challenging time unlike any we have seen, but as a firm we are strong, and we will come through this. When we do, our commitment to our communities for a more sustainable world will be more important than ever.

As I reflect on what we achieved in 2019, I am reassured that the fundamentals of Morgan Stanley's business strategy continue to prioritize long-term value creation, earnings stability and a strong, inclusive and ethical culture. This approach is core to everything we do, including our efforts built over the past decade to integrate sustainability considerations across our firm.

Notably, we became the first bank to embark on activities across the value chain to reduce plastic waste, announcing the Morgan Stanley [Plastic Waste Resolution](#) in April 2019. While we benefit from the innovative products and services that plastics enable throughout our lives, including vital diagnostic and medical equipment, excessive plastic waste takes an environmental and economic toll. By partnering with our clients as well as nonprofits and academic institutions, we have pledged to facilitate the prevention, reduction and removal of 50 million metric tons of plastic waste by 2030. This commitment maintains that plastic can offer many important benefits, while also seeking to reduce plastic waste from entering the natural environment and ecosystems.

In 2019, we hosted our inaugural Sustainable Investing Summit. The successful event, which was attended by more than 100 clients, demonstrated our truly integrated approach and commitment to sustainability. Every day our professionals are focused on bringing tangible impacts to our sustainable investing initiatives, which include everything from issuing green bonds in capital markets, to impact investing for Wealth Management clients, to innovative Investment Management strategies.

The risks and opportunities of climate change have become more apparent. We believe having a sustainable planet is foundational to having a healthy society and sound financial system. Morgan Stanley seeks to support the transition to a low-carbon economy through products and services, business activities, and actionable analysis for investors. Last year, we financed over \$50 billion toward our goal of \$250 billion to support climate-related solutions by 2030.

On this journey we remain committed to providing investors with useful, relevant and meaningful sustainability information. Morgan Stanley is a longtime supporter of the [Sustainability Accounting Standards Board \(SASB\)](#). SASB's guidance for Investment Banking, Commercial Banking and Asset Management help inform the content, narrative and data included in this report. In 2020, we will publish our first report in line with the recommendations of the [Task Force on Climate-Related Financial Disclosures](#).

As we move forward in 2020, we expect to continue to advance our sustainability goals. We expect the markets to remain volatile this year, but we look forward to a period of recovery in the coming years. Like you, I hope that recovery across financial services incorporates and advances the agenda we share to create a more sustainable and resilient future.

A handwritten signature in black ink that reads "James P. Gorman". The signature is written in a cursive, flowing style.

James P. Gorman  
Chairman and Chief Executive Officer  
April 2020

# Approach to Sustainability

Our commitment to promoting global sustainability is reflected across our business strategy, products and services, thought leadership, and operations. Building on a track record of industry-leading innovation, we use our global reach to mobilize and scale capital in ways that deliver sustainable growth and long-term value for our clients and society. Our proactive approach to sustainability aims to mitigate risks to our business and the markets in which we operate.

Morgan Stanley integrates sustainability into the firm’s activities through three core areas of focus: Solutions and Services, the Institute for Sustainable Investing and Firmwide Sustainability. Highlights of this strategy in action during 2019 are described below and throughout this report.

## OUR THREE CORE AREAS OF FOCUS



### Solutions and Services

Connecting clients to sustainable investing products and services, and mobilizing capital to drive progress on key issues such as climate change, inclusive growth and the circular economy. From green, blue and SDG-linked bonds to Morgan Stanley IQ, our businesses deliver innovative, actionable and customized solutions that empower clients to adopt sustainable finance strategies.



### The Institute for Sustainable Investing

Accelerating the adoption of sustainable investing strategies across capital markets through the Institute, which leverages the firm’s expertise to promote innovation, deliver actionable analysis for investors and develop the next generation of leaders in the field.



### Firmwide Sustainability

Integrating ESG into our business activities and operations in partnership with internal functions. This includes our carbon-neutrality goal, approach to proactive ESG risk management, diversity and inclusion, and stakeholder engagement.



We use our global reach to mobilize and scale capital in ways that deliver sustainable growth and long-term value for our clients and society.

Effective governance, ethical business conduct and support for our skilled workforce underpin our business success and our approach to sustainable investing and finance. We aim for strong ESG performance to help reduce risk and enhance

value for our stakeholders. Our firm's core values help guide our sustainability strategy. We partner with our clients as well as the public and private sectors to deliver results today while doing our part to contribute to a sustainable future.



#### **ESG AT MORGAN STANLEY**

Sustainability at Morgan Stanley encompasses every aspect of the business—our solutions and services, our operations and people, and the thought leadership provided by the Morgan Stanley Institute for Sustainable Investing. We pursue sustainability activities and integration through an ESG lens, and refer to our sustainability-focused solutions and services as ESG products, in line with investor usage.

# 2019 Sustainability Highlights

## FIRMWIDE GOALS

### PLASTIC WASTE RESOLUTION

Morgan Stanley

**PLASTIC WASTE  
RESOLUTION**

Facilitate the prevention, reduction and removal of **50MM metric tons of plastic waste by 2030**

### LOW-CARBON FINANCING GOAL



clean tech financing • renewable energy financing  
green bonds • low-carbon investments • other

## PRODUCTS & SOLUTIONS

### INSTITUTIONAL SECURITIES

**> \$83Bn**  
green, social and  
sustainability bonds  
since 2013; **\$24Bn**  
in 2019



Hedged **726 MW**  
for new build renewable  
projects through our  
commodities desk

### INVESTMENT MANAGEMENT

**> 600**  
companies engaged  
on ESG issues



of long-term client  
assets apply sustainable  
investing approaches

### WEALTH MANAGEMENT INVESTING WITH IMPACT

**~\$34Bn**  
in client assets



of our Financial  
Advisors use  
at least one  
IIP investment  
strategy with  
their clients



of our Financial  
Advisors use  
five or more  
IIP investment  
strategies with  
their clients



Morgan Stanley  
Impact Quotient®  
won MMI and  
Barron's Sustainable  
Investing Award

### COMMUNITY DEVELOPMENT FINANCE 2010-2019

**\$21Bn**  
committed in community  
development loans  
and investments



**116,000+** affordable  
housing units funded



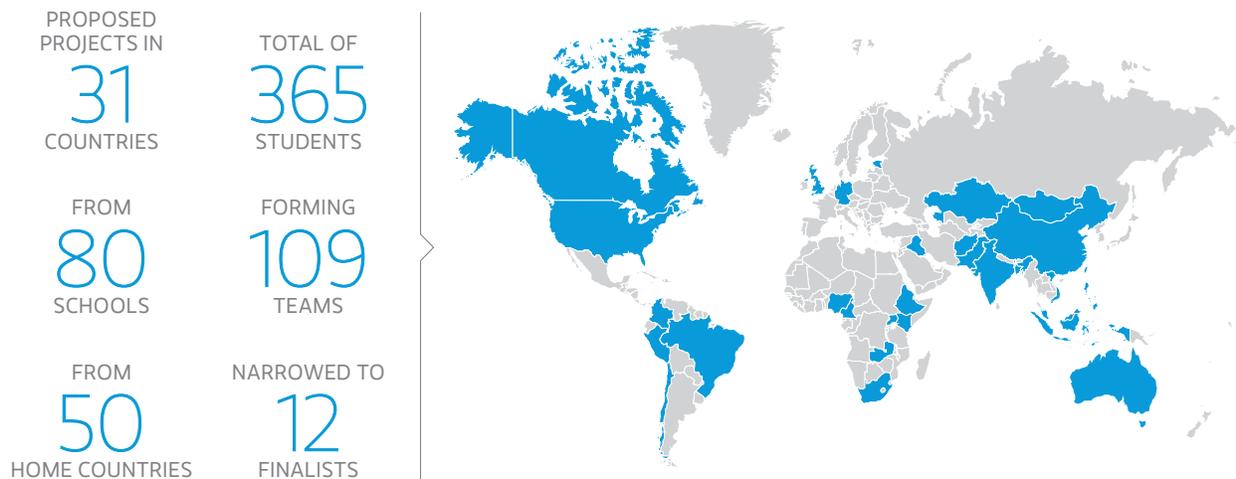
**\$321 million** committed in  
small-business loans



**140,000+** jobs created  
or retained

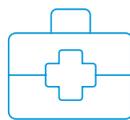
**INSTITUTE FOR SUSTAINABLE INVESTING**

**2019 KELLOGG-MORGAN STANLEY SUSTAINABLE INVESTING CHALLENGE COMPETITION SNAPSHOT**



**FIRMWIDE SUSTAINABILITY**

**BUSINESS CONTINUITY MANAGEMENT**



Reacted to **26** extreme weather and natural hazard events

**EMPLOYEE SURVEY RESULTS**



**88 percent** of employees are proud to work at Morgan Stanley

**GLOBAL FEMALE REPRESENTATION**



Overall



Managing Directors



Summer Analyst and Associate Classes

**PRIDE PARADE PARTICIPATION**



**450 employees** participated on June 30 in the New York City Pride March

## Our Thematic Focus Areas

### DRIVING OUR PLASTIC WASTE COMMITMENT

In 2019, the Institute drove our groundbreaking commitment to facilitate the prevention, reduction and removal of 50 million metric tons of plastic waste from rivers, oceans, landscapes and landfills by 2030. The Morgan Stanley Plastic Waste Resolution,

announced in April 2019, marks a first for Morgan Stanley, as the goal covers each business segment and our global operations, as well as partnerships and capacity-building initiatives.

# Morgan Stanley

## PLASTIC WASTE RESOLUTION

### AT A GLANCE: ACTING ON PLASTIC WASTE ACROSS THE VALUE CHAIN

**Global Capital Markets** is underwriting green, sustainability and blue bonds, which finance projects related to ocean conservation. In 2019, this included lead managing the World Bank’s \$10 million sustainable development bond focused on addressing **SDG 6** and **SDG 14** and supporting PepsiCo’s inaugural \$1.0 billion green bond focused on plastic waste reduction (see more on [page 16](#)).

**Institutional Equities Division** has launched an initiative in France to sell structured notes with a charitable donation in partnership with National Geographic Society.

**Investment Management** is using its influence to encourage portfolio companies to reduce plastic waste and find innovative solutions to address waste.

**Wealth Management** introduced a suite of low-minimum portfolio strategies that seek to positively influence **SDG14**.

**Morgan Stanley Research** is pursuing cutting-edge analysis of the plastics economy, plastic waste as a material sustainability issue and investment opportunities from its reduction.

**The Institute** established and continues to develop the Plastic Waste Reduction Fellowship for post-doctoral students at the University of Michigan’s School for Environment and Sustainability. Fellows will explore systemic approaches with a focus on how the capital markets can accelerate and scale such solutions.

**Morgan Stanley’s Multicultural Innovation Lab**, which supports early-stage technology and technology-enabled startups led by women and multicultural entrepreneurs, is seeking proposals focused on new ways to reduce plastic waste starting for the 2020 cohort.

**The 2020 Kellogg-Morgan Stanley Sustainable Investing Challenge** will offer a new prize to the student team with the best proposal that seeks to address the issue of plastic waste.

**Across our global operations**, Morgan Stanley has made significant progress on our commitment to eliminate all single-use plastics, implementing reusable and alternative options.

**During Global Volunteer Month** employees volunteered at 75 plastic-related events worldwide. For example, in Hong Kong, employees participated in cleanups to help advance local research efforts on microplastics.





We are committed to mobilizing \$250 billion to support low-carbon solutions by 2030.

#### ADDRESSING CLIMATE CHANGE

Climate change is an economic reality and a growing risk and opportunity. Morgan Stanley seeks to support the transition to a low-carbon economy through policies, activities, products and services that help mitigate climate risks and catalyze market-driven, low-carbon innovation. We also publish actionable analysis to help clients and other stakeholders navigate the low-carbon transition. To reduce our own footprint, we aim to achieve carbon neutrality for our global operations by 2022.

We are committed to mobilizing \$250 billion to support low-carbon solutions by 2030. To date, we have mobilized approximately \$80 billion in capital toward the goal, including over \$50 billion in 2019 through our business activities in clean tech and renewable-energy financing, sustainable bonds, and other relevant transactions and investments. The next section highlights several examples of our low-carbon solutions.

In 2017, we signed the Statement of Support for the recommendations of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD). We are actively leveraging the recommendations to enhance our approach to managing climate change-related risks and opportunities, and plan to publish our first TCFD report in 2020.



#### Sustainable Development Goals

Morgan Stanley supports the UN Sustainable Development Goals (SDGs), which increasingly inform our firmwide approach to sustainability. We believe this global blueprint for achieving a sustainable future enables the private sector to better understand key societal challenges and drive solutions. According to the UN Commission on Trade and Development, meeting the SDGs by the 2030 deadline will require up to \$7 trillion in investment each year, creating compelling opportunities for companies and investors.

Our Plastic Waste Resolution aims to catalyze solutions relevant to SDGs 6 (Clean Water and Sanitation), 12 (Responsible Consumption and Production) and 14 (Life Below Water). Our low-carbon financing goal aims to advance solutions relevant to SDGs 7 (Affordable and Clean Energy) and 13 (Climate Action). Examples of other SDG-relevant products and services can be found throughout this report.



## Sustainability Governance

The Nominating and Governance Committee of the Morgan Stanley Board of Directors oversees our ESG initiatives and the Risk Committee now oversees risks relating to climate change, with each committee reporting to the Board.

Morgan Stanley's Global Sustainable Finance (GSF) group is responsible for driving sustainability integration across policies, activities, products and services. Positioned under the firm's Chief Sustainability Officer and Morgan Stanley's Vice Chairman, the team partners with senior leadership across Institutional Securities, Wealth Management and Investment Management, as well as support services and risk functions such as Environmental and Social Risk Management and Firm Risk Management. The Morgan Stanley Institute for Sustainable Investing is housed within GSF and has an external advisory board chaired by Morgan Stanley's chairman and CEO. The Institute's advisory board includes corporate, sustainability, academic and philanthropic leaders, and informs our innovative and rigorous approach to sustainability and sustainable investing.

The following councils and working groups provide expertise and input on specific sustainability activity. GSF convenes, participates in or advises each of these groups to ensure continuity and coordination across the firm.

- The **Sustainability Disclosure Committee** convenes senior firmwide leaders to provide input on, review and approve corporate sustainability disclosures, including this report, that support our commitment to transparency.
- The **Global Sustainability Bond Leadership Council** advances green and sustainable bond origination and execution globally, guiding our strategy for client solutions, investor engagement and thought leadership.
- The **Investment Management Sustainability Council** convenes cross-functional leaders, including portfolio managers and investment analysts, and provides a forum for members to share approaches to integrating ESG into the business' investment processes, including product development, measurement, education, client engagement and reporting.
- The **Corporate Services Global Sustainability Council** executes our operational sustainability strategy, which focuses on resource efficiency, renewable energy and innovative pathways to shrink operational environmental impact.
- The **Sustainable Supply Chain Working Group** identifies strategies to reduce ESG risks and pursues opportunities with suppliers that further sustainability in our sourcing practices.
- The **Morgan Stanley Executive Climate Change Risk Steering Committee and Working Group** help to coordinate how we assess and manage potential material climate-related risks across our businesses.



## Sustainability Reporting

This yearly report focuses on investor-relevant sustainability and corporate governance topics and goals. The [Sustainability Accounting Standards Board \(SASB\) standards](#) and the [recommendations](#) of the TCFD guide the report's data, narrative and content.<sup>1</sup>

Morgan Stanley seeks to bring a comparable level of rigor to the firm's sustainability-related reporting as to other public disclosures, including sign-off by the Sustainability Disclosure Committee and internal reconciliation of all facts and figures.

We will continue to consult stakeholders and monitor relevant global frameworks as we work to continually improve our reporting and disclosure. For more information on our sustainability performance, please see:

- Our [Sustainability webpage](#)
- Our [response](#) to the CDP 2019 climate-change questionnaire
- Our [Corporate Governance](#) web content
- Morgan Stanley Investment Management's (MSIM) [response](#) to the Principles for Responsible Investing (PRI) reporting framework.



Our 2019 report is guided by SASB's reporting metrics for Investment Banking, Commercial Banking and Asset Management.

<sup>1</sup> All data in this report is verified by internal records and, unless otherwise specified, is for the 2019 calendar year. We provide references and links to additional sustainability information reported elsewhere.

## Stakeholder Engagement

Sustainability is a shared endeavor. We strongly value the perspectives and insights of our stakeholders, and we engage them in many ways on an ongoing basis. The table below

highlights our strategies and forums for engaging key stakeholders, as well as 2019 highlights.

STAKEHOLDER GROUP	APPROACH TO ENGAGEMENT	2019 EXAMPLES
 Shareholders	<ul style="list-style-type: none"> <li>• Ongoing or annual dialogue with institutional investors</li> <li>• Annual sustainability report focused on investor-relevant information</li> <li>• Responses to inbound questionnaires and surveys</li> </ul>	Investor Relations included GSF and Environmental and Social Risk Management (ESRM) in its engagement with several top Morgan Stanley institutional shareholders. These discussions covered firmwide strategy, governance and sustainability topics in Q4 as part of our annual engagement cycle.
 Clients	<ul style="list-style-type: none"> <li>• Events and thought leadership on sustainable investing and sustainable finance topics</li> <li>• Collaboration on new product development to meet client ESG needs and criteria</li> <li>• Direct engagement and dialogue with key clients focused on ESG issues</li> <li>• Responses to inbound questionnaires, requests for proposals and surveys</li> <li>• Client satisfaction channels</li> </ul>	In October 2019, the Institute hosted the inaugural Morgan Stanley Sustainable Investing Summit, which brought together over 100 senior-level clients from across our businesses to discuss the innovation and ideas reshaping capital markets.
 Employees	<ul style="list-style-type: none"> <li>• Employee networks, events and campaigns</li> <li>• Company intranet, which includes articles and other employee resources</li> <li>• Employee surveys</li> </ul>	As part of our Plastic Waste Resolution activity (see page 10), we partnered with Fill it Forward to log reusable water bottle use and track impact metrics such as emissions and plastic waste avoided. Fill it Forward works with nonprofit organizations around the world to bring clean water to people in need.
 Non-Governmental Organizations (NGOs) and Civil Society	<ul style="list-style-type: none"> <li>• Annual stakeholder roundtable</li> <li>• One-on-one or small-group dialogues on specific sustainability topics, risks or emerging issues</li> <li>• Sustainability reporting and other forms of disclosure</li> <li>• Direct involvement in collaborative initiatives and membership organizations (see Key Memberships and Affiliations)</li> </ul>	We have been longtime supporters of the Green Bond Principles, and in 2019, we enhanced our engagement significantly. We were chosen to join the newly established Green Bond Principles (GBP) and Social Bond Principles (SBP) Advisory Council. In addition, we joined three working groups to help advance practice in specific thematic areas: Green Projects Eligibility, Social Bonds, Impact Reporting and the Climate Transition Finance.

### KEY MEMBERSHIPS AND AFFILIATIONS\*

- Business for Social Responsibility (BSR)
- CDP
- Center for Climate and Energy Solutions (C2ES)
- Ceres
- Corporate Eco Forum (CEF)
- The Global Impact Investing Network (GIIN)
- Green Bond Principles
- Principles for Responsible Investment
- RE100
- Sustainability Accounting Standards Board (SASB)
- Task Force on Climate-Related Financial Disclosures (TCFD)
- U.S. Alliance for Sustainable Finance

\*This list is not exhaustive of all memberships across the firm.

# Solutions and Services

Morgan Stanley is committed to harnessing the power of capital markets to create sustainable, long-term value for clients and stakeholders. Our businesses respond to client demand with financial solutions and advisory services designed to deliver both competitive financial returns and positive impact. These products leverage our best-in-class research and advisory and investing capabilities to deliver actionable solutions to complex challenges for ESG-minded investors.

This section provides an overview of the wide range of sustainable investing and finance solutions offered by our Institutional Securities, Wealth Management and Investment Management businesses, along with 2019 developments and data. GSF supports these business activities, while the Community Development Finance team deploys our own capital to create lasting positive changes in U.S. communities.

## BY THE NUMBERS

### Sustainable Finance

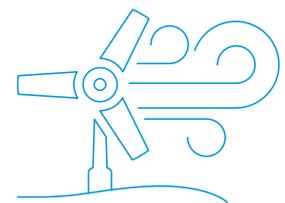


Our Sustainability Research team has been regularly ranked one of the **top three firms** for SRI and Sustainability sell-side research

> \$83Bn



green, social, sustainability and blue bond transactions supported over the period 2013–2019;  
**24Bn in 2019**



Hedged **726 MW** for new-build renewable projects and nearly **676 MW** for existing renewable projects through our commodities desk

## Institutional Securities

Institutional Securities has a long history of using the scale and speed of capital markets to generate positive environmental and social benefits for innovative companies. We achieve this with a range of levers, including financial advisory and underwriting services. Teams across the business—from capital markets to public finance, investment banking, commodities and research—work with clients to meet these objectives.

Below, we report on key sustainable finance activity in 2019 across these areas, beginning with data and transactions that demonstrate our progress in mobilizing capital to support the SDGs, low-carbon solutions and a circular economy. Many of these activities contribute to our commitment to mobilize \$250 billion in capital to support low-carbon solutions by 2030 (see more on [page 11](#)).

### 2019 SUSTAINABLE FINANCE TRANSACTION HIGHLIGHTS

# \$1 billion

Acted as sole green structuring advisor and bookrunner for **PepsiCo's inaugural \$1.0 billion green bond**.

Launched in October, this aims to address seven SDGs:

- **SDG 9** and **SDG 12** by integrating recycled and biodegradable plastics into packaging.
- **SDG 7** and **SDG 11** by investing in energy efficiency, renewables and sustainable farming practices in their supply chain.
- **SDG 6**, **SDG 12** and **SDG 15** by improving water-use efficiency, replenishing watersheds and working with suppliers on water-efficient farming practices.

The first green transaction from a U.S. food and beverage company, the deal was oversubscribed nearly fourfold.



# \$10 million

Acted as sole distributor for the **International Bank for Reconstruction and Development's first "Plastics Bond."** The \$10 million bond, launched in April 2019, is part of a World Bank Group effort to engage investors in protecting global fresh and saltwater resources.

# \$900 million

Acted as bookrunner on the **first sterling green bond, issued by Ørsted**, a customer-owned energy company in Denmark that is one of the world's largest renewable energy companies. The £900 million three-part offering represented the largest-ever GBP green issuance.



We also coordinated an equity offering for Ørsted, **helping to raise a total of \$789 million on behalf of SEAS-NVE**. These transactions have reinforced Ørsted's position as a global leader in offshore wind power.

# \$1.5 billion

Served as joint bookrunner on the **first SDG-linked bond in the market, issued by Enel** in September to support **SDG 7**. The \$1.5 billion bond links the interest rate to a renewable energy capacity target that triggers an upward adjustment if not met by the company.





## \$1.25 billion

Served as Duke Energy's exclusive financial advisor to sell a minority interest in a portion of its **commercial renewable energy portfolio to John Hancock for a total enterprise value of \$1.25 billion**. The transaction will help fund the company's future growth capital plans with proceeds used to reduce future debt issuance needs.



Served as bookrunning senior manager for **Battery Park City Authority's inaugural sustainability bond transaction** to address climate resiliency in downtown Manhattan. The transaction received the Bond Buyer's Northeast Deal of the Year in the municipal bond market.



Acted as bookrunning senior manager on the **New York State Housing Finance Agency's first sustainability bond transaction**. We helped the leading green bond issuer expand its offering to also incorporate social impacts and align with **SDG 1, SDG 7 and SDG 11**. The bond's SDG focus was the first by an issuer in the U.S. municipal market, and it was named Sustainability Bond of the Year in the U.S. Municipal Bond market by Environmental Finance.



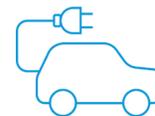
## \$643.5 million

Served as bookrunning senior manager for the **San Francisco Bay Area Rapid Transit District's \$643.5 million green bond transaction**, certified under the Climate Bonds Initiative. Improvements to the mass transit system will support **SDG 8, SDG 9 and SDG 11**.



## \$1 billion

As sole financial advisor and placement agent, we supported Northvolt's \$1 billion equity capital raise to finance construction of **Northvolt's first 16 GWh battery cell manufacturing facility in Sweden**. The Swedish startup's mission is to build the world's greenest battery.



**Advised Pivot Power on its sale to Électricité de France via the U.K. subsidiary EDF Energy Renewables**. Pivot Power is developing transmission-connected battery storage and private-wire infrastructure for electric vehicle charging and other applications across the U.K.

## DEBT CAPITAL MARKETS



### Green bonds

raise capital for projects with dedicated environmental benefits.

FIRST ISSUED IN  
**2007**



### Social bonds

raise capital for projects with dedicated social benefits.

FIRST ISSUED IN  
**2010**



### Sustainability bonds

raise capital for projects with a mix of social and environmental benefits.

FIRST ISSUED IN  
**2012**



### Blue bonds

raise capital for projects with marine or ocean-based benefits.

FIRST ISSUED IN  
**2018**

### DEBT CAPITAL MARKETS

Morgan Stanley has a long track record of issuing and supporting innovative bonds that raise capital for positive societal impact (see graphic above). In 2019, global green, social and sustainability bond issuance reached approximately \$320 billion, up more than 50% compared to 2018, according to Environmental Finance. Building on this momentum, Morgan Stanley continued to collaborate with corporates, financial institutions, supranationals, sovereigns, agencies, municipalities and non-profits to structure innovative financing solutions that proactively address complex sustainability challenges. Our goal is to help grow the sustainable finance market to make it more inclusive while preserving and promoting its transparency and integrity.

### Morgan Stanley Global Sustainability Bond Leadership Council

Senior leaders from across the firm comprise the council, which advances green and sustainable bond origination and execution globally. Led by our Vice Chairman, it meets regularly to track progress on Morgan Stanley-led green, social and sustainability deals; discuss structuring trends; and position our franchise in this growing market.



Morgan Stanley was named **Lead Manager of the Year 2019 for U.S. Municipal Green Bonds** by Environmental Finance.

### Municipal Issuer and Investor Sustainability Summit

In response to rising interest in green and sustainability bonds in the municipal market, the Public Finance division organized its first summit bringing together relevant investors and issuers to help catalyze ESG integration in the municipal sector. Key themes addressed included affordable housing, resiliency and sustainable cities.



In October 2019, Morgan Stanley was chosen to join the newly established Green Bond Principles (GBP) and Social Bond Principles (SBP) advisory council. The advisory council, composed of issuers, investors, underwriters and observers, will provide expertise to the GBP/SBP Executive Committee and help disseminate best practices in the market.

In the past year, we focused on driving capital toward the SDGs by leading large-scale and first-of-their-kind environmental, social and sustainability transactions. Through these efforts, we have helped issuers obtain recognition for supporting ambitious sustainability and low-carbon transition plans that contribute to several SDGs. In line with the firm's Plastic Waste Resolution, our teams have led innovative, SDG-related transactions that promote sustainable plastics and packaging solutions, the circular economy, and marine biodiversity, as well as economies that rely on healthy and sustainable fisheries. Many of these are featured in the Sustainable Finance Transactions Highlights on [pages 16 and 17](#).

Financing for low-carbon solutions that advance SDG 7 and SDG 13 also remains a priority. All green bonds we led in the past year included decarbonization and/or clean-energy initiatives as part of their use of proceeds. In the U.S. municipal bond market specifically, we continued to fund infrastructure projects that brought environmental and social benefits to communities around the country, including mass transit, climate resiliency, affordable water and wastewater infrastructure, education facilities and community development finance projects.



## SALES AND TRADING

Morgan Stanley's equity franchise is seeing increased integration of ESG insights and products into execution and strategic partnership across equity and fixed income products. In 2019, Morgan Stanley Global Sales put together a list of high conviction sustainability ideas. The ideas, diversified across sectors and geographies and sourced from Morgan Stanley Equity Research, relate to one of five sustainability themes: climate change, resource management, health & wellbeing, safety & security, inclusion.

### Bank of England Shares Insights at Inaugural Sustainable Investing Conference

Nearly 200 clients attended our Institutional Equities Division's first sustainable investing conference in Morgan Stanley's London office in September 2019. The event featured keynote addresses from senior leaders at the firm, insights from a Bank of England representative and panel discussions with institutional investors and ESG data providers. Topics included the business and moral cases for ESG integration, the need for better ESG data (particularly climate-related) and the role of policy in driving change.

## Commodities

Morgan Stanley Capital Group Inc. (MSCGI) supports renewable energy deployment across the United States by providing offtake agreements and hedging products for new and operating wind farms and solar installations. These transactions ensure stable cash flows for developers to complete financing and construction. In 2019, MSCGI provided long-term hedging transactions across Texas and the Midwest totaling 726 MW for new build renewable projects and nearly 676 MW for existing renewable projects.

## FINANCING AND ADVISORY SERVICES

In response to client interest in ESG issues, our Investing Banking Division (IBD) teams increasingly advise clients and mobilize capital to support sustainability-focused clean technology and renewable energy businesses. Our industry, regional and country teams provide tailored services to corporations, financial institutions and government clients looking to execute innovative solutions to address sustainability challenges and meet sustainability goals. In 2019, our ESG-focused advisory services were further expanded against a backdrop of regulatory change. To maximize our expertise, IBD works in close collaboration with GSF and Global Capital Markets.

## Sustainability Research

When investors take sustainability considerations into account in their financial decision-making, the cumulative effect can make a difference across the global economy. To support ESG integration, Morgan Stanley analysts use a sustainability lens to conduct investment research on each sector and company our businesses advise on. This effort is led by our Sustainability Research team, part of Institutional Securities' Research Division. To provide useful and actionable information to our clients, we:

- Develop stock-specific summaries on material ESG factors.** These insights vary by sector and company, and focus on material ESG topics characterized as "explicit" (likely to directly impact financial performance), "implicit" (essential to business health but cannot always be quantified) or both. In 2019, the Research Division launched a new "ESG Matters" home page of company summaries and thematic sustainability research reports on topics such as climate change and sustainable consumption.
- Publish analysis on market-relevant ESG themes, risks and opportunities.** Topical examples from 2019 include research on de-carbonization technologies, physical climate risk and gender diversity. *De-carbonization: The Race to Zero Emissions* analyzed the roles and investment needs of five technologies—renewables, electric vehicles, carbon capture, biofuels and hydrogen—in achieving the two-degree Celsius warming scenario envisaged by the Paris Agreement. With our quantitative research team, Sustainability Research also introduced the Holistic Equal Representation Score (HERS) to gauge corporate gender diversity.
- Leverage our expertise and data to support thematic and impact investing approaches.** In 2019, we updated our Sustainable Solutions interactive database used by investors to gauge a company's alignment to specific sustainability issues. The team also launched a new interactive tool that identifies over 600 companies aligned to one or more of the SDGs.



Morgan Stanley's Sustainability Research team has been regularly ranked in the **top three firms for SRI and Sustainability sell-side research** by the Extel survey of European equities and the U.K. Sustainable Investment and Finance Association.

## Wealth Management

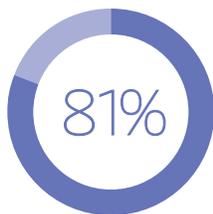
Individuals, families and institutions are seeking to make a positive difference in the world with their capital. Launched in 2012, Morgan Stanley Investing with Impact (IIP) provides our Wealth Management clients with a suite of investment options and portfolios across asset classes that seek to generate both market-rate financial returns and measurable, positive environmental and social impact. In addition to analysis, IIP also provides insights and cutting-edge tools such as the recently launched Morgan Stanley IQ, a patent-pending impact-reporting application.

### BY THE NUMBERS

## 2019 Investing With Impact

~\$34 billion

in client assets, up ~25% from 2018



of our Financial Advisors use at least one IIP investment strategy with their clients



of our Financial Advisors use five or more IIP investment strategies with their clients

### Partnering with the Financial Health Network

In 2019, Morgan Stanley further developed our relationship with the Financial Health Network, a nationally recognized nonprofit with a mission to improve financial health for all. Morgan Stanley Wealth Management’s Corporate and Institutional Solutions and GSF teams partnered with the Financial Health Network to survey corporate employees across the U.S. to better understand the drivers of workplace financial stress and the range of financial wellness benefits employees seek most. Results indicate that finances are employees’ greatest source of stress, with half of respondents spending equal to or more than they earn each month, and 41% lacking savings to cover 3 months of expenses. Informed by these insights, we have started to expand the financial wellness offerings through our Corporate and Institutional Solutions business, including student loan refinancing from Credible, financial coaching through MySecure Advantage and an enhanced digital portal experience. With a growing base of corporate clients served through [Shareworks](#) by Morgan Stanley, we have a greater opportunity to positively influence the financial wellness of millions of employees globally. A summary of our most recent findings have been published in a [series of white papers](#) with the Financial Health Network.

### MORGAN STANLEY IQ

Launched in July 2019, Morgan Stanley Impact Quotient® (Morgan Stanley IQ) marks a major step forward in our ability to provide clients with a systematic prioritization of their impact goals, customized reporting and investment advice tailored to help meet these goals over time. A core component of the application is multidimensional impact reporting on how investments align with a client’s unique impact objectives at the portfolio, investment strategy and security levels. It also provides a framework for clients to identify and prioritize over 100 social and environmental impact preferences and guidance for Morgan Stanley Financial Advisors in matching investment portfolios with the issues their clients care about most.

Supplementing traditional financial reporting and analysis, Morgan Stanley IQ covers three impact dimensions:

#### ALIGNMENT



By highlighting potential investments across a wide range of issues, such as companies working to reduce their carbon footprint or make gender diversity a priority.

#### EXPOSURE



By spotlighting sectors, issues or companies with a track record of behaviors a client may seek to avoid such as human rights violations or involvement in the sale of tobacco or firearms.

#### ACTIVATION



By assessing the percentage of investments with an explicit focus on integrating restriction screening, environmental, social or governance data, and thematic or impact objectives into the investment process. Further, we show alignment to global frameworks such as the UN SDGs.

Over 300 Wealth Management Financial Advisors across the country participated in the year-long pilot leading up to the launch of Morgan Stanley IQ. In order to access Morgan Stanley IQ, these Financial Advisors are required to complete either an online or in-person training that introduces them to the application’s core capabilities, including how to work with clients to identify their impact goals and analyze their portfolios for alignment.

MINIMIZE OBJECTIONABLE IMPACT

CREATE TARGETED IMPACT →

	RESTRICTION SCREENING	ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG) INTEGRATION	THEMATIC EXPOSURE	IMPACT INVESTING
<b>Definition</b>	Intentionally avoid certain companies, industries or countries due to values or risk-based criteria	Proactively consider ESG criteria alongside financial analysis to identify opportunities and risks during investment process	Themes solving sustainability-related domestic and global challenges across sectors, populations or geographies	Investment funds delivering specific social and/or environmental impacts through their business model, products and services
<b>Investment Characteristics</b>	<ul style="list-style-type: none"> <li>Often not proactively seeking positive environmental and social impact</li> <li>Differentiated by screening criteria including issue area and revenue threshold used</li> </ul>	<ul style="list-style-type: none"> <li>Differentiated by ESG data integration process—for example utilizing ESG data as a screen, to identify risk, to engage with companies and improve behavior, and/or as a part of the valuation model</li> </ul>	<ul style="list-style-type: none"> <li>Differentiated by macro-analysis, sustainability research and sector focus</li> </ul>	<ul style="list-style-type: none"> <li>Differentiated by impact approach, regional focus, liquidity and more</li> <li>May have investor qualification restrictions</li> </ul>

Shareholder or company engagement and impact reporting play a critical role in differentiating managers across approaches



**INVESTING WITH IMPACT**

IIP is designed to be flexible enough to fit the varied needs of individual investors, families, institutions, religious organizations, corporations, charitable trusts, foundations, nonprofits, donor advised funds and more. Clients can choose from more than 130 investment strategies plus additional customizable opportunities including restriction overlay screening. Investors can opt to advance broad sustainability solutions or focus on particular issues such as mitigating climate change, supporting diversity and inclusion, or promoting community economic development across a range of approaches.

**IMPACT-FOCUSED PORTFOLIOS**

In June 2019, IIP launched a suite of actively managed \$10,000 minimum portfolios that provide investors with an accessible solution that generates positive environmental and social impact without sacrificing performance potential. The portfolios aim to contribute to Morgan Stanley’s Plastic Waste Resolution (see more on [page 10](#)), by employing investment managers that target several SDGs, in particular, SDG 13 and SDG 14, which focuses on ocean conservation.



**Addressing Client Demand for Thematic Toolkits**

In October 2019, IIP launched a first-of-its kind Jewish Values Tool Kit in collaboration with the Philanthropy Management team. The tool kit provides our Financial Advisors with access to educational materials and investment and grant-making resources to implement their client’s unique financial and faith-based goals. Leading up to the release, the team led a series of Jewish Values Consortiums across the country, which brought together more than 250 Jewish philanthropy and community leaders.



IIP updates thematic tool kits to reflect global sustainability trends and investor demand. In 2019, we relaunched the Gender Diversity Investing Tool Kit for International Women’s Month and the Climate Change and Fossil Fuel Aware Tool Kit for Climate Week NYC.

**EQUIPPING FINANCIAL ADVISORS**

An important focus for IIP is ensuring that our nearly 15,500 Financial Advisors, Private Wealth Advisors, International Client Advisors and Institutional Consultants have access to the tools and resources necessary to better serve clients seeking to meet their financial and impact goals. In 2019, the IIP team hosted 11 educational roadshows across a range of thematic topics including climate, gender, faith and community investing. To encourage excellence and leadership among our Financial Advisors, we introduced the IIP Director designation in 2018 and continued to enhance its requirements and related learning opportunities in 2019. We ended the year with 49 IIP Directors.

## Investment Management

We believe that ESG factors influence risk, return and opportunity, and our portfolio managers integrate them into building client portfolios and making investment decisions. Our investment teams, and our Global Stewardship team, engage directly with companies to drive change and promote responsible investing practices. Working with the Institute and GSF, MSIM provides portfolio solutions that help clients meet their environmental, social and governance goals.

### MSIM SUSTAINABILITY COUNCIL

MSIM takes a holistic approach to sustainable investing to promote long-term value for our business and clients. Our differentiated investment teams lead this process, with support from the MSIM Sustainability Council. An advisory forum, the Council convenes cross-functional leaders, including portfolio managers and investment analysts. Members share approaches to sustainable investing, product development, measurement, education, client engagement and reporting. The Council is supported by MSIM's Global Stewardship team, which is comprised of sustainable investing professionals who facilitate proxy voting and collaborate with our investment teams on company engagements and sustainable investing activities. The Council is also supported by GSF and the Institute.

In 2019, the Council surveyed best practices for sustainable investing, facilitated third-party sustainable investing training for investors and promoted greater alignment across MSIM's strategies that apply sustainable investing approaches. To make our sustainability solutions more accessible for clients, we launched a new [web page](#), Sustainability Insights, and published our [PRI Transparency Report](#).

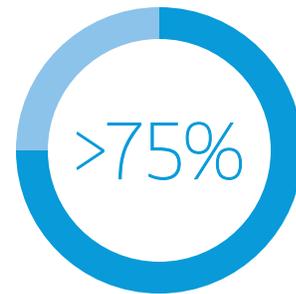
In 2020, the Council's priorities include exploring how to enhance our sustainability reporting and approach to climate change, drawing on the recommendations of the TCFD.

### BY THE NUMBERS

## Investment Management

>600

In 2019, MSIM engaged with more than 600 companies on sustainability issues ranging from climate risk and diversity to inclusion and plastic waste reduction.



of long-term client assets apply sustainable investing approaches (+\$270bn).

\*Defined as long-term assets under management (excludes liquidity assets) managed according to at least one sustainable investing approach as of 12.31.19

### ESG Governance Structure

#### SUSTAINABILITY COUNCIL

Senior level, cross-functional business leader, portfolio managers and investment analysts setting strategy and process

Active  
Fundamental  
Equity

Global  
Fixed  
Income

Global  
Liquidity

Solutions  
and  
Multi-Asset

Real  
Assets

Private  
Credit and  
Equity

#### GLOBAL STEWARDSHIP TEAM

Proxy voting, company engagement and ESG research

MORGAN STANLEY  
INSTITUTE FOR  
SUSTAINABLE  
INVESTING

## Helping Portfolio Companies Tackle Plastic Waste

In support of Morgan Stanley's new commitment to reduce plastic waste, MSIM is engaging more with portfolio companies on this critical topic.

In 2019, the **International Equity** team met with 11 of its fast-moving consumer goods sector (FMCG) holdings, including beverages, household and personal care companies, to discuss plastic waste. While there is no single solution, the most practical near-term solution for FMCG companies is increasing the proportion of recycled content in their packaging and reducing the overall amount of packaging. Most of the team's holdings with exposure to plastic packaging have now publicly committed to significantly increase recycled content, from less than 10% in most cases to 20–50% by 2025–30. Direct engagement helped inform the team's research and analysis of whether this issue represents a material risk to the sustainability of returns on operating capital of its FMCG holdings.

Our **Counterpoint Global** team has convened corporate, academic and NGO experts to explore solutions to marine plastic waste. Through this process, the team identified a global coffee retailer in its portfolio with disproportionate brand risk exposure. With our support, the company announced plans and targets to minimize its single-use-plastic footprint and collaborate with competitors to create sustainable packaging.



## DRIVING SUSTAINABILITY THROUGH ENGAGEMENT

Active ownership is the hallmark of our approach and sets us apart from many peers. As long-term investors and active managers, we believe we have both a duty and an opportunity to act as stewards of the capital we manage. Our investment teams embrace this opportunity by engaging directly and often with their portfolio companies and by exercising proxy voting rights. MSIM investment professionals attend company presentations, road shows, and conferences, and join analyst calls. They also proactively engage in direct dialogue with company management and boards of directors in-person and on the phone. These engagements drive our active ownership strategy enabling us to guide portfolio companies toward better governance and sustainability practices, which we believe enhance long-term returns.

In addition to direct engagement carried out by our investment teams, MSIM's Global Stewardship team also engages with portfolio companies on sustainability topics. The team engages with companies around annual general meetings, and throughout the year on emerging material sustainability topics. For a summary of our 2019 proxy voting history and ESG engagements, see our annual [2019 Global Stewardship Report](#).

**BUILDING ESG INTO CLIENT PORTFOLIOS**

Sustainable Investing at MSIM is investor-led with each investment team setting its own differentiated approach for incorporating sustainability factors into the investment process. MSIM investment teams design sustainable investing approaches that best suit their strategies and investing styles. This investor-led approach allows for greater flexibility and enhances our ability to respond to clients' varied needs with a wide range of approaches—from screening out unwanted sectors to ESG integration and thematic and impact investing.

Our teams' strategies typically span the sustainable investing approaches below and continually evolve to best deliver value to our clients. At the heart of our approach is portfolio company engagement. We see this as central to our role as active managers as well as a critical tool in promoting sustainable business practices.

Through collective sustainable investing efforts, our objective is to enhance market-rate financial returns, while driving positive social and/or environmental benefits and strong governance practices.

For more information on our client approach to sustainable investing, download [Our ESG Approach and Principles](#).

**ESG INTEGRATION IN ACTION: FIXED INCOME ESG CREDIT SCORING FRAMEWORK**

The MSIM Fixed Income team has established a unique scoring model for evaluating ESG factors in corporate credit. ESG research is not typically designed for fixed income investors. As a result, the MSIM fixed income team created a proprietary ESG-scoring methodology that explicitly considers the risks and opportunities ESG factors pose to corporate bonds. Built on deep knowledge as sector specialists, the credit analysts complement their investment expertise with ESG-focused research from an array of leading third-party sources to derive sector risk weightings across 47 sub-sectors. The team's view is that companies should be rewarded for demonstrating a willingness to change and adopt stronger ESG principles. To account for momentum in the scoring methodology, the team makes numerical adjustments to third-party data in favor of companies that demonstrate positive ESG momentum and against companies that demonstrate negative momentum. A similar adjustment is made for ESG-related controversies.

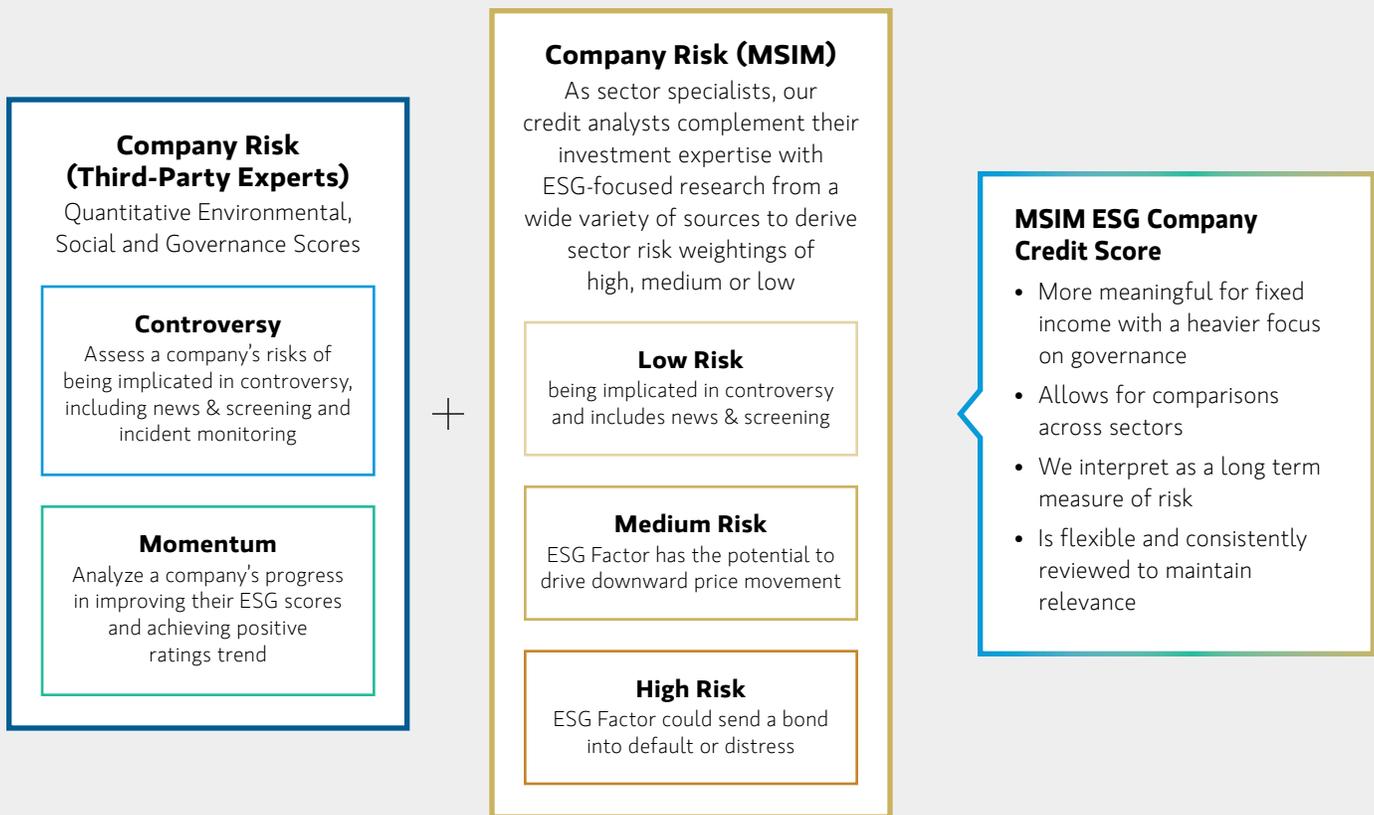
The resulting blended score provides a meaningful input for fixed income investors, allows for comparison across sectors and measures long-term risk. In 2019, the model was integrated into the fundamental investment analysis framework for all corporate credit research across MSIM.

**SUSTAINABLE INVESTING APPROACHES**



**COMPANY ENGAGEMENT**  
Seeking to drive improvement in ESG activities or outcomes through proxy voting and/or active dialogue with invested companies

## AT A GLANCE: MSIM'S ESG CREDIT SCORING FRAMEWORK



Also in 2019, the MSIM Fixed Income team launched a unique product that applies ESG analysis across corporate credit, securitized and sovereign asset classes. The new ESG Income strategy excludes entities on the Carbon Underground 200 as well as corporations that derive revenue from landmines and cluster munitions, firearms, thermal coal or coal-fired power generation and tobacco. It integrates ESG as follows:

- **Corporate Credit:** Proprietary ESG scoring model that applies ESG controversy and momentum tilts and sector risk overlays.
- **Sovereign:** Embeds issues such as press freedom, political and social stability, environmental concerns, corruption, and rule of law into the team's fundamental country analysis framework.
- **Securitized:** Proprietary rating system scores each security on ESG factors such as the environmental impact of underlying loans or assets and the extent to which they promote financial inclusion and fair lending practices.

### Inform in Action: Thought Leadership on Climate Risk and Opportunity

In 2019, MSIM investment teams deepened their focus on climate risk and how it impacts investing.

For example, the AIP Private Markets business authored [Debunking Six Myths About Climate Investing](#). The paper identified the investable opportunity to address climate change as much broader than renewable energy and clean tech. AIP's Private Markets business demonstrates this in practice by creating measurable climate solutions across multiple sectors—energy, food, agriculture and chemicals. The team's investments also align with the SDGs.

Separate research published by the Global Balanced Risk Control Strategy team highlighted [Three Climate Tipping Points Shaping Markets](#). The analysis demonstrated how government and regulatory intervention is imminent, climate inaction is undermining social stability and the dropping cost of renewable energy makes it harder for markets to ignore the benefits of low-carbon transition.



## Community Development Finance

Morgan Stanley also brings together investment and philanthropic and private capital to create lasting positive changes in communities across the United States. Our U.S. banks have consistently received “Outstanding” ratings from the Office of the Comptroller of the Currency (OCC), including most recently in 2019, for their track records in meeting community needs.

Our Community Development Finance (CDF) group executes new and innovative transactions not routinely provided by private investors. Designed and implemented with community and nonprofit partners, our program seeks to transform people’s quality of life through a focus on:

- Preservation and development of sustainable, multifamily affordable rental housing
- Healthy communities
- Equitable transit-oriented development
- Economic development that supports quality jobs
- Capital for underserved, small and rural markets
- Capacity building for nonprofits.

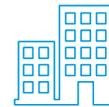
A summary of our nationwide impact through 2019 is shown on the right, alongside highlights of the year’s most innovative and impactful transactions.

### BY THE NUMBERS

## Community Development Finance 2010–2019

# \$21 billion

committed in loans and investments



**116,000+** affordable housing units funded



**\$321 million** committed in small-business loans,  
including \$59 million in 2019



**140,000+** jobs created or retained



## 2019 COMMUNITY DEVELOPMENT FINANCE HIGHLIGHTS



**Keeping Housing Affordable:** Using the tools of Wall Street, we work with mission-oriented affordable housing partners to acquire multifamily rental properties at risk of converting to market rate and obtain permanent financing to keep them affordable. Since 2014, when Morgan Stanley launched its private equity funds to preserve affordable multifamily rental housing, the firm has committed to invest \$955MM in private equity funds that achieve this goal, including more than \$500MM in 2019.



**Connecting Affordable Housing to Transit:** We support initiatives that lower the cost burden of transportation for low-income people and improve public transit access, which in turn helps reduce dependence on cars. In 2019, we helped finance the Utah Equitable Transit Oriented Development Fund, which will develop and acquire multifamily rental units and for-sale housing located within a half mile of transit sites in the fastest-growing state in the country.



**Supporting Community Health:** We continued to invest in community health through the Healthy Futures Fund (HFF). Created in partnership with the Local Initiatives Support Corporation (LISC) and The Kresge Foundation, Morgan Stanley provides capital through HFF to expand healthcare access by co-locating quality primary care clinics and affordable housing. In 2019, we invested \$18.5MM in Stanton Square, Washington, D.C., which will construct 121 affordable homes alongside a Morgan Stanley financed community health center.



**Funding Residents' Services:** In 2019, we committed to expand our unique funding program for resident services in affordable housing properties nationally. This follows the success of a pilot program related to our efforts to renovate, and keep affordable, severely distressed buildings in New York City. Residents of these properties, or their surrounding communities, receive diverse services that improve daily life. Examples include: a garden manager who helps residents grow healthy foods, free financial and college counseling, aging-in-place and wellness programs for seniors, and arts activities.



**Responding to Natural Disasters:** When extreme weather strikes, affordable housing shortages can be exacerbated in affected towns and cities. We help communities rebuild after disasters, focusing in 2019 on the aftermath of the California wildfires. Our experts helped lead taskforces of nonprofits and stakeholders in devastated communities. As an example, in 2019, two of our financings helped create almost 80 affordable apartment units for low- and moderate-income families in Sonoma County, at a time of extreme shortage.



**Catalyzing Community Development Finance:** In 2019, we continued to drive change in the financing market for Community Development Finance Institutions (CDFIs). Specifically, Morgan Stanley structured and marketed a groundbreaking \$100 million sustainability bond issuance for the Low Income Investment Fund (LIIF). The bond is a CDFI sector first, aligning directly with eight of the SDGs: **SDG 1, SDG 2, SDG 3, SDG 4, SDG 8, SDG 9, SDG 10** and **SDG 11**. LIIF was the fifth U.S. CDFI to issue debt through the public capital markets, with Morgan Stanley managing three of these offerings, including the sector inaugural issuance in 2017.



# The Institute for Sustainable Investing

Since 2013, the Institute has aimed to accelerate the adoption of sustainable investing in capital markets and drive strategic sustainability initiatives across Morgan Stanley through the following pillars:

1

**Fostering innovation** by leveraging the firm's experience and market perspective to advance the field of sustainable investing.

2

**Delivering actionable analysis** and thought leadership to inform and empower investors.

3

**Developing the next generation** of sustainable investing leaders through strategic partnerships and programs.

Chaired by the firm's CEO and Chairman, James Gorman, an advisory board of prominent leaders from business, academia and leading nongovernmental organizations guides the Institute's priorities.

## Fostering Innovation

As part of GSF, the Institute partners across the firm, and with outside stakeholders, to pioneer scalable solutions and build new sustainable investing tools and capabilities.

Within Morgan Stanley, the Institute provides insights and perspectives to the firm's three businesses. Examples of how the Institute works across the firm to incubate innovative

products for clients are included throughout the [Solutions and Services](#) section. In 2019, we enhanced our focus on events for clients and contributed to several in partnership with teams around the firm including Corporate Access, Research and Global Capital Markets.

Through the Institute, the GSF team also engages with industry, academic and nonprofit stakeholders to collectively advance sustainability. In 2019, this outreach included participating in the Ceres Investor Network on Climate Risk and Sustainability, the Global Impact Investing Network (GIIN) Investors' Council, the Interfaith Center on Corporate Responsibility and the Intentional Endowments Network.

## Delivering Actionable Analysis

The Institute develops insightful analysis to inform and empower the growing number of investors looking to make a positive ESG impact. This thought leadership focuses on

trends driving sustainable investing and critical thematic issues, such as climate change and inclusive economic growth. Thought leadership highlights that made a strong impact on investors and other stakeholders in 2019 are shown below.



**Sustainable Signals: Growth and Opportunity in Asset Management** provided the latest data on the continued growth of sustainable investing among U.S. asset managers, with 75% of firms now practicing sustainable investing.



**Plastic Waste: Addressing a Global Economic and Environmental Challenge Through the Power of the Capital Markets** highlighted the groundswell of interest in and investment considerations for plastic waste as a nascent investment theme.



**Sustainable Reality: Analyzing Risk and Returns of Sustainable Funds** examined the performance of 10,723 funds. It found that there is no financial trade-off between the returns of sustainable funds and traditional funds, and that sustainable funds may offer lower market risk.



**Blue Bonds: The Next Wave of Sustainable Bonds** explored water-related bonds as an emerging debt instrument to help issuers raise capital for marine and ocean health.



**Sustainable Signals: Individual Investor Interest Driven by Impact Conviction and Choice** found that 85% of individual investors are interested in sustainable investing, up from 71% in 2015. This is the third in a series of biannual surveys.



Launched a thematic page for our **Plastic Waste Resolution** that features relevant articles, media and content produced by Morgan Stanley.



### Inaugural Sustainable Investing Summit

In October 2019, the Institute organized the inaugural Morgan Stanley Sustainable Investing Summit. Hosted by James Gorman, Morgan Stanley's Chairman and CEO, the event convened more than 100 leading sustainable finance thinkers and practitioners across the value chain. Institutional investors, asset owners, corporate financial leaders and high net worth individual investors came together to discuss the innovation and ideas reshaping capital markets. The event featured speakers from the Institute's advisory board, Morgan Stanley's Operating Committee, and financial and business leaders across public and private markets.

## Developing Future Sustainable Investing Leaders

The Institute helps develop the next generation of sustainable investing leaders through fellowships and strategic partnerships. These programs expose tomorrow's financial services executives to the power of capital market solutions to address sustainability challenges early in their careers. Our two hallmark programs are the Sustainable Investing Fellowship and the Sustainable Investing Challenge.

The fellowship places graduate students in sustainability functions across the firm in our global headquarters in New York City and in our London Office. In 2019, nearly 1,500 students applied for five positions. The selected candidates were placed in GSF, Global Capital Markets, Wealth Management and Investment Management.

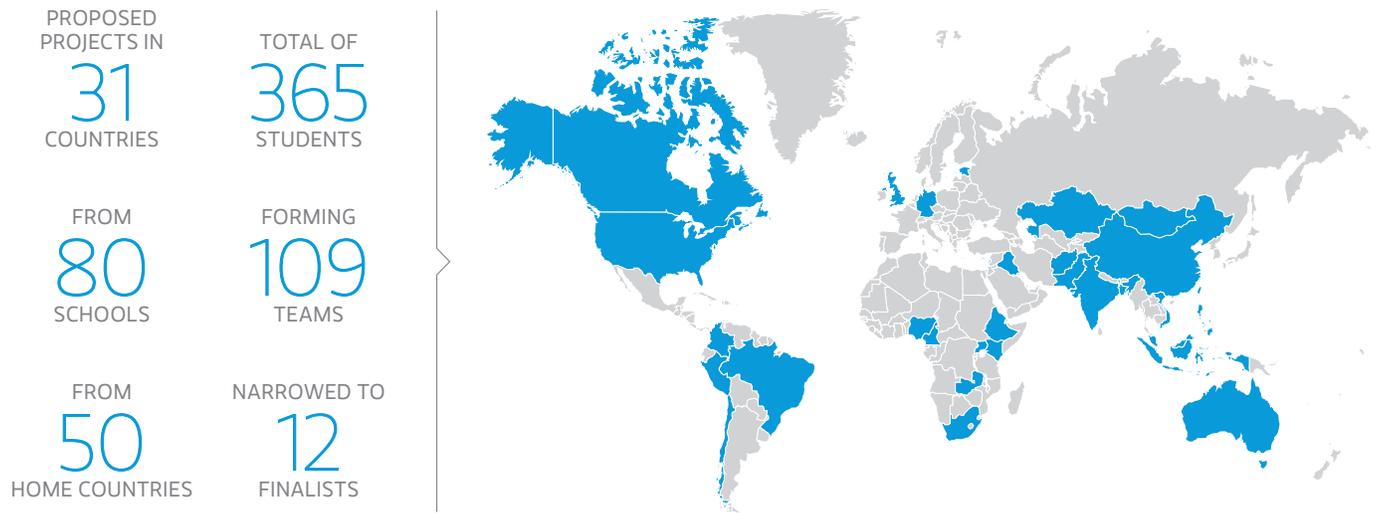
In April 2019, we hosted the ninth annual Kellogg-Morgan Stanley Sustainable Investing Challenge in Hong Kong. This highly competitive event (see Snapshot) invites graduate students worldwide to develop financial solutions to social and environmental challenges that can also achieve market-rate financial returns.



### Carbon Yield Fund Wins 2019 Student Challenge

The winning proposal in our Sustainable Investing Challenge seeks to reduce agriculture's carbon footprint. A team from Northwestern University's Kellogg School of Management developed a financial instrument to reduce greenhouse gas emissions by expanding regenerative practices for grain farmers in the U.S. Midwest. The fund would first provide loans to farmers to support the organic certification process and then monetize emission reductions associated with regenerative organic agriculture through carbon offsets.

## 2019 KELLOGG-MORGAN STANLEY SUSTAINABLE INVESTING CHALLENGE COMPETITION SNAPSHOT



# Firmwide Sustainability

Morgan Stanley seeks to lead on sustainability in the financial services sector by reducing the environmental impact of our operations, committing to carbon neutrality, engaging and supporting a diverse employee base, and practicing strong governance. Our leadership, employees and stakeholders work together to drive firmwide sustainability efforts to support a healthier planet, a more inclusive economy and workplace, and the highest ethical standards.

## Governance and Business Ethics

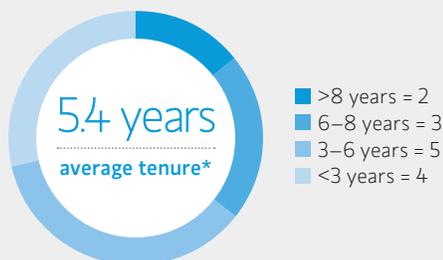
As a global financial institution, our reputation is our most important asset. For decades, Morgan Stanley’s strong governance and reputation for integrity have provided a foundation for success, helping reduce risk to our business and enhancing value for our stakeholders. Our core values underpin this culture, support our sustainability strategy and drive everything we do. By Doing the Right Thing, Putting Clients First, Leading With Exceptional Ideas and Giving Back, we seek to meet client needs, deliver value for investors and support a sound and sustainable global financial system.

## LEADERSHIP FROM THE TOP

Morgan Stanley is deeply committed to strong and ethical governance. This begins with our 14-member board of directors, of whom 11 are independent and four are women. Our directors come from a range of backgrounds across the private sector, government and public policy arenas, with a global perspective. Their collective experience guiding large, complex organizations as executive leaders or board members brings a diversity of qualifications and skills applicable to guiding our business and long-term strategy.

### THE MORGAN STANLEY BOARD OF DIRECTORS

#### Board Tenure Balance



\*Average tenure of directors is calculated based on length of completed Board service from date of initial election through the date of the annual meeting and prior Board service, as appropriate.

#### Board Independence



All Board committees are comprised of non-management directors, and the Board benefits from an engaged Independent Lead Director with expansive responsibilities.

### RESPONSIBLE COMPENSATION

Morgan Stanley is committed to responsible compensation programs that support the firm's strategy, culture and values over the long term. We pay incentive compensation based on performance against financial and nonfinancial goals set by the board of directors. Each year, the board and executive management team evaluate our strategy and refine performance goals and priorities to help ensure long-term benefit to our shareholders. The board Compensation, Management Development and Succession (CMDS) Committee sets executive compensation at year end. In 2019, 75% of our CEO's incentive compensation was deferred over three years and subject to clawback; 100% of deferred incentive compensation is delivered in equity awards and 50% of incentive compensation is delivered through future performance-vested equity awards.

Executives with responsibility for sustainability, including but not limited to the Vice Chairman, Chief Sustainability Officer and the Global Head of Corporate Services are evaluated against sustainability performance, goals and targets.

Shareholder feedback has led to various enhancements in corporate governance, disclosure and compensation in recent years. For more information, see page 9 of our [2020 Proxy Statement](#).

### ETHICAL BUSINESS CONDUCT

Morgan Stanley is committed to best-in-class governance practices and the highest ethical standards. Our [Code of Conduct](#) and [Code of Ethics and Business](#) guide the day-to-day behavior of approximately 60,000 employees worldwide (see also [Our Culture](#)).

Financial crimes undermine public trust in our sector. We take all reasonable measures to prevent them, including mandatory awareness training for employees. Robust risk-based policies, procedures and internal controls guard against misuse of our products and services for money laundering, terrorism, bribery or other criminal activity. All employees are required to report any legal or ethical concerns to a supervisor, our Human Resources or Legal and Compliance teams, or an anonymous Integrity Hotline operated by an independent vendor. We take allegations of misconduct seriously and prohibit any retaliation against anyone raising a concern in good faith.

We also expect our suppliers to meet our core values and high standards for doing business. Our [Supplier Code of Conduct](#) lays out our requirements for human and labor rights, environmental protections, and ethical business practice.

### Anti-Corruption and Bribery

Morgan Stanley forbids all forms of bribery and corruption, and accordingly has implemented policies, procedures and internal controls reasonably designed to comply with applicable anticorruption laws and regulations in the jurisdictions where we operate. Our Global Anti-Corruption Policy is updated annually and lays out clear rules and guidelines designed to mitigate corruption risk. All Morgan Stanley employees must take anti-corruption training at least annually, and we provide more frequent, targeted training for relevant employees. In addition, we conduct periodic risk-based monitoring and testing to promote employee compliance with the Policy. For more information on our anti-corruption program, see our publicly available [Code of Conduct](#).

### CORPORATE POLITICAL ACTIVITY

Morgan Stanley's publicly available [Corporate Political Activities Policy Statement](#), approved by the Board's Nominating and Governance Committee, sets out our policies on U.S. political contributions, lobbying activities and trade association participation. In accordance with the policy, we prohibit corporate contributions in the U.S. at the federal, state or local levels.

## Risk Management

Risk is part of our everyday business and activities as a leading financial services institution. To protect our business, clients, shareholders and other stakeholders, we employ rigorous and comprehensive risk management policies, controls and training.

Morgan Stanley pursues risk-adjusted returns through prudent risk-taking that protects our capital base and franchise. Five key principles underlie this philosophy: integrity, comprehensiveness, independence, accountability and transparency. These principles are implemented firmwide through our Enterprise Risk Management (ERM) framework and govern all risk management actions by employees.

Morgan Stanley's leadership prioritizes risk management worldwide, mandating thorough and frequent communication, the appropriate escalation of risk issues, and ongoing review and enhancement of policies and processes. Our board of directors has ultimate oversight of strategic risk as well as risks related to culture, values, conduct and reputation, and the ERM framework.

For more information on Risk Management, including Risk Committee priorities, see our [2019 Form 10-K](#) and our [2020 Proxy Statement](#).

## ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT (ESRM)

Integrating environmental and social risk into our business review process is a priority and enables us to appropriately assess business opportunities. Management of environmental and social risks to our firm and clients is governed by our environmental and social risk management (ESRM)-related policy statements, available on our [Corporate Governance web page](#). Our ESRM group advises business units, assesses relevant transactions and monitors emerging environmental and social issues. ESRM and GSF regularly engage external stakeholders (see also [page 14](#)).

In 2019 we updated our ESRM-related policy statements following a comprehensive review. Enhancements include:

- Developed new sector-specific diligence guidelines for nuclear power, hydropower, shale oil and gas, and palm oil.
- Enhanced sector-specific diligence guidelines for forestry.
- Broadened cross-sector diligence guidelines for indigenous rights.
- Incorporated a new human rights section.

In parallel, we rolled out a revised due diligence framework that focuses reviews on higher-risk transactions and updated corresponding procedures across our businesses. To further support our initiative to increase awareness of environmental and social risk, the ESRM team provided training to businesses and appointed regional ESRM coordinators in EMEA and APAC.

### Monitoring Transactions

Morgan Stanley monitors financial transactions that could expose the firm to risks raised by environmental and social issues. The ESRM team provides guidance to deal teams globally on potentially material franchise risks. In-scope transactions are reviewed by ESRM and our businesses. When a potentially material issue is identified, enhanced due diligence is conducted, including on issues such as human rights, direct and adverse indigenous tribe impacts, and significant environmental impacts. Depending on the results of the ESRM review, transactions may be escalated to our Regional and Global Franchise Committees and to senior management.

For example, we were invited to execute a transaction for an integrated steel-producing company with steel, mining and energy operations. We engaged in enhanced due diligence with the company to review its Environmental Health and Safety (EHS) Management framework, its approach to tailings dam management and its engagement with stakeholders. The company is very focused on environmental and social risk management; in particular, its EHS Management System has been certified in accordance with ISO 14001 standards, and is further supported by open communication of concerns by its employees and communities. With respect to its tailings dam management, the company has retained independent

experts to assess the stability of its dams, conducts emergency preparedness exercise and has put in place robust controls. Finally, the company has undertaken a number of initiatives to address local community concerns. On the basis of this enhanced due diligence, we approved moving forward with the transaction.

In another case, we were asked by a client to advise on the potential acquisition of a technology company. The technology company had been the subject of much controversy regarding the use of its technology and potential human rights violations. We reviewed the media coverage and concerns raised by various groups. In further assessing the concerns that had been identified, and the company's apparent failure to adopt appropriate controls to eliminate the risks of human rights violations occurring, we declined to accept the mandate.

The table below shows transactions by industry reviewed by ESRM in 2019.

### BY THE NUMBERS

## 2019 Transactions by Industry Reviewed by Environmental and Social Risk Management

INDUSTRY	2019
Basic Materials	42
Energy	82
Financial Institutions	93
Healthcare	26
Industrials	51
Pharmaceuticals	50
Power and Utilities	101
Real Estate	40
Retail	47
Services	116
Transportation	11
<b>Grand Total</b>	<b>659</b>

### Assessing Climate Risk

Morgan Stanley recognizes that climate change poses significant risks to the global economy. Our [Environmental and Social Policy Statement](#) includes enhanced due diligence guidelines for sectors exposed to greater environmental risk, including the physical and transition risks from climate change as highlighted by the TCFD. We will be publishing a TCFD report later in 2020 that provides further detail on our approach to climate risk management.

### Managing Human Rights Risk

We conduct business operations in ways that aim to respect, protect and advance the full range of human rights. Our approach is guided by leading frameworks, including the UN Universal Declaration of Human Rights and the UN Guiding Principles on Business and Human Rights. We monitor potential human rights issues in our operations and supply chains through due diligence procedures for relevant sectors and transactions.

Morgan Stanley is committed to ensuring that modern slavery has no part in our own operations or supply chains. We expect our suppliers to follow appropriate policies and practices to ensure they are not complicit in human rights abuses, including modern slavery and human trafficking. A global cross-functional working group monitors compliance across our supply chain. In 2019, we strengthened our efforts to help eradicate modern slavery by:

- Evaluating 150+ responses from a corporate social responsibility survey of our top global suppliers, which uncovered no indications of modern slavery and human trafficking.
- Updating our [Environmental and Social Policy Statement](#) and [Statement on Human Rights](#) to include language on modern slavery.
- Attending industry peer group forums on initiatives to review modern slavery and human trafficking risks within the sector supply chain.
- Conducting a training session with our Legal group to further educate the team on our supply chain human rights efforts.

Read the Morgan Stanley Modern Slavery and Human Trafficking Statement [here](#).

### CYBERSECURITY

Cybersecurity and information risks for financial institutions are rising along with the trend toward direct access to automated, electronic markets. In response, we deploy sophisticated cybersecurity and data security programs and tools to protect our operations and clients, and collaborate with industry peers and government agencies.

The Board and its Operations and Technology Committee is responsible for the firm's global data privacy and cybersecurity strategy, assisted by the Operational Risk Department. We employ cybersecurity and information security policies, procedures, and technologies designed to protect client and employee data against unauthorized disclosure, modification or misuse as well as to address regulatory requirements.



As a first line of defense, we require employees to adopt “good cyber hygiene”—updating devices and programs, using strong passwords and other basic safeguards. The firm's cybersecurity, infrastructure, and risk professionals respond to disruptive events by leveraging sophisticated data analytics and threat intelligence. Dedicated cybersecurity and information security teams protect computer systems firmwide in coordination with the Firm Resiliency Fusion Center.

### Industry Collaboration

We also collaborate on industry efforts to combat cybersecurity challenges through public-and private-sector forums. Historical examples include initiatives convened by the White House, the National Cyber Security Center and the Japan Financial Services Agency. Morgan Stanley is one of six banks that founded the Financial Systemic Analysis & Resilience Center in 2016.

To develop tomorrow's cyber-leaders and widen access to the skills they require, we partner with iMentor, Girls Who Code, NPower, local universities and other nonprofit organizations. The Firm Resiliency Fusion Center also partners with the U.S. Marine Corps to provide fellowships with our cybersecurity team.

### DATA SECURITY AND CLIENT PRIVACY

Safeguarding client information at all times is essential to our goal to be the world's first choice for financial services. Our business protocols worldwide integrate physical, technical and administrative measures to protect the confidentiality, integrity and availability of client information. We also have global privacy and data-protection policies and procedures in place governing the collection, storage, access, use and disclosure of such data. Senior leaders from our Legal and Compliance and Risk Management teams oversee these standards. On a day-to-day basis, employees use cutting-edge technology and regular security assessments to maintain the information system storing customer data. Testing for system vulnerabilities includes:

- Independent reviews of online systems by security specialists in penetration testing
- Scanning and monitoring for known security risks
- Application vulnerability assessments

To earn client trust, Morgan Stanley is also transparent about how and why it collects personal information. For more information, see our [Privacy Pledge](#).

**BUSINESS CONTINUITY AND RESILIENCY**

Unpredictable disruption to business operations is a growing threat in a globalized and networked world. Morgan Stanley invests in global business continuity and resilience programs to prepare for and recover from technological, security and environmental disruptions. These efforts prioritize the physical safety of our staff and include controls to protect and maintain our real estate and technology.

Expert teams across the firm support the Business Continuity Management (BCM) program and standards, including Technology, Risk Management, Information Security and Corporate Services. Dedicated governance and risk committees, the Board’s Operations and Technology Committee and senior management all oversee the program.

BCM personnel provide 24/7 global coverage to monitor and manage disruptive incidents. Each Morgan Stanley business has continuity plans in place for critical business processes and essential personnel, overseen by BCM, which provides firmwide training to employees at least once a year. In 2019, the firm monitored and reacted to 26 extreme weather and natural hazard events including hurricanes, wildfires, blizzards and earthquakes.

In addition, we deploy firmwide protocols for security breaches and disruptions in communication technology, and conduct emergency communications drills and simulated crisis scenarios.

Morgan Stanley also plans and practices for extraordinary events at a sector level and shares threat information as appropriate with peers, vendors and relevant government agencies.

**Our People**

Our ability to build value for clients relies on our more than 60,000 talented employees around the world. Their diverse experiences and perspectives inform their work and greatly benefit our business. We embrace a values-based culture of inclusion where dedicated professionals can collaborate to produce breakthrough thinking. We provide development opportunities, and health and wellness programs, to help our employees reach their potential.

The Board of Directors is engaged in human capital and culture oversight. Our Board and its CMDS Committee periodically review management succession plans that include, among other things, an assessment of the experience, performance and skills of potential successors to our Chairman and CEO. More broadly, the Board, including the CMDS Committee, is regularly updated and consulted on key talent hires as well as the firm’s human capital strategy. This strategy is continuously refined based on business drivers, employee surveys and the overall environment for talent.

**CULTURE**

Morgan Stanley employees are our main asset. Our core values guide decision making aligned to the expectations of our clients, shareholders, regulators and directors, and the public. These guiding values—Putting Clients First, Doing the Right Thing, Leading With Exceptional Ideas and Giving Back—are at the heart of our strong workplace culture and underpin our success.

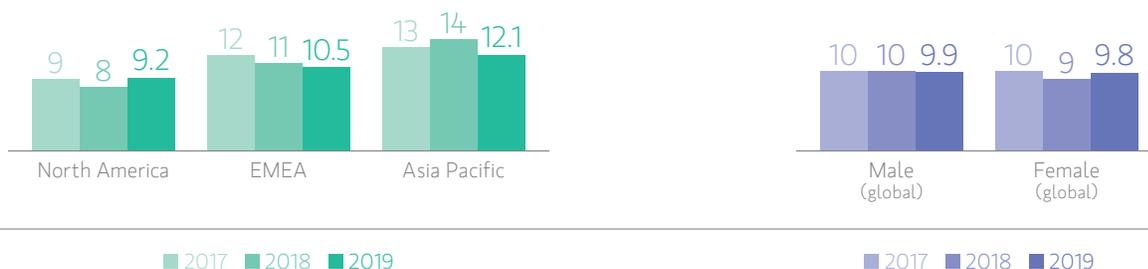
Maintaining a strong employee culture is the focus of our Culture, Values and Conduct Committee of senior managers, with oversight from the Board of Directors. Our [Code of Conduct](#) is central to this program. Every new hire, and every employee annually, is required to certify that they understand and will follow its provisions on ethical behavior. To reinforce its messages, we invite new recruits to attend culture panels with senior leaders in each region. Our executives also lead mandatory firmwide culture conversations.

We invite employee feedback on our culture and workplace through an employee survey. In 2019, 91% of employees responded, with 88% stating they were proud to work for Morgan Stanley. A significant majority were comfortable raising a risk, concern or unethical/inappropriate situation with their manager. For more information, see page 60 of our [2019 Form 10-K](#) and pages 20–21 of our [2020 Proxy Statement](#).

One measure of a successful business culture is retaining talented and skilled employees. In 2019, Morgan Stanley’s voluntary turnover rates remained stable or within expected ranges across our regions, helping us maintain our position in a highly competitive industry.

**BY THE NUMBERS**

**Voluntary Turnover Rates by Region and Gender**



### Promoting a Harassment-Free Workplace

We cultivate a professional work environment that supports equal opportunity, dignity and respect for everyone. Every manager and employee is expected to create an inclusive environment by recognizing diverse points of view, making decisions based on merit and leading with integrity. Employees are expected to follow the letter and spirit of the [Code of Conduct](#) and the nondiscrimination and anti-harassment policy applicable to their region. We strongly encourage our people to report any concerns using the channels described on [page 32](#).

### PRIORITIZING DIVERSITY AND TALENT

Recruiting a highly diverse workforce and fostering an inclusive work environment is not only the right thing to do; it is also good for our business. To this end, we pursue a comprehensive diversity and inclusion (D&I) strategy based on four pillars: accountability, representation, advancement and culture.

Driving awareness of, and accountability for, D&I efforts among managers across our businesses is key to making progress. We conduct annual diversity reviews to actively monitor representation as well as the impact of promotions, hires and attrition on our talent pipeline. By sharing this diversity information with managers firmwide, we seek to drive awareness and action.

### Inclusive Recruitment and Development

Hiring and supporting the careers of underrepresented groups, including women and minorities, supports our business success. To build a diverse talent pipeline, we use global, targeted recruitment and development programs to hire, retain and promote women and multicultural talent. Professional development programs offered in 2019 to help employees hone key skills, build networks and gain exposure to senior management included:

- Wealth Management Multicultural Leadership Summit and Women's Leadership Summit
- Women's Development Program for Vice Presidents and Executive Directors
- Platinum Program for female Executive Directors
- Leader Engagement and Development Program for Black and Hispanic Vice Presidents and Executive Directors
- Multicultural Professional Development Program for analysts and associates
- Project Catalyst for Analyst and Associate female employees

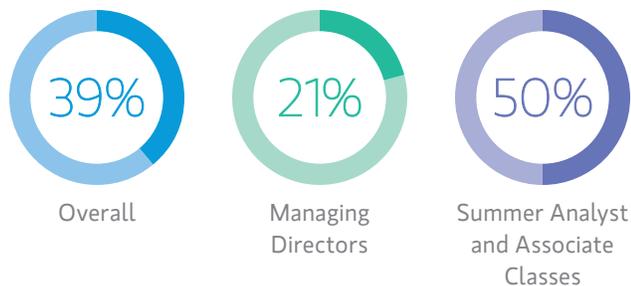
## BY THE NUMBERS

### Employee Diversity in the U.S.

LEVEL	BLACK OR AFRICAN-AMERICAN	HISPANIC OR LATINO	ASIAN	AMERICAN-INDIAN OR ALASKAN NATIVE	NATIVE-HAWAIIAN OR PACIFIC ISLANDER	TWO OR MORE RACES	WHITE	FEMALE
Executives / Senior Officers and Managers	2.2%	4.5%	10.0%	0.1%	0.0%	0.7%	82.5%	18.2%
First / Mid Officers and Managers	5.9%	6.5%	23.6%	0.4%	0.1%	1.5%	62.1%	38.1%
Professionals	10.0%	8.7%	23.0%	0.3%	0.2%	2.0%	55.9%	44.8%
Sales Workers	2.1%	5.6%	5.3%	0.2%	0.1%	1.3%	85.5%	20.4%
Administrative Support Workers	8.8%	12.1%	6.9%	0.3%	0.4%	1.7%	69.8%	78.2%

## BY THE NUMBERS

## Global Female Representation



We also partner with organizations that support recruitment of female and minority career reentry candidates. Our popular Return to Work initiative offers skilled professionals, some of whom have been absent from the field as long as 20 years, a 12-week paid reentry program. 73% of participants have received job offers from Morgan Stanley. In 2019, we expanded the program to Glasgow, Tokyo and Baltimore.

Reflecting our progress on this front, women accounted for 39% of employees globally and 21% of Morgan Stanley Managing Directors in 2019, up from 14% in 2012. Our campus recruiting efforts have also boosted diversity among entry-level staff. A fifth of participants in our 2019 U.S. summer analyst and associate classes were non-white, and 50% globally were women.

### Advancing Pay Equity

Amid growing evidence that diverse organizations often outperform their peers, we employ policies and practices, including those on pay, that help attract, retain and advance underrepresented talent. To promote equitable rewards for all employees, including women and ethnically diverse employees, we have enhanced:

- Robust practices to support fair and consistent compensation and reward decisions based on merit
- Ongoing review of compensation decisions, including at the point of hire and promotion
- Regular assessment of our rewards structure.

Under the U.K. Gender Pay Gap Reporting regulations, we provide gender pay gap data for the Morgan Stanley U.K. group. Our latest disclosure is available for download [here](#).

### CONNECTING WITH COLLEAGUES

An inclusive, collaborative workplace helps to generate stronger work and results from all employees. We encourage our people to get to know colleagues who don't share their background, seek input from a wide range of individuals and embrace opportunities to publicly recognize teammates, especially those who are underrepresented at the firm.

We also support a popular global network of close to 20 employee affinity groups. These hold year-round networking and professional development events and enable colleagues across business units to share ideas and experiences.

### Our Global Employee Networks

Active networks across North America, EMEA and Asia-Pacific/ Japan include:

- African & Caribbean Business Alliance
- Asian Employee Network
- Black Employee Network
- disAbility Employee Network
- Employee Sustainability Forum
- Family Network
- Glasgow Cultural Awareness Network
- Hong Kong Multicultural Alliance
- Latino Employee Network
- Net East Asia
- Net Éire
- Net South Asia
- Pride & Ally LGBTQ+ Employee Network
- Veterans Employee Network
- Women's Business Alliance
- Wealth Management Multicultural Employee Network
- Wealth Management Women's Employee Network



Under the U.K. Gender Pay Gap Reporting regulations, we provide gender pay gap data for the Morgan Stanley U.K. group.



### Inaugural Pride and Ally Network Summit

In celebration of World Pride 2019, Morgan Stanley's Pride and Ally Network hosted a day of events in New York City to highlight the firm's commitment to serving the LGBT+ community in our workplace and neighborhoods.

Highlights included speeches by senior leaders; a panel discussion with representatives of the Human Rights Campaign, Lambda Legal, the Williams Institute and the Center; and a dinner co-hosted with StoryCorps. 450 employees participated on June 30 in the New York City Pride March.

### SUPPORTING DIVERSITY IN OUR COMMUNITIES

Our efforts to promote inclusion extend beyond our own walls. Wherever we operate, we seek to actively support diverse communities by sponsoring prominent organizations and events and by taking a public stand for inclusion. Examples from 2019 included:

- Donating \$1 million to the Hispanic Federation's Campaign for an Even Brighter Latino Community, focused on education and service programs.
- Promoting LGBT marriage equality in Japan by leading an initiative within the foreign banking community to express public support for the American Chamber of Commerce in Japan's [Viewpoint on Marriage Equality](#).
- Committing \$1 million to Catalyst, the global women's advocacy and research organization. The donation will support ongoing work to advance women and the new Now Is the Moment—Be a Catalyst campaign.

### Supporting Diverse Suppliers and Startups

Morgan Stanley values diversity not only among our employees, but in every aspect of our business. For example:

- We actively seek out diverse-owned companies that can meet our business needs through our Supplier Diversity program.
- The Morgan Stanley Multicultural Innovation Lab serves as a tech accelerator for startups led by women and multicultural entrepreneurs.



## PERFORMANCE MANAGEMENT

To support our goal to be the world's financial services provider of choice, we seek to attract and retain a skilled workforce that delivers for our clients and meets our stakeholders' expectations. Our performance, pay, promotion and succession processes are designed to engage and reward talented and committed individuals while reinforcing our culture and values. Annual employee evaluations include feedback from managers and colleagues on overall performance, conduct, risk behavior and culture. This input is then factored into compensation and promotion decisions, aligning an employee's demonstrated behavior with his or her rewards.

### **Balancing Risk and Reward**

We pursue responsible and effective compensation programs that reinforce our values and culture through four key objectives: delivering pay for sustainable performance, attracting and retaining top talent, aligning with shareholder interests and mitigating excessive risk-taking. The Board's CMDS Committee oversees the firm's incentive compensation arrangements in line with these objectives. Together with senior management, the CMDS Committee oversees:

- Policies for funding and allocating incentive compensation, and the use of discretion in determining individual incentive compensation awards.
- Processes for identifying "material risk taker" employees.
- Controls to mitigate the risk of rewarding inappropriate conduct and unsatisfactory performance.
- Processes to administer incentive compensation clawback and cancellation features.

In 2019, on average, 62% of total remuneration was variable for material risk takers, of which 55% was subject to malus or clawback provisions.

Where we uncover conduct contrary to our policies, disciplinary action may include cancellation and clawback of compensation, changes to promotion decisions or termination of employment. In our 2019 employee survey, 80% of respondents agreed there should be personal consequences for those who do not demonstrate the firm's values.

## SUPPORTING WELLNESS

### **Health at Morgan Stanley**

Doing the right thing by our employees and their families includes offering comprehensive health benefits and resources. Benefits vary by country and can include: medical, dental and vision coverage; tax-advantaged flexible spending and health savings accounts; and critical illness, accident, disability and life insurance.

Our Chief Medical Officer leads our global health care and employee benefits strategy. We partner with leading health and family-care providers to deliver holistic services that meet our people's varied needs. In 2019, we expanded fertility, adoption and surrogacy benefits for U.S. employees, making it easier for everyone seeking treatment to be covered, including those who are single or in same-sex relationships.

Resources for working parents include center-based and in-home backup care, along with help finding caregivers and discounts on daycare and preschool. In the U.K., we also offer a workplace nursery close to our London office. Employees with older children can access resources to navigate the college application process and discounts on prep/tutoring for entrance exams.

### **Well-Being at Morgan Stanley**

We strive to make it simple and convenient for employees to achieve their wellness goals. To this end, we offer global education and resources on common health concerns, including sleep, nutrition and cancer risks, along with on-site access to preventive screenings and flu shots. Our wellness centers in the New York metro area, London and Tokyo offer health care providers, physical therapists, fitness facilities and health coaching, including a registered dietician.

In 2019, to mark Mental Health Awareness Week, we organized workplace campaigns in the U.S., the U.K. and Hong Kong designed to challenge stigma, generate awareness and encourage conversation. We offer year-round health education sessions on topics such as anxiety, depression and resiliency, along with in-person and virtual meditation. Free on-site counseling is available at our New York headquarters and London office. Mental health first aid training was also introduced in the U.K. this year.

Morgan Stanley recognizes the increasing demands on its employees' professional and personal lives. The firm is committed to working with employees wherever possible on flexible arrangements that work for both parties. Options offered to U.S. employees include compressed workweeks, flextime, job sharing, reduced work schedules and telecommuting from home.

# Appendix: SASB Index

The Sustainability Accounting Standards Board (SASB) guidance for Investment Banking, Commercial Banking and Asset Management help inform the content, narrative and data included in this report. The table below highlights sections of the report and other public disclosures that include information in the spirit of SASB's objectives, and the data is as of or for the year ending December 31, 2019. We are committed to providing investors with useful, relevant and meaningful sustainability information, within the context of our businesses, and may evolve our disclosure on these topics over time.

SASB CODE	SASB METRIC	RELATED INFORMATION IN 2019 SUSTAINABILITY REPORT <sup>1</sup>
<b>IB-330a.1</b> <b>AC-330a.1</b>	Percentage of gender and racial/ethnic group representation for (1) executive management, (2) non-executive management, (3) professionals, and (4) all other employees	Global female representation: 39% Global female Managing Directors: 21% Statistics for our U.S. Operations by the noted categories, <a href="#">pages 36–37</a> .
<b>IB-410a.2</b>	(1) Number and (2) total value of investments and loans incorporating integration of environmental, social and governance (ESG) factors, by industry	The following transactions were reviewed in accordance with our <a href="#">Environmental &amp; Social Policy Statement</a> : Basic Materials: 42 Energy: 82 Financial Institutions: 93 Healthcare: 26 Industrials: 51 Pharmaceuticals: 50 Power & Utilities: 101 Real Estate: 40 Retail: 47 Services: 116 Transportation 11  For more information, see the Environmental and Social Risk Management (ESRM) section, <a href="#">pages 33–34</a> .  In addition, teams across the firm invest in and lend to institutions to generate environmental and social benefits. Examples and metrics are provided in the Solutions and Services section, <a href="#">pages 15–27</a> .

<sup>1</sup> If a metric is not addressed in the report, we have provided links to public disclosures that include relevant information.

SASB CODE	SASB METRIC	RELATED INFORMATION IN 2019 SUSTAINABILITY REPORT <sup>1</sup>
<b>IB-410a.3</b>	Description of approach to incorporation of ESG factors in investment banking and brokerage activities	Institutional Securities group's sustainability activities, <a href="#">pages 16–19</a> . ESRM review process and number of transactions referred for review, <a href="#">pages 33–34</a> and our <a href="#">Environmental &amp; Social Policy Statement</a> .
<b>IB-510a.1</b> <b>CB-510a.1</b> <b>AC-510a.1</b>	Total amount of monetary losses as a result of legal proceedings associated with fraud, insider trading, anti-trust, anti-competitive behavior, market manipulation, malpractice, or other related financial industry laws or regulations	Material legal proceedings for the firm are disclosed on pages 159–163 of our <a href="#">2019 Form 10-K</a> .
<b>FN-IB-550a.2</b> <b>N-CB-550a.2</b>	Description of approach to incorporation of results of mandatory and voluntary stress tests into capital adequacy planning, long-term corporate strategy, and other business activities	We conduct various scenario analyses and stress tests, including the Federal Reserve's Comprehensive Capital Analysis and Review and other stress tests for market, credit and liquidity risks, as appropriate. For more information, see pages 3–5, 53–61 as well as additional pages throughout our <a href="#">2019 Form 10-K</a> .
<b>IB-510a.2</b> <b>CB-510a.2</b> <b>AC-510a.2</b>	Description of whistleblower policies and procedures	The Raising Legal and Ethical Concerns and Reporting Misconduct section of our <a href="#">Code of Conduct</a> defines the firm's policies and procedures.
<b>IB-510b.4</b>	Description of approach to ensuring professional integrity, including duty of care	Our <a href="#">Code of Conduct</a> and <a href="#">Code of Ethics and Business</a> describe our ethical business practices, guiding the day-to-day behavior of our employees worldwide. We require every employee to certify his or her adherence to, and understanding of, the Code of Conduct when they join the firm, and on an annual basis thereafter.
<b>IB-550a.1</b> <b>CB-550a.1</b>	Global Systemically Important Bank (G-SIB) score, by category	1, <a href="#">Banking Organization Systemic Risk Report</a> at December 31, 2019 (FR Y-15).
<b>IB-550b.1</b>	Percentage of total remuneration that is variable for Material Risk Takers (MRTs)	Our MRT policies and procedures align with regulatory principles and requirements, and are overseen by the Board Compensation, Management Development and Succession Committee. In 2019, on average, 62% of total remuneration was variable for material risk takers. See <a href="#">page 39</a> for more information.
<b>IB-550b.2</b>	Percentage of variable remuneration of MRTs to which malus or clawback provisions were applied	Of the 62% that was variable for MRTs, 55% was subject to malus or clawback. See <a href="#">page 39</a> for more information.
<b>IB-000.A</b>	(1) Number and (2) value of (a) underwriting, (b) advisory and (c) securitization transactions	<b>Investment banking volumes:</b> Completed Mergers & Acquisitions: \$818Bn Fixed Income Offerings: \$270Bn Equity & Equity Related Offerings: \$61Bn For more information, see page 32 of our <a href="#">2019 Form 10-K</a> .
<b>CB-230a.2</b>	Description of approach to identifying and addressing data security risks	Overview of our activities regarding data security risk, <a href="#">page 34</a> .

SASB CODE	SASB METRIC	RELATED INFORMATION IN 2019 SUSTAINABILITY REPORT <sup>1</sup>
<b>CB-240a.1</b>	1) Number and (2) amount of loans outstanding qualified to programs designed to promote small business and community development	<p>The cumulative value of transactions as part of our Community Development Finance program is noted below.</p> <p>2010–2019:</p> <ul style="list-style-type: none"> <li>• \$21 billion committed in loans and investment</li> <li>• 321 million committed in small-business loans and investments, including \$59 million in 2019</li> </ul> <p>For more information, see the Community Development Finance section, <a href="#">pages 26–27</a>.</p>
<b>CB-410a.1</b>	Commercial and industrial credit exposure, by industry	Institutional Securities Loans and Lending Commitments by Industry, page 68 of our <a href="#">2019 Form 10-K</a> .
<b>CB-410a.2</b>	Description of approach to incorporation of environmental, social, and governance (ESG) factors in credit analysis	The Firm Risk Management Climate Risk Steering Committee was created in 2019, and convenes risk managers across relevant risk functions, including credit, to coordinate information sharing and support the technical integration of climate change into Risk Management assessments.
<b>CB-000.B</b>	(1) Number and (2) value of loans by segment: (a) personal, (b) small business, and (c) corporate	<p>Small business loans that incorporate sustainability factors are discussed in the Community Development Finance section, <a href="#">pages 26–27</a>.</p> <p>Our Investment Banking activity, which includes corporate lending, is discussed in the Finance and Advisory Services section, <a href="#">page 19</a> with select transactions highlighted on <a href="#">pages 16–17</a>.</p>
<b>AC-270a.3</b>	Description of approach to informing customers about products and services	<p>Each business unit is responsible for setting and managing robust policies and processes related to their marketing activities, which are subject to supervisory review in accordance with applicable promotion laws and regulatory obligations. We aim to manage risks in marketing and sales by enforcing the following guidelines:</p> <ul style="list-style-type: none"> <li>• Communications to clients and the public must be fair and balanced, without exaggerated or misleading statements.</li> <li>• Employees must use approved marketing materials and messaging systems when conducting the firm’s business.</li> <li>• Financial Advisors must follow a compliance manual of internal sales practice standards, as well as adhere to all applicable laws and regulations.</li> <li>• The firm monitors customer complaints. These are dealt with in accordance with relevant internal policies, and business, legal and/or compliance personnel take action as needed.</li> </ul>
<b>AC-410a.1</b>	Amount of assets under management, by asset class, that employ (1) integration of ESG issues, (2) sustainability themed investing and (3) screening	<p>Client assets invested on our Morgan Stanley Wealth Management Investing with Impact platform: ~\$34Bn</p> <p>Investment Management assets under management applying ESG strategies consistent with our framework (<a href="#">page 22</a>): \$270Bn</p>

SASB CODE	SASB METRIC	RELATED INFORMATION IN 2019 SUSTAINABILITY REPORT <sup>1</sup>
<b>AC-410a.2</b>	Description of approach to incorporation of ESG factors in investment and/or wealth management processes and strategies	Overview of our Wealth Management processes, <a href="#">pages 20–21</a> . For more information, see our <a href="#">Investing with Impact</a> brochure. Investment Management processes, <a href="#">pages 22–25</a> . For more information see our <a href="#">ESG Approach and Principles</a> .
<b>AC-410a.3</b>	Description of proxy voting and investee engagement policies and procedures	Overview of Investment Management engagement and activities, <a href="#">pages 22–25</a> . In addition, see <a href="#">Morgan Stanley Investment Management's 2019 Global Stewardship Report, Engagement and Stewardship Principles</a> , and <a href="#">Proxy Voting Policies and Procedures</a> .
<b>AC-550a.3</b>	Total exposure to securities financing transactions	Securities purchased under agreements to resell: • Gross: \$247.5Bn • Net: \$3Bn Securities borrowed: • Gross: \$109.5Bn • Net: \$4.7Bn For more information, see pages 112–113 of our <a href="#">2019 Form 10-K</a> .
<b>AC-550a.4</b>	Net exposure to written credit derivatives	Total firm credit protection sold (prior to counterparty or collateral netting): \$1.7Bn. For more information, see pages 107–108 of our <a href="#">2019 Form 10-K</a> .
<b>AC-000.A</b>	(1) Total registered and (2) total unregistered assets under management (AUM)	Total Wealth Management Client Assets and Investment Management Assets Under Management or Supervision (no registration distinction), pages 35 and 49 <a href="#">2019 Form 10-K</a> .
<b>AC-000.B</b>	Total assets under custody and supervision	Wealth Management client assets under supervision (only), page 35 of our <a href="#">2019 Form 10-K</a> .

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Investing in the market entails risk of market volatility. The value of all types of investments may increase or decrease over varying time periods. Equity securities' prices may fluctuate in response to specific situations for each company, industry, market condition and general economic environment. Companies paying dividends can reduce or cut payouts at any time.

Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally, the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer.

International investing entails greater risk, as well as greater potential rewards compared to U.S. investing. These risks include political and economic uncertainties of foreign countries as well as the risk of currency fluctuations. These risks are magnified in countries with emerging markets, since these countries may have relatively unstable governments and less established markets and economics. REITs' investing risks are similar to those associated with direct investments in real estate; lack of liquidity, limited diversification and sensitivity to economic factors such as interest rate changes and market recessions.

Please note that there is currently no standard definition of "green bond." Without limiting any of the statements contained herein, Morgan Stanley Smith Barney LLC makes no representation or warranty as to whether this bond constitutes a green bond or conforms to investor expectations or objectives for investing in green bonds. For information on characteristics of the bond, use of proceeds, a description of applicable project(s), and/or any other relevant information about the bond, please reference the offering documents for the bond.

Alternative investments often are speculative and include a high degree of risk. Investors could lose all or a substantial amount of their investment. Alternative investments are suitable only for eligible, long-term investors who are willing to forgo liquidity and put capital at risk for an indefinite period of time. They may be highly illiquid and can engage in leverage and other speculative practices that may increase the volatility and risk of loss. Alternative investments typically have higher fees than traditional investments. Investors should carefully review and consider potential risks before investing.

Private Funds (which include hedge funds and private equity funds) often engage in speculative investment techniques and are only suitable for long-term, qualified investors. Investors could lose all or a substantial amount of their investment. They are generally illiquid, not tax efficient and have higher fees than many traditional investments.

The investor should note that funds that invest exclusively in one sector or industry involve additional risks. The lack of industry diversification subjects the investor to increased industry-specific risks.

**Investment returns will fluctuate so that an investor's shares when redeemed may be worth more or less than original cost. Investors should carefully consider the investment objectives and risks as well as charges and expenses of a mutual fund or exchange traded fund (ETF) before investing. To obtain a prospectus, contact your Financial Advisor or visit the fund company's website. The prospectus contains this and other information about the mutual fund or ETF. Read the prospectus carefully before investing.**

The returns on a portfolio consisting primarily of Environmental, Social and Governance ("ESG") aware investments or sustainable investments may be lower or higher than a portfolio that is more diversified or where decisions are based solely on investment considerations. Because ESG or sustainability criteria exclude some investments, investors may not be able to take advantage of the same opportunities or market trends as investors that do not use such criteria.

The Global Investment Committee is a group of seasoned investment professionals who meet regularly to discuss the global economy and markets. The committee determines the investment outlook that guides our advice to clients. They continually monitor developing economic and market conditions, review tactical outlooks and recommend model portfolio weightings, as well as produce a suite of strategy, analysis, commentary, portfolio positioning suggestions and other reports and broadcasts.

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