Morgan Stanley Investment Management Limited

Investment Firm Prudential Regime Disclosure Report

As at 31 December 2023

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1. Overview and Key Metrics

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

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

MSIM’s disclosure as at 31 December 2023 has been prepared on a standalone basis. The disclosures fulfil MSIM’s regulatory obligation to disclose to market participants key pieces of information on its risk management objectives and policies, own funds, own funds requirements and remuneration policies.

The information presented below is reflective of the facts and circumstances that existed as at 31 December 2023.

Table 1: Key Metrics

MSIM	31 December 2023 (GBP thousands)	31 December 2022 (GBP thousands)
Common Equity Tier 1 Capital (“CET1”)	133,173	140,138
Additional Tier 1 Capital(“AT1”)	-	-
Tier 1 Capital	**133,173**	**140,138**
Tier 2 ("T2") Capital	**46,245**	**48,507**
Total Own Funds	**179,418**	**188,645**
Permanent Minimum Capital Requirement	750	750
Fixed Overheads Requirement	58,165	67,038
Total K-Factor Requirement	26,839	28,934
Assets for which the firm is responsible (K-AUM, K-CMH & K-ASA)	25,956	28,431
Execution activity undertaken by the firm (K-COH & K-DTF)	-	-
Exposure-based risks (K-NPR, K-CMG, K-TCD & K-CON)	883	503
Own Funds Requirement	**58,165**	**67,038**

Over the year, Total Own Funds decreased primarily due to Foreign Exchange (“FX”) movements related to the conversion of functional currency in USD to reporting currency in GBP. The Own Funds Requirement declined as the Fixed Overheads Requirement (“FOR”) was updated to the 2022 audited financial statements. The decrease in Total K-Factor Requirement (“KFR”) is primarily due to lower Assets Under Management ("AUM") driven by a decline in equity markets.

The Own Funds Requirement is equal to the higher of: a) Permanent Minimum Capital Requirement (“PMC”), b) FOR or c) KFR.

The PMC is dependent on the activities that the entity is authorised to undertake.

The FOR is intended to calculate the minimum amount of capital that an entity will need available to absorb losses if it must wind-down to exit the market. MSIM may need to consider in more detail the amount needed to wind-down as part of the Internal Capital Adequacy and Risk Assessment ("ICARA") process.

The FOR is equal to one quarter of an entities relevant expenditure in the previous year. The figures used will be those in its most recent audited annual financial statements. If there is a material increase in MSIM's projected relevant expenditure, the FOR must be calculated based upon this and the firm must consider the impact of the change on its ICARA process and conclusions.

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

- Assets for which the firm is responsible captures the value of assets an investment firm manages for its clients (“K-AUM”), amount of client money it holds (“K-CMH”) and the value of assets it safeguards and administers for clients (“K-ASA”).
- Execution activity undertaken by the firm captures the value of orders that an investment firm handles for clients (“K-COH”) and the daily value of transactions it enters through dealing on own account or the execution of orders on behalf of clients (“K-DTF”).

- Exposure-based risks captures standardised market risk provisions ("K-NPR"), margin required by a clearing member or qualifying central counterparty ("K-CMG"), trading activity giving rise to risk of trading counterparty default ("K-TCD") and concentration risk to a client or group of connected clients in the trading book ("K-CON").

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

Morgan Stanley Group

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

Morgan Stanley International Limited ("MSI") is the ultimate UK parent undertaking of MSIM. MSI, together with all of its subsidiary undertakings, form the MSI Group.

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

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

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

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

War and increased tensions in the Middle East

MSIM is monitoring the war and increased tensions in the Middle East and its impact on the regional economy, as well as on other world economies and the financial markets.

2. Regulatory Frameworks

The Investment Firm Prudential Regime ("IFPR") sets out a regulatory framework applicable to UK investment firms authorised under UK MiFID. The IFPR aims to provide a proportionate and streamlined regulatory framework for non-systemic investment firms prudentially regulated in the UK.

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

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

MSIM is a Non-SNI investment firm and is subject to full IFPR requirements implemented by the FCA via the Prudential Sourcebook for MiFID Investment Firms ("MIFIDPRU").

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

MSIM has policies and procedures in place to assess the appropriateness of its disclosures. MSIM's disclosures are not required to be, and have not been, audited. The disclosures have been prepared as at 31 December 2023 on the basis of the IFPR and related legislation requirements.

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

3. Capital Management

MSIM views capital as an important source of financial strength. It manages and monitors its capital in line with established policies and procedures and in compliance with local regulatory requirements.

MSIM manages its capital position based upon, among other things, business opportunities, risks, capital availability and rate of return, internal capital policies and frameworks, and regulatory requirements. Therefore, in the future it may adjust its capital base in reaction to the changing needs of its businesses.

The appropriate level of capital is determined at a legal entity level to safeguard that entity's ability to continue as a going concern and ensure that it meets all regulatory capital requirements. The key components of the capital management framework used by MSIM are set out in the MSI Group Capital Planning and Management Policy and include a point in time risk capital assessment, forward looking capital projections and stress testing. These components, along with MSIM's core internal risk management processes, collectively form MSIM's ICARA process. MSIM must review the adequacy of its ICARA process at least annually in order to meet its obligations under the FCA Handbook.

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

a) That the ongoing operation of the business may cause to: clients and counterparties, the markets in which the firm operates, and the firm itself; and

b) That may result from winding down the business, to ensure that MSIM can be wound down in an orderly manner.

The ICARA therefore enables MSIM to remain financially viable throughout the economic cycle (with the ability to address any potential material harms that may result from its ongoing activities), whilst also ensuring MSIM has adequate resources to support an orderly wind down of its business activities (if so required), by minimising impact on consumers and the wider market.

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

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

4. Risk Management

Risk is an inherent part of MSIM's business activity. MSIM seeks to identify, assess, monitor and manage each of the various types of risk involved in its business activities, in accordance with defined policies and procedures.

MSIM is an agency business that manages money on behalf of its clients and has a fiduciary responsibility to those clients. MSIM has developed its own risk management policy framework, which leverages the risk management policies and procedures of the Morgan Stanley Group where appropriate. The risk management policy framework includes escalation to MSIM's Board and to appropriate senior management of MSIM, as well as oversight through a dedicated Risk committee of Non-Executive Directors ("NEDs") that reports to the Board of MSI.

Given independence of the reporting lines, the risk management function is appropriately separated from the operating units, including the portfolio management function."

4.1 Risk Management Framework

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

Risk taking is an inherent part of MSIM's business activities and effective risk management is vital to the success of the entity. MSIM has established a Risk Management Framework which encompasses the risk management culture, risk governance, approach and practices that support risk identification, measurement, monitoring, escalation, and decision-making processes. This section covers the core components of the Framework.

Three Lines of Defence Framework

MSIM operates a "Three Lines of Defence" framework to create a clear delineation of responsibilities between risk owners and independent risk control functions with a view to addressing potential conflicts of interest. The functions responsible for carrying out the activities across the Three Lines of Defence are summarised below.

- **First Line of Defence**: The Business Unit is responsible for managing its strategy and business activities in accordance with MSIM's Risk Appetite and Risk Management Framework. Support functions are independent of the Business Units and support strategy execution of MSI Group's revenue-generating activities.
- **Second Line of Defence**: Independent Risk Management and Control Functions identify, measure, monitor and control risks. Independent Risk Management and Control Functions include, for example, functions performed by the Europe, Middle East and Africa ("EMEA") Risk Division, EMEA Compliance Department (including Financial Crimes), EMEA Operational Risk Department and Product Control (part of Finance Division).
    - EMEA Risk Division: The EMEA Chief Risk Officer ("EMEA CRO") leads, manages and oversees the EMEA Risk Division and is a member of the MSI Board (the parent entity of MSIM). The EMEA Risk Division is responsible for the independent identification, analysis, monitoring, reporting, challenge and escalation of all market, credit and liquidity risk exposures arising from MSIM's and EMEA business activities. The EMEA CRO has overall responsibility for the Enterprise Risk Management Framework applicable to MSIM which includes development of Risk Appetite, oversight of relevant risks reflected in the Risk Appetite Statement ("RAS") and monitoring and reporting of risks in line with agreed appetite to relevant Boards. The EMEA CRO is assisted by governance across first and second line functions to discharge this responsibility.
    - EMEA Second-Line Non-Financial Risk Organisation: The Compliance Department, the Global Financial Crimes Department and the Operational Risk Department are combined into a single Non-Financial Risk Organisation to provide comprehensive and consistent coverage of non-financial risk. EMEA Second-Line Non-Financial Risk provides independent oversight and challenge of Non-Financial Risk Management and is responsible for identifying, measuring and monitoring non-financial risks.
    - Other Independent Risk Management and Control Functions: Finance Control and Assurance Functions determine whether the conceptual framework, governance, measurement and monitoring systems and controls are appropriate for the entity's size, complexity and business activities. The primary EMEA Finance Control and Assurance Functions include EMEA Product Control and the EMEA Regulatory Reporting Quality Assurance Group.

- **Third Line of Defence**: The EMEA Internal Audit Department ("IAD") reports to the MSI Audit Committee and is independent of the Business Units, Support Functions and Risk Management. IAD provides independent assurance on the design quality and operating effectiveness of MSIM's internal control environment, risk management and governance systems and control processes using a risk-based audit coverage model and audit execution methodology developed in line with professional auditing standards.

During 2023, the departments of Global Financial Crimes, Compliance and Operational Risk were organised within a single second line Non-Financial Risk Framework. There were no changes to the EMEA Heads of Risk Management, Compliance and the Internal Audit Department during 2023.

Risk Policies and Processes

MSIM has several well-established policies and procedures which set out the standards that govern the identification, measurement, monitoring, management and escalation of the various types of risk involved in its business activities.

MSIM has implemented specific risk management policies to address local business and regulatory requirements where appropriate. These policies are approved by the MSIM Board and reviewed at least annually.

Risk Culture

MSIM's risk management culture is rooted in the following key principles: integrity, comprehensiveness, independence, accountability and transparency.

MSIM has a risk culture that encourages open dialogue, effective challenge, escalation and appropriate reporting of risk to senior management, the MSI Risk Committee, the MSIM and MSI Boards and regulators, as well as external disclosures of risk matters. Developing MSIM's risk culture is a continuous process and builds upon Morgan Stanley's commitment to its values, including "Do the Right Thing", which make managing risk each employee's responsibility. Senior management promotes MSIM's risk culture, which enables individuals across the organisation to make appropriate risk decisions. MSIM's RAS is embedded in the entities risk culture and is linked to its short-term and long-term strategic, capital and financial plans, as well as compensation programmes.

The Compliance Department maintains an enterprise-wide, independent Compliance Risk Management Programme as detailed in the Global Compliance Policy. The Compliance Department is responsible for:

- promoting a strong culture of compliance;
- defining an operating model and setting standards for Compliance Risk Management;
- identifying, assessing, addressing and reporting on Compliance Risks;
- maintaining a risk-based programme for monitoring, testing and challenge of Compliance Risk Management by the first line of defence;
- providing advice, guidance (including Compliance policies and, where appropriate, procedures) and training concerning the laws, regulations and policies;
- managing a firmwide Compliance Risk reporting framework;
- reviewing new products and business initiatives to assess Compliance Risks as part of the New Product Approval ("NPA") process; and
- supporting and facilitating the framework for managing significant communications with regulators and regulatory relationships maintained by the EMEA Regulatory Relations Group.

This is reinforced by the Code of Conduct which sets out the high standards of conduct and ethical behaviour expected from all employees.

4.2 Risk Identification and Risk Appetite

Material Potential Harms

MSIM is required to identify, monitor and reduce all material potential harms/risks that may result from its ongoing operations, or the entity winding down. For each material risk, an internal capital adequacy and/or liquid assets assessment is performed to ensure that each risk is managed, governed and subject to effective internal controls, and where appropriate additional own funds and/or liquid assets are proposed to be held to address material potential harms. MSIM's risk management framework acts as a strong mitigant against the potential for harm associated with its business strategy. Risks and/or harms are identified through a formal risk appetite and identification process with mitigants/limits assigned against risk where appropriate.

The selection of risks reviewed as part of the ICARA is subject to governance through the EMEA Internal Capital Adequacy Assessment Process ("ICAAP") Steering Committee, EMEA Risk Committee, MSI Risk Committee and ultimately the MSIM Board as part of the overall ICARA.

Risk Identification

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

The process of Risk Identification is performed on a continuous basis as part of the day-to-day activities of the EMEA Business Unit and the EMEA independent Risk Management and Control Functions including the EMEA Risk Division and the EMEA Non-Financial Risk Organisation.

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

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

As determined through the Risk Identification Framework, the following risk types are relevant to MSIM's business activities:

- Operational Risk
- Earnings at Risk (also referred to as Strategic Risk)
- Reputational Risk
- Compliance Risk
- Conduct Risk
- Liquidity Risk
- Credit Risk
- Concentration Risk
- Market Risk
- Model Risk
- Climate and Environmental Risk[1]

These risks are outlined in the following sections.

1.Climate change is a driver of existing risks and is managed within the MSIM's existing Risk Appetite.

Operational Risk

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

This is MSIM's most material risk.

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

MSIM has established an Operational Risk framework to identify, measure, monitor and control risk across MSIM. This framework is consistent with the framework established by MSI Group and it includes escalation to MSIM's Board and appropriate senior management personnel. Effective Operational Risk management is essential to reducing the impact of Operational Risk incidents and mitigating legal and reputational risks. The framework is continually evolving to reflect changes in MSIM and to respond to the changing regulatory and business environment.

MSIM has implemented Operational Risk data and assessment systems to monitor and analyse internal and external Operational Risk events, to assess business environment and internal control factors and to perform scenario analysis. The collected data elements are incorporated in the Operational Risk capital model. The model encompasses both quantitative and qualitative elements. Internal loss data and scenario analysis results are direct inputs to the capital model. External operational incidents, business environment and internal control factors are evaluated as part of the scenario analysis process.

In addition, MSIM employs a variety of risk processes and mitigants to manage its Operational Risk exposures. These include a governance framework and a comprehensive risk management programme which includes the application of specific Operational Risk related policies and procedures, continuous enhancement of defences against cyber attacks, use of legal agreements and contracts to limit Operational Risk exposures, due diligence and exception management processing controls and segregation of duties.

Exposures to services provided by third parties including external vendors are managed through a variety of means, such as, the performance of due diligence, consideration of Operational Risk, implementation of service level and other contractual agreements, and ongoing monitoring of third parties' performance. MSIM maintains a third-party risk management programme with policies, organisation, governance and supporting technology.

The implementation and operation of the Operational Risk Framework is overseen by Risk Committees at different levels within MSI Group's governance structure, but ultimately will be reported up to MSIM's Board. Key Risk Committees are:

- The EMEA Operational Risk Oversight Committee
- The Non-Financial Risk Management Committee
- The EMEA Risk Committee
- The EMEA MSIM Risk Committee
- The EMEA MSIM Operating Committee
- The MSI Risk Committee

Earnings at Risk (also referred to as Strategic Risk)

Earnings at Risk (also referred to as Strategic Risk) is defined as the risk arising from:

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

Material potential harms include key persons leaving the firm (e.g. Portfolio Managers); fee pressures and negative client perception towards MSIM's investment products. Strategic Risk also includes the evolving regulatory landscape. MSIM's strategy and business plan enable it to deliver against its capital, risk and control agenda ensuring the overall safety and soundness of MSIM. The strategy includes a range of initiatives and performance indicators, including specific qualitative and quantitative business targets and goals for the control and support functions. MSIM also has a robust NPA framework, reflecting the importance of the NPA process as a gatekeeping control in preventing MSIM from taking on risks which its management do not fully understand or are outside its strategy and risk appetite.

Reputational Risk

Reputational Risk (also referred to as Franchise Risk), describes the potential risks associated with the way in which MSIM conducts its business and the perception of MSIM by external parties including shareholders, clients, regulators and the public. Reputational Risks may be triggered by either the nature of the transaction (e.g., unusual complexity or novel issues) or business practice (e.g., a transaction without appropriate economic substance or business purpose) or by the identity or reputation of the client or counterparty (e.g., a client linked to alleged corruption or other improper activities).

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

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

Compliance Risk

Compliance Risk is defined as the risk of legal or regulatory sanctions, material financial loss or damage to reputation resulting from the failure to comply with laws, rules, regulations, related self-regulatory organisation standards and codes of conduct applicable to MSIM's activities.

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

MSIM is covered by the Global Compliance Policy, which establishes a Firmwide Compliance Risk management program and sets forth the roles and responsibilities of Firm and Business Line Management and the Global Compliance Department.

MSIM has a range of first and second line controls in place to comply with applicable laws, rules and regulations and a Compliance risk-based monitoring and testing program which helps to provide assurance that standards are being met. The controls are regularly under review, subject to revision and will continue to evolve. In addition, the IAD provides independent assurance on compliance controls.

Conduct Risk

Conduct Risk is defined as the risk arising from misconduct by individual employees or contingent workers (collectively, "Covered Persons") or groups of Covered Persons, or the risk arising from conduct by the Firm where the outcome has an adverse impact on clients or markets.

MSIM is covered by the Global Conduct Risk Policy and the EMEA & MSI Group Conduct Risk Management supplement which sets forth the Conduct Risk Framework.

Liquidity Risk

Liquidity risk refers to the risk that MSIM will be unable to finance its operations due to a loss of access to funding facilities, or difficulty in liquidating its assets.

MSIM has an inherently low liquidity risk profile given its business model.

MSIM’s Board of Directors sets the liquidity risk appetite to ensure adequate liquid resources are held to meet potential outflows under normal and stressed conditions and to meet its operating expenses while simultaneously ensuring durability of funding. The entity manages its liquidity risk appetite through the overall Required Liquidity Framework (“RLF”). The RLF establishes the amount of liquidity the entity must hold in both normal and stressed environments to ensure that the entity’s financial condition and overall soundness are not adversely affected by an inability (or perceived inability) to meet financial obligations in a timely manner. The RLF ensures the entity holds sufficient liquidity to meet both the Regulatory and Internal Liquidity Requirements. MSIM maintains its liquidity reserves in the form of short-term cash deposits within its credit and liquidity risk limit frameworks to remove any risk from liquidating assets.

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

Credit Risk

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

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

MSIM has no direct exposure to the Credit Risk of its AUM.

Concentration Risk

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

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

Market Risk

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

For MSIM, Market Risk is limited to FX risk on non-dollar revenues. MSIM does not have any direct Market Risk exposure to the AUM of the funds it manages.

Model Risk

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

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

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

Climate and Environmental Risk

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

MSIM considers climate and environmental risks through two main categories: transition risks and physical risks.

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

In addition, MSIM may be exposed to litigation risk or reputational risk losses arising from statements or representations in relation to Environmental, Social and Governance ("ESG") matters which are later discovered to be incorrect or misleading.

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

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

Risk Appetite Statement

MSIM's RAS articulates the aggregate level and types of risk that MSIM is willing to accept in order to execute its business strategy and protect its capital and liquidity resources.

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

The RAS includes risks that have both qualitative and quantitative elements such as Market, Credit, Operational and Liquidity risk, and risks that are qualitative across risk types including Reputational, Conduct and Model risk. The combination of qualitative Risk Appetite and Tolerance Statements and quantitative limits aims to ensure that MSIM's businesses are carried out in line with the Risk Appetite approved by the MSIM Board, and to protect Morgan Stanley Group's reputation in both normal and stressed environments.

Risk Reporting

MSIM has put in place a Risk Reporting Framework to monitor and report MSIM's risk profile against set risk limits and tolerances and to provide timely risk information and/or escalation to responsible limit owners and relevant MSIM risk governance forums as appropriate.

The Risk Reporting Framework covers all material risks, identification of matters for escalation and decision-making and highlights emerging risks, mitigating actions and other risk matters that are deemed significant to the relevant governance forums and/or the MSIM Board and senior management. The key purpose of risk reporting is to provide decision makers and risk managers with an accurate and timely representation of risk exposures, including risk concentrations, at the group level, across business lines and between legal entities.

Adequacy of the Risk Management Arrangements for the Mitigation of Material Potential Harms

The MSIM Board has approved, for the purpose of MIFIDPRU 8.2.2, the below concise risk statement and declaration on the adequacy of the risk management arrangements.

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

5. Governance and Board of Directors

Governance Arrangements

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

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

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

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

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

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

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

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

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

The CEO is responsible for reviewing the global IM and EMEA strategies and leading the development of proposals regarding their application and implementation for the EMEA IM Business and MSIM.

Appointments to the MSIM Board

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

Diversity and the Composition of the MSIM Board

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

The MSIM Board aspires to continue to meet or exceed diversity targets, including a minimum of 40% female representation and one Board director from an ethnic minority background by 2025. As at 31 December 2023, the MSIM Board had exceeded its gender target with 57% female representation. The selection of diverse candidates to join the MSIM Board will be, in part, dependent on the pool of candidates with the necessary background, skills and experience. In order to promote the specific objective of diversity at Board level, the Nomco expects short-lists of potential candidates prepared by external executive search firms to be diverse and balanced.

Non-Executive Directors

Terri Duhon

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

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

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

David Best

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

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

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

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

Jane Pearce

Jane was appointed a non executive director of the MSIM Board on 27 July 2023. Jane is also a non-executive director of MSI and member of the MSI Risk, Audit and Remuneration Committees.

Jane has held a number of different roles in financial service firms over the last 30 years, her most recent executive role was in the Equity Strategy team at Nomura International plc. Prior to that she held senior roles in the Equity Strategy and Research Departments at Lehman Brothers from 2000 to 2008. She has also held roles as an Equity Analyst in the Technology Sector at Lehman Brother and HSBC and a finance project manager at JP Morgan. She started her career at Arthur Anderson where she qualified as a Chartered Accountant.

Jane is an audit committee chair and a non-executive director with a number of other financial institutions.

She is a Chartered Accountant and has an Honours Degree in Business Studies & Accounting from the University of Edinburgh.

Executive Directors[2]

Ruairi O'Healai

Ruairi was appointed as an executive director of the MSIM Board on 16 November 2011 and as CEO on 19 April 2017. With effect from January 2024, Ruairi is the Morgan Stanley Investment Management division's global Co-COO. Ruairi was previously Morgan Stanley Investment Management's EMEA COO. Ruairi is a member of the Morgan Stanley Investment Management Operating Committee and the Morgan Stanley EMEA Operating Committee.

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

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

Fiona Kelly

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

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

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

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

Richard Lockwood[3]

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

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

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

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

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

Zoë Parish

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

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

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

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

Directorships Held by the Board

Director	Number of Directorships as at 31 December 2023	Directorships adjusted For SYSC4.3A.7(2)
Terri Duhon	10	4
David Best	11	2
Fiona Kelly	5	1
Richard Lockwood	3	1
Ruairi O'Healai	13	3
Zoe Parish	11	1
Jane Pearce	7	3

2.Yiwen Goh was appointed as an executive director of the MSIM Board on 26 March 2024.
3.Richard Lockwood resigned as an executive director of the MSIM Board on 31 January 2024.

6. Capital Resources

The capital resources of MSIM as at 31 December 2023 are set out in Table 2. The main terms and conditions of the capital instruments are disclosed in Table 4.

Table 2: Composition of regulatory own funds

	MSIM	Amount (GBP thousands)	Cross-reference to Table 3
1	**OWN FUNDS**	**179,418**	
2	**TIER 1 CAPITAL**	**133,173**	
3	**COMMON EQUITY TIER 1 CAPITAL**	**133,173**	
4	Fully paid up capital instruments	784	A
5	Share premium	-	
6	Retained earnings	134,270	B
7	Accumulated other comprehensive income	(1,881)	C
8	Other reserves	-	
9	Adjustments to CET1 due to prudential filters	-	
10	Other funds	-	
11	(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	-	
19	CET1: Other capital elements, deductions and adjustments	-	
20	**ADDITIONAL TIER 1 CAPITAL**	-	
21	Fully paid up, directly issued capital instruments	-	
22	Share premium	-	
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	-	
24	Additional Tier 1: Other capital elements, deductions and adjustments	-	
25	**TIER 2 CAPITAL**	**46,245**	
26	Fully paid up, directly issued capital instruments	46,245	D
27	Share premium	-	
28	(-) TOTAL DEDUCTIONS FROM TIER 2	-	
29	Tier 2: Other capital elements, deductions and adjustments	-	

Own Funds of MSIM are based on audited financial statements. Table 3 provides a reconciliation of regulatory own funds to balance sheet information as at 31 December 2023.

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

		a	c
	MSIM[1]	Balance sheet[2] as in published / audited financial statements (GBP thousands) 31 Dec 2023	Cross-reference to Table 2
Assets – Breakdown by asset classes according to the balance sheet in the audited financial statements			
1	Cash and short-term deposits	337,636	
2	Loans and advances	102,880	
3	Investment securities	3	
4	Trade and other receivables	117,062	
5	Current tax assets	16	
6	Deferred tax assets	-	
7	Other assets	57,376	
8	Property, plant and equipment	772	
	Total Assets	**615,745**	
Liabilities – Breakdown by liability classes according to the balance sheet in the audited financial statements			
1	Trade and other payables	233,001	
2	Debt and other borrowings	102,220	
	Of which: Subordinated Debt	46,245	D
	Of which: Intercompany Funding Payables	55,975	
3	Provisions	117	
4	Current tax liabilities	34,116	
	Total Liabilities	**369,454**	
Shareholders' Equity			
1	Share capital	784	A
2	Currency translation reserve	(1,426)	
	of which: Previous years currency translation reserve	(1,865)	C
	of which: Currency translation reserve not recognised in Own Funds	439	
3	Pension reserve	(16)	C
4	Retained earnings	246,949	
	of which: Previous years retained earnings	134,270	B
	of which: Profit or loss not recognised in Own Funds	112,679	
	Total Shareholder's Equity	**246,291**	

1. "Under regulatory scope of consolidation" column has been omitted as the investment firm's accounting and regulatory consolidation is the same.
2. MSIM's financial statements are prepared in its functional currency, USD. The balance sheet has been converted to GBP using FX rate 1.276275.

7. Capital Instruments Template

Table 4 provides a description of the main features of the capital instruments issued by MSIM as at 31 December 2023.

Table 4: Own funds: main features of own instruments issued by the firm

MSIM

Description	Common Equity Tier 1	Common Equity Tier 1	Subordinated Debt
Instrument Type	Ordinary Shares	Ordinary Shares	Long-term Subordinated Loan
Accounting classification	Shareholder's Equity	Shareholder's Equity	Liability – Amortised Cost
Amount recognised in Regulatory Capital	£783,530	£2	£46,245,008
Nominal amount of instrument	$1 per ordinary share	£1 per ordinary share	$60,000,000
Original date of issuance	04/02/2016	22/01/1986	27/09/2021
Perpetual/Dated	Perpetual	Perpetual	Dated
Fixed or Floating Dividend/Coupon	Floating	Floating	Floating
Convertible or non-convertible	Non-Convertible	Non-Convertible	Non-Convertible
Issue Price	N/A	N/A	$60,000,000
Redemption Price	N/A	N/A	$60,000,000
Original Maturity Date	N/A	N/A	27/09/2032
Issuer call subject to prior supervisory approval	N/A	N/A	Yes
Option Call Date, Contingent call dates and redemption amount	N/A	N/A	Prepayment Option Call Date: 27/09/2026 at 100% Plus tax and regulatory calls at 100%
Coupon rate and any related index	N/A	N/A	SOFR + 1.29 per cent, per annum
Subsequent Call Dates	N/A	N/A	Daily thereafter
Write-down Features	N/A	N/A	Yes The Bank of England ("BoE"), as the UK Resolution Authority, has the authority to direct the write-down or the conversion of this subordinated debt instrument to equity according to its contractual terms and under certain circumstances.

8. Remuneration

This Remuneration Disclosure (the "Disclosure") sets out the principles relating to compensation within MSIM and its branches ("MSIM"). Some of the policies, practices and procedures outlined in this chapter apply regionally to the MSI Group and globally to the Morgan Stanley Group.

The disclosure in this chapter is pursuant to the MIFIDPRU of the FCA handbook of rules and guidance ("the FCA Handbook"), the IFPR, the Remuneration Code set out in the FCA's Senior Management Arrangements, Systems and Controls (SYSC) at SYSC 19G and any associated regulations and guidance (together the "IFPR Remuneration Rules").

8.1. MSIM Compensation Objectives and Strategy

MSIM is committed to a responsible and appropriate compensation structure that is designed to align performance and conduct of employees to its business and risk strategy and the interests of shareholders. The objective is that the structures are motivating, competitive, reflect current best practices in corporate governance and comply with applicable regulations, whilst also ensuring that incentives are not designed to encourage any excessive risk-taking activity.

MSIM's compensation processes are aligned with Morgan Stanley Group's core values; Do the Right Thing, Put Clients First, Lead with Exceptional Ideas, Commit to Diversity and Inclusion, and Give Back. This alignment is a key element considered as part of the performance measurement process.

The Global Compensation, Management Development and Succession Committee ("CMDS Committee") of the Morgan Stanley Board of Directors (the "Board") continually evaluates Morgan Stanley Group's compensation programs, including for all MSIM employees, with a view towards balancing the following key objectives, all of which support Morgan Stanley Group's culture and values, and shareholders' interests:

- **Deliver Pay for Sustainable Performance**
    - Variable annual incentives and, for certain senior executives, performance-vested long-term incentives tied to future performance against strategic objectives;
    - Consideration of returns for shareholders and appropriate rewards to motivate employees.
- **Align Compensation with Shareholders' Interests**
    - Significant portion of variable compensation is deferred, subject to cancellation and clawback, and tied to Morgan Stanley Group's stock with retention requirements;
    - Ongoing shareholder engagement to understand shareholder views.
- **Mitigate Excessive Risk-taking**
    - Compensation arrangements do not incentivise unnecessary or excessive risk-taking that could have a material adverse effect on MSIM;
    - Robust governance around review and approval of compensation programs, including from a risk perspective.
- **Attract and Retain Top Talent**
    - Competitive pay levels to attract and retain the most qualified employees in a highly competitive global talent environment;
    - Variable compensation awards include vesting and cancellation provisions that retain employees and protect Morgan Stanley Group's interests.

The EMEA Remuneration Oversight Committee ("EROC") and the MSI Group Remuneration Committee ("MSI RemCo") provides formal oversight of EMEA compensation matters to ensure compensation practices in EMEA are compliant with the UK Remuneration Rules and follow good standards of practice.

8.2. Compensation Governance

As a subsidiary, MSIM has an overlay of regional and global compensation governance from the MSI Group and Morgan Stanley Group. Summaries of the composition and mandates of the relevant committees are provided below.

The EMEA EROC and the MSI Group Remuneration Committee (“MSI RemCo”)

The EROC is comprised of the EMEA CEO (Chair), the EMEA Head of Human Resources (Deputy Chair), the EMEA Chief Finance Officer ("EMEA CFO"), the EMEA General Counsel ("EMEA GC"), the EMEA Head of Compliance, and the EMEA CRO. The EROC met seven times during 2023 and certified compliance with regulatory requirements to the MSI RemCo.

The MSI RemCo, which also supervises MSIM, was appointed by the MSI Group’s Board of Directors to oversee the design and implementation of the compensation policies and practices applicable to the MSI Group including MSIM. This includes contributing to the global policy development that is subject to oversight by the CMDS Committee as well as overseeing compliance by MSIM with applicable Remuneration Rules. On December 31, 2023, the MSI RemCo was comprised of five NEDs: Jonathan Bloomer (Chair), Terri Duhon, Jane Pearce, Melanie Richards and Paul Taylor, and met five times during 2023. As a part of its remit, the MSI RemCo reviews and approves:

- The adequacy of MSIM remuneration practices against the applicable local regulations;
- Material risk identification framework for MSIM; and
- MSIM Annex to EMEA Material Risk Taker ("MRT") cancellation and clawback policy.

The MSIM Board

The MSIM Board approves the MSIM Remuneration Policy, which forms an annex to the MSI Group Remuneration Policy and ensures compliance across the regulatory requirements applicable to MSIM. The MSIM Remuneration Policy Annex is applicable to all business lines as well as all employees seconded to MSIM from MSIM Morgan Stanley Employment Services UK Limited, and Morgan Stanley & Company International Plc - UK, MSIM Inc.

The MSIM Board and MSI RemCo reviews the applicable compensation policies at least annually, and also oversees compliance by MSIM with the IFPR compensation rules.

As at December 31, 2023, the MSIM Board was comprised of three NEDs: Terri Duhon (Chair), David Best, and Jane Pearce, who was appointed on 26 July 2023; plus four Executive Directors: Ruairi O’Healai, Zoe Parish, Richard Lockwood, and Fiona Kelly.

The CMDS Committee

As at December 31, 2023, the CMDS Committee was comprised of four directors, including the independent Lead Director of the Board, all of whom are independent under the New York Stock Exchange listing standards and the independence requirements of Morgan Stanley Group. The members were Dennis M. Nally (Chair), Thomas H. Glocer, Stephen J. Luczo, and Rayford Wilkins Jr.. In 2023, the CMDS Committee held nine meetings. The CMDS Committee operates under a written charter adopted by the Board, which is available on Morgan Stanley’s website at https://www.morganstanley.com/about-us-governance/comchart.

The CMDS Committee regularly reviews (i) Morgan Stanley Group’s performance with respect to execution of strategic objectives and evaluates executive performance in light of such performance; (ii) executive compensation strategy, including the competitive environment and the design and structure of Morgan Stanley Group’s compensation programs to ensure that they are consistent with and support Morgan Stanley Group’s compensation objectives; and (iii) market trends and legislative and regulatory developments affecting compensation in the U.S. and globally. In this respect, the Chair of the MSI RemCo meets with the CMDS Committee Chair at least annually to discuss local regulatory priorities and the global compensation processes.

Role of Relevant External Consultants and Other Stakeholders

The MSIM Board, the MSI RemCo and the CMDS Committee have the power to appoint independent remuneration consultants, legal counsel, financial or other advisors as they may deem necessary to assist them in the performance of their duties and responsibilities.

Together with the Morgan Stanley Group's Chief Risk Officer ("Global CRO"), the CMDS Committee oversees the Morgan Stanley Group's incentive compensation arrangements to help ensure that such arrangements do not encourage excessive risk-taking, and are consistent with applicable related regulatory rules and guidance. The Global CRO attends CMDS Committee meetings at least annually, and on an as needed basis, to discuss the risk attributes of Morgan Stanley Group's incentive compensation arrangements. The Global CRO reported to the CMDS Committee their conclusion that Morgan Stanley Group's current compensation programs for 2023 do not incentivise employees to take unnecessary or excessive risk and that such programs do not create risks that are reasonably likely to have a material adverse effect on Morgan Stanley Group.

The day-to-day compliance with MSIM's obligations under the IFPR Remuneration Rules is delegated to the EMEA Human Resources Department ("EMEA HR") and MSIM's control functions. EMEA HR regularly reviews MSIM's regulatory obligations with respect to compensation in each of the EMEA jurisdictions in which MSIM operates, or with branches, and ensures that appropriate variations in policy relating to compensation structures approved by the CMDS Committee are fully compliant with applicable local laws and regulations.

8.3. Identification of Material Risk Takers

MSIM has established a formal identification framework, in line with the IFPR Remuneration Rules, to identify employees whose professional activities have a material impact on the Group's risk profile. The MSIM MRT identification framework complies with the criteria set out in FCA SYSC 19G.5.3-5.5, and takes into consideration any additional internal criteria that may be required. The identification framework is reviewed on an annual basis in line with the IFPR Remuneration Rules and the outcome of the review is subject to the approval by the EROC (which includes the MSI Chief Risk Officer) and MSIM Board, which includes the MSIM CEO.

In accordance with Senior Management Arrangements, Systems and Controls 19G.6, MSIM is not subject to proportionality and as such MSIM MRTs are subject to the IFPR Remuneration Rules.

8.4. Link between Pay and Performance

In conjunction with the Global Incentive Compensation Discretion Policy and the MSI Group Remuneration Policy, the MSIM Remuneration Policy Annexes also set forth certain standards regarding the remuneration parameters applied within MSIM.

Incentivising the right behaviours

The following key features of the MSIM compensation arrangements ensure that excessive risk-taking is not promoted, whilst ensuring there is a link between an employee's compensation and the long-term interests of Morgan Stanley:

- a balance of fixed and variable compensation;
- a balance between short-term and long-term incentives;
- mandatory deferrals into equity-based and/or fund-based incentive programmes;
- risk-mitigating features of awards such as cancellation/malus and clawback provisions; and
- governance procedures followed in making compensation decisions.

Delivering all or a portion of deferred variable compensation in the form of equity or fund based instruments links variable compensation to Morgan Stanley or the individual fund performance. Risk outcomes that result in a negative impact to Morgan Stanley or the relevant funds reduce the value of the deferred award, and employees are subject to this decline in value through the deferral period.

Morgan Stanley Group constantly reviews its policies and practices, and is working towards further enhancing the linkage between positive risk behaviours and remuneration outcomes.

Determination of Bonus Pool

Morgan Stanley has a 'pay for performance' philosophy, which is reflected throughout the four key objectives of its compensation programs (see section 8.1) and applies across all lines of business.

The final year-end bonus pool determination is subject to a multi-dimensional process that considers Morgan Stanley Group, Investment Management Business segment, Relevant strategy and individual performance, taking into account financial as well as non-financial performance metrics. This process includes a review of the adherence to conduct and inclusion controls, market and competitive factors, regulatory outcomes, and business or location specific factors.

8.5. Individual Performance Measurement

All employees have an Employee Performance Dashboard, which is an aggregation of various performance inputs, including non-financial and conduct related information, as applicable, in three areas:

- Performance & Contributions – includes employee performance evaluation forms i.e., employee goals, feedback, self-evaluation
- Culture & Leadership – includes employee survey results (if applicable) and self-disclosed employee contributions to culture on the employee self-evaluation
- Compliance, Conduct and Risk Management – includes information resulting from disciplinary incidents and input from Control Functions.

Where appropriate, in addition to the full performance evaluation and 360 review process, performance evaluation managers are required to answer the following question regarding each employee as it relates to compliance, conduct and risk management: "Rate this employee's conduct and adherence to the letter and spirit of Morgan Stanley's compliance, risk management, controls and standards, and other policies including the Code of Conduct".

8.6. Individual Compensation Determination Process

Morgan Stanley Group has a Global Incentive Compensation Discretion Policy that lays out standards for managers on the use of discretion when making annual compensation decisions and considerations for assessing risk management and outcomes. The policy specifically provides that all managers must consider whether their team members managed risk appropriately, and effectively managed and supervised the risk control practices of the employees reporting into them during the performance year. Managers are trained on these requirements annually and are required to certify compliance with the applicable requirements.

In determining the amount of discretionary variable compensation to award an eligible employee, a compensation manager must consider only those factors that are legitimate, business-related and consistent with Morgan Stanley Group's legal and regulatory obligations and policies and practices. With this discretion comes the responsibility to make pay decisions consistent with Morgan Stanley Group's equal pay philosophy, which means that compensation managers are accountable for making deliberate, thoughtful, and defensible compensation decisions considering only legitimate, business-related factors. These factors include but are not limited to:

- The employee's absolute and relative performance in an individual and, if relevant, supervisory capacity;
- The employee's conduct and adherence to Morgan Stanley Group's core values, including "Commit to Diversity and Inclusion", ensuring a focus on diversity and inclusion when making compensation decisions;
- Performance feedback elicited through Morgan Stanley Group's performance evaluation processes, including information provided by control function personnel;
- Any disciplinary outcomes administered to the employee during the performance year;
- Any circumstances during the performance year that may result in the cancellation and/or clawback of the employee's previously awarded variable compensation; and
- Market and competitive conditions.

The allocation of variable compensation to employees of MSIM is a discretionary process informed by the performance evaluation process outlined above. Morgan Stanley Group's 'pay for performance' philosophy means that where a variable compensation award is not appropriate, none is paid; every year a portion of the eligible employee population receive no variable compensation. The governance around the performance evaluation and compensation decision-making process ensures decisions are a product of a number of inputs including performance, risk, and conduct.

Control Functions

In order to ensure the independence of control function employees, individual compensation decisions for employees working in those functions are determined by control function management and are not influenced by employees working in revenue-producing roles. In addition, benchmarking data is utilised to consider whether pay levels for key control function employees are commensurate with the market, and that MSIM can attract and retain experienced personnel.

Pay Equity

Morgan Stanley's compensation program, and its related policies and practices, reflect and promote the objective that employees, including women and ethnically diverse employees, are rewarded equitably. A system of checks and balances is in place within Morgan Stanley Group's processes that support fair and equitable pay. This includes an annual global pay equity review and an analysis of employee compensation in consultation with external experts.

8.7. Compensation Structure

Morgan Stanley Group's compensation philosophy is based on the concept of annualised total reward (or total compensation) and accordingly compensation for the majority of employees is comprised of two key elements:

- Fixed compensation consisting of base salary and, for certain employees, a Role Based Allowance ("RBA") which is determined based on individual roles and responsibilities and is paid monthly in cash via the payroll; and
- Variable compensation that is based on a number of factors, including but not limited to MSIM, business unit, and individual performance.

RBAs are considered to be fixed compensation because they meet the requirements of the relevant compensation rules, are paid monthly in cash via payroll and are based on an individual's role and responsibilities.

The structure of annual incentive compensation for MRTs complies with the IFPR Remuneration Rules and may be comprised of: upfront cash, stock bonus, and a mix of deferred equity and/or, fund-based instruments. The following structure applies to relevant MRTs:

- A minimum of 40% of variable compensation is deferred, increasing to 60% where variable remuneration is determined to be significant, as follows:
    - Executive members of the MSIM Board have a four-year deferral vesting on a pro-rata basis
    - All other MRT employees have a minimum of a three-year deferral vesting on a pro-rata basis
- Deferred variable compensation is generally awarded in equity or fund-based instruments.

Table 5: Compensation Structure

Remuneration	Component breakdown	% of variable remuneration (40% deferral)	% of variable remuneration (60% deferral)
Fixed remuneration	Base Salary	N/A	N/A
	Role base allowance	N/A	N/A
Variable remuneration – non-deferred	Upfront cash	50%	40%
	Upfront equity [1]	10%	n/a
Variable remuneration – deferred	Equity or Fund-based Instruments [2]	40%	60%

1 Upfront equity vest after 6-months and are available to sell 6-months after grant
2 Deferred equity and Fund-based instruments are generally subject to a 6-month post-vest sales restriction

- Subject to local law, variable compensation is subject to cancellation and clawback

MSIM expects deferred incentive awards to constitute a significant component of MRT's variable compensation and to be designed to protect Morgan Stanley Group's long-term interests and align with shareholders' interests. Some employees, including executive members of the MSIM Board, receive a greater portion of their compensation in equity or fund-based instruments.

Guaranteed variable compensation is only paid in exceptional circumstances in the context of hiring new staff and is limited to the first year of service. Such awards would only be made if the relevant legal entity has a sound and strong capital base. Awards of guaranteed variable compensation are subject to an approval process, which includes receiving approval from the appropriate senior manager, the EMEA Head of Compensation, the EMEA Head of HR, and in certain circumstances the Morgan Stanley Group's Chief Human Resources Officer ("Global CHRO").

Termination payments made to employees upon leaving MSIM are considered in accordance with the applicable severance framework, and are intended to avoid rewarding negative performance contributions or misconduct, in line with the requirements of the IFPR Remuneration Rules.

Ratios between Fixed and Variable Compensation

MSIM's policy on the ratio between fixed and variable compensation is to allow for flexibility, whilst recognising the need to ensure that compensation is appropriately balanced between the fixed and variable compensation elements. An appropriate ratio of fixed compensation to variable compensation was determined and approved by MSIM Board and applied to all MRT employees according to the FCA's MIFIDPRU Remuneration Code 19A.3.44A.

Deferred Compensation

Employees who reach a certain compensation eligibility threshold receive a portion of their variable compensation in the form of deferred incentive compensation awards.

Each year, the CMDS Committee reviews the variable compensation pool as well as the design and structure of the annual compensation program, including eligibility, the form of deferred variable compensation awards, deferral formulae, vesting and timing of payments, as well as cancellation and clawback provisions.

The form of deferred variable compensation awards (i.e., equity, fund-based instruments, or a combination thereof) is determined based on a variety of factors, including the number of shares available for grant under Morgan Stanley Group's equity plans and for MRTs, ensuring compliance with applicable Remuneration Rules including the IFPR Remuneration Rules.

Delivering all or a portion of deferred variable compensation in the form of fund-based instruments or equity links variable compensation to Morgan Stanley Group's or fund performance through Morgan Stanley Group's stock price or fund performance. Risk outcomes that result in a negative impact to the fund or Morgan Stanley Group's stock price reduce the value of the deferred award, and the employee is subject to this decline in value through the deferral period. In addition, there is a formal governance process to consider and determine ex-ante and ex-post adjustments to variable compensation. Morgan Stanley Group believes that its compensation decisions for 2023 demonstrate its focus on long-term profitability and commitment to sustainable shareholder value with appropriate rewards to retain and motivate top talent throughout economic cycles.

8.8. Risk Adjustment

MSIM continually monitors the effectiveness of its compensation structure and utilises a thorough process of considering risk-adjusted performance, compliance with risk limits and the market and competitive environment when sizing and allocating annual variable compensation pools.

Throughout the year, employee conduct matters that are escalated through Morgan Stanley Group's Global Conduct Risk Program are reviewed to determine whether they present situations that could require clawback or cancellation of previously awarded compensation, as well as downward adjustments to current year compensation. All variable compensation for MRTs has provisions that allow for clawback of any awards or compensation paid or delivered. Cancellations and clawbacks of previously awarded compensation are reviewed with the Employee Discipline Oversight Committee (a committee of senior management currently composed of Morgan Stanley Group's Chief Financial Officer, Chief Legal Officer, Chief Risk Officer, Global CHRO, Chief Audit Officer, and the Head of Non-Financial Risk) and reported to the CMDS Committee quarterly. This process is enhanced by a formalised EMEA malus review and compensation adjustment process overseen by the EROC. This process involves EROC assessing situations which may warrant adjustment to current year variable compensation and/or to apply cancellation and/or clawback to previously awarded compensation, with reference to specific criteria that are contained in governing variable compensation award documents and applicable policies. The MSI RemCo receives regular updates on the EMEA malus review process.

The EROC's responsibilities include oversight of the conduct driven adjustments to current year variable compensation proposed by managers as part of the compensation decision-making process. This facilitates the inclusion of the business and the relevant independent functions in the review, and supports the consistent application of compensation adjustments across the MSI Group, including MSIM; compensation adjustments are also monitored globally for consistency.

Furthermore, the MSI Group maintains an EMEA-wide Cancellation and Clawback policy which is applicable to all MRTs within the EMEA region, and includes an MSIM specific annex applicable to MSIM MRTs. Circumstances which trigger the application of this policy for MSIM include but are not limited to where:

- There is reasonable evidence of serious misconduct. Serious misconduct means a situation in which Morgan Stanley Group and/or the relevant regulated entity and/or business unit have sufficient consideration to justify summary termination of employment;
- Morgan Stanley Group and/or the relevant regulated entity and/or relevant business unit in which an MRT is employed (or in relation to which they carry out some or all of their duties) suffers a material failure of risk management;
- Morgan Stanley Group and/or the relevant regulated entity and/or relevant business unit suffers a material downturn in its financial performance (subject to cancellation only);
- The MRT directly and/or materially, through their conduct, contributed to a regulatory sanction (or sanctions) being imposed; or
- The MRT failed to meet appropriate standards of fitness and propriety.

MSI Group will also take into consideration an MRT’s proximity to the failure of risk management in question and that individual MRT’s level of responsibility. Any cash bonus is subject to repayment, recovery and recapture pursuant to the MSI Group’s EMEA MRT Cancellation and Clawback Policy, as amended from time to time, and any applicable clawback, repayment, recapture or recovery requirements imposed under applicable laws, rules and regulations.

8.9. Prohibition of personal hedging strategies

Personal hedging and pledging strategies which may undermine the risk alignment effects of variable remuneration are not permissible.

Staff members receive training and make an annual attestation to desist from such activities. MSI Group monitors compliance by requiring employees to report their private custodial accounts, and additionally applies trading restrictions and approval processes to any transactions involving Morgan Stanley stock.

8.10. Aggregate quantitative information on remuneration

The following tables sets out aggregate quantitative information on compensation of individuals, who were employed or seconded into MSIM, of which 34 were MRTs:

Table 6: Remuneration awarded for the financial year

			a	b	c
			Senior Management	Other Material Risk Takers	Other Staff
£000's	**Number of identified staff**	3	16	23	324
Fixed remuneration	Total fixed remuneration	4b	7,571	34,143	39,624
Variable remuneration	Total variable remuneration	4c	7,871	48,566	38,903
	Of which: Cash-based	6a	2,242	20,292	29,866
	Of which: non-deferred	6a	2,242	20,292	29,866
	Of which: deferred	6a	-	-	-
	Of which: Shares or equivalent ownership interests	6a	5,628	4,637	2,282
	Of which: non-deferred	6a	1,417	267	0
	Of which: deferred	6a	4,211	4,370	2,282
	Of which: other instruments	6a	-	23,636	6,755
	Of which: non-deferred	6a	-	3,844	-
	Of which: deferred	6a	-	19,792	6,755
Total remuneration		**4a**	**15,442**	**82,709**	**78,528**

Table 7: Deferred remuneration (material risk takers)

		a	b
£000's		Senior Management	Other Material Risk Takers
Total amount of deferred remuneration awarded for previous performance periods:	6b	18,924	104,310
Of which: due to vest in the financial year in which disclosure is made	6b	4,092	23,286
Of which: will vest in subsequent financial years	6b	14,832	81,024
Amount of deferred remuneration due to vest in the financial year which is or will be paid out but have been withheld as a result of performance adjustment;	6c	-	410
Amount of deferred remuneration due to vest in the financial year which were due to vest but have been withheld as a result of performance adjustment;	6c	-	-

Table 8: Exemption provision to material risk takers

		a
£000's		Material Risk Takers [2]
Total number of material risk takers who benefit from an exemption [1]	6dii	2
Total remuneration of those material risk takers who benefit from an exemption	6diii	653
Of which: fixed remuneration	6diii	468
Of which: variable remuneration	6diii	185

1 The firm uses the exemption in SYSC 19G.5.9R(2) with the below provisions not applying in relation to a material risk taker where the individual's annual variable remuneration (i) does not exceed £167,000; and (ii) does not represent more than one-third of the individual's total annual remuneration:
(a) SYSC 19G.6.19R to SYSC 19G.6.21G (Shares, instruments and alternative arrangements);
(b) SYSC 19G.6.22R and SYSC 19G.6.23G (Retention policy); and
(c) SYSC 19G.6.24R to SYSC 19G.6.29R (Deferral).
2 There was only one Senior Management MRT who benefited from the exemption provisions in 2022 and according to MIFIDPRU 8.6.8 (7), information for senior management and other MRTs are aggregated for the disclosure on 6d(ii-iii).

Table 9: Severance payments awards during the financial year			
		a	b
£000's		Senior Management	Other Material Risk Takers
Severance payments awarded during the financial year - Number of identified staff	5b	-	2
Severance payments awarded during the financial year - Total amount	5b	-	212
Of which: highest payment that has been awarded to a single person	5c	-	200

MSIM did not make any guaranteed variable remuneration awards to MRT employees in 2023.

9. Appendix I: IFPR Article Reference Mapping

Articles	Summary of Requirements	Compliance Reference MSIM
8.1 Disclosure		
8.1.1 **8.1.2**	All disclosure requirements apply to a Non-SNI firm, with the exception of: (4) Investment policy only applies if the firm does not fall within MIFIDPRU 7.1.4R(1).	MSIM is a Non-SNI firm.
8.1.3 **8.1.4** **8.1.5** **8.1.6**	SNI MIFIDPRU Investment Firms: 1. A Non-SNI investment firm may be reclassified as an SNI MIFIDPRU Investment firm in certain circumstances and be subject to reduced disclosure requirements. When reclassified to a SNI investment firm, full disclosure requirements apply the year of reclassification. 2. When an SNI investment firm is reclassified as a non-SNI investment firm, reduced disclosure requirements apply the year of reclassification, but it can choose to fully disclose in line with Non-SNI investment firms requirements.	Not applicable
8.1.7	Disclosure required on an individual basis, unless exempt.	Disclosure prepared for MSIM on an individual basis.
8.1.8 **8.1.9**	Qualitative disclosure detail must be appropriate to the size and complexity of the investment firm. E.g., non-SNI investment firms should disclose more detailed remuneration information than an SNI investment firm.	Meets requirement.
8.1.10 **8.1.11**	Disclosure is required annually on the date the investment firm publishes its annual financial statements. More frequent disclosure should be considered in particular circumstances, such as a major change in business model or merger.	
8.1.12	MIFIDPRU TP12 details transitional provisions for disclosure requirements.	Not applicable
8.1.13 **8.1.14** **8.1.15** **8.1.16** **8.1.17**	Disclosure must be easily accessible, free to obtain, clearly presented and easy to understand. For future disclosures, the format should be consistent with previous disclosure periods, and any significant changes should be highlighted. A firm is not required to disclose items which in doing so would breach the law of another jurisdiction. Disclosures should be published on a website.	Meets requirement.
8.2 Risk management objectives and policies		
8.2.1 **8.2.2** **8.2.3**	An investment firm must disclose its risk management objectives and policies relating to Own funds requirements, concentration risk and liquidity. This must include a concise statement approved by the investment firm's governing body describing the potential for harm associated with the business strategy and a summary of the strategies and processes used to manage each risk category, highlighting how this helps reduce the potential for harm. An investment firm may draw information from the ICARA process to comply with disclosing its approach to risk management referencing its risk management policies, details of risk management structure and operations, how risk appetite is set and summary of how it assesses the effectiveness of its risk management processes.	Section 4: Risk Management.
8.3 Governance arrangements		
8.3.1	Information relating to internal governance arrangements: 1. an overview of how it complies with governance arrangements; 2. number of directorships (executive and non-executive) held by each board member; 3. a summary of the policy promoting diversity in the board; 4. if the firm has a risk committee and whether the firm is required to establish a risk committee.	Section 5: Governance and Board of Directors.
8.4 Own Funds		
8.4.1	Information on own funds: 1. a reconciliation of CET1, AT1 and T2 to calculate own funds; 2. a reconciliation of own funds to its audited financial statements; and 3. a description of the main features of CET1, AT1 and T2 instruments issued by the firm. A firm that is not required to publish annual financial statements is not required to disclose (2)	Section 6. Capital Resources Table 2: Composition of regulatory own funds. Table 3: Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements. Section 7: Capital Instruments Template Table 4: Own funds: main features of own instruments issued by the firm.
8.4.2	A firm must use the template available at MIFIDPRU 8 Annex 1R in order to disclose the information requested at MIFIDPRU 8.4.1R.	
8.5 Own Funds Requirements		
8.5.1	An investment firm must disclose: 1. The KFR broken down into a. Sum of K-AUM, K-CMH and K-ASA; b. Sum of K-COH and K-DTF; c. Sum of K-NPR, K-CMG, K-TCD and K-CON. 2. FOR.	Section 1. Overview and Key Metrics. Table 1: Key Metrics.
8.5.2	An investment first must disclose its approach to assessing the adequacy of its own funds in accordance with the overall financial adequacy rule.	Section 3. Capital Management.
8.6 Remuneration policy and practices		Section 8. Remuneration
8.7 Investment policy		Not applicable

10. Appendix II: Abbreviations

Term	Definitions
AT1	Additional Tier 1 Capital
AuditCo	MSI Audit Committee
AUM	Assets Under Management
BoE	The Bank of England
CEO	Chief Executive Officer
CET1	Common Equity Tier 1 Capital
CMDS Committee	Compensation, Management Development and Succession Committee
COO	Chief Operating Officer
EMEA	Europe, Middle East, and Africa
EMEA CFO	EMEA Chief Finance Officer
EMEA CRO	EMEA Chief Risk Officer
EMEA GC	EMEA General Counsel
EMEA HR	EMEA Human Resources Department
EROC	EMEA Remuneration Oversight Committee
ESG	Environmental, Social and Governance
EU	European Union
FCA	Financial Conduct Authority
FOR	Fixed Overheads Requirement
FX	Foreign Exchange
GBP	British Pound Sterling
Global CHRO	Morgan Stanley Group's Chief Human Resources Officer
Global CRO	Morgan Stanley Group's Chief Risk Officer
IAD	Internal Audit Department
ICAAP	Internal Capital Adequacy Assessment Process
ICARA	Internal Capital Adequacy and Risk Assessment
IFPR	Investment Firms Prudential Regime
IM	Investment Management
K-ASA	Assets Safeguarded and Administered K-Factor Requirement
K-AUM	Assets Under Management K-Factor Requirement
K-CMG	Clearing Margin Given K-Factor Requirement
K-CMH	Client Money Held K-Factor Requirement
K-COH	Client Orders Handled K-Factor Requirement
K-CON	Concentration Risk K-Factor Requirement
K-DTF	Daily Trading Flow K-Factor Requirement
KFR	K-Factor Requirement
K-NPR	Net Position Risk K-Factor Requirement
K-TCD	Trading Counterparty Default K-Factor Requirement
MiFID	Markets in Financial Instruments Directive
MIFIDPRU	Prudential Sourcebook for MiFID Investment Firms
Morgan Stanley Group	Morgan Stanley, its subsidiaries and affiliates
MRM	Model Risk Management
MRT	Material Risk Taker
MSI	Morgan Stanley International Limited
MSI Group	Morgan Stanley International Limited (and its subsidiaries)
MSI RemCo	MSI Group Remuneration Committee
MSIM	Morgan Stanley Investment Management Limited
NEDs	Non-Executive Directors
NomCo	MSI Nomination & Governance Committee
Non-SNI	Non small and non-interconnected
NPA	New Product Approval
PMC	Permanent Minimum Capital Requirement
PRA	Prudential Regulation Authority
RAS	Risk Appetite Statement

Term	Definitions
RBA	Role Based Allowance
RemCo	MSI Remuneration Committee
RiskCo	MSI Risk Committee
RLF	Required Liquidity Framework
SFDR	Sustainable Finance Disclosure Regulation
SNI	Small and non-interconnected
T2	Tier 2 Capital
UK	United Kingdom
US	United States
USD	United States Dollar