Second-Party Opinion

Morgan Stanley Sustainable Issuance Framework

Evaluation Summary

Sustainalytics is of the opinion that the Morgan Stanley Sustainable Issuance Framework is credible, impactful and aligned with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021 and Social Bond Principles 2023. This assessment is based on the following:

USE OF PROCEEDS The eligible categories for the use of proceeds – Renewable Energy, Energy Storage, Green Buildings, Clean Transportation, Sustainable Water and Wastewater Management, Affordable Housing, and Access to Education – are aligned with those recognized by the Green Bond Principles and Social Bond Principles. Sustainalytics considers that investments[1] in the eligible categories are expected to lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDGs 4, 6, 7, 9, 10 and 11.

PROJECT EVALUATION AND SELECTION Morgan Stanley's business units will be responsible for identifying and proposing eligible projects. Morgan Stanley's Sustainable Issuance Working Group will be responsible for reviewing the eligible projects, in consultation with its business units. Morgan Stanley's ESG Committee will be responsible for the overall supervision of the project evaluation and selection process. The ESG Committee includes representatives from various functions such as the Global Sustainability Office and Finance and Risk Management divisions. Morgan Stanley has a process in place to address environmental and social risks associated with the projects financed. Sustainalytics considers the project selection process to be in line with market practice.

MANAGEMENT OF PROCEEDS Morgan Stanley will manage the proceeds on a portfolio basis. On an ongoing basis, Morgan Stanley's Treasury department will monitor the eligible portfolio against the gross proceeds from the outstanding sustainable instruments, as per the Framework. The eligible portfolio will be determined in accordance with U.S. GAAP. In the case of insufficient eligible projects, Morgan Stanley will temporarily hold the balance of the unallocated amount in cash, cash equivalents, and other high quality liquid assets in a segregated account established for tracking purposes until the unallocated amount can be allocated to the eligible portfolio. This is in line with market practice.

REPORTING Morgan Stanley intends to report on the allocation of proceeds, on its website or in its ESG Report on an annual basis until maturity. Allocation reporting will include the total amount of sustainable instruments outstanding, reported amounts of the assets in the eligible portfolio determined in accordance with U.S. GAAP, the amount of unallocated proceeds, if any, and the breakdown of the eligible portfolio by eligible category. In addition, where feasible, Morgan Stanley will report on the anticipated or estimated environmental and social impact of the eligible portfolio. Sustainalytics views this approach to be aligned with market practice.

Second-Party Opinion

Reviewed by: MORNINGSTAR | SUSTAINALYTICS

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Report Sections

For inquiries, contact the Sustainable Corporate Solutions project team:

Manali Vaidya (Toronto)
Project Manager
manali.vaidya@morningstar.com
(+1) 416 861 0403

Aishwarya Ramchandran (Toronto)
Project Support

Katherine Jacome (Toronto)
Project Support

Kibii Sisulu (London)
Client Relations
susfinance.emea@sustainalytics.com
(+44) 20 3880 0193

[1] The term "investments" refers collectively to investments, loans, and expenditures.

Introduction

Morgan Stanley (the "Company") is a global financial services company providing a wide range of investment banking, securities, wealth management and investment management services. With offices in 42 countries, the Company serves individuals, institutions and governments.[2] Founded in 1935, the Company is headquartered in New York, US, and as of December 31, 2023, the Company had more than 80,000 employees.[3]

Morgan Stanley has developed the Morgan Stanley Sustainable Issuance Framework dated January 2025 (the "Framework") under which the Company and its subsidiaries[4] intend to issue sustainability bonds, notes, certificates, time deposits and other financial instruments,[5] and will allocate the proceeds to finance or refinance, in whole or in part, existing or future projects that are expected to create positive environmental and social impact.

The Framework defines eligibility criteria under the following environmental categories:

1. Renewable Energy
2. Energy Storage
3. Green Buildings
4. Clean Transportation
5. Sustainable Water and Wastewater Management

The Framework defines eligibility criteria under the following social categories:

6. Affordable Housing
7. Access to Education

Morgan Stanley engaged Sustainalytics to review the Framework and provide a Second-Party Opinion on the Framework's environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP) and Social Bond Principles 2023 (SBP)[6]. The Framework will be published in a separate document.[7]

Scope of work and limitations of Sustainalytics' Second-Party Opinion

Sustainalytics' Second-Party Opinion reflects Sustainalytics' independent[8] opinion on the alignment of the reviewed Framework with current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework's alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2023, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer's sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

[2] Morgan Stanley, "2023 ESG Report", at: https://www.morganstanley.com/content/dam/msdotcom/en/assets/pdfs/Morgan_Stanley_2023_ESG_Report.pdf
[3] Morgan Stanley, "United States Securities and Exchange Commission Form 10k", (2023) at: https://www.morganstanley.com/content/dam/msdotcom/en/about-us-ir/shareholder/10k2023/10k1223.pdf
[4] The business and affairs of Morgan Stanley's wholly owned subsidiaries are under the direction, and subject to the oversight, of the Morgan Stanley Parent Board. The daily operation of the Company is delegated to officers of Morgan Stanley Parent and other agents. Morgan Stanley Parent Board has appointed the Firm Risk Committee ("FRC") to assist the Morgan Stanley Parent Board in oversight of the Company's risk management structure. The FRC, in turn, has assigned oversight of the Company's funding requirements to Firm Asset Liability Committee (ALCO) and directed Firm ALCO to report to the FRC, as necessary. The Company maintains policies and procedures which restrict the issuance of unsecured funding to certain entities approved by Firm ALCO ("Permitted Entities"), and define applicable funding usage, permitted form of issuance requirements and other requirements which each Permitted Entity must comply with, including the Framework.
[5] This Second-Party Opinion is valid only for the instruments expressly listed in the Framework.
[6] The Sustainability Bond Guidelines, Green Bond Principles and Social Bond Principles are administered by the International Capital Market Association and are available at https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/
[7] The Morgan Stanley Sustainable Issuance Framework will be available on Morgan Stanley's website at: https://www.morganstanley.com/about-us/sustainability-reports-research
[8] When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics' hallmarks is integrity, another is transparency.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.17, which is informed by market practice and Sustainalytics' expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various representatives of Morgan Stanley to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Morgan Stanley representatives have confirmed (1) they understand it is the sole responsibility of Morgan Stanley to ensure that the information provided is complete, accurate and up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed to Sustainalytics in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework. Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Morgan Stanley.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond, note, certificate and time deposit proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond, note, certificate and time deposit proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Morgan Stanley has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Morgan Stanley Sustainable Issuance Framework

Sustainalytics considers the Morgan Stanley Sustainable Issuance Framework to be credible, impactful and aligned with the four core components of the GBP and SBP. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
  - The eligible categories – Renewable Energy, Energy Storage, Green Buildings, Clean Transportation, Sustainable Water and Wastewater Management, Affordable Housing, and Access to Education – are aligned with those recognized by the GBP and SBP.
  - Under the Renewable Energy category, Morgan Stanley may finance or refinance renewable and low-carbon energy, including the development, storage, transmission, construction, installation, operation, acquisition, maintenance, upgrades and associated costs of the following renewable energy projects:
    - Solar photovoltaic projects.
    - Onshore and offshore wind projects.
    - Hydropower projects: i) run-of-river projects without an artificial reservoir; ii) projects with power density above 5 W/m^2 for projects built before 2020 and 10 W/m^2 for projects built in or after 2020; or iii) projects with life cycle GHG emissions intensity from the electricity generation lower than 100 gCO_2e/kWh for projects built before 2020 and 50 gCO_2e/kWh for projects built in or after 2020. Sustainalytics notes that hydropower projects will be subject to heightened environmental and social due diligence, as per Morgan Stanley Environmental and Social Policy Statement ("ESPS" or the "Policy") and will exclude projects with significant environmental and social risks and associated controversies. Morgan Stanley

may reference the International Hydropower Association Sustainability Assessment Protocol as guidance in the due diligence process.[9]
- Geothermal projects with life cycle GHG emissions intensity lower than 100 gCO_2e/kWh.
- Hydrogen projects for hydrogen produced using renewable energy.
- Sustainalytics views investments under this category to be environmentally impactful and aligned with market practice.

– Under the Energy Storage category, Morgan Stanley intends to finance or refinance the development, transmission, construction, installation, operation, acquisition, maintenance, upgrades and associated costs of battery storage facilities. Sustainalytics recognizes the critical need to expand utility-scale storage systems in order to enable the expansion of renewable energy, while also noting that the environmental benefit of storage systems depends on the carbon intensity of the grid to which they are connected, and that deploying such assets to carbon-intensive grids or associated systems may result in increased emissions. Sustainalytics encourages Morgan Stanley to prioritize the installation of storage systems on grids that follow a credible decarbonization pathway[10] and to report on the positive impact of such installation, where feasible.

– Under the Green Buildings category, Morgan Stanley may finance or refinance the development, construction, installation, operation, acquisition, maintenance, upgrades and associated costs relating to green buildings.[11] Sustainalytics considers the eligibility criteria as aligned with market practice and notes the following:
  - Eligible green buildings will have achieved one of the following green building certification levels: i) LEED Gold or above; ii) BREEAM Very Good or above; iii) DGNB Gold or Platinum; iv) Energy Performance Certificate (EPC) A; v) Energy Star 85 or above; vi) NABERS 4.5 Stars or above; and vii) Green Star 5 or 6. Sustainalytics considers BREEAM Excellent to be aligned with market practice and encourages the Company to select BREEAM-certified buildings that score high enough in the Energy category (which Sustainalytics views as the most important category) to meet the requirements of BREEAM Excellent in that category.
  - Buildings working towards one of the above certifications will either: i) have a signed construction contract in place stating that the building will be developed, expanded, constructed or renovated to meet one of the above certifications; or ii) have received interim certifications or confirmations indicating that the construction-in-process is being performed in accordance with accredited certification milestones, as verified by an accredited certification administrator or another similar qualified third party. If the buildings working towards certification do not meet the certification criteria once completed, they will be excluded from the eligible project portfolio.
  - Energy-efficient data centers designed for annualized power usage effectiveness (PUE) up to 1.5.

– Under the Clean Transportation category, Morgan Stanley may finance or refinance the construction, development, acquisition, maintenance and operation of the following:
  - Zero direct emissions vehicles, including cars, buses and trucks.
  - Charging stations as well as charging infrastructure and equipment dedicated to electrified passenger transport, including battery technology and excluding standalone parking facilities.
  - Mass transit, rolling stock and infrastructure projects to support mass transit limited to fully electric urban and sub-urban passenger rail, metro and non-motorized, multi-modal transportation. Infrastructure to support mass transit may include investments such as depot and maintenance facilities, signalling equipment, platform gates and utilities for metro, tram and passenger rails. Sustainalytics notes that investments related to freight rail are excluded under the Framework.
  - Sustainalytics views investments under this category to be in line with market practice.

[9] Morgan Stanley, "Environmental and Social Policy", (2024), at: https://www.morganstanley.com/content/dam/msdotcom/en/about-us-governance/pdf/Environmental_and_Social_Policy_Statement.pdf
[10] Sustainalytics considers a transmission and distribution grid to be aligned with a credible decarbonization pathway if it meets either of the following criteria: i) more than 67% of newly enabled generation installed capacity in the system is below the emissions threshold of 100 gCO_2e/kWh, measured on a life-cycle basis in accordance with electricity generation criteria, over a rolling five-year period or; ii) the average system grid emissions factor is below the threshold of 100 gCO_2e/kWh, over a rolling five-year period.
[11] Sustainalytics notes that financing under the Framework excludes industrial, manufacturing and storage facilities.

- Under the Sustainable Water and Wastewater Management category, Morgan Stanley may finance or refinance the construction, development, acquisition, maintenance and operation of infrastructure for: i) drinking water treatment facilities; ii) wastewater treatment; iii) urban drainage systems and iv) river training and flooding mitigation. Sustainalytics notes the following:
    - The eligible wastewater projects may be limited to municipal wastewater treatment projects and facilities.
    - Flood mitigation projects financed under the Framework may be limited to urban flood mitigation projects initiated by municipalities and may include projects such as the development of perimeter storm barriers, flood protection systems and waterproofing. The eligible projects will require vulnerability assessments, including an assessment of climate risks and an adaptation plan.
    - Sustainalytics considers investments under this category to be in line with market practice.
- Under the Affordable Housing category, Morgan Stanley may finance or refinance projects that aim to provide housing to low- or moderate-income (LMI) individuals and families. Low-income individuals and families are defined as those that earn up to 50% of the area median income (AMI), while moderate-income individuals and families are those that earn 50-80% of the AMI as defined by the US Department of Housing and Urban Development (HUD).[12] Investments under this category will be either of the following:
    - Investments that meet the criteria of the Community Reinvestment Act (CRA):[13]
        - These investments will include private equity investments in pure play funds that invest solely in affordable housing projects that align with the definition of public welfare investments, as defined in Title 12 of the US Code of Federal Regulations (Chapter I – Part 24.3).[14]
        - Morgan Stanley will finance two types of affordable housing projects as defined under CRA: i) rental housing in conjunction with a government affordable housing plan, program, initiative, tax credit, or subsidy; and ii) multifamily rental housing with affordable rents, where for the majority of units, the monthly rent should not exceed 30% of 80% of the area median income (AMI).[15]
        - Sustainalytics notes that Morgan Stanley intends to invest in private equity funds to finance the construction and development expenses of rental housing projects where the majority of the dwelling units are affordable. In Sustainalytics' opinion, it is best practice for at least 90% of the units financed to meet the affordability criteria. Nonetheless, financing buildings where the majority of the units meet the affordability criteria will have some positive social impact.[16]
    - Projects that have received a low-income housing tax credit (LIHTC).[17] Sustainalytics notes that projects ensure affordability to the target population through maximum allowable rents, where the rents do not exceed 30% of the specified low- and moderate-income levels and shall be at or below the maximum allowable rent as determined by HUD for such households.[18] Sustainalytics recognizes that investments in multi-family housing projects that qualify under the LIHTC programme create social impact by increasing access to

[12] US Department of Housing and Urban Development, "Income Limits", (2024), at: https://www.huduser.gov/portal/datasets/il.html
[13] The Community Reinvestment Act aims to encourage financial institutions to help meet the credit needs of the communities in which they do business, including low- and moderate-income communities.
US Federal Reserve, "Community Reinvestment Act (CRA)", at: https://www.federalreserve.gov/consumerscommunities/cra_about.htm
[14] Public welfare investments are defined as "investments, directly or indirectly, made by a national bank or national bank subsidiary, that primarily benefits low- and moderate-income individuals, areas or other areas targeted by a government entity with the aim of redevelopment, or would receive consideration for a 'qualified investment' under 25.23 of 12 CFR part 25". Legal Information Institute – Cornell Law School, "§ 24.3 Public welfare investments", at:
https://www.law.cornell.edu/cfr/text/12/24.3#:~:text=A%20national%20bank%20or%20national,or%20the%20investment%20would%20receive
US Code of Federal Regulations, "12 CFR Part 24 - Community and economic development entities, community development projects, and other public welfare investments", at: https://www.ecfr.gov/current/title-12/chapter-I/part-24
[15] Code of Federal Regulations, "Part 25 – Community Reinvestment Act and Interstate Deposit Production Regulations", at: https://www.ecfr.gov/current/title-12/chapter-I/part-25#p-25.13(b)
[16] This is not intended to imply that it is preferable that affordable units be concentrated at high percentages in certain buildings. Indeed, there are benefits associated with buildings that have a mix of affordable units and units that do not meet affordability criteria. Sustainalytics' stance merely reflects the view that allocation only to affordable units creates a stronger link between bond proceeds and positive impact.
[17] The LIHTC programme is an affordable housing programme in the US that gives state and local LIHTC-allocating agencies the authority to issue tax credits for the acquisition, rehabilitation or new construction of rental housing targeted to lower-income households.
US Department of Housing and Urban Development, "Low-Income Housing Tax Credit (LIHTC)", at: https://www.huduser.gov/portal/datasets/lihtc.html
[18] US Department of Housing and Urban Development, "Multifamily Tax subsidy income limits", at: https://www.huduser.gov/portal/datasets/mtsp.html

affordable housing for the target population and, hence, views this investment to be socially impactful.

- Under the Access to Education category, Morgan Stanley may finance or refinance projects that aim to expand access to education, teachers and teacher training materials.
  - Pre-primary, primary and secondary education programs at school districts, charter schools or special art districts that are receiving Title I funding under the Elementary and Secondary Education Act (ESEA).[19] Sustainalytics notes that ESEA provides financial assistance to local education agencies and schools that consist mostly of children from low-income households.[20] The local education agencies allocate funds based on census poverty estimates and the cost of education in each state. Moreover, local education agencies target funding to schools with the highest percentages of children from low-income families. This translates into essentially two basic funding programmes: i) targeted assistance programmes that fund services to help children failing or at risk of failing academic standards; and ii) school-wide programmes for schools in which children from low-income families make up at least 40% of enrolment but serving all children in the school. Sustainalytics notes that the Title 1 funding programme ensures affordability of educational services provided to all students in target public schools as well as low-income students in private schools, residing in areas served by Title I schools. Given the above, Sustainalytics considers that this investment will help improve access to education in the US and support students from low-income households to meet academic standards.

- Project Evaluation and Selection:
  - Morgan Stanley's business units will be responsible for identifying and proposing eligible projects. The Company's Sustainable Issuance Working Group[21] will be responsible for reviewing the eligible projects in consultation with its business units. Morgan Stanley's ESG Committee will be responsible for the overall supervision of the project evaluation and selection process. The ESG Committee consists of representatives from the Global Sustainability Office, Finance, Risk Management, Legal and Compliance functions, in addition to members from the Institutional Securities, Investment Management and Wealth Management business segments.
  - The Company has a process in place to address environmental and social risks associated with the projects financed. Specifically, Sustainalytics notes that eligible projects must adhere to Morgan Stanley's risk management policies and ESPS, which outlines the Company's approach to identifying and assessing environmental and social risks and includes information on the Company's due diligence processes. For additional details, refer to Section 2. Sustainalytics considers these environmental and social risk management systems to be adequate and aligned with the requirements of GBP and SBP.
  - Based on the established process for project evaluation and selection, and the presence of a risk management system, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
  - Morgan Stanley will manage proceeds of the debt instruments issued under the Framework on a portfolio basis. On an ongoing basis, Morgan Stanley's Treasury department will monitor the eligible portfolio against the gross proceeds from the outstanding sustainable instruments, as per the Framework criteria. Eligible projects may be added on an ongoing basis to the eligible portfolio and proceeds will be redeemed over the life of any sustainable instrument. Proceeds will be tracked using Morgan Stanley's internal systems.
  - In the case of insufficient eligible projects, Morgan Stanley will temporarily hold the balance of the unallocated amount in cash, cash equivalents and other high-quality liquid assets in a segregated account established for tracking purposes until the unallocated amount can be allocated to the eligible portfolio.
  - Based on the presence of an internal tracking system and the disclosure of the temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.

[19] US Department of Education, "Improving Basic Programs Operated by Local Educational Agencies (ESEA Title I, Part A)", at: https://oese.ed.gov/offices/office-of-formula-grants/school-support-and-accountability/title-i-part-a-program/
[20] Federal aid under the ESEA mostly benefits public schools, but it also targets eligible students who live in areas served by Title-I public schools and attend private schools. In these cases, the funds remain under the control of public-school authorities.
[21] Morgan Stanley's Sustainable Issuance Working Group will include members from the Global Sustainability Office, Treasury, Environmental and Social Risk Management, among other functions.

- Reporting:
  - Morgan Stanley will report on the allocation of proceeds on its website or in its ESG Report, on an annual basis until maturity. The Company will appoint an independent accountant within one year of issuance and on an annual basis until maturity to attest Morgan Stanley's allocation reporting.
  - Allocation reporting will include the total amount of sustainable instruments outstanding pursuant to the Framework, reported amounts of assets in the eligible portfolio determined in accordance with U.S. GAAP, amount of unallocated proceeds, if any, and breakdown of the eligible portfolio by eligible category.
  - Where feasible, Morgan Stanley will report on the anticipated or estimated environmental and social impact of the eligible portfolio. Such impact reporting may include, among other metrics, reporting related to: i) annual GHG emissions reduced or avoided (in tonnes CO_2e); ii) total energy produced (in MW per year); and iii) number of assets funded. Morgan Stanley may include relevant case studies, depending on availability and subject to confidentiality agreements.
  - Based on the commitment to provide allocation and, where feasible, impact reporting, Sustainalytics considers this process to be in line with market practice.

Alignment with Sustainability Bond Guidelines 2021

Sustainalytics has determined that the Morgan Stanley Sustainable Issuance Framework aligns with the four core components of the GBP and SBP.

Section 2: Sustainability Strategy of Morgan Stanley

Contribution to Morgan Stanley's sustainability strategy

Morgan Stanley's sustainability strategy is focused on helping clients achieve their sustainability-related ambitions by providing advice, products and solutions. [22]

Morgan Stanley has the following sustainability goals: i) mobilizing USD 1 trillion in capital towards sustainability solutions by 2030, including USD 750 billion toward low-carbon and green solutions; and ii) reaching net-zero financed emissions by 2050 compared to a 2019 baseline.[23] Morgan Stanley has set the following 2030 interim sector targets for reducing the physical intensities in the Company's corporate lending portfolio relative to its 2022 baseline: i) auto manufacturing (-29 to -45%); ii) aviation (-13 to -24%); iii) chemicals (-18 to -28%); iv) energy end use emissions (-10 to -19%); v) energy operational use emissions (-12 to -20%); vi) mining (-23 to -31%); and vii) power (-45 to -60%)[24]. In 2022, the Company achieved carbon neutrality across global operations and used 100% renewable electricity, which the Company maintained in 2023.[25]

Morgan Stanley intends to promote sustainable development by executing financial transactions across environmental and social themes. Examples of transactions include renewable energy and energy storage, as well as affordable housing and primary and secondary education across communities.

Sustainalytics is of the opinion that the Morgan Stanley Sustainable Issuance Framework is aligned with the Company's overall sustainability strategy and initiatives and will further support Morgan Stanley's action on its key environmental and social priorities.

Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that an amount equivalent to the gross proceeds from the instruments issued under the Framework will be directed towards eligible projects that are expected to generate positive environmental and social impacts. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Sustainalytics further notes that Morgan Stanley plays a limited role in the development of projects and the assets being financed, but it remains exposed to risks associated with such projects by offering financial services. Some key environmental and social risks possibly associated with the eligible projects may include: i) land use and biodiversity issues associated with large-scale

[22] Morgan Stanley, "Sustainability at Morgan Stanley", at: https://www.morganstanley.com/about-us/sustainability-at-morgan-stanley
[23] Morgan Stanley, "2023 ESG Report", at: https://www.morganstanley.com/content/dam/msdotcom/en/assets/pdfs/Morgan_Stanley_2023_ESG_Report.pdf
[24] Morgan Stanley, "2030 Interim Financed Emissions Targets", at: https://www.morganstanley.com/about-us/sustainability-at-morgan-stanley/net-zero-financed-emissions
[25] Morgan Stanley, "2023 ESG Report", at: https://www.morganstanley.com/content/dam/msdotcom/en/assets/pdfs/Morgan_Stanley_2023_ESG_Report.pdf

infrastructure development; ii) emissions, effluents and waste generated in construction; iii) occupational health and safety; and iv) responsible business practices, among others.

Sustainalytics is of the opinion that Morgan Stanley is able to manage and mitigate potential risks through implementation of the following:

- Morgan Stanley's ESPS outlines the Company's commitment and approach to identifying and assessing environmental and social risks.[26] The Company's Environmental and Social Risk Management Group: i) provides subject matter expertise on environmental and social risks; ii) manages development and implementation of the Policy, including related policies and procedures; iii) conducts due diligence on relevant transactions; iv) engages with stakeholders and v) monitors emerging risks and developments in collaboration with other relevant business functions. In addition, the Policy outlines sector-specific due diligence processes to mitigate and manage relevant environmental and social risks.[27]
- Regarding risks related to land use, emissions, effluents, waste, and occupational health and safety hazards, the ESPS requires adherence to relevant local and national laws and regulations. The Policy also includes considerations related to potential impacts on biodiversity, local communities, Indigenous Peoples, critical habitats, and cultural heritage in its sector-specific due diligence processes. In line with its ESPS, Morgan Stanley does not knowingly finance or invest in projects where the use of proceeds supports the development or expansion of projects in UNESCO World Heritage sites unless there is prior consensus between the host country government and UNESCO that the activity would not adversely impact the Outstanding Universal Value of the site or where the use of proceeds would be used to significantly convert or degrade a critical habitat.
- Morgan Stanley's Environment and Social Risk Management (ESRM) team incorporates climate, human rights, and biodiversity risk considerations as part of the transaction assessment process. ESRM's due diligence process includes review of the client's framework and track record for managing greenhouse gas emissions, net-zero commitments and transition plans. Additionally, Morgan Stanley considers international best practice, such as the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct,[28] the IFC Performance Standards on Environmental and Social Sustainability[29] and the World Bank Group Environmental, Health and Safety General Guidelines[30], where relevant.[31]
- With regard to responsible business practices, Morgan Stanley has a Code of Ethics and Business Conduct which defines standards of conduct and guidance for its employees, officers and directors. The Company also has: i) a Global Conflicts of Interest policy that sets procedures for identifying and addressing potential conflicts of interest; and ii) a Global Anti-corruption policy which outlines rules and procedures pertaining to pre-approval, pre-clearance and due diligence to address corruption risk. Moreover, Morgan Stanley provides anti-corruption training to staff and has a whistle blowing process for reporting concerns or suspicious conduct.[32] Moreover, Morgan Stanley's Statement on Human Rights affirms the Company's approach to respecting and supporting the protection of human rights and other principles, including equal opportunity, freedom of association and bargaining and promoting the elimination of child labour.[33]

Based on these policies, standards and assessments, Sustainalytics is of the opinion that Morgan Stanley has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

[26] Morgan Stanley, "Environmental and Social Policy Statement", at: https://www.morganstanley.com/content/dam/msdotcom/en/about-us-governance/pdf/Environmental_and_Social_Policy_Statement.pdf
[27] Ibid.
[28] OECD, "Guidelines for Multinational Enterprises on Responsible Business Conduct", at: https://mneguidelines.oecd.org/mneguidelines/
[29] IFC, "Performance Standards on Environmental and Social Sustainability", at: https://www.ifc.org/content/dam/ifc/doc/2010/2012-ifc-performance-standards-en.pdf
[30] World Bank Group, "Environmental, Health and Safety General Guidelines", at: https://documents1.worldbank.org/curated/en/157871484635724258/pdf/112110-WP-Final-General-EHS-Guidelines.pdf
[31] Morgan Stanley, "Environmental and Social Policy Statement", at: https://www.morganstanley.com/content/dam/msdotcom/en/about-us-governance/pdf/Environmental_and_Social_Policy_Statement.pdf
[32] Morgan Stanley, "Conflict of Interest", at: https://www.morganstanley.com/about-us-governance/code-of-conduct#resources
[33] Morgan Stanley, "Statement on Human Rights", at: https://www.morganstanley.com/content/dam/msdotcom/en/about-us-governance/pdf/human_rights_statement.pdf

Section 3: Impact of Use of Proceeds

All seven use of proceeds categories are aligned with those recognized by the GBP and SBP. Sustainalytics has focused on three below where the impact is specifically relevant in the local context.

Importance of increasing the share of renewables in electricity generation in the US

Electricity generation accounted for 25% of the US' total GHG emissions in 2020.[34] As of 2023, 60% of the electricity generated in the US came from fossil fuels, such as natural gas, coal and petroleum, and 18% from nuclear energy.[35] From 1990 to 2022, total GHG emissions from electricity generation in the US decreased by 15% owing to an uptick in the use of renewable energy and the implementation of energy efficiency improvements.[36] In spite of growing significantly since 2008, renewable energy sources accounted for only 21.4% of the country's total electricity generated in 2023.[37] More specifically, wind energy contributed 10.2% of the total electricity generation in the country, while solar energy, hydropower, biomass and geothermal contributed 3.9%, 5.7%, 1.1% and 0.4% respectively in the same year.[38]

In 2021, the US government established targets to reduce GHG emissions by 50-52% by 2030 in comparison to a 2005 baseline and achieve 100% carbon-free electricity by 2035.[39] In the interim, it also established a target to achieve 80% renewable energy generation by 2030. The US government announced its commitment to expand and modernize the country's electricity grid to reliably transmit renewable energy and support the 2030 emissions reduction targets in the country's NDC.[40] In 2024, the US government announced an investment of approximately USD 150 billion for 67 energy conservation and clean energy projects at federal facilities as well as an investment of more than USD 7.3 billion towards accelerating clean energy for rural communities through rural electric cooperatives.[41,42] Furthermore, the US government is on track to have approximately 340 gigawatts of solar capacity and 300 gigawatts of wind capacity by 2030 through public investments.[43]

Considering the above, Sustainalytics is of the opinion that Morgan Stanley's investments in renewable energy projects are expected to contribute to US climate goals and contribute positively to the clean energy transition.

Importance of decarbonization in the green buildings sector

In 2022, the buildings sector accounted for 34% of the global energy demand and 37% of the total energy and process-related CO_2 emissions.[44] In 2022, residential and non-residential buildings represented a total of 9% and 18% of direct and indirect global emissions, respectively.[45] Meanwhile, building construction and bricks and glass manufacturing represented a total of 10% of the total global emissions.[46] Although, the energy

[34] US Environmental Protection Agency, "Sources of Greenhouse Gas Emissions", at: https://www.epa.gov/ghgemissions/sources-greenhouse-gas-emissions#electricity
[35] US Energy Information Administration, "Electricity Explained", at: https://www.eia.gov/energyexplained/electricity/electricity-in-the-us.php
[36] US Environmental Protection Agency, "Sources of Greenhouse Gas Emissions", at: https://www.epa.gov/ghgemissions/sources-greenhouse-gas-emissions#electricity
[37] US Energy Information Administration, "What is U.S. Electricity Generation by Source?", at: https://www.eia.gov/tools/faqs/faq.php?id=427&t=3
[38] Ibid.
[39] The White House, "Fact Sheet: President Biden Sets 2030 Greenhouse Gas Pollution Reduction Target Aimed at Creating Good-Paying Jobs and Securing U.S. Leadership on Clean Energy Technologies", (2021), at: https://www.whitehouse.gov/briefing-room/statements-releases/2021/04/22/fact-sheet-president-biden-sets-2030-greenhouse-gas-pollution-reduction-target-aimed-at-creating-good-paying-union-jobs-and-securing-u-s-leadership-on-clean-energy-technologies/
[40] The White House, "Fact Sheet: President Biden Sets 2030 Greenhouse Gas Pollution Reduction Target Aimed at Creating Good-Paying Jobs and Securing U.S. Leadership on Clean Energy Technologies", (2021), at: https://www.whitehouse.gov/briefing-room/statements-releases/2021/04/22/fact-sheet-president-biden-sets-2030-greenhouse-gas-pollution-reduction-target-aimed-at-creating-good-paying-union-jobs-and-securing-u-s-leadership-on-clean-energy-technologies/
[41] US Department of Energy, "Biden-Harris Administration Announces $150 Million to Advance Net-Zero Projects at Federal Facilities, Saving Taxpayers Money", (2024), at: https://www.energy.gov/articles/biden-harris-administration-announces-150-million-advance-net-zero-projects-federal#:~:text=WASHINGTON%2C%20D.C.%20%E2%80%94%20As%20part%20of,territories%20and%20six%20international%20locations.
[42] US Department of Agriculture, "Biden-Harris Administration Announces $7.3 Billion in Clean Energy Investments from the Investing in America Agenda, Largest Investment in Rural Electrification Since the New Deal", (2024), at: https://www.usda.gov/media/press-releases/2024/09/05/biden-harris-administration-announces-73-billion-clean-energy
[43] The White House, "Building a Thriving Clean Energy Economy in 2023 and Beyond: A Six-Month Update", (2024), at: https://www.whitehouse.gov/briefing-room/blog/2024/07/01/building-a-thriving-clean-energy-economy-in-2023-and-beyond-a-six-month-update/
[44] Global Alliance for Buildings and Construction, "Global Status Report for Buildings and Construction – Beyond Foundations", (2023), at: https://wedocs.unep.org/bitstream/handle/20.500.11822/45095/global_status_report_buildings_construction_2023.pdf?sequence=3&isAllowed=y
[45] Ibid.
[46] Ibid.

intensity of the buildings sector has decreased by 3.5% between 2021 and 2022, the overall energy demand and emissions of the sector rose by 1% in 2022.[47]

In order to meet the Paris Agreement goals to limit global temperatures to 1.5°C by 2025, the rate of building retrofits and the level of investment in green buildings must increase. Based on the United Nations Environmental Programme (UNEP) analysis for 2022, it is estimated that an annual reduction of 10 decarbonisation points[48] is necessary to achieve the Paris Agreement target.[49] In 2023, investments in the sector totalled USD 134.3 billion in Europe, USD 32.3 billion in the US, USD 22.7 billion in China and USD 54.4 billion in other regions.[50] It is estimated that between 2026 and 2030, a further USD 573.7 billion will be needed to achieve the net zero scenario.[51]

Based on the above, Sustainalytics is of the opinion that the eligible projects financed under the Framework have the potential to contribute to the reduction of emissions from the built environment and more broadly to the Paris Agreement's GHG emission reduction targets.

Importance of affordable housing investments in the US

Approximately 653,100 people in the US in 2023 were homeless, an increase of 14.2% in people experiencing unsheltered homelessness from 2020.[52] As of 2024, the US is experiencing a shortage of 7.3 million affordable and available homes, resulting in the availability of only 34 homes for every 100 households with extremely low-income.[53] The shortage of affordable housing forces many low-income households to rent homes beyond their affordability, making them severely cost burdened.[54] According to the National Low Income Housing Coalition, 11.7 million renter households spend more than 50% of their income on housing costs, and 69% of these severely cost-burdened renter households were extremely low-income households in 2022.[55] The lack of affordable housing further leads to negative social outcomes across multiple other dimensions of daily life, as families and individuals are compelled to make trade-offs between spending on rent and other essentials, such as food, healthcare and transport.[56]

In 2024, the US federal government announced the allocation of USD 214 million under the US Housing Trust Fund, an annual grant to states to produce and preserve affordable housing for households with extremely low- and low-income, to increase affordable housing supplies.[57,58] As of March 2024, under the LIHTC programme, the federal government's budget allows for an investment of USD 37 billion to expand the tax credit and ease the private activity bond financing requirement from 50% to 25%, to raise additional private capital, aiming to increase the affordable housing supply for low-income renters.[59] Furthermore, the government established the Neighborhood Homes Tax Credit, which is a tax provision that covers the difference between the construction costs and sales price for newly constructed and rehabilitated single-family homes. The provision aims to encourage investment in low-income communities that suffer from disinvestment. Projects are qualified on the basis that the home will be occupied by low- or middle-income homeowners.[60] In addition, as of October 2023 the federal government had invested USD 63 billion through the State and Local Fiscal Recovery, Homeowner Assistance Fund and Emergency Rental Assistant

[47] Ibid.
[48] The Global Buildings Climate Tracker was launched in 2020 to analyze progress in the decarbonization of the building sector from 2015. A decarbonisation point represents the magnitude of the gap between the current state and the desired decarbonisation path for a sector. Global Alliance for Buildings and Construction, "Global Status Report for Buildings and Construction – Beyond Foundations", (2023), at: https://wedocs.unep.org/bitstream/handle/20.500.11822/45095/global_status_report_buildings_construction_2023.pdf?sequence=3&isAllowed=y
International Energy Agency, "Buildings", (2024) at: https://www.iea.org/energy-system/buildings
[49] Global Alliance for Buildings and Construction, "Global Status Report for Buildings and Construction – Beyond Foundations", (2023), at: https://wedocs.unep.org/bitstream/handle/20.500.11822/45095/global_status_report_buildings_construction_2023.pdf?sequence=3&isAllowed=y
[50] International Energy Agency, "Buildings", (2024) at: https://www.iea.org/energy-system/buildings
[51] Ibid.
[52] US Department of Housing and Urban Development, "The 2023 Annual Homeless Assessment Report (AHAR) to Congress", (2022), at: https://www.huduser.gov/portal/sites/default/files/pdf/2023-AHAR-Part-1.pdf
[53] National Low Income Housing Coalition, "The Gap: A Shortage of Affordable Homes", (2024), at: https://nlihc.org/gap
[54] Ibid.
[55] Ibid.
[56] Joint Center for Housing Studies of Harvard University, "The State of the Nation's Housing 2021", at: https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_State_Nations_Housing_2021.pdf
[57] The White House, "FACT SHEET: Vice President Harris Announces $5.5 Billion to Boost Affordable Housing, Invest in Economic Growth, Build Wealth, and Address Homelessness in Communities Throughout America", (2024), at: https://www.hudexchange.info/programs/htf/
[58] US Department of Housing and Urban Development, "Biden-Harris Administration Announces $5.5 Billion in Grants for Affordable Housing, Community Development, and Homeless Assistance to Drive Economic Growth", (2024), at: https://www.hud.gov/press/press_releases_media_advisories/HUD_No_24_103
[59] The White House, "Fact Sheet: The President's Budget Cuts Housing Costs, Boosts Supply, and Expands Access to Affordable Housing", (2024), at: https://www.whitehouse.gov/briefing-room/statements-releases/2024/03/11/fact-sheet-the-presidents-budget-cuts-housing-costs-boosts-supply-and-expands-access-to-affordable-housing/
[60] Ibid.

programmes.[61, 62] The funds are aimed at improving eviction and foreclosure prevention efforts, maintaining housing stability and expanding the supply of affordable housing.[63]

Given the above context, Sustainalytics believes that investments in financing affordable housing under the Framework are expected to contribute to expanding access to affordable housing in the US.

Contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The instruments issued under the Morgan Stanley Sustainable Issuance Framework are expected to help advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Renewable Energy	7. Affordable and clean energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Energy Storage	7. Affordable and clean energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Green Buildings	9. Industry, Innovation and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Clean Transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
Sustainable Water and Wastewater Management	6. Clean Water and Sanitation	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally
Affordable Housing	10. Reduced Inequalities	10.2 By 2040, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.
	11. Sustainable Cities and Communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
Access to Education	4. Quality Education	4.1 By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes
	10. Reduced Inequalities	10.2 By 2040, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

[61] The White House, "American Rescue Plan", (2021), at: https://www.whitehouse.gov/wp-content/uploads/2021/03/American-Rescue-Plan-Fact-Sheet.pdf
[62] US Department of Housing and Urban Development, "HUD Announces $5 Billion to Increase Affordable Housing to Address Homelessness", (2021), at: https://archives.hud.gov/news/2021/pr21-055.cfm
[63] US Department of the Treasury, "FACT SHEET: New Treasury Department Data Illustrates How American Rescue Plan Resources Are Expanding Access to Affordable Housing and Keeping Families in their Homes", (2023), at: https://home.treasury.gov/news/press-releases/jy1812

Conclusion

Morgan Stanley has developed the Morgan Stanley Sustainable Issuance Framework under which it may issue sustainability bonds, notes, certificates, time deposits and other financial instruments and use the proceeds to finance renewable energy, energy storage, green building, clean transportation and sustainable water and wastewater management projects as well as projects that provide access to affordable housing and education. Sustainalytics considers that the eligible projects are expected to provide positive environmental and social impacts.

The Morgan Stanley Sustainable Issuance Framework outlines a process for tracking, allocation and management of proceeds, and intends to report on allocation and impact. Sustainalytics considers that the Morgan Stanley Sustainable Issuance Framework is aligned with the overall sustainability strategy of Morgan Stanley and that the use of proceeds will contribute to advance the UN Sustainable Development Goals 4, 6, 7, 9, 10, and 11. Additionally, Sustainalytics is of the opinion that Morgan Stanley has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects.

Based on the above, Sustainalytics is confident that Morgan Stanley is well positioned to issue sustainable debt instruments and that Morgan Stanley Sustainable Issuance Framework is robust, transparent and in alignment with the four core components of the Green Bond Principles 2021 and Social Bond Principles 2023.

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