

MSIM Fund Management (Ireland) Limited Frankfurt Branch Statement on Principal Adverse Impacts of Investment Advice on Sustainability Factors

Legal Entity Identifier: 549300QDS5K6OGU25W78

Date approved: 7 November 2022

Date published: 1 December 2022

1 Introduction

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

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

This disclosure has been prepared in accordance with Articles 3, and 4 of the Sustainable Finance Disclosure Regulation (EU) 2019/2088 ("**SFDR**"), which apply to MSIM Fund Management (Ireland) Limited Frankfurt Branch ("**MSIM FMIL Frankfurt Branch**") as a financial adviser under Directive 2014/64/EU (MiFID II) in the context of the following business:

- Morgan Stanley Investment Management ("**MSIM**") Private Real Estate Investing, Infrastructure and Private Credit Teams (together the "**MSIM Private German Advisory Teams**").

This document provides information on how MSIM Private German Advisory Teams consider (i) sustainability risks; and (ii) the principal adverse impacts on sustainability factors, of the investment advice it provides.

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

2 Integration of sustainability risks in investment advice

As a global investment manager, MSIM recognizes that various sustainability factors can pose actual or potential material risks to our investments at individual asset and/or portfolio levels. MSIM also recognizes that the universe of relevant sustainability risks may grow and

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

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

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

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

3 Consideration of principal adverse impacts in investment advice

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

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

- (i) the increase of greenhouse gas emissions and systemic climate risk;
- (ii) the increased use of finite natural resources;
- (iii) the volume of hazardous and non-recyclable waste; and

(iv) violations of social norms and employee rights.

MSIM uses reasonable efforts to obtain the required data to monitor these potential impacts, and to understand any remediation efforts undertaken by companies. As noted above, MSIM Private German Advisory Teams within **MSIM FMIL Frankfurt Branch** will due diligence investment opportunities, and in doing so will have regard to MSIM policies and procedures regarding principal adverse impacts and will advise their affiliates accordingly. MSIM investment managers will ultimately maintain discretion over the extent to which the outcomes of this due diligence affect buy/sell decisions, portfolio construction, and ongoing engagement and asset stewardship.

The broader MSIM business considers potential adverse impacts through a combination of actions including its global stewardship program, its thematic research, and its collaborative efforts in the broader investment industry. Additionally, MSIM strives to adhere to several normative business conduct codes and standards.

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

MSIM Private German Advisory Teams do not advise on "financial products" as defined under SFDR and will therefore not use information disclosed made by financial market participants under SFDR or rank and select financial products based on their adverse impact on sustainability indicators.