

Morgan Stanley Europe SE – No consideration of adverse impacts of investment advice on sustainability factors

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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 these challenges.

In this regard, MSESE's 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, 4 and 5 of the Sustainable Finance Disclosure Regulation (EU) 2019/2088 ("**SFDR**"), which apply to Morgan Stanley Europe SE ("**MSESE**") as a financial adviser under Directive 2014/64/EU (MiFID II) in the context of the Institutional Securities Group ("**ISG**").

This document provides information on how the MSESE ISG business considers: (i) sustainability risks; and (ii) the principal adverse impacts on sustainability factors, in the limited investment advice which the ISG team provides. It also summarises how MSESE's remuneration policy integrates sustainability risks.

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; labour 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 ISG

2.1 Integration of sustainability risks

The ISG business of MSESE does not generally conduct advisory activities but may provide investment advice to clients on an ad hoc and infrequent basis. As these advisory activities represent a very limited part of the ISG business, and the ISG team does not as a general matter advise clients on sustainable products or the sustainability aspects / risks of specific investments, the team does not have a process in place to consider and integrate sustainability risks when providing investment advice. The ISG team will however have regard to general market risks when advising clients, which may include consideration of

relevant sustainability risks that are expected to materially impact on the market value of the investment(s).

In line with the BaFin Guidance Notice on Dealing with Sustainability Risks, MSESE however ensures that sustainability risks are adequately considered within MSESE's own risk management framework.

2.2 No consideration of adverse impacts of investment advice on sustainability factors

As the advisory activities represent a very limited part of the ISG business, the ISG team does not generally and systematically consider any principal adverse impacts of its recommendations on sustainability factors in the course of that limited advisory activity. In fact, given the very limited, ad hoc and infrequent nature of ISG's investment advisory activities, they are generally unlikely to have a principal adverse impact on any particular sustainability factor(s).

Nevertheless, on a case-by-case basis, where investment advice is provided by MSESE and a client expresses a sustainability preference for a financial instrument that considers principal adverse impacts on sustainability factors, the ISG team will then have regard to principal adverse impacts as required in the context of Article 54 of the Delegated Regulation (EU) 2017/565.

In line with Firmwide statements and objectives regarding sustainability, the ISG business of MSESE remains committed to integrating sustainability considerations within its business more broadly and will generally endeavour to minimise any significant detrimental impacts on sustainability factors that it considers arise directly from its business activities.

3 Integration of sustainability risks in remuneration policies

MSESE's remuneration policy promotes sound and effective risk management, and does not encourage excessive risk-taking, including with respect to sustainability risks. Sustainability risks are also factored in when determining the risk-adjusted performance of relevant employees.

Version history

Version	Date of publication
Version 1 (original publication)	March 2021
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