



Morgan Stanley

2017 Sustainability Report

At Morgan Stanley, we believe capital can work to benefit all of society.

As a leading global financial services provider, we advise, originate, trade, manage and distribute capital for governments, corporations, institutions and individuals. By putting clients first, leading with exceptional ideas, doing the right thing and giving back, we aim to deliver results today while advancing strategic goals for the future.

The pursuit of sustainability is core to our approach as a global financial services provider. By considering environmental, social and governance (ESG) factors in our business activities and mobilizing capital to deliver sustainable growth and long-term value, we help our clients build a sustainable future.

Strong governance, ethical business conduct, risk management and support for our skilled workforce underpin our business success and sustainable investing efforts. Through innovative, scalable solutions, we aim to deliver competitive financial returns while driving positive environmental and social impact.

TABLE OF CONTENTS

3	Letter From Our CEO
4	Approach to Sustainability
6	Governance and Risk Management
10	Ethical Business Conduct
12	ESG Integration
17	Employees



Letter From Our CEO

2017 capped Morgan Stanley's journey through a multi-decade period of challenges and recovery. By transforming our business mix and risk profile, and embracing the culture and values on which the firm was founded, we have positioned Morgan Stanley to perform through market cycles. Today, we have the strategy, stability and scale to grow the business by supporting our clients as they create economic activity, fuel innovation, and secure economic futures for people around the world.

At Morgan Stanley, we also endeavor to advance sustainability by considering environmental, social and governance factors across all of our businesses. Sustainability challenges and opportunities, including climate change and the low-carbon energy transition, remain high on the global policy agenda. Morgan Stanley recognizes that unchecked climate change poses significant risks to the global economy, and we publicly advocated for the U.S. to stay in the Paris Agreement. In 2017, we announced a major climate commitment for our own operations—a 2022 carbon-neutrality goal. To support and enhance ongoing sustainability efforts across our business and operations, we also appointed the firm's first chief sustainability officer, Audrey Choi, who also sits on the firm's Management Committee.

Another key component of our pursuit to scale sustainability is to drive private capital into impact investments. In 2017, assets under management on our Investing with Impact Platform continued to grow not only because we offer a first class investment platform, but also because we began to offer low-minimum investment products, making sustainable investing more accessible.

Our strong culture is also a critical ingredient in achieving our goals and driving enduring performance. By living our core values of putting clients first, leading with exceptional ideas, doing the right thing and giving back to our communities worldwide, we strive to engage each of our 58,000 employees in building a truly sustainable business.

As we move forward, it is imperative that we continue to think about the best interests of our shareholders, our employees, our clients and our communities. This report details how Morgan Stanley is working to integrate sustainability within and beyond our business, creating long-term value for our clients and society.



James P. Gorman
Chairman and Chief Executive Officer
April 2018

Approach to Sustainability

Morgan Stanley endeavors to advance sustainability by considering ESG throughout our operations and our three business segments — Institutional Securities, Wealth Management and Investment Management. The Morgan Stanley Institute for Sustainable Investing accelerates adoption of sustainable investing through innovation, partnerships and thought leadership. Our 2017 Sustainability Report charts our progress across these areas, meeting our commitment to provide transparent, comprehensive information to investors.

Sustainability Reporting

This annual Sustainability Report describes our progress toward our sustainability goals and how we manage sustainability and corporate governance issues of increasing interest to investors. It includes information on how we integrate ESG considerations into business conduct and activity across the firm. All data included in this report is for the 2017 calendar year unless otherwise specified. Where performance and metrics are reported in other documents, we have provided references for or links to that material.

We aim to provide the most relevant sustainability information to investors and other stakeholders, and are committed to continually improving our reporting and disclosure. In addition to this report, which is targeted primarily at investor needs, we encourage stakeholders to visit the following sites for more on our sustainability performance:

- The [Sustainability](#) page of [our website](#), for coverage of and updates on our community development and philanthropic efforts, employee programs and sustainable investing initiatives.
- Our [2017 response to the CDP climate questionnaire](#), which details progress on greenhouse gas emissions reduction, earning the firm an A- rating in 2017.
- The [Corporate Governance](#) page of our website, which includes policies guiding ESG governance.

We also monitor emerging frameworks for sustainability reporting, such as the recommendations from the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB) standards, and engage with these groups to provide input on the evolution of their guidance.

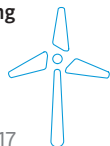
Report Highlights

WHAT WE DO

Leadership in Clean Tech Financing and Sustainability Bonds

\$16.8Bn

Clean Tech and Renewables in 2017



\$20.7Bn

Green and Social Sustainability Bonds in 2017



Morgan Stanley Public Finance remains a leading underwriter of U.S. municipal bonds, including green and sustainability bonds. In 2017, we underwrote **364** municipal issues totaling more than **\$32 billion** in par value, which funded infrastructure projects ranging from mass transit, water and wastewater systems, and affordable housing development to education and not-for-profit health care projects.



More than **\$15.5 billion** has been committed to **Community Development** investments since 2010, funding more than **81,000** affordable housing units and creating or retaining more than **93,000** jobs.

>81,000 housing units



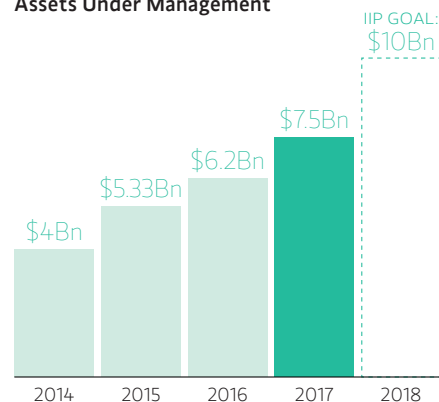
>93,000 jobs



The Morgan Stanley Institute for Sustainable Investing

- 1 **Fosters innovation** by leveraging our experience and market perspective to advance the field of sustainable investing.
- 2 **Produces informative analysis** and thought leadership to inform and empower investors.
- 3 **Helps develop the next generation** of sustainable investing leaders through strategic partnerships and programs.

Investing with Impact Platform (IIP): Assets Under Management



Morgan Stanley Investment Management engaged with **107** companies on ESG issues to guide proxy voting decisions toward responsible management practices in 2017.

HOW WE OPERATE

Building Efficiencies

28

LEED Certifications achieved since 2006

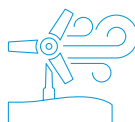


Clean Energy Production by our on-site solar array and fuel cell installations.

9MM kWh annually



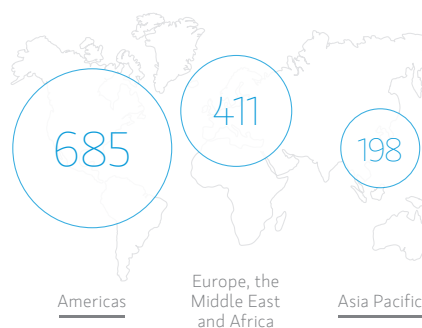
Morgan Stanley Capital Group Inc. (MSCGI) also helps advance wind farms and solar installations across the United States by providing offtake agreements, hedging products and energy management services to projects. This provides stable cash flows for developers allowing them to complete the financing and construction process.



In 2017, MSCGI provided long-term hedging services to over **1GW** of renewable projects.

Referrals for Environmental and Social Due Diligence in 2017

1,294 referrals • 12 industries • 3 regions



WHO WE ARE

Employee Benefits



Enhanced health and wellness programs

Supporting Diversity



Launched the Multicultural Innovation Lab

Engaging our Communities



Hosted our first contingent in the New York City Pride March

Governance and Risk Management

Strong governance, comprehensive risk management and operational excellence are central to our business success and sustainability strategy. Through transparent governance and rigorous risk management policies, controls and training, we seek to help meet clients' needs, deliver value for investors and support a sound and sustainable global financial system.

Our Business

Morgan Stanley maintains significant market positions in its three business segments — Institutional Securities, Wealth Management and Investment Management. Through subsidiaries and affiliates, we provide a wide variety of products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals. We have approximately 58,000 employees in more than 42 countries.

By putting clients first, leading with exceptional ideas, doing the right thing, and giving back, we aim to deliver results today, while setting strategic goals for the future.

- 1 **Institutional Securities** provides investment banking, sales and trading, lending and other services, including investment and research services to corporations, governments, financial institutions and high to ultra-high net worth clients.
- 2 **Wealth Management** provides a comprehensive array of financial services and solutions to individual investors and small to medium-sized businesses and institutions covering brokerage and investment advisory services, financial and wealth planning, annuity and insurance products, cash management and lending products and services, and retirement plan and trust services.
- 3 **Investment Management** provides a broad range of investment strategies and products that span geographies, asset classes, and public and private markets to clients across institutional and intermediary channels. Strategies and products include equity, fixed income, liquidity and alternative/other products.

FINANCIAL PERFORMANCE

Morgan Stanley's financial performance improved in 2017 across all three business segments. We reported net revenues of \$37,945 million compared with \$34,631 million in 2016. For 2017, net income applicable to Morgan Stanley was \$6,111 million, or \$3.07 per diluted common share, compared with \$5,979 million, or \$2.92 per diluted common share, in 2016.

Institutional Securities net revenues increased 8 percent from 2016, Wealth Management net revenues increased 10 percent from 2016, and Investment Management net revenues increased 22 percent from 2016. For more information, please see our [2017 Form 10-K](#).

Governance

Morgan Stanley is committed to best-in-class governance practices which are embodied in the Corporate Governance policies available on [our website](#). The Morgan Stanley [Code of Conduct](#), which applies to all officers and employees, and the [Code of Ethics and Business](#), which also applies to directors, are the foundation for ethical behavior.

As of December 31, 2017, the Board had 13 directors, the majority of whom are independent according to the Board's criteria. The Chairman and Chief Executive Officer (CEO) is the only director who is a member of management. The Board has determined that a strong, Independent Lead Director alongside a combined Chairman and CEO best serves the interests of the firm and shareholders.

The Board of Directors has five key standing committees:

- Audit
- Compensation, Management Development and Succession (CMDS)
- Nominating and Governance (N&G)
- Operations and Technology
- Risk

All committees consist of non-management directors. Only independent directors sit on the Audit, CMDS and N&G committees. In order to take optimal advantage of the directors' diverse skill sets, the Board generally favors the periodic rotation of committee assignments and committee chairs generally serve approximately three to five years. For more information on the Board structure and independence, oversight and annual evaluation of the board, its committees and the Independent Lead Director, see pages 19–22 and 25–34 of our [2018 Proxy Statement](#).

Compensation Governance and Risk Management

The CMDS Committee actively engages in its duties and follows procedures intended to ensure excellence in compensation governance and risk management. The CMDS Committee regularly reviews:

- Company performance with respect to execution of long-term strategy
- The design and structure of compensation programs to ensure they are consistent with compensation objectives
- Market trends and legislative and regulatory developments affecting compensation in the U.S. and globally

The CMDS Committee oversees the firm's incentive compensation arrangements to help ensure that such arrangements are consistent with the safety and soundness of the firm, and do not encourage excessive risk-taking, and are otherwise consistent with applicable related regulatory rules and guidance. The CMDS Committee, together with senior management, oversees controls regarding the year-end compensation process, including policies and procedures for funding and allocating the incentive compensation pool and the use of discretion in determining individual incentive compensation awards; processes for identifying "risk-taking" employees; and processes to administer incentive compensation clawback and cancellation features. More information on Compensation Governance and Risk Management can be found in our [2018 Proxy Statement](#) on page 34.

Risk Management

The cornerstone of our risk management philosophy is the pursuit of risk-adjusted returns through prudent risk taking that protects our capital base and franchise. This philosophy is implemented through the Enterprise Risk Management (ERM) framework. Five key principles underlie this philosophy: integrity, comprehensiveness, independence, accountability and transparency. To help ensure the efficacy of risk management, which is an essential component of the firm's reputation, senior management requires thorough and frequent communication, and the appropriate escalation of risk matters.

The fast-paced, complex and constantly evolving nature of global financial markets requires that the firm maintain a risk-management culture that is incisive, knowledgeable about specialized products and markets, and subject to ongoing review and enhancement.

The Board is responsible for oversight of strategic risk management, culture, values and conduct, and related policies. The Board oversees the ERM Framework, fulfilling this responsibility through the Risk Committee, Audit Committee, and Operations and Technology Committee.

The Risk Committee is composed of non-management directors, and assists the Board in its oversight of the following top priorities:

- Global Enterprise Risk Management
- Capital, liquidity and funding strategy

- Major risk exposures of the firm, including market, credit, operational, model, liquidity and reputational risks
- Risk identification framework
- Risk appetite statement, including risk limits and tolerances
- Significant risk management and risk assessment guidelines and policies
- Performance of the Chief Risk Officer

More information on Risk Management can be found in our [2018 Proxy Statement](#) on pages 32–34.

ENVIRONMENTAL AND SOCIAL RISK

Being mindful of, and responsive to, environmental and social risk and opportunity is a priority for Morgan Stanley. We have strong controls and rigorous processes in place to review and address transactions that could expose Morgan Stanley to direct or indirect risks related to environmental and social issues. Management of these risks is governed by our policies, procedures and statements on human rights and the environment, including the Global Environmental and Social Risk Policy, [Environmental Policy Statement](#) and Global Franchise Risk Policy. Led by the firm's Environmental and Social Risk Management (ESRM) group, environmental and social considerations are factored into our risk evaluations of transactions and other activities across the firm. These considerations are informed by our ongoing engagement with stakeholders.

Transactions that may pose environmental and social risks are reviewed by the ESRM group, which provides guidance on the potential material risk exposure to the firm. Certain transactions meeting designated criteria are escalated to our Regional or Global Franchise committees for senior leadership review and approval.

In 2017, Morgan Stanley conducted a strategic review of our ESRM function. The recommendations, which will be implemented over a two-year period, include:

- Transferring oversight of ESRM activities from the Operational Risk Division to the Global Conflicts Office, which oversees the franchise risk management process for the firm. This change was effected to enhance the integration of ESRM across the firm and into the franchise risk management process.
- Agreement to hire a new professional to oversee the ESRM function in order to enhance the firm's ability to manage environmental and social risk, as well as engage with stakeholders. The new head of the ESRM function assumed this role at the beginning of 2018.
- Enhancing internal guidelines on the firm's view of existing and emerging environmental and social risk.
- Providing regular updates to the Global Franchise Committee on environmental and social risk issues and stakeholder concerns.
- Enhancing ESRM awareness among our employees and further integrating environmental and social risk considerations into vendor management and client onboarding processes.

Referrals for environmental and social due diligence by industry*

Industry	2015	2016	2017
Basic Materials	46	66	69
Communications	2	3	3
Energy	137	159	122
Financial Institutions	76	229	299
Industrials	158	264	265
Other	-	1	-
Pharmaceuticals	54	36	71
Power & Utilities	64	91	78
Real Estate	59	37	53
Retail	23	9	35
Services	155	216	276
Transportation	8	14	23
Total	782	1,125	1,294

*While the majority of transactions were submitted by Investment Banking, Global Capital Markets and Investment Management, the table includes submissions by other Business Units across the firm.

Referrals for environmental and social due diligence by region

Region	2015	2016	2017
Americas	450	565	685
Asia-Pacific	103	357	198
EMEA	229	203	411
Total	782	1,125	1,294

Transactions subject to mountaintop removal and oil sands criteria

To counter climate risk and contribute to the transition to a low-carbon economy, Morgan Stanley has reduced and will continue to seek to reduce our exposure to coal mining globally.

In 2017 and early 2018, we expanded our Coal Policy Statement to the new [Coal and Oil & Gas Policy Statements](#). Following these statements, we will not provide financing where the proceeds would be used for mountaintop removal mining (MTR), nor will we finance companies that rely on MTR for more than a limited portion of annual coal production. During 2015, 2016 and 2017, there were no proposed transactions that triggered an MTR review.

Our expanded Coal and Oil & Gas Policy Statements disclose how we conduct enhanced due diligence when considering transactions involving companies engaged in oil sands, Arctic oil, ultra-deep water oil, or liquefied natural gas export-related activities. Our approach uses the World Bank's IFC standards as a framework, and considers potential impacts of transactions on energy consumption, fresh water, biodiversity and the environment, local communities and indigenous peoples.

Managing Human Rights Risk

Human rights are integral to our business approach and workplace culture, reflected in our core value to do the right thing. Our [Code of Conduct](#) and [Human Rights Statement](#) enshrine our commitment to respect and uphold human rights under the United Nations' Universal Declaration of Human Rights and Guiding Principles on Business and Human Rights, and the International Labour Organization's Core Labour Standards. In 2017, we took significant steps to strengthen our human rights approach in our business and supply chain, and to engage stakeholders, and we will build on these efforts in 2018.

Engaging stakeholders

In 2017, we held a roundtable discussion with key stakeholders to hear their pressing and emerging concerns on human rights issues linked to financial transactions. Our goal is to engage deeply on how we can enhance our business approaches in this area, with leadership from senior management. The Morgan Stanley Institute for Sustainable Investing's Advisory Board and senior firm leadership reviewed the roundtable's key findings. Stakeholder feedback is also informing our ongoing ESRM enhancements.

Reviewing our supply chain

The 2015 U.K. Modern Slavery Act seeks to eradicate human trafficking in global supply chains. In 2016, we established a global cross-functional working group to address the Act's requirements and published the [Morgan Stanley Modern Slavery and Human Trafficking Statement — Financial Year 2016](#).

Throughout 2017, to ensure that modern slavery is not taking place in any part of our operations or any of our supply chains, the working group:

- Reviewed our supply chain and communicated our anti-modern slavery and human trafficking commitment to suppliers that use heavy labor, such as product manufacturers.
- Included language on modern slavery in our Global Supplier Selection and Engagement Policy and Procedures.
- Included language on modern slavery to new and amended supplier agreements and added questions on the topic to supplier RFP templates.

During the year, the working group held information sessions and trainings on our updated policies and processes for internal procurement professionals as well as internal and external legal counsel.

Global Climate Risk

Our ESRM processes address risks from climate change within our business and operations. Morgan Stanley recognizes that climate change poses significant risks to the global economy. As a financial institution, our greatest impact in addressing the challenges of a changing climate is through leveraging capital markets to scale low-carbon energy sources and other sustainability solutions. We see leadership in this area as a business opportunity.

Our firm supports the transition to a low-carbon economy through policies, activities, products and services that seek to mitigate climate risks and capitalize opportunities. For examples, please see the ESG Integration section of this report.

Notably, Morgan Stanley has committed substantial resources to reducing carbon emissions by making alternative energy more affordable and competitive. Since 2006, we have helped to advise, raise and mobilize over \$101 billion for renewable energy and clean technologies. Parallel to our commitment to make alternative energy more affordable, we have been seeking to reduce the proportion of our energy financing to coal mining and coal-fired power generation. Since the introduction of our first coal policy statement in 2011, we have significantly reduced our financing for coal mining.

Industry collaboration

We also collaborate with industry and business peers to support the transition to a low-carbon economy. In 2017, our CEO, James Gorman, joined close to 100 global business leaders in signing a [statement of support](#) for the TCFD. We are engaging with our businesses to assess the TCFD and other reporting frameworks to determine what is achievable and relevant to our firm, as we are committed to providing information that is useful and relevant to investors; we view this as a journey that will evolve over time.

During 2017, Morgan Stanley also supported two joint corporate statements urging the United States to stay in the Paris Agreement, coordinated by the [Center for Climate and Energy Solutions](#) and the [B Team global business leaders group](#).

Toward carbon-neutral operations

In 2017, Morgan Stanley announced a five-year carbon-neutral goal, committing to source 100 percent of our global operational energy needs from renewable energy by 2022. In addition, we aim to reduce energy usage by 20 percent by 2022, from a 2012 baseline. To support these ambitions, we joined the RE100, an initiative led by The Climate Group and CDP, which unites more than 100 companies working to increase the demand for and delivery of renewable energy.

Already, our on-site solar and fuel cell installations generate more than 9 million kWh of clean electricity annually. In 2017, we announced the addition of a 1,800 kW solar array at our data center in Somerset, New Jersey. Since 2006, we have reduced our office greenhouse gas emissions per square foot by 36 percent and achieved 28 LEED certifications for energy-efficient buildings.

Ethical Business Conduct

An ethical approach to doing business has been a hallmark at Morgan Stanley since our founding in 1935. We rely on, and require, our employees to uphold our core values at all times, and reinforce this message through frequent training and communication from leadership. Our [Code of Conduct](#) sets our workplace culture, defines our standards and guides ethical decision-making. All employees, including management, must certify annually that they have read, understand and are in compliance with the Code.

Reporting Ethical Concerns

The Code of Conduct guides day-to-day behavior of our approximately 58,000 employees worldwide. It also requires employees to report any legal or ethical concerns through appropriate channels, such as their supervisors, Human Resources, the Legal and Compliance Division, or a designated contact for some specific policies or procedures. We take all allegations of misconduct seriously and prohibit any retaliation for reports of misconduct made in good faith. Employees can report concerns about conduct by our CEO, a senior executive or financial officer, or a member of the Morgan Stanley Board of Directors directly to the Chief Legal Officer or the Global Audit Director.

Concerns about ethical or business conduct, including accounting, internal controls or auditing matters, may also be reported through our Integrity Hotline, run by an independent vendor. Calls may be made anonymously via local numbers for all geographic regions made available on our [website](#). The Global Compliance Committee and the Board Audit Committee receive quarterly reports on hotline allegations and their resolutions.

Financial crimes undermine public trust in our sector. We take all reasonable measures to avoid participation in or facilitation of financial crimes, and provide mandatory awareness training for employees. Rigorous, risk-based policies, procedures and internal controls help prevent misuse of our products and services for money laundering, terrorism or other criminal activity.

Morgan Stanley's Global Anti-Corruption Policy prohibits all forms of bribery and corruption. Employees must not give or receive anything of value, directly or indirectly, to gain an improper business advantage.

Data Security and Client Privacy

Our long-standing commitment to safeguard our clients' information fosters trust and is essential to our goal to be the world's first choice for financial services.

Our business protocols worldwide integrate appropriate physical, technical and administrative measures that are designed to protect the confidentiality, integrity and availability of client information. We have established global standards in relation to the collection, storage, access, use and disclosure of client personal information in order to achieve compliance with applicable legal rules for data security and client privacy. Our privacy and data protection team, including Privacy and Data Protection Legal, Compliance and Risk Officers, maintain policies, procedures, monitoring, testing and other controls across the firm.

For more information, see our [Privacy Pledge](#).

Business Continuity and Resiliency

Unpredictable disruption to business operations is a growing threat in a globalized and networked world. Ensuring business continuity and resiliency in the face of events affecting our worldwide operations is a priority at Morgan Stanley. The physical safety of all our staff is paramount, and we also rigorously plan to protect our real estate and technology. Our business continuity and resiliency programs are designed to provide a suite of controls to help the firm maintain business operations while responding and recovering from events. These programs are supported by teams across the firm, including Business Continuity Management, Technology, Information Security, Corporate Services and others.

Our Information Security Program has policies, processes and controls designed to protect our network computers and information against unauthorized access, disclosure, modification or misuse, which supports business continuity. Technology Incident Management processes and Technology Recovery Plans complement the Business Continuity Program and are targeted to support application, data and infrastructure recovery to facilitate business resiliency.

The Business Continuity Management Program includes the requirement for business unit planning and the testing of those plans, and a protocol for communicating and managing disruptive events and invoking the Business Continuity Management plans. The Enterprise, Technology and Risk organizations have various protocols for communicating, resolving and escalating communication technology and security-related disruptive events. Business continuity and resiliency testing may include running drills, table tops and emergency communication, and plans are updated to ensure we are as prepared as possible for any type of event.

Business Continuity Management is enabled by active understanding and participation from firm personnel, who receive regular communication and training about their roles in maintaining business continuity and resiliency for the firm.

Corporate Political Activity

Morgan Stanley has a long-standing commitment to transparency regarding the firm's political activity, which is overseen by senior management and the Nominating and Governance Committee of our Board of Directors. Our publicly-available [Corporate Political Activities Policy Statement](#) prohibits Morgan Stanley from making U.S. political contributions and sets guidelines for the firm's lobbying activities. Under the policy, the principal U.S. trade associations we belong to are required not to use payments made by Morgan Stanley for federal, state or local U.S. election-related activity. Our Government Relations Department and the Nominating and Governance Committee review these memberships and related expenditures annually.

Morgan Stanley does not make [corporate contributions](#) in the United States, at the federal, state or local levels, to candidates, political party committees, ballot committees or political action committees. We seek to help elect congressional candidates who are philosophically aligned with policies that support a vibrant financial services industry by sponsoring the bipartisan Morgan Stanley Political Action Committee (MSPAC). Funded solely through voluntary employee contributions, MSPAC is registered with, and publicly reports to, the [Federal Election Commission](#) as required by law.

ESG Integration¹

Global sustainability challenges, such as climate change and inequality, pose significant risks to our business as well as tremendous opportunities to be part of the solution alongside public policy makers, regulators and the private sector. Through our Institutional Securities, Wealth Management and Investment Management business segments, in partnership with our Global Sustainable Finance Group, we offer scalable financial solutions and advisory services that seek to deliver competitive financial returns while driving positive environmental and social impact. The [Morgan Stanley Institute for Sustainable Investing](#) supports these activities, and drives sustainable investment by fostering innovation and delivering thought leadership that empowers investors.

Institutional Securities

Our Institutional Securities business has a long history of using the scale and speed of capital markets to generate positive environmental and social benefits for innovative companies. We achieve this with a range of levers, including mergers and acquisitions, equity financing and debt underwriting services. In particular, we are delivering finance to drive a global shift to a low-carbon economy by raising capital for clean technology companies as well as those that reduce or improve natural resource consumption.

SCALING CAPITAL FOR LOW-CARBON SOLUTIONS

Investor interest in environmental and social solutions continues to rise, enabling our efforts to scale capital for low-carbon ventures. In 2017, we helped to advise, raise and mobilize \$16.8 billion in capital to support clean tech and renewable energy businesses, bringing the total to more than \$101 billion since 2006. Examples of 2017 transactions include:

- *ExGen Renewables*: On November 28, 2017, Morgan Stanley, acting as the sole lead arranger and bookrunner, helped arrange a \$850 million Term Loan B offering for ExGen Renewables IV, a subsidiary of Exelon.
- *Dong Energy*: In 2017, Morgan Stanley, acting as joint bookrunner, on behalf of New Energy Investment (Goldman Sachs), priced a \$682 million ABO (Oct.) and \$940 million ABO (Feb.) in Dong Energy.
- *Tesla*: On August 11, 2017, Tesla offered its inaugural \$1.8 billion senior note financing, for which Morgan Stanley served as a joint lead and bookrunning manager.
- *Terraform Power*: On March 7, 2017, TerraForm Power, Inc. announced an agreement with Brookfield Asset Management to acquire 51 percent stake in the company; Morgan Stanley served as lead financial advisor to Terraform Power and advisor to the Conflicts Committee of the Board of Directors.
- *Bloom Energy*: On June 29, 2017, Morgan Stanley, acting as sole placement agent, helped close a \$100 million senior secured debt financing for Bloom Energy Corporation.
- *Greenko*: On July 17, 2017, Morgan Stanley, as joint lead manager and bookrunner, successfully priced Greenko's \$1 billion dual tranche green bond offering.

Morgan Stanley Capital Group Inc. (MSCGI) also helps advance wind farms and solar installations across the U.S. by providing offtake agreements and hedging products to projects. This provides stable cash flows for developers, allowing them to complete the financing and construction process. In 2017, MSCGI provided long-term hedging transactions to over 1 GW of renewable projects.

SCALING THE GREEN AND SUSTAINABILITY BOND MARKETS

Global green bond issuance reached a record high of \$155 billion in 2017,² a 78 percent increase over 2016. Morgan Stanley continues to be a global leader in this emerging market, which supports the transition to a low-carbon economy.

In 2017, we led green and social sustainability bond transactions including private placements and municipality deals worth \$20.7 billion, bringing the total to approximately \$48.1 billion since 2013. Our support for France's issuance of its first €7 billion sovereign green bond received the "SRI Bond of the Year" award from the International Financing Review. The transaction has the longest maturity of any European green bond today. We also followed our 2016 execution of the first sustainability bond for a U.S. corporate issuer, Starbucks, by helping the corporation raise \$85 billion in 2017 for a sustainability bond from Asian investors.

Morgan Stanley Public Finance continues to be a leading underwriter of U.S. municipal bonds, including green and sustainability bonds. In 2017, we underwrote 364 municipal issues totaling more than \$32 billion in par value, which funded infrastructure projects ranging from mass transit, water and wastewater systems, and affordable housing development to education and not-for-profit health care projects. For example, we sold \$600 million in tax-exempt bonds for Brightline, the first privately funded U.S. passenger train in over a century.

During the year, we also served as senior manager for 15 green and sustainability bonds for tax-exempt eligible issuers totaling more than \$2 billion in par value. These transactions helped finance construction of a hospital in Massachusetts, a waste-to-fuel plant in Nevada, and water and wastewater infrastructure in California, among other projects nationwide. In April 2017, we priced the first public market bond deal for a community development financial institution, a \$100 million transaction for the Local Initiatives Support Corporation.

The Morgan Stanley green bond, launched in 2015 with a \$500 million offering, continues to support energy efficiency and renewable energy projects around the United States, viewable on our dedicated [website](#). Together, these funded projects have a potential annual renewable energy output of 4.1 million MWh and collectively avoid an estimated 2.4 million tons of CO₂ equivalent a year. Our green bond activity is governed by the transparency guidelines established in the voluntary [Green Bond Principles](#), of which Morgan Stanley was a founding signatory.

To expand our efforts, and enhance our leadership position, Morgan Stanley formed a Global Sustainability Bond Leadership Council in 2017. Senior representatives firm-wide engage across products and regions to advance green and sustainable bond origination and execution globally.

EMBEDDING ESG INTO EQUITY RESEARCH VALUATIONS

Sustainability has implications across the global economy, and ESG factors are of increasing interest to investors. At Morgan Stanley, we believe that embedding ESG factors into the way we analyze each sector is fundamental to sound investment research. In 2017, our research analysts applied our ESG Integration Framework to identify risks and opportunities in more than 1,000 stocks. In addition, to serve our clients' evolving needs, our Sustainability research team³ publishes research reports to advance ESG integration and thematic investing.

Thematic investing combines fundamental investment analysis with efforts to direct capital to issuers whose products and services generate positive environmental and/or social benefits. In 2017, we responded to growing investor demand for such services by developing and publishing a framework for measuring investment impact within public equity markets. This provides detailed key performance indicators to help our clients identify investment opportunities and measure social and environmental outcomes. The framework builds on our "Sustainability Solutions Stocks" database, which provides a tool for investors to identify potential investment opportunities in this space.

In 2017, our Sustainability research team was ranked first in SRI⁴ and Sustainability sell-side research by the WeConvene Extel and U.K. Sustainable Investment and Finance Association.

Wealth Management

Morgan Stanley's Wealth Management business connects our clients with opportunities to integrate their priorities and values into their investment portfolios. We increasingly offer new ways for our clients, including individuals, businesses and institutions, to invest in top-tier sustainable finance solutions across asset classes, including green bonds and alternative investments. In doing so, we leverage our resources to scale both the demand for, and supply of, sustainable investing products everywhere we operate.

INVESTING WITH IMPACT

The Morgan Stanley Investing with Impact Platform (IIP) provides investment strategies across asset classes that aim to generate market-rate returns for our clients. The IIP gives investors access to more than 140 equity and fixed income products with a mix of mutual funds, exchange-traded funds, separately managed accounts and alternative investment opportunities. It is flexible enough to fit the varied needs of individual investors, institutions, corporations, charitable trusts, foundations and nonprofits as well as donor-advised funds. Assets invested with IIP at the end of 2017 totaled \$7.5 billion,⁵ marking progress toward our goal of \$10 billion by the end of 2018.

In an effort to make sustainable investing more accessible across the client spectrum, the IIP launched several new portfolio solutions in 2017 with low minimums. The Morgan Stanley Access Investing digital advisory account platform features access to various model portfolios, such as a core sustainability portfolio as well as climate action and gender diversity themes. The Impact Solutions model portfolios leverage the expertise of Morgan Stanley Wealth Management's Global Investment Committee and Equity Research's Sustainability research team to construct global and U.S. equity portfolios.

FINANCIAL ADVISOR TRAINING

Amid the growing demand for sustainable and impact investments, we are equipping our Financial Advisors with tools to help their clients meet specific objectives. In 2017, we hosted internal events for Financial Advisors and launched an Investing with Impact course available to all of our Financial Advisors through Elevate, our e-learning platform. The course covers the fundamentals of sustainable and impact investing as well as more advanced topics, such as how to engage with clients and prospects around this investment opportunity. In addition, we offer tools and resources for specific sustainable investment themes, including a customizable seminar, to support Financial Advisor engagement with relevant clients.

¹ Morgan Stanley defines ESG Integration as a focus on incorporating material ESG factors into an existing investment process, providing an additional lens through which to understand companies on behalf of our clients. It is often viewed as a risk management tool, but can also highlight opportunities for investors.

² Global green bond issuance hit record \$155.5 billion in 2017-data," Reuters, January 10, 2018. (<https://www.reuters.com/article/greenbonds-issuance/global-green-bond-issuance-hit-record-155-5-billion-in-2017-data-idUSL8N1P5335>; accessed March 7, 2018).

³ In 2017, S+R rebranded as Sustainability research.

⁴ Socially responsible investing.

⁵ \$7.5 billion in Wealth Management assets allocated to products approved for the Morgan Stanley Investing with Impact Platform.

In 2017, we held six client-facing roadshows on impact investing, and launched a client-facing quarterly publication, *Impact Outcomes*, on timely sustainable investing topics and actionable investment opportunities. This publication includes video and social media content that Financial Advisors can use to engage with clients and prospects.

Investment Management

Morgan Stanley's Investment Management business recognizes that ESG factors are increasingly high profile and can affect the long-term performance of investments. Both retail and institutional investors are pressing companies to live up to their environmental, social and governance responsibilities. In response, our teams consider factors such as reputation, litigation and governance practices when researching companies and building portfolios for our clients.

ENHANCING ESG GOVERNANCE

In 2017, Investment Management advanced how we embed ESG factors into investment processes worldwide. Together with the Morgan Stanley Institute for Sustainable Investing, we launched the Investment Management Sustainable Investing Council, a global, cross-functional team of leaders. Chaired by the Co-Head and CIO of the Solutions and Multi-Asset Group within Investment Management, the Council is establishing an overall framework for integrating ESG and ESG standards into our investment processes, product development, measurement, education, client engagement and reporting. An advisory committee of portfolio managers and subject matter experts from across Morgan Stanley will also lend their expertise and perspectives.

ADOPTING RESPONSIBLE INVESTMENT, ENGAGING ON ESG ISSUES

Investment Management is a signatory to the Principles for Responsible Investment (PRI) and the U.K. Stewardship Code. We have adopted ESG principles in keeping with the PRI, which our portfolio managers consider when making and monitoring investments. For more information on how we integrate ESG into investment analysis and decisions, see [Our Approach on Environmental, Social and Governance Factors](#).

Proxy voting, an integral part of our investment management process, helps us guide portfolio companies toward responsible and ethical management practices. Proxy voting decisions are made in-house based on the expertise of our Corporate Governance team. Our [2017 Proxy Voting Policy](#) describes our approach to shareholder proposals, including ESG issues. In 2017, Investment Management voted in favor of non-routine shareholder proposals on climate change 65 percent of the time.

We also engage directly with portfolio companies to monitor the results of their sustainability-related efforts on behalf of our clients. In 2017, we engaged 107 companies on ESG issues. We reported our proxy voting practices, voting history and engagement on ESG issues publicly in our [Proxy Voting and Engagement Report 2017](#).

EMBEDDING ESG FACTORS INTO CLIENT PORTFOLIOS

Our investment teams recognize the significant value that sustainability can generate as well as the risks associated with poor ESG performance. Examples in 2017 include the following:

- The Global Balanced Risk Control team continued their focus on incorporating ESG factors into their investment process. In 2017, the team published three papers: "The Third Arrow: Governance" that focused on global governance factors, "I Always Feel Like Somebody's Watching Me", a look at data privacy issues that fall within the Social pillar of ESG and "Will Schumpeter's Gale Clear the Air?", a look at the shift in the capital base for energy production towards more climate-friendly sources.
- The Alternative Investment Partners (AIP) Private Markets team raised MSIM's first [private equity impact investing fund](#) in 2017, which seeks to invest in diversified private equity funds with the potential to deliver compelling financial returns and make a positive impact on society, the environment or both. In addition, all team members have completed a detailed training program on ESG frameworks, and the team has incorporated a robust and formal ESG process covering diligence, execution and ongoing monitoring into the investment process for all private markets investments across the platform.
- Morgan Stanley Real Estate Investing (MSREI) has advanced long-standing efforts to consider sustainability in its investment decisions. In particular, MSREI's U.S. core real estate investing platform invests in office, retail, industrial, apartment, hotel and self-storage properties across the U.S., managing gross real estate assets worth over \$24 billion, and monitors resources consumed by its real estate assets as a means to increase efficiency and reduce its carbon footprint. All office, retail malls and apartment assets within the core platform track information on energy, water and waste usage and green certifications. Through 2017, 73 percent of the platform's office portfolio was LEED certified, and 94 percent was eligible for Energy Star certification.⁶ In the 2017 Global Real Estate Sustainability Benchmark (GRESB) survey, the core real estate investing platform ranked in the top quintile of all U.S. diversified non-listed participants and maintained a Green Star rating.
- Morgan Stanley Infrastructure partners (MSIP) considers a range of ESG issues throughout the investment process, including climate change, community impact, biodiversity, human rights and occupational safety. The team's flagship funds pursue a global OECD core plus strategy, and seek to acquire high-quality assets in the energy, utilities and transportation sectors, whose value may be significantly enhanced through operational improvements. A senior officer responsible for ESG performance regularly engages with the team's portfolio companies on ESG management, performance and strategic initiatives. For the 2017 GRESB Infrastructure Assessment, North Haven Infrastructure Partners II ranked first in a Management & Policy ranking of 64 funds, and ranked second in a Fund Score ranking of 64 funds.

- The Global Emerging Markets Equity team integrates ESG throughout its investment process at both the company engagement level and the top-down country analysis. As part of this approach, the team identified key ESG factors in the country allocation process, as well as key ESG factors that drive their engagement process. The team engages on ESG as a way to raise management awareness and potentially to have a positive impact on how such factors shape a company's performance. In addition, the team published [Our Approach to ESG](#), and has developed ESG-tailored client reports for each strategy.
- The International Equity team published "Seeking Sustainability," which details the investment team's approach to and integration of ESG considerations. With a fundamental, bottom-up investment style that focuses on investing in companies with good prospects for sustainable or improving returns on their capital over the long-term, ESG considerations form an important part of their process, as any material weakness in the ESG areas potentially threatens sustainability.
- The Growth team, which manages concentrated equity portfolios, continues to focus their investment style on high quality companies with sustainable competitive advantages, attractive free cash flow profiles and competitive rate of return expectations. Engagement on ESG issues included discussions with management teams of portfolio companies where there are clear enterprise value implications, including expected dilution from share-based-compensation. Data governance, security and risk management were other areas of high focus. Members of the investment team were also speakers at industry and academic ESG-focused conferences.
- The Global Opportunity team's investment process integrates analysis of sustainability with respect to disruptive change, financial strength, environmental and social externalities and governance, and operates with the belief that integrating ESG analysis can improve the investment risk and reward profile of client portfolios. In 2017, the team published [ESG and the Sustainability of Competitive Advantage](#).
- The Portfolio Solutions Group oversees cross-asset class mandates for our largest clients and strategic partners. In 2017, the team worked with a number of high net-worth individuals and institutions to create specific ESG mandates. Taking into account the specific mandate of the each client, the team focuses on assessing and categorizing potential and existing risks in specific investments and managers, and works to align investment decisions with larger ESG outcomes and priorities.

Morgan Stanley Institute for Sustainable Investing

The Morgan Stanley Institute for Sustainable Investing is dedicated to accelerating the adoption of sustainable investing strategies, which seek to deliver both competitive financial returns and positive environmental and social impact. The Institute:

- 1 **Fosters innovation** by leveraging our experience and market perspective to advance the field of sustainable investing.
- 2 **Produces informative analysis** and thought leadership to inform and empower investors.
- 3 **Helps develop the next generation** of sustainable investing leaders through strategic partnerships and programs.

FOSTERING INNOVATION

The Institute fosters innovation across sustainability products and services. We partner throughout the firm and with third parties to pioneer scalable sustainable finance solutions, build new sustainable investing tools and generate industry-leading insights for investors. For more information about Morgan Stanley's sustainable investing products and services across our three business segments, see the ESG Integration section of this report.

EMPOWERING INVESTORS THROUGH THOUGHT LEADERSHIP

The Institute develops insightful analysis to inform and empower investors. Our thought leadership work focuses on drivers for sustainable investing and pressing thematic issues such as climate change and inclusive growth. 2017 highlights included:

- [Sustainable Signals: New Data from the Individual Investor](#) polled 1,000 active individual investors to understand perceptions, interest, and trends in sustainable investing. The survey found that 75 percent of individual investors and 86 percent of millennial investors are interested in sustainable investing. 71 percent of investors believe that companies with leading sustainability practices may be better long-term investments, and 80 percent are interested in sustainable investments they can customize to meet their individual interests and goals.
- [Sustainable Value: Communicating ESG to the 21st Century Investor](#) generated valuable findings for corporations based on insights from interviews with seven leading companies and analysts from Morgan Stanley Equity Research. The paper reported a frequent disconnect between the information that investors and analysts want and what companies disclose. This signals a need for enhanced models of corporate sustainability reporting, proactive board and executive leadership, and greater collaboration between corporate investor relations and sustainability teams.

⁶ Based on gross asset value, as of December 31, 2017.

- A two-part study with the Economist Intelligence Unit explored the opportunity for technology investments to promote sustainable solutions to climate change and inclusive growth across geographies and markets. The [Inclusive Growth Opportunities Index](#) explored technologies that support inclusion across financial services, education, health care and gender themes. The [Climate Change Mitigation Opportunities Index](#) investigated technology solutions across five sectors: energy, transportation, industry, agriculture and the built environment.

Additionally, the Institute engages with stakeholders on opportunities to accelerate the adoption of sustainable business and sustainable investing. In 2017, the Institute represented the firm in the Ceres Investor Network on Climate Risk and Sustainability, and engaged with SASB, CDP and TCFD to understand the evolution of their frameworks. Morgan Stanley's Chief Sustainability Officer and a member of the Morgan Stanley Board of Directors are also board members of the SASB Foundation, helping to ensure that material emerging sustainability metrics are relevant to companies and investors.

DEVELOPING FUTURE LEADERS

Through capacity-building programs and strategic partnerships, the Institute helps train and develop the next generation of sustainable investing leaders. The [Morgan Stanley Sustainable Investing Fellowship](#) serves as a pipeline of future change makers in this rapidly evolving field. In 2017, three fellows worked across the firm on sustainable finance initiatives, in the Institute for Sustainable Investing, Wealth Management and Equity Research.

Each year, we host the [Kellogg-Morgan Stanley Sustainable Investing Challenge](#), in which graduate students develop and pitch new financial solutions to solve social and environmental challenges while delivering market rate returns. The 2017 Challenge attracted proposals from 37 schools across 15 countries.

Community Development

Morgan Stanley brings together investment, philanthropic and private capital to create lasting change for the better in communities across the United States. We use our strengths as an investment bank to devise new and innovative financial instruments that support and empower our community partners to achieve their goals. Our efforts focus on affordable housing, access to health care and healthy foods, and a thriving small-business community. The Community Development Advisory Board, a panel of outside experts, guides our approach in identifying and creating solutions to the most pressing needs in America's communities.

Since 2010, we have committed \$15.5 billion in community development loans and investments, funding more than 81,000 affordable housing units and helping to create or retain 93,000 jobs. In the same timeframe, we made 177 small-business loans and investments, totaling \$205 million, across the United States, including \$40 million in 2017.

In 2015, the most recent rating period, Morgan Stanley Private Bank, National Association (MSPBNA) received an "outstanding" rating from the Office of the Comptroller of the Currency (OCC) for the bank's record in meeting community needs. Both our national bank subsidiaries — MSPBNA and Morgan Stanley Bank, N.A. — have now achieved this highest-level rating under OCC review of community reinvestment activities (CRA).

Employees

Morgan Stanley's approximately 58,000 employees in more than 42 countries are our biggest asset. We believe that a strong and supportive culture, diverse and engaged employees, and a shared commitment to living our core values are essential to our business success.

Performance Management

Morgan Stanley looks to attract and retain a skilled workforce of talented and committed individuals who share our values and will make decisions that meet the expectations of our clients, shareholders, regulators, Board of Directors and the public. Our performance, pay and promotion processes are all designed to enhance and reinforce the firm's shared culture and values. When evaluating employees at year-end, we request wide-ranging feedback from managers and colleagues covering each individual's leadership performance overall, conduct, risk behavior and contributions to firm culture.

In 2017, we continued to enhance the process that links performance feedback with pay and promotion decisions, and compensation processes. In addition to traditional commercial considerations, we instructed managers to consider relevant conduct-related factors. These included departmental employee survey results for senior leaders, control function feedback, and disciplinary incidents. In addition, leaders were assessed on setting the tone from the top using data from departmental employee survey results for senior leaders as well as culture contributions.

During the year, we also released performance dashboards for more than 30,000 employees, which gave managers consolidated access to aggregated data. Managers certified that they reviewed the dashboards before writing employees' year-end performance summaries, and held individual performance review conversations with employees. Additionally, Branch Managers in our Wealth Management business assessed Financial Advisors on the same conduct criteria and communicated their findings to employees during year-end performance reviews.

PROMOTION VETTING

Morgan Stanley's leaders must reflect our values and ethical approach to business. To better align promotion decisions with performance and conduct, in 2017, we evaluated all managing director candidates for promotion against specific criteria on conduct and culture. In addition, promotion candidates at all levels were screened for disciplinary issues. At the most senior levels, our formal succession planning processes include culture dimensions and an evaluation of the employee's readiness for an identified future position.

Balancing Risk and Reward

We strive to reward high-performing employees with competitive compensation, including incentive awards. Our Global Incentive Compensation Discretion Policy establishes standards for such decisions, requiring compensation managers to consider only factors that are legitimate, business-related and consistent with our legal and regulatory obligations, policies and practices. In addition, compensation decisions cannot be influenced in any way by an eligible employee's participation in internal or external complaint, grievance or whistleblower process. In 2017, we completed 100 percent of performance reviews before discretionary incentive compensation decisions were made.

Morgan Stanley emphasizes a culture of accountability and continues to enhance our efforts throughout the firm. Since 2010, we have increased the control function headcount by 37 percent.

Where we identify and confirm risk-taker conduct that does not align with our policies, disciplinary action may be taken, including cancellation and clawback of compensation, amending promotion decisions or termination.

Employees are taking note of our efforts to enhance accountability. In our 2017 annual employee survey, 77 percent of employees agreed that there are personal consequences for those who do not demonstrate the firm's values, a 3 percent increase over 2016.

Culture

At Morgan Stanley, we believe a strong culture starts with our employees. The firm's core values — putting clients first, doing the right thing, leading with exceptional ideas and giving back — drive a shared set of behaviors and attributes that help employees make decisions consistent with the expectations of our Board of Directors, clients, shareholders, regulators, and the public.

Every year, we invite employees to share feedback in a wide-ranging anonymous survey covering questions relating to the firm's culture. In 2017, 89 percent of employees took part in the survey, the highest participation to date. The vast majority of respondents stated that they were proud to work for Morgan Stanley.

In 2015, we established a Culture, Values and Conduct Committee, a senior management committee, which oversees the firm’s approach and program, defines standards and informs firm-wide culture initiatives. The committee meets regularly to share updates on culture programs and reviews both quantitative and qualitative measures of culture. For more information, please see page 74 of Morgan Stanley’s [2017 Form 10-K](#).

RETAINING TALENT

Retaining talented and skilled employees is important to our continued business success in a highly competitive industry. In 2017, our voluntary turnover rates by region continued to remain stable or within expected ranges. A consistent range of employee turnover indicates the stability of our business, balanced by our ability to refresh talent from external sources.

Voluntary turnover rates by region (percent)

Region	2015	2016	2017
Asia Pacific	12	13	13
EMEA	12	10	12
North America	10	9	9

Diversity and Talent

At Morgan Stanley, we understand that diversity makes us stronger, and we are deeply committed to building an open, inclusive culture across our business. We proactively expand our community with diverse talent and new perspectives, and commit resources to developing a diverse and exceptional employee base. These efforts, in turn, help to shape and strengthen our business and build value for clients.

We are committed to a professional work environment that promotes equal opportunity, dignity and respect for everyone. Each of us is expected to recognize diverse points of view, make decisions based on merit and lead with integrity. We require all employees to understand and adhere to the letter and spirit of the non-discrimination and anti-harassment policy applicable to their region. Morgan Stanley maintains a zero-tolerance policy for harassment and discrimination.

DEVELOPING FINANCE CAREERS FOR ALL

We are committed to supporting the careers of historically underrepresented groups in our business and sector, including women and multicultural employees. Globally, we invest in a robust range of diversity and inclusion development programs to help recruit, retain and promote women and multicultural talent. Reflecting our progress, in 2017, women accounted for 19 percent of our managing directors, a steady increase from 14 percent in 2012.

Examples of our professional development programs, all of which drive development of key skills, networking, and exposure to senior management, include:

- Women’s Development Series and Platinum Program for Women.
- Leader Engagement and Development Program for Black and Hispanic officers of the firm.
- Multicultural Professional Development Series for junior talent.

In addition, our Return to Work program creates career re-entry opportunities for skilled professionals through a 12-week paid internship. Since its inception four years ago, more than 60 percent of participants globally received permanent job offers from Morgan Stanley. In 2017, applications opened for the first Wealth Management Return to Work cohort.

In EMEA, Morgan Stanley International was an early signatory of the Women in Finance Charter, a pledge to improve gender balance across the U.K. financial services industry.

In June of 2017, Morgan Stanley was one of the first major investment banks to join [the CEO Action for Diversity & Inclusion](#), a business community pledge to further efforts towards more diverse and inclusive workplaces through employee engagement and education, and the exchange of best practices. A commitment to diversity and inclusion is central to our culture and core values, and our sharper focus in this area in recent years has produced meaningful results. Our workforce is increasingly ethnically and gender diverse and multi-generational. Becoming the employer of choice for the best talent from all backgrounds requires that we take these results even further. This pledge by the business community is an important step.

GENDER PAY EQUITY

Attracting, retaining and advancing under-represented talent is a priority for Morgan Stanley, and a key aspect to this is ensuring that women and all other under-represented groups are rewarded equitably. We have robust compensation practices that work to ensure that compensation and reward decisions are made fairly and consistently, regardless of gender, and are based on an individual’s role, performance and experience. The firm reviews compensation decisions for employees on an ongoing basis, including at the point of hire as well as during our annual compensation process, to help ensure that individual compensation decisions are in-line with this philosophy. A diverse workforce is key to our success, and in line with that, we are committed to continually assessing our rewards structure and decisions to help ensure equity in pay for all employees.

NURTURING THE NEXT GENERATION OF DIVERSE TALENT

We also sponsor or co-sponsor a variety of events and programs designed to cultivate diversity in the next generation of financial services talent. In 2017, these included:

- Sponsoring, for the second time, the annual Black Ivy League Business Conference at the University of Pennsylvania's Wharton School of Business. The student-led event provided a platform for aspiring black trailblazers to learn from black influencers from multiple business sectors.
- Hosting Presenting Yourself Professionally, a training and networking event with students from Prep for Prep, a leadership development and gifted education program that offers promising students of color access to private school education. An alum who now works at Morgan Stanley led the session.
- Attending the annual Gender Equality Challenge Forum, a showcase of leading gender equality models and practices hosted by the City of San Francisco's Department on the Status of Women. Our Return to Work program received an award at the event for its contribution to creating equal opportunity for all genders and income levels.

MULTICULTURAL INNOVATION LAB

In 2017, Morgan Stanley launched an in-house tech accelerator, [the Multicultural Innovation Lab](#), for early stage technology and technology-enabled startups led by women and multicultural entrepreneurs. Would-be startup founders applied for a 20-week program in which they received customized learning and development training, office space in our NYC global headquarters, networking opportunities across the firm and a cash contribution from Morgan Stanley in exchange for equity interest. The program culminated in a pitch day showcasing each company to the investor community.

The inaugural 2017 cohort included five diverse startups:

- Trigger Finance, an investing platform for retail investors using natural language technology.
- Kairos, an artificial intelligence company specializing in face recognition and emotional analysis.
- GitLinks, a service that continuously monitors and analyzes open source code for application security and license compliance.
- AptDeco, a furniture resale market that manages delivery and payment on behalf of buyers and sellers through a proprietary on-demand logistics platform.
- Landit, a digital career development platform that provides personalized guidance for women and helps companies build the skills of female employees.

Each company graduated from the Morgan Stanley Multicultural Innovation Lab with more capital, greater capacity and enduring relationships. One of the companies was acquired while in the Lab as a result of the increased visibility it received as a participant in the program.

SUPPORTING DIVERSITY IN OUR COMMUNITIES

Morgan Stanley's commitment to a culture of inclusion extends beyond our own walls into the wider community. Examples from 2017 of how we support inclusion, and live our core value to do the right thing, include:

- Building on our long-standing commitment to the LGBT community by hosting our first contingent in the New York City Pride March.
- Joining the amicus brief in *Evans v. Georgia Regional Hospital* asking the U.S. Supreme Court to rule that Title VII's protections against employment discrimination based on sex include those based on sexual orientation.

Diversity in the U.S.

Level	Black or African-American (%)	Hispanic or Latino (%)	Asian (%)	American-Indian or Alaskan Native (%)	Native-Hawaiian or Pacific Islander (%)	Two or More Races (%)	White (%)	Female (%)
Executives / Senior Officers and Managers	2.2	2.4	10.5	0.0	0.0	0.7	84.2	19.6
First / Mid Officers and Managers	5.2	5.4	22.2	0.4	0.1	1.1	65.5	35.9
Professionals	8.8	7.6	22.4	0.4	0.2	2.1	58.4	42.0
Sales Workers	2.1	5.3	4.9	0.2	0.1	1.0	86.5	18.5
Administrative Support Workers	8.5	11.0	6.5	0.3	0.5	1.6	71.6	78.6

- Hosting a panel discussion led by our Pride & Ally Network on LGBT rights in today's social and political environment. Event partners included New York's LGBT Community Center, Lambda Legal, Immigration Equality and the Human Rights Campaign.
- Assembling "comfort kits" for hurricane evacuees from Puerto Rico and the U.S. Virgin Islands, in partnership with the Red Cross. Members of our Latino Employee Network led the effort.

AWARDS AND RECOGNITION

Morgan Stanley received the following accolades in 2017 for continued commitment to recruiting, developing and advancing a diverse workforce:

- Human Rights Campaign's Best Places to Work, 100 percent on the Corporate Equality Index
- Working Mother's Best Company for Multicultural Women
- Working Mother's Best 100 Companies for Women
- Black Enterprise's 50 Best Companies for Diversity
- LATINA Style's 50 Best Companies to Work for in the U.S.
- The Times' Top 50 Employers for Women in the U.K.
- Community Business's Top Five Employers in Hong Kong for LGBT Inclusion

Employee Wellness

Morgan Stanley continues to offer comprehensive health benefits to assist our employees and their families, especially when serious health issues arise. Choice of benefits includes medical, dental and vision coverage; tax-advantaged flexible spending and health savings accounts, as well as critical illness, accident, disability and life insurances.

We partner with top health and family-care carriers and facilities to provide employees and their dependents access to the best-possible care. In 2017, we introduced specialized services like priority access to top cancer specialists and plan design incentives at certain in-network preferred substance and alcohol abuse treatment facilities. Our medical second-opinion program, 2nd.MD, continued to help even more employees and their families through their most challenging medical issues. 2nd.MD helped save them time and money, and gave them peace of mind. We also introduced hospital indemnity insurance, which pays a lump-sum amount for hospitalization expenses due to a covered accident, illness, planned procedure or pregnancy.

In 2017, Morgan Stanley enhanced its Parental Leave Policy in the U.S., providing primary care-givers with increased flexibility on when they take their 16 weeks of paid leave, and extending paid time off for non-primary caregivers to four weeks, provided the employee has been with the firm for at least one year.

At Morgan Stanley, we strive to make it simple and convenient for employees to achieve their wellness goals. We continue to offer global health education and resources, such as stress management advice and on-site access to preventive screenings. Our on-site wellness centers in the New York metro area, London and Tokyo provide health care providers, physical therapists, fitness facilities and complimentary health coaching. In 2017, we introduced on-site dermatology and podiatry services at our flagship health center in New York City.

New wellness campaigns, communications and analytics allowed us to target and engage employees, so they better understand the wealth of health resources available to them. One successful example was our global cancer awareness and support campaign, which allowed us to highlight support resources and survivors in our community, and engage over 26,000 employees worldwide on National Mammography Day (U.S.) and Wear It Pink Day (U.K.). As a result, employee participation in key health and wellness programs rose in 2017.

In 2018, we will continue to introduce new resources that provide access to quality, affordable health care to our employees and their families. Our Benefits Advocates—a concierge service that will be launched in the spring—will be dedicated to helping employees make the most of their benefits and guide them through all of their health care needs. And, at our flagship health center in New York City, an on-site workplace counselor will be available to employees at no cost.

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Investing in the market entails risk of market volatility. The value of all types of investments may increase or decrease over varying time periods.

Equity securities' prices may fluctuate in response to specific situations for each company, industry, market condition and general economic environment. Companies paying dividends can reduce or cut payouts at any time.

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

International investing entails greater risk, as well as greater potential rewards compared to U.S. investing. These risks include political and economic uncertainties of foreign countries as well as the risk of currency fluctuations. These risks are magnified in countries with emerging markets, since these countries may have relatively unstable governments and less established markets and economics.

REITs' investing risks are similar to those associated with direct investments in real estate; lack of liquidity, limited diversification and sensitivity to economic factors such as interest rate changes and market recessions.

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

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

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

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

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

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

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

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