

Key Fixed Income ESG Considerations for 2023

FIXED INCOME TEAM | INVESTMENT INSIGHT | 2023

The year 2022 undoubtedly tested the durability of the sustainable-labelled debt market. The Russia-Ukraine conflict, the resulting energy crisis and rising inflation led to market volatility and higher interest rates, which deterred issuers of Green and other labelled Sustainable Bonds, albeit to a lesser degree than traditional bond supply.

While we expect some of the macro headwinds will continue to impact the market in 2023, a rebounding sustainable bond market can continue feeding opportunities for fixed income investors to mobilise capital towards ESG-related projects and targets, as client focus on sustainability objectives such as the net-zero transition expands to their debt holdings.

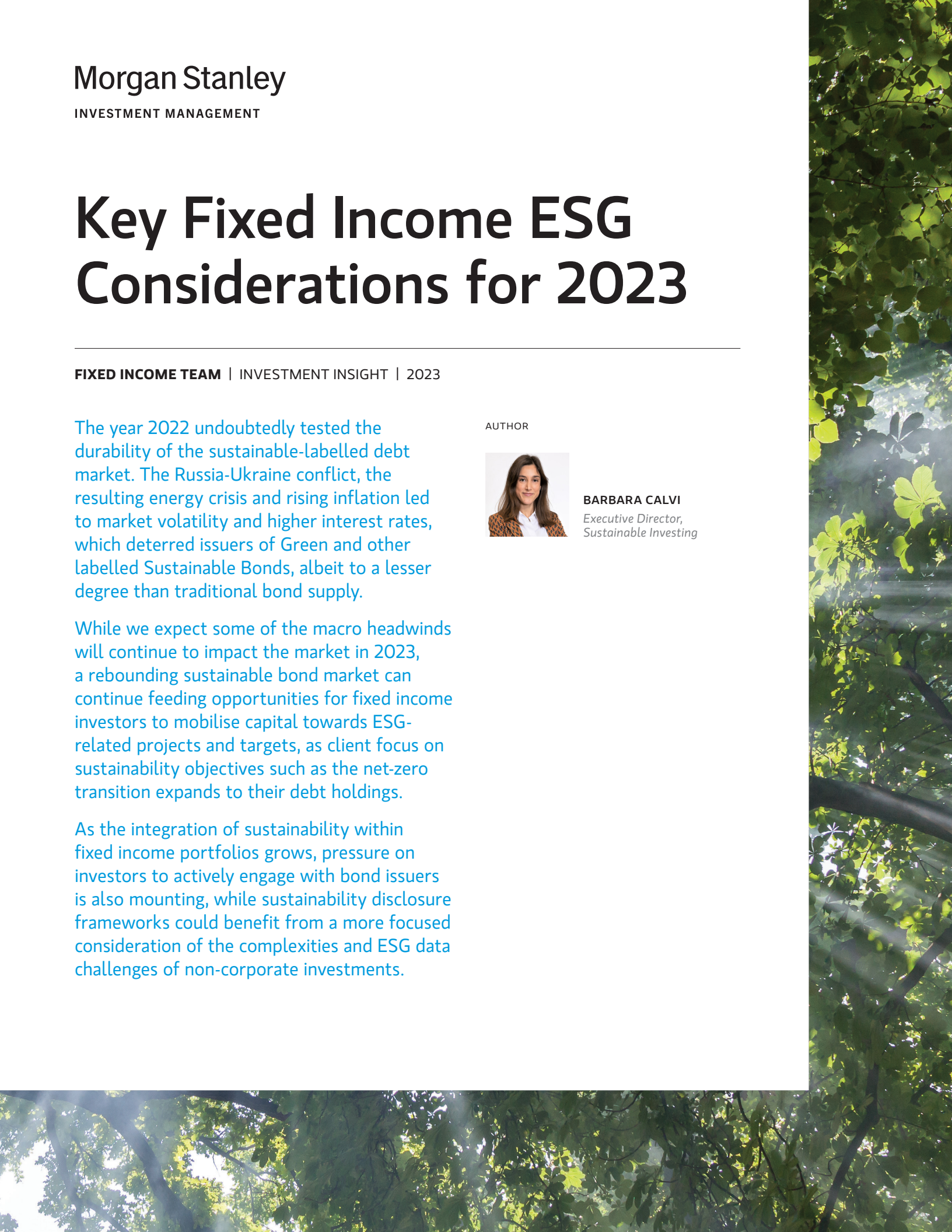
As the integration of sustainability within fixed income portfolios grows, pressure on investors to actively engage with bond issuers is also mounting, while sustainability disclosure frameworks could benefit from a more focused consideration of the complexities and ESG data challenges of non-corporate investments.

AUTHOR



BARBARA CALVI

*Executive Director,
Sustainable Investing*



1. Labelled supply rebound in 2023: Sustainable Bonds will continue to provide opportunities to invest in real-world outcomes, however subject to growing scrutiny on their integrity

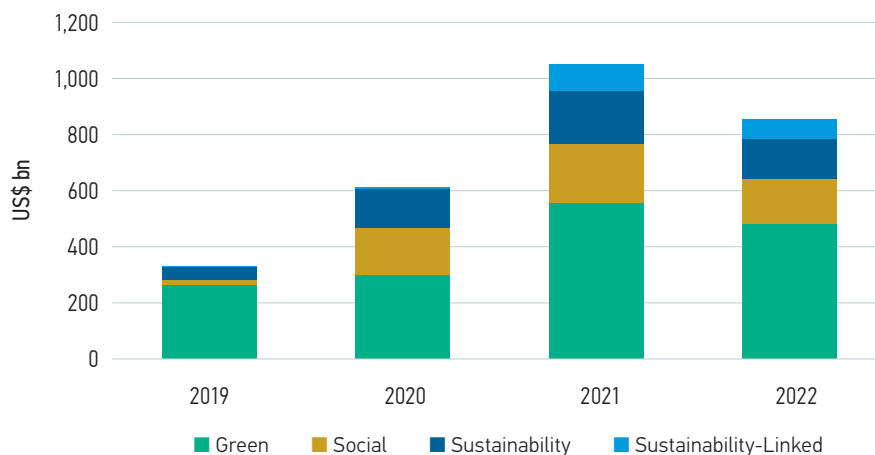
2022 has been an exceptionally tumultuous year for the bond market. Absolute global supply of Green, Social, Sustainability and Sustainability-Linked bonds (“Sustainable Bonds”) fell victim of the broader market trend, stopping short of \$850 billion in new issuance, almost a fourth below 2021 levels. Still, in relative terms, labelled bonds continued their march toward becoming mainstream, reaching approximately 30% of total new issuance for EUR IG and EUR HY.¹

With a forecasted 2023 rebound to ~\$1 trillion labelled issuance, we believe sustainable Bonds continue to represent an effective tool for fixed income portfolios to invest in sustainability objectives such as climate change mitigation and adaptation, equality, and job creation. This is further incentivised by policy measures such as the US Inflation Reduction Act, the EU Taxonomy and Carbon Border Adjustment Mechanism (CBAM), and the UK Transition Plan, among others.

Evolving regulation, especially in Europe, has, however, also introduced a greater degree of scrutiny on bond labels, with a skew of investor preference towards use of proceeds structures (characterising Green, Social and Sustainability Bonds) with an identified pool of environmental and/or social projects, which can more easily fit the definition of a “sustainable investment” under the EU Sustainable Finance Disclosure Regulation (SFDR). Greater regulation-driven demand to buy those bonds could drive “greeniums” up again.²

Sustainability-Linked Bonds (SLBs), with their general corporate purpose nature, have on the other hand triggered

DISPLAY 1
Labelled Sustainable Bond Issuance, 2019-2022



Source: Environmental Finance Data

increasing scepticism around their integrity. This is partially due to their appeal to companies from more carbon-intensive sectors. In addition, targets often lack credibility: for example, lack of consistent external assurance of the science-aligned nature of carbon reduction target used in a transaction. Credibility is further called into question when issuers look to revise their initial targets to be less ambitious, as was seen during the energy crisis in 2022. The first failure by one company to achieve its SLB target, which triggered the bond coupon step-up, was met with a largely neutral impact on the bond price, raising further questions about these instruments’ credibility and effectiveness.

We think SLBs remain a potentially effective alternative to use of proceeds bonds for less capex-intensive issuers, if structured in line with best practice. They could, for instance, be used to support specific biodiversity objectives for which it is challenging to find sufficient volumes of proceeds. In addition, sustainability-linked financing can be a powerful instrument to

keep governments accountable on their climate-related and sustainable development pledges, including through changing administrations. 2022 saw the debut of SLBs in the sovereign space, with Chile and Uruguay issuing the first two bonds in this format. SLBs could be a viable route to facilitate the access of smaller, emerging market economies to debt markets, while providing investors with greater transparency associated with the reporting and external verification requirements of labelled transactions.

Moving into 2023, we believe the following considerations will be pivotal to the maturing and further mainstreaming of Sustainable Bonds:

- **ENHANCED IMPACT REPORTING:** impact data for Sustainable Bonds has been, to date, hard to track and aggregate for portfolio-level reporting. This is due to issuer impact reporting not being necessarily aligned with financial reporting timeframes, the use of bespoke metrics and methodologies that make aggregation challenging, and difficulties around the attribution of impact to a specific bond and,

¹ Note: a large portion of EUR HY debt was issued in Sustainability-Linked format, versus predominantly Green/Social/Sustainability use of proceeds format for EUR IG. Source: Morgan Stanley Research, HSBC Research, Bloomberg.

² Sustainability in 2023: Outlook and Key Trends, Morgan Stanley Research.

even more granularly, the portion of financing allocated to projects generating that impact. We expect this to improve in 2023, as issuers face more pressure to enhance sustainability and impact-related disclosure, and as a number of data providers work on impact datasets that can facilitate investor use of this information.

- **ESTABLISHMENT OF A MARKET-WIDE CARBON ACCOUNTING METHODOLOGY FOR GREEN BONDS:**

for diversified sustainable fixed income strategies, which invest in a combination of labelled and non-labelled bonds, one of the key portfolio carbon reporting challenges lays in demonstrating the environmental benefits of holding a bond in green versus vanilla format. The finalisation of the Green Bond methodology by the Partnership for Carbon Accounting Financials (PCAF), and broad-based agreement amongst market players on how to account for issuer-level versus security-level emissions for labelled bond holdings, could add to the demand for these instruments and help investors manage their portfolio decarbonisation more accurately.

- **GREATER STANDARDISATION AND TRANSPARENCY ON SLBS:**

ongoing work by the International Capital Market Association (ICMA), of which MSIM is a member, in relation to their Sustainability-Linked Bond Principles and related Working Groups, will contribute to raising the bar, as well as individual and collaborative engagement from investors with SLB issuers. Key areas for improvement include clarifying what an “ambitious” target means, establishing the relevance and materiality of penalty mechanisms, developing processes for amending indicators and target values, and defining minimum requirements for considering SLBs sustainable investment, including under SFDR.

2. Levelling up engagement with debt issuers: aiming for enhanced collaboration and long-term influence

As the implementation of ESG factors within Fixed Income portfolios continues to rise globally, from 42% of investors doing it in 2021 to 76% in 2022,³ and requirements for stewardship codes compliance and climate reporting toughen (e.g., UK Financial Conduct Authority requiring large financial institutions to report in line with the Task Force on Climate-related Financial Disclosures, or “TCFD”, by June 2023), bondholders are called to collaborate with equity holders to align their sustainability expectations when engaging in company dialogue, aiming to exert long-term influence on management. The Investment Association recently published guidelines on [improving fixed income stewardship](#), recommending more intentional ESG-focused engagement to complement the more traditional information-gathering credit meetings.

We anticipate the following engagement priorities for fixed income investors during this year:

- **A THEMATIC FOCUS AROUND SUSTAINABILITY ISSUES THAT NEED SIGNIFICANT DEBT FINANCING TO BE ADDRESSED, INCLUDING THROUGH EXTERNAL COLLABORATIONS:** key themes include human rights to support a “just” transition, net zero alignment, and biodiversity, targeting, in particular, the automotive, mining, utility and energy sectors, through scrutiny on the deployment of their financing plans. Credit teams will play an increasingly active role as part of investors’ participation to collaborative platforms: for example, MSIM has joined the [PRI Advance](#) initiative on human rights stewardship, with the Fixed Income team leading the dialogue with selected companies, in coordination with the Global Stewardship team.

- **DEEPER ENGAGEMENT ON SUSTAINABILITY-LINKED FINANCING TERMS, PARTICULARLY WITHIN HIGH YIELD:**

to drive the above-mentioned improved credibility in this type of issuance, fixed income investors should engage with issuers to help develop more robust sustainability-linked financing frameworks. This is especially relevant within the high yield market, which has shown the greatest appetite for this format. This includes early discussions on what sustainability indicators or underlying targets are appropriate in the context of an SLB, where investor consent should be sought for amendments to any of the bond terms, and the appropriateness of penalties. To this end, investors should also establish a constructive dialogue with standard setting bodies, industry associations, such as ICMA, as mentioned above, and third-party verification providers.

- **LEVERAGING UNIQUE ACCESS TO SOVEREIGN BOND ISSUERS:** despite a new higher-rates status quo, debt markets will continue playing a key role in financing the ambitious projects needed across the global economy to meet the Paris Agreement objectives and the UN Sustainable Development Goals. The universe of sovereign bond issuers is also significantly smaller—in terms of total number of countries—compared to the thousands of corporate bond issuers, making it potentially more costly for investors to substitute an investment if a country presents sustainability concerns. Fixed income investors should therefore contribute to keeping governments accountable for their pledges, while taking into consideration the specific priorities of developed and emerging markets.

As presented in our [2022 Engagement Report](#), the MSIM Fixed Income team⁴ conducted almost 150 ESG-focused

³ Source: Index Industry Association.

⁴ + MSIM Fixed Income refers to legacy MSIM, excluding Calvert and Eaton Vance.

engagement meetings in the past year, with almost one-third influencing our investment strategy. We continue to make targeted, constructive engagement a priority, collaborating with the Global Stewardship team and other investment teams to leverage our exposure across the capital structure and across organisations to make more informed investment decisions, ensure accountability around sustainability issues, and help drive positive change.

3. Sustainability disclosure—the tip of the iceberg for fixed income: bespoke guidance on non-corporate investments and more security-level data can drive higher quality disclosure across asset classes

The regulatory push on sustainability-related disclosures, through SFDR in the EU and analogous ongoing efforts in the UK, the US, and several Asia-Pacific countries, is contributing to ensuring greater transparency in the sustainable investing market and a more responsible use of sustainability-related terminology in product names.

Most disclosure frameworks are largely focused on corporate investments, suitable to equity investors but leaving multiple challenges for fixed income to grapple with, given the diversity of asset classes within this universe.

As such frameworks evolve, we think greater standardisation on the following aspects can help catalyse more sustainable investing allocations to fixed income:

- **ACCOUNTING FOR SOVEREIGN INVESTMENTS:** the dependency of country-level sustainability outcomes on corporate activity in their jurisdiction represents a measurement hurdle. Finding sustainability, and especially carbon-related metrics, suitable to both developed and emerging countries, which can be aggregated at the portfolio level, is also challenging, and may introduce some bias. For example, the link between

sovereign indebtedness and carbon in the calculation of financed emissions is, at best, very tenuous in our view. In addition, government bond portfolios can be characterised by significant derivative holdings, including in currencies. We believe it is important for investors to be aware of this exposure, albeit indirect, when assessing portfolios through a sustainability lens, and to develop thoughtful approaches to track the sustainability-related progress of their portfolios.

- **SUSTAINABILITY ALIGNMENT OF SECURITISATIONS:** the elephant in the room is the lack of consistent access to data for many mortgage- and asset-based securities, which can hinder investors' ability to assess the positive or negative sustainability impacts of these investments. This currently requires the deployment of extensive research capabilities and resources. Enhanced disclosure by originators and servicers on the underlying loans and collateral can facilitate the due diligence and regular monitoring of their environmental and/or social alignment.
- **ISSUER- VERSUS SECURITY-LEVEL SCREENING:** while most positive and negative screening is usually conducted at the issuer-level, we believe there is merit for assessing at least certain sustainability characteristics at the security level; for example in the case of Sustainable Bonds and securitisations, given the greater transparency on their use of proceeds. Affirming this process could further incentivise demand for these products.

We recognise the regulatory and standards-setting landscapes are progressing fast, and we expect some of these aspects to be tackled in more detail in the course of the year. Data availability and quality will play a major role in determining fixed income investors' ability to expand the spectrum of investments that they can analyse and potentially classify according to varying

degrees of sustainability criteria. At MSIM, we have developed methodologies to assess [sovereign](#), [securitised](#), and [labelled Sustainable Bond](#) investments.

As more jurisdictions design their own approaches to sustainability disclosures, they should build on the EU experience and aim to take some of these issues into account from the outset.

2023: Time to Stop, Collaborate and Listen

After the exceptional uncertainty of 2022, this is the year in which investors' attention turns to a more promising [fixed income outlook](#). We expect it will be a crucial year to consolidate the credibility of the labelled Sustainable Bond market. This could mean temporarily putting on hold the supply-side push on innovation and be more thoughtful about the role these instruments play, including within the new regulatory regimes taking shape across Europe, North America, and Asia. Labelled debt, when robustly structured, can represent (at least temporarily) a safe harbour from the risk of greenwashing that is embedded in otherwise vaguely defined sustainable investments.

We believe that engagement should start bearing fruit, with concrete evidence of action—both from issuers to implement recommendations, and from investors to reflect that in their investment strategy. Fixed income investors will likely be more empowered and have a stronger voice at the table to utilise their holdings to influence issuers and drive forward key sustainability themes.

Finally, as regulators across geographies learn from the experiences of SFDR to establish new disclosure frameworks, it is critical that they take into consideration the complexities of fixed income investments, in order to ensure a level playing field in the offering of sustainable products and a more comprehensive application of enhanced transparency requirements across the market.

Risk Considerations

There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to **market risk**, which is the possibility that the market values of securities owned by the portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing in a portfolio. **Fixed-income securities** are subject to the ability of an issuer to make timely principal and interest payments (credit risk), changes in interest rates (interest rate risk), the creditworthiness of the issuer and general market liquidity (market risk). In a rising interest-rate environment, bond prices may fall and may result in periods of volatility and increased portfolio redemptions. In a declining interest-rate environment, the portfolio may generate less income. **Longer-term securities** may be more sensitive to interest rate changes. Certain **U.S. government securities** purchased by the strategy, such as those issued by Fannie Mae and Freddie Mac, are not backed by the full faith and credit of the U.S. It is possible that these issuers will not have the funds to meet their payment obligations in the future. **Public bank loans** are subject to liquidity risk and the credit risks of lower-rated securities. **High-yield securities (junk bonds)** are lower-rated securities that may have a higher degree of credit and liquidity risk. **Sovereign debt securities** are subject to default risk. **Mortgage- and asset-backed securities** are sensitive to early prepayment risk and a higher risk of default, and may be hard to value and difficult to sell (**liquidity risk**). They are also subject to credit, market and interest rate risks. The **currency market** is highly volatile. Prices in these markets are influenced by, among other things, changing supply and demand for a particular currency; trade; fiscal, money and domestic or foreign exchange control programs and policies; and changes in domestic and foreign interest rates. Investments in **foreign markets** entail special risks such as currency, political, economic and market risks. The risks of investing in **emerging market** countries are greater than the risks generally associated with foreign investments. **Derivative instruments** may disproportionately increase losses and have a significant impact on performance. They also may be subject to counterparty, liquidity, valuation, and correlation and market risks. **Restricted and illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk). Due to the possibility that prepayments will alter the cash flows on **collateralized mortgage obligations (CMOs)**, it is not possible to determine in advance their final maturity date or average life. In addition, if the collateral securing the CMOs or any third-party guarantees are insufficient to make payments, the portfolio could sustain a loss.

ESG Strategies that incorporate impact investing and/or **Environmental, Social and Governance (ESG)** factors could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. As a result, there is no assurance ESG strategies could result in more favorable investment performance

IMPORTANT INFORMATION

There is no guarantee that any investment strategy will work under all market conditions, and each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market.

A separately managed account may not be appropriate for all investors. Separate accounts managed according to the particular strategy may include securities that may not necessarily track the performance of a particular index. Please consider the investment objectives, risks and fees of the Strategy carefully before investing. A minimum asset level is required. For important information about the investment managers, please refer to Form ADV Part 2.

The views and opinions and/or analysis expressed are those of the author or the investment team as of the date of preparation of this material and are subject to change at any time without notice due to market or economic conditions and may not necessarily come to pass. Furthermore, the views will not be updated or otherwise revised to reflect information that subsequently becomes available or circumstances existing, or changes occurring, after the date of publication. The views expressed do not reflect the opinions of all investment personnel at Morgan Stanley Investment Management (MSIM) and its subsidiaries and affiliates (collectively "the Firm") and may not be reflected in all the strategies and products that the Firm offers.

Forecasts and/or estimates provided herein are subject to change and may not actually come to pass. Information regarding expected market returns and market outlooks is based on the research, analysis and opinions of the authors or the investment team. These conclusions are speculative in nature, may not come to pass and are not intended to predict the future

performance of any specific strategy or product the Firm offers. Future results may differ significantly depending on factors such as changes in securities or financial markets or general economic conditions.

This material has been prepared on the basis of publicly available information, internally developed data and other third-party sources believed to be reliable. However, no assurances are provided regarding the reliability of such information and the Firm has not sought to independently verify information taken from public and third-party sources.

This material is a general communication, which is not impartial and all information provided has been prepared solely for informational and educational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The information herein has not been based on a consideration of any individual investor circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

Charts and graphs provided herein are for illustrative purposes only. **Past performance is no guarantee of future results.**

This material is not a product of Morgan Stanley's Research Department and should not be regarded as a research material or a recommendation.

The Firm has not authorised financial intermediaries to use and to distribute this material, unless such use and distribution is made in accordance with applicable law and regulation. Additionally, financial intermediaries are required to satisfy themselves that the information in this material is appropriate for any person to whom they provide this material in view of that person's

circumstances and purpose. The Firm shall not be liable for, and accepts no liability for, the use or misuse of this material by any such financial intermediary.

This material may be translated into other languages. Where such a translation is made this English version remains definitive. If there are any discrepancies between the English version and any version of this material in another language, the English version shall prevail.

The whole or any part of this material may not be directly or indirectly reproduced, copied, modified, used to create a derivative work, performed, displayed, published, posted, licensed, framed, distributed or transmitted or any of its contents disclosed to third parties without the Firm's express written consent. This material may not be linked to unless such hyperlink is for personal and non-commercial use. All information contained herein is proprietary and is protected under copyright and other applicable law.

DISTRIBUTION

This material is only intended for and will only be distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations.

MSIM, the asset management division of Morgan Stanley (NYSE: MS), and its affiliates have arrangements in place to market each other's products and services. Each MSIM affiliate is regulated as appropriate in the jurisdiction it operates. MSIM's affiliates are: Eaton Vance Management (International) Limited, Eaton Vance Advisers International Ltd, Calvert Research and Management, Eaton Vance Management, Parametric Portfolio Associates LLC and Atlanta Capital Management LLC.

This material has been issued by any one or more of the following entities:

EMEA:

This material is for Professional Clients/Accredited Investors only.

In the EU, MSIM materials are issued by MSIM Fund Management (Ireland) Limited ("FMIL"). FMIL is regulated by the Central Bank of Ireland and is incorporated in Ireland as a private company limited by shares with company registration number 616661 and has its registered address at The Observatory, 7-11 Sir John Rogerson's Quay, Dublin 2, D02 VC42, Ireland.

Outside the EU, MSIM materials are issued by Morgan Stanley Investment Management Limited (MSIM Ltd) is authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No. 1981121. Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA.

In Switzerland, MSIM materials are issued by Morgan Stanley & Co. International plc, London (Zurich Branch) Authorised and regulated by the Eidgenössische Finanzmarktaufsicht ("FINMA"). Registered Office: Beethovenstrasse 33, 8002 Zurich, Switzerland.

Italy: MSIM FMIL (Milan Branch), (Sede Secondaria di Milano) Palazzo Serbelloni Corso Venezia, 16 20121 Milano, Italy. **The Netherlands:** MSIM FMIL (Amsterdam Branch), Rembrandt Tower, 11th Floor Amstelplein 1 1096HA, Netherlands. **France:** MSIM FMIL (Paris Branch), 61 rue de Monceau 75008 Paris, France. **Spain:** MSIM FMIL (Madrid Branch), Calle Serrano 55, 28006, Madrid, Spain. **Germany:** MSIM FMIL (Frankfurt Branch), Grosse Gallusstrasse 18, 60312 Frankfurt am Main, Germany (Gattung: Zweigniederlassung (FDI) gem. § 53b KWG). **Denmark:** MSIM FMIL (Copenhagen Branch), Gorrissen Federspiel, Axel Towers, Axeltorv2, 1609 Copenhagen V, Denmark.

MIDDLE EAST

Dubai: MSIM Ltd (Representative Office, Unit Precinct 3-7th Floor-Unit 701 and 702, Level 7, Gate Precinct Building 3, Dubai International Financial Centre, Dubai, 506501, United Arab Emirates. Telephone: +97 (0)14 709 7158).

This document is distributed in the Dubai International Financial Centre by Morgan Stanley Investment Management Limited (Representative Office), an entity regulated by the Dubai Financial Services Authority ("DFSA"). It is intended for use by professional clients and market counterparties only. This document is not intended for distribution to retail clients, and retail clients should not act upon the information contained in this document.

This document relates to a financial product which is not subject to any form of regulation or approval by the DFSA. The DFSA has no responsibility for reviewing or verifying any documents in connection with this financial product. Accordingly, the DFSA has not approved this document or any other associated documents nor taken any steps to verify the information set out in this document, and has no responsibility for it. The financial product to which this document relates may be illiquid and/or subject to restrictions on its resale or transfer. Prospective purchasers should conduct their own due diligence on the financial product. If you do not understand the contents of this document, you should consult an authorised financial adviser.

US

NOT FDIC INSURED | OFFER NO BANK GUARANTEE | MAY LOSE VALUE | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY | NOT A DEPOSIT

Latin America (Brazil, Chile Colombia, Mexico, Peru, and Uruguay)

This material is for use with an institutional investor or a qualified investor only. All information contained herein is confidential and is for the exclusive use and review of the intended addressee, and may not be passed on to any third party. This material is provided for informational purposes only and does not constitute a public offering, solicitation or recommendation to buy or sell for any product, service, security and/or strategy. A decision to invest should only be made after reading the strategy documentation and conducting in-depth and independent due diligence.

ASIA PACIFIC

Hong Kong: This material is disseminated by Morgan Stanley Asia Limited for use in Hong Kong and shall only be made available to "professional investors" as defined under the Securities and Futures Ordinance of Hong Kong (Cap 571). The contents of this material have not been reviewed nor approved by any regulatory authority including the Securities and Futures Commission in Hong Kong. Accordingly, save where an exemption is available under the relevant law, this material shall not be issued, circulated, distributed, directed at, or made available to, the public in Hong Kong. **Singapore:** This material is disseminated by Morgan Stanley Investment Management Company and may not be circulated or distributed, whether directly or indirectly, to persons in Singapore other than to (i) an accredited investor (ii) an expert investor or (iii) an institutional investor as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore ("SFA"); or (iv) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. This publication has not been reviewed by the Monetary Authority of Singapore. **Australia:** This material is provided by Morgan Stanley Investment Management (Australia) Pty Ltd ABN 22122040037, AFSL No. 314182 and its affiliates and does not constitute an offer of interests. Morgan Stanley Investment Management (Australia) Pty Limited arranges for MSIM affiliates to provide financial services to Australian wholesale clients. Interests will only be offered in circumstances under which no disclosure is required under the Corporations Act 2001 (Cth) (the "Corporations Act"). Any offer of interests will not purport to be an offer of interests in circumstances under which disclosure is required under the Corporations Act and will only be made to persons who qualify as a "wholesale client" (as defined in the Corporations Act). This material will not be lodged with the Australian Securities and Investments Commission.

Japan:

For professional investors, this document is circulated or distributed for informational purposes only. For those who are not professional investors, this document is provided in relation to Morgan Stanley Investment Management (Japan) Co., Ltd. ("MSIMJ")'s business with respect to discretionary investment management agreements ("IMA") and investment advisory agreements ("IAA"). This is not for the purpose of a recommendation or solicitation of transactions or offers any particular financial instruments. Under an IMA, with respect to management of assets of a client, the client prescribes basic management policies in advance and commissions MSIMJ to make all investment decisions based on an analysis of the value, etc. of the securities, and MSIMJ accepts such commission. The client shall delegate to MSIMJ the authorities necessary for making investment. MSIMJ exercises the delegated authorities based on investment decisions of MSIMJ, and the client shall not make individual instructions. All investment profits and losses belong to the clients; principal is not guaranteed. Please consider the investment objectives and nature of risks before investing. As an investment advisory fee for an IAA or an IMA, the amount of assets subject to the contract multiplied by a certain rate (the upper limit is 2.20% per annum (including tax)) shall be incurred in proportion to the contract period. For some strategies, a contingency fee may be incurred in addition to the fee mentioned above. Indirect charges also may be incurred, such as brokerage commissions for incorporated securities. Since these charges and expenses are different depending on a contract and other factors, MSIMJ cannot present the rates, upper limits, etc. in advance. All clients should read the Documents Provided Prior to the Conclusion of a Contract carefully before executing an agreement. This document is disseminated in Japan by MSIMJ, Registered No. 410 (Director of Kanto Local Finance Bureau (Financial Instruments Firms)), Membership: The Japan Securities Dealers Association, the Investment Trusts Association, Japan, the Japan Investment Advisers Association and the Type II Financial Instruments Firms Association.

Explore our site at www.morganstanley.com/im