

Morgan Stanley

# 2021 Sustainability Report





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# From Our CEO

As a global leader in financial services, Morgan Stanley has a responsibility to the communities in which we live and work.

The ongoing pandemic continued to create economic uncertainty as well as physical and mental distress over the past year. Extreme weather events continue to drive home the daunting reality that the climate crisis is already with us, and racial tensions continue to remind us that it is critical to focus on diverse representation and racial equity. We are committed to using our resources as a financial institution to help in these areas.

The firm's Sustainability, Climate, and Diversity & Inclusion Reports provide transparency around our strategy and objectives on these important and interrelated topics for our employees, clients and shareholders. Our decision to coordinate the publication of these reports will further enhance access to this information. I am proud that employees across Morgan Stanley are deeply engaged in our shared responsibility to drive change. Below are a few highlights from each report:

## SUSTAINABILITY

- The firm committed to mobilize \$1 trillion by 2030 to support environmental and social solutions that relate to the U.N. Sustainable Development Goals.
- We selected the first cohort of our Sustainable Solutions Collaborative, which aims to address the most complex global sustainability issues, such as climate change, social justice and plastic waste by supporting innovators of transformative solutions.
- We launched the Future of Plastic Index, in partnership with Solactive and ISS ESG, which features companies leading on solutions to the plastic waste crisis.

## CLIMATE

- Building on our commitment to reach net-zero financed emissions by 2050, the firm set [interim financed emission reduction targets](#) in 2021 for lending activities in three carbon-intensive sectors—auto manufacturing, energy and power—to mitigate climate risk, support low-carbon innovation and look to the long term.
- The year closed with the COP26 climate conference in Glasgow, where business and finance leaders joined governments in supporting positive and systemic global change. Morgan Stanley was one of 450 financial service providers representing over \$130 trillion in private capital to join the Glasgow Financial Alliance for Net-Zero (GFANZ), an organization that aims to decarbonize the global economy.

## DIVERSITY & INCLUSION

- The firm has made progress as we continue to focus on increasing diverse representation across our workforce. More immediately, we have set goals to increase the number of women officers globally by 25%, and Black and Hispanic officers in the U.S. by 50% and in 2021 we made meaningful progress towards those goals. Our new Managing Director class reached historic highs for diverse groups, with women representing one-third of promotes globally; and we saw continued growth in the U.S. for Black, Hispanic and Asian Managing Directors as a result of our promotions and hires.
- We deepened our investments in efforts to help close the racial wealth gap and drive greater career outcomes for underrepresented communities through the launch of several new initiatives such as our Small Business Academy and the Equity in Education and Career Consortium.



I am proud of the progress Morgan Stanley has made across our sustainability, climate, and diversity efforts over the past year. These reports highlight our progress while maintaining accountability for future commitments. While we still have more work to do, I look forward to the journey ahead and to continuing to work with all of you.

A handwritten signature in black ink that reads "James P. Gorman". The signature is written in a cursive, flowing style.

James P. Gorman  
Chairman and CEO, Morgan Stanley  
June 2022

# Introduction

Morgan Stanley is a leading global financial services firm. Our subsidiaries and affiliates advise, originate, trade, manage and distribute capital for governments, corporations, institutions and individuals. We maintain significant market positions in our three business segments—Institutional Securities, Wealth Management and Investment Management.

Our core values—Put Clients First, Do the Right Thing, Lead With Exceptional Ideas, Commit to Diversity and Inclusion, and Give Back—guide everything we do. Through the talents and effort of our 75,000 employees in 41 countries, we aim to deliver results for our stakeholders today while setting strategic goals for the future.

## OUR CORE VALUES



Morgan Stanley



# Our Business



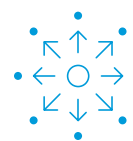
## INSTITUTIONAL SECURITIES

Provides a variety of products and services to corporations, governments, financial institutions and ultra-high net worth clients. Investment Banking services consist of capital raising and financial advisory services, including the underwriting of debt, equity and other securities, as well as advice on mergers and acquisitions, restructurings and project finance. Our Equity and Fixed Income businesses include sales, financing, prime brokerage, market-making, Asia wealth management services and certain business-related investments. Lending activities include originating corporate loans and commercial real estate loans, providing secured lending facilities, and extending securities-based and other financing to customers. Other activities include research.



## WEALTH MANAGEMENT

Provides a comprehensive array of financial services and solutions to individual investors and small to medium-sized businesses and institutions covering: financial advisor-led brokerage and investment advisory services; self-directed brokerage services; financial and wealth planning services; workplace services, including stock plan administration; annuity and insurance products; securities-based lending, residential real estate loans and other lending products; banking; and retirement plan services.

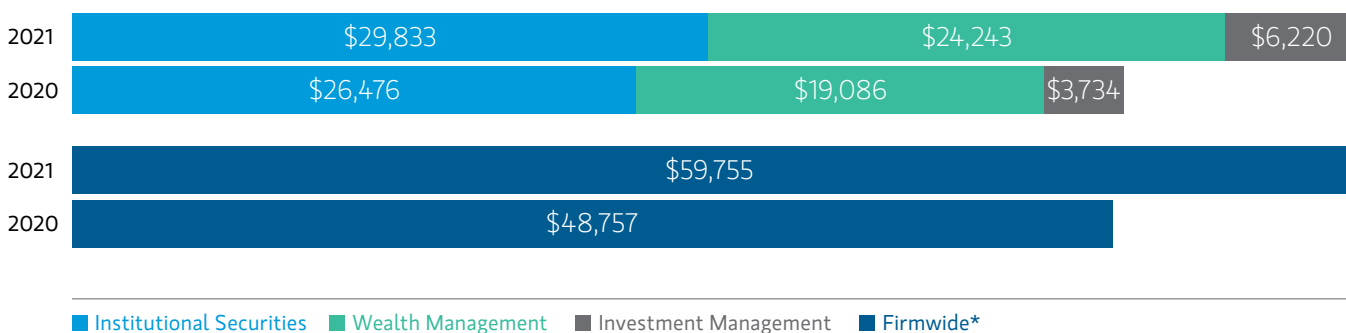


## INVESTMENT MANAGEMENT

Provides a broad range of investment strategies and products that span geographies, asset classes, and public and private markets to a diverse group of clients across institutional and intermediary channels. Strategies and products, which are offered through a variety of investment vehicles, include equity, fixed income, alternatives and solutions, and liquidity and overlay services. Institutional clients include defined benefit/defined contribution plans, foundations, endowments, government entities, sovereign wealth funds, insurance companies, third-party fund sponsors and corporations. Individual clients are generally served through intermediaries, including affiliated and non-affiliated distributors.

## Financial Performance

(Net Revenue, USD millions)



For more information, please see our [Annual Report on Form 10-K for the year ending December 31, 2021](#) (2021 Form 10-K).

\*Firmwide totals are inclusive of intersegment eliminations not represented in the table.

# About This Report

Morgan Stanley's annual sustainability report focuses on investor-relevant environmental, social and governance (ESG) topics, goals and performance. The Sustainability Accounting Standards Board (SASB) standards for Investment Banking, Asset Management and Commercial Banking guide the report's data, narrative and content. In addition, we include information on topics of interest to key stakeholders, determined by conducting periodic materiality analyses and ongoing benchmarking exercises.

We are committed to transparent disclosure of information across all aspects of our sustainability journey. This includes mirroring the rigor we apply to our other public disclosures and ensuring consistency in our approach to sustainability-related reporting. Our Sustainability Disclosure Committee of senior leaders from across the firm provides input on, reviews and approves corporate sustainability disclosures, as well as internal reconciliation of all facts and figures.



For full and transparent information across all aspects of our sustainability performance, please see the following complementary disclosures:

- [2021 Climate Report](#) (TCFD)
- [Diversity and Inclusion Annual Report](#)
- [2022 Proxy Statement](#), pages 29–30
- [2021 Form 10-K](#), for sustainability information relevant to the SASB framework, including with respect to human capital management
- [Sustainability pages of our website](#)
- [2021 CDP climate-change questionnaire response](#)
- Morgan Stanley [Environmental and Social Policy Statement](#)
- Morgan Stanley [Statement on Human Rights](#)
- Morgan Stanley [Modern Slavery and Human Trafficking Statement](#)
- [Supplier Code of Conduct](#)
- Morgan Stanley Investment Management's (MSIM) [response to the Principles for Responsible Investment \(PRI\) reporting framework](#)





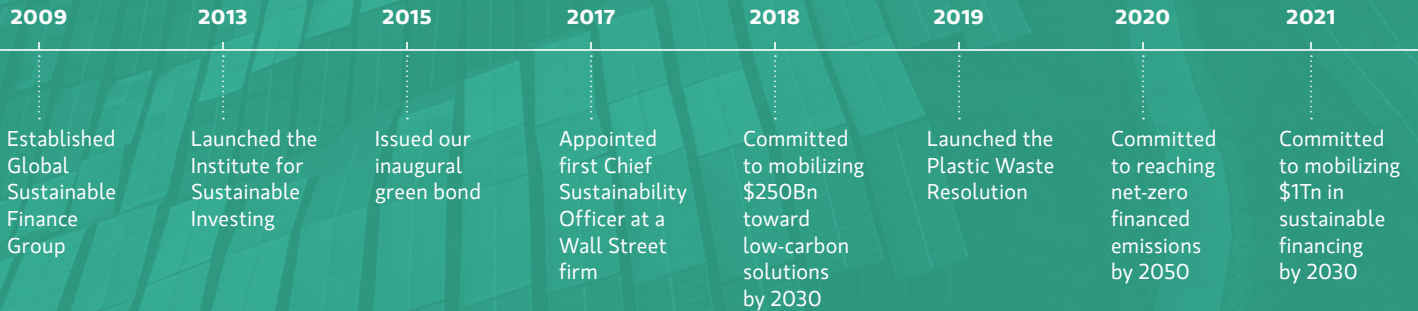
See page 60 for a detailed SASB index in line with the standards for Investment Banking, Asset Management and Commercial Banking.



# Approach to Sustainability

Morgan Stanley partners with clients and stakeholders to mobilize capital at scale to tackle sustainability challenges such as climate change and inequality. We are committed to delivering ESG innovation alongside long-term value for clients and shareholders.

## OUR SUSTAINABILITY MILESTONES





# Sustainability Governance

For decades, Morgan Stanley's robust governance and business integrity have fostered client and stakeholder trust and provided a foundation for success. Sustainability governance is integral to our approach, led by our board of directors and embedded throughout the firm.

The Nominating and Governance Committee oversees ESG initiatives and the Board Risk Committee oversees climate risks, with both reporting to the full board. Our centralized Global Sustainable Finance (GSF) team provides cross-firm sustainability oversight, with teams in Institutional Securities, Wealth Management and Investment Management overseeing specific initiatives within each segment. GSF helps ensure consistent integration of sustainability considerations across our corporate policies, business activities and operations. Led by our Chief Sustainability Officer, GSF partners with senior leadership across our three business segments, as well as support services and risk and control functions. The Morgan Stanley Institute for Sustainable Investing, which is housed within GSF, receives guidance from an external advisory board of experts from the private and public sectors, as well as academia.

Also housed within GSF, the Morgan Stanley Sustainable Insights Lab produces innovative ESG analysis and product innovation. This team of quantitative specialists works to catalyze data-driven solutions for clients, supports measurement of the firm's climate risks, helps to manage firmwide ESG data assessments and governance, and develops quantitative analysis on sustainability topics for our Institute for Sustainable Investing. A wide range of senior-level councils and working groups across the business provide expertise and input that enhance our approach to sustainability. GSF convenes, joins or advises each of these groups to help coordinate activity and outcomes. Examples of key cross-cutting sustainability committees and councils are below. For climate-related steering committees, see our [Climate Report](#) (page 12) for further detail.

## FIRMWIDE SUSTAINABILITY GOVERNANCE COMMITTEES

- **The Global Sustainable Business Steering Committee** was established in 2021 to further institutionalize collaboration and innovation on commercial ESG activity in order to position the firm for continued success in the field.
- **The Sustainability Disclosure Committee** brings together senior firmwide leaders to provide input on and approve corporate sustainability disclosures that support our commitment to transparency, including this report.
- **The ESG Franchise Committee** brings together leaders from a variety of Morgan Stanley initiatives, including but not limited to the Institute for Sustainable Investing, the Multicultural Innovation Lab and the Morgan Stanley Foundation. The purpose of the Committee is to enhance integration between Morgan Stanley teams to achieve greater internal and external social impact.

## BUSINESS UNIT SUSTAINABILITY COMMITTEES, COUNCILS AND WORKING GROUPS

- **The ESG Center of Excellence** coordinates and drives commercial client-focused sustainability activity across Global Capital Markets and Investment Banking (see [page 19](#)).
- **The Global Capital Markets and Investment Banking ESG Steering Committee** reviews ESG matters associated with capital markets and advisory products and services to assess alignment with the firm's ESG commitments and provides oversight, including establishing guidelines, education and assessment of evolving trends and developments in ESG.
- **The Investment Management Sustainability Council** of senior, cross-functional leaders advises the business segment's strategy, resourcing and processes for sustainable investing.
- **The Corporate Services Global Sustainability Steering Committee and Council** executes our operational sustainability strategy, which focuses on resource efficiency, renewable energy and other pathways to shrink our environmental impact.
- **The Sustainable Supply Chain Working Group** identifies strategies to reduce ESG risks and collaborate with suppliers to further sustainability in our sourcing practices.



# Our Sustainability Strategy

Focusing on ESG performance helps us reduce risk and enhance value for our stakeholders. Morgan Stanley was an early mover within our sector, establishing a dedicated, commercial sustainability function over a decade ago. Our strategy seeks to integrate sustainability into our core businesses and support functions through extensive partnerships between teams across the firm. We execute innovative solutions for our clients that address complex ESG issues, and drive revenue opportunities. We also take a responsible and proactive approach to sustainability in our operations, and a transparent approach to sustainability disclosure.

Effective governance, ethical business conduct and support for our employees underpin both our business success and our approach to sustainability. Our firm's core values guide our sustainability strategy to deliver results today while doing our part to contribute to a sustainable future.

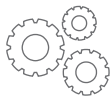
Sustainability activity at Morgan Stanley is organized across three pillars: solutions and services, field-building through the Institute for Sustainable Investing, and firmwide sustainability. Our Sustainable Insights Lab generates actionable analysis across all three pillars that informs our sustainability strategy and solutions. We also pursue three thematic sustainability priorities across our business activity, thought leadership and operations: climate change, inclusive growth and plastic waste (see [pages 14–21](#)).





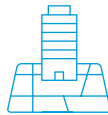
# Morgan Stanley's Sustainability Strategy

## CORE PILLARS



### SUSTAINABLE SOLUTIONS AND SERVICES

Delivering innovative sustainable finance and investing products for clients, and mobilizing capital to drive progress on complex global challenges such as climate change, inclusive growth and circular economy



### FIELD-BUILDING THROUGH THE INSTITUTE FOR SUSTAINABLE INVESTING

Accelerating the adoption of sustainable investing across the capital markets by leveraging the firm's expertise to foster innovation, deliver actionable analysis for investors and develop the next generation of leaders in the field



### FIRMWIDE SUSTAINABILITY

Integrating ESG into our business practices and operations, such as our climate change strategy, proactive ESG risk management, culture and people management, diversity and inclusion, and stakeholder engagement



QUANTITATIVE ANALYSIS DRIVEN BY THE MORGAN STANLEY SUSTAINABLE INSIGHTS LAB

## THEMATIC FOCUS AREAS



### CLIMATE CHANGE

Transitioning to a low-carbon economy • Managing climate risk • Operating resiliently  
Being transparent and calculating emissions



### INCLUSIVE GROWTH

Supporting diverse-owned businesses • Investing to reduce inequalities • Funding affordable housing



### PLASTIC WASTE

Financing plastics recycling and recovery • Eliminating single-use plastics from operations  
Partnering to combat the crisis

# 2021 Sustainability Highlights

## FIRMWIDE GOALS

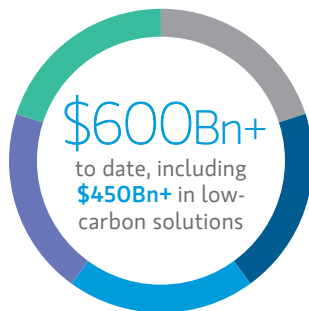
### PLASTIC WASTE RESOLUTION

Morgan Stanley

### PLASTIC WASTE RESOLUTION

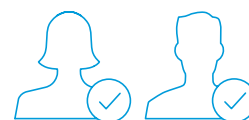
Through 2021, we have helped facilitate the prevention, reduction and removal of 13 million metric tons of plastic waste from entering rivers, oceans, landscapes and landfills, making progress toward our goal of **50MM by 2030**

### \$1TN BY 2030 SUSTAINABLE FINANCING GOAL



clean-tech financing • renewable energy financing  
green bonds • low-carbon investments • other

### DIVERSE REPRESENTATION GOALS



Our objective is to increase total women officers by **25%** and Black and Hispanic officers in the U.S. by **50%**

## SOLUTIONS & SERVICES

### INSTITUTIONAL SECURITIES GROUP

~\$300Bn

green, social, sustainability and sustainability-linked bond transactions supported in 2013–2021, including over **\$150Bn** in 2021

70%+

of stocks in Morgan Stanley Research coverage have ESG data incorporated into the Risk/Reward snapshot

### INVESTMENT MANAGEMENT



**670+** engagements with companies on ESG topics

A+/A

across Principles for Responsible Investment (PRI) score card

### WEALTH MANAGEMENT

\$70Bn+

in client assets invested on our Investing with Impact Platform, up **27%** from 2020



The Investing with Impact Platform is utilized by **92%** of Morgan Stanley Wealth Management representatives and helps serve over **300,000** clients

### COMMUNITY DEVELOPMENT FINANCE (2010–2021)

\$27Bn+

committed in community development loans and investments



**\$400MM+** committed in small-business loans



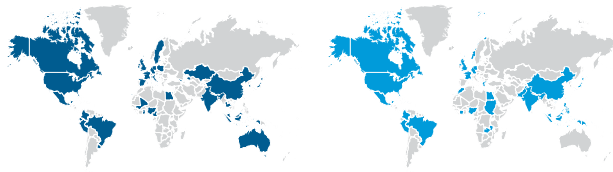
**236,000+** jobs created or retained

Unless otherwise stated, references and metrics in this report that pertain to 'MSIM' and 'Investment Management' relate to Legacy MSIM. 'Legacy MSIM' means Morgan Stanley Investment Management, excluding those businesses that were wholly owned by Eaton Vance Corp. prior to the acquisition of Eaton Vance Corp. by Morgan Stanley on March 1, 2021.

**FIELD BUILDING THROUGH THE INSTITUTE FOR SUSTAINABLE INVESTING**

**SUSTAINABLE INVESTING CHALLENGE**

**400+** students from schools in **50** countries entered our annual Sustainable Investing Challenge



■ Students' Home Countries ■ Countries Targeted for Impact

**SUSTAINABLE SOLUTIONS COLLABORATIVE**



Sustainable Solutions Collaborative cohorts each receive **\$250,000** to develop breakthrough concepts focused on systemic solutions for global challenges

**FIRMWIDE SUSTAINABILITY**

**OPERATIONAL SUSTAINABILITY**



Reacted to **24** weather and natural hazard events



Operational completion of a new wind farm equivalent to offsetting an estimated **30%** of Morgan Stanley's carbon footprint

**93%**

Progress toward **100%** reduction of single-use plastics by year-end 2024

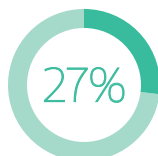
**51%**

Progress toward **90%** supplier agreement by year-end 2025, as of year-end 2021<sup>1</sup>

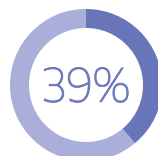
**DIVERSITY & INCLUSION**



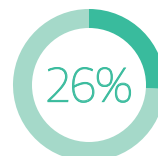
50% of the board is gender and/or ethnically diverse



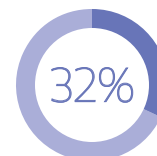
27% of our officers globally are women



39% of our global employees are women



26% of officers in the U.S. are ethnically diverse



32% of employees in the U.S. are ethnically diverse

<sup>1</sup> Progress through 2021 reflects a revised methodology and a new target deadline of 2025.



# Our Thematic Focus Areas

Economies around the world are facing ongoing pandemic-related challenges, societal inequities and pressures to transition to a low-carbon and more circular economy. Leaders in business and finance must work with governments to move in the right direction.

At Morgan Stanley, we seek to address complex, global sustainability issues that we are best positioned to influence by leveraging our global business reach and expertise to mobilize capital for maximum impact. This has led us to focus on three areas that support the United Nations SDGs (see panel), advance environmental and social impact, and support a sustainable future for our business and stakeholders. These priority areas are: catalyzing climate change, advancing inclusive growth and addressing the plastic waste challenge.

## Catalyzing the Low-Carbon Transition

Morgan Stanley recognizes the significant potential for climate change to impact our clients, investments, operations, employees and local communities. For over a decade, we have embraced opportunities, and mobilized capital, to support climate change mitigation and adaptation, working alongside our stakeholders. In September 2020, we became the first major U.S.-headquartered financial services firm to commit to achieving net-zero financed emissions by 2050. In November 2021, we released interim 2030 targets for the Auto Manufacturing, Energy and Power sectors.

Our climate strategy is built on the foundation of four key pillars: the transition to a low-carbon economy, climate risk, operational resilience and transparency (see graphic on [page 15](#)).

For more information on Morgan Stanley's climate change strategy and progress to date, read our latest [Climate Report](#).



Morgan Stanley supports the UN Sustainable Development Goals (SDGs), which increasingly inform our firmwide approach to sustainability. We believe this global blueprint for achieving a sustainable future enables the private sector to better understand key societal challenges and help drive solutions. In 2021, we committed to mobilize a total of \$1 trillion toward sustainable solutions in line with the SDGs.

Our Plastic Waste Resolution aims to catalyze solutions relevant to SDGs 6 (Clean Water and Sanitation), 12 (Responsible Consumption and Production) and 14 (Life Below Water). Our climate change goals, including our commitment to achieve net-zero financed emissions by 2030, aim to advance solutions relevant to SDGs 7 (Affordable and Clean Energy) and 13 (Climate Action). The Morgan Stanley Social Bond aims to contribute directly to SDG 11 (Sustainable Cities and Communities) and indirectly to SDG 1 (No Poverty) and SDG 10 (Reduced Inequalities). Other SDG-relevant products and services are featured throughout this report.

## Morgan Stanley's Four-Pillar Climate Strategy

### INTEGRATING CLIMATE ACROSS THE FIRM'S BUSINESSES, RISK MANAGEMENT AND OPERATIONS

1

#### TRANSITION TO A LOW-CARBON ECONOMY

- First major U.S.-headquartered global financial services firm to commit to achieving **net-zero financed emissions** by 2050
- Commitment to mobilize **\$750Bn** to support **low-carbon solutions** by 2030



2

#### CLIMATE RISK

- Climate change considerations integrated into the firm's **risk management** and **governance** processes under the Chief Risk Officer
- Climate risks overseen by the **Risk Committee of the firm's board of directors**



3

#### TRANSPARENCY

- Only major U.S.-headquartered global financial services firm on **Partnership for Carbon Accounting Financials (PCAF)** Steering Committee
- Inaugural **climate report** published in 2020



4

#### OPERATIONAL RESILIENCE

- **Carbon neutrality** across global operations by 2022
- **Source 100%** of global operational electricity needs from **renewable sources**







## Advancing Inclusive Growth

Inclusive growth addresses global inequalities and generates opportunities for all. It is an imperative for governments, corporations and investors, and is a core focus of Morgan Stanley’s sustainability strategy. We define “inclusive growth” as economic gains that are broad-based and sustainable, and that provide opportunity across all participants in the economic system. We seek to foster inclusive growth both within our firm and by delivering commercial solutions that support Diversity, Equity and Inclusion (DEI), affordable housing, community development, small business assistance, ongoing pandemic recovery, and more.

### MORGAN STANLEY’S APPROACH TO INCLUSIVE GROWTH

- Investing to Reduce Inequalities
- Funding Affordable Housing
- Supporting Diverse-Owned Businesses

<b>1</b> NO POVERTY 	<b>10</b> REDUCED INEQUALITIES 	<b>11</b> SUSTAINABLE CITIES AND COMMUNITIES 
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## Advancing Financial Wellness

Morgan Stanley at Work delivers comprehensive workplace financial solutions to organizations and their employees—through content, digital tools and access to personal guidance—across Financial Wellness, Equity and Retirement Solutions. To better understand how financial wellness needs have evolved during the pandemic, Morgan Stanley at Work partnered with the Society for Human Resource Management (SHRM) to conduct a financial wellness survey of HR professionals and working Americans. The results of the survey indicate that nearly one-third of working Americans are experiencing finance-related anxiety and about 1 in 5 working Americans report finance-related depression. We also found that organizations are missing important opportunities to help their workers manage their money and ease the stress of the pandemic’s financial blows by providing benefits that specifically address financial well-being.

As a result of the research and as part of our continued commitment to diversity, equity and inclusion, Morgan Stanley at Work Financial Wellness has created financial education content geared to meet the needs of diverse segments of today’s workforce. The team has also added enhancements to the Financial Wellness Digital Portal that will empower both participants and plan sponsors with metrics and actionable insights.

Morgan Stanley at Work financial wellness resources are available to U.S. full-time Morgan Stanley employees. Offerings include an online financial assessment, a financial wellness portal with educational content, seminars and one-on-one financial coaching.

In 2021, Morgan Stanley Wealth Management also supported financial wellness by leveraging the firm’s longstanding partnerships with Historically Black Colleges and Universities (HBCUs) to sponsor free digital subscriptions to Barron’s in Education for all students in 13 such institutions. The program offers tools to improve personal financial literacy and insights from business leaders and successful investors as well as introducing students to careers in business and finance.

## FUNDING AFFORDABLE HOUSING

In 2020, we issued a \$1 billion Social Bond—our first—to promote inclusive growth by supporting affordable housing across the United States. Eligible projects support individuals and families on low or moderate incomes, many of whom struggled to meet housing costs in the pandemic-affected economy. The initiative brings to life our new Social Bond Framework, which contributes directly to SDG 11 (Sustainable Cities and Communities) and indirectly to SDGs 1 (No Poverty) and 10 (Reduced Inequalities).

Morgan Stanley's \$1 billion Social Bond, issued in 2020, supports the affordable housing initiatives of Morgan Stanley's Community Development Finance Group, which provides innovative financing that seeks to improve people's quality of life (see [pages 38–39](#)). Through March 31, 2022, the bond supported more than 47,500 affordable housing units, with impacts delivered to over 123,000 people. For more details and case studies, see our [2022 Social Bond Impact Report](#).

## MOBILIZING CAPITAL TO REDUCE INEQUALITIES

Teams across our business facilitate transactions and provide clients with products and resources that support inclusive growth and promote diversity, equity and inclusion.

**Institutional Securities:** Our Global Capital Markets team served as Diversity and Inclusion Coordinator for 13 large-scale investment-grade bond transactions in 2021, resulting in significant deal allocations to underwriters owned by minorities, veterans and women. The transactions included Verizon's \$25 billion Senior Notes offering and Amazon's \$18.5 billion Senior Note offering, leading to significant deal allocations to minority-, veteran- and woman-owned underwriters. Expanding opportunities for diverse-led partners supports our commitment to promote inclusive growth. As a Diversity and Inclusion Coordinator, we act as a central point of contact for diverse-led underwriters and help maximize their success. Institutional Securities also houses Morgan Stanley Research, which published new findings on racial inequality in the U.S. housing market throughout 2020 and 2021 (see [page 27](#)).

## Wealth Management: Our [Investing with Impact Platform](#)

offers 80+ investment products incorporating gender and racial equity criteria as part of the investment selection process and 52 from diverse-owned asset managers. Wealth Management's Diversity & Inclusion Investment Office, established in 2020, continues to grow the number of strategies from diverse-owned firms available for clients. Total client assets of \$12 billion are allocated to investment strategies from diverse-owned firms. These strategies are identified in the Racial Equity and Gender Diversity Tool Kits created to help inform decisions made by Financial Advisors to align with their clients' impact goals. Other Inclusive Growth tools and analysis available include a newly launched chartbook on Advancing Diversity, Equity and Inclusion; impact reporting application; Morgan Stanley Impact Quotient®; and the new quantitative manager scoring tool DEI Signal (for details, see [page 30](#)).

**Investment Management:** DEI is one of MSIM's four priority themes for research, portfolio company engagement and investment stewardship. In 2020 and 2021, MSIM launched several new DEI-focused investment strategies. These include the impact-focused [Morgan Stanley Next Level Fund](#), which invests in startups led by women and diverse entrepreneurs; Calvert Diversity Research Indices; and an enhanced MSILF Government Securities Portfolio centered on purchase transactions with diverse broker-dealers. (See also [page 32](#) and case study on [page 33](#).)



### SUPPORTING DIVERSE-OWNED BUSINESSES

We seek to employ a diverse global workforce and supplier base. For information on Morgan Stanley's longstanding [Supplier Diversity Program](#), and how we embed DEI in human capital management, see [page 48](#) and our [Diversity and Inclusion Annual Report](#).

We also invest directly in diverse startups through the [Morgan Stanley Multicultural Innovation Lab](#). This acts as an accelerator for startups, supporting minority and women entrepreneurs with an intensive five-month program. (For more information, see our [Diversity and Inclusion Annual Report](#)).



### Closing the COVID-19 Equity Gap

In 2021, our Global Capital Markets Group continued to lead bond issuances to address COVID-19 and inequity. These included serving as active bookrunner for Pfizer's \$1 billion Sustainability Bond. Proceeds were allocated to eligible projects including R&D and capital investment for development, manufacture and distribution of COVID-19 vaccines. Pfizer has committed to provide two billion doses of its vaccine to middle- and low-income countries.

The pandemic has taken an especially heavy toll on young people's mental and emotional health. To help them re-emerge into society, we [surveyed teens through the Morgan Stanley Alliance for Children's Mental Health](#), generating valuable insights for our NGO partners.

## Addressing the Plastic Waste Challenge

Plastic waste is a pressing environmental challenge and an opportunity to reinvent how the world treats natural resources by pursuing a circular economy. Morgan Stanley is working to mobilize capital to accelerate this market transition.

In 2019, we announced our Plastic Waste Resolution to help facilitate the prevention, reduction and removal of 50 million metric tons of discarded plastic from rivers, oceans, landscapes and landfills by 2030. Led by the Institute for Sustainable Investing (the Institute), our efforts include activities by each business and our global operations, as well as partnerships and external capacity-building initiatives.

This commitment leverages our strengths and activities in the capital markets, engages employees across the firm and aims to eliminate single-use plastics from our global operations. Our goal, working with clients and partners, is to help shift the global economy to one in which the value of plastic is fully captured rather than wasted.

As of year-end 2021, Morgan Stanley has supported the prevention, removal or reduction of 13 million metric tons of plastic waste from entering the environment and landfills. We incorporate relevant transactions and operational activities in calculating our progress. While we believe research, thought leadership and capacity building also contribute to our goal, we do not attempt to estimate their impact in tonnage.



## BUSINESS TRANSACTIONS

Morgan Stanley is well positioned to help develop systemic solutions with clients across the plastics value chain, from materials engineering and industrial design to consumer use and recycling.

Our Investment Banking and Global Capital Markets teams work with issuers to underwrite green, sustainability and blue bonds, which finance plastics recycling and recovery projects, as well as additional innovative financing structures to deliver impact. In 2021, these efforts with clients included the following:

- Natura & Co., the largest Latin American personal care cosmetics group, with brands including Aesop, Avon and The Body Shop and Natura Cosméticos, successfully issued a \$1 billion sustainability-linked bond with performance targets tied to increased use of post-consumer recycled packaging, as well as greenhouse gas emissions reduction. Morgan Stanley served as joint bookrunner for the bond, which will support Natura's overall sustainability and packaging circularity objectives.
- Liberty Tire, the largest recycler of used car tires in the United States, issued a \$410 million green term loan to support the transition to a low-carbon and circular economy. Morgan Stanley acted as lead arranger for the loan, whose use of proceeds will be allocated to finance projects including the sourcing, sorting, processing and distributing of used tires into multiple beneficial end-use markets that divert such used tires from otherwise immediately being sent to landfills.
- thredUP, an online marketplace for secondhand clothing, raised \$168 million through its initial public offering in March 2021. Morgan Stanley priced the IPO, serving as lead book-running manager. Proceeds of the IPO will support the expansion of thredUP's clothing resale business. thredUP helps divert synthetic materials, including plastic microfibers, from entering landfill, while avoiding greenhouse gas emissions and water usage from the manufacturing of new clothing.





Morgan Stanley Wealth Management’s Investing with Impact Platform offers 15 Morgan Stanley Portfolio Solutions Impact models focused on a range of sustainability themes (see [page 30](#) for more detail). As part of this portfolio suite, Wealth Management offers clients six Impact Portfolios, across risk profiles, that seek to positively influence environmental and social goals including SDG 14, Life Below Water. In 2021, client assets invested in these strategies reached over \$790MM, with an average account size of nearly \$150,000, far above the minimum investment of \$10,000.

Several Morgan Stanley Investment Management strategies incorporate risks and opportunities specific to plastic waste within the investment process. For example, the Calvert U.S. Ocean Health strategy assesses U.S. large-cap issuers for their contribution to the harm and deterioration of the health of oceans. Specific to packaged foods, food retail and restaurant companies, the strategy evaluates their reduction of plastic product waste, efforts to use recycled materials and plans to replace single-use plastic products with renewable, recyclable or compostable materials. Similarly, the Morgan Stanley Fixed Income Sustainable strategies evaluate how green and other labeled sustainable bonds contribute to the use of higher recycled plastic content within products as well as more circular product designs, with the team actively engaging with issuers related to these topics.

Morgan Stanley’s Private Credit & Equity platform has also provided capital to several companies delivering plastic waste solutions. In 2021, these investments included:

- Zero Waste Recycling, an end-to-end waste consolidation and recycling services provider helping customers achieve zero waste-to-landfill across materials, including various forms of plastic; and
- Pete & Gerry’s, a Certified B Corp and producer of organic, free-range eggs dedicated to using 100% post-consumer recycled polyethylene terephthalate (PET) cartons that reduce the need for virgin plastic. In addition, the company is actively exploring packaging alternatives to reduce plastic use in the future.

Advancing waste reduction and the circular economy is also a key stewardship theme for Morgan Stanley Investment Management (see [page 32](#)). Morgan Stanley Research also provides actionable information to clients seeking to integrate sustainable consumption and plastic waste considerations within financial decision-making. In 2021, published topics included food and packaging, as well as dynamics in the plastics recycling market.

### Future of Plastic Index Launch



In 2021, we partnered with financial indices provider Solactive and data provider ISS ESG on an innovative plastic-focused benchmark index for investors. Based on a methodology developed by Morgan Stanley, and designed to underpin new ESG-structured products, the publicly listed [Solactive ISS ESG Future of Plastic Index](#) highlights companies leading on the innovation and implementation of plastic waste solutions and efficient materials use. We used our expertise in sustainability and institutional equities to screen and rank companies, using ISS ESG data. The index responds to growing interest in reducing plastic waste as an investment theme.



## OPERATIONS

Across our global operations, we made significant progress in 2021 toward our target of eliminating single-use plastics by 2024. We engage our 75,000 employees to help meet this goal by providing alternative single-use materials that can be readily recycled in the office. We also engage waste specialists to support mixed-use compost collection to convert waste to fertilizer and energy.

We encourage employees to support this goal in their communities through initiatives such as:

- Our Plastic Waste Resolution Pledge, which provides employees with tangible ways to reduce plastic use in daily life. For example, the firm ran a Plastic Waster Track-A-Thon in June during which employees tracked items they recycled.
- Webinars that featured information on how large and small businesses are innovating to address plastic waste, from reductions to recycling to reuse, featuring speakers from the Ellen MacArthur Foundation (see [Stakeholder Engagement](#) for more information) and Lonely Whale's NextWave.

## PARTNERSHIPS

We work with business coalitions, NGOs and research organizations to combat the plastic waste crisis. For example, we are part of leading coalitions working to advance the circular economy including the World Economic Forum's Global Plastic Action Partnership and the Ellen MacArthur Foundation network. Our ongoing partnership with the University of Georgia and Dr. Jenna Jambeck supports the Marine Debris Tracker, a mobile app that harnesses citizen science to gather data on how plastic debris impacts coastlines and waterways.

## FIELD-BUILDING

In addition, we offer an annual prize for investment solutions combating plastic waste through our popular annual Sustainable Investing Challenge (see [page 44](#)). The Sustainable Solutions collaborative also supports companies working to address plastic waste. For example, the first cohort included a company, Siklus, that operates plastic waste refill stations in supermarkets and on mobile delivery carts (for more information, see case study on [page 41](#)). In 2021, Morgan Stanley's then Chief Sustainability Officer, Audrey Choi, launched a sustainability-focused podcast series that explores the issue of our global plastic waste problem in addition to other relevant topics. The series features in-depth discussions with leading innovators and experts committed to finding solutions to plastic waste and other sustainability challenges.





# Solutions and Services

Morgan Stanley's three business segments advance our sustainability priorities by driving innovation and transformational progress across global capital markets. Our goal is to be the financial services partner of choice to create sustainable, long-term value for clients. We have a proven track record of developing innovative financial solutions and advisory services designed to deliver both competitive financial returns and positive impact.

# Institutional Securities

Institutional Securities uses the scale and speed of capital markets to generate positive environmental and social benefits for innovative companies. Teams across the business—from Global Capital Markets to Public Finance, Investment Banking, Equity & Fixed Income, and Research—work with clients to meet these objectives.

## IMPACT BY THE NUMBERS

~\$300Bn

green, social, sustainability and sustainability-linked bond transactions supported in 2013-2021, including **over \$150Bn** in 2021

~130MW

hedged in 2021 for new-build renewable projects and nearly **400MW** for existing renewable projects through our commodities desk

70%+

of stocks in Morgan Stanley Research coverage have ESG data incorporated into the Risk/Reward snapshot

### CASE STUDY

## SUPPORTING MARKET DEBUT OF SUSTAINABILITY CHAMPION ALLBIRDS

Morgan Stanley acted as lead underwriter for the successful market launch of Allbirds in November 2021. In going public, the sustainable shoe and clothing retailer hopes to attract investors that support sustainability-focused companies. Allbirds' ambition is to "reverse climate change through better business," and the company has built a loyal, young following for its sustainably sourced wool sneakers, slip-ons and accessories.

A certified B Corp and Public Benefit Corporation, Allbirds aims to source 100% of its wool supply from regenerative farming sources by 2025. The firm's pioneering Sustainability Principles and Objectives Framework was developed by an advisory council of cross-sector professionals with ESG expertise, setting a standard for best-in-class ESG emerging growth companies going public. The framework contains 19 criteria designed to demonstrate commitments to ESG principles.







## 2021 Sustainable Finance Transaction Highlights

# €1.5Bn

Served as joint global coordinator and joint bookrunner for Acciona Energía's IPO on the Spanish Stock Exchange, representing the largest IPO by a European renewable energy company over the past five years at the time of IPO.

# \$49MM

Served as sole manager for the Buffalo Sewer Authority's largest Environmental Impact Revenue Bond yet. The transaction will help fund rain gardens, tree planting and permeable pavement to reduce runoff and improve the city's water quality. The transaction aims to impact SDGs 1, 3, 6, 8, 10 and 13.



# \$519MM

Acted as lead underwriter for Coursera's initial public offering. The online learning platform, a certified B Corporation, seeks to provide universal access to world-class flexible and affordable high-quality learning opportunities and currently serves nearly 80MM individual learners.

### Driving Sustainable Finance

Morgan Stanley has been a leader on green and sustainability bonds since 2013. As sustainable finance becomes increasingly mainstream, our commercial teams continue to expand their frontiers into new products, services and markets.

The Morgan Stanley ESG Center of Excellence coordinates and drives our expanding commercial client-focused sustainability activity. Led by the Vice Chairman of Global Capital Markets, the ESG Center of Excellence convenes senior leaders from Investment Banking, Fixed Income Capital Markets, Equity Capital Markets, Leveraged Finance, Structured Solutions and Global Sustainable Finance.

In 2021, our efforts to mobilize capital to support sustainability solutions achieved new reach and scale. To the right, we report on key transactions that contribute to our \$1 trillion sustainable solutions financing goal, which we have mobilized over \$600 billion toward to date, and that support our inclusive growth and plastic waste priorities. For an overview of our transactions that support the transition to a low-carbon economy, please see our [2021 Climate Report](#).



### First Financial Decision Makers Conference Dedicated to Sustainability

Approximately 300 corporate clients attended our sustainability-themed Financial Decision Makers Conference in 2021, reinforcing the growing importance of ESG issues to corporations and investors.

Experts provided advice on how companies can navigate the changing ESG landscape, communicate their strategy with optimal impact and focus on factors that boost shareholder value.



Acted as the exclusive financial advisor to leading independent U.S. renewables developer Cypress Creek Renewables in its sale to EQT Infrastructure V fund by HPS Investment Partners and Temasek Holdings.

\$2.75Bn

Acted as financial advisor to raise equity capital for Northvolt, a Swedish electric vehicle battery developer, which will finance capacity and R&D efforts to meet soaring customer demand.

€13Bn/€14Bn

Served as joint bookrunner twice for the European Commission's SURE social bonds, designed to learn from the pandemic's economic fallout by mitigating unemployment risk during an emergency.

\$1.6Bn

Served as bookrunning manager on the \$1.6Bn initial public offering for Oatly, a Swedish food provider focusing on oat-based drinks that deliver maximum nutritional value and minimal environmental impact.

\$45MM

Lead managed the first social bond launched by Gallaudet University in Washington D.C., the world's premier higher education institution serving deaf and hard-of-hearing people. Proceeds will finance the Campus Master Plan, including innovative DeafSpace architectural design. The transaction aims to impact SDGs 4 and 10.

£6Bn

Acted as joint Bookrunner for the U.K. Debt Management Office's 32-year Green Gilt issuance. The proceeds will be used to support clean transportation, renewable energy, energy efficiency, living and natural resources, climate change adaptation, and pollution prevention and control.



\$1.5Bn

Served as active bookrunner for NextEra Energy's inaugural green bond issuance. The bond structure combined a use-of-proceeds approach with a coupon step-up if NextEra does not confirm proceeds have been fully allocated toward eligible projects, which include wind and solar power energy generation projects and/or battery storage projects.

\$2Bn

Served as active bookrunner on Walmart's debut Green Bond, which set the record for largest corporate green bond tranche at the time at \$2Bn, supporting Eligible Project categories including Renewable Energy, High Performance Buildings, Sustainable Transport, Zero Waste, Circular Economy and more.

\$6.7Bn

Acted as financial advisor on matters related to the direct listing and served as the sole Designated Market Maker in setting the opening public price of Warby Parker's shares. Warby Parker is a mission-driven lifestyle brand that sells eyewear online and through retail locations throughout the United States. The company partners with nonprofits to provide eye exams and donate glasses to communities in need and is a certified B Corp and a Public Benefit Corporation.

## Debt Capital Markets

Morgan Stanley has a long track record of issuing and supporting first-of-their-kind bonds that raise capital for positive environmental and social impact. In 2021, we continued to collaborate with corporates, financial institutions, supranationals, sovereigns, agencies, municipalities and nonprofits to structure innovative financing solutions for complex sustainability challenges.

Raising capital for low-carbon solutions that advance SDG 7 and SDG 13, including those highlighted in our Climate Report, remains a global priority. In addition, we continue to expand our efforts to address issues of systemic injustice through the capital markets. We both underwrite and issue social bonds that address pressing social challenges such as affordable housing (see also [page 38](#) and [page 39](#)).

Our broader goal is to make the sustainable finance market more inclusive while preserving its transparency and integrity. We help steer the market's development as an advisory council member to the Green Bond Principles and Social Bond Principles Executive Committee.

## Equity Capital Markets

Our Equity Capital Markets Group continues to deliver financing solutions for multiple providers of sustainable products and services, including clean energy and technology issuers. Over the past year, innovative firms we supported included Warby Parker, Oatly and Acciona Energia (see highlights on [pages 24–25](#)).

## Public Finance

Morgan Stanley continues to lead the U.S. municipal and nonprofit bond market with more senior managed green, social and sustainability bonds than any other underwriter. This evolving field brings lasting environmental and social benefits to communities around the United States. In 2021, we supported issuances across a number of thematic areas including affordable housing, renewable energy, mass transportation, climate resiliency, sustainable water and wastewater, green buildings, cultural institutions, and education facilities. In addition, our Public Finance Group works with municipal issuers to enhance disclosure on green, social and sustainability bond transactions in line with the International Capital Market Association's (ICMA) Principles and Guidelines.

In March 2021, Environmental Finance named Morgan Stanley Lead Manager of the Year for U.S. Municipal Social and Sustainability Bonds. Social issues remained at the forefront of our Public Finance Group's market activity throughout the year, particularly in the affordable housing, education and cultural institution sectors. We led affordable housing financing totaling approximately \$1.5 billion in California, Connecticut, Iowa, Maryland, Massachusetts, New York, Oregon and Rhode Island. The group also led landmark financing for KIPP NYC Public Charter Schools to finance facilities that mainly benefit students from minority and low-income backgrounds.

## Financing and Advisory Services

Our Investment Banking Division teams increasingly advise clients and mobilize capital to support sustainability-focused businesses. Our industry, regional and country teams support corporations, financial institutions and government clients looking to execute innovative solutions that address sustainability challenges and help them meet sustainability goals. Over the past year, innovative firms we advised included Cypress Creek, Allbirds and Coursera, among others (see highlights on [pages 24–25](#)).



Morgan Stanley was named **Lead Manager of the Year, U.S. Municipal Sustainability Bonds and U.S. Municipal Social Bonds**, by Environmental Finance.



## Empowering Women Portfolio Managers

Empowering women portfolio managers is a major focus and point of pride for our Institutional Securities business.

For the past nine years, we have convened the Morgan Stanley Women's Investment Roundtable, a two-day stock-picking roundtable that has become a marquee event in the asset management industry. In 2021, we also hosted the fourth annual Morgan Stanley Women's Investment Leadership Conference. These events have raised our standing with allocators looking for diverse portfolio managers and have led to many participants launching their own funds, with Morgan Stanley as the go-to prime broker.

In addition, we partner with external organizations such as Capitalize for Kids to help them improve the diversity of portfolio managers at their events.

We have built a global community of over 75 female portfolio managers, helping them make connections with one another, within the firm and externally, to achieve the investor exposure they need for personal success and success as a fund manager.

## Equity and Fixed Income

Our Equities and Fixed Income divisions integrate ESG data, analytics and insights to deliver sustainability thought leadership and product innovation to institutional clients. In 2021, this included launching an innovative Future of Plastic benchmark index in partnership with financial indices provider Solactive and data provider ISS ESG (see Approach to Sustainability on [page 8](#)).

Our Institutional Equity Division (IED) continues to provide asset manager, asset owner and corporate clients with sustainability solutions including but not limited to thought leadership, ESG-focused corporate access events, capital introduction on ESG fund launches, data and analytics to identify portfolio exposures, and thematic sustainability baskets developed jointly with the Morgan Stanley Sustainable Insights Lab. The baskets identify companies with sustainability-driven revenues across a variety of factors including environmental intensity, business practices, and social metrics. IED also hosted the second annual Sustainable Alpha Forum showcasing leading ESG long/short managers, the 6th Annual Sustainable Futures conference as well as the inaugural ESG Private Capital Markets day showcasing 15 private companies identified as ESG solution providers.

In our Fixed Income Division, Morgan Stanley continues to expand ESG capabilities and solutions in the global credit market. Fixed Income teams have built low-carbon and ESG-optimized versions of investment-grade and high-yield credit default swap Indices. The Securitized Products Group (SPG) has worked with agency issuers to launch sustainability-labeled transactions focused on expanding access to affordable housing through Mortgage Backed Securities. In addition, the SPG teams worked with global alternative investment managers to integrate ESG data and climate risk considerations into Collateralized Loan Obligations by leveraging machine learning techniques to expand coverage.

Our Commodities Division works with Institutional and Corporate clients to acquire exposure to and purchase renewable energy and environmental commodities markets. As carbon markets continue to evolve globally, Morgan Stanley is an active participant in carbon credits, offsets and renewable energy certificates. The team also launched the Morgan Stanley Global Carbon Emissions Index to provide a simple way for investors to gain access to the price of carbon and the growing number of contracts globally.

## Sustainability Research

When investors take sustainability considerations into account in their financial decision-making, the cumulative effect can make a difference across the global economy. To support ESG integration, Morgan Stanley Research analysts use a sustainability lens to conduct investment research across equities and fixed income. Our Global Sustainability Research team leads this work, providing actionable information to clients in the following areas:

- **Driving thought leadership on decarbonization.** The team has identified pathways to decarbonization for the global economy and explored the far-reaching implications across sectors. Their analysis quantifies investment across key decarbonization technologies to achieve Paris Agreement-aligned climate goals.
- **Analyzing the regulatory backdrop.** Regulations governing sustainable investing and key ESG investment themes are evolving quickly and vary across the globe. To navigate this landscape, Global Sustainability Research provides clients with timely analysis and forward-looking expectations. Topics include the EU Sustainable Finance Disclosure Regulation, EU Taxonomy, central bank stress tests and global ESG disclosure.
- **Delivering in-depth analysis of key sustainability themes.** For example, this year the team established a framework and tools to help investors assess biodiversity risk. Collaborating with sector teams, the framework identified "solution stocks" highlighting investable firms whose products or services address key drivers of biodiversity loss.
- **Shining a spotlight on social inequalities.** This year, Global Sustainability Research led a series of investigations into the impact and economic implications of racial inequality on U.S. homeownership. Conducted with our Securitized Product Group, the research examined lending practices and mortgage rates during the COVID-19 pandemic and the sharp recession that ensued. It found that for Black and Hispanic borrowers, acquiring a mortgage is more difficult and owning a home more expensive. The report explored potential policy paths to tackle these inequalities.
- **Providing ESG risk/reward analysis.** Each stock in Morgan Stanley's Research coverage contains a risk/reward, snapshot that summarizes fundamental views. We are now integrating ESG data and analysis into the risk/reward for more than 70% of the stocks we cover.

# Wealth Management

Individuals, families and institutions are increasingly seeking to make a positive difference in the world with their capital. For the past decade, Morgan Stanley Wealth Management’s Investing with Impact Platform has connected clients to investment strategies across asset classes and portfolio solutions seeking to generate both market-rate financial returns and measurable, positive environmental and social impact. We have developed innovative tools and analysis to support manager evaluation and selection based on impact. Investing with Impact has developed robust investment frameworks and insights across key themes such as: Climate Change and Fossil-Fuel Aware, Gender Equality, Racial Equity and Faith-Based Investing.

## IMPACT BY THE NUMBERS

\$70Bn+

in client assets invested on our Investing with Impact Platform, up ~27% from 2020, with \$12Bn allocated to products from diverse-owned asset managers



The Investing with Impact Platform is utilized by 92% of Morgan Stanley Wealth Management representatives and helps serve over 300,000 clients

~\$45Bn

in client assets with a Morgan Stanley IQ profile (see details on page 30)

## CASE STUDY

### BACKING LEADERS ON DIVERSITY, EQUITY AND INCLUSION

Morgan Stanley is committed to partnering with clients to mobilize capital at scale that seeks to advance equity across dimensions such as race, ethnicity, gender and more. In 2021, we enhanced the Investing with Impact Diversity Balanced and Equity Portfolios to emphasize diverse asset managers, as well as investment strategies that focus on companies with strong workplace DEI policies, and those producing products and services that benefit diverse communities. Further we committed to donating funds, based on assets raised, to qualifying nonprofits advancing DEI.<sup>1</sup> We constructed these portfolios using our newly updated Investing with Impact framework, which leverages the Three I’s of Impact: Intentionality, Influence and Inclusion (see graphic on the right).

Also in 2021, we released DEI Signal, a quantitative manager scoring tool, that seeks to identify asset managers taking the lead to make their organizations more diverse and inclusive. DEI Signal is the latest of many resources that Morgan Stanley has developed to be more inclusive and to help the industry become more inclusive as well.

Wealth Management’s Diversity & Inclusion Investment Office, established in 2020, continues to grow the number of diverse-owned strategies available for clients.



## Our Investing with Impact Framework Leverages the Three I's of Impact: Intentionality, Influence and Inclusion

### INTENTIONALITY

Intentional investment process that seeks to generate market-rate returns alongside positive social and environmental impact in one or more of the following ways:

← Minimize Objectionable Impact ————— Generate Targeted Impact —→

#### Restriction Screening

Reduce exposure to companies that detract from the intended positive impact

#### ESG Integration

Consider environmental, social and governance (ESG) across corporate practices in the investment process

#### Thematic Solutions

Focus on companies whose products and services contribute to sustainability solutions

### INFLUENCE

#### Active Ownership

Management engagement, strategy setting, proxy voting, resolution filing, filling board seats and more to modify behavior of portfolio companies to generate better social and environmental outcomes

and/or

#### Market Building

Seek to influence the industry through collaborative affiliations, and adopting global frameworks

### INCLUSION<sup>2</sup>

#### Diverse Firm Ownership

and/or

#### Diverse Representation Across Investment Professionals

<sup>2</sup> "Inclusion" defined as diverse asset manager ownership and/or diverse portfolio manager representation. Morgan Stanley's Global Investment Management Analysis (GIMA) team defines "diverse asset managers" as those with 50% or greater ownership by women or racial/ethnic diverse individuals. This definition aligns with the U.S. Equal Employment Opportunity Commission categories and includes: Hispanic or Latino, Black or African American, Asian, American Indian or Alaska Native, or Native Hawaiian or other Pacific Islander. "Diverse representation" is defined as 50% or greater female named portfolio managers, as reported by the asset manager.





## Investing with Impact

**Investing with Impact** offers Wealth Management clients the opportunity to align their investments with their values through 15 Morgan Stanley Portfolio Solutions Impact Models and over 200 investment strategies, plus additional customizable opportunities including restriction overlay screening. The portfolio solutions start at \$10,000 to invest, and capture the firm's best thinking on asset allocation, manager selection, portfolio construction and risk management in a single unified managed account. In 2021, total client assets across the suite of 15 reached over \$1.5 billion, up over 89% compared to 2020. Investors can seek to advance broad sustainability solutions or target specific issues such as mitigating climate change or supporting diversity and inclusion or community development through these solutions.

## Morgan Stanley IQ

Morgan Stanley IQ® is an award-winning<sup>3</sup> and patented<sup>4</sup> application that empowers clients to track their portfolio's alignment to their unique impact and financial goals. The proprietary application provides clients with a comprehensive framework to identify and prioritize over 100 social and environmental impact preferences. It harnesses the insights of multiple third-party data sources and proprietary Morgan Stanley analytics to assess the alignment of investments with those unique impact preferences and global frameworks including the United Nations Sustainable Development Goals. It also equips Morgan Stanley Financial Advisors with suggestions for investment solutions that may better align clients' portfolios over time with their top-priority impact preferences.



In 2021, Morgan Stanley won Private Wealth Management Magazine's award for **Best Private Bank for ESG Technology, North America**, based on the achievements of Morgan Stanley IQ.

<sup>3</sup> <https://pwmwealthtechawards.com/>

<sup>4</sup> U.S. Pat. No. 11,188,983



Morgan Stanley IQ's client-centric approach is helping us deepen relationships with existing and new clients including individuals, families and institutions. In 2021, we built on Morgan Stanley IQ by launching Impact Signal, one of the industry's first holistic quantitative manager scoring tools. It enables our Financial Advisors to evaluate more than 15,000 funds and separately managed accounts quantitatively on the strength of their impact. Along with DEI Signal, Impact Signal supports clients' ability to measure the impact of their portfolio across the three Is of Impact.



In 2021, we built on Morgan Stanley IQ by launching **Impact Signal**, one of the industry's first holistic quantitative manager scoring tools.

## Equipping Financial Advisors

The Investing with Impact team supports our Financial Advisors, Private Wealth Advisors, International Client Advisors and Institutional Consultants to better serve clients in pursuing their financial and impact objectives. Our educational resources include an online curriculum launched in 2017 and updated annually, thematic implementation guides, and regular updates on sustainable investing trends.

To encourage excellence and leadership among this population, we introduced the Investing with Impact Director designation in 2018 for impact-focused practitioners. To achieve this distinction practitioners must meet continuing-education requirements, pass an exam and demonstrate a track record in implementing Investing with Impact products and solutions on behalf of clients. In 2021, there were 88 Investing with Impact Directors, and we hosted our seventh annual Investing with Impact Directors gathering. Topics presented by internal and external experts included market trends, opportunities across asset classes and highlights on key sustainability themes such as climate change and DEI.



# Investment Management

Morgan Stanley Investment Management (MSIM) is committed to ESG-informed investment decision-making across all asset classes to support the interests of our clients and their portfolios. We believe that ESG factors drive new investment opportunities and contribute to both risk mitigation and long-term investment returns. In addition, we may leverage our influence as an investor to drive better investment performance alongside improved corporate sustainability practices and outcomes.

In March 2021, MSIM acquired Eaton Vance, including subsidiary Calvert Research and Management (Calvert), a longtime leader among U.S. responsible investment management companies, and subsidiary Parametric, a leading provider of customized, ESG and tax-managed solutions. Adding Calvert's world-class ESG research and expertise further enhances our ESG integration, portfolio company research and engagement, and suite of sustainable products tailored to our clients' sustainable investing objectives. As a combined organization, the strength of our commitment to ESG can be seen in our actions, industry partnerships and people.

## IMPACT BY THE NUMBERS

# \$60Bn+

sustainable fund assets under management across MSIM and Calvert investment strategies<sup>5</sup> (please refer to MSIM Sustainable Investing Spectrum on [page 37](#) for definitions)

# 670+

company engagements in 2021 covering sustainability issues ranging from decarbonization and climate risk to diverse and inclusive business practices

# A/A+

ratings achieved throughout our most recent Principles for Responsible Investment (PRI) scorecard

<sup>5</sup> The AUM figures referenced here relate to our 'Sustainable Core' and 'Sustainable Objective and Impact' AUM (as defined on [page 37](#)) of Legacy MSIM strategies plus total Calvert Research and Management AUM.

Unless otherwise stated, references and metrics in this report that pertain to 'MSIM' and 'Investment Management' relate to Legacy MSIM. 'Legacy MSIM' means Morgan Stanley Investment Management, excluding those businesses that were wholly owned by Eaton Vance Corp. prior to the acquisition of Eaton Vance Corp. by Morgan Stanley on March 1, 2021.

## CASE STUDY

### NEXT LEVEL FUND

In June 2021, we launched the impact-focused [Next Level Fund](#) with anchor corporate partners Hearst, Microsoft and Walmart to invest in promising diverse startups.

Part of MSIM's Private Credit & Equity platform, the fund invests in primarily early-stage technology and technology-enabled companies whose founding teams include women or diverse members. Target sectors include, among others, technology, consumer/retail, financial technology, insurance, healthcare, logistics, industrials, and media and entertainment.

The fund is managed in partnership with Morgan Stanley's Multicultural Client Strategy Group. It builds on the expertise of our [Multicultural Innovation Lab](#), our in-house startup accelerator, focused on early-stage women- and diverse-led startups. Chosen firms will benefit from increased visibility, access to capital and strategic assistance.

The case studies in this section are provided for illustrative purposes only. There is no assurance that the engagements will be successful and/or result in positive investment outcomes.



## MSIM Sustainability Governance

Our commitment to sustainability is reflected in our actions, industry partnerships and people. In addition to a centralized Sustainability Team, we employ dedicated sustainability experts within our largest investment platforms.

In 2021, we introduced a new [Sustainable Investing Policy](#) (“SI Policy”) to replace the previous MSIM ESG Approach and Principles. The SI Policy guides our investment teams and regional entities with an emphasis on portfolio management and investment advisory and fund management services for MSIM-branded funds. Within this broad framework, each investment team has its own investment philosophies and strategies for managing client assets and deploys its own skill and judgment in assessing ESG-related risks and opportunities.

We provide ESG support to our portfolio managers and investment teams through our Sustainability team, the Investment Management Sustainability Council, and the Morgan Stanley Institute for Sustainable Investing. The Sustainability Council is composed of senior, cross-functional business and investment leaders who advise on sustainable investment strategies, culture and client engagement across teams to ensure consistency. It is co-chaired by our Global Head of Sustainability for Investment Management and the Chief Responsible Investment Officer of Calvert Research and Management.

Our Sustainability team, led by the Global Head of Sustainability, is responsible for MSIM’s collective sustainable business efforts. The team helps launch thematic sustainable funds, advises clients and produces sustainability data, tools and research to support our investment teams. The team partners with the Sustainable Investing leads for each of our investment platforms to coordinate global initiatives, enhance ESG integration practices and deliver best-in-class sustainability products and solutions. Our dedicated Global Stewardship function, part of the Sustainability team, supports and helps coordinate our proxy voting and investee engagement activity.



### Joining Forces to Advance Racial Equity in Municipal Markets

In September 2021, we partnered with JUST Capital and other investors to launch the Municipal Issuer Racial Equity & Inclusion Engagement Framework. Implemented in collaboration with minority-owned municipal bond underwriters, this initiative aims to facilitate dialogue on racial justice between U.S. issuers and investors and encourage transparent disclosure of social metrics.



### APPROACH TO SUSTAINABLE INVESTING

MSIM defines sustainable investing as a spectrum of practices that uses ESG information and criteria to deliver returns for clients and shape investment solutions. Our day-to-day approach to sustainability includes the following activity:

- **Active Ownership:** investment teams employ the shareholder rights and stakeholder influence that we exercise on behalf of our clients to encourage, where relevant, strong ESG practices with issuers, borrowers and counterparties
- **ESG Integration Across Asset Classes:** applying thoughtful consideration of material ESG factors as appropriate for investment strategies and asset classes
- **Sustainable Investing Solutions:** providing our clients with investment solutions that align with their returns objectives as well as sustainability preferences and needs.

## Driving Sustainability Through Active Ownership

Active ownership is the hallmark of our approach to investing. As active managers and long-term investors, we believe we have both a duty and an opportunity to steward the capital we manage. Our investment teams embrace this opportunity by engaging directly with their portfolio companies on sustainability topics and by effectively exercising our proxy voting and other rights as shareholders.

Teams typically take a bottom-up approach to selecting engagement topics, focusing on those most material to a particular holding. However, we recognize that certain environmental and social challenges can cause systemic risk to the economy and capital markets and can even pose an existential threat. In response, we established four priority areas in 2020 for our thematic company engagement and

asset stewardship that directly align with 11 of the UN SDGs (see graphic). Our clients provided input on these engagement priorities, which affects our investment teams to varying degrees and that we have continued to pursue throughout 2021.

Our ESG engagement serves three main purposes: assessing the materiality of ESG issues to a company and its sector, evaluating the company's response and monitoring progress to influence adoption of better practices. In 2021, our investment teams conducted over 670 engagements on sustainability topics.

MSIM views proxy voting as an integral part of active ownership. Exercising our proxy voting rights gives us the opportunity to guide companies in which we invest toward better environmental, social and governance practices, which we believe produce attractive returns for our clients over the long term. Proxy voting decisions are typically made in-house by members of the investment team and the Global Stewardship team. In 2021,

## Our Thematic Priorities for Engaging Companies



### DECARBONIZATION & CLIMATE RISK

Supporting the transition to a low-carbon economy in line with Paris Agreement goals

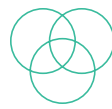
- Renewable energy and clean tech
- Energy efficiency
- Physical impact adaptation
- Just transition



### CIRCULAR ECONOMY & WASTE REDUCTION

Supporting business models that reduce impact on natural resources and that innovate to reduce waste generation, with a focus on plastic waste

- Recycling and reuse
- Sustainable sourcing
- Lifecycle analysis
- Water stewardship
- Biodiversity



### DIVERSE & INCLUSIVE BUSINESS

Supporting business practices that create a more just and inclusive society

- Affordable access to essential services
- Investing in communities
- Racial justice
- Pay equity
- Board/employee diversity



### DECENT WORK & RESILIENT JOBS

Supporting decent work across the entire value chain and making workforces resilient in the face of innovation and change

- Automation and the workforce
- Supply chain management
- Living wage
- Workforce well-being



This represents how the portfolio management team generally implements its investment process under normal market conditions. See [Disclosure](#) page for important information concerning the Sustainable Development Goals (SDG) icons.

MSIM voted at over 7,000 meetings (across 74 different markets) and on more than 1,700 shareholder proposals. We backed 68% of all shareholder proposals globally, with the highest support for those related to human rights disclosure, political lobbying and spending, and board and employee diversity.

Our Fixed Income team further enhanced their active engagement efforts during 2021. The team launched a new [engagement strategy](#) and conducted nearly 200 ESG-focused dialogues with companies, governments and other key players (see the case study below for an example). About 40% of the dialogues were predominately focused on decarbonization and climate risk.

For more information on our approach to engagement and proxy voting policies in 2021, see [MSIM Proxy Voting Policy](#) and [MSIM Engagement & Stewardship Principles](#).

#### CASE STUDY



## EVALUATING COMPANIES ON DIVERSITY & INCLUSION

In 2021, MSIM's Fixed Income team engaged on diversity and inclusion practices with several European high-yield issuers. These included a U.K.-based manufacturer with an all-male board of directors and senior management team.

The company's ability to appoint more senior women had been constrained by intense acquisition activity. While appointing women directors was a stated priority of the Nomination Committee, there was no specific timeframe for doing so and the company also lacked an aggregated reporting strategy, at the group level, including on pay equity. Our team concluded that the company's intentions were not supported by concrete near-term plans to change their practices, influencing the team's decision to sell the company's bonds.

#### CASE STUDY



## SUPPORTING DECENT WORK AND RESILIENT JOBS

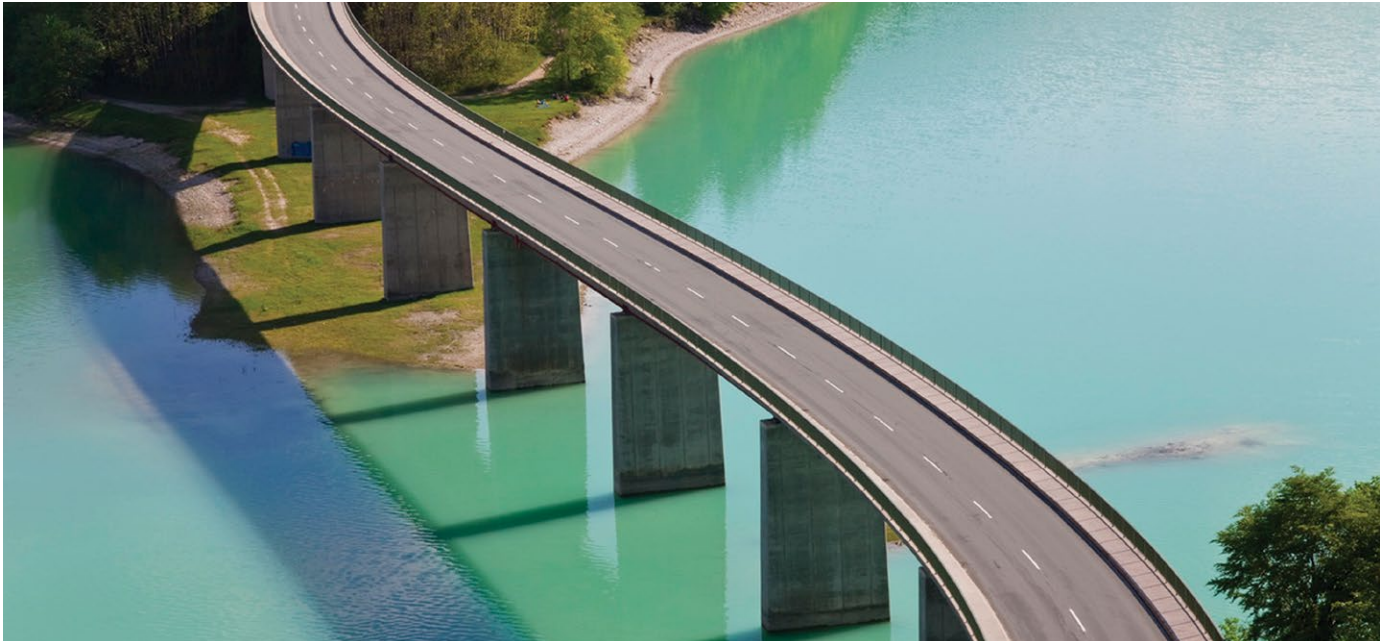
MSIM's International Equity team engaged with a multinational consumer goods portfolio company following media and NGO allegations of labor rights violations by its Asian suppliers. Reported abuses included passport retention, poor living conditions, child labor and excessive recruitment fees for migrant workers.

The team probed the company's monitoring and remediation capabilities and was encouraged that its leaders had addressed all supplier violations, commissioned independent human rights assessments and created remediation plans. These included reimbursing recruitment fees and working with their suppliers, NGOs, governments and peers to increase leverage. The company also terminated suppliers that repeatedly failed to comply with its code of conduct.

In addition, the company is now partnering with NGOs and a human rights research institution on improvement plans after we urged them to address the root causes of their supply-chain challenges. These efforts include working directly with smallholder palm oil farmers to improve labor practices.







## ESG Integration and Sustainable Investing Solutions

Our investment platforms generally integrate materially relevant sustainability risks and opportunities into their investment decision-making process. This includes due diligence and research, valuation, asset selection, portfolio construction and ongoing investment monitoring.

We offer clients options that range from funds that integrate ESG factors throughout the investment process to MSIM labeled Sustainable Funds that seek to achieve attractive financial returns alongside positive environmental and/or social impact (see graphic on [page 37](#) for more detail).

In 2021, Integro, our first global impact fund, reached the five-year mark with a significant positive social and environmental impact on emerging markets around the world. Managed by our AIP Private Markets Solutions Group, the fund's benefits through 2020 include giving financial access to more than two million small borrowers, supporting 44,000 jobs, and providing education and training facilities for 800,000 children. From Africa to Latin America and South Asia, the fund increasingly invests directly in companies with sustainability-driven business models such as solar power and affordable medical equipment.

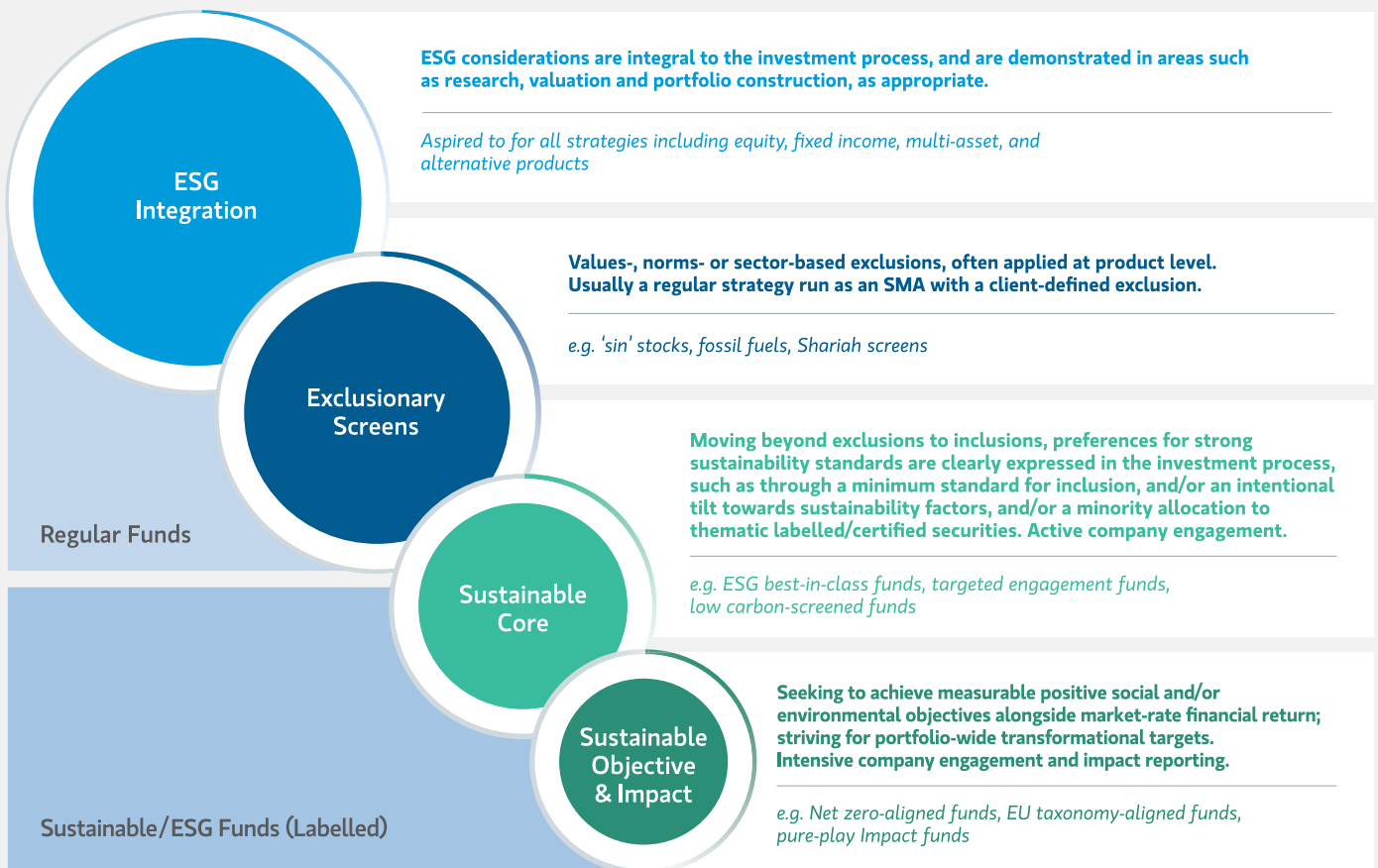
In 2021, we expanded our Sustainable Funds suite and thematic focuses, adding new strategies across private and public investment capabilities. For example:

- We launched various diversity-themed funds in line with Morgan Stanley's core value to Commit to Diversity and Inclusion. This included the Next Level Fund, investing in early-stage companies whose founding teams include women or diverse members.
- In Europe, the EU Sustainable Finance Disclosure Regulation ("SFDR") is now in force and MSIM's public-in-scope products included 34 classified as either "funds which promote sustainable characteristics" (Article 8) or "funds with a sustainability or carbon-reduction objective" (Article 9).

For more information on our client-driven approach to Sustainable Investing, download the [Investment Management Sustainable Investing Policy](#).

# MSIM's Sustainable Investing Spectrum

## INCORPORATING SUSTAINABILITY ACROSS INVESTMENTS AND ASSET CLASSES



**ENGAGEMENT, VOTING AND STAKEHOLDER MANAGEMENT ARE EMBEDDED IN ALL THAT WE DO**

Unless otherwise stated, references and metrics in this report that pertain to 'MSIM' and 'Investment Management' relate to Legacy MSIM. 'Legacy MSIM' means Morgan Stanley Investment Management, excluding those businesses that were wholly owned by Eaton Vance Corp. prior to the acquisition of Eaton Vance Corp. by Morgan Stanley on March 1, 2021.

# Community Development Finance

Morgan Stanley helps deliver lasting positive changes in communities across the United States. Our program’s track record in meeting community needs has consistently earned Morgan Stanley’s U.S. banks “Outstanding” ratings from the Office of the Comptroller of the Currency.

Our Community Development Finance (CDF) Group is a key driver of our inclusive growth strategy, one of our core sustainability thematic focus areas. Designed and implemented with community and nonprofit partners, CDF executes innovative transactions not routinely performed by private investors in areas of pressing need, including:

- Preservation and development of sustainable, multifamily affordable rental housing
- Healthy communities
- Equitable transit-oriented development
- Economic development that supports quality jobs
- Capital for underserved, small and rural markets
- Capacity building for nonprofits

Launched in 2020, the \$1 billion Morgan Stanley Social Bond accelerates this work by directing capital into affordable housing projects that support vulnerable communities. Through March 31, 2022, the bond supported more than 47,500 affordable housing units, with impacts delivered to over 123,000 people. For more details and case studies, see our [2022 Social Bond Impact Report](#).

## IMPACT BY THE NUMBERS: 2010–2021

\$27Bn+

committed in community development loans and investments



165,000+ affordable housing units funded



\$400MM+ in small-business loans



236,000+ jobs created or retained





## 2021 Community Development Finance Highlights



### Keeping Housing Affordable:

New construction, preservation and rehabilitation of affordable housing are core components of our community development strategy and a critical need across the country. Throughout the pandemic, CDF has continued to alleviate the growing housing affordability crisis, financing over 80 affordable housing developments for a total of ~\$1.8 billion in 2021. For example, CDF provided a \$35 million loan to support a new 561-unit development in Washington D.C., including 40,000 square feet of retail space. The project is part of the mayor's New Community Initiative to revitalize severely distressed subsidized housing and redevelop neighborhoods into vibrant mixed-use communities.



### Affordable Housing With Supportive Services:

We work with mission-oriented affordable housing partners to acquire multifamily rental properties and identify programs to support the needs of their residents and the surrounding communities. For instance, Morgan Stanley invested \$15 million to build a new 80-unit affordable housing development in Plattsburgh, New York. The project combines four residential buildings and one community building that will include common space and offices for 24/7 social services, including primary and behavioral health services, housing case management, employment and vocation training, and children's services.



### Responding to Natural Disasters:

When extreme weather, including floods, hurricanes and wildfires, strikes, affordable housing shortages can be exacerbated in affected towns and cities. CDF works with locally based partners to provide financing that helps rebuild communities after disasters, such as the California wildfires. After the Tubbs fire swept through Sonoma County, destroying thousands of homes, including the Journey's End Mobile Home Park for senior citizens, Morgan Stanley worked with the area's leading affordable housing developer, Burbank Housing Development Corporation, providing ~\$75 million in financing in 2021 to construct 94 new homes that will offer affordable housing opportunities to residents displaced from Journey's End as well as other low-income seniors.

# The Morgan Stanley Institute for Sustainable Investing

The Morgan Stanley Institute for Sustainable Investing plays a unique role in our firm and sector. For nearly a decade, it has worked to accelerate the adoption of sustainable investing and finance by fostering innovation, empowering investors through actionable analysis and developing the next generation of leaders in the field. It also drives strategic sustainability initiatives across Morgan Stanley.

Founded in 2013 by the firm's CEO and Chairman, the Institute is chaired by the firm's Vice Chairman and Head of External Affairs and is guided by an advisory board of prominent leaders from business, academia and leading nongovernmental organizations.

1

**Fostering innovation** by leveraging the firm's experience and market perspective to advance the field of sustainable investing.

2

**Delivering actionable analysis** and thought leadership to inform and empower investors.

3

**Developing the next generation** of sustainable investing leaders through strategic partnerships and programs.

## IMPACT BY THE NUMBERS

474

graduate students from 87 schools in 50 countries entered our annual Sustainable Investing Challenge, with projects designed to make an impact in 33 countries

500+

students applied for ~6 sustainable investing fellowship positions in New York and London

900+

sustainable finance thinkers and practitioners joined our third annual Sustainable Investing Summit

## CASE STUDY

## SUPPORTING BREAKTHROUGH INNOVATION TO TACKLE POVERTY AND PLASTIC WASTE

Siklus, a groundbreaking Indonesian startup, operates plastic waste refill stations in supermarkets and on mobile delivery carts. The business gives consumers a convenient way to refill used plastic containers with products such as detergent and shampoo while saving money on these essentials.

Siklus is among five global innovators, ranging from fully commercial firms to nonprofits, that Morgan Stanley is backing through the Institute for Sustainable Investing's new [Sustainable Solutions Collaborative](#). See [page 42](#) for more details.





# Fostering Innovation

The Institute leverages Morgan Stanley's experience and market perspective as a leading global financial services firm to advance the field of sustainable investing.

As part of Global Sustainable Finance (GSF), the Institute partners both across the firm and with outside stakeholders to pioneer scalable solutions and build new sustainable investing tools and capabilities. Examples of how the Institute supports the firm's three business segments to incubate innovative and impactful products for clients are included throughout the Solutions and Services section.

## Sustainable Solutions Collaborative

The world faces many complex sustainability challenges, from climate change and plastic waste to equitable health care and food insecurity. These require large-scale systemic solutions, which is why Morgan Stanley launched the Sustainable Solutions Collaborative in 2021. Led by the Institute, this initiative will channel \$250,000 awards to innovators engaged in breakthrough sustainable solutions that range from commercial to nonprofit. Recipients participate in a year-long partnership with the Institute. Over time, Collaborative members will be part of a growing network of Morgan Stanley leaders and partner organizations that facilitate cross-sector collaboration on the most pressing sustainability issues.

To identify the first five projects, the Institute considered more than 150 nominations from sustainability thought leaders and practitioners across a range of sectors and implemented a rigorous screening process. The winners were chosen based on their high potential for lasting and systemic impact.

In addition to Siklus (see [page 41](#)), the winners were:

- **mPharma**, a Ghana-based health tech startup that is revolutionizing Africa's drug supply chain by using e-commerce tools to make health care more accessible and affordable.
- **MySOC**, a project partnership between Skidmore College and Michigan State University that harnesses unprecedented amounts of data on soil carbon to help create a new market working with farmers committed to sustainability.
- **SunCulture**, based in Kenya, uses innovations in inclusive finance, renewable energy and sustainable agriculture to help small-scale farmers make their practices more profitable and sustainable.
- **Trees As Infrastructure (Trees AI)** is an open-source platform working to establish nature-based approaches to urban infrastructure. It is run by U.K.-based Dark Matter Labs, which operates across Europe.

## Morgan Stanley Sustainable Investing Summit

In October 2021, the Institute hosted our third annual Sustainable Investing Summit, where leaders across business and government explored solutions to pressing sustainability challenges. This virtual event convened over 900 leading sustainable finance thinkers and practitioners.

The summit focused on the interconnectedness of climate change, economic inequality, social justice and health care access—and the need for bold solutions. Attendees including policymakers, economists, scientists, physicians, entrepreneurs and investors addressed the need for innovation, coordinated cross-sector solutions and an end to business-as-usual thinking. Speakers included former U.S. Vice President Al Gore, UN Special Envoy on Climate Action and Finance Mark Carney, former U.S. Securities and Exchange Commission Chair Mary Schapiro, Pfizer CEO Dr. Albert Bourla, and Tokyo Governor Yuriko Koike, among others.

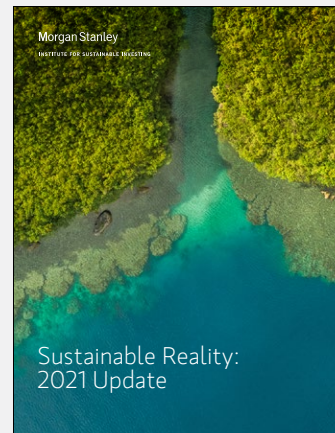


# Delivering Actionable Analysis

The Institute delivers insightful analysis to inform and empower the growing number of investors looking to make a positive ESG impact. Our thought leadership focuses on trends driving sustainable investing and critical thematic issues such as climate change and inclusive economic growth. Highlights that made a strong impact on investors and other stakeholders in 2021 included the following:



**Sustainable Signals: Individual Investors and the COVID-19 Pandemic** analyzed investor behavior and thematic priorities during the turbulent events of 2020. The survey of 800 U.S. individual investors found a 6% dip in interest in sustainable investing, to 79% among all investors, amid pandemic-driven economic concerns. However, millennial interest rose by 4% over 2019 levels to 99%, underlining the field's strength among this key investor group. The survey also provided insights into how recent events have shifted investors' sustainability priorities. Interest in public health and small-business support surged while 50% of all investors and 73% of millennials said they had made investment changes in response to social justice issues or planned to do so.



**Sustainable Reality: 2021 Update** revealed that U.S. sustainable funds outperformed traditional peer funds by a median of 4.3% throughout 2020 amid ongoing economic uncertainty triggered by the global pandemic. The gap in performance among equity and taxable bond funds was the highest recorded since 2004, indicating that sustainable funds can be more reliable in times of stress. The analysis reinforces our Sustainable Reality findings in 2019 and 2020, adding to a growing body of evidence that sustainable funds can be less risky for investors.

For information on climate-related thought leadership, see page 32 of our [2021 Climate Report](#).

# Developing Future Sustainable-Investing Leaders

The Institute helps develop the next generation of sustainable-investing leaders through fellowships and strategic partnerships. Our two hallmark programs for graduate students expose tomorrow's financial services executives to the power of capital market solutions to address sustainability challenges. The Sustainable Investing Fellowship places successful candidates in sustainability functions at our New York City headquarters and London office. In 2021, nearly 600 students applied for seven positions. The selected candidates were placed in GSF, Equity Research, Global Capital Markets, Wealth Management and Investment Management.

For eight years, the Kellogg-Morgan Stanley Sustainable Investing Challenge has served as an incubator for cutting-edge ideas. This highly competitive event (see Snapshot) invites graduate students worldwide to apply their talents to developing financial solutions to social and environmental challenges that can also achieve market-rate financial returns. In 2021, more than 400 graduate students participated in the competition, a 34% increase from 2020. Volunteers from across the sustainable investing community offered their services as mentors and judges, helping identify 16 teams to advance to the finals.

The top prize went to the BeeBank & Brokerage team from Oxford University for its proposal to finance beekeepers and help stem the global die-off of honeybees. The team's innovative model would enable investors to support sustainable food production by facilitating contracts, working capital and resources to provide farmers with healthy bees for crop pollination.

For the second consecutive year, the Institute and Northwestern University's Kellogg School of Management also invited proposals aimed specifically at reducing plastic waste. The prize in this category went to the European Circular Fund team from the Frankfurt School of Finance and Management. The team's proposed cap-and-trade system for plastic packaging would support a loan fund for EU waste collection, waste treatment and recycling companies.

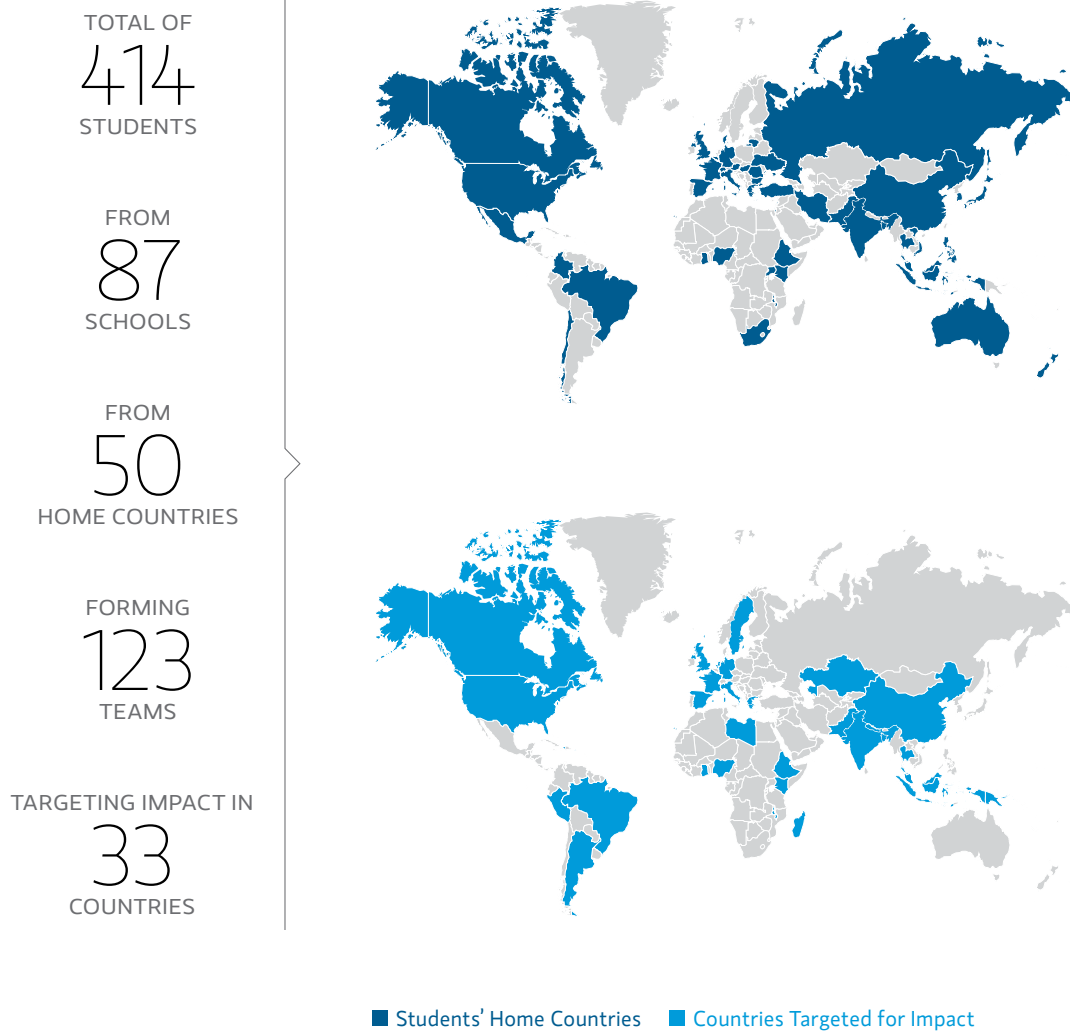


With a proposal to finance beekeepers and practices that conserve biodiversity, the BeeBank & Brokerage team secured the top prize in the 2021 Kellogg-Morgan Stanley Sustainable Investing Challenge.



# Kellogg-Morgan Stanley Sustainable Investing Challenge

## 2021 COMPETITION SNAPSHOT



# Firmwide Sustainability

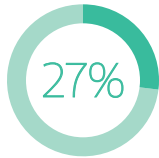
Morgan Stanley's commitment to sustainable business, climate action and inclusive growth extends to how we run our own company. With leadership from the top and partnership with our employees, we integrate ESG considerations across our business practices, operations and culture. Priorities include building a diverse and inclusive workforce, improving business resilience, and maintaining strong governance practices and prudent risk management.

DIVERSITY BY THE NUMBERS

Global Gender Representation



4 of 14 of our board directors are women

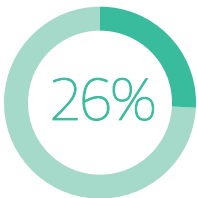


of our officers globally are women<sup>6</sup>

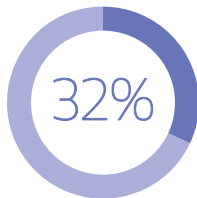


of our global employees are women<sup>7</sup>

U.S. Ethnic Diversity Representation<sup>8</sup>



Ethnically diverse officer



Ethnically diverse



CASE STUDY

**BUILDING BETTER TO SHRINK OUR REAL ESTATE FOOTPRINT**

Our Build Better program helps us deliver the modern office functionality our employees expect with lower environmental impact. Part of our Sustainability at Work strategy, Build Better targets significant improvements in efficiency across our global real estate portfolio, installing solutions across cooling, heating and lighting that go beyond regulatory standards, which results in a comfortable working environment with lower resource intensity.

The program will reduce energy and natural resource use, waste, and emissions throughout the lifecycle of our buildings by integrating engineering, design, project management, procurement and operations. For example, our facilities are introducing:

- 100% recycled content of carpeting and ceiling tiles
- Emphasis on natural lighting and reduction of artificial lighting whenever possible
- Low-energy filtration technology for enhanced indoor air quality
- Smart technologies that adjust lighting, heating, cooling and cleaning services based on use

As of 2021 year-end, nearly 5 million rentable square feet of our real estate has achieved certification to the U.S. Green Building Council's Leadership in Energy and Environmental Design standard (LEED). By 2025, we aim to certify 50% of our global floor area.

<sup>6</sup> Officers include Managing Directors, Executive Directors and Vice Presidents.

<sup>7</sup> Legacy Eaton Vance employees are included in all metrics.

<sup>8</sup> U.S. ethnically diverse designations align with the Equal Employment Opportunity Commission's ethnicity and race categories and include American Indian or Native Alaskan, Asian, Black or African American, Hispanic or Latino, Native Hawaiian or Pacific Islander, and two or more races.



# Our People

Morgan Stanley's 75,000 talented employees around the world bring diverse experiences and perspectives that enrich our culture, inform our work and drive our business. We embrace a values-based culture of inclusion where dedicated professionals collaborate to produce our best work. We provide development opportunities and health and wellness resources to help our employees reach their potential and balance work and home life. Throughout the ongoing COVID-19 pandemic, we have made every effort to help keep our employees around the world safe.

A strong, inclusive workplace culture is core to our success. Our board of directors and its Compensation, Management, Development and Succession (CMDS) Committee oversee our human capital strategy. Priorities include human capital initiatives and management of culture and succession planning, including with respect to our chairman and CEO. We continually refine our human capital approach based on business drivers, employee surveys and the overall environment for talent.

## Diversity and Inclusion

We believe that a comprehensive diversity strategy is important to Morgan Stanley's continued success and our ability to support our workforce, serve our clients and engage with the communities in which we live and work. To this end, we continue to deliver against a comprehensive diversity and inclusion strategy focused on our workforce, societal issues and the marketplace.

- **Workforce:** Continue to develop and invest in internal diversity, equity and inclusion efforts to enable Morgan Stanley to become a leader in attracting, developing and retaining diverse talent, and to create a culture of inclusion at the firm
- **Society:** Support underserved communities through philanthropy and employee engagement that addresses inequities in education and careers, economic prosperity and health, and helps them to grow and thrive
- **Marketplace:** Invest to advance economic outcomes in underserved communities through our products, services, business practices, spending, thought leadership and conferences

Creating opportunities for all our colleagues to thrive, while serving our clients and communities, is good for everyone and supports our business success. In 2020, we launched the [Morgan Stanley Institute for Inclusion](#). Led by our Chairman and CEO, the Institute for Inclusion's mandate

includes investing to advance economic outcomes in underserved communities, strengthening these communities through philanthropy and advising on our internal D&I efforts. An external [advisory board](#) provides expert perspective and constructive feedback and includes leaders from education, business and nonprofit organizations as well as representatives from Morgan Stanley's board of directors.

For more information about our D&I policies, programs and progress; the Morgan Stanley Institute for Inclusion; and our global diversity representation data, download our [most recent Diversity and Inclusion Annual Report here](#).

## Culture

Morgan Stanley's culture draws people to our firm and sets us apart from our competitors. Our people take to heart our core values—Put Clients First, Do the Right Thing, Lead With Exceptional Ideas, Commit to Diversity and Inclusion, and Give Back. To reinforce these values across our global offices, our Culture, Values and Conduct Committee of senior managers provides a firmwide perspective on culture, values and conduct. The Committee's responsibilities include identifying focus areas, sharing best practices and overseeing initiatives relating to culture, values and conduct (including training and enhancements to talent management, conduct risk and related processes), and reporting to the board of directors or its committees, as appropriate. In a 2021 survey, 90% of employees stated that they were proud to work at Morgan Stanley.

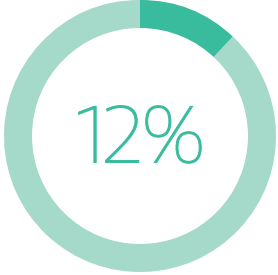


Our culture of belonging supports a professional work environment of equal opportunity, dignity and respect. We expect every manager and employee to recognize diverse points of view, make decisions based on merit and lead with integrity. Employees must follow the letter and spirit of our [Code of Conduct](#) and their region's nondiscrimination and anti-harassment policy. All U.S. employees also complete a mandatory annual course on maintaining a culture of respect. We strongly encourage our employees to report any workplace concerns using the channels described on [page 59](#).

One measure of a successful business culture is retaining talented and skilled employees. Similar to external trends, we saw an increase in voluntary attrition in 2021 due to the competitive labor market. By leveraging data through the biennial engagement and exit surveys, we identified various themes to be addressed to help combat attrition, retain high performers and remain the employer of choice. We delivered on a number of key initiatives, including executing on health and safety initiatives, investing in employee well-being, competitively compensating our staff and continuing to focus on diversity, inclusion and belonging. It is clear the Morgan Stanley brand remains strong, as we experienced record hiring in 2021.

BY THE NUMBERS

Global Voluntary Attrition in 2021



During the year, we continued to collaborate on cultural integration with E\*TRADE and Eaton Vance following the acquisitions in 2020 and 2021. We are working closely with our counterparts in both businesses to share information on each firm's history and culture, and have senior leaders welcome our new colleagues.

For more information on our approach to human capital management, see page 32 of our [2022 Proxy Statement](#) and pages 6–8 in our [2021 10-K](#).

## Supporting Well-Being

### KEEPING OUR EMPLOYEES AND COMMUNITIES SAFE DURING COVID-19

As the global COVID-19 public health crisis persisted throughout 2021, we continued to put our people's safety first with a range of country-specific programs designed to support and protect them. These range from free telemedicine and COVID-19 testing, treatment and vaccination clinics to subsidized backup family care, educational discounts and increased flexibility for alternative work arrangements.

Throughout the year, our Chief Medical Officer and various taskforces continued to update employees on topics such as testing, vaccinations, mental health resources and returning to work safely. Our human resources team also maintained our COVID-19 Response Line to answer colleagues' questions and coordinate contact tracing and case management

### PROMOTING HEALTH AND WELL-BEING

Morgan Stanley offers our employees and their families comprehensive benefits, including preventive programs and support when serious health issues arise. These include medical, dental and vision coverage; tax-advantaged flexible spending and health savings accounts; and critical illness, accident, disability and life insurances. We also provide generous family and medical leave, short- and long-term disability, and sick days, and in 2020, we introduced an enhanced mental health benefit for employees and their dependents.

Prioritizing our mental health and well-being has never been more crucial as Morgan Stanley's global community navigates the ongoing pandemic. To support employee health and well-being, we provide benefits and programs on health education, stress management, preventive care and chronic condition support. Additionally, onsite health and well-being facilities are available in key locations across the world. These include wellness and quiet rooms in many locations for meditation, prayer or yoga. Around the world, we celebrated World Mental Health Day with virtual global events to raise awareness, provide connection and reduce stigma. Thousands of employees took part digitally through individual connections, panel discussions, online tools and toolkits developed in partnership with the Morgan Stanley Alliance for Children's Mental Health (see box to the right).

In October 2021, we created the Morgan Stanley Global Well-Being Board, assembling senior leaders from across the firm who will:

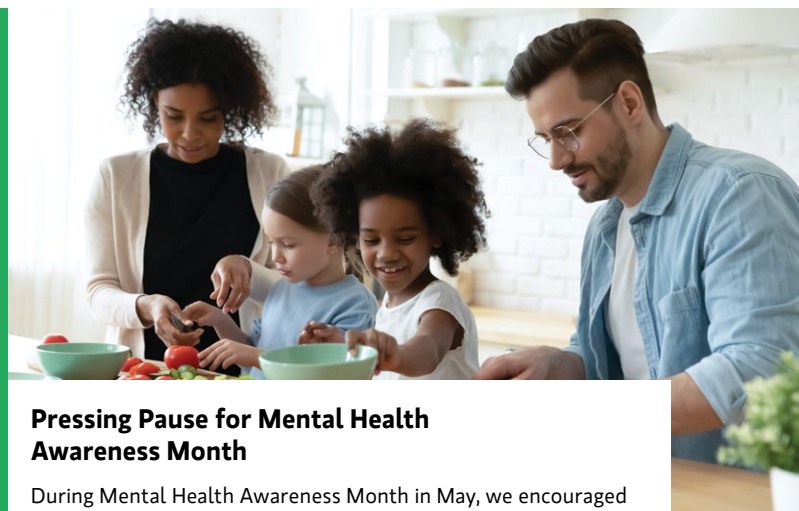
- Provide visible, sustained senior sponsorship and focus on overall well-being, encompassing employees' positive physical, mental, social and financial health
- Build greater openness, awareness and literacy to help remove the stigma often associated with seeking mental health care

- Address systemic issues related to well-being and mental health, including work design and organizational culture, to drive positive health outcomes

While the firm's current benefits and incentives are comprehensive, we have taken a closer look at our offerings to best meet the needs of our diverse workforce and enrich the employee experience. In December 2021, we announced a slate of global employee well-being enhancements to reflect not just our values and culture, but above all, our commitment to employees and their families. These included financial wellness, family support and physical well-being improvements.

Additionally, foundational to good health is having a primary care doctor who delivers preventive care, teaches healthy lifestyle choices, identifies and treats common medical conditions, and makes referrals to specialists, when needed. Many employees have postponed care during COVID-19, do not have a regular doctor, or need a cost-effective and easy way to get quick answers to urgent medical issues.

To address these gaps in the U.S., Morgan Stanley is rolling out a new concierge primary care benefit in the U.S., which offers top-quality care for adults and children at 100-plus locations and 24/7 virtual care.



### Pressing Pause for Mental Health Awareness Month

During Mental Health Awareness Month in May, we encouraged our employees to take a collective pause to care for themselves and their families. Throughout the month, we hosted virtual activities ranging from panel discussions to practical tools and tips for connecting with co-workers and improving personal well-being.

Highlights included panels with mental health experts from Headspace and Lyra, virtual fitness and meditation classes, e-cards to send colleagues, and a healthy sheet-pan cooking class. In addition, we introduced toolkits for our managers to support their teams and our U.S. families, developed in partnership with members of the Morgan Stanley Alliance for Children's Mental Health to support their children.





## Performance Management

Core to our success is our ability to recruit and retain the brightest and best. We design our performance, pay, promotion and succession processes to engage and reward talented and committed individuals and reinforce our culture and values. Annual employee evaluations include feedback from managers and colleagues on performance, conduct, risk behavior and contributions to our culture, all of which factor into compensation and promotion decisions. In 2021, with well-being top of mind for our employees, we added a performance question to assess and hold managers accountable for how they support their employees' health and well-being.

### RESPONSIBLE COMPENSATION

Morgan Stanley is committed to responsible compensation programs that support the firm's strategy, culture and values over the long term. We pay incentive compensation based on individual performance and firm performance against financial and nonfinancial goals set by the board of directors. Each year, the board and executive management team evaluate our strategy and refine performance goals and priorities to help ensure long-term management alignment.

Our compensation programs seek to deliver pay for sustainable performance, attract and retain top talent, align with shareholder interests, and mitigate excessive risk-taking. Senior management together with the board's Compensation, Management Development and Succession (CMDS) Committee oversee:

- Policies and procedures for funding and allocating incentive compensation, and the use of discretion in such awards to individuals
- Processes for identifying "material risk-taker" employees
- Controls to mitigate the risk of rewarding inappropriate conduct and unsatisfactory performance
- Processes for incentive compensation clawback and cancellation features

In 2021, an average of 68% of total compensation was variable for material risk-takers, of which 42% was subject to cancellation or clawback provisions. Where we uncover conduct contrary to our policies, disciplinary action may include cancellation and clawback of compensation, changes to promotion decisions, reduction of cash bonuses or termination of employment.

The CMDS Committee sets executive officer compensation after year-end, when full-year firm performance is known. In 2021, 75% of our CEO's incentive compensation was deferred over three years and subject to clawback, 100% of deferred incentive compensation was delivered in equity awards, and 60% of incentive compensation was delivered through future performance-vested equity awards.

Executives with responsibility for sustainability, including but not limited to the Vice Chairman and Head of External Affairs, the chief sustainability officer and the global head of corporate services, are evaluated against sustainability performance, goals and targets.

Shareholder feedback has informed our approach to corporate governance, disclosure and compensation in recent years. For more information, including on our 2021 named executive officer compensation awards, see page 76 of our [2022 Proxy Statement](#).

### ADVANCING PAY EQUITY

Attracting, retaining and advancing diverse talent is a priority for Morgan Stanley, and our policies and practices, including those on pay, reflect and promote that commitment. Our compensation programs are competitive within our industry and help ensure equitable rewards for all employees. For more information, see the Compensation Philosophy and Commitment to Equitable Pay Practices section of our [Diversity and Inclusion Annual Report](#).

# Risk Management

Risk is an inherent part of our businesses and activities. We believe effective risk management is vital to the success of our business activities. Accordingly, we have an Enterprise Risk Management (ERM) framework to integrate the diverse roles of risk management into a holistic enterprise structure and to facilitate the incorporation of risk assessment into decision-making processes across the firm.

We have policies and procedures in place to identify, measure, monitor, escalate, mitigate and control the principal risks involved in the activities of the Institutional Securities, Wealth Management and Investment Management business segments, as well as at firm level. The principal risks involved in our business activities include market (including non-trading risks), credit, operational, model, compliance, cybersecurity, liquidity, strategic, reputational and conduct risk. Strategic risk is integrated into our business planning, embedded in the evaluation of all principal risks and overseen by the board.

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 ERM framework. Five key principles underlie this philosophy: integrity, comprehensiveness, independence, accountability and transparency.

Our approach to business continuity management, environmental and social risk management and human rights, and developments in 2021 are summarized on [page 53](#). For more information on Risk Management, including governance priorities, see our [2021 Form 10-K](#) and our [2022 Proxy Statement](#).

## Operational Resilience

Unpredictable disruption to business operations is a growing threat in a globalized and networked world. Morgan Stanley is prepared for such incidents, from cyberthreats to natural disasters. We maintain a robust global Business Continuity Management program to protect our firm and clients, managed by our Firm Resilience team. This expert team coordinates measures across business units and functions to help maintain key services during events that impact our business operations and activity. Their efforts prioritize the physical safety of our staff and include controls to protect and maintain our real estate and technology.

The Fusion Response and Recover Center provides 24/7 global coverage to monitor and manage disruptive incidents, and our three core businesses have continuity plans in place for critical business processes and essential personnel.

We also plan and practice for extraordinary events at a sector level and share threat information as appropriate with peers, vendors and relevant government agencies.

Specialist teams support our Global Business Continuity Management program and standards, including Technology, Risk Management, Information Security and Corporate Services. Dedicated governance and risk committees, the board's Operations and Technology Committee, and senior management all help oversee the program.



## NAVIGATING COVID-19 RISKS AND RETURN TO WORK

Our operations have run smoothly throughout the global disruption caused by COVID-19 due to the resolve of our employees and strength of our Business Continuity Management. To inform our decisions, we closely monitor developments related to COVID-19 as well as guidance from the U.S. Centers for Disease Control and Prevention (CDC), the World Health Organization (WHO), and national and local governments.

We have taken a cautious and phased approach to workplace return that ensures first and foremost the health and safety of our employees and their families. Our Business Resilience and Human Resources team designed and implemented a "Vaccine Policy Change Checklist" that enabled the rollout of building-entry vaccine policies globally. Depending on location, this mandated either a vaccine or test, vaccine-only entry, or proof of vaccination.

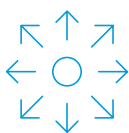
### ADDRESSING ENVIRONMENTAL AND SOCIAL RISK

Morgan Stanley’s due diligence and risk management processes are designed to identify, assess and address potentially significant environmental and social issues that may impact the firm, our clients or other stakeholders. Our Environmental and Social Risk Management (ESRM) Group oversees ESRM-related policies, provides internal subject matter expertise on environmental and social risk, conducts due diligence on relevant transactions, engages with stakeholders, monitors emerging risks and developments in partnership with the business units and GSF, and helps train employees.

Morgan Stanley regularly engages external and internal stakeholders on environmental and social topics, and we review our policies annually to reflect our strategy and key developments. The ESRM Group’s annual review of the [Environmental and Social Policy Statement](#) is conducted with senior business unit representatives, internal control groups and GSF, and resulted in amendments to the statement including:

- Providing additional details on ESRM’s approach, including to Enhanced Due Diligence
- Clarifying our approach to specific carbon-intensive sectors
- Emphasizing client engagement with regard to climate commitments

## SUMMARY OF MORGAN STANLEY’S 2021 ENVIRONMENTAL AND SOCIAL POLICY STATEMENT



### SCOPE

The Policy is applied globally across the following types of transactions:

- Lending
- Debt and equity underwriting
- Private placements
- Investment banking and capital markets advisory assignments
- Investment management activities related to private equity, private real assets and private credit investing
- Other transactions or activities as applicable and appropriate



### GOVERNANCE

The Policy Statement is reviewed annually. The results of the review are presented to the Global Franchise Committee, and material amendments are presented to the Nominating and Governance Committee of the board of directors for its consideration.



### SECTOR APPROACHES

Morgan Stanley has tailored approaches to certain sectors and activities including:

- Power Generation (Coal, Hydropower, Nuclear)
- Mining (Thermal Coal Mining, Metals mining)
- Oil and Gas (Arctic Oil and Gas, Oil Sands, Ultra Deepwater Oil and Gas, Shale Oil and Gas, Oil and Gas Transportation Pipelines, Liquefied Natural Gas (LNG) Export)
- Forestry
- Palm oil



### CROSS-SECTOR APPROACHES

We also have tailored approaches to certain cross-sector environmental and social issues including:

- Climate change
- Human rights
- Indigenous Peoples
- Biodiversity, critical habitats and critical cultural heritage



### REVIEWING TRANSACTIONS

As outlined in the [Environmental and Social Policy Statement](#), the ESRM Group and our business units review transactions that could result in potential environmental and social issues. When a particular environmental or social issue is identified, we conduct enhanced due diligence, including on issues such as human rights, adverse impacts on Indigenous Peoples, and management of greenhouse gases and other emissions. Transactions that carry potential franchise risks associated with environmental and social issues may also be escalated to senior management and/or the Global and Regional Franchise Committees that oversee franchise risk to the firm.

For example, to assess Morgan Stanley’s potential participation in a bond offering by a chemical company, the ESRM Group worked with the business unit to conduct comprehensive due diligence given the potential environmental impacts of the company’s operations and use of its products. Our assessment included meetings with company representatives and review of the company’s framework and track record to address impacts associated with energy use, water consumption and waste management, as well as its material reduction initiatives. Following internal reviews involving senior management, Morgan Stanley determined that the company’s efforts to mitigate potential risks were sufficient and decided to proceed with the transaction.

In another instance, a potential power client sought advisory services to help refinance an existing loan facility. The ESRM Group evaluated several environmental and social metrics associated with one of the company’s facilities, as well as its stakeholder engagement approach, given concerns raised by the local community. The review did not confirm a sufficiently robust stakeholder engagement framework—thereby leading us to decline pursuing the opportunity.

### ASSESSING CLIMATE RISK

Morgan Stanley recognizes the significant potential for climate change to impact the global economy and our clients, investments, operations, employees and local communities. Effective action on climate change will require a broad transformation of sectors and economies, and management of impacts to workers and communities. Due to the complexity of addressing climate change in developed and emerging economies, a transition to a low-carbon economy necessitates joint efforts by governments, businesses and individuals. For this reason, Morgan Stanley committed in 2020 to reach net-zero financed emissions by 2050.

See our [2021 Climate Report](#) for more in-depth information on our approach to climate risk management.

### MANAGING HUMAN RIGHTS RISK

Morgan Stanley is committed to protecting and advancing human rights in our business and throughout our supply chain. Our approach is guided by leading frameworks, including the U.N. Universal Declaration of Human Rights and the U.N. Guiding Principles on Business and Human Rights.

We conduct business operations in ways that aim to respect, protect and advance the full range of human rights. We expect our suppliers to follow appropriate policies and practices to ensure they are not complicit in human rights abuses. Our Supplier Code of Conduct includes our Modern Slavery and Human Trafficking Statement, and a global cross-functional working group monitors compliance across our supply chain.

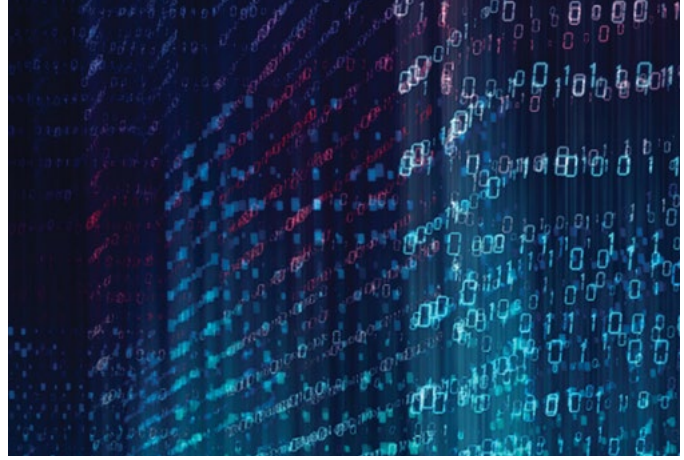
As outlined in the [Environmental and Social Policy Statement](#), Morgan Stanley will not knowingly engage in transactions where there is evidence of direct involvement in modern slavery—such as forced labor, human trafficking, or harmful or exploitative forms of child labor. We conduct enhanced diligence for investments with potential heightened human rights risk and, based on the findings, may escalate them to the Global or Regional Franchise Committees and/or senior management.

Read the Morgan Stanley Modern Slavery and Human Trafficking Statement [here](#), the Morgan Stanley Human Rights Statement [here](#), and the Environmental and Social Policy Statement [here](#).

### BY THE NUMBERS

## 2021 Transactions by Industry Reviewed by the Environmental and Social Risk Management Group

INDUSTRY	2021
Basic Materials	41
Energy	88
Financial Institutions	28
Health Care	18
Industrials	79
Pharmaceuticals	13
Power and Utilities	110
Real Estate	32
Retail	42
Services	88
Transportation	21
<b>TOTAL</b>	<b>560</b>



## Cybersecurity

Our business and industry face an increasingly complex online threat environment. To withstand this challenge, we invest in leading cybersecurity and fraud-prevention technology and employ world-class talent to lead our Cybersecurity organization. The firm's efforts focus on protecting our people, property, products, services and brands by preserving the confidentiality, integrity and availability of information and the safe operation of our technology systems.

Morgan Stanley's board of directors and its Operations and Technology Committee oversee the firm's global Cyber and Information Security Strategy. Our Information Security Program is designed to protect the business, enable secure delivery of client services, adjust to the evolving threat landscape and meet regulatory expectations. In addition, we employ a wide array of policies, procedures and technologies for safeguarding our technology and sensitive data.

We have multiple expert teams in place to prepare for, respond to and recover from disruptive incidents and events across our global operations. These teams include:

- Information Security Incident Management and Investigations, which helps protect the firm against misuse of sensitive information and systems by employees and contractors.
- Our Cyber Incident Response Team, which tracks threats and mitigates potential risks posed by computer security incidents on the firm's systems, providing 24/7 detection and response.
- The Fusion Resilience Center, which prepares for, responds to and analyzes operational threats and incidents, ranging from cybersecurity, fraud and general technology disruptions to weather events, terrorist attacks, geopolitical unrest and pandemics.
- Our Fraud, Threat Hunt and Cyber Analytics teams, which use data science, analytics and threat hunt techniques to reduce the risk of Morgan Stanley assets being compromised, stolen or misappropriated.

Each employee plays a valuable role in helping us manage cyber threats and we maintain a robust global training program on cybersecurity risks and requirements.

## INDUSTRY COLLABORATION

Collaboration across the financial services industry and with government agencies is critical to combating cyber threats. To facilitate the exchange of threat information, Morgan Stanley is actively engaged in leading industry organizations including the Financial Services Information Sharing and Analysis Center. We are one of eight founding members of the Analysis and Resilience Center, a nonprofit, cross-sector organization working to mitigate risk to critical U.S. infrastructure from existing and emerging threats.

We also maintain relationships across the U.S. government. For example, Morgan Stanley is a founding member of the New York Finance Threat Exchange, an intelligence-sharing partnership between the FBI and major U.S. financial services organizations.

Around the world, we are members of the U.K.'s Cyber Information Sharing Group of industry, government and law enforcement partners and the Japan Financial Services Information Sharing and Analysis Center. We are also partners in the National Cyber Security Centre's Financial Services Information Exchange in the U.K.

To develop tomorrow's cyber-leaders and widen access to the skills they require, we partner with iMentor, Girls Who Code, NPower, local universities and other nonprofit organizations. Our Resiliency Fusion Center also partners with the U.S. Marine Corps to provide fellowships with our cybersecurity team.

## Data Security and Client Privacy

Morgan Stanley's success depends on our reputation, which in turn relies on our ability to keep client information and assets confidential and secure. Our business maintains physical, technical and administrative safeguards that help protect the confidentiality, integrity and availability of our clients' information. Our robust global privacy and data-protection policies and procedures govern the collection, storage, access, use and disclosure of such data.

Morgan Stanley also informs our clients and employees about how and why it collects personal information. For more information, see our [Privacy Pledge](#).

# Governance and Business Ethics

Our reputation is critical to our goal of being the world’s first choice for financial services. For decades, Morgan Stanley’s strong governance and reputation for integrity have reduced business risk and provided a foundation for success. Our core values underpin this culture, support our sustainability strategy and drive everything we do. When we Put Clients First, Do the Right Thing, Lead With Exceptional Ideas, Commit to Diversity and Inclusion, and Give Back, we seek to meet client needs, deliver value for investors, and support a sound and sustainable global financial system.

## Leadership From the Top

Morgan Stanley is deeply committed to strong and ethical governance and to further strengthening the inclusive culture that sets us apart from peers. This begins with our diverse 14-member board of directors, of whom 11 are independent and 4 are women. Our directors come from backgrounds across the private sector, government, academia and public policy arenas, and bring a global perspective. Their collective experience guiding large, complex organizations as executive leaders or

board members brings a diversity of qualifications and skills well suited to guiding our business and long-term strategy.

We also greatly value the perspectives and insights of our external stakeholders as we navigate business, economic, and sustainability challenges and opportunities (see [page 57](#)).

For information on sustainability governance and firmwide integration, see Our Approach, [page 8](#).

## THE MORGAN STANLEY BOARD OF DIRECTORS

### DIVERSE AND INTERNATIONAL BOARD



### DIRECTORS’ SKILLS ALIGN WITH COMPANY BUSINESS MODEL AND STRATEGY







Data and metrics as of the 2022 annual shareholders’ meeting and based on characteristics self-identified by directors.



## Stakeholder Engagement

Sustainability is a shared endeavor. We benefit from the varied perspectives and insights of our stakeholders and engage them

in many ways on an ongoing basis. The table below describes these strategies and forums as well as 2021 highlights.

STAKEHOLDER GROUP	APPROACH TO ENGAGEMENT	2021 EXAMPLES
 <p>Shareholders</p>	<ul style="list-style-type: none"> <li>• Ongoing or annual dialogue with institutional investors</li> <li>• Annual sustainability report focused on investor-relevant information</li> <li>• Diversity and Inclusion Annual Report</li> <li>• Climate (TCFD) Report</li> <li>• Responses to inbound questionnaires and surveys</li> </ul>	<p>Our GSF, Diversity &amp; Inclusion and ESRM teams joined Investor Relations in its engagement with top Morgan Stanley institutional shareholders. Discussions covered climate change, diversity, firmwide strategy, governance and compensation practices, among other topics.</p>
 <p>Clients</p>	<ul style="list-style-type: none"> <li>• Events and analysis on sustainable investing and finance topics</li> <li>• Collaboration on new product development to meet client ESG needs</li> <li>• Dialogue with key clients focused on ESG issues</li> <li>• Responses to inbound questionnaires, requests for proposals, surveys</li> <li>• Client satisfaction channels</li> </ul>	<p>In October 2021, our Institute for Sustainable Investing hosted its third Sustainable Investing Summit, which drew over 900 participants, including many clients of the firm, to hear from sustainability thought leaders and practitioners on how to advance critical, interconnected issues including climate change mitigation, better access to health care and the creation of more equitable socio-economic opportunities. Keynote speakers included former Vice President Al Gore, UN Special Envoy for Climate Action and Finance Mark Carney, and Dr. Albert Bourla, CEO of Pfizer, among others.</p>
 <p>Employees</p>	<ul style="list-style-type: none"> <li>• Employee networks, events and campaigns</li> <li>• Company intranet, which includes articles and other resources</li> <li>• Employee surveys</li> </ul>	<p>GSF hosted Exploring Innovations to Prevent Plastic Waste, a webinar for employees featuring the Ellen MacArthur Foundation, to discuss innovations to prevent plastic waste.</p> <p>The New York Employee Sustainability Forum launched Sustainability at Home, a page on the firm's intranet, which serves as a platform for employees to share tips, ask questions and engage in peer-to-peer dialogue about how to live more sustainably at home. The information is particularly topical as employees continue to work from home throughout the pandemic.</p>
 <p>Non-Governmental Organizations (NGOs) and Civil Society</p>	<ul style="list-style-type: none"> <li>• Morgan Stanley events</li> <li>• One-on-one or small-group dialogues on sustainability topics, risks or emerging issues</li> <li>• Sustainability reporting and other disclosures</li> <li>• Direct involvement in collaborative initiatives and membership organizations (see Key Memberships and Affiliations on <a href="#">page 58</a>)</li> </ul>	<p>In partnership with GSF, the ESRM Group engaged with a range of non-governmental and civil society organizations on environmental and social topics, including biodiversity and community impacts.</p>

## KEY MEMBERSHIPS AND AFFILIATIONS



**Net-Zero Banking Alliance**



## Ethical Business Conduct

Our [Code of Conduct](#) and [Code of Ethics and Business](#) reinforce our focus on integrity, guiding the day-to-day behavior of approximately 75,000 employees worldwide (see also [Our Culture](#)). It is mandatory for every new hire, and every employee annually, to certify that they understand our Code of Conduct and will follow its provisions on ethical behavior. To reinforce its messages and foster a sense of community, we invite new recruits to attend culture panels with senior leaders in each region.

Financial crimes undermine public trust in our sector. We take all reasonable measures to prevent them, including mandatory awareness training for employees. Robust risk-based policies, procedures and internal controls help guard against misuse of our products and services for money laundering, terrorism, bribery or other criminal activity. We require employees to report any legal or ethical concerns to a supervisor, our Human Resources or Legal and Compliance teams, or an anonymous Integrity Hotline operated by an independent vendor. We take allegations of misconduct seriously and prohibit retaliation against anyone raising a concern in good faith.

We also expect our suppliers to meet our core values and high standards for doing business. Our [Supplier Code of Conduct](#) lays out our requirements for human and labor rights, environmental protections, and ethical business practices.

## ANTI-CORRUPTION AND BRIBERY

Morgan Stanley prohibits all forms of bribery and corruption, and has implemented policies, procedures and internal controls reasonably designed to comply with applicable anti-corruption laws and regulations in the jurisdictions where we operate. Our Global Anti-Corruption Policy, updated annually, lays out clear rules to mitigate corruption risk, and all our employees receive training at least once a year. We also provide additional, targeted training for relevant employees. In addition, we conduct risk-based monitoring and testing to encourage and assess employee compliance. For more information on our anti-corruption program, see our [Code of Conduct](#).

## Corporate Political Activity

Morgan Stanley's [Corporate Political Activities Policy Statement](#) is approved by the board's Nominating and Governance Committee, and sets out our policies on U.S. political contributions, lobbying activities and trade association participation. In accordance with the policy, we prohibit corporate contributions at the U.S. federal, state or local levels.



# Appendix: SASB Index

The Sustainability Accounting Standards Board (SASB) guidance for Investment Banking, Commercial Banking and Asset Management helps inform the content, narrative and data included in this report. The following table highlights sections of the report and other public disclosures that include information in line with SASB's metrics, as of the year ending December 31, 2021. We are committed to providing investors with useful, relevant and meaningful sustainability information, within the context of our businesses, and may evolve our disclosure on these topics over time.

SASB CODE	SASB METRIC	MORGAN STANLEY RESPONSE <sup>1</sup>
<b>IB-330a.1</b> <b>AC-330a.1</b>	Percentage of gender and racial/ethnic group representation for (1) executive management, (2) non-executive management, (3) professionals and (4) all other employees	See "Human Capital" on page 6 of our Annual Report on Form 10-K for the year ended December 31, 2021 ( <a href="#">2021 Form 10-K</a> ), as well as our recently published <a href="#">Diversity and Inclusion Annual Report</a> .
<b>IB-410a.2</b>	(1) Number and (2) total value of investments and loans incorporating integration of environmental, social and governance (ESG) factors, by industry	Teams across the firm invest in and lend to institutions to generate environmental and social benefits. Examples and KPIs are provided in the Solutions and Services section, <a href="#">pages 22–39</a> . For information on transactions that were reviewed in accordance with our <a href="#">Environmental and Social Policy Statement</a> : (industry and number), see the Environmental and Social Risk Management (ESRM) section, <a href="#">pages 53–54</a> .
<b>IB-410a.3</b>	Description of approach to incorporation of ESG factors in investment banking and brokerage activities	Institutional Securities group's sustainability activities, <a href="#">pages 23–27</a> . ESRM review process and number of transactions referred for review, <a href="#">page 54</a> and our <a href="#">Environmental and Social Policy Statement</a> .
<b>IB-510a.1</b> <b>CB-510a.1</b> <b>AC-510a.1</b>	Total amount of monetary losses as a result of legal proceedings associated with fraud, insider trading, anti-trust, anti-competitive behavior, market manipulation, malpractice, or other related financial industry laws or regulations	Material legal proceedings for the firm are disclosed on pages 117 and 145 of our <a href="#">2021 Form 10-K</a> .
<b>FN-IB-550a.2</b> <b>N-CB-550a.2</b>	Description of approach to incorporation of results of mandatory and voluntary stress tests into capital adequacy planning, long-term corporate strategy and other business activities	We conduct various scenario analyses and stress tests, including the Federal Reserve's Comprehensive Capital Analysis and Review and other stress tests for market, credit and liquidity risks, as appropriate. For more information, see <a href="#">pages 42 and 49</a> as well as additional pages throughout our <a href="#">2021 Form 10-K</a> . With respect to climate change, Morgan Stanley is conducting scenario analyses in the two major categories identified by TCFD: transition risk and physical risk. For more information, see our <a href="#">2021 Climate Report</a> .
<b>IB-510a.2</b> <b>CB-510a.2</b> <b>AC-510a.2</b>	Description of whistleblower policies and procedures	The Raising Legal and Ethical Concerns and Reporting Misconduct section of our <a href="#">Code of Conduct</a> defines the firm's policies and procedures.
<b>IB-510b.4</b>	Description of approach to ensuring professional integrity, including duty of care	Our <a href="#">Code of Conduct</a> and <a href="#">Code of Ethics and Business</a> describe our ethical business practices, guiding the day-to-day behavior of our employees worldwide. We require every employee to certify his or her adherence to, and understanding of, the Code of Conduct when they join the firm, and on an annual basis thereafter.
<b>IB-550a.1</b> <b>CB-550a.1</b>	Global Systemically Important Bank (G-SIB) score, by category	<a href="#">1, Banking Organization Systemic Risk Report</a> at December 31, 2021 (FR Y-15). For more information see page 48 of our <a href="#">2021 Form 10-K</a> , which describes how the G-SIB buffer is determined, and page 4 of our <a href="#">Basel III Pillar 3 Disclosures Report</a> for the quarterly period ended December 31, 2021, which discloses our G-SIB capital surcharge of 3%.

<sup>1</sup> If a metric is not addressed in the report, we have provided links to public disclosures that include relevant information.

SASB CODE	SASB METRIC	MORGAN STANLEY RESPONSE <sup>1</sup>
<b>IB-550b.1</b>	Percentage of total remuneration that is variable for Material Risk Takers (MRTs)	Our MRT policies and procedures align with regulatory principles and requirements, and are overseen by the Compensation, Management Development and Succession Committee of the board. In 2021, on average, 68% percent of total remuneration was variable for material risk takers. See <a href="#">page 51</a> for more information.
<b>IB-550b.2</b>	Percentage of variable remuneration of MRTs to which malus or clawback provisions were applied	Of the 68% of total compensation that was variable for MRTs, 42% was subject to cancellation or clawback. See <a href="#">page 51</a> for more information.
<b>IB-000.A</b>	(1) Number and (2) value of (a) underwriting, (b) advisory and (c) securitization transactions	<b>Investment banking volumes:</b> Completed Mergers and Acquisitions: \$1,090 billion Equity and Equity-Related Offerings: \$117 billion Fixed Income Offerings: \$365 billion For more information see page 30 of our <a href="#">2021 Form 10-K</a> .
<b>CB-230a.2</b>	Description of approach to identifying and addressing data security risks	Overview of our activities regarding data security risk, <a href="#">page 55</a> .
<b>CB-240a.1</b>	(1) Number and (2) value of loans and investments made as part of our Community Reinvestment Act program designed to promote small business and community development	The cumulative values of transactions as part of our Community Development Finance program are noted below: 2010–2021: <ul style="list-style-type: none"> <li>• \$27Bn+ committed in loans and investments</li> <li>• \$400MM+ in small business loans</li> </ul> For more information see the Community Development Finance section, <a href="#">pages 38–39</a> .
<b>CB-410a.1</b>	Commercial and industrial credit exposure, by industry	Institutional Securities Loans and Lending Commitments by industry, see page 62 of our <a href="#">2021 Form 10-K</a> .
<b>CB-410a.2</b>	Description of approach to incorporation of environmental, social and governance (ESG) factors in credit analysis	Global Sustainable Finance partners closely with Firm Risk Management (FRM), including Credit Risk Management, to integrate climate change considerations into our risk management processes and governance structures. For more information, please see our <a href="#">2021 Climate Report</a> .
<b>CB-000.B</b>	(1) Number and (2) value of loans by segment: (a) personal, (b) small business and (c) corporate	Small-business loans that incorporate sustainability factors are discussed in the Community Development Finance section, <a href="#">pages 38–39</a> . Our Investment Banking activity, which includes corporate lending, is discussed in the Finance and Advisory Services section, <a href="#">page 26</a> , with select transactions highlighted on <a href="#">pages 24–25</a> .



SASB CODE	SASB METRIC	MORGAN STANLEY RESPONSE <sup>1</sup>
AC-270a.3	Description of approach to informing customers about products and services	<p>Each business unit is responsible for setting and managing robust policies and processes related to their marketing activities, which are subject to supervisory review in accordance with applicable promotion laws and regulatory obligations. We aim to manage risks in marketing and sales by enforcing the following guidelines:</p> <ul style="list-style-type: none"> <li>• Communications to clients and the public must be fair and balanced, without exaggerated or misleading statements.</li> <li>• Employees must use approved marketing materials and messaging systems when conducting the firm's business.</li> <li>• Financial Advisors must follow a compliance manual of internal sales practice standards, as well as adhere to all applicable laws and regulations.</li> <li>• The firm monitors customer complaints. These are dealt with in accordance with relevant internal policies, and business, legal and/or compliance personnel take action as needed.</li> </ul>
AC-410a.1	Amount of assets under management, by asset class, that employ sustainable investing approaches	<p><b>Wealth Management</b> Investing with Impact Client Assets by Asset Class (\$Bn):</p> <ul style="list-style-type: none"> <li>• Equity: \$43</li> <li>• Fixed Income: \$9</li> <li>• Cash Equivalents: \$2</li> <li>• Other<sup>2</sup>: \$16</li> <li>• Total: \$70</li> </ul> <p><b>Investment Management</b> Sustainable Fund AUM<sup>3</sup> by Asset Class (\$Bn):</p> <ul style="list-style-type: none"> <li>• Active Fundamental Equity \$46</li> <li>• Global Fixed Income \$10</li> <li>• Global Liquidity \$4</li> <li>• Private Credit and Equity \$0.2</li> <li>• Solutions and Multi-Asset \$2</li> <li>• Total: ~\$61</li> </ul>
AC-410a.2	Description of approach to incorporation of ESG factors in investment and/or wealth management processes and strategies	<p>Overview of our Wealth Management processes, <a href="#">pages 28–31</a>. For more information, see our <a href="#">Investing with Impact brochure</a>.</p> <p>Overview of Investment Management processes, <a href="#">pages 32–37</a>. For more information, see our <a href="#">Sustainable Investing Policy</a>.</p>
AC-410a.3	Description of proxy voting and investee engagement policies and procedures	<p>Overview of Investment Management engagement and activities, <a href="#">pages 32–37</a>.</p> <p>In addition, see Morgan Stanley Investment Management's <a href="#">Proxy Voting Policy and Procedures</a>.</p>
AC-000.A	(1) Total registered and (2) total unregistered assets under management (AUM)	Total Client Assets, which includes no registration distinction, see page 24 of our <a href="#">2021 Form 10-K</a> .
AC-000.B	Total assets under custody and supervision	Wealth Management fee-based client assets (only), see page 33 of our <a href="#">2021 Form 10-K</a> .

<sup>2</sup> Other includes Third-Party Multi-Asset products, Custom Graystone + Dual Contract and Alternative Impact Products

<sup>3</sup> The AUM figures referenced in this section relate to our 'Sustainable Core' and 'Sustainable Objective and Impact' AUM (as defined on [page 37](#)) of Legacy MSIM strategies plus total Calvert Research and Management AUM.

## FORWARD-LOOKING STATEMENTS

Certain statements in this report may be “forward-looking statements.” These statements are based on management’s current expectations and are subject to uncertainty and changes in circumstances. These statements are not guarantees of future results or occurrences. Actual results and financial conditions may differ materially from those included in these statements due to a variety of factors, including, among others, global socio-demographic and economic trends, energy prices, technological innovations, climate-related conditions and weather events, counterparty financial health, insurance applicability, legislative and regulatory changes, and other unforeseen events or conditions, and the precautionary statements included in this report

and those contained in Morgan Stanley’s filings with the Securities and Exchange Commission (SEC). Any forward-looking statements made by or on behalf of Morgan Stanley speak only as to the date they are made, and Morgan Stanley does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statements were made. In addition, while this report describes potential future events that may be significant, the significance of those potential events should not be read as equating to materiality as the concept is used in Morgan Stanley’s filings with the SEC.

## DISCLOSURE

The information and opinions in this report were prepared by Morgan Stanley & Co. LLC, Morgan Stanley Smith Barney LLC and their affiliates (collectively hereafter, “Morgan Stanley”).

This report does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. Any securities mentioned are provided for informational purposes only and should not be deemed as a recommendation to buy or sell. Securities discussed in this report may not be suitable for all investors. It should not be assumed that the securities transactions or holdings discussed were or will be profitable. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a Financial Advisor. The appropriateness of a particular investment or strategy will depend on an investor’s individual circumstances and objectives.

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Private Funds (including hedge funds, which are 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 and 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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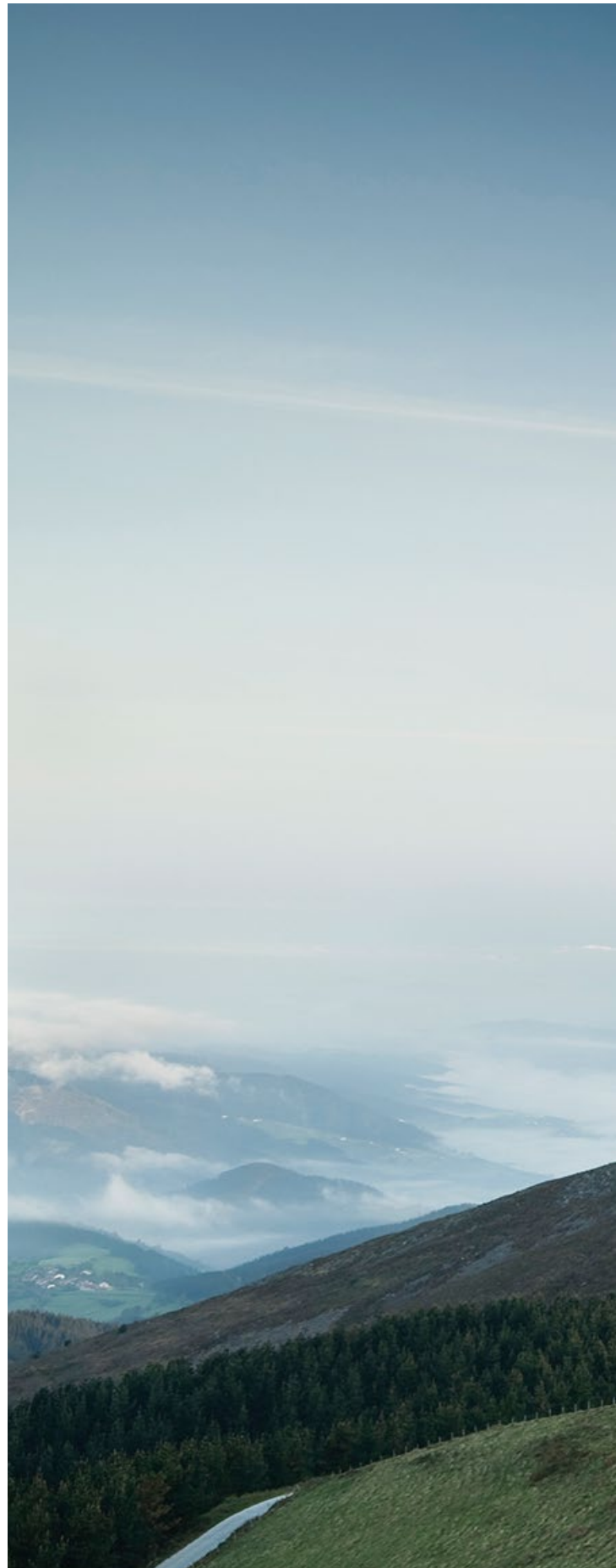
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