THE WALL STREET JOURNAL.

Technology & Business: Morgan Stanley's Gorman Is Named to Disney's Board

By Robbie Whelan and Denny Jacob
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Walt Disney's board appointed Morgan Stanley Chief Executive James Gorman and former Sky CEO Jeremy Darroch as directors as it faces the prospect of two separate shareholder challenges.

Disney said the appointments reflect its commitment to a strong board focused on long-term performance, strategic growth initiatives, succession planning and increasing shareholder value. Chief Executive Bob Iger in recent weeks has told investors and employees that the company has begun building its future after a period of fixing problems.

The entertainment giant said Darroch's appointment adds international media expertise to the board and is effective Jan. 9. Darroch was CEO of Sky from 2007 to 2021, leading Europe's largest media conglomerate, which has been a unit of Comcast since 2018.

Gorman has been chief executive of Morgan Stanley since 2010 and is expected to be succeeded by Ted Pick on Jan. 1. His appointment, effective Feb. 5, will give Disney's board a new member with experience overseeing a major corporate transformation who has been part of a "well-managed succession process," Disney said.

The appointments would temporarily expand Disney's board from 11 to 13 members. Francis deSouza, a pharmaceutical executive who has served on the Disney board since early 2018, doesn't plan to stand for re-election at next year's annual meeting, Disney said.

Last month, The Wall Street Journal reported that activist investor Nelson Peltz had increased his stake in Disney and is planning a new run at the company, this time seeking multiple board seats.

Former Marvel Entertainment Chairman Isaac "Ike" Perlmutter said he entrusted Disney shares he owns to Peltz to help press for changes at the company. Perlmutter has added 25.6 million shares to Peltz's war chest, while Peltz's Trian Fund Management owns 7.3 million Disney shares, according to a November regulatory filing, giving the activist control of nearly $2.7 billion in stock, or roughly 1.8% of the company.

Trian, with support from Perlmutter, launched a short-lived proxy battle about one year ago, which it called off after Iger announced $5.5 billion in budget cuts and a head-count reduction of 7,000 positions.

Over the summer, however, Disney's market value sank, prompting Peltz to gear up for a new campaign to win board seats.

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Fed Probes Morgan Stanley Over Its Laundering Controls --- At issue is how bank's wealth-management unit vets foreigners

By AnnaMaria Andriotis
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Morgan Stanley's wealth-management arm is being scrutinized by the Federal Reserve, which is looking into whether the bank has sufficient controls in place to prevent rich foreign customers from laundering money.

The Fed has been probing how Morgan Stanley vets foreigners and the origins of their money before taking them on as customers, according to people familiar with the matter. What started out as a routine review a few years ago escalated after regulators found the bank's due diligence on clients and **anti**-**money**-**laundering** efforts lacking.

The Fed has privately reprimanded the bank for not making all the changes it has required, and the head of Morgan Stanley's wealth-management business, Andy Saperstein, has been meeting with the Fed to address how he and his team are going to clean up the problems it has found.

Rich foreigners are a relatively small but important source of new inflows for Morgan Stanley's wealth-management business, which oversees a total of about $5 trillion in assets for clients. During the past roughly five years, Morgan Stanley ramped up recruiting of financial advisers who specialize in catering to offshore clients, many in Latin America.

While most rich Americans have a financial adviser or wealth-management firm, many in Latin America don't -- or at least don't have one that is U.S.-based.

In 2020, the Fed found that the bank lacked risk-management controls for vetting foreign wealth-management clients, the people said. It gave a list to Morgan Stanley of the problems that needed to be fixed. When the regulator returned in 2021, many items on that list remained unfixed. The same occurred when the Fed returned last year.

That is when Saperstein got more involved. In 2022, he went to the Fed and presented a plan on how the bank would fix the problems once and for all. He and his team have about 18 months to go before the plan he presented is complete.

Wealth management is a critical source of revenue for Morgan Stanley -- it has grown to account for close to 50% of overall revenue -- that helps offset droughts in deal making and trading.

This expansion was spearheaded by Chief Executive James Gorman, who on the bank's earnings call in April expressed an interest in getting more client assets in the U.S., Asia and "some in LatAm." (Morgan Stanley recently said firm veteran Ted Pick would become its new CEO.)

Morgan Stanley remains under a separate multiagency investigation for its handling of funds tied to an alleged Venezuelan money-laundering scheme. The Justice Department, Securities and Exchange Commission and other federal agencies have been probing whether Morgan Stanley allowed a Venezuelan businessman to help a former oil minister in the country launder money through the bank, The Wall Street Journal reported in 2021. They are looking into why Morgan Stanley managed roughly $100 million in investments for the Venezuelan businessman when his account displayed red flags for potential money-laundering activities.

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Morgan Stanley Is Backing Plant-Based Food Maker Huel

By Luis Garcia
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Morgan Stanley is backing Huel, a supplier of plant-based food powders and meal-replacement drinks, marking the second deal made by the bank's investment-management arm from its 1GT carbon-reduction strategy.

Huel provides consumers with nutritional products such as powdered shakes and protein bars, as well as instant meals and beverages. The Tring, England-based business serves more than 900,000 active online customers across about 100 countries, said Chief Executive James McMaster.

The company generated more than GBP 144 million, about $175.2 million, in revenue for the year ended in July 2022, up 41% from fiscal 2021, McMaster said. The U.K. accounts for roughly half of the company's revenue, while a third comes from the U.S., he said.

Morgan Stanley's investment-management arm invests from the 1GT fund in businesses that will help the firm reach its 2050 goal of reducing greenhouse-gas emissions by a gigaton -- or about 10% of the carbon-dioxide gas the world's forests absorb annually. The growth strategy focuses on areas such as mobility, power, sustainable food and agriculture, as well as recycling.

By last May, Morgan Stanley raised $500 million for the 1GT fund, or about halfway toward a $1 billion target for the vehicle. Overall, the bank's investment-management arm oversees around $1.4 trillion.

In the only other investment so far through the 1GT strategy, the asset manager co-led a $50 million commitment to supply chain-focused Everstream Analytics this year. The German company uses artificial-intelligence **technology** to help clients improve the efficiency of their suppliers and make their operations more sustainable.

Vikram Raju, head of climate private-equity investing for Morgan Stanley's investment-management arm, said Huel attracted the firm with its large and growing active customer base, which the company said expanded by 22% in fiscal 2022. The bank also noted rising demand for alternative meals, he said.

Raju, who leads the 1GT strategy, said his team saw people drinking Huel products in the bank's London office, prompting them to check out the business. They liked what they found. "It was an opportunity to partner with what was already a compelling brand in Europe," he said of Huel.

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THE WALL STREET JOURNAL.

Heard on the Street
Morgan Stanley's Gorman Chose a Good Time to Exit --- The CEO built the right bank for the years of low rates, but that era could end under his successor

By Telis Demos
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[Financial Analysis and Commentary]

James Gorman guided Morgan Stanley through years of superlow interest rates and booming stock markets. His successor, Ted Pick, might have to come up with some new ideas for a new era.

Gorman, who will step down at the end of the year after almost 14 years as chief executive, bet big on wealth and asset management by absorbing all of Smith Barney and later buying E*Trade and Eaton Vance. Since the start of 2010, when he became CEO, the firm's 8.6% annualized total return has been second only to JPMorgan Chase's among the U.S. global banks, according to FactSet data. And by valuation, Morgan Stanley has often been the leader of the pack, generally trading at a higher price-to-book ratio than even JPMorgan since the start of last year.

Morgan Stanley's steady money-management business helped the firm steer through the post-2008 financial crisis changes that reshaped Wall Street trading. In investment banking, Morgan Stanley's vaunted **technology** franchise put it in pole position during a venture-fueled boom. Morgan Stanley's leading equities trading and fund management businesses benefited from bull markets, too.

Gorman and Pick, who has spent his entire career at Morgan Stanley, have in interviews so far stressed the continuity represented by this move. "This is about keeping going a great thing," Pick told The Wall Street Journal.

But recent results have shown that a potential new era for markets -- defined by higher interest rates, leading to more cautious venture investment and an investor rotation toward income and bonds -- could be looming.

Investment-banking revenue at Morgan Stanley was down by more than that of rival firms in the third quarter compared with a year earlier. And Morgan Stanley faces the prospect of having to sell debt used to finance Elon Musk's takeover of Twitter at a loss, as well as unresolved investigations into its block-trading business.

In wealth management, net revenue was down from the prior quarter as clients traded less and sought more yield on their cash. They rotated into higher-cost deposits, pressuring the firm's net interest income. There also was a smaller inflow of net new client assets than in recent quarters.

At its core, though, the firm remains in a strong position. Having the ballast of high-margin wealth and asset-management fees continues to insulate it from some of the boom-and-bust cycles inherent in investment banking.

And thanks to Gorman's prudent management of capital, Pick will have resources. Morgan Stanley's common equity Tier 1 capital ratio was 15.5% as of the third quarter, more than two points ahead of current requirements. That will be especially helpful as tougher Federal Reserve rules loom.

Pick initially made his name in the business of stocks. But he also led the successful turnaround of the firm's bond-trading division. The fixed-income markets unit remains smaller than those at other megabanks, and might continue to be, given that Morgan Stanley isn't as big in the commercial lending business that helps fuel its rivals. Still, leaning on those desks at a time of high and volatile interest rates could help offset any extended slowdown in mergers and IPOs.

A time of uncertainty can create opportunities. Buying out the rest of Smith Barney from Citigroup in 2013 was a major move for Gorman. And purchasing E*Trade just after the move to zero commissions, but just before a historic boom in retail trading, helped erase doubts about that move, too.

If Pick does decide at some point to make big transformational bets of his own, he should aim to replicate at least one part of his predecessor's recipe for success: good timing.

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The New York Times

Business/Financial Desk; SECTB
Morgan Stanley Determines Its 'Succession'

By Rob Copeland
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4
English

Mr. Pick's ascension caps an unusually public three-way race to replace James Gorman, who presided over steady growth after taking over in 2010.

Morgan Stanley, one of Wall Street's most prestigious banks, said on Wednesday that it had chosen Ted Pick, a three-decade veteran of the firm, to be its next chief executive, ending an unusually public three-way race that James Gorman, the chief executive since 2010, once jokingly compared to the television series "Succession."

Mr. Pick will begin his new role in January. His rivals for the job, Andy Saperstein and Dan Simkowitz, will take on bigger roles as co-presidents, overseeing Morgan Stanley's wealth management and sales and trading businesses, among other areas.

Mr. Gorman, 65, said he hoped and expected that Mr. Saperstein and Mr. Simkowitz would stay for the long term. The bank did not make either man available to be interviewed.

"We were lucky that we had three really talented internal candidates," Mr. Gorman said after the announcement. "Everyone told me that would lead to some major tribal wars -- that didn't happen." The bank had publicly identified those internal candidates, a departure from the typically hush-hush process favored by much of corporate America for top jobs.

Mr. Pick, 54, joined Morgan Stanley in 1990 and rose through the ranks in its investment banking and trading businesses, most recently serving as a co-president overseeing those units. In an interview, he said he hadn't found out that he would be named chief executive until around 4:30 p.m. Wednesday, when the bank's board of directors called him into a meeting and welcomed him with a standing ovation.

He stands to inherit a very different bank from the one Mr. Gorman took over after the 2008 financial crisis. Morgan Stanley's big bets on subprime loans soured during the mortgage meltdown, leaving it reeling from enormous losses and forcing it, like many of its peers, to search for outside investors and seek a government bailout.

Even before the financial crisis, Morgan Stanley had been the site of plenty of Wall Street theater; in 2005, John J. Mack, a longtime leader of the bank who had left to take the top job at Credit Suisse, returned in a boardroom coup, ousting Philip J. Purcell as chief executive. The power struggle was captured in "Blue Blood and Mutiny: The Fight for the Soul of Morgan Stanley," by the journalist Patricia Beard.

But just four years later, Mr. Mack said he would step down as chief executive, after a tumultuous period of both high profits and losses left the publicly traded bank's stock price reeling. Mr. Gorman steadied the bank by focusing on building its brokerage business, including the Smith Barney franchise it acquired in 2009, which caters to wealthy individuals. Big acquisitions in wealth management, such as the $13 billion purchase of E-Trade in 2020, have further buttressed Morgan Stanley's business, reducing its reliance on banking and trading units that can be more volatile.

The bank also caters to "blue blood" clients like Elon Musk. With a strong **technology** banking practice, Morgan Stanley played a central role last year in Mr. Musk's takeover of Twitter, now known as X. The bank was among those that lent Mr. Musk money to do the deal, a decision that may lead to losses given the social media platform's struggles.

In recent years, Morgan Stanley has kept a lower profile than many of its peers, at least compared with the drama at its downtown rival, Goldman Sachs. David M. Solomon, the chief executive of Goldman, has been trying to reorient its business toward its traditional mainstays after an ill-fated push into consumer banking, even as rumors swirl about how long he will remain in the job.

Morgan Stanley has hit some speed bumps of late. In its latest quarterly earnings report last week, investment banking revenue plunged, wealth management inflows slowed and profit was down nearly 10 percent from a year earlier.

The bank's stock has fallen 17 percent this year. Shares were little changed in after-hours trading after Mr. Pick's appointment was announced.

Neither Mr. Gorman nor Mr. Pick said he was bothered by the stock slide. Both said Mr. Pick's selection should not be interpreted as a sign that the bank will favor any of its particular business arms.

"There will be a change in leadership, but there will not be a change in strategy," Mr. Pick said.

Added Mr. Gorman: "You pick a C.E.O. based on their instincts."

One thing that has changed, Mr. Pick said, is his vocabulary. The Wall Street Journal reported in 2017 that his penchant for profanity had earned the attention of Morgan Stanley's top brass.

Asked about his current practices, Mr. Pick said he had adopted "the King's English" and was "very much fond of the entirety of the lexicon." He added, "There's a whole panoply of places to go beyond the four letters."

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