

Morgan Stanley

2018 Sustainability Report



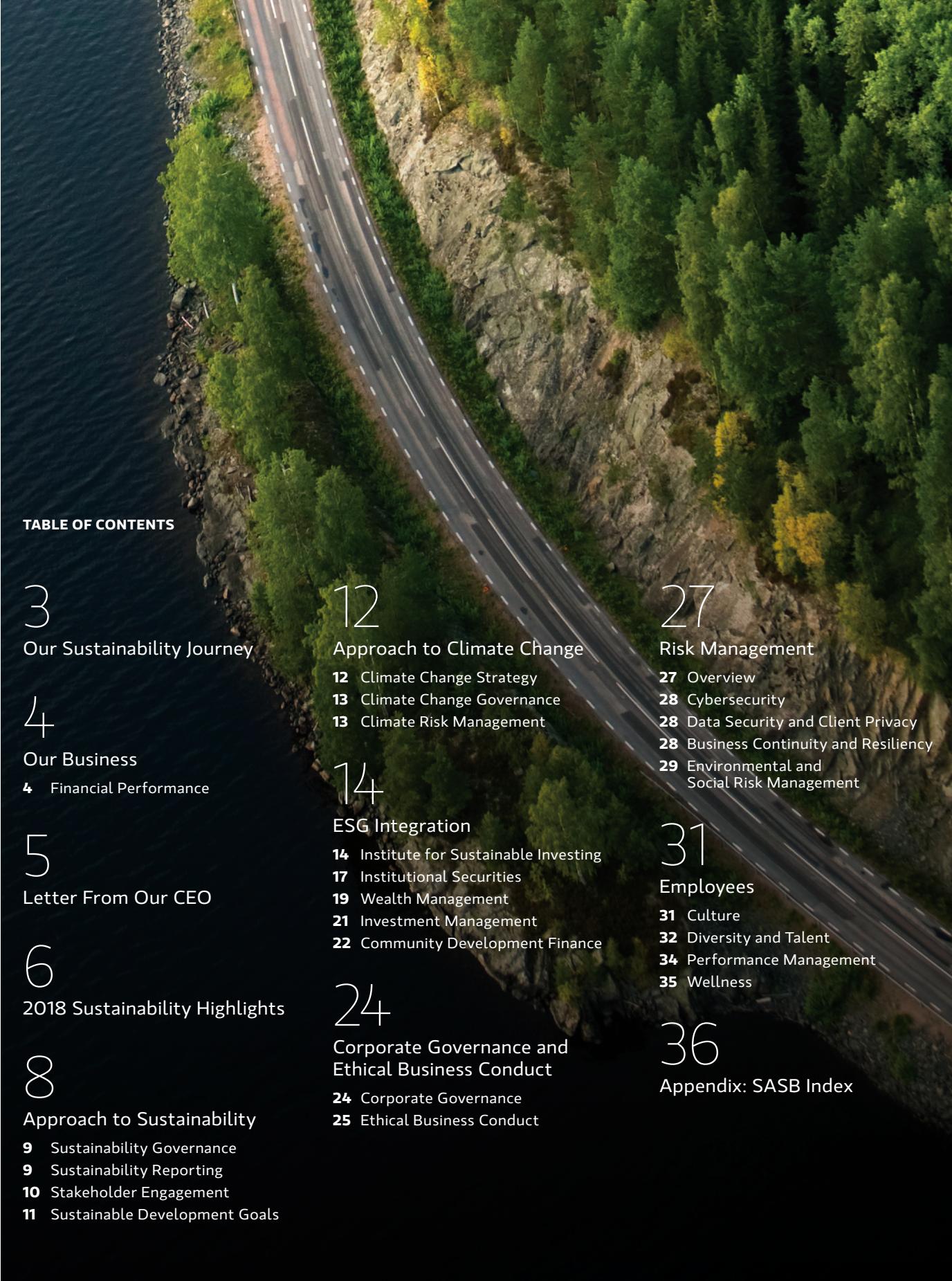
The background of the page is a high-angle aerial photograph of a two-lane asphalt road that curves through a lush green forest. To the left of the road is a dark blue, textured body of water. The road has white dashed lines and is bordered by a thin strip of brown earth and green grass. The forest consists of various tree species, with some showing autumnal yellow and orange leaves. The overall scene is serene and suggests a journey or path.

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Our Sustainability Journey

As global challenges, including climate change and inequality, increasingly impact economies, the role of capital in helping to build a more sustainable future is taking on ever-increasing urgency. At the same time, evidence is growing that sustainable finance can deliver both competitive financial returns and tremendous opportunities for business growth and innovation.

At Morgan Stanley, we are committed to integrating environmental, social and governance (ESG) factors across our core businesses. We use our platform as a global financial services provider to mobilize and scale capital in ways that deliver sustainable growth and long-term value. We partner with our clients as well as the public and private sectors to deliver results today while doing our part to contribute to a sustainable future.

						
PRE-2009	2009	2012	2013	2015	2017	2018
<ul style="list-style-type: none"> Introduced business unit-specific initiatives on sustainability issues, including environmental finance, solar deals and microfinance. 	<ul style="list-style-type: none"> Created the Global Sustainable Finance group to help all Morgan Stanley core businesses integrate sustainability into their products and services. 	<ul style="list-style-type: none"> Launched the Wealth Management Investing with Impact Platform (IIP), a first by a major financial institution. 	<ul style="list-style-type: none"> Established the Morgan Stanley Institute for Sustainable Investing. 	<ul style="list-style-type: none"> Issued our own \$500 million green bond to support energy efficiency improvement and renewable energy procurement across our operations. 	<ul style="list-style-type: none"> Committed to achieving carbon-neutrality for our global operations by 2022. Appointed the firm's first Chief Sustainability Officer. 	<ul style="list-style-type: none"> Committed to mobilize \$250 billion in capital to support low-carbon solutions by 2030. As of year-end, Morgan Stanley Wealth Management Investing with Impact client assets totaled approximately \$25 billion, more than double our five-year goal of \$10 billion.

Our Business

Morgan Stanley is a global financial services firm that, through our subsidiaries and affiliates, advises, originates, trades, manages and distributes capital for governments, corporations, institutions and individuals. We maintain significant market positions in our three business segments—Institutional Securities, Wealth Management and Investment Management. We provide a wide variety of products and services to a large and diversified group of clients and customers.

Our core values—Doing the Right Thing, Putting Clients First, Leading with Exceptional Ideas and Giving Back—are at the heart of everything we do. Through the talents and effort of our over 60,000 employees in more than 36 countries, we aim to deliver results for our stakeholders today while setting strategic goals for the future.



Institutional Securities provides investment banking, sales and trading, lending and other services to corporations, governments, financial institutions and high to ultrahigh net worth clients; other activities include investments and research.



Wealth Management provides a comprehensive array of financial services and solutions to individual investors and small to medium-sized businesses and institutions covering brokerage and investment advisory services; financial and wealth planning services; annuity and insurance products; securities-based lending, residential real estate loans and other lending products; banking and retirement plan services.

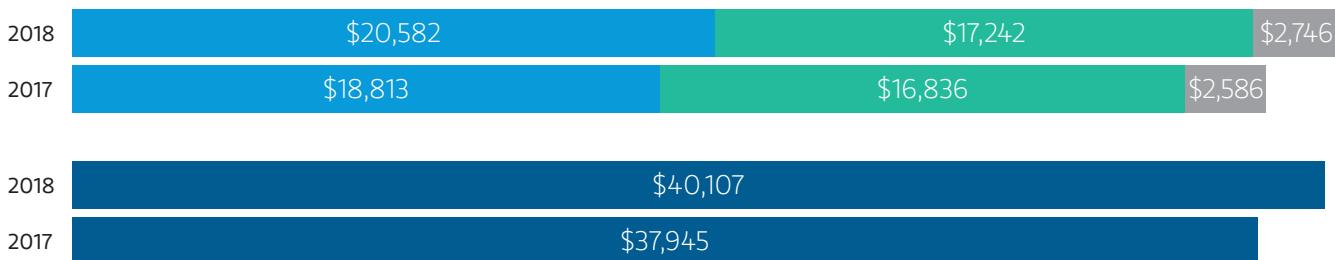


Investment Management provides a broad range of investment strategies and products that span geographies, asset classes, and public and private markets to a diverse group of clients across institutional and intermediary channels. Strategies and products include equity, fixed income, liquidity and alternative/other products.

Financial Performance

(Net Revenue, USD millions)

Morgan Stanley's financial performance improved in 2018 across all three business segments:



■ Institutional Securities ■ Wealth Management ■ Investment Management ■ Firm

For more information, please see our Annual Report on Form 10-K for the year ending December 31, 2018 ([2018 Form 10-K](#)).

Letter From Our CEO



2018 was a record year for Morgan Stanley, in large part due to the business mix and risk profile we have cultivated over the past decade, orienting our firm towards long-term value creation and stability of earnings. We continue to build a stable, diversified business, rooted in an outstanding culture that can prosper no matter what the market brings. This approach has put us in a strong position to grow our business globally, helping clients leverage capital to create economic activity and innovation that can benefit society.

Sustainable finance increasingly plays a role in our strategy, as we endeavor to advance environmental, social and governance (ESG) factors across our core businesses. At the end of 2018, client assets on Morgan Stanley Wealth Management's Investing with Impact Platform reached \$25 billion, more than double our initial goal. In addition, we continue to partner with our institutional clients to deliver customized sustainable investing solutions to meet their strategic goals across our Investment Management and Institutional Securities businesses.

Our proactive approach to sustainability also helps mitigate risks to our business and the markets in which we operate. In particular, we recognize that climate change poses significant risks to the global economy. We are committed to addressing this risk, and are a supporter of the Task Force on Climate-related Financial Disclosures (TCFD). To help support the transition to a more resilient economy, in 2018, we set a new 2030 target of mobilizing \$250 billion in capital for low-carbon solutions, raising nearly \$30 billion in the first year of the effort. In this report, we have also included a new section on climate change to provide investors and other stakeholders with a cohesive picture of our progress.

To engender the trust that it takes to build a truly successful and sustainable business, we must keep our culture strong and live our core values daily. By putting clients first, leading with exceptional ideas, doing the right thing and giving back to our communities, our over 60,000 employees can deliver both enduring performance and long-term value for our clients, shareholders and society.

This report details how Morgan Stanley advances sustainability across the firm through products, services and the Morgan Stanley Institute for Sustainable Investing. I look forward to building on this strong foundation by strengthening our efforts to drive inclusive growth and enhancing our focus on the key sustainability issues of our time.

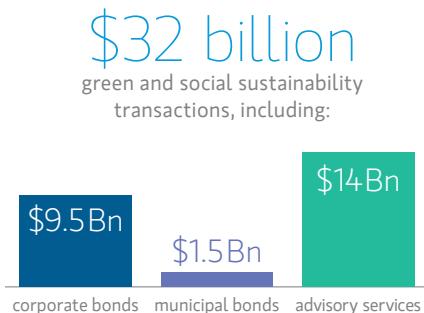
A handwritten signature in black ink that reads "James P. Gorman". The signature is fluid and cursive, with "James" and "P." being more stylized and "Gorman" being more legible.

James P. Gorman
Chairman and Chief Executive Officer
April 2019

2018 Sustainability Highlights

PRODUCTS & SOLUTIONS

Sustainable Finance Transactions



>\$80 billion
green and social sustainability transactions supported since 2013



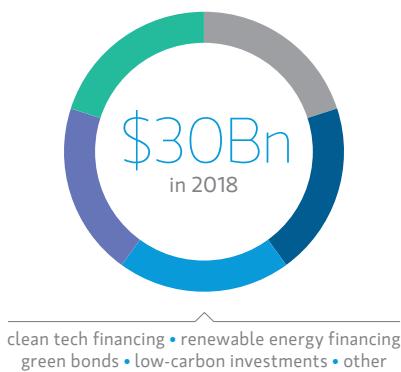
750 MW of renewable projects supported

Sustainability Research



launched 13 reports that address SDGs

Low-Carbon Financing Goal: \$250 billion by 2030



Community Development Finance 2010–2018



\$18 billion+ committed in loans and investments



99,000 affordable housing units funded

\$262 million
committed in small-business loans

Investing with Impact

~\$25 billion
in client assets



Investment Management

100

companies engaged on ESG issues ranging from climate change to the opioid epidemic

INSTITUTE FOR SUSTAINABLE INVESTING

2018 Kellogg-Morgan Stanley Sustainable Investing Challenge Competition Snapshot

PROPOSED
PROJECTS IN
34
COUNTRIES

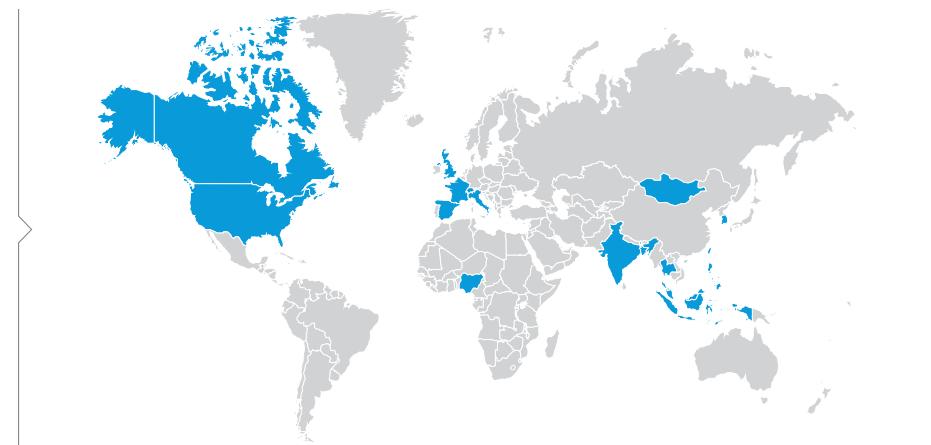
TOTAL OF
307
STUDENTS

FROM
65
SCHOOLS

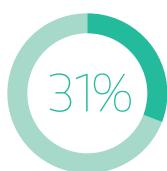
FORMING
101
TEAMS

FROM
20
HOME COUNTRIES

NARROWED TO
12
FINALISTS



CORPORATE SUSTAINABILITY



of the directors on our Board
are women



90 percent of employees responded to our annual survey, the vast majority stating they were **proud to work for Morgan Stanley**



Reflecting our progress, **women account for 20 percent of Managing Directors** in 2018, up from 14 percent in 2012

U.S. Summer Analyst and Associate Classes



Ethnically Diverse



Female

2018 Transactions Referred for Environmental and Social Due Diligence

1,033 referrals • **10** industries • **3** regions



Americas

Europe, the
Middle East
and Africa

Asia Pacific

Approach to Sustainability

At Morgan Stanley, we believe the capital markets can serve as a catalyst for positive change. By endeavoring to advance sustainability, we aim to support a healthier planet and more inclusive economy while delivering long-term value for our clients and shareholders. The integration of environmental, social and governance (ESG) considerations into our business activities helps us meet the rapidly growing demand for firms to demonstrate leadership in sustainability.

Specifically, we demonstrate sustainability leadership in the financial services sector by:



Mobilizing capital to drive progress on key issues, such as climate change and inclusive growth.



Developing innovative ways to shrink the environmental impact of our global operations.



Accelerating the adoption of sustainable investing strategies across capital markets through the [Morgan Stanley Institute for Sustainable Investing](#).



Engaging our employees to help drive sustainable investing and finance innovation, and to understand how sustainability issues intersect with their daily lives.

Strong governance, ethical business conduct, risk management and support for our skilled workforce underpin our business success and sustainable investing. We aim for strong ESG performance to help reduce risk and enhance value for our

stakeholders. Our firm's core values help guide our sustainability strategy to deliver results today while building a sustainable future for tomorrow.

Sustainability Governance

Sustainability is an important consideration in our business and operations. The firm promotes global sustainability through the capital markets, as reflected in our products, services, thought leadership and business strategy. Our Chief Sustainability Officer (CSO) leads our efforts to promote sustainability through the global capital markets in partnership with divisions across the firm. ESG initiatives are overseen by the Board of Directors' Nominating and Governance Committee, which receives reports from the CSO.

Under the CSO's leadership, the Global Sustainable Finance (GSF) group works with business units across the firm to implement sustainable business strategies. Our Institutional Securities, Wealth Management and Investment Management business segments partner with GSF to offer scalable financial solutions and advisory services that seek to deliver competitive financial returns while driving positive environmental and social impact. GSF also drives our corporate sustainability strategy. In addition, GSF along with the Environmental and Social Risk Management group (ESRM) partner with internal functions to integrate ESG considerations across the firm.

The Morgan Stanley Institute for Sustainable Investing is housed within GSF and chaired by Morgan Stanley's CEO. The Institute works to accelerate the global adoption of sustainable investing and finance strategies. Its Advisory Board, comprised of corporate, sustainability, academic and philanthropic leaders, helps ensure that our approach to sustainability and sustainable investing is comprehensive, rigorous and innovative (see [pages 14–15](#) for further details).

In addition, several councils and working groups provide expertise and input across the firm on specific aspects of our sustainability efforts:

- The **Sustainability Disclosure Committee** convenes senior leaders from across the firm to provide input on, review, and approve corporate sustainability disclosures, including this report, that support our commitment to transparency.
- The **Global Sustainability Bond Leadership Council** advances green and sustainable bond origination and execution globally, guiding our strategy for client solutions, investor engagement and thought leadership.
- The **Investment Management Sustainability Council** shapes ESG integration into the business unit's investment processes, including product development, measurement, education, client engagement and reporting.
- The **Corporate Services Global Sustainability Council** executes our operational sustainability strategy, which focuses on resource efficiency, renewable energy and identifying innovative ways to shrink the environmental impact of our operations globally.



- The **Sustainable Supply Chain Working Group** supports sustainability in our sourcing practices by identifying strategies to reduce ESG risks and pursuing opportunities with suppliers that further our sustainability efforts.

Sustainability Reporting

This report, which is produced annually, focuses on investor-relevant sustainability and corporate governance topics and goals. The Sustainability Accounting Standards Board (SASB) standards and the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) help guide the report's data, narrative and content.¹

Morgan Stanley seeks to bring a comparable level of rigor to the firm's sustainability-related reporting as to other public disclosures, including sign-off by the Sustainability Disclosure Committee and internal reconciliation of all facts and figures.

Morgan Stanley will continue to consult stakeholders and monitor relevant global frameworks as we continually improve our reporting and disclosure. Additionally, we encourage stakeholders to visit the following sites for more information on our sustainability performance:

- The [Sustainability page](#) of our website, which highlights important sustainability initiatives in more detail.
- Our [response](#) to the CDP 2018 climate-change questionnaire, which details our management approach and greenhouse gas (GHG) emission reductions.
- The [Corporate Governance](#) page of our website, which includes policies guiding environmental and social risk management.
- Our [response](#) to the Principles for Responsible Investing (PRI) reporting framework.

¹ All data in this report is verified by internal records, and, unless otherwise specified, is for the 2018 calendar year. We provide references and links to additional sustainability information reported elsewhere.

Stakeholder Engagement

Sustainability is a shared endeavor. We strongly value the perspectives and insights of our stakeholders, and we engage them through many forums on an ongoing basis. In 2018, the annual roundtable convened by the firm to gather input from

key external stakeholders focused on challenges that asset owners face in integrating ESG considerations into portfolios. Other recent topical issues included human rights (2017) and climate change (2016). The table below outlines our strategies and approaches to engage key stakeholders.

STAKEHOLDER GROUP	APPROACH TO ENGAGEMENT	2018 EXAMPLES
 Shareholders	<ul style="list-style-type: none"> Ongoing or annual dialogue with institutional investors Responses to inbound questionnaires and surveys Annual sustainability report focused on investor-relevant information 	<p>Investor Relations included GSF and ESRM in its engagement with several top Morgan Stanley institutional shareholders. These discussions covered firmwide strategy, governance and sustainability topics in Q4 as part of the firm's annual engagement cycle.</p>
 Clients	<ul style="list-style-type: none"> Events and thought leadership focused on sustainable investing and sustainable finance topics Collaboration on new product development to meet client ESG needs and criteria Direct engagement and dialogue with key clients focused on ESG issues Responses to inbound questionnaires, requests for proposals and surveys Client satisfaction channels 	<p>In July 2018, GSF convened a roundtable for asset owner clients and other key stakeholders to discuss sustainable investing impact, barriers and opportunities for improvements.</p> <p>The Morgan Stanley Sustainability Research team holds two main conferences each year: The Sustainable Futures Summit (June, New York) and the Sustainable Development Goals Seminar (December, London). In 2018, over 100 investors from around the world attended each event.</p>
 Employees	<ul style="list-style-type: none"> Employee networks, events and campaigns Company intranet, which includes articles and other internal resources dedicated to sustainability and sustainable finance Annual employee survey 	<p>In 2018, our Corporate Services team in EMEA launched a campaign to encourage employees to adopt an environmentally conscious mind-set and make sustainable choices at work. A key element of the campaign was to introduce compostable alternatives in employee amenities.</p>
 Non-Governmental Organizations (NGOs) and Civil Society	<ul style="list-style-type: none"> Annual stakeholder roundtable Direct engagement through one-on-one or small group dialogues on specific sustainability topics, risks or emerging issues Sustainability reporting and other forms of disclosure Direct involvement in collaborative initiatives and membership organizations (see Key Memberships and Affiliations) Third-party events and networks 	<p>In 2018, we engaged with environmental NGOs and local indigenous leaders on sustainability topics.</p> <p>Morgan Stanley was a founding member of the U.S. Alliance for Sustainable Finance, which will work to catalyze low-carbon and sustainable finance innovation across the U.S.</p>

KEY MEMBERSHIPS AND AFFILIATIONS*

- Business for Social Responsibility (BSR)
- CDP
- Ceres
- Climate Bond Initiative
- The Corporate Eco Forum (CEF)
- The Global Impact Investing Network (GIIN)
- Green Bond Principles
- Principles for Responsible Investment (PRI)
- RE100
- Sustainability Accounting Standards Board (SASB)
- Task Force on Climate-related Financial Disclosures (TCFD)
- U.S. Alliance for Sustainable Finance

*This list is not exhaustive of all memberships across the firm.

Sustainable Development Goals

Morgan Stanley supports the United Nations' Sustainable Development Goals (SDGs), a global blueprint to achieve a better and more sustainable future for all. According to the U.N. Commission on Trade and Development, meeting the SDGs by the 2030 deadline will require up to \$7 trillion in investment each year, creating compelling opportunities for companies and investors.²

The 17 goals and 169 targets cover all aspects of development, from eradicating poverty and hunger to affordable and clean energy, to good health and a quality education for all. The SDGs provide a framework to advance sustainable economic growth, gender equality and climate action, among other priorities. They increasingly inform our firmwide approach to sustainability, providing a lens to better understand key societal challenges and to drive solutions.

New products from across our business divisions support investors who seek to align their portfolios with SDG-related interests. For example, in 2018, we worked with clients on sustainability bonds designed to address specific SDGs, including health care, gender equality, economic empowerment, education and climate change. More than half of Wealth Management's Investing with Impact strategies relate to at least one SDG (see page 19). In addition, our Sustainability Research team launched 13 reports in 2018 that address SDGs as investment themes in public equities (see page 18). Additional examples of our SDG-relevant activities can be found throughout this report.

SUSTAINABLE DEVELOPMENT GOALS	1 NO POVERTY 	2 ZERO HUNGER 	3 GOOD HEALTH AND WELL-BEING 	4 QUALITY EDUCATION 	5 GENDER EQUALITY 
6 CLEAN WATER AND SANITATION 	7 AFFORDABLE AND CLEAN ENERGY 	8 DECENT WORK AND ECONOMIC GROWTH 	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 	10 REDUCED INEQUALITIES 	11 SUSTAINABLE CITIES AND COMMUNITIES 
12 RESPONSIBLE CONSUMPTION AND PRODUCTION 	13 CLIMATE ACTION 	14 LIFE BELOW WATER 	15 LIFE ON LAND 	16 PEACE, JUSTICE AND STRONG INSTITUTIONS 	17 PARTNERSHIPS FOR THE GOALS 

² <https://www.unpri.org/sdgs/investors-and-the-sustainable-development-goals/304.article>

Approach to Climate Change

Climate change is an economic reality and a growing risk that businesses and investors are learning to address. At Morgan Stanley, we see tremendous opportunity to be part of the solution, working alongside public policy makers, regulators, civil society and the private sector. We seek to facilitate an orderly transition to a low-carbon economy through policies, activities, products and services that support the mitigation of climate risks. We also seek to catalyze market-driven low-carbon opportunities. To reduce our own footprint, we are committed to achieving carbon neutrality for our global operations by 2022.

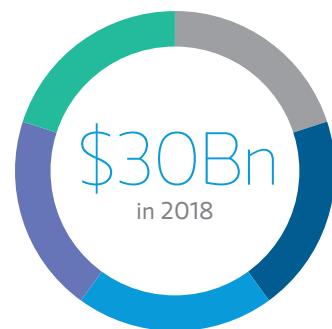
Supporting the Transition to a Low-Carbon Economy

Recognizing the need to rapidly scale climate finance, in April 2018, we announced plans to mobilize \$250 billion to support low-carbon solutions by 2030. Our existing business activities in clean-tech and renewable energy financing, sustainable bonds and other relevant transactions and investments contribute to this commitment. In 2018, we mobilized nearly \$30 billion in capital toward this goal.

We also develop informative analysis on climate change to help clients and other stakeholders navigate the low-carbon transition. Our Sustainability Research team (see [page 18](#)) and the Institute for Sustainable Investing (see [pages 14–15](#)) lead this work.

BY THE NUMBERS

Low-Carbon Financing Goal:
\$250 billion by 2030



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

Moving forward, we will explore ways to strengthen our approach to climate change by drawing on the TCFD recommendations in ways that benefit our company and stakeholders. As a first step, in 2018, we collaborated with peers to explore scenario analyses and stress testing that sheds light on the sensitivities of companies' creditworthiness under select climate transition pathways. We will use the lessons learned to build our knowledge and capacity, informing our ongoing approach to managing climate change-related risks and opportunities.

TOWARD CARBON NEUTRALITY

In 2017, Morgan Stanley committed to become carbon neutral for our global operations by 2022. Our goal is to source 100 percent of global operational electricity needs from renewable sources and to offset any remaining emissions. Our approach includes developing on-site power generation, securing power purchase agreements, buying renewable energy credits and pursuing carbon offsets.

We expect our suppliers to follow our environmental policies and encourage them to reduce the environmental impact of their operations as well. For more information, see our [Supplier Code of Conduct](#).

CLIMATE DISCLOSURE

Morgan Stanley is committed to providing our clients, investors and other stakeholders with useful, relevant and material information regarding our approach to addressing climate change. Since 2006, we have disclosed detailed information on our approach to climate change management and our GHG inventory. Scope 1, 2 and 3 GHG emissions data across our global operations is third-party verified. Our 2018 CDP (formerly, Carbon Disclosure Project) response is available for download on our website [here](#).

In 2017, we signed the Statement of Support for the recommendations of the TCFD. The recommendations will inform enhancements to our climate change approach, as appropriate for our business.

Climate Change Governance

Examples of climate-related management processes within our businesses that help clients and the firm address direct or indirect climate risks and opportunities include:

- The Morgan Stanley Institute for Sustainable Investing and its External Advisory Board lend expertise to help ensure our sustainability and climate change strategies are comprehensive, rigorous and innovative. Several Advisory Board members have backgrounds at the intersections of climate change science, business and policy. The Institute also serves as a forum to engage both our senior executives and external industry experts on climate change.
- The Environmental and Social Risk Management (ESRM) group helps inform our climate strategy and manages our Environmental and Social Risk Policies, partnering with GSF and other colleagues across the firm to review these policies (available on our corporate governance website [here](#)). The firm's Environmental and Social Risk Policies are approved by senior firm management and discuss our approach to climate change (see [pages 29–30](#)).
- Corporate Services leads a wide range of initiatives to reduce our facilities' environmental impact and partners with GSF to develop and manage our operational climate change goals.
- Morgan Stanley's various sustainability councils and working groups (described on [page 9](#)) engage senior leaders across the firm, and address climate-related risks and opportunities.

Climate Risk Management

Where Morgan Stanley may face potential transition and physical risks from the ongoing impacts of climate change, we seek to deploy expertise and resources from many parts of the business to explore these issues.

GSF, the Institute for Sustainable Investing and ESRM help strategically inform and engage the appropriate internal partners across the firm on emerging climate change-related risks, where relevant to the firm's activities. ESRM leads due diligence assessments of risk posed by transactions, and monitors a range of sustainability risks. Business units may assess the materiality of climate change to their activities and evaluate ESG risks through client and investment due diligence. Corporate Services and Business Continuity Management assess physical risks and other disruptions to our business operations. These teams conduct systematic reviews to assess potential risks from natural disasters, which then inform our real estate strategy, property management strategy, disaster recovery and business continuity management processes.

ESG Integration

Morgan Stanley is committed to harnessing the power of capital markets to create sustainable, long-term value for clients and stakeholders. We believe the risks and opportunities presented by pressing global challenges like climate change and inequality, coupled with the shift toward sustainable investing, set the stage for a new approach to finance. Building on our strong ESG track record, we continue to enhance our product and service offerings to create positive societal impacts. Our three business segments—Institutional Securities Group, Wealth Management and Investment Management—offer a wide range of scalable financial solutions and advisory services that seek to deliver both competitive financial returns and positive environmental and social impact. The Global Sustainable Finance (GSF) group supports these business activities, while the Morgan Stanley Institute for Sustainable Investing aims to advance the market by empowering investors with actionable analysis. Deploying Morgan Stanley's own capital, the Community Development Finance team works to create lasting positive changes in communities across the United States.

The Institute for Sustainable Investing

Established in 2013, the Morgan Stanley Institute for Sustainable Investing is an industry-leading incubator for ideas and innovation that accelerate the adoption of sustainable investing in capital markets and drive strategic sustainability initiatives across Morgan Stanley. The Institute's priorities include:

- 1 **Fostering innovation** by leveraging the firm's experience and market perspective to advance the field of sustainable investing.
- 2 **Delivering informative analysis** and thought leadership to inform and empower investors.
- 3 **Developing the next generation** of sustainable investing leaders through strategic partnerships and programs.

Chaired by the firm's CEO, James Gorman, an Advisory Board of prominent leaders from business, academia and leading nongovernmental organizations guides the Institute's work and strategic priorities.

FOSTERING INNOVATION

The Institute partners across the firm, and with third parties, to pioneer scalable solutions, build new sustainable investing tools and capabilities, and generate industry-leading insights for investors. Examples of innovative products and services launched or expanded across our businesses in 2018 are provided throughout this section.

DELIVERING INFORMATIVE ANALYSIS

The Institute develops insightful analysis to inform and empower the growing number of investors looking to make a positive ESG impact. This thought leadership work focuses on trends driving sustainable investing and critical thematic issues, such as climate change and inclusive economic growth. 2018 highlights are shown in the box below.

Through the Institute, the GSF team engages with stakeholders pursuing similar missions. In 2018, GSF represented the Institute in the Ceres Investor Network on Climate Risk and Sustainability, the Global Impact Investing Network (GIIN) Investors' Council, the Interfaith Center on Corporate Responsibility and the Intentional Endowments Network.



Sustainable Signals: Asset Owners Embrace Sustainability explored the trends and opportunities driving sustainable investing among institutional asset owners. The survey of 118 global asset owners, conducted with Morgan Stanley Investment Management, found that 84 percent were already integrating ESG in their investment process or actively considering doing so. Reflecting growing momentum, 60 percent had taken action in the past four years.



Sustainable Value: Sustainable Bond Issuance as an Investor Signal looked at growth and innovation in the sustainable bond market and highlighted green, social and sustainability bonds as an effective means to showcase sustainability strategies and impact stories to investors.



Weathering the Storm: Integrating Climate Resilience Into Real Assets Investing offered real estate and infrastructure investors a framework for identifying and understanding climate change risk and building resilience across the investment lifecycle. The brief explained how resilience planning across due diligence, design, disruption management and divestment decision-making may enable real assets investors to anticipate, prepare for, withstand and recover from natural disasters that are likely to become more frequent and intense.

DEVELOPING FUTURE LEADERS

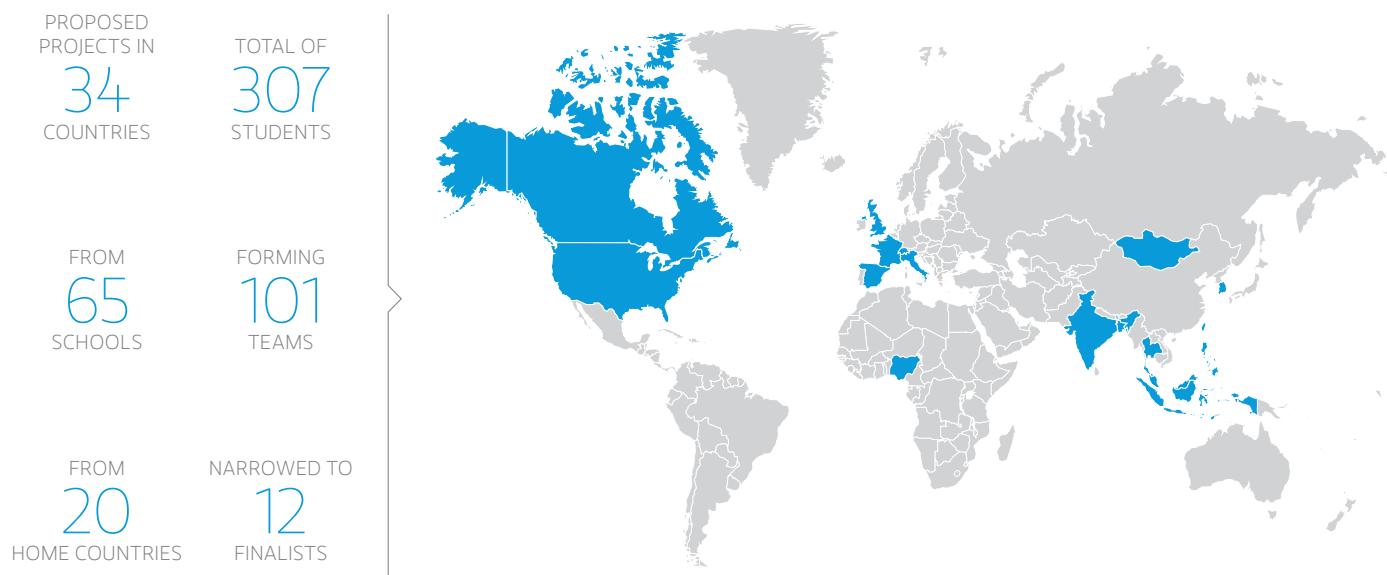
The Institute helps train and develop the next generation of sustainable investing leaders through fellowships and strategic partnerships. By exposing tomorrow's financial services executives, early in their careers, to the power of capital market solutions to address sustainability challenges, we hope to drive change at scale.

The Morgan Stanley Sustainable Investing Fellowship serves as a pipeline of such future change makers. In 2018, we expanded the fellowship from New York City to include our London office, attracting nearly 1,200 students for six positions. The winning

cohort won placements in GSF, Global Capital Markets, Sustainability Research, Wealth Management and Investment Management, and included students from China, Italy, Switzerland, the United Kingdom and the United States.

In April 2018, we hosted the 8th Annual Kellogg-Morgan Stanley Sustainable Investing Challenge in London. The highly competitive event (see Snapshot below) invited graduate students worldwide to develop financial solutions to social and environmental challenges with the potential to achieve market-rate financial returns.

2018 Kellogg-Morgan Stanley Sustainable Investing Challenge Competition Snapshot



ASEAN Storm Resilience Fund Wins 2018 Challenge

The winning proposal by a team from the Lee Kong Chian School of Business at Singapore Management University outlined the creation of a fund to help communities withstand extreme weather events in Southeast Asia. A key aspect of the proposed fund is a development impact bond enhancement feature, which would facilitate investment in storm-resistant structures.



Institutional Securities

Our Institutional Securities group (ISG) has a long history of using the scale and speed of capital markets to generate positive environmental and social benefits for innovative companies. We achieve this with a range of levers, including mergers and acquisitions, and underwriting services. Teams across the business—from bond markets, to public finance, investment banking, commodities and research—pursue these objectives.

BY THE NUMBERS

Sustainable Finance Transactions

\$32 billion

green and social sustainability transactions in 2018, including:



>\$80 billion

green and social sustainability transactions supported since 2013



750 MW of renewable projects supported in 2018

SUSTAINABLE FINANCE

Corporate, Supranational, Sub-Sovereign and Agency Finance

A record \$247 billion worth of sustainability-themed debt instruments were raised globally throughout 2018.³ Reflecting the market's momentum, our corporate issuer base continued to diversify in terms of use of proceeds, currency bases for transactions and geography. We also saw issuance themes broaden, in line with the 2030 U.N. SDGs. For example, we worked with clients on products that address several SDG priorities, including health care, gender equality, economic empowerment, education, conservation and climate-change mitigation.

Our role in high-impact deals during 2018 included:

- Serving as an active bookrunner for Boston Properties' \$1 billion 10-year green bond, its inaugural issuance, focused on supporting green buildings.
- Acting as joint active bookrunner for a €500 million 15-year inaugural green bond for EnWB (the second green bond issued by a German utility) to finance its transition to clean energy.
- Serving as a lead bookrunner for two €500 million green senior unsecured bonds issued by MUFG, helping Japan's largest bank to further diversify its investor base in Europe.

Morgan Stanley Global Sustainability Bond Leadership Council



The Council includes senior leaders from across the firm and aims to advance green and sustainable bond origination and execution globally. In its first full year of execution, its members:

- Facilitated the development and delivery of sustainable solutions across our products, regions and divisions.
- Provided our clients with a full-service solution from the idea development phase through structuring, investor marketing and issuance.
- Promoted capital markets initiatives to complement work by our Institute for Sustainable Investing.

³ <https://about.bnef.com/blog/sustainable-debt-market-sees-record-activity-2018/>

Public Finance

In 2018, Morgan Stanley Public Finance remained the top underwriter of municipal green, social and sustainability bond underwritings by transactions completed. In total, we underwrote 26 bond issuances for public sector and not-for-profit institutions, including 16 we senior managed. These transactions funded infrastructure projects that brought environmental and social benefits to communities around the United States, including mass transit, conservation and climate resiliency, affordable housing and college housing developments, and not-for-profit health care facilities.

Financing and Advisory Services

With increasing investor interest in ESG issues, our investment banking teams help to advise clients as well as raise and mobilize capital to support sustainability-focused, clean technology and renewable energy businesses. Our industry, regional and country teams provide specialized expertise to corporations, financial institutions and government clients looking to execute innovative solutions to address sustainability challenges and meet sustainability goals. During the year, we participated in several notable deals, including the following:

- \$1 billion U.S.-listed initial public offering for NIO Inc., a Chinese electric vehicle startup that designs, manufactures and sells smart and connected premium electric vehicles.
- \$311 million initial public offering for Bloom Energy Corporation, which offers a stationary power generation platform.
- \$240 million in late-stage funding for ChargePoint, Inc., the world's leading electric vehicle charging network, offering solutions in every location that drivers charge—at home, work, around town and on highways.

Commodities Business

Morgan Stanley Capital Group Inc. (MSCGI) supports renewable energy deployment across the United States, providing offtake agreements and hedging products for new wind farms and solar installations. This ensures stable cash flows for developers to complete financing and construction. In 2018, MSCGI provided long-term hedging transactions to nearly 750 MW of renewable projects.

SUSTAINABILITY RESEARCH

Sustainability considerations in financial decision-making can make a difference across the global economy. In line with integrating sustainability across our business, Morgan Stanley analysts use an ESG lens to conduct investment research on each sector and company. This effort is led by our Sustainability Research team, part of ISG's Research Division.

To provide useful and actionable information to our clients, and investors at large, we:

- Develop stock-specific summaries that provide insight on material ESG factors. These vary by sector and company, and are categorized as explicit (likely to have a direct impact on financial performance), implicit (essential to the underlying health of a business, but cannot always be quantified) or both. In 2018, Sustainability Research updated its ESG Integration framework to reflect this approach.
- Publish analysis on key, market-relevant ESG themes, risks and opportunities. In 2018, examples included plastic, data privacy and governance. Our most-read 2018 publications included "A Quant Lens on ESG," a collaboration with the Quantitative Strategy team to identify the top three ESG factors for each industry, alongside stock opportunities, and "Disrupting Corporate DNA," comparing corporate governance in South Korea and Japan.
- Leverage our expertise and data to support thematic and impact investing approaches to address global sustainability challenges. In 2018, we launched 13 reports that address the SDGs that we view as investable from a public equities standpoint.

Since 2015, Morgan Stanley's Sustainability Research team has been ranked in the top three firms for SRI and Sustainability sell-side research by both the Extel survey of European equities and the U.K. Sustainable Investment and Finance Association.

Transitioning Facebook's Energy Supply

As Walton EMC's wholesale energy provider, Morgan Stanley helps provide long-term cost stability and reliability for a power purchase arrangement that will supply a Facebook data center in Georgia with 100 percent renewable energy. As part of the 2018 deal, Walton EMC will install hundreds of acres of solar panels that will help decarbonize Facebook's energy supply while creating jobs for the local economy.



Wealth Management

Increasingly, both institutions and high net worth individuals are seeking to make a difference with their capital. In response, Investing with Impact (IIP), a holistic solution from Morgan Stanley Wealth Management, offers clients the means to link their financial, societal and environmental impact goals. Leveraging capabilities and expertise from across the firm, IIP seeks to generate market-rate financial returns, alongside positive environmental and social impact. IIP investment strategies and solutions are available across all asset classes, including public equity, fixed income (including green bonds) and alternatives.

Advancing the Sustainable Development Goals

In 2018, an internal survey of our IIP third-party managers found that more than 50 percent of their strategies aligned with at least one SDG. The three goals most commonly advanced are climate action, affordable clean energy and gender equality. Our investment managers address SDGs in a variety of ways, including:

- Mapping ESG considerations in investment analysis to relevant SDGs.
- Using ESG ratings and proprietary impact metrics to measure revenue exposure to specified SDGs, assigning bonus weightings to companies with strong alignment to at least one SDG.

We expect to see more systematic alignment with SDGs across sustainable and impact investing strategies over time as analytical tools improve and investor demand continues to grow.



Mission Alignment Roadmap for Institutional Investors

In May 2018, IIP launched the first-of-its-kind [Mission Align 360° Toolkit](#) in collaboration with Morgan Stanley Wealth Management's Philanthropy Management group. This eight-step roadmap supports grant-making institutions, including nonprofits, endowments and foundations to align all sources of capital with their mission statement and expand positive impact. This is the sixth toolkit that Investing with Impact has launched since 2015 in order to drive adoption of sustainable investing in relation to impact themes, including Catholic values, climate change and gender diversity.

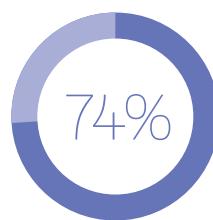
INVESTING WITH IMPACT

Morgan Stanley launched IIP in 2012 to help our clients advance broad sustainability solutions. Today, IIP offers a wide array of more than 120 investment strategies as well as portfolio solutions, tools and analysis across thematic issues, including climate change, diversity and inclusion, and community economic development, among others. Highly flexible by design, IIP solutions fit the varied needs of a wide range of clients, including individual investors, families, institutions, religious organizations, corporations, charitable trusts, foundations, nonprofits and donor-advised funds. As of year-end, IIP client assets totaled approximately \$25 billion, more than double the firm's five-year goal of \$10 billion by November 2018.

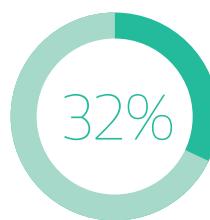
BY THE NUMBERS

Investing with Impact through 2018

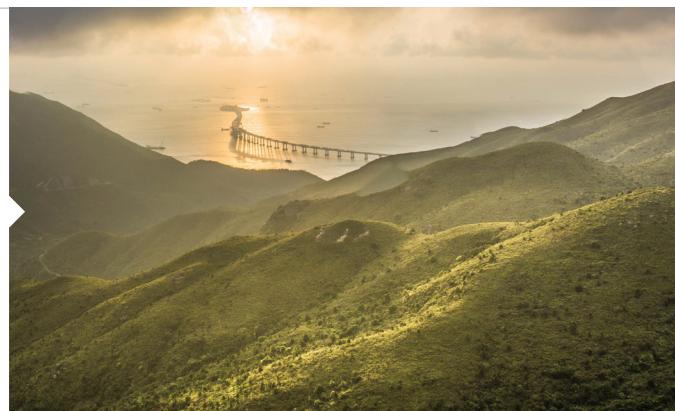
~\$25 billion
in client assets



of our Financial Advisors use at least one IIP investment strategy with their clients



of our Financial Advisors use five or more IIP investment strategies with their clients



Exploring Opportunity Zones

The 2017 Tax Cuts and Jobs Act created a mechanism to channel tax-incentivized investments into economically distressed communities in every U.S. state and territory. In 2018, Morgan Stanley conferred with qualified clients on how they could potentially redeploy unrealized capital gains into these designated Qualified Opportunity Zones. To this end, Wealth Management established an internal cross-functional team, joined industry working groups and engaged with other impact investing organizations to explore the investment pipeline.

EQUIPPING FINANCIAL ADVISORS

Wealth Management works to equip its nearly 16,000 Financial Advisors and Institutional Consultants to better serve their clients in the fast-evolving field of ESG and impact investing. IIP provides access to innovative investment options as well as cutting-edge tools, analysis, and educational resources. In 2017, we launched an e-learning program for Financial Advisors on the fundamentals of sustainable and impact investing, and in 2018, introduced the Investing with Impact Director internal designation. This recognizes Financial Advisors and Institutional Consultants who, in addition to meeting rigorous eligibility requirements and coursework, have successfully shown they are incorporating the IIP philosophy into the holistic management of their clients' capital.

Our Financial Advisors and Institutional Consultants also use Morgan Stanley's sustainability thought leadership publications and associated videos, and social media content to engage with current and prospective clients. In 2018, we held seven client-facing IIP roadshows. These included our first Jewish Values Consortium, where leaders from the Jewish philanthropy and investment communities in New York City discussed what it means to give and invest in line with Jewish values. This successful event was followed by similar forums in Los Angeles (2018) and Delray Beach, Florida (2019).



Attendees at the Morgan Stanley-led inaugural Jewish Values Consortium in New York in May 2018.

SUPPORTING SHAREHOLDER ENGAGEMENT

Morgan Stanley embraces the opportunity for active shareholder engagement by clients as an important differentiator in the IIP framework we offer clients. Investors increasingly look to engage with portfolio companies on topics such as climate change, equal pay, employee safety, and diversity and inclusion, and our Financial Advisors are responding. A 2018 survey of IIP investment managers found that the majority have track records in shareholder engagement, including voting proxies to align with ESG issues, engaging with companies to encourage sustainable and responsible behavior, and filing resolutions when deemed appropriate. Supporting this process, our technology platform can deliver shareholder communications and proxy materials to clients seamlessly via eDelivery. We also work with third-party providers to connect clients to intermediaries who participate in shareholder resolutions and proxy voting on issues aligned with their interests.

Investment Management

A growing number of Morgan Stanley Investment Management's strategies take ESG factors into account when making investment decisions and building portfolios for our clients. We actively engage with clients to better understand their ESG priorities and desired approaches, and use these insights to better integrate ESG principles into the management of existing offerings, as well as to design innovative solutions that meet client needs.

ESG GOVERNANCE

The Investment Management Sustainability Council, composed of global, cross-functional leaders, portfolio managers and investment analysts, oversees ESG integration across the business aiming to promote long-term value. The Council is co-chaired by the Vice Chairman of Investment Management and Head of Strategic Partnerships, and the Co-Head and Chief Investment Officer of the Solutions and Multi-Asset Group. The Council sets the overall framework for integrating ESG considerations into our investment processes, product development, client engagement and reporting. A Global Stewardship team⁴ of dedicated ESG professionals and the Morgan Stanley Institute for Sustainable Investing support the council as well as our investment teams.

DRIVING RESPONSIBLE INVESTMENT AS ACTIVE OWNERS

As active and long-term owners, we have an opportunity to guide companies toward better management practices, including how they deal with ESG-related risks and opportunities. In both our public and private investments, we regularly engage portfolio companies on ESG matters.

In public markets, we also demonstrate active ownership through proxy voting. Our [2018 Proxy Voting Policy](#) describes our approach on ESG issues, including board diversity. All Investment Management proxy voting decisions are made in-house, leveraging the expertise of our Global Stewardship team. Both our investment and Global Stewardship teams also engage directly with portfolio companies. In 2018, investor teams engaged with more than 100 companies on ESG issues ranging from climate change to the opioid epidemic. For a summary of our 2018 proxy voting history and ESG engagements, see our annual [2018 Global Stewardship Report](#).

100

companies engaged on ESG issues ranging from
climate change to the opioid epidemic

⁴ Formerly the Corporate Governance team.

EMBEDDING ESG CONSIDERATIONS INTO THE MANAGEMENT OF CLIENT PORTFOLIOS

Investment Management is a signatory to the Principles for Responsible Investment (PRI), the U.K. Stewardship Code and the Japan Stewardship Code. We support an investor-led approach to ESG integration where investment teams are encouraged to adopt ESG approaches that best suit their strategies. As active owners, identifying well-governed companies with long-term, sustainable business models is central to our approach. Since ESG issues can influence risk and return, our portfolio managers consider these factors in evaluating investment opportunities, both at industry and company levels, and when engaging with portfolio companies. Increasingly, we design solutions that respond to the needs of our institutional and high net worth clients for different approaches to incorporating ESG principles, such as screening and goals-based impact investing. The examples below illustrate this approach.

For more information on our client investment strategy, download [Our Approach on ESG Factors](#).

Global Sustain Launch

Morgan Stanley's International Equity team, which manages approximately \$37.6 billion in assets, views investing with a conscience as fully compatible with generating attractive long-term returns. The team embeds ESG principles across all investment strategies and focuses on material risks and opportunities at the company level that can affect future returns on operating capital.

In 2018, International Equity launched a new product, Global Sustain, with the investment philosophy that the best way to compound wealth is by owning very high-quality companies with sustainable high returns on operating capital over the long term. As well as building on the team's broad approach to ESG integration, the fund avoids investing in companies whose primary business interest include tobacco, alcohol, adult entertainment, gambling, controversial weapons or firearms, bulk commodities, fossil fuels, and gas or electric utilities.

Aligning Portfolios With Client Values

As values-based investing goes mainstream, our Solutions and Multi-Asset team, with approximately \$64 billion in assets under management, increasingly works with high net worth individual and institutional clients on ESG-focused mandates across asset classes.

For example, in 2018, the team created a globally diversified portfolio of traditional and alternative assets to reflect the values of a family office. The client's goal was to maximize investment in high-performing companies that embrace ESG principles, with a focus on themes, including: inequality, gender, childcare and organic agriculture. The portfolio applies environmental and social performance thresholds, and tilts toward companies most aligned with these thematic interests.

Community Development Finance

Morgan Stanley also brings together investment, philanthropic and private capital to create lasting positive changes in communities across the United States. Both of Morgan Stanley's U.S. banks are rated "Outstanding" by the Office of the Comptroller of the Currency (OCC) for the banks' records of meeting community needs. The most recent recognition came in 2018, and marked the fourth time in a row that our banks have received the OCC's highest rating.

The Community Development Finance (CDF) Group designs and implements our community development program alongside community partners. In order to support and empower our partners to achieve their goals, CDF executes new and innovative transactions not routinely provided by private investors. Our program seeks to transform communities' quality of life through a focus on:

- 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

A summary of our impact through 2018, and examples of highly innovative and impactful transactions executed in 2018 are shown below.

BY THE NUMBERS

Community Development Finance 2010–2018



\$18 billion+ committed in loans and investments



99,000+ affordable housing units funded

\$262 million

committed in small-business loans,
including **\$57 million** in 2018

2018 Community Development Finance Highlights



Committed nearly **\$400 million** with the National Equity Fund (NEF) to help address the impending U.S. crisis in affordable housing preservation by acquiring and holding existing affordable properties until permanent financing arrangements are put in place.



Continued to catalyze change in the financing market for Community Development Finance Institutions (CDFIs) working with Morgan Stanley's Public Finance team to structure and market a **\$50 million** sustainability bond for the Enterprise Community Loan Fund, Inc.



Provided **\$17 million** to develop an apartment complex across from a light rail station in Salt Lake City, Utah. 80 percent of units will be affordable, with some reserved for victims of domestic violence and formerly homeless households.



Contributed **\$16 million** for a net-zero energy affordable housing development in Kingston, New York, with units reserved for special needs and formerly homeless households.



Delivered a revolving loan to Rural Community Assistance Corporation, a nonprofit providing training, technical and financial resources, and advocacy to support water and wastewater treatment plants, affordable housing, small businesses and community facilities in rural areas of 13 states. Since 2010, we have provided over **\$64 million** to the organization.

BUILDING THE NEXT GENERATION OF LEADERS

In addition to innovative financing, our community development program seeks to build the next generation of leaders in the field. To this end, we support fellowships and programs that enable promising students and young professionals to gain hands-on community development experience. For example, for the past six years, we have partnered with the Association for Neighborhood & Housing Development to place graduate students at nonprofit community-based organizations in New York City. Graduates of the highly successful program have secured jobs at Community Development Corporations, government agencies, leading nonprofits and other organizations within the field. Given the program's success, we are now partnering with the University of Utah to sponsor fellows at six nonprofits in Salt Lake City. In addition, Morgan Stanley supports the leadership development of community development professionals. Partnering with the Opportunity Finance Network, the leading U.S. network of CDFIs, we created a training program with Landit, a company that provides professional development for women leaders.



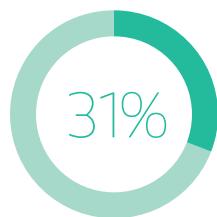
Our community development program seeks to build the next generation of leaders in the field

Corporate Governance and Ethical Business Conduct

As a global financial institution, our reputation is our most important asset. For decades, Morgan Stanley's strong governance and reputation for integrity have provided a foundation for success. Our core values underpin this culture, support our sustainability strategy and drive everything we do. By Doing the Right Thing, Putting Clients First, Leading with Exceptional Ideas and Giving Back, we seek to meet client needs, deliver value for investors and support a sound and sustainable global financial system.

Corporate Governance

Morgan Stanley's strong governance and commitment to integrity begin with our Board of Directors. As of December 31, 2018, 13 directors sit on the Morgan Stanley Board. The majority of directors are independent and 31% are female. The Chairman and CEO is the only director who is a member of management. We believe our Independent Lead Director, working alongside our Chairman and CEO, best serves the interests of the firm and its shareholders. As a board, our directors have extensive experience derived from their service guiding large, complex organizations as executive leaders or board members. With a range of backgrounds across the private sector, government and public policy, they possess a diversity of qualifications, attributes and skills applicable to our business and long-term strategy.



of the directors on our Board are women

Our Board has five key standing committees:

1. Audit
2. Compensation, Management Development and Succession (CMDS)
3. Nominating and Governance (N&G)
4. Operations and Technology
5. Risk

The N&G Committee oversees environmental, social responsibility and sustainability matters, as appropriate, and makes recommendations to the Board.

The Board's key standing committees are composed solely of nonmanagement directors, and only independent directors sit on the Audit, CMDS and N&G committees. To make best use of our directors' diverse skill sets, the Board generally favors rotating committee assignments periodically. The Independent Lead Director and Committee chairs generally serve three to five years.

For more information on our Board's structure, independence, oversight and annual evaluation, see our [2019 Proxy Statement](#).

COMPENSATION GOVERNANCE

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

- The firm's performance in executing long-term strategy
- The design and structure of compensation programs to ensure they reflect compensation objectives and do not encourage excessive risk taking
- Market trends and legislative and regulatory developments affecting corporate compensation in the U.S. and globally

See pages 31 and 36 of our [2019 Proxy Statement](#) for information on our approach to promoting sound risk-taking by relevant employees.

Ethical Business Conduct

Morgan Stanley is committed to best-in-class governance practices and the highest ethical standards. [The Morgan Stanley Code of Conduct](#) and the [Code of Ethics and Business](#) enshrine our ethical business practices, defining the behavior we expect from all our employees, every day. We require every employee to certify his or her adherence to, and understanding of, these codes when they join us, and on an annual basis.

Financial crimes undermine public trust in our sector. We take all reasonable measures to prevent them, including mandatory awareness training for employees. Rigorous, risk-based policies, procedures and internal controls guard against misuse of our products and services for money laundering, terrorism or other criminal activity. For more information on our financial crimes program, see pages 9–10 of our [2018 Form 10-K](#).

APPROACH TO ANTI-CORRUPTION AND BRIBERY

Morgan Stanley forbids all forms of bribery and corruption, and accordingly 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 is updated annually and lays out clear rules and guidelines designed to mitigate corruption risk. These include: due diligence and preclearance requirements for certain third-party engagements; preapproval for providing certain gifts, entertainment and charitable contributions; transactional due diligence; and hiring controls for candidates referred by or closely associated with clients or government officials. All Morgan Stanley employees must take anti-corruption training at least annually, and we provide more frequent, targeted training for relevant employees. In addition, we conduct periodic risk-based monitoring and testing to promote employee compliance with the Policy. For more information on our anti-corruption program, see our publicly available [Code of Conduct](#).

PRODUCT GOVERNANCE

Our Global New Product Approval (NPA) Policy helps ensure all financial products developed worldwide are in line with our approach to ethical business conduct. The policy sets a framework for employees on how to develop new financial products and address related risks. A designated risk manager oversees proposed new business activities and conducts due diligence for every planned launch of a new or modified product. The firmwide NPA Steering Committee implements NPA policy, procedures and programs, with oversight by our Board of Directors. All employees whose jobs include developing, approving and delivering new products undergo mandatory training.

FAIR MARKETING

How we promote our financial products reflects on our reputation for integrity and our core value of Doing the Right Thing. 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 manage risks in marketing and sales by enforcing the following guidelines:

- Communications to clients and the public must be fair and balanced, without exaggerated or misleading statements.
- Employees must use approved marketing materials and messaging systems when conducting the firm's business.
- Financial Advisors must follow a compliance manual of internal sales practice standards, as well as adhere to all applicable laws and regulations.
- Risk and Compliance personnel review trading account activity for potential sales practice issues.
- All employees who hold a securities license or registration must undergo continuing education programs and mandatory in-house training to maintain their status.
- 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.

When employees engage in sales practices that raise concerns, or violate our Code of Conduct, their actions may undergo review and possible disciplinary action, including cancellation of compensation awards and termination of employment. Morgan Stanley reports data and summary information on such breaches to regulators.

REPORTING ETHICAL CONCERNS

Our ethical culture depends on the active participation of everyone who works for us. Our [Code of Conduct](#) guides the day-to-day behavior of approximately 60,000 employees worldwide, and requires them to report legal or ethical concerns through a range of channels. Options include a supervisor, Human Resources, the Legal and Compliance Division and our [Integrity Hotline](#), which is run by an independent vendor, offers anonymity and includes both phone- and web-based reporting options. We take allegations of misconduct seriously and prohibit any retaliation against or the victimization of anyone raising a concern in good faith. For concerns regarding our CEO, a senior executive or financial officer, or a member of our Board of Directors, employees can directly contact our Chief Legal Officer or Global Audit Director. The Global Compliance Committee and the Board Audit Committee receive quarterly updates on hotline reports and their resolutions.

CORPORATE POLITICAL ACTIVITY

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

Morgan Stanley does not make corporate contributions in the United States, at the federal, state or local levels, to candidates, political party committees, ballot committees or political action committees.

The bipartisan Morgan Stanley Political Action Committee (MSPAC) is funded solely through voluntary employee contributions and supports congressional candidates who are philosophically aligned with our values. MSPAC is registered with and publicly reports to the [Federal Election Commission](#).

All contributions required to be disclosed under the Lobbying Disclosure Act (including dues attributable to lobbying by U.S. trade associations) are reported to the U.S. Congress and are publicly available [here](#). We also disclose state and local lobbying costs where required by law.

Risk Management

Risk is an inherent part of our everyday business and activities as a leading financial services institution. Our success and reputation depend on effectively managing all risks the firm faces to the benefit of our clients, shareholders and other stakeholders. We do this through rigorous, comprehensive risk management policies, controls and training.

Overview

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. Five key principles underlie this philosophy: integrity, comprehensiveness, independence, accountability and transparency. All risk-management actions taken by our employees flow from this philosophy, which is implemented firmwide through our Enterprise Risk Management (ERM) framework. Effective risk management is a priority for Morgan Stanley's leadership, and senior management requires thorough and frequent communication, and the appropriate escalation of risk matters, worldwide. Given the fast-paced, complex and evolving nature of global financial markets, we invest time and resources in maintaining a risk-management culture that is incisive, knowledgeable about specialized products and markets, and subject to ongoing review and enhancement.

Our Board of Directors oversees strategic risk; culture, values and conduct risk; and reputational risk. The Board oversees the ERM framework, fulfilling this responsibility through the Risk Committee, Audit Committee, and Operations and Technology Committee. The Risk Committee is composed of nonmanagement directors, and assists the Board in its oversight of the following top priorities:

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

For more information on Risk Management, see our [2018 Form 10-K](#) and our [2019 Proxy Statement](#).

Cybersecurity

Cybersecurity and information risks for financial institutions are rising in an increasingly networked world. In response, we deploy leading-edge data security programs and tools to protect our operations and clients, and collaborate with our peers on cybersecurity. The Morgan Stanley Fusion Center is at the heart of these efforts. Launched in 2015, the Center hosts more than 300 members of our Infrastructure and Technology Risk teams who provide agile and rapid responses to disruptive events through new data analytics, modeling and correlation tools. In addition, Cybersecurity and Information Security teams help protect computer systems across our operations against unauthorized access, disclosure, modification or misuse.

In 2018, we highlighted, and strengthened, the Fusion Center's mission, capabilities and added value through an engagement program for Morgan Stanley employees, select clients and key external partners. Activities included:

- Quarterly calls with our Information Security Officers on the current threat environment, cyber-risk trends and proposed mitigation actions.
- A training program to develop "cyber-champions" across the firm to enhance threat prevention.
- Training videos for new hires that cover cybersecurity fundamentals, and specialized training for employees in relevant roles.

SUPPORTING OUR SECTOR AND TOMORROW'S CYBERSECURITY LEADERS

Morgan Stanley takes part in public and private sector forums on cybersecurity, providing insights on strategic topics relevant to our industry. Examples include initiatives convened by the White House, the National Cyber Security Center and the Japan Financial Services Agency. We are also one of six leading banks that founded the Financial Systemic Analysis & Resilience Center in 2016. In September 2018, we hosted the New York Caucus of the Financial Services Information Sharing and Analysis Center.

Looking to the future, we partner with iMentor, Girls Who Code, NPower, Local universities and other nonprofit organizations to help build a diverse and dynamic pipeline of young cyber leaders, and widen access to the skillset needed to succeed in this complex field. The Fusion Center also partners with the U.S. Marine Corps to provide one-year fellowship placements with our cybersecurity team.



Safeguarding client information is a priority for Morgan Stanley, and is essential to our goal to be the world's first choice for financial services

Data Security and Client Privacy

Safeguarding client information is a priority for Morgan Stanley, and is essential to our goal to be the world's first choice for financial services. We deploy considerable resources and expertise to protect our clients' privacy and maintain their trust.

Our business protocols worldwide integrate physical, technical and administrative measures designed to protect the confidentiality, integrity and availability of client information. We also have global privacy and data-protection policies and procedures in place governing the collection, storage, access, use and disclosure of such data. Senior leaders from our Privacy and Data Protection, Legal, Compliance and Risk Management teams oversee these standards.

On a day-to-day basis, our personnel use leading-edge technology and conduct regular security assessments to maintain the information system storing customer data. We regularly conduct tests to find and remediate system vulnerabilities, including:

- Independent reviews by security specialists in penetration testing of online systems
- Scanning and monitoring for known security risks
- Application vulnerability assessments

To earn client trust, Morgan Stanley is also transparent about how and why it collects personal information. Wealth Management, for example, sends customers a [privacy notice](#) when a relationship is established, followed by a yearly reminder. For more information, see our [Privacy Pledge](#).

Business Continuity and Resiliency

Unpredictable disruption to business operations is a growing threat in a globalized and networked world. Morgan Stanley invests in comprehensive, global business continuity and resilience programs to prepare for and recover from technological, security and environmental disruptions. These efforts prioritize the physical safety of our staff and include controls to protect and maintain our real estate and technology.

Expert teams across the firm support the Business Continuity Management (BCM) program and standards, including Technology, Cybersecurity, Information Security and Corporate Services. Dedicated governance and risk committees, the Board of Directors' Operations and Technology Committee and senior management all oversee the program.

BCM personnel provide 24/7 global coverage to monitor and manage incidents through its Crisis Management team. All our business units develop continuity plans covering critical business processes and essential personnel, and BCM oversees the development, documentation, updating and testing of these plans.

In addition, we deploy specific firmwide protocols for security breaches and disruptions in communication technology. To further test our business continuity and resiliency preparedness, we conduct emergency communications drills and simulated crisis scenarios. BCM also provides firmwide training to employees at least once a year.

Morgan Stanley also plans and practices for extraordinary events at a sector level, and shares threat information with peers, vendors and relevant government agencies.

Environmental and Social Risk Management

Our efforts to support the transition to a sustainable global economy cover all aspects of our business, including how we evaluate risks and conduct our global operations.

Integrating environmental and social risk and opportunity is a growing priority across our business. To this end, we have strong due diligence and risk management processes in place, designed to identify, analyze and address potentially significant ESG risks to our firm or clients. Management of these risks is governed by our Environmental Policy Statement, Coal and Oil and Gas Statements, Global Environmental and Social Risk Policy, Statement on Human Rights, and Global Franchise Risk Policy. Our ESRM-related policy statements are available on our Corporate Governance website.

Morgan Stanley's Environmental and Social Risk Management (ESRM) group provides internal expertise, acting as an advisor to the business units, conducting diligence on relevant transactions, and monitoring for emerging environmental and social risk. To inform these efforts, ESRM and GSF regularly engage external stakeholders on environmental and social risks (also see [page 10](#)).

In 2018, we made progress in implementing the findings of a strategic review of our ESRM function by:

- Enhancing our risk-weighted framework for identifying transactions with potentially significant environmental and social risk.
- Reviewing ESRM policies with senior internal stakeholders and an external sustainability consultant.
- Expanding ESRM engagement with business units and internal control functions on environmental and social risks, including emerging risks.

In addition, ESRM continued to provide updates to the Global Franchise Committee on relevant risk issues and stakeholder concerns.

MONITORING TRANSACTIONS

On a day-to-day basis, we monitor financial transactions that could expose Morgan Stanley to risks raised by environmental and social issues. The ESRM group supports deal teams globally, providing guidance on potential material franchise risk exposure to the firm. Transactions in-scope are reviewed both by ESRM and our business units for environmental and social risk. If a potentially significant issue is flagged, ESRM conducts enhanced due diligence to understand further how the risks are being mitigated and how impacts are being addressed by the company. Depending on the results of the review, transactions may be escalated for further review to our Regional and Global Franchise Committees in addition to senior management.

The table below shows transactions referred for internal environmental and social risk review in 2018, by industry and region. For more information, see the ESRM policy statements on our [corporate governance](#) website.

BY THE NUMBERS

2018 Transactions Referred for Environmental and Social Due Diligence Review by Industry and Region*

INDUSTRY	2018
Basic Materials	111
Energy	132
Financial Institutions	210
Industrials	85
Pharmaceuticals	63
Power & Utilities	84
Real Estate	50
Retail	64
Services	203
Transportation	31
Total	1,033



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

Countering Climate Risk in Transactions

Morgan Stanley recognizes that climate change poses significant risks to the global economy. In support of the transition to low-carbon solutions, we have significantly reduced our exposure to thermal coal mining. This includes a commitment not to finance mountaintop removal mining (MTR) or any companies that rely on such methods for more than a limited portion of annual coal production. For more on our approach to climate change management, see [pages 12–13](#). Our ESRM policy statements are available on our [corporate governance](#) site.

MANAGING HUMAN RIGHTS RISK

We conduct business operations in ways that aim to respect, protect and advance the full range of human rights. Our approach is guided by leading frameworks, including the United Nations Universal Declaration of Human Rights (UDHR) and the U.N. Guiding Principles on Business and Human Rights. We monitor potential human rights issues in our operations and supply chains through due diligence procedures for relevant sectors and transactions.

Morgan Stanley expects its suppliers to follow appropriate policies and practices to ensure they are not complicit in human rights abuses, including modern slavery and human trafficking. In 2016, to meet the requirements of the U.K. Modern Slavery Act, we established a global cross-functional working group to monitor compliance across our supply chain. In 2018, we took the following measures to strengthen our efforts to help eradicate modern slavery:

- Developed the [Morgan Stanley Supplier Code of Conduct](#), which includes provisions on Modern Slavery and Human Trafficking.
- Sent a corporate social responsibility survey to approximately 300 global suppliers, which we prioritized based on spend and service type.
- Continued to train employees on our supply chain human rights efforts.

Read the Morgan Stanley Modern Slavery and Human Trafficking Statement [here](#).



Sent a [corporate social responsibility survey](#)
to approximately 300 global suppliers

Employees

Morgan Stanley's strong culture begins and ends with our over 60,000 diverse and talented employees around the world. Our core values help everyone who works for us adopt behaviors and make decisions that meet the expectations of our clients, shareholders, regulators, Board of Directors and the public. Since Morgan Stanley's founding in 1935, our pledge—to do first-class business in a first-class way—has been at the heart of everything we do, serving as an industry differentiator and a foundation for success.

Culture

Morgan Stanley employees are our public face and most essential asset. We hold them accountable for conducting themselves every day in accordance with our core values: Putting Clients First, Doing the Right Thing, Leading with Exceptional Ideas and Giving Back. Our governance framework, management oversight, and risk management and controls as well as leadership from our Board of Directors and executive team reinforce these values.

Our Culture, Values and Conduct Committee of senior managers oversees the firmwide culture, values and conduct employee program, with oversight by the Board. A cornerstone of the program is our [Code of Conduct](#), which reinforces the firm's commitment to integrity and ethical behavior. Every new hire, and every employee annually, must certify that they understand and will follow the Code of Conduct. To reinforce its messages, we invite new recruits to attend culture panels with senior leaders in each region.

Maintaining a strong workplace culture is a two-way process, and we invite employee feedback through an anonymous annual survey. In 2018, 90 percent of employees responded, with the vast majority stating they were proud to work for Morgan Stanley.

For more information, see page 66 of our [2018 Form 10-K](#) and pages 21–22 of our [2019 Proxy Statement](#).

RETAINING TALENT

One measure of a successful business culture is retaining talented and skilled employees, and doing so helps us maintain our position in a highly competitive industry. In 2018, Morgan Stanley's voluntary turnover rates remained stable or within expected ranges across our regions, indicating the cohesion of our business.

BY THE NUMBERS

Voluntary Turnover Rates Percentage by Region and Gender



90 percent of employees responded to our anonymous annual survey, with the vast majority stating they were **proud to work for Morgan Stanley**

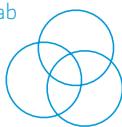
Diversity and Talent

Morgan Stanley's ability to build value for clients rests on the talent of our employees, who bring the benefits of their diverse experiences and perspectives to their work. We firmly believe that our business thrives by promoting a culture of inclusion and belonging where dedicated professionals can collaborate to produce breakthrough thinking. To this end, we pursue a comprehensive diversity and inclusion (D&I) strategy based on four pillars: accountability, representation, advancement and culture.

Supporting Diversity Across Our Business

Morgan Stanley values diversity not only among our employees, but in every aspect of our business. For example:

- We actively seek out diverse-owned companies that can meet our business needs through our [Supplier Diversity program](#).
- The Morgan Stanley [Multicultural Innovation Lab](#) serves as a tech accelerator for startups led by women and multicultural entrepreneurs.



HOLDING OURSELVES ACCOUNTABLE

Driving awareness of, and accountability for, diversity and inclusion efforts among managers is key to making progress against our D&I goals. The firm's leadership has set the tone by communicating our strategy and setting the example for creating a culture of inclusion and belonging. We also conduct Annual Diversity Reviews to actively monitor representation, as well as the impact of promotions, hires and attrition on our talent pipeline. By sharing this diversity information with business leaders, we aim to drive a top-down dialogue that embeds accountability into the organization.



U.K. Gender Pay Gap Reporting

Under the U.K. Gender Pay Gap Reporting regulations, we provide gender pay gap data for the Morgan Stanley U.K. group. Our latest disclosure is available for download [here](#).

ADVANCING PAY EQUITY

Amid growing evidence that diverse organizations often outperform their peers, Morgan Stanley continues to prioritize efforts to attract, retain and advance underrepresented talent. Our policies and practices, including those on pay, reflect and promote this commitment. For example, to help ensure that all employees, including women and ethnically diverse employees, receive equitable reward, we have introduced:

- Robust practices to support fair and consistent compensation and reward decisions based on merit.
- Ongoing review of compensation decisions, including at the point of hire and promotion.
- Regular assessment of our rewards structure to help ensure equity for all employees.

RECRUITING AND ADVANCING DIVERSE TALENT

Hiring and supporting the careers of underrepresented groups is of commercial interest to our firm. To build a diverse talent pipeline, we use global, targeted recruitment and development programs to hire, retain and promote women and multicultural talent.

Professional development programs offered in 2018 to help employees hone key skills, build networks and gain exposure to senior management included:

- Global Conference for Women Managing Directors
- Wealth Management Multicultural Leadership Summit and Women's Leadership Summit
- Women's Development program for Vice Presidents and Executive Directors
- Platinum program for female Executive Directors
- Leader Engagement and Development program for Black and Hispanic Vice Presidents and Executive Directors
- Multicultural Professional Development program for analysts and associates
- Project Catalyst for analyst and associate female employees

We also partner with organizations that support recruitment of diverse career reentry candidates. Our popular Return to Work initiative, offering skilled professionals reentry opportunities through a 12-week paid program, has led to job offers from Morgan Stanley for over 60 percent of participants. Notably, in our 2018 promotion cycle, an employee recruited through the Return to Work program was promoted to Managing Director, a first in the program's history. During the year, we also expanded Return to Work to Wealth Management Financial Advisor roles in key U.S. branch locations.

Reflecting our progress, women account for 20 percent of Managing Directors in 2018, up from 14 percent in 2012. Our campus recruiting efforts have also boosted diversity among entry level staff. One in four participants in our 2018 U.S. summer analyst and associate classes were ethnically diverse and 43 percent globally were women.

CREATING A CULTURE OF INCLUSION

Creating a sense of inclusion and belonging is key not only to improve diverse representation across our company, but also to help ensure stronger work and results from all employees. We encourage employees to invest in getting to know colleagues who don't share their background, to seek input from a diverse group of individuals, and to embrace opportunities to publicly recognize colleagues, especially those who are underrepresented at the firm. In addition, we support a popular global network of employee affinity groups (see box).

Building Connections Through Employee Networks

Networking and professional development are essential to every employee's career. Morgan Stanley sponsors close to 20 networks that provide year-round programs while connecting colleagues across business units to share ideas and experiences. Active networks across North America, EMEA and Asia-Pacific/Japan include:

- African & Caribbean Business Alliance
- Asian Employee Network
- Black Employee Network
- disAbility Employee Network
- Environmental and Social Finance Forum
- Family Network
- Glasgow Cultural Awareness Network
- Hong Kong Multicultural Alliance
- Latino Employee Network
- Net East Asia
- Net Éire
- Net South Asia
- Pride & Ally LGBT+ Employee Network
- Veterans Employee Network
- Women's Business Alliance
- Wealth Management Multicultural Employee Network
- Wealth Management Women's Employee Network



BY THE NUMBERS

Diversity in the U.S.

LEVEL	BLACK OR AFRICAN-AMERICAN	HISPANIC OR LATINO	ASIAN	AMERICAN-INDIAN OR ALASKAN NATIVE	NATIVE-HAWAIIAN OR PACIFIC ISLANDER	TWO OR MORE RACES	WHITE	FEMALE
Executives / Senior Officers and Managers	2.2%	4.2%	9.7%	0.1%	0.0%	0.7%	83.2%	17.8%
First / Mid Officers and Managers	5.6%	5.7%	23.4%	0.4%	0.1%	1.3%	63.5%	36.8%
Professionals	9.6%	8.1%	22.5%	0.3%	0.2%	2.1%	57.1%	44.0%
Sales Workers	2.4%	5.5%	5.1%	0.2%	0.1%	1.2%	85.6%	19.4%
Administrative Support Workers	8.5%	11.8%	6.6%	0.3%	0.4%	1.6%	70.8%	79.7%

SUPPORTING DIVERSITY IN OUR COMMUNITIES

Our strategic efforts to promote inclusion extend beyond our own walls. Wherever we operate, we seek to actively support diverse communities by sponsoring prominent organizations and events or taking a public stand for inclusion. Examples from 2018 include:

- Supporting LGBT+ equality through amicus briefs, participation in legal cases and joining public statements, including in the U.S. and Hong Kong.
- Sponsoring the Kids Flaunt Contest, staged by Don't Hide It Flaunt It, a nonprofit dedicated to advancing acceptance, understanding, tolerance and mutual respect for people's differences.
- Becoming the first core investment bank to sign the U.K. Race at Work Charter, a call to action for businesses to support their ethnically diverse employees.
- Collaborating with the East London Business Alliance to coach and support female charity leaders. Senior female leaders from the firm took part in the EMEA Women's Business Alliance coaching partnership.

PROMOTING A HARASSMENT-FREE WORKPLACE

We are committed to maintaining a professional work environment that promotes equal opportunity, dignity and respect for everyone. Every manager and employee is expected to recognize diverse points of view, make decisions based on merit and lead with integrity. In 2018, we took additional steps to ensure our workplaces are free from harassment. These included inclusive leadership and unconscious bias awareness training in several divisions, with active participation by senior leaders, as well as a new online training module on fostering respect.

Morgan Stanley requires all employees to follow the letter and spirit of the [Code of Conduct](#) and the nondiscrimination and anti-harassment policy applicable to their region. We maintain a zero-tolerance policy for breaches, and strongly encourage employees to report any concerns using the channels described on [page 26](#).

For more information, see our [Code of Conduct](#).



Performance Management

To support our goal to be the world's financial services provider of choice, we seek to attract and retain a skilled workforce that delivers for our clients and meets our stakeholders' expectations. Our performance, pay, promotion and succession processes are designed to engage and reward talented and committed individuals while enhancing and reinforcing the firm's shared culture and values. When evaluating employees at year-end, we request wide-ranging feedback from managers and colleagues on overall performance, conduct, risk behavior and culture.

In 2018, we provided more than 30,000 employee performance dashboards to managers responsible for completing year-end performance summaries. Managers must certify that they review the dashboard, and include an overall conduct and leadership rating in each employee's performance summary. In addition, managers must hold individual performance reviews with employees before discretionary compensation awards are communicated. Employees also receive and sign an electronic copy of their review.

BALANCING RISK AND REWARD

Morgan Stanley is committed to responsible and effective compensation programs that reinforce our values and culture through four key objectives: delivering pay for sustainable performance, attracting and retaining top talent, aligning with shareholder interests and mitigating excessive risk-taking.

The Compensation, Management Development and Succession (CMDS) Committee of our Board of Directors oversees the firm's incentive compensation arrangements, helping to ensure they reflect sound management, do not encourage excessive risk-taking and meet applicable regulations. In addition, with senior management, the Committee oversees:

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

In 2018, on average, 65 percent of total remuneration was variable for material risk takers, of which 51 percent was subject to malus or clawback provisions.

Where we uncover conduct contrary to our policies, disciplinary action may include cancellation and clawback of compensation, changes to promotion decisions or termination of employment. In our 2018 employee survey, 76 percent of respondents agreed there should be personal consequences for those who do not demonstrate the firm's values.

Wellness

Doing the right thing by our employees includes offering comprehensive health benefits to support them and their families, especially when serious health issues arise. Benefits vary by country and can include: medical, dental and vision coverage; tax-advantaged flexible spending and health savings accounts; and critical illness, accident, disability and life insurances. Our Chief Medical Officer leads our evolving health care and employee benefits strategy. We partner with top health and family-care providers to deliver holistic and inclusive care that meets the diverse needs of our global population.

In spring 2018, we launched a Benefits Advocates concierge service to help U.S. employees make the most of their benefits and guide them through their health care needs. Our medical second-opinion program, delivered through 2nd.MD, continued to save time and money, and relieve stress, for employee families facing challenging health issues.

SUPPORTING WELL-BEING

We strive to make it simple and convenient for employees to achieve their wellness goals. To this end, we offer global health education and resources on common concerns, including sleep, nutrition and cancer risks, along with on-site access to preventive screenings and flu shots. Our on-site wellness centers in the New York metro area, London and Tokyo offer health care providers, physical therapists, fitness facilities and complimentary health coaching, including a registered dietician.

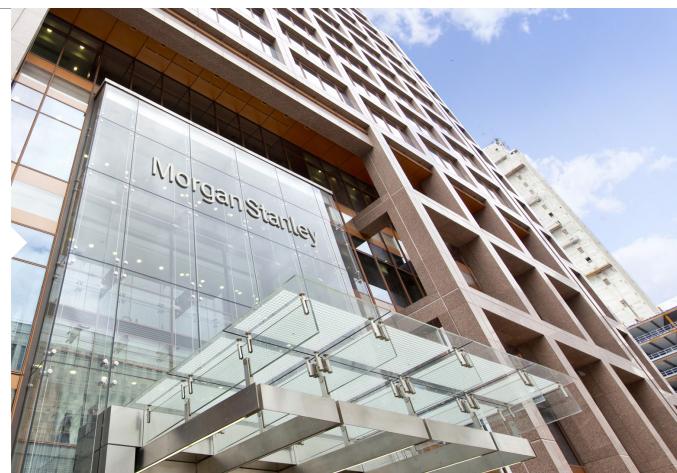
In 2018, we recognized World Mental Health Day to promote mental health education, awareness and advocacy at our main locations around the globe. For example, in the U.K., we launched a mental health awareness and education campaign and a no-cost meditation app for employees. At our flagship health center in New York City, we introduced an on-site counselor available to employees free of charge. In another first, we made weekly guided meditation available to all U.S. employees.

During the year, we also expanded support for employees who are working parents, and their children. Our U.K. group introduced near-site day care centers to provide convenient, affordable child care options. U.S. employees continued to access backup day care, help with hiring caregivers and expert guidance on caring for aging parents.

We deploy wellness campaigns, communications and analytics to highlight the wealth of health resources available to employees. For example, our 2018 global cancer awareness and support campaign, which celebrated survivors in our community, reached more than 10,000 employees on National Mammography Day in the U.S. and Wear It Pink Day in the U.K. The ripple effect boosted employee take-up of our key health and wellness programs.

Toward Tomorrow's Workplace

Most people spend 90 percent of their waking hours indoors, including at work, where the physical environment can have a big impact on employee health and well-being. Recognizing this, we introduced a new strategy in 2018 to make our workplaces more dynamic, engaging and flexible. With support from architects and innovators like WeWork, we renovated offices in New York, Frankfurt, Glasgow, Budapest, Montreal and London under the innovative Workforce Evolution program. As a result, employees have more choice of spaces to suit the activity at hand, with renovations, including glass partitions to encourage collaboration and interaction, and greater access to daylight and views. We also replaced our standard desk with adjustable sit-to-stand work surfaces to encourage healthy and active behaviors.



Appendix: SASB Index

The Sustainability Accounting Standards Board (SASB) guidance for Investment Banking, Commercial Banking and Asset Management help inform the content, narrative and data included in this report. The table below highlights sections of the report and other public disclosures that include information in the spirit of SASB's objectives. 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	RELATED INFORMATION IN 2018 SUSTAINABILITY REPORT ¹
IB-330a.1 AC-330a.1	Percentage of gender and racial/ethnic group representation for (1) executive management, (2) nonexecutive management, (3) professionals, and (4) all other employees	Statistics for our U.S. Operations by the noted categories, page 33
IB-410a.2	(1) Number and (2) total value of investments and loans incorporating integration of environmental, social and governance (ESG) factors, by industry	Environmental and Social Risk Management (ESRM) review process and number of transactions referred for review, pages 29–30
IB-410a.3	Description of approach to incorporation of ESG factors in investment banking and brokerage activities	Institutional Securities group's sustainability activities, pages 17–18 Environmental and Social Risk Management (ESRM) review process and number of transactions referred for review, pages 29–30
IB-510a.1 CB-510a.1 AC-510a.1	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 131–133 and 169–173 of our 2018 Form-10K
IB-510a.2 CB-510a.2 AC-510a.2	Description of whistleblower policies and procedures	Our Code of Conduct defines the firm's policies and procedures, summarized on page 26 of this report
IB-510b.4	Description of approach to ensuring professional integrity, including duty of care	Our Code of Conduct defines the firm's policies and procedures, summarized on pages 24–26 of this report
IB-550a.1 CB-550a.1	Global Systemically Important Bank (G-SIB) score, by category	1, Banking Organization Systemic Risk Report at December 31, 2018 (FR Y-15)

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

SASB CODE	SASB METRIC	RELATED INFORMATION IN 2018 SUSTAINABILITY REPORT ¹
IB-550b.1	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 Board Compensation, Management Development and Succession Committee, page 34
IB-550b.2	Percentage of variable remuneration of MRTs to which malus or clawback provisions were applied	Our MRT policies and procedures align with regulatory principles and requirements, and are overseen by the Board Compensation, Management Development and Succession Committee, page 34
IB-000.A	(1) Number and (2) value of (a) underwriting, (b) advisory and (c) securitization transactions	Underwriting and Advisory volumes, exclusive of securitization transactions, page 35 2018 Form-10K
CB-230a.2	Description of approach to identifying and addressing data security risks	Overview of our activities regarding data security risk, pages 27–28
CB-240a.1	(1) Number and (2) amount of loans outstanding qualified to programs designed to promote small business and community development	Community Development Finance, pages 22–23
CB-410a.1	Commercial and industrial credit exposure, by industry	Institutional Securities Loans and Lending Commitments by industry, page 75 2018 Form-10K
CB-410a.2	Description of approach to incorporation of ESG factors in credit analysis	Climate-related scenario analysis pilot in credit risk, page 13
CB-000.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, pages 21–22 Our Investment Banking activity, which includes corporate lending, is discussed in the Sustainable Finance section, pages 15–17
AC-270a.3	Description of approach to informing customers about products and services	Our Fair Marketing guidelines, page 25
AC-410a.1	Amount of assets under management, by asset class, that employ (1) integration of ESG issues, (2) sustainability themed investing and (3) screening	Client assets invested on our Morgan Stanley Wealth Management Investing with Impact platform, page 19
AC-410a.2	Description of approach to incorporation of environmental, social, and governance (ESG) factors in investment and/or wealth management processes and strategies	Overview of our Wealth Management and Investment Management processes, pages 19–22
AC-410a.3	Description of proxy voting and investee engagement policies and procedures	Overview of Wealth Management and Investment Management investor engagement and activities, pages 19–20
AC-550a.3	Total exposure to securities financing transactions	Total firm gross and net amounts of securities financing transactions, pages 119–120 2018 Form-10K
AC-550a.4	Net exposure to written credit derivatives	Total firm credit protection sold and purchased, pages 115–116 2018 Form-10K
AC-000.A	(1) Total registered and (2) total unregistered assets under management (AUM)	Total Wealth Management Client Assets and Investment Management Assets Under Management or Supervision (no registration distinction), pages 39 and 44 2018 Form-10K
AC-000.B	Total assets under custody and supervision	Wealth Management client assets under supervision (only), page 39 2018 Form-10K

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Investing in the market entails risk of market volatility. The value of all types of investments may increase or decrease over varying time periods. Equity securities' prices may fluctuate in response to specific situations for each company, industry, market condition and general economic environment. Companies paying dividends can reduce or cut payouts at any time.

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

International investing entails greater risk, as well as greater potential rewards compared to U.S. investing. These risks include political and economic uncertainties of foreign countries as well as the risk of currency fluctuations. These risks are magnified in countries with emerging markets, since these countries may have relatively unstable governments and less established markets and economics. REITs' investing risks are similar to those associated with direct investments in real estate; lack of liquidity, limited diversification and sensitivity to economic factors such as interest rate changes and market recessions.

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

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

Private Funds (which include hedge funds 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, 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.

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

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