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MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

Report and financial statements

31 December 2020

MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

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MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

STRATEGIC REPORT

The Directors present their Strategic report for Morgan Stanley Investment Management Limited (the "Company") for the year ended 31 December 2020.

INTRODUCTION

The principal activity of the Company is the provision of investment management services to clients.

There have not been any significant changes in the Company's principal activity in the year under review.

The Company's ultimate parent undertaking and controlling entity is Morgan Stanley, which, together with the Company and Morgan Stanley's other subsidiary undertakings, form the "Morgan Stanley Group".

The Morgan Stanley Group undertook a number of planned, structural changes in preparation for the UK withdrawal from the EU. Further information on these changes are included in the Business Environment and Performance section in the Strategic report.

The Company has continued to operate a representative office in the Dubai International Financial Centre ("DIFC"). The Company is authorised and regulated by the Financial Conduct Authority ("FCA").

BUSINESS ENVIRONMENT AND PERFORMANCE

Business environment

Global market and economic conditions

During the course of 2020, the Company has been impacted by a series of factors in the global environment in which it operates, each of which introduces risks and uncertainties that may adversely affect the results of operations of the Company. The emergence of the coronavirus disease ("COVID-19") in early 2020 created challenges for businesses and contributed to a global economic contraction, while creating significant market volatility.

The COVID-19 pandemic severely damaged economic activities across both developed and emerging markets. Global Gross Domestic Product ("GDP") fell sharply, at an unprecedented rate through the second quarter of 2020, but rebounded strongly in the third quarter, as economies began to reopen. On an annual average basis, the global economy shrank by 3.3% in 2020, with the developed markets' economy contracting by 5.3% and the emerging markets' economy declining by 1.8%. In 2021, global growth is expected to bounce back sharply to 6.5%, with a synchronous recovery taking hold across both developed and emerging markets. A global surge in demand from March/April onwards will lift the global economy back onto its pre-COVID path (i.e. where GDP would have been if the COVID-19 shock had not occurred) in the second quarter of 2021.

MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

STRATEGIC REPORT

BUSINESS ENVIRONMENT AND PERFORMANCE (CONTINUED)

Business environment (continued)

COVID-19

The COVID-19 pandemic and related voluntary and government-imposed social and business restrictions has adversely impacted global economic conditions, resulting in volatility in the global financial markets, increased unemployment, and operational challenges such as the temporary closure of businesses, sheltering-in-place directives and increased remote work protocols.

Governments around the world have been working to develop, manufacture, and distribute COVID-19 vaccines. Moreover, governments and central banks have reacted to the economic crisis caused by the pandemic by implementing stimulus and liquidity programs and cutting interest rates. If the pandemic is prolonged or the actions of governments and central banks are unsuccessful, including adequate distribution of effective vaccines, the adverse impact on the global economy will deepen, and the future results of operations and financial condition of Morgan Stanley and the Company may be adversely affected.

Should these global market conditions worsen, or the pandemic lead to additional market disruptions, Morgan Stanley could experience reduced client activity and demand for products and services, impairments of other financial assets and other negative impacts on its financial position, including possible constraints on capital and liquidity, as well as a higher cost of capital, and possible changes or downgrades to credit ratings. A slowdown of commercial activity could cause a decline in assets under management ("AUM") which would reduce investment fee revenues of the Company.

Although Morgan Stanley is unable to estimate the extent of the impact of the ongoing COVID-19 pandemic and related global economic crisis on future operating results, the high levels of AUM in the current year may not be maintained and the Company's financial performance could be subdued.

Morgan Stanley and the Company continue to be fully operational, with the majority of employees working from home as at 31 December 2020. Operationally, Morgan Stanley and the Company have initiated a work remotely protocol and restricted business travel of the workforce, with a return-to-workplace program, which is phased based on role, location and employee willingness and ability to return. While Morgan Stanley and the Company have not experienced a decrease in productivity as a result of the remote work environment, there can be no assurance that the transition will not have an adverse effect in the long term. If significant portions of our workforce, including key personnel, are unable to work effectively because of illness, government actions, or other restrictions in connection with the pandemic, the business impact of the pandemic could be exacerbated.

In response to the significant economic impact of the COVID-19 pandemic, global regulators have released a suite of regulatory updates and programs to facilitate market continuation and to provide incentives for banks to continue lending to business and consumers. The impact of these regulatory measures is included in the 'Liquidity and capital resource management and regulation' section below and the roll offs are included within regular forward looking capital planning activities.

Morgan Stanley and the Company continue to use their Risk Management framework, including stress testing, to manage the significant uncertainty in the present economic and market conditions.

MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

STRATEGIC REPORT

BUSINESS ENVIRONMENT AND PERFORMANCE (CONTINUED)

Business environment (continued)

UK withdrawal from the EU

On 31 January 2020, the UK withdrew from the EU under the terms of the withdrawal agreement which provided for a transition period to the end of December 2020, during which time the UK would continue to apply EU law as if it were a member state, and UK firms' passporting rights to provide financial services in EU jurisdictions continued.

On 24 December 2020 the UK and the EU announced they had reached agreement on the terms of a trade and cooperation agreement to govern the future relationship between the parties. The agreement consists of three main pillars including: trade, citizens' security, and governance, covering a variety of arrangements in several areas. The agreement is provisionally applicable with effect from 1 January 2021 pending formal ratification by the EU.

With respect to financial services, although the UK chose to grant the EU equivalence in a number of key areas under European financial regulations, the EU only made certain more limited equivalence decisions, leaving decisions on equivalence and adequacy to be determined by each of the UK and EU unilaterally in due course. As a result, UK licensed entities, including the Company, are unable to provide regulated services in a number of EU jurisdictions from the end of December 2020, absent regulatory relief or other measures implemented by individual countries.

While the Company has assisted Morgan Stanley to restructure its European operations to ensure that it can continue to provide cross-border investment management and related services in EU member states, there continues to be uncertainty regarding the future regulatory landscape which could impact Morgan Stanley's European operations, including the operations of the Company, beyond those implemented or planned, as a result of which the Company's results of operations and business prospects could be negatively affected.

Changes to the European operations include the establishment of a new management company in Ireland, MSIM Fund Management (Ireland) Limited ("MSIM FM"), authorised by the Central Bank of Ireland under both the Undertakings for Collective Investment in Transferable Securities ("UCITS") Directive and the Alternative Investment Fund Managers ("AIFM") Directive. Since 1 January 2019 this entity has acted as management company or AIFM to the majority of Morgan Stanley's European domiciled funds. From 31 December 2020 MSIM FM also provides investment management and distribution services to clients as outlined in the changes below.

At the end of the transition period on 31 December 2020, the Company transferred the activity and operations of its branches in Amsterdam (the Netherlands), Milan (Italy) and Frankfurt (Germany), including property, plant and equipment, leases and employee contracts to MSIM FM. As part of these transfers, the Company also transferred a number of client contracts to MSIM FM. The investment management activity of these contracts is delegated by MSIM FM to other Morgan Stanley Group undertakings, including the Company.

Despite the changes outlined above, the delegation model which the Company is a part of ensures that these changes will not materially impact the financial performance of the Company in the foreseeable future.

Further investment management activities (including provision of separately managed account services to EU domiciled clients) performed by the Company, other than those mentioned in the changes above, may in the future move from the Company to MSIM FM. The extent and timing of these moves will depend on client preferences and on whether the EU and the UK grant each other equivalence.

BUSINESS ENVIRONMENT AND PERFORMANCE (CONTINUED)

Business environment (continued)

UK withdrawal from the EU (continued)

Following the reorganisations mentioned above, the Company's principal activity and risks remain unchanged and the majority of current profitability and balance sheet remain within the Company.

As a result of the political uncertainty described above, it is currently unclear what the final post-Brexit structure of European operations will be for the Morgan Stanley Group overall. Given the potential disruption to regional and global financial markets, results of Morgan Stanley's operations and business prospects could be negatively affected.

Financial performance indicators

The Board of Directors monitors the results of the Company by reference to a range of performance and risk based metrics, including, but not limited to, those listed below. Where the Company is the investment manager for funds, the performance of these funds is closely monitored using various measures such as benchmarking, peer analysis and net inflows/outflows.

Assets under management

The Company achieved a significant increase in AUM during 2020 despite the market volatility experienced due to COVID-19. AUM contracted with the Company increased by 30.6% (2019: 30.5%) from $159.1 billion to $207.9 billion from 31 December 2019 to 31 December 2020. The growth in AUM was driven by significant client inflows and the above benchmark investment returns generated for investors in certain product strategies. The increase in AUM was partially offset by the transfer of $5.0 billion to MSIM FM as described above.

Profitability metrics

Return on assets: The Company's return on assets (profit for the year as a percentage of total assets at the end of the financial year) was 27% (2019: 32%).

Return on equity: The Company's return on equity (profit for the year as a percentage of total equity at the end of the financial year) was 49% (2019: 52%).

Capital

Tier 1 regulatory capital: The Company's Tier 1 capital was $195 million (2019: $171 million) and its Tier 1 capital ratio was 24.1% (2019: 21.0%), which is in excess of the required minimum regulatory ratio. Tier 1 capital ratio is defined as Tier 1 capital divided by risk-weighted assets ("RWAs"). This is calculated in accordance with FCA rules which are based on the fourth EU Capital Requirements Directive ("CRD") and the EU Capital Requirements Regulation ("CRR"), collectively known as "CRD IV".

BUSINESS ENVIRONMENT AND PERFORMANCE (CONTINUED)

Overview of 2020 financial results

The income statement for the year is set out on page 29. The profit after tax for the financial year was $200,193,000 compared to profit after tax of $184,598,000 in 2019.

Net revenues have increased compared to 2019 primarily due to an increase in the Company's AUM, which drove an increase in fee and commission income of $183,576,000 mainly relating to investment management and administration fees.

During the year the Company received no dividend income from its subsidiary, Morgan Stanley Investment Management (ACD) Limited ("MSIM (ACD)"). Dividend income of $22,360,000 was received during 2019.

Other expense increased by $125,990,000 compared to 2019 due to an increase in the Company's AUM, which drove an increase in fee sharing and distribution expenses of $83,684,000 in fee and commission expense. The increase in other expense is in line with the increase in fee and commission income above.

Income tax expense for the year is a charge of $5,042,000 compared to a credit of $11,887,000 in 2019. The charge is primarily related to foreign tax on the Company's Milan and Frankfurt branches. The effective tax rate for 2020 is lower than the statutory rate of 19% due to group relief received for no consideration. The income tax credit in 2019 was due to the reversal of prior year overprovided tax charges.

The statement of financial position is set out on page 32 of the financial statements.

Total assets increased by $171,879,000 to $751,860,000 at 31 December 2020. Amounts due from other Morgan Stanley Group undertakings recognised in loans and advances and trade and other receivables increased by $86,159,000 and $64,981,000 respectively due to the timing of settlements. Trade receivables recognised in trade and other receivables increased by $36,314,000 primarily due to the realisation of performance fees late in the year. There are no concerns around the recoverability of outstanding amounts in trade receivables.

Total liabilities increased by $114,626,000 to $339,190,000 at 31 December 2020. Amounts due to other Morgan Stanley Group undertakings within trade and other payables increased by $83,820,000 due to the timing of settlements. Other liabilities increased by $32,427,000 to $128,006,000 due to greater fee sharing and distribution expense accruals as at 31 December 2020, in line with the increase in fee sharing and distribution expenses described above.

LIQUIDITY AND CAPITAL RESOURCE MANAGEMENT AND REGULATION

The Company is an agency business that manages money on behalf of its clients and has a fiduciary responsibility to those clients. As a result, the Company is not required to finance its activities through the global capital markets.

The Company continues to actively manage its capital and liquidity position to ensure adequate resources are available to support its activities, to enable it to withstand market stresses and to meet regulatory stress testing requirements proposed by its regulators globally.

The Company views capital as an important source of financial strength. It manages and monitors its capital in line with established policies and procedures and in compliance with local regulatory requirements.

In line with the Morgan Stanley Group's capital management policies, the Company manages its capital position based upon among other things, business opportunities, risks, capital availability and rates of return together with internal capital policies and regulatory requirements and, therefore, in the future may expand or contract its capital base to address the changing needs of its businesses.

LIQUIDITY AND CAPITAL RESOURCE MANAGEMENT AND REGULATION (CONTINUED)

The Company and MSIM (ACD), the Company's direct subsidiary (together the "MSIM Group"), conduct an Internal Capital Adequacy Assessment Process ("ICAAP") at least annually in order to meet its obligations under CRD IV which the FCA reviews through its Supervisory Review and Evaluation Process ("SREP").

MSIM Group capital is managed to ensure capital requirements assessed through the ICAAP and SREP are met. Internal capital ratio minima are set by the Company's Board of Directors to ensure the Company has sufficient capital to meet its regulatory requirements at all times.

See note 30 for further details on the Company's capital management.

Regulatory developments

Temporary Transitionary Period ("TTP")

Following the end of the transition period of the UK's withdrawal from the EU on 31 December 2020, Her Majesty's Treasury decided to retain the regulators' TTP which was introduced via the Financial Services and Markets Act 2000 (Amendment) (EU Exit) Regulations 2019.

The TTP will allow the Bank of England, the Prudential Regulation Authority ("PRA") and the FCA to phase-in changes to UK regulatory requirements so that firms can adjust to the UK's post-Transition Period regime in an orderly way.

The TTP, effective from 1 January 2021, is expected to end by 31 March 2022. During this period, from a prudential regulatory rules perspective, EU law will largely continue to apply in the UK in the same way as prior to 31 December 2020.

Further UK legislation is required to introduce the changes in prudential requirements not already transposed into UK law by the end of the transition period. It is expected to be largely consistent with that of the EU, however its application date is delayed by six months to 1 January 2022.

Resolution and recovery planning

Both the Morgan Stanley Group and the Morgan Stanley International Limited Group ("MSI Group"), of which the Company is a part, prepare, on an annual basis, a recovery plan which identifies mitigation tools available to both groups in times of severe stress.

The Morgan Stanley Group has developed a resolution plan in accordance with the requirements of Section 165(d) of Title I of the Dodd-Frank Wall Street Reform and Consumer Protection Act and its implementing regulations adopted by the Federal Reserve Board and the Federal Deposit Insurance Corporation. The resolution plan presents the Morgan Stanley Group's strategy for resolution of the Firm upon material financial distress or failure in a severely adverse macroeconomic environment. The Company is a Material Operating Entity of the Morgan Stanley Group and is within the scope of the single point of entry resolution strategy adopted by the Morgan Stanley Group.

The EU Bank Recovery and Resolution Directive ("BRRD") has established a recovery and resolution framework for EU credit institutions and investment firms. The MSI Group produces information required by the UK Resolution Authority in the form of a resolution pack and ad hoc regulatory submissions, as necessary under BRRD and UK regulatory requirements.

LIQUIDITY AND CAPITAL RESOURCE MANAGEMENT AND REGULATION (CONTINUED)

European and UK financial regulation reform

In June 2019, the European Commission published, in the Official Journal of the European Union, a comprehensive regulatory reform package that aims to continue the reforms that the EU implemented in the wake of the financial crisis. The final rules amend the existing prudential regime implemented through the Capital Requirements Directive ("CRD IV") and the CRR with the amendments to those regulations known as CRD V and CRR II, the BRRD and the Single Resolution Mechanism ("SRM").

In December 2019, the European Commission published the Investment Firm Regulation ("IFR") and Investment Firm Directive ("IFD") that introduce a tailored capital adequacy and liquidity framework for EU investment firms based on their size and type of business activity, and make changes to governance and remuneration requirements. Large systemic investment firms remain subject to existing requirements based on the CRR and CRD, whilst the new regime applies to other investment firms, including the Company.

As referenced above, additional legislation is required in the UK to introduce prudential requirements that were not already transposed into UK law as at the end of the transition period. As a result, the relevant requirements within CRDV were effective for the Company from 25 December 2019, but the UK will introduce its own investment firm requirements, the Investment Firm Prudential Regime ("IFPR") which will apply to the Company. The IFPR is currently at consultation stage, with final rules to be published over the course of 2021. It is expected to be largely consistent with that of the EU's IFD and IFR and effective from 1 January 2022.

Sustainability Regulation

The Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088) ("SFDR") and the Taxonomy Regulation (Regulation (EU) 2020/852) introduce an extensive set of sustainability related requirements in the EU on a phased implementation basis from March 2021. While as a UK entity the Company is not in scope of these regulations it has opted to voluntarily provide disclosures to its clients consistent with certain requirements of the SFDR. The Company has also implemented a sustainability risks policy as discussed further in the Corporate Responsibility section of the Strategic report. The UK is expected to introduce ESG-related regulations in the future and it is anticipated that the Company would be in scope of any such regulations. The precise nature, scope and timing of these regulations and their impact on the Company is not yet known.

Planned replacement of London interbank offered rate ("LIBOR") and replacement or reform of other interest rates

Central banks around the world, including the Federal Reserve, the Bank of England and the European Central Bank, have commissioned committees and working groups of market participants and official sector representatives to replace LIBOR and replace or reform other interest rate benchmarks (collectively, the "IBORs").

In 2020, there have been several steps taken by the industry to encourage the transition to alternative reference rates. Certain central bank-sponsored committees have issued recommended best practices to assist market participants in transitioning away from the IBORs in various jurisdictions. These documents include recommended timelines and intermediate steps market participants can take in order to achieve a successful transition.

LIQUIDITY AND CAPITAL RESOURCE MANAGEMENT AND REGULATION (CONTINUED)

Planned replacement of London interbank offered rate ("LIBOR") and replacement or reform of other interest rates (continued)

Morgan Stanley has established and is undertaking a Firm-wide and regional IBOR transition plan to promote the transition to alternative reference rates, which is overseen by a global steering committee, with senior management oversight. The transition plan is designed to identify, assess and monitor risks associated with the expected discontinuation or unavailability of one or more of the IBORs and includes continued engagement with central bank and industry working groups and regulators (including participation and leadership on key committees), active client engagement, internal operational readiness, and risk management. Morgan Stanley is also taking steps to update operational processes (including to support alternative reference rates), models, and associated infrastructure.

As a provider of investment management services, the transition plan of the Company is focused on impacts to its range of products offered to clients.

RISK MANAGEMENT

Risk is an inherent part of the Company's business activity. The Company seeks to identify, assess, monitor and manage each of the various types of risk involved in its business activities, in accordance with defined policies and procedures.

The Company is an agency business that manages money on behalf of its clients and has a fiduciary responsibility to those clients. The Company has developed its own risk management policy framework, which leverages the risk management policies and procedures of the Morgan Stanley Group where appropriate. The risk management policy framework includes escalation to the Company's Board of Directors and to appropriate senior management of the Company, as well as oversight through a dedicated Risk Committee of Non-Executive Directors that reports to the Board of Directors of Morgan Stanley International Limited ("MSI"), the Company's ultimate UK parent undertaking.

The Board of Directors is satisfied that the Risk Management function is appropriately separated from the operating units, including the Portfolio Management function.

The Company uses a combination of direct monitoring from its own risk management systems and management information from the delegated portfolio manager to identify, measure, manage and monitor all risks relevant to its business activities.

Risk Strategy and Appetite

The Company's Risk Appetite Statement is the articulation of the aggregate level and types of risk that the Company is willing to accept in order to execute its business strategy and protect its capital and liquidity resources.

The Company's Risk Appetite is set by the Company's Board of Directors in conjunction with the Company's Strategy and Capital and Liquidity resource adequacy framework. The Risk Appetite is then translated into a comprehensive Risk Limits, Tolerance and Key Risk Indicators Framework, against which the current risk profile is monitored, managed and reported through the Risk Committees and the Boards of Directors.

RISK MANAGEMENT (CONTINUED)

Risk Management Framework

The Risk Management Framework includes a well-defined comprehensive risk governance structure with appropriate risk management expertise, including processes for periodically assessing the efficacy of the Risk Management Framework. The key components of the framework are set out below.

Risk Policies and Processes

The Company has a number of well-established policies and processes which set out the standards that govern the identification, assessment, monitoring, management and mitigation of the various types of risks involved in its business activities.

Specific risk management policies have been implemented to address local business and regulatory requirements where appropriate.

Control Framework

The Company operates a control framework consistent with the "Three lines of Defence" model, with clear delineation of responsibilities between the Business Unit ("BU") and Support Functions (1st Line), Independent Risk Management (2nd Line) and Internal Audit Department (3rd Line).

The BU and Support Functions (such as Operations, Technology, Treasury etc.) are owners of risk, and are responsible for managing risks associated with their activities in line with the Company's risk appetite and its principles. They establish controls to comply with the policies and procedures and ensure compliance with relevant applicable laws, rules and regulations.

Independent Risk Management identify, measure, monitor and control risks. Independent Risk Management includes, for example, functions performed by the Europe, Middle East and Africa ("EMEA") Risk Division and the EMEA Compliance Department, including the Global Financial Crime Department.

The Internal Audit Department are the 3rd Line of Defence, and are an independent source of assurance to the Company's Board of Directors on financial, operational, and compliance controls. EMEA Internal Audit Department reports to the MSI Group Audit Committee and is independent of the BU and Support Functions and Risk Management. Internal Audit provides independent assurance on the design quality and operating effectiveness of the MSI Group's internal control environment, risk management and governance systems and control processes using a risk-based audit coverage model and audit execution methodology developed in line with professional auditing standards.

Risk Limits, Tolerances, Thresholds, Monitoring and Reporting

The Company uses a combination of direct monitoring from its own Risk Management systems and Management Information from the delegated Portfolio Manager to identify, measure, manage and monitor all risks relevant to its business activities.

The Company's Risk Appetite is translated into a comprehensive Risk Limit, Tolerance and Threshold framework across three primary areas: Liquidity Risk, Operational Risk and Market Risk. Other risks that are monitored regularly include Compliance Risk, Reputational Risk and Conduct Risk. These risks are tracked, monitored and reported to the Morgan Stanley Investment Management ("MSIM") Risk Committee, MSI Group Risk Committee and the Company's Board of Directors. All limits, tolerances and thresholds are reviewed periodically as appropriate, and at least annually.

RISK MANAGEMENT (CONTINUED)

Risk Management Framework (continued)

Risk Governance Framework

The Company's Board of Directors is ultimately responsible for Company's risk management. The Board of Directors is supported in performing these responsibilities by internal committees.

In addition to internal committees specific to the Company's Investment Management business, the Company, as part of the MSI Group, is supported by the following:

Board Committees

The *MSI Group Risk Committee* is appointed by the Company's Board of Directors to assist and provide guidance on the management of financial and non-financial risks.

The *MSI Group Audit Committee* is appointed by the Company's Board to assist and provide guidance in monitoring financial reporting, internal controls, legal and regulatory compliance, internal audit and external audit.

Executive and Risk-focused Committees

The *EMEA Operating Committee* is the forum for key decisions regarding matters affecting the operations and performance of the MSI Group and is responsible for the execution of strategy.

The *EMEA Risk Committee* ("ERC") assists in the oversight of the MSI Group's management of risk including both financial and non-financial risks.

Management Committees (associated with Risk Governance)

The *EMEA Franchise Committee* assists in the oversight of potentially significant franchise risks including by reviewing relevant activities, transactions and clients, and reviewing the franchise implications of situations that involve suitability or conflicts of interest concerns.

The *EMEA Asset and Liability Committee* ("EMEA ALCO") assists the ERC to oversee the capital adequacy, including the risk of excessive leverage, and liquidity risk management of the MSI Group.

The *EMEA Operational Risk Oversight Committee* provides guidance to the ERC in relation to the oversight of the management of operational risk of the MSI Group.

The *EMEA Client Assets Governance Committee* provides support for the MSI Group's compliance with Client Assets Sourcebook ("CASS") requirements, and acts as the principal body for providing governance of CASS related issues, being responsible for co-ordinating the approach to managing Client Money and Client Assets.

The *EMEA Conduct Risk Committee* assists the ERC in the oversight and management of conduct risk within the MSI Group.

Management Committees (associated with Financial Reporting)

The *EMEA Financial Statement Review Committee* is appointed to review the external financial reporting of MSI Group and its regulated subsidiaries, including the Company.

Set out below is an overview of the Company's policies for the management of significant operational and financial risks. More detailed qualitative and quantitative disclosures about the Company's management of and exposure to financial risks are included in note 27 to the financial statements.

RISK MANAGEMENT (CONTINUED)

Operational Risk

Operational risk refers to the risk of loss, or of damage to the Company's reputation, resulting from inadequate or failed processes or systems, from human factors or from external events (e.g. fraud, theft, legal and compliance risks, cyber attacks or damage to physical assets).

Operational risk relates to the following risk event categories as defined by Basel Capital Standards: internal fraud; external fraud; employment practices and workplace safety; clients, products and business practices; business disruption and system failure; damage to physical assets; and execution, delivery and process management. The Company may incur operational risk across the full scope of its business activities, including revenue-generating activities (e.g. investment management) and support and control group (e.g. information technology). Legal and compliance risk is included in the scope of operational risk and is discussed below under "Legal, regulatory and compliance risk".

The Company has established an operational risk framework to identify, measure, monitor and control risk. This framework is consistent with the framework established by the Morgan Stanley Group and includes escalation to the Company's Board of Directors and appropriate senior management personnel. Effective operational risk management is essential to reducing the impact of operational risk incidents and mitigating legal and reputational risks. The framework is continually evolving to reflect changes in the Company and to respond to the changing regulatory and business environment.

The Company has implemented operational risk data and assessment systems to monitor and analyse internal and external operational risk events, to assess business environment and internal control factors and to perform scenario analysis. The collected data elements are incorporated into the operational risk capital model. The model encompasses both qualitative and qualitative elements. Internal loss data and scenario analysis results are direct inputs to the capital model, while external operational incidents, business environment and internal control factors are evaluated as part of the scenario analysis process.

In addition, the Company employs a variety of risk processes and mitigants to manage its operational risk exposures. These include a governance framework, comprehensive risk management program and insurance. Operational risks and associated risk exposures are assessed relative to the risk tolerance established by the Company's Board of Directors and are prioritised accordingly.

The breadth and variety of operational risks are such that the types of mitigating activities are wide-ranging. Examples of such activities include continuous enhancement of defences against cyber attacks; use of legal agreements and contracts to transfer and/or limit operational risk exposures; due diligence; implementation of enhanced policies and procedures; exception management processing controls; and segregation of duties.

Primary responsibility for the management of operational risk is with the BU, the control groups and the Business Managers therein. The Business Managers maintain processes and controls designed to identify, assess, manage, mitigate and report operational risk. The BU has a designated Operational Risk Coordinator. The Operational Risk Coordinator regularly reviews operational risk issues and reports to the Company's senior management. Each control group also has a designated Operational Risk Coordinator and a forum for discussing operational risk matters with the Company's senior management. Oversight of operational risk is provided by the Operational Risk Oversight Committee, regional risk committees and senior management. In the event of a merger; joint venture; divestiture; reorganisation; or creation of a new legal entity, a new product or a business activity, operational risks are considered, and any necessary changes in processes or controls are implemented.

RISK MANAGEMENT (CONTINUED)

Operational Risk (continued)

The Operational Risk Department provides independent oversight of operational risk and assesses, measures and monitors operational risk against tolerance. The Operational Risk Department works with the BU and control groups to help ensure a transparent, consistent and comprehensive framework for managing operational risk within the BU and across the Company.

The Operational Risk Department scope includes oversight of technology risk, cybersecurity risk, information security risk, the fraud risk management and prevention program and the third party risk management (supplier and affiliate risk oversight and assessment) program. Furthermore, the Operational Risk Department supports the collection and reporting of operational risk incidents and the execution of operational risk assessments; provides the infrastructure needed for risk measurement and risk management; and ensures ongoing validation and verification of the Company's advanced measurement approach for Operational Risk capital.

Business Continuity Management maintains programs for business continuity management and technology disaster recovery that facilitate activities designed to mitigate risk to the MSI Group, including the Company, during a business continuity event. A business continuity event is an interruption with potential impact to normal business activity of the Company's people, operations, technology, suppliers, and / or facilities. The business continuity management program's core functions are business continuity planning and crisis management. As part of business continuity planning, business divisions and control groups maintain business continuity plans identifying processes and strategies to continue business critical processes during a business continuity event. Crisis management is the process of identifying and managing the Company's operations during business continuity events. Disaster recovery plans supporting business continuity are in place for critical facilities and resources across the Company.

In connection with its ongoing operations, the Company utilises third party suppliers. The Company anticipates that such usage will continue. These services include, for example, outsourced processing and support functions and consulting and other professional services. The Company's risk-based approach to managing exposure to these services includes the performance of due diligence, implementation of service level and other contractual agreements, consideration of operational risks and ongoing monitoring of 'third party suppliers' performance. The MSI Group, including the Company, maintains a third party risk program with appropriate governance, policies, procedures and technology that supports alignment with the Company's risk tolerance and is designed to meet regulatory requirements. The third party risk program includes the adoption of appropriate risk management controls and practices through the supplier management lifecycle, including, but not limited to assessment of information security, service failure, financial stability, disaster recoverability, reputational risk, contractual risk, and safeguards against corruption.

Conduct Risk

Conduct risk is defined within the MSI Group, of which the Company is a part, as the risk of an adverse impact on clients, markets or Morgan Stanley's reputation as a consequence of the conduct of Morgan Stanley and/ or its employees. Conduct includes both intentional and unintentional behaviours.

The MSI Group has an approved Conduct Risk Management Policy. The Policy covers the two main strands of Morgan Stanley's Conduct Risk management:

- Managing the risk posed by the MSI Group's business activity, for example risks posed by the MSI Group strategy or risks created in the execution of that strategy; and
- Managing the risk that employees of the MSI Group pose, for example risks arising from poor culture or failure to consider Morgan Stanley's values when conducting duties.

RISK MANAGEMENT (CONTINUED)

Operational Risk (continued)

Conduct Risk (continued)

The policy sets out four statements outlining what the MSI Group must do to manage Conduct Risk:

- Identification and Assessment: Business and Support units must identify and assess the Conduct Risks which arise from their current or planned strategies and activities.
- Management: Internal controls and processes must be implemented to manage Conduct Risks identified. Reasonable steps must be taken to ensure effectiveness.
- Incidents: Areas must identify and record Conduct Risk Incidents.
- Escalation & Reporting: Processes must be established to report risks and incidents, ensuring prompt escalation and appropriate notification.

Furthermore, the policy sets out key roles and responsibilities and a framework identifying key functions and processes for the good management of Conduct Risk. The framework also sets out various key support and governance mechanisms, such as the production of key metrics and management information, and the establishment of a Conduct Risk Committee to oversee the management of Conduct Risk and the implementation of the framework.

Legal, Regulatory and Compliance Risk

Legal, regulatory and compliance risk includes the risk of legal or regulatory sanctions, material financial loss; including fines, penalties, judgements, damages and/ or settlements or loss to reputation which the Company may suffer as a result of a failure to comply with laws, regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to the Company's business activities. This risk also includes contractual and commercial risk, such as the risk that a counterparty's performance obligations will be unenforceable. It also includes compliance with Anti-Money Laundering, anti-corruption and terrorist financing rules and regulations. The Company is generally subject to extensive regulation in the different jurisdictions in which it conducts its business.

The Company, principally through the Morgan Stanley Group's Legal and Compliance Division, has established procedures based on legal and regulatory requirements on a worldwide basis that are designed to facilitate compliance with applicable statutory and regulatory requirements and to require that the Company's policies relating to business conduct, ethics and practices are followed globally. The Company has also established procedures that are designed to facilitate compliance with regulatory rules that apply to the Company's investment management activities, such as those contained within the UCITS Directives, and contractual investment guidelines that may be agreed with clients.

The Company employs the three lines of defence model to organise and execute risk oversight activities and seek to ensure the Company acts in accordance with its legal and regulatory obligations. The first line of defence is comprised of the individuals involved in the Company's fee generating activities. These individuals have primary accountability for managing risks arising from their business activities, as well as compliance with applicable law, regulation, policies and procedures. As part of the second line of defence, the Company's Risk, Compliance and Financial Control functions are responsible for the independent identification, analysis, reporting, management and escalation of risks arising from the Company's activities. The third line of defence is the Morgan Stanley Group's Internal Audit Department, which tests compliance and provides independent assurance regarding the adequacy and effectiveness of the risk management framework and controls.

The heightened legal and regulatory focus on the financial services and asset management industries globally continues to present a business challenge for the Company.

RISK MANAGEMENT (CONTINUED)

Operational Risk (continued)

Cyber and Information Security Risk Management

A cyber attack, information or security breach could adversely affect the Company's ability to conduct its business, manage exposure to risk, or result in disclosure or misuse of confidential or proprietary information. In addition, cybersecurity and information security risks may also derive from human error, fraud, technological failure or malice on the part of the Company's employees or third parties, all of which may have been heightened during the COVID-19 pandemic.

Whilst there are no guarantees that the measures the Company takes will provide absolute security or recoverability, given the techniques used in cyber attacks are complex and frequently change, the Morgan Stanley Group continues to make investments with a view toward maintaining and enhancing its cybersecurity posture. It should be noted that the cost of managing Cyber and Information Security risks and attacks, along with complying with new, increasingly expansive, and evolving regulatory requirements could adversely affect the Company's results of operations, liquidity and financial condition, as well as cause reputational harm.

As a general matter, the financial services industry faces increased global regulatory focus regarding cyber and information security risk management practices. Many aspects of the businesses are subject to cybersecurity legal and regulatory requirements enacted by US federal and state governments and other non-US jurisdictions in Europe and Asia. These laws are aimed at codifying basic cybersecurity protections and mandating data breach notification requirements.

Certain of the Morgan Stanley Group's businesses are also subject to privacy and data protection information security legal requirements concerning the use and protection of certain customer information. For example, the General Data Protection Regulation ("GDPR") became effective in the EU on 25 May 2018. The GDPR imposes mandatory privacy and data protection obligations, including providing for individual rights, enhanced governance and accountability requirements and significant fines and litigation risk for noncompliance. In addition, other jurisdictions have adopted or are proposing GDPR or similar standards, such as Australia, Singapore, Japan, Argentina, India, Brazil, Switzerland, and the Cayman Islands.

The Morgan Stanley Group maintains a program that oversees its cyber and information security risks and is designed to address regulatory requirements. Cybersecurity and information security policies, procedures and technologies are designed to protect the Morgan Stanley Group's information assets against unauthorised disclosure, modification or misuse. These policies cover a broad range of areas, including: identification of internal and external threats, access control, data security, protective controls, detection of malicious or unauthorised activity, incident response and recovery planning.

Market Risk

Market Risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities, correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio.

Market risk management policies and procedures for the Company are in place to ensure that investment strategies are in line with investment objectives, which are set out at a product and strategy level. The Company is not directly exposed to the market risk of funds managed, as it does not normally hold any equity interest in these funds. The policies and procedures are consistent with those of the Morgan Stanley Group and include escalation to the Company's Board of Directors and appropriate senior management personnel.

RISK MANAGEMENT (CONTINUED)

Credit Risk

Credit Risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the Company. The Company primarily incurs credit risk exposure through its investment management activities to third party debtors, other Morgan Stanley Group undertakings and credit institutions where the Company holds operating or surplus cash.

The Company follows the Morgan Stanley Investment Management Counterparty Risk Policy (the "Policy") which sets forth the broad principles that serve as the foundation for managing counterparty risk for all investment management business globally. The objective of the Policy is to avoid or mitigate risk of loss arising from the default or inability of a counterparty to meet its financial obligations.

Liquidity and Funding Risk

Liquidity and Funding Risk refers to the risk that the Company will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity Risk also encompasses the Company's ability (or perceived ability) to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern. Liquidity Risk also encompasses the associated funding risks triggered by the market or idiosyncratic stress events that may cause unexpected changes in funding needs or an inability to raise new funding.

The Morgan Stanley Group's Liquidity Risk Management Framework is critical to helping ensure that the Morgan Stanley Group, including the Company, maintains sufficient liquidity reserves and durable funding sources to meet its daily obligation and to withstand unanticipated stress events.

The Liquidity Risk Department ("LRD") is a distinct area in Risk Management, which oversees and monitors Liquidity Risk. The LRD ensures transparency of material liquidity risks, compliance with established risk limits and escalation of risk concentrations to appropriate senior management. The framework is further described in note 27.

CORPORATE RESPONSIBILITY

Culture, values and conduct of employees

Employees of the Morgan Stanley Group are accountable for conducting themselves in accordance with Morgan Stanley Group's core values: *Do the Right Thing, Put Clients First, Lead with Exceptional Ideas, Commit to Diversity & Inclusion* and *Give Back*. The Morgan Stanley Group's core values drive a shared set of behaviours and attributes that help employees make decisions consistent with the expectations of our clients, shareholders, regulators, Board of Directors and the public. Morgan Stanley is committed to reinforcing and confirming adherence to the core values through its governance framework, tone from the top, management oversight, risk management and controls, and three lines of defence structure (business, control functions such as Risk Management and Compliance, and Internal Audit).

The Morgan Stanley Group's Board of Directors is responsible for overseeing the Morgan Stanley Group's practices and procedures relating to culture, values and conduct. The Morgan Stanley Group's Culture, Values and Conduct Committee, along with the Compliance and Conduct Risk Committee, are the senior management committees that oversee the Morgan Stanley-wide culture, values and conduct program; and complements ongoing business and region-specific culture initiatives. A fundamental building block of this program is the Morgan Stanley Group's Code of Conduct, which establishes standards for employee conduct that further reinforce the Morgan Stanley Group's commitment to integrity and ethical conduct. Every new employee and every current employee, annually, must attest to their understanding of and adherence to the Code of Conduct. For further detail on the Code of Conduct, refer to 'Conduct risk' on pages 12 and 13.

MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

STRATEGIC REPORT

CORPORATE RESPONSIBILITY (CONTINUED)

Culture, values and conduct of employees (continued)

Morgan Stanley's remuneration policies and practices ensure that there is an alignment between reward, risk, culture and conduct. Conduct, culture, and core values are considered in the employee annual performance evaluation process. The performance review process also includes evaluation of employee conduct related to risk management practices and the Morgan Stanley Group's expectations. The Morgan Stanley Group also has several mutually reinforcing processes to identify employee conduct that may have an impact on employment status, current year compensation and/or prior year compensation. Further details of MSI remuneration policies and practices can be found in the CRR Article 450 Disclosure, available at: https://www.morganstanley.com/about-us-ir/pillar-uk.

Diversity & Inclusion

Diversity and Inclusion has always been a fundamental focus for Morgan Stanley. Along with the belief that a diverse workforce is important to Morgan Stanley's continued success and its ability to serve its clients. To this end, Morgan Stanley pursues a comprehensive diversity and inclusion strategy based on four pillars: accountability, representation, advancement and culture. To build a diverse talent pipeline, Morgan Stanley uses global, targeted recruitment and development programs to hire, retain and promote female and ethnically diverse talent.

Further evidencing this commitment, in 2020, Morgan Stanley launched the Morgan Stanley Institute for Inclusion, which will help lead an integrated and transparent diversity, equity and inclusion strategy to deliver full potential to achieve meaningful change within Morgan Stanley and beyond, including its communities. In 2020 Morgan Stanley also published its inaugural Diversity and Inclusion report which reflects Morgan Stanley's commitment to transparency and accountability. Morgan Stanley also announced the addition of a new core value, Commit to Diversity and Inclusion, to make explicit its commitment to cultivating and supporting a diverse workforce and a culture of belonging across Morgan Stanley.

Morgan Stanley's commitment to Diversity and Inclusion, including its UK Gender Pay Gap Results and its signatory of the UK Governments' Women in Finance Charter, is outlined in the Diversity and Inclusion report at:
https://www.morganstanley.com/assets/pdfs/Morgan_Stanley_2020_Diversity_and_Inclusion_ Report.pdf.

CORPORATE RESPONSIBILITY (CONTINUED)

Environmental Matters

The Morgan Stanley Group's commitment to promoting global sustainability is reflected by the Company across its business strategy, products and services, thought leadership, and operations. Building on a track record of industry-leading innovation, Morgan Stanley uses its global reach to mobilise and scale capital in ways that deliver sustainable growth and long-term value for clients and society. Morgan Stanley's proactive approach to sustainability aims to mitigate risks to its business and the markets in which it operates. Morgan Stanley integrates sustainability into the firm's activities through three core areas of focus: sustainable solutions and services, the Institute for Sustainable Investing and Firmwide Sustainability.

Sustainable Investing

Sustainable investing is a major investment theme currently shaping the finance sector and represents one of the fastest growing sectors in asset management. Morgan Stanley views the effective management of sustainability issues as a core component of its business strategy and continue to evolve its philosophy as it believes this is fundamental to the long-term success of its organisation and its ability to deliver value for its clients. Morgan Stanley recognises the need to develop a robust approach to sustainability across its organisation and has established the appropriate governance systems, risk management and controls to support its intention to integrate sustainability considerations across its business. Morgan Stanley has appointed a Global Head of Sustainability for Investment Management and created a dedicated Sustainability Team that is responsible for implementing sustainability business efforts and governance processes, supporting and working with investment teams on enhancements to their ESG investment integration practices, helping to launch Sustainable Funds, advising clients on sustainability matters, and producing sustainability data, tools and research to support its investment teams. Additionally, each of the largest investment teams or asset class platforms has appointed at least one dedicated Sustainable Investing/ESG research specialist to co-ordinate and support this work for the relevant group. The Company's Sustainable Investing efforts are also supported by Morgan Stanley's decade-plus commitment to sustainable finance and Firm-level resources such as the Morgan Stanley Institute for Sustainable Investing and the Global Sustainable Finance group, which serve as expert resources and partners on innovation, knowledge sharing and thought leadership across the Firm.

Morgan Stanley's commitment to sustainability is expressed in three key ways:

- ***Stewardship and Engagement***: investment teams employ the shareholder rights and stakeholder influence that Morgan Stanley exercises on behalf of its clients to encourage, where relevant, strong ESG practices with issuers, borrowers, and counterparties.
- ***ESG Integration Across All Asset Classes***: thoughtful consideration of material ESG factors as appropriate for investment strategies and asset classes.
- ***Sustainable Investing Solutions***: providing clients with investment solutions that are aligned with their returns objectives alongside their sustainability preferences and needs.

A more detailed overview of Morgan Stanley's approach to sustainable investing across both public and private markets investment teams is outlined in the Firm's Sustainable Investing Policy, which was published in February 2021. The Policy can be accessed at:
https://www.morganstanley.com/im/publication/resources/sustainable_investing_policy_us.pdf

CORPORATE RESPONSIBILITY (CONTINUED)

Environmental Matters (continued)

Energy and carbon reporting requirements

The Company manages the financial risks from climate change in line with Morgan Stanley Group strategy as articulated in the Firm's first report under the Taskforce on Climate-related Financial Disclosures ("TCFD") published in October 2020. Central to Morgan Stanley's strategy is the commitment, announced in September 2020, to reach net-zero financed emissions by 2050. For the UK office portfolio, Morgan Stanley has been procuring 100% renewable electricity across all sites since 2016.

Morgan Stanley sets global targets that are focused on climate, resource management and supply chain. As part of Morgan Stanley's global commitment to a 25% reduction in energy consumption we have implemented a number of initiatives in the UK which include:

- Continual assessment of plant and equipment run-times with operational needs.
- Replacement of lighting and control systems with energy efficient alternatives (LED).
- Upgrade of air condition and ventilation control systems with energy efficient alternatives.
- Ongoing provision of energy and environmental and energy awareness training to vendors and staff.

The Company has reported in the table below on the carbon emissions of the energy sources from its UK locations as required under the Companies Act 2006. Morgan Stanley emissions have been calculated in line with the Green House Gas Protocol Corporate Accounting and Reporting Standard (revised edition) using emission factors from the Department of Business, Energy & Industrial strategy (Greenhouse gas reporting: conversion factors for 2020 respectively).

In line with the Company's organisational structure, properties are primarily leased by service entity subsidiaries of the Morgan Stanley Group. The service entities recharge property costs to the Company reflecting its usage. Emissions reported relate to the Company's usage of UK properties only. This disclosure is a subset of the emissions reported in the financial statements of Morgan Stanley's UK service entities - Morgan Stanley UK Limited and Morgan Stanley UK Group Limited, both of which are UK subsidiaries of the MSI Group. Emissions reported excludes any emissions relating to employees working from home as such emissions cannot be quantified reliably.

The following table represents the Company's carbon emissions for the year ended 31st December 2020:

Energy consumption used to calculate emissions in kWh 4,914,614

	CO2e tonnes(1)	
	Location based	**Market based**
Emission source		
Scope 1- Combustion of fuel and operation of facilities	45	45
Scope 2- Electricity, heat, steam and cooling purchased for own use	1,093	-
Total UK footprint	1,138	45
Intensity ratio (tCO2e / SQM)(2)	0.1557	0.0062

(1) Tonnes of carbon dioxide equivalent
(2) Tonnes of carbon dioxide per square metre of UK real estate

CORPORATE RESPONSIBILITY (CONTINUED)

Environmental Matters (continued)

Energy and carbon reporting requirements (continued)

The Company has chosen to report both location-based and market-based emission for scope 2. The location-based emissions reflect the average emissions of the grid where the energy consumption occurs and is calculated using the government-published UK electricity grid average factors. The Morgan Stanley Group UK service entities have entered into a contractual arrangement for renewable electricity and as such the Company can report a reduced emission figure based on the specific electricity purchased under the market-based method. The Morgan Stanley Group service entities purchase 100% renewable electricity backed by certificates.

Reported energy and emissions data will be verified by an independent third party as part of Morgan Stanley's global greenhouse gas inventory management process later in the year. To Morgan Stanley's knowledge there are no material omissions.

Morgan Stanley Group disclosure

Further Information about Morgan Stanley' sustainable initiatives, including the Sustainability Report, is available at:
https://www.morganstanley.com/about-us/sustainability-at-morgan-stanley.

Further information about Morgan Stanley's efforts to support climate change mitigation is available in the TCFD report at:
https://www.morganstanley.com/assets/pdfs/Morgan_Stanley_TCFD_Report_2020.pdf

Morgan Stanley's most recent CDP Climate Change questionnaire is available at:
https://www.morganstanley.com/pub/content/dam/msdotcom/about-us/giving-back/sustainability-at-morgan-stanley/Morgan_Stanley_2019_CDP_Climate_Change_Response.pdf

STAKEHOLDER ENGAGEMENT AND SECTION 172(1) STATEMENT

Directors of the Company are required to act in a way that they consider, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole, and in so doing have regard, among other matters to:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

To assist them in discharging their duty under s172 Companies Act 2006, Directors undertake a number of stakeholder engagement activities to provide them with the information they need to understand the views and interests of stakeholders. This information helps Directors to have regard to stakeholder interests, and the likely long term consequences, including to the Company's reputation, when making decisions. The Company's key stakeholders were considered in 2020, including the particular challenges faced by many key stakeholders due to the impact of the COVID-19 pandemic, and are listed below with examples of the stakeholder engagement activities that took place in 2020.

STAKEHOLDER ENGAGEMENT AND SECTION 172(1) STATEMENT (CONTINUED)

Employees: During the year, a number of Directors took part in a programme of "open door" sessions at which MSI Group employees, including those working in the Company's business, were encouraged to ask questions about the business. Board Director Ruairi O'Healai, in his role as Chief Operating Officer of EMEA Morgan Stanley Investment Management, hosted quarterly Town Hall meetings to update employees and answer their questions. In 2020 the Board of Directors has focused on improving diversity among employees working in the business and on the potential impact of i) the COVID-19 pandemic on culture, in particular in the light of the number of new employees who were being inducted remotely and had not been able to visit a Morgan Stanley office, and ii) the prolonged period of remote working on employees and their health and wellbeing.

Suppliers: During the year, the Board of Directors received regular information on key suppliers to the business as part of its quarterly update on the performance of third party vendors. The Board of Directors received reports on the risks associated with key supplier relationships, with a particular focus on cyber risk and operational resiliency. These updates provided the Board of Directors with insights into how these risks are managed as part of key supplier relationships.

Clients: Throughout the year, the Board of Directors received regular updates on the fund product range and product governance. These reports provided insights into client behaviour, focus areas and concerns and have driven management actions to address them, including a focus on sustainability.

Community and Environment: Morgan Stanley is committed to giving back to the communities in which it operates through a range of philanthropic programs. In response to COVID-19, Morgan Stanley made a $29.2 million commitment to support with global relief efforts. In 2020, instead of the traditional Global Volunteer Month ("GVM"), Morgan Stanley launched a Week of Kindness ("WOK"). During the first week of June, over 21,000 employees visited the WOK internal website to unite and hear from each other and senior leadership on the many ways that Morgan Stanley and employees actively support their communities. Each day featured a different theme including: Hospitals and Frontline Workers, Educating and Mentoring, Mental Health, Food Insecurity, and Celebrating 15 years of GVM.

Regulators: During the year, the Board of Directors received regular updates on interactions with its key regulator and the regulators of its funds, including the FCA, Commission de Surveillance du Secteur Financier and Central Bank of Ireland.

Investors: The Company is a wholly owned subsidiary of the MSI Group. The Chair of the Board of Directors is a member of the MSI Group Board of Directors and the Chief Executive Officer ("CEO") of the Company is a member of the EMEA Operating Committee. Through these appointments, the Chair and CEO of the Company are able to provide the Board of Directors with insights on MSI Group's views and priorities.

MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

STRATEGIC REPORT

STAKEHOLDER ENGAGEMENT AND SECTION 172(1) STATEMENT (CONTINUED)

Making decisions

When making decisions, the Board of Directors considers the insights obtained through relevant stakeholder engagement activities as well as the need to maintain a reputation for high standards of business conduct and the long term consequences of its decisions. During 2020, the Board of Directors made decisions in relation to the further steps to implement an MSI Group reorganisation to facilitate changes required for Morgan Stanley's European operations in preparation for the UK's withdrawal from the EU. When making these decisions, the interests of clients and the MSI Group's ability to meet their needs now and in the longer term, post-Brexit, were important considerations as were the long-term consequences of not proceeding with, or delaying, the restructure and the potential impact this could have on the reputation of the Company and Morgan Stanley. The interests of employees, suppliers, shareholders and the Company's regulators were also considered.

Approved by the Board of Directors and signed on its behalf by

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Ruairi O'Healai

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R O'Healai

Director

22 April 2021

MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

DIRECTORS' REPORT

The Directors present their report and financial statements (which comprise the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of financial position, and the related notes, 1 to 35) for the Company for the year ended 31 December 2020.

Results and dividends

The profit for the year, after tax, was $200,193,000 (2019: $184,598,000 profit after tax).

During the year, the Company paid a dividend of $163,000,000 (2019: $120,000,000).

Regulations, risk management and future developments

Information regarding regulation, risk management and future developments has been included in the Strategic report.

Stakeholder relationships and engagement

Details of engagement activities undertaken by the Board of Directors in 2020 with suppliers, clients and other stakeholders and how they inform decision making are provided in the s172(1) statement on pages 19 to 21.

Pillar 3 disclosures

The regulatory disclosures made in order to comply with the EU Directive and Regulation implementing the Basel capital framework ("the Pillar 3 disclosures") are available on the Morgan Stanley website (see note 30 for further details).

Country-by-country reporting

The disclosures made in order to comply with the Capital Requirements (Country-by-Country Reporting) Regulations 2013 in respect of the year ended 31 December 2020 will be made available on the Morgan Stanley website (see note 30 for further details).

Directors

The following Directors held office throughout the year and to the date of approval of this report (except where otherwise shown):

D E M Best	(appointed 23 February 2021)
T L Duhon (Chair)	
D J Hosie	
F C Kelly	
R A Lockwood	
R O'Healai	

Directors' and officers' liability insurance

Directors' and Officers' Liability Insurance is taken out by Morgan Stanley, the Company's ultimate parent undertaking, for the benefit of the Directors and Officers of the Company.

Directors' indemnity

Qualifying third party indemnity provisions (as defined in section 234 of the Companies Act 2006) were in force during the year and up to and including the date of the Directors' report for the benefit of the Directors of the Company.

Audit committee

MSI, the Company's ultimate UK parent undertaking, has an Audit Committee which assists the Boards of Directors of MSI, the Company and other MSI Group regulated subsidiary undertakings in meeting their responsibilities in ensuring an effective system of internal control and compliance, and in meeting their external financial reporting obligations. The Audit Committee meets regularly and reports to the MSI Group Board of Directors on a quarterly basis.

Events after the reporting date

There have been no significant events since the reporting date.

Going concern

Business risks associated with the uncertain market and economic conditions are being actively monitored and managed by the Company. Retaining sufficient capital and liquidity to withstand these market pressures remains central to the Company's strategy. In particular, the Company's capital and liquidity is deemed sufficient to exceed regulatory minimums under both a normal and in a stressed market environment, including the current and potential stresses of COVID-19 pandemic and Brexit for the foreseeable future. The existing and potential effects of COVID-19 on the business of the Company have been considered as part of the going concern analysis, including impact on operational capacity, access to liquidity and capital, contractual obligations, asset valuations and other critical accounting judgements and key sources of estimation uncertainty. Additionally, the specific impact of Brexit on the business of the Company has been considered. The Company has access to further Morgan Stanley Group capital and liquidity as required.

Taking all of these factors into consideration, the Directors believe that the Company will have access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual reports and financial statements.

Auditor

Deloitte LLP have expressed their willingness to continue in office as auditor of the Company and, under Sections 485 to 488 of the Companies Act 2006, will be deemed to be re-appointed.

Statement as to disclosure of information to the auditor

Each of the persons who are Directors of the Company at the date when this report is approved confirms that:

- so far as each of the Directors is aware, there is no relevant audit information (being information needed by the Company's auditor in connection with preparing their report) of which the Company's auditor is unaware; and
- each of the Directors has taken all the steps that he/ she ought to have taken as a Director to make himself/ herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

DIRECTORS' REPORT

Directors' responsibility statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law), including Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101"). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101, have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors and signed on its behalf by

DocuSigned by:

Ruairi O'Healai

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R O'Healai

Director

22 April 2021

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion the financial statements of Morgan Stanley Investment Management Limited (the "Company"):

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of changes in equity;
- the statement of financial position; and
- the related notes 1 to 35.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included understanding the capital and liquidity positions relative to minimum regulatory requirements under base and stress forecasts.

Based on our review, we have not identified any factors which would lead to material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit and the audit committee about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the company's obligations under the Financial Conduct Authority (FCA) Handbook and regulatory capital requirements.

We discussed among the audit engagement team including relevant internal specialists such as tax, IT and industry specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and other regulatory authorities including the FCA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report and the Directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Partridge (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Glasgow, United Kingdom

22 April 2021

MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

INCOME STATEMENT
Year ended 31 December 2020

	Note	2020 $'000	2019 $'000
Fee and commission income	4	1,079,668	896,092
Other revenue	5	-	525
Total non-interest revenues		1,079,668	896,617
Interest income		5,315	10,564
Interest expense		(1,992)	(5,064)
Net interest income	6	3,323	5,500
Net revenues		1,082,991	902,117
Net gains on investment in subsidiary	7	-	22,360
Non-interest expense:			
Other expense	8	(877,756)	(751,766)
PROFIT BEFORE TAXATION		205,235	172,711
Income tax (expense) / credit	9	(5,042)	11,887
PROFIT FOR THE YEAR		200,193	184,598

All operations were continuing in the current and prior year.

The notes on pages 33 to 73 form an integral part of the financial statements.

MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2020

	2020	2019
	$'000	$'000
PROFIT FOR THE YEAR	200,193	184,598
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of net defined benefit liability	(154)	(151)
Items that may be reclassified subsequently to profit or loss:		
Currency translation reserve:		
Foreign currency translation differences arising on foreign operations	2,351	(208)
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX	2,197	(359)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	202,390	184,239

The notes on pages 33 to 73 form an integral part of the financial statements.

MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2020

	Note	Share capital $'000	Currency translation reserve $'000	Pension Reserve $'000	Retained earnings $'000	Total equity $'000
Balance at 1 January 2020		1,000	(2,439)	(154)	357,010	355,417
Profit for the year		-	-	-	200,193	200,193
Other comprehensive income for the year:						
Remeasurement of net defined benefit liabilities		-	-	(154)	-	(154)
Currency translation reserve:						
Foreign currency translation differences arising on foreign operations		-	2,351	-	-	2,351
Total comprehensive income for the year		-	2,351	(154)	200,193	202,390
Transactions with owners:						
Dividends	24	-	-	-	(163,000)	(163,000)
Impact of branch business transfer						
Gain on business transfer (Amsterdam branch)	34	-	-	-	28,263	28,263
Current tax charge (Frankfurt branch)	34	-	-	-	(9,755)	(9,755)
Current tax charge (Milan branch)	34	-	-	-	(645)	(645)
Pension reserve release	23	-	-	308	(308)	-
Balance at 31 December 2020		1,000	(88)	-	411,758	412,670

	Note	Share capital $'000	Currency translation reserve $'000	Pension reserve $'000	Retained earnings $'000	Total equity $'000
Balance at 1 January 2019		1,000	(2,231)	(3)	292,412	291,178
Profit for the year		-	-	-	184,598	184,598
Other comprehensive income for the year:						
Remeasurement of net defined benefit liabilities		-	-	(151)	-	(151)
Currency translation reserve:						
Foreign currency translation differences arising on foreign operations		-	(208)	-	-	(208)
Total comprehensive income for the year		-	(208)	(151)	184,598	184,239
Transactions with owners:						
Dividends	24	-	-	-	(120,000)	(120,000)
Balance at 31 December 2019		1,000	(2,439)	(154)	357,010	355,417

The notes on pages 33 to 73 form an integral part of the financial statements.

MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

Registered number: 01981121

STATEMENT OF FINANCIAL POSITION
As at 31 December 2020

	Note	2020 $'000	2019 $'000
ASSETS			
Cash and short-term deposits		122,231	126,752
Loans and advances	11	293,397	207,238
Investment securities	12	4	4
Trade and other receivables	13	196,768	99,046
Deferred tax assets	21	11	1,269
Other assets	14	125,100	130,909
Investments in subsidiaries	15	13,440	13,440
Property, plant and equipment	17	909	1,323
TOTAL ASSETS		751,860	579,981
LIABILITIES AND EQUITY			
Trade and other payables	18	147,423	63,424
Debt and other borrowings	19	51,480	56,512
Provisions	20	154	156
Current tax liabilities		12,127	8,191
Other liabilities		128,006	95,579
Post-employment benefit obligations	32	-	702
TOTAL LIABILITIES		339,190	224,564
Share capital	23	1,000	1,000
Currency translation reserve	23	(88)	(2,439)
Pension reserve	23	-	(154)
Retained earnings		411,758	357,010
TOTAL EQUITY		412,670	355,417
TOTAL LIABILITIES AND EQUITY		751,860	579,981

These financial statements were approved by the Board of Directors and authorised for issue on 22 April 2021.

Signed on behalf of the Board of Directors

DocuSigned by:

Ruairi.OHealai

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R O'Healai

Director

The notes on pages 33 to 73 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2020

1. CORPORATE INFORMATION

The Company is incorporated and domiciled in England and Wales, United Kingdom, at the following registered address: 25 Cabot Square, Canary Wharf, London, England, E14 4QA. The Company is a private company and is limited by shares. The registered number of the Company is 01981121.

The Company's immediate parent undertaking is Morgan Stanley Investments (UK), which has its registered office at 20 Bank Street, Canary Wharf, London, England, E14 4AD and is registered in England and Wales. Copies of its financial statements can be obtained from the Registrar of Companies for England and Wales, Companies House, Crown Way, Cardiff CF14 3UZ.

The Company's ultimate parent undertaking and controlling entity and the smallest and largest group of which the Company is a member and for which group financial statements are prepared is Morgan Stanley which, together with the Company and Morgan Stanley's other subsidiary undertakings, form the Morgan Stanley Group. Morgan Stanley has its registered office c/o The Corporation Trust Company, The Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, United States of America and is incorporated in the state of Delaware, in the United States of America. Copies of its financial statements can be obtained from:
https://www.morganstanley.com/investorrelations

2. BASIS OF PREPARATION

The Company is not required to prepare consolidated financial statements by virtue of the exemption under section 401 of the Companies Act 2006. The results of the Company are included within the financial statements of Morgan Stanley which has prepared consolidated financial statements for the year ended 31 December 2020, has its registered office c/o The Corporation Trust Company, The Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, United States of America and is incorporated in the state of Delaware, in the United States of America. The financial statements therefore present information about the Company as an individual entity and not about its group.

Statement of compliance

The financial statements are prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101.

The Company meets the definition of a qualifying entity and is a Financial Institution as defined in Financial Reporting Standard 100 'Application of Financial Reporting Requirements' ("FRS 100"). The Company has taken advantage of the disclosure exemptions available under FRS 101 in relation to share-based payments, fair value measurement (as applicable to assets and liabilities other than financial instruments), revenue from contracts with customers, presentation of comparative information in respect of certain assets and shares outstanding, presentation of a cash-flow statement, accounting standards not yet effective, related party transactions and leases.

Where relevant, equivalent disclosures have been provided in the group accounts of Morgan Stanley, in which the Company is consolidated. Copies of Morgan Stanley's accounts can be obtained as detailed in note 1.

2. BASIS OF PREPARATION (CONTINUED)

New standards and interpretations adopted during the year

The following amendments to standards relevant to the Company's operations were adopted during the year. Except where otherwise stated, these amendments to standards did not have a material impact on the Company's financial statements.

Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors': Definition of Material were issued by the IASB in October 2018, for application in accounting periods beginning on or after 1 January 2020. The amendments were endorsed by the EU in December 2019.

An amendment to IFRS 3 'Business Combinations' was issued by the IASB in October 2018, for application in accounting periods beginning on or after 1 January 2020. The amendment was endorsed by the EU in April 2020.

An amendment to IFRS 16 'Leases': COVID-19 Related Rent Concessions was issued by the IASB in May 2020, for retrospective application in accounting periods beginning on or after 1 June 2020. The amendment was endorsed by the EU in October 2020. The Company has early adopted this amendment from 1 January 2020.

There were no other standards, amendments to standards or interpretations relevant to the Company's operations which were adopted during the year.

New standards and interpretations not yet adopted

At the date of authorisation of these financial statements, the following amendments to standards relevant to the Company's operations were issued by the IASB but not mandatory for accounting periods beginning 1 January 2020. The Company does not expect that the adoption of the following amendments to standards and interpretations will have a material impact on the Company's financial statements.

Until 31 December 2020 endorsement of new standards was the responsibility of the EU. With effect from 1 January 2021, as a result of the UK's withdrawal from the EU, endorsement was undertaken by the UK Endorsement Board.

Amendments to IAS 1 'Presentation of Financial Statements': Classification of Liabilities as Current or Non-current were issued by the IASB in January 2020 and revised in July 2020, for retrospective application in accounting periods beginning on or after 1 January 2023.

Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets': Onerous Contracts – Cost of Fulfilling a Contract were issued by the IASB in May 2020, for modified retrospective application in accounting periods beginning on or after 1 January 2022. Early application is permitted.

As part of the 2018-2020 Annual Improvements Cycle published in May 2020, the IASB made an amendment to IFRS 9 'Financial Instruments', relating to the treatment of fees in the assessment of whether financial liabilities are modified or exchanged, where such transactions occur on or after 1 January 2022. Early application is permitted.

Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors': Definition of Accounting Estimates were issued by the IASB in February 2021, for prospective application in accounting periods beginning on or after 1 January 2023. Early application is permitted.

Amendments to IAS 1 'Presentation of Financial Statements': Disclosure of Accounting Policies were issued by the IASB in February 2021, for prospective application in accounting periods beginning on or after 1 January 2023. Early application is permitted

2. BASIS OF PREPARATION (CONTINUED)

Basis of measurement

The financial statements of the Company are prepared under the historical cost basis, except for certain financial instruments that have been measured at fair value as explained in the accounting policies below, and in accordance with applicable United Kingdom Accounting Standards, including FRS 101, and UK company law.

Critical accounting judgements and key sources of estimation uncertainty

In preparing the financial statements, the Company considers judgements and estimates that affect the application of accounting policies and reported amounts.

Critical accounting judgements are key decisions made by management in the application of the Company's accounting policies, other than those involving estimations, which have the most significant effects on the amounts recognised in the financial statements. Critical accounting estimates represent assumptions and estimations made by management that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

The critical judgement in applying the Company's accounting policies is the consolidation of structured entities. The Company determines whether it controls, and therefore should consolidate a structured entity upon its initial involvement and reassesses on an ongoing basis for as long as it has any continuing involvement with the structured entity. See note 16.

There are no key sources of estimation uncertainty that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year.

The Company evaluates the critical accounting judgements and key sources of estimation uncertainty on an ongoing basis and believes that these are reasonable.

The going concern assumption

The Company's business activities, together with the factors likely to affect its future development, performance and position, and the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposures to credit risk and liquidity risk, are reflected in the Strategic report on pages 1 to 21, and as set out in the Strategic report, retaining sufficient liquidity and capital to withstand market pressures remains central to the Morgan Stanley Group's and the Company's strategy.

Specifically, the existing and potential effects of COVID-19 on the operational capacity of the business, access to liquidity and capital, contractual obligations, asset valuations and other critical accounting judgements and key sources of estimation uncertainty have been considered on page 2. Additionally, the specific impact of Brexit on the business of the Company has been considered on pages 3 and 4. The notes to the financial statements include further information, not included in the Strategic report, on its credit risk and liquidity risk.

Taking the above factors into consideration, the Directors that the Company will have access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Functional currency

Items included in the financial statements are measured and presented in US dollars, the currency of the primary economic environment in which the Company operates.

All currency amounts in the financial statements and Strategic and Directors' reports are rounded to the nearest thousand US dollars.

b. Foreign currencies

All monetary assets and liabilities denominated in currencies other than US dollars are translated into US dollars at the rates ruling at the reporting date. Transactions and non-monetary assets and liabilities denominated in currencies other than US dollars are recorded at the rates prevailing at the dates of the transactions.

Assets and liabilities of foreign operations are translated into US dollars using the closing rate method. Translation differences arising from the net investments in the foreign operations are taken to the 'Currency translation reserve'. All other translation differences are taken through the income statement. Exchange differences recognised in the income statement are presented in 'Other revenue' or 'Other expense', except where noted in 3(c) below.

On disposal of a foreign operation, the related cumulative gain or loss in the 'Currency translation reserve' attributable to the owners of the Company is reclassified to the income statement and recorded within 'Gain/ (loss) on disposal of branch'.

c. Financial instruments

i) Financial instruments mandatorily at fair value through profit and loss

Non-trading financial assets at fair value through profit or loss

Non-trading financial assets at fair value through profit or loss ("FVPL") include certain investment securities (unlisted equities).

Non-trading financial assets at FVPL are principally financial assets where the Company makes decisions based upon the assets' fair values and are generally recognised on settlement date at fair value (see note 3(d) below), since they are neither regular way nor are they derivatives. From the date the terms are agreed (trade date), until the financial asset is funded (settlement date), the Company recognises any unrealised fair value changes in the financial asset as non-trading financial assets at FVPL. On settlement date, the fair value of consideration given is recognised as a non-trading financial asset at FVPL. All subsequent changes in fair value, foreign exchange differences and unrealised interest are reflected in the income statement in 'Net income from other financial instruments held at fair value'.

For all non-trading financial assets at FVPL, transaction costs are excluded from the initial fair value measurement of the financial assets. These costs are recognised in the income statement in 'Other expense'.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

ii) Investments in subsidiaries

Subsidiaries are entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

In certain cases, the Company may exercise control over another entity on behalf of investors or other parties. In such cases it is necessary, as part of the assessment of whether it should consolidate the entity, for the Company to determine whether it exercises such control primarily as an agent for the other investors or whether it does so primarily as principal on its own behalf. In making such a determination, Management consider all relevant factors, including in particular:

- The scope of the Company's decision-making authority over the investee;
- The rights, including removal rights, held by other parties;
- The remuneration to which the Company is entitled;
- The significance of the Company's exposure to variability of returns from its interests in the entity.

Investments in subsidiaries are stated at cost, less provision for any impairment (see note 3(f) below). Dividends, impairment losses and reversals of impairment losses are recognised in the income statement in 'Net gains on investment in subsidiary'.

iii) Financial assets and financial liabilities at amortised cost

Financial assets are recognised at amortised cost when the Company's business model objective is to collect the contractual cash flows of the assets and where these cash flows are solely payments of principal and interest on the principal amount outstanding until maturity. Such assets are recognised when the Company becomes a party to the contractual provisions of the instrument. The instruments are initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost less expected credit loss ("ECL") allowance. Interest is recognised in the income statement in 'Interest income', using the effective interest rate ("EIR") method as described below. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. Transaction costs that are directly attributable to the acquisition of the financial asset are added to the fair value on initial recognition. ECL and reversals thereof are recognised in the income statement in 'Net impairment loss on financial instruments'.

Financial assets at amortised cost include cash and short-term deposits, trade and other receivables and loans and advances.

Financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument and are initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost. Interest is recognised in the income statement in 'Interest expense' using the EIR methods described below. Transaction costs that are directly attributable to the issue of a financial liability are deducted from the fair value on initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

iii) Financial assets and financial liabilities at amortised cost (continued)

The EIR method is a method of calculating the amortised cost of a financial instrument (or a group of financial instruments) and of allocating the interest income or interest expense over the expected life of the financial instrument. The EIR is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument (or, where appropriate a shorter period) to the carrying amount of the financial instrument. The EIR is established on initial recognition of the financial instrument. The calculation of the EIR includes all fees and commissions paid or received, transaction costs, and discounts or premiums that are an integral part of the EIR.

Financial liabilities classified at amortised cost include trade and other payables and debt and other borrowings.

d. Fair value

Fair value measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants at the measurement date.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, assumptions are set to reflect those that the Company believes market participants would use in pricing the asset or liability at the measurement date.

In determining fair value, the Company uses various valuation approaches and establishes a hierarchy for inputs used in measuring fair value that requires the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability that were developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect assumptions the Company believes other market participants would use in pricing the asset or liability, that are developed based on the best information available in the circumstances.

The fair value hierarchy is broken down into three levels based on the observability of inputs as follows, with Level 1 being the highest and Level 3 being the lowest level:

- *Level 1*: Quoted prices (unadjusted) in an active market for identical assets or liabilities

  Valuations based on quoted prices in active markets that the Morgan Stanley Group has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgement.

- *Level 2*: Valuation techniques using observable inputs

  Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

- *Level 3*: Valuation techniques with significant unobservable inputs

  Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

Valuation process

Valuation Control ("VC") within Finance is responsible for the Company's fair value valuation policies, processes and procedures. VC is independent of the business units and reports to the Chief Financial Officer of the Morgan Stanley Group ("CFO"), who has final authority over the valuation of the Company's financial instruments. VC implements valuation control processes designed to validate the fair value of the Company's financial instruments measured at fair value including those derived from pricing models.

e. Derecognition of financial assets and liabilities

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risk and rewards of ownership of the asset.

If the asset has been transferred, and the Company neither transfers nor retains substantially all of the risks and rewards of the asset, then the Company determines whether it has retained control of the asset.

If the Company has retained control of the asset, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset. If the Company has not retained control of the asset, it derecognises the asset and separately recognises any rights or obligation created or retained in the transfer.

Upon derecognition of a financial asset, the difference between the previous carrying amount and the sum of any consideration received is recognised in the income statement within 'Net gains/ (losses) on derecognition of financial assets measured at amortised cost'.

The Company derecognises financial liabilities when the Company's obligations are discharged or cancelled or when they expire.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Impairment of financial instruments

The Company recognises loss allowances for ECL for financial assets measured at amortised cost.

Measurement of ECL

For financial assets, ECLs are the present value of cash shortfalls (i.e. the difference between contractual and expected cash flows) over the expected life of the financial instrument, discounted at the asset's EIR.

The Company applies a three stage approach to measuring ECL based on the change in credit risk since initial recognition:

- ***Stage 1***: if the credit risk of the financial instrument at the reporting date has not increased significantly since initial recognition then the loss allowance is calculated as the lifetime cash shortfalls that will result if a default occurs in the next 12 months, weighted by the probability of that default occurring.
- ***Stage 2***: if there has been a significant increase in credit risk ("SICR") since initial recognition, the loss allowance is calculated as the ECL over the remaining life of the financial instrument. If it is subsequently determined that there has no longer been a SICR since initial recognition, then the loss allowance reverts to reflecting 12 month expected losses.
- ***Stage 3***: if there has been a SICR since initial recognition and the financial instrument is deemed credit-impaired (see below for definition of credit-impaired), the loss allowance is calculated as the ECL over the remaining life of the financial instrument. If it is subsequently determined that there has no longer been a SICR since initial recognition, then the loss allowance reverts to reflecting 12 month expected losses.

Assessment of significant increase in credit risk

When assessing SICR, the Company considers both quantitative and qualitative information and analysis based on the Company's historical experience and expert credit risk assessment, including forward-looking information.

The probability of default ("PD") is derived from internal credit rating grades (based on available information about the borrower) and multiple forward-looking macroeconomic scenarios which are probability weighted. Credit risk is considered to have increased significantly if the PD has significantly increased at the reporting date relative to the PD of the facility, at the date of initial recognition. The assessment of whether a change in PD is "significant" is based both on a consideration of the relative change in PD and on qualitative indicators of the credit risk of the facility, which indicate whether a loan is performing or in difficulty.

The Company's accounting policy is to not use the 'low' credit risk practical expedient. As a result, the Company monitors all financial instruments which do not have a significant financing component that are subject to impairment for SICR, with the exception of trade receivables and contract assets arising from transactions within the scope of IFRS 15 which do not have a significant financing component, for which a lifetime ECL is always calculated.

Where there is a history of no credit losses, and where this is expected to persist into the future for structural or other reasons, such as credit enhancements, it may be determined that the ECL for a financial instrument is de minimis (highly immaterial) and recognition of the ECL may not be necessary.

The Company measures ECL on an individual asset basis and has no purchased or originated credit-impaired financial assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Impairment of financial instruments (continued)

Presentation of ECL

ECL is recognised in the income statement within 'Net impairment loss on financial instruments'. ECL on financial assets measured at amortised cost are presented as an ECL allowance reducing the net carrying amount on the face of the statement of financial position.

Impairment losses on investments in subsidiaries are measured as the difference between cost and the current estimated recoverable amount. When the recoverable amount is less than the cost, an impairment is recognised within the income statement in 'Net gains/ (losses) on investments in subsidiaries' and is reflected against the carrying amount of the impaired asset on the statement of financial position.

g. Revenue recognition and contract assets and liabilities

Fees and commissions classified within 'Fee and commission income' in the income statement include investment management, distribution, administration, performance and sub-advisory fees. These are generally recognised when services are performed and the fees become known, except for performance fees as noted below.

- Investment management fees are primarily based on pre-determined percentages of the market value of AUM.
- Distribution fees are received on certain funds managed by the Company and are primarily priced at pre-determined percentages, dependent on share class.
- Administration fees are received on certain funds managed by the Company to reimburse any costs, charges, fees and expenses incurred in relation to the administration of the funds. These are primarily priced at pre-determined fixed percentages.
- Performance fees are received from certain investment products. These are earned upon exceeding specified relative and/ or absolute investment return thresholds. Performance fees are recognised only when the performance obligation is satisfied, upon completion of the measurement period, which varies by product or account, and could be monthly, quarterly, annually or longer.
- Sub-advisory revenues in respect of investment management services are received from other Morgan Stanley Group undertakings and represent various fee types where another Morgan Stanley Group undertaking is designated as the initial contracted entity but the Company is the sub-contracted entity. The Company receives a portion of the revenue on an arm's length basis.

Other items

Receivables from contracts with customers are recognised within 'Trade and other receivables' in the statement of financial position when the underlying performance obligations have been satisfied and the Company has the right per the contract to bill the customer. Contract assets are recognised when the Company has satisfied its performance obligations and customer payment is conditional, and are presented within 'Others assets'. Contract liabilities are recognised when the Company has collected payment from a customer based on the terms of the contract, but the underlying performance obligations are not yet satisfied, and are presented within 'Other liabilities'.

Incremental costs to obtain the contract are expensed as incurred if the contract duration is one year or less. Revenues are not discounted when payment is expected within one year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Fee and commission expense

Fees and commissions classified within 'Other expense' in the income statement include fee sharing and distribution expenses.

- Fee sharing expenses are primarily based on specified percentages of the management fees received, dependent on share class, and are recognised as the services are performed.
- Distribution expenses are based on the distribution fees received and are recognised either as the services are performed or across a number of years, dependent on fee type.

i. Property, plant and equipment

Property, plant and equipment are stated at cost net of depreciation and any provision for impairment in value (see note 3(j) below) which are included within 'Other expense' in the income statement.

For premises held under operating leases, a reinstatement provision is recognised for the estimated cost to reinstate the premises at the end of the lease period. When the reinstatement provision is established and included within 'Provisions' in the statement of financial position, an equivalent asset is recognised and included in the cost of leasehold improvements at the initial present value of the reinstatement obligations. The discount effect included in the reinstatement provision is reversed over time using a constant effective yield method and included within 'Interest expense' in the income statement. The reinstatement asset is depreciated over the useful economic life of the relevant leasehold improvement asset and the depreciation charge is included within 'Other expense' in the income statement.

Depreciation is provided on property, plant and equipment at rates calculated to write off the cost of the assets on a straight line basis over their expected useful lives as follows:

Leasehold improvements, including reinstatement assets	- over the remaining lease term
Fixtures, fittings and equipment	- 3 to 9 years
Right-of-use – Property	- 3 years

The carrying amount of an item of property, plant and equipment shall be derecognised on disposal or when no further economic benefits are expected from its use or disposal.

j. Impairment of non-financial assets

Non-financial assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Such impairment losses are recognised in the income statement within 'Other expense' and are recognised against the carrying amount of the impaired asset on the statement of financial position. Non-financial assets, other than goodwill, that have suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

k. Cash and cash equivalents

Cash and cash equivalents comprise cash and demand deposits with banks, net of outstanding bank overdrafts, along with highly liquid investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l. Income tax expense

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is calculated based on taxable profit for the year. Taxable profit may differ from profit before taxation as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date. Current tax is charged or credited in the income statement, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the current tax is also recorded within other comprehensive income or equity respectively.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and limited to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is reflected within other comprehensive income or equity, respectively.

Current tax assets are offset against current tax liabilities when there is a legally enforceable right to set off current tax assets against current tax liabilities and the Company intends to settle its current tax assets and current tax liabilities on a net basis or to realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and current tax liabilities on a net basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m. Leases

For leases whose original lease term exceeds one year, ROU assets and lease liabilities are initially recognised based on the present value of the lease payments over the lease term. The discount rate used in determining the present value is the Company's incremental borrowing rate. The ROU asset also includes any prepaid lease payments and initial direct costs incurred and is reduced to reflect lease incentives received. The interest on lease liabilities are accrued at a constant periodic rate of interest on the remaining balance of the lease liability. The liability is remeasured when there is a change in future lease payments arising from a change in an index or rate or from a market rent review. Additionally, the lease liability is remeasured if the Company changes its assessment of whether it will exercise an extension or termination option or undertakes certain modifications of the lease. The ROU asset is depreciated on a straight line basis from the lease commencement date to the earlier of the end of its useful life or the end of the lease term. Depreciation of ROU assets is presented within 'Other expense'. In addition, the ROU asset is tested for impairment losses where there is an impairment event.

The Company evaluates contracts greater than one year to determine whether they contain lease components at inception. Where contracts contain both lease and non-lease components, they are accounted for as a single lease.

The Company presents ROU assets within the 'Property, plant and equipment' line and lease liabilities within the 'Trade and other payables' line of the statement of financial position.

n. Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the year end date, taking into account the risks and uncertainties surrounding the obligation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o. Employee compensation plans

i) Equity-settled share-based compensation plans

Morgan Stanley issues awards in the form of restricted stock units ("RSUs") to employees of the Morgan Stanley Group for services rendered to the Company. Awards are equity-settled and the cost of the equity-based transactions with employees is measured based on the fair value of the equity instruments at grant date. The fair value of RSUs is based on the market price of Morgan Stanley common stock, measured as the volume-weighted average price ("VWAP") on the date of grant. The fair value of RSUs not entitled to dividends until conversion is measured at VWAP reduced by the present value of dividends expected to be paid on the underlying shares prior to scheduled conversion date.

Awards generally contain clawback and cancellation provisions. Certain awards provide Morgan Stanley the discretion to cancel all or a portion of the award under specified circumstances. Compensation expense for these awards is adjusted for changes in the fair value of the Morgan Stanley's common stock until conversion.

The Company recognises compensation cost over the relevant vesting period for each separately vesting portion of the award. An estimation of awards that will be forfeited prior to vesting due to the failure to satisfy service conditions is considered in calculating the total compensation cost to be amortised over the relevant vesting period.

Under Group chargeback agreements, the Company pays Morgan Stanley for the procurement of shares. The Company pays Morgan Stanley the grant date fair value and any subsequent movement in fair value up to the time of delivery to the employees.

Share based compensation expense is recorded within 'Other expense' in the income statement.

ii) Deferred cash-based compensation plans

Morgan Stanley awards deferred cash-based compensation on behalf of the Company for the benefit of employees, providing a return to the participating employees based upon the performance of various referenced investments. Compensation expense for deferred cash-based compensation awards is calculated based on the notional value of the award granted, adjusted for changes in the fair value of the referenced investments that employees select.

The Company recognises compensation cost over the relevant vesting period for each separately vesting portion of the award. Forfeitures due to failure to satisfy service conditions are accounted for as they occur.

Deferred cash-based compensation expense is recorded within 'Other expense' in the income statement. The liability for the awards is measured at fair value and is included within 'Other liabilities' in the statement of financial position.

Although changes in compensation expense resulting from changes in the fair value of the referenced investments will generally be offset by changes in the fair value of derivative transactions entered into by the Company, there is typically a timing difference between the immediate recognition of gains and losses on the derivatives and the deferred recognition of the related compensation expense over the vesting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p. Post-employment benefits

The Company operates defined contribution and defined benefit post-employment plans.

Contributions due in relation to the Company's defined contribution post-employment plan are recognised in 'Other expense' in the income statement when payable.

For the Company's defined benefit post-employment plan, the plan obligations are measured on an actuarial basis in accordance with the advice of an independent qualified actuary using the projected unit credit method and discounted at a rate that reflects the current rate of return on a high quality corporate bond of equivalent term and currency to the plan liabilities. Plan assets are measured at their fair value at the reporting date. A surplus or deficit of plan assets over liabilities is recognised in the statement of financial position as an asset or a liability respectively. If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The current service cost and any past service costs together with the net interest on the net defined benefit obligation/ asset is charged to 'Staff costs' within 'Other expense' in the income statement.

Remeasurements that arise in calculating the Company's obligation in respect of a plan are recognised in other comprehensive income, in the period in which they occur.

Details of the plans are given in note 32 to these financial statements.

q. Deferred commission asset

The Company pays up-front costs to third party distributors on certain classes of fund units on which it may earn fees (such as management fees) from the underlying fund whilst its fund units remain in issuance. Additionally, the Company earns a contingent deferred sales charge ("CDSC") on such units if the fund unitholders redeem before a specified time. CDSC income is reported in 'Investment management fees' within 'Fee and commission income' on the income statement. Accordingly, such upfront distribution costs are deferred and amortised over the expected life of the contract where the contract duration exceeds one year and costs are expected to be recovered. The deferred costs are reported in the 'Deferred commission asset' within 'Other assets' in the statement of financial position.

The deferred commission asset is assessed for impairment at each reporting date. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds the future revenues expected to be earned from the relevant fund units, less the future costs that relate directly to providing the related services. Such impairment losses are recognised in the income statement within 'Other expense' and are recognised against the carrying amount of the impaired asset on the statement of financial position. Deferred commission assets that have suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

4. FEE AND COMMISSION INCOME

	2020 $'000	2019 $'000
Investment management fees	896,257	751,740
Distribution fees	42,077	46,743
Administration fees	71,283	51,578
Performance fees	36,472	9,948
Sub-advisory fees	33,579	36,083
	1,079,668	896,092
Of which, revenue from contracts with customers	1,251,786	980,982

Total fee and commission income is stated after the adjustment for certain arrangements which do not relate to contracts with customers, including revenues totalling $172,118,000 (2019: $84,913,000) transferred to other Morgan Stanley Group undertakings as a result of intra-group policies which ensure that revenues and related costs are matched.

Included within revenue from contracts with customers are revenues from other Morgan Stanley Group undertakings of $1,058,568,000 (2019: $837,297,000).

Contract assets from contracts with customers, included within 'Other assets' total $48,423,000 (2019: $44,300,000). There are no contract liabilities from contracts with customers (2019: none).

5. OTHER REVENUE

	2020 $'000	2019 $'000
Net foreign exchange gain	-	525

Other income for the year ended 31 December 2019 relates to foreign exchange income. For the year ended 31 December 2020 net foreign exchange losses are presented within 'Other expense' (note 8).

6. INTEREST INCOME AND INTEREST EXPENSE

'Interest income' represents total interest generated from financial assets at amortised cost whilst 'Interest expense' represents total interest arising on financial liabilities at amortised cost. All interest income and expense is calculated using the EIR method (see accounting policy 3(c)(iii)).

No gains or losses have been recognised in respect of financial assets and liabilities measured at amortised cost other than those disclosed as 'Interest income', 'Interest expense' and foreign exchange differences as disclosed in 'Other expense' (note 8).

MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2020

7. NET GAINS ON INVESTMENT IN SUBSIDIARY

	2020 $'000	2019 $'000
Dividend income from investment in subsidiary	-	22,360

8. OTHER EXPENSE

	2020 $'000	2019 $'000
Fee and commission expense:		
Fee sharing and distribution expenses	449,886	366,202
Direct staff costs	16,408	15,330
Management charges from other Morgan Stanley Group undertakings relating to staff costs	197,730	193,495
Management charges from other Morgan Stanley Group undertakings relating to other services	211,410	175,775
Depreciation on property, plant and equipment	397	396
Net foreign exchange losses	306	-
Auditors remuneration:		
Fees payable to the Company's auditors and its associates for the audit of the Company's annual financial statements	61	73
Fees payable to the Company's auditors and its associates for other assurance services to the Company	20	18
Other	1,538	477
	877,756	751,766

Direct staff costs

The average number of employees of the Company is analysed below:

	2020 Number	2019 Number
Dividend income from investment in subsidiary	27	28

8. OTHER EXPENSE (CONTINUED)

The costs of direct staff are analysed below:

	2020 $'000	2019 $'000
Wages and salaries	14,579	13,442
Social security costs	1,144	1,090
Pension costs	685	798
	16,408	15,330

On 1 January 2019, 13 employees were transferred from the Company's Luxembourg branch to MSIM FM Luxembourg branch. On 31 December 2020, 12 employees transferred from the Company's Milan branch to MSIM FM Milan branch, 7 employees transferred from the Company's Frankfurt branch to MSIM FM Frankfurt branch and 6 employees transferred from the Company's Amsterdam branch to MSIM FM Amsterdam branch.

The amount of remuneration received by Directors in respect of their qualifying services to the Company is disclosed in note 33 'Related party disclosures'.

9. INCOME TAX EXPENSE

Analysis of expense in the year	**2020 $'000**	**2019 $'000**
Current tax expense		
UK corporation tax at 19% (2019: 19%)		
- Current tax	-	(509)
- Adjustments in respect of prior years	(1)	(14,464)
Foreign tax		
- Current tax	3,765	3,143
- Adjustments in respect of prior years	(12)	(75)
Total current tax	3,752	(11,905)
Deferred tax expense		
Origination and reversal of temporary differences	1,291	(84)
Effect of changes in tax rates	-	102
Total deferred tax	1,291	18
Income tax expense (credit)	5,042	(11,887)

Finance (No.2) Act 2015 reduced the UK main rate of corporation tax to 17% with effect from 1 April 2020. However, Finance Act 2020 removed the reduction to 17% with effect from 1 April 2020 and the UK main rate remains 19% for the financial year 2020, which impacts the current tax charge in the current year.

As part of the UK Budget on 3 March 2021, the Chancellor announced a rise in the UK main rate of corporation tax from 19% to 25% with effect from 1 April 2023. While this change does not affect the income tax charge for the year, if enacted it will affect future years.

See note 21 'Deferred Tax Assets' for further details.

9. INCOME TAX EXPENSE (CONTINUED)

Reconciliation of effective tax rate

The current year income tax expense is lower (2019: lower) than that resulting from applying the average standard rate of corporation tax in the UK for the year of 19% (2019: 19%). The main differences are explained below:

	2020 $'000	2019 $'000
Profit before taxation	205,235	172,711
Income tax using the average standard rate of corporation tax in the UK of 19% (2019: 19%)	38,995	32,815
Impact on tax of:		
Expenses not deductible for tax purposes	1	407
Group relief received for no cash consideration	(35,858)	(26,419)
Effect of tax rates in foreign jurisdictions	322	(57)
Other permanent differences	1,655	426
Tax (over)/ under provided in prior years	(13)	(14,539)
Currency translation on tax	(59)	(484)
Income not subject to taxes	-	(4.248)
Chargeable gain	-	212
Total income tax expense/ (credit) in the income statement	5,042	(11,887)

10. FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY

All financial assets and financial liabilities are measured at amortised cost, with the exception of 'Investment securities' which are mandatorily measured at fair value through profit or loss.

11. LOANS AND ADVANCES

	2020 $'000	2019 $'000
Amounts due from other Morgan Stanley Group undertakings	293,397	207,238

12. INVESTMENT SECURITIES

	2020 $'000	2019 $'000
Investment securities (FVPL – non-trading)		
Corporate equities	4	4

All investments classified as 'Investment securities (FVPL – non-trading)' are unlisted.

13. TRADE AND OTHER RECEIVABLES

	2020 $'000	2019 $'000
Trade receivables	51,234	14,920
Other receivables:		
Amounts due from other Morgan Stanley Group undertakings	145,210	80,229
Other amounts receivable	324	3,897
	196,768	99,046

14. OTHER ASSETS

	2020 $'000	2019 $'000
Deferred commission asset	75,836	85,715
Accrued income	48,423	44,300
Other assets	841	894
	125,100	130,909

The following table shows distribution costs deferred and amortised over the expected life of contracts, where their duration exceeds one year and the costs are expected to be recovered:

Deferred commission asset	2020 $'000	2019 $'000
Carrying amount		
At 1 January	85,715	90,784
Additions	42,398	48,296
Amortisation	(52,277)	(53,365)
At 31 December	75,836	85,715

Contract assets from contracts with customers, shown as accrued income above represent investment management and performance fees recognised but not yet billed. Contract assets recognised at the end of each reporting period are billed in full during the following year.

15. INVESTMENTS IN SUBSIDIARIES

	Subsidiary undertakings $'000
Cost and net book value	
At 1 January 2020 and 31 December 2020	13,440

Details of all investments in subsidiaries of the Company at 31 December 2020 and 31 December 2019 are as follows:

Name of Company	Address of undertaking's registered office	Type of shares held	Proportion of shares held		Proportion of voting rights held		Nature of business
			2020	2019	2020	2019	
Morgan Stanley Investment Management (ACD) Limited	25 Cabot Square, Canary Wharf, London, United Kingdom, E14 4QA	Ordinary	100%	100%	100%	100%	Investment Management

Information regarding interests in structured entities is included in note 16.

16. INTERESTS IN STRUCTURED ENTITIES

The Company is involved with various special purpose entities in the normal course of business. In most cases, these entities are considered to be structured entities.

The Company has interests in structured entities in the form of fee and commissions income from investment management funds via delegation of investment management services from the Company's subsidiary, MSIM (ACD) and another Morgan Stanley Group undertaking, MSIM FM. These funds are primarily UCITS and UK authorised open-ended investment companies. The Company does not hold any equity interest in these funds. Where equity interests are held, they are held by another Morgan Stanley Group undertaking.

The power to make the most significant economic decisions may take a number of different forms. In fund structures, the power to appoint or direct the fund manager is generally the most significant power.

Consolidated structured entities

As at 31 December 2020 the Company did not have any consolidated structured entities (2019: nil).

16. INTERESTS IN STRUCTURED ENTITIES (CONTINUED)

Sponsored unconsolidated structured entities

The Company considers itself the sponsor of certain non-consolidated structured entities where it has been involved in the establishment of a structured entity and where the Company is involved in providing investment management services to the entity.

The gain related to sponsored entities during the year was $1,014,112,000 (2019: $793,377,000) which is received via the Company's subsidiary, MSIM (ACD) and another Morgan Stanley Group undertaking, MSIM FM. Gains or losses are reported under 'Fee and commission income' in the income statement. During the current and prior years, no assets transferred to those sponsored entities.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements $'000	Fixtures, fittings and equipment $'000	Right-of-use assets: Property $'000	Total $'000
Cost				
At 1 January 2020	864	312	853	2,029
Additions	-	17	23	40
Restructuring transfer	-	(357)	-	(357)
Foreign exchange revaluation	66	28	-	94
At 31 December 2020	930	-	876	1,806
Depreciation				
At 1 January 2020	356	166	184	706
Charge for the year	141	24	185	350
Restructuring transfer	-	(206)	-	(206)
Foreign exchange revaluation	31	16	-	47
At 31 December 2020	528	-	369	897
Carrying amount				
At 31 December 2020	402	-	507	909

18. TRADE AND OTHER PAYABLES

	2020 $'000	2019 $'000
Trade payables	520	367
Other payables:		
Amounts due to other Morgan Stanley Group undertakings	138,297	54,477
Lease liabilities	547	660
Other amounts payable	8,059	7,920
	147,423	63,424

19. DEBT AND OTHER BORROWINGS

	2020 $'000	2019 $'000
Subordinated loans	51,000	51,000
Amounts due to other Morgan Stanley Group undertakings	480	5,512
	51,480	56,512

The amount subject to subordinated loan agreements is wholly repayable as shown below:

Counterparty	Repayment date	Interest rate	2020 $'000 Interest	2020 $'000 Balance	2019 $'000 Interest	2019 $'000 Balance
Morgan Stanley Investments (UK) (the "Lender")	21 December 2025	OBFR (1) plus 208.6 bps	1,273	51,000	2,188	51,000

(1) Overnight Bank Funding Date ("OBFR")

All amounts outstanding under subordinated loan agreements are repayable on 21 December 2025. Any repayment of subordinated loans prior to contractual maturity would require mutual agreement between the Company and the Lender and prior supervisory consent by the FCA.

The Company has not defaulted on principal, interest or breached any terms of its subordinated loan during the year.

20. PROVISIONS

The following table sets out the provisions recognised under IAS 37 '*Provisions, contingent liabilities and contingent assets*':

	Property $'000
At 1 January 2020	156
Foreign exchange revaluation	(2)
At 31 December 2020	154

Property

Property provisions represent the net present value of expected future costs of reinstating leasehold improvements at the end of the lease term. Lease reinstatement provisions are released when the reinstatement obligations have been fulfilled. The related asset for lease reinstatement provisions is included in 'Leasehold improvements' within 'Property, plant and equipment' (note 17).

21. DEFERRED TAX ASSETS

Deferred taxes are calculated on all temporary differences under the liability method. The movement in the deferred tax account is as follows:

	2020 $'000	2019 $'000
At 1 January	1,269	1,238
Amount recognised in the income statement	(1,291)	84
Amount recognised in other comprehensive income	(78)	71
Impact of change in tax rate(s)	-	(101)
Foreign exchange adjustment	111	(23)
At 31 December	11	1,269

21. DEFERRED TAX ASSETS (CONTINUED)

For the purpose of presentation in the statement of financial position, certain deferred tax assets and liabilities have been offset. The deferred tax included in the statement of financial position and changes recorded in 'Income tax expense' are as follows:

	Deferred tax asset 2020 $'000	Income statement 2020 $'000	Deferred tax asset 2019 $'000	Income statement 2019 $'000
Depreciation – temporary differences	10	-	10	-
Deferred compensation and post-employment benefits	-	1,291	280	(116)
Goodwill	-	-	791	134
Other temporary differences	1	-	188	-
	11	1,291	1,269	18

Finance (No.2) Act 2015 reduced the UK main rate of corporation tax to 17% with effect from 1 April 2020. However, Finance Act 2020 removed the reduction to 17% with effect from 1 April 2020 and the UK statutory rate remains 19% for the financial years 2020. Had this change in rate been effective at the balance sheet date for 2019, due to revaluation the net deferred tax asset recognised at 31 December 2019 would have been $1,270,000.

The deferred tax assets recognised are based on management assessment that it is probable that the Company will have taxable profits against which the temporary differences can be utilised.

22. LEASES

The Company's leases are primarily real estate leases. The firm has made the election to include the non-lease component when computing the ROU asset and liability.

The Statement of Financial Position includes ROU assets within 'Property, plant and equipment' (note 17) and lease liabilities within 'Trade and other payables' (note 18).

The Income Statement includes depreciation of right-of-use assets within 'Other expense' (note 8) and interest expense on lease liabilities within 'Interest expense' (note 6).

The total cash outflow relating to leases was $241,000 during the year (2019: $184,000).

23. EQUITY

Ordinary share capital	**Ordinary shares of £1 each Number**	**Ordinary shares of £1 each $'000**	**Ordinary shares of $1 each Number**	**Ordinary shares of $1 each $'000**
Allotted and fully paid				
At 1 January 2020 and 31 December 2020	2	-	1,000,000	1,000

The holders of both the ordinary £1 shares and the $1 shares are entitled to receive dividends as declared from time to time and are entitled, on a show of hands, to one vote and, on a poll, one vote per share at meetings of the shareholders of the Company. All shares rank equally with regard to the Company's residual assets.

All ordinary shares are recorded at the rates of exchange ruling at the date the shares were paid up.

Reserves

Currency translation reserve

The 'Currency translation reserve' of $88,000 loss (2019: $2,439,000 loss) comprises all foreign exchange differences arising from the translation of the total assets less total liabilities of foreign operations.

Pension reserve

The 'Pension reserve' of $nil (2019: $154,000 loss) comprised the cumulative actuarial gains or losses on the schemes' assets and obligations net of current tax relating to the Company's Frankfurt and Milan branches prior to the transfer of their operations to MSIM FM, another Morgan Stanley Group undertaking. Details of the pensions schemes are provided in note 32 'Post-employment benefits'. As a result of the transfer of business discussed in note 34, the adjustment in the pension reserve reflecting pre-transfer actuarial gains/losses relating to the defined benefit plan of $308,000 was transferred to retained earnings.

24. DIVIDENDS

The following amounts represent the dividends paid in the current and prior year:

	2020 Per share $	**2020 Total $'000**	**2019 Per share $**	**2019 Total $'000**
Dividends on ordinary shares	163	163,000	120	120,000

25. EXPECTED MATURITY OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered, realised or settled.

At 31 December 2020	Less than or equal to 12 months $'000	More than 12 months $'000	Total $'000
ASSETS			
Cash and short-term deposits	122,231	-	122,231
Loans and advances	293,397	-	293,397
Investment securities	-	4	4
Trade and other receivables	196,768	-	196,768
Deferred tax assets	4	7	11
Other assets	87,777	37,323	125,100
Investments in subsidiaries	-	13,440	13,440
Property, plant and equipment	-	909	909
	700,177	51,683	751,860
LIABILITIES			
Trade and other payables	147,083	340	147,423
Debt and other borrowings	-	51,480	51,480
Provisions	-	154	154
Current tax liabilities	12,127	-	12,127
Other liabilities	127,197	809	128,006
	286,407	52,783	339,190

25. EXPECTED MATURITY OF ASSETS AND LIABILITIES (CONTINUED)

At 31 December 2019	Less than or equal to 12 months $'000	More than 12 months $'000	Total $'000
ASSETS			
Cash and short-term deposits	126,752	-	126,752
Loans and advances	207,238	-	207,238
Investment securities	-	4	4
Trade and other receivables	99,046	-	99,046
Deferred tax assets	312	957	1,269
Other assets	86,392	44,517	130,909
Investments in subsidiaries	-	13,440	13,440
Property, plant and equipment	-	1,323	1,323
	519,740	60,241	579,981
LIABILITIES			
Trade and other payables	62,938	486	63,424
Debt and other borrowings	5,510	51,002	56,512
Provisions	-	156	156
Current tax liabilities	8,191	-	8,191
Other liabilities	95,579	-	95,579
Post-employment benefit obligations	-	702	702
	172,218	52,346	22,564

26. SEGMENT REPORTING

The Company has only one class of business as described in the Strategic report and operates in one geographic market, EMEA.

27. FINANCIAL RISK MANAGEMENT

Risk Management Procedures

Risk is an inherent part of the Company's business activity. The Company seeks to identify, assess, monitor and manage each of the various types of risk involved in its business activities in accordance with defined policies and procedures. The Company has developed its own risk management policy framework, which is consistent with and leverages the risk management policies and procedures of the Morgan Stanley Group and which include escalation to the Company's Board of Directors and to appropriate senior management personnel of the Company.

The Company's management of operational risk, deemed to be a material risk of the Company's business activity, is included in the Risk Management section of the Strategic report on pages 8 to 15. Other risks faced by the Company resulting from its financing and investment activities are set out below and are not deemed to be material risks.

Credit Risk

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the Company. The Company primarily incurs credit risk exposure to institutions and sophisticated investors through its Investment Management business.

The Company's credit risk management policies and procedures establish the framework for identifying, measuring, monitoring and controlling credit risk whilst ensuring transparency of material credit risks and escalating risk concentrations to appropriate senior management.

The Company may incur credit risk exposure through its investment management activities to third party debtors, other Morgan Stanley Group undertakings and credit institutions where the Company holds surplus or operating cash. Due to the nature of the activities and the following controls in place to mitigate the risk, the credit exposure to the Company is not considered to be material.

Monitoring and Control

To protect the Company from losses, the Morgan Stanley Group's Credit Risk Management Department establishes Firm-wide practices to evaluate, monitor and control credit risk exposure.

Examples of risk mitigation include, but are not limited to, the following:

- Cash and short-term deposits are placed with highly-rated approved banks to mitigate the risk of loss.
- Trade receivables comprise amounts due from investment management funds and segregated managed accounts. In the case of investment management funds, following issuance of an invoice, the amounts receivable may be settled from the AUM of the fund, which serves as a credit enhancement given the receivables rank senior to the issued fund units. In the case of segregated managed accounts, the Company, having followed credit risk management procedures is satisfied that the credit risk is minimal.
- Loans and advances and other receivables primarily comprise amounts due from other Morgan Stanley Group undertakings, where both the Company and the other Morgan Stanley Group undertakings are wholly-owned subsidiaries of the same ultimate parent entity, Morgan Stanley. As a result of the implicit support that would be provided by Morgan Stanley, the Company is considered exposed to the credit risk of Morgan Stanley, except where the Company transacts with other Morgan Stanley Group undertakings that have a higher credit rating to that of Morgan Stanley.

All exposures are monitored on an on-going basis.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Exposure to credit risk

The maximum exposure to credit risk ("gross credit exposure") of the Company as at 31 December 2020 is disclosed below, based on the carrying amounts of the financial assets the Company believes are subject to credit risk. Within the table financial instruments subject to accounting ECL are distinguished from those that are not.

The Company does not have any significant exposure arising from items not recognised on the statement of financial position.

The Company does not hold financial assets considered to be credit-impaired.

Exposure to credit risk by class	Gross credit exposure[1]	
	2020	**2019**
	$'000	**$'000**
Subject to ECL:		
Cash and short-term deposits	122,231	126,752
Loans and advances	293,397	207,238
Trade and other receivables	196,768	99,046
Not subject to ECL[2]:		
Investment securities	4	4
	612,400	433,040

(1) The carrying amount recognised in the statement of financial position best represents the Company's maximum exposure to credit risk.
(2) Financial assets measured at FVPL are not subject to ECL.

Expected credit loss measurement

As explained in note 3(f), in order to assess whether an instrument is subject to a 12 month ECL or to a lifetime ECL, and therefore its appropriate staging, the Company determines whether there has been a SICR for the instrument since initial recognition.

When making this assessment, the Company considers both quantitative and qualitative information and analysis based on the Company's historical experience and expert credit risk assessment, including forward-looking information.

At 31 December 2020, the Company has determined that the ECL for its financial instruments is not material, reflecting their short term nature and/ or the benefit of other credit mitigants.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Exposure to credit risk by internal rating grades

Internal credit ratings are derived using methodologies generally consistent with those used by external agencies.

Investment grade:	internal grades AAA - BBB
Non-investment grade:	internal grades BB - CCC
Default:	internal grades D

The table below shows gross carrying amount and, in the case of unrecognised financial instruments, nominal amounts by internal rating grade. All exposures subject to ECL are Stage 1, unless otherwise shown.

The Company measures lifetime credit losses on trade receivables under the simplified approach, reported as stage 1 where they are not credit-impaired.

The Company believes that this presentation, which is more consistent with industry practice for such disclosures, better reflects the credit risk associated with such assets, notwithstanding the fact that a lifetime approach is used for their ECL measurement and provides more relevant information.

		ECL Staging Stage 1 12-month ECL
	2020 $'000	**2019 $'000**
Cash and short-term deposits:		
Investment grade	122,231	126,752
Loans and advances:		
Investment grade	293,397	207,238
Trade and other receivables:		
Investment grade		
Trade receivables	51,234	14,920
Other receivables	145,209	79,825
Unrated		
Other receivables	325	4,301[(1)]
Carrying amount	612,396	433,036

(1) Counterparties are mainly local tax authorities, hence exposure to credit risk deemed low.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Ageing analysis	Less than 1 month past due $'000	1 month– 2 months past due $'000	2 months- 3 months past due $'000	3 months- 6 months past due $'000	6 months- 1 year past due $'000	More than 1 year past due $'000	Total $'000
31 December 2020							
Trade receivables	748	302	840	1,476	799	-	4,165
31 December 2019							
Trade receivables	954	478	253	775	377	20	2,857

There are no concerns surrounding recoverability of the above aged balances. No amounts that were previously past due were written off in the current year. As at the date of approval of these financial statements the balance of receivables past due as at 31 December 2020 was reduced to $2,965,000 (2019: $663,000).

The main considerations for assessing whether there has been a SICR include whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Company assesses each individually significant asset on an individual basis. Items considered include the sustainability of the counterparty's business plan, the counterparty's ability to improve performance once a financial difficulty has arisen and the timing of expected cash flows.

Liquidity and Funding Risk

Liquidity and Funding Risk refers to the risk that the Company will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity Risk also encompasses the Company's ability (or perceived ability) to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern. Liquidity Risk also encompasses the associated funding risks triggered by the market or idiosyncratic stress events that may cause unexpected changes in funding needs or an inability to raise new funding.

The Morgan Stanley Group's Liquidity Risk Management Framework is critical to helping ensure that the Morgan Stanley Group, including the Company, maintains sufficient liquidity resources and durable funding sources to meet its daily obligations and to withstand unanticipated stress events.

The Required Liquidity Framework establishes the amount of liquidity the Company must hold in both normal and stressed environments to ensure that its financial condition and overall soundness is not adversely affected by an inability (or perceived inability) to meet its financial obligations in a timely manner.

The Company uses Liquidity Stress Tests to model external and intercompany liquidity flows across multiple scenarios and a range of time horizons. These scenarios contain various combinations of idiosyncratic and systemic stress events of different severity and duration. The methodology, implementation, production and analysis of the Company's Liquidity Stress Tests are important components of the Required Liquidity Framework. Additionally, based on Liquidity Stress Tests appropriate thresholds have been set and approved by the Board of Directors to ensure sufficient liquidity is available for the business at all times.

At 31 December 2020 and 31 December 2019, the Company maintained sufficient liquidity to meet current and contingent funding obligations as modelled in its Liquidity Stress Tests.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and Funding Risk (continued)

The Company holds its own Liquidity Reserve which is spread across external and inter-affiliate accounts.

The LRD is a distinct area in Risk Management, which oversees and monitors Liquidity Risk. The LRD ensures transparency of material liquidity risks, compliance with established risk limits and escalation of risk concentrations to appropriate senior management. To execute these responsibilities, the LRD:

- Establishes limits in line with the Company's risk appetite;
- Identifies and analyses emerging liquidity risks to ensure such risks are appropriately mitigated;
- Monitors and reports risk exposures against metrics and limits, and;
- Reviews the methodologies and assumptions underpinning the Company's Liquidity Stress Tests to ensure sufficient liquidity and funding under a range of adverse scenarios.

The liquidity risks identified by these processes are summarised in reports produced by the LRD that are circulated to and discussed with the EMEA ALCO, ERC and MSI Group Risk Committee, as appropriate.

The Treasury Department and the BU have primary responsibility for evaluating, monitoring and controlling the liquidity and funding risks arising from the Company's business activities, and for maintaining processes and controls to manage the key risks inherent in their respective areas. The LRD coordinates with the Treasury Department and BU to help ensure a consistent and comprehensive framework for managing liquidity risks across the Company.

Balance sheet management

In managing both the Morgan Stanley Group's and the Company's funding risk the composition and size of the entire balance sheet, not just financial liabilities, is monitored and evaluated. The liquid nature of marketable securities and short-term receivables arising principally from sales and trading activities in the Institutional Securities business provides the Morgan Stanley Group and the Company with flexibility in managing the composition and size of its balance sheet.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and Funding Risk (continued)

Maturity analysis

In the following maturity analysis of financial assets and financial liabilities, all amounts represent undiscounted cash flows receivable and payable by the Company arising from its financial assets and financial liabilities to earliest contractual maturities as at 31 December 2020 and 31 December 2019. Receipts of financial assets and repayments of financial liabilities that are subject to immediate notice are treated as if notice were given immediately and are classified as on demand. This presentation is considered by the Company to appropriately reflect the liquidity risk arising from these financial assets and financial liabilities, presented in a way that is consistent with how the liquidity risk on these financial liabilities is managed by the Company.

31 December 2020	On demand $'000	Equal to or more than 3 months but less than 1 year $'000	Equal to or more than 1 year but less than 5 years $'000	Equal to or more than 5 years $'000	Total $'000
Financial assets					
Cash and short-term deposits	122,231	-	-	-	122,231
Loans and advances	293,397	-	-	-	293,397
Investment securities	4	-	-	-	4
Trade and other receivables	196,768	-	-	-	196,768
Total financial assets	612,400	-	-	-	612,400
Financial liabilities					
Trade and other payables	146,896	1,343	5,073	-	153,312
Debt and other borrowings	-	-	51,480	-	51,480
Total financial liabilities	146,896	1,343	56,553	-	204,792

31 December 2019	On demand $'000	Equal to or more than 3 months but less than 1 year $'000	Equal to or more than 1 year but less than 5 years $'000	Equal to or more than 5 years $'000	Total $'000
Financial assets					
Cash and short-term deposits	126,752	-	-	-	126,752
Loans and advances	207,238	-	-	-	207,238
Investment securities	4	-	-	-	4
Trade and other receivables	99,046	-	-	-	99,046
Total financial assets	433,040	-	-	-	433,040
Financial liabilities					
Trade and other payables	62,764	1,956	7,825	1,897	74,442
Debt and other borrowings	5,510	-	2	51,000	56,512
Total financial liabilities	68,274	1,956	7,827	52,897	130,954

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and Funding Risk (continued)

Market Risk

Market Risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities, correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio.

Market risk management policies and procedures for the Company are in place to ensure that investment strategies are in line with investment objectives, which are set out at a product and strategy level. The Company is not directly exposed to the market risk of funds managed, as it does not normally hold any equity interest in these funds. No equity interest in these funds was held by the Company in 2019 and 2020. The policies and procedures are consistent with those of the Morgan Stanley Group and include escalation to the Company's Board of Directors and appropriate senior management personnel.

The Company is exposed to the following types of market risk under the definition above: interest rate risk and currency risk.

Interest Rate Risk

Interest Rate Risk is defined by IFRS 7 as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has funds deposited with external institutions or loaned to affiliates within the MSI Group. The Company's outstanding deposit is overnight in duration and its affiliate loan is on a 40-day evergreen term and therefore exhibits limited interest rate risk.

The application of a parallel shift in interest rates of 50 basis points increase or decrease to these positions, would result in a net gain or loss of approximately $1,058,000 (2019: $802,000).

Currency Risk

The Company has foreign currency exposure on its assets and liabilities in currencies other than US dollars, which primarily arise from revenue and expenses denominated in currencies other than US dollars. It actively manages this foreign currency exposure by hedging with other Morgan Stanley Group undertakings. The residual currency risk for the Company from this activity is not material.

The majority of this foreign currency risk has been hedged by other members of the Morgan Stanley Group, primarily Morgan Stanley, by utilising spot and forward foreign currency exchange contracts.

28. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

As disclosed in note 2 Statement of Compliance, the Company is exempt from certain disclosure requirements of IFRS 13 '*Fair value measurement*' ("IFRS 13") to the extent that they apply to assets and liabilities other than financial instruments. As such the disclosure included in this note relates only to financial instruments.

The carrying value of the Company's financial assets at FVPL is $4,000 (2019: $4,000) recognised in 'Investment securities' in the statement of financial position and classified as Level 3 according to the fair value hierarchy. There are no financial liabilities at FVPL (2019: none).

Valuation techniques for assets and liabilities measured at fair value on a recurring basis

Asset / Valuation Technique	Valuation Hierarchy Classification
Financial assets at FVPL (non-trading)	
Corporate Equity Investments	
• The Company's investments are direct investments in non-exchange-traded equity securities.	
• Initially, the transaction price is generally considered by the Company as the exit price and is the Company's best estimate of fair value. After initial recognition, the fair value is based on the financial statements of the underlying investment which are prepared annually and are available to shareholders.	• Level 3

No gains or losses relating to the Company's Level 3 financial assets were recognised in the income statement for the current and prior year.

There were no purchases, sales, issues, settlements or other transfers into or out of Level 3 of the fair value hierarchy during the current and prior year.

29. ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

As disclosed in note 2 Statement of compliance, the Company is exempt from certain disclosure requirements of IFRS 13 to the extent that they apply to assets and liabilities other than financial instruments. As such the disclosure included in this note relates only to financial instruments.

The table below presents the carrying value, fair value and fair value hierarchy category of certain financial liabilities that are not measured at fair value in the statement of financial position.

Financial assets and financial liabilities not measured at fair value for which the carrying value is considered a reasonable approximation of fair value are excluded from the table below.

	Carrying value		Fair value(1)	
	2020	***2019***	**2020**	***2019***
	$'000	**$'000**	**$'000**	**$'000**
Financial liabilities				
Debt and other borrowings				
Subordinated loans	51,000	51,000	54,570	53,862

(1) Valuation techniques using observable inputs (Level 2).

The fair value is determined based on the assumption that all subordinated loans are held to the latest repayment date.

30. CAPITAL MANAGEMENT

In order to maintain or adjust its capital structure, the Company may pay dividends, return capital to its shareholder, issue new shares or repay subordinated debt. Details of its managed capital are set out in the table below, with details of the Company's capital as measured in accordance with CRD IV rules shown within the Strategic report on page 4.

	2020 $'000	2019 $'000
Ordinary share capital	1,000	1,000
Subordinated loans	51,000	51,000
Reserves	411,670	354,417
	463,670	406,417

The Company complied with all of its regulatory capital requirements during the year.

Pillar 3 disclosures and Country-by-Country Reporting

The Company is included in the MSI Group Pillar 3 disclosures which allow investors and other market participants to understand capital adequacy, particular risk exposures and risk management processes of individual firms required by the EU implementation of Basel capital standards.

The Company is also included in the MSI Group consolidated disclosure in order to comply with the provisions of Statutory Instrument 2013 No.3118 Capital Requirements (Country-by-Country Reporting) Regulations 2013, which implements in the UK the requirements set out in Article 89 of the Capital Requirements Directive (Directive 2013/36/EU).

The Pillar 3 disclosures and the Country-by-Country reporting for the MSI Group for the year ended 31 December 2020 will be made available on the Morgan Stanley website at:
https://www.morganstanley.com/ investorrelations

31. EMPLOYEE COMPENSATION PLANS

Morgan Stanley maintains various equity-settled share-based and cash-based deferred compensation plans for the benefit of employees.

Equity-settled share-based compensation plans

Morgan Stanley has granted RSU awards pursuant to several equity-based compensation plans. The plans provide for the deferral of a portion of certain employees' incentive compensation, with awards made in the form of restricted common stock. Awards under these plans are generally subject to vesting over time, generally six months to seven years, and are generally contingent upon continued employment and subject to restrictions on sale, transfer or assignment until conversion to common stock. All, or a portion of, an award may be forfeited if employment is terminated before the end of the relevant vesting period or cancelled after the vesting period in certain situations. Recipients of equity-based awards may have voting rights, at Morgan Stanley's discretion, and generally receive dividend equivalents if the awards vest, unless this is prohibited by regulation.

31. EMPLOYEE COMPENSATION PLANS (CONTINUED)

Deferred cash-based compensation plans

Morgan Stanley has granted deferred cash-based compensation awards to certain employees which defer a portion of the employees' discretionary compensation. The plans generally provide a return based upon the performance of various referenced investments. Awards under these plans are generally subject to a sole vesting condition of service over time, which normally ranges from one to seven years from the date of grant. All, or a portion of, an award may be forfeited if employment is terminated before the end of the relevant vesting period in certain situations. The awards are settled in cash at the end of the relevant vesting period.

Plans operated by fellow Morgan Stanley undertakings

As explained in note 8, the Company utilises the services of staff who are employed by other Morgan Stanley Group undertakings. Management charges are incurred in respect of these employee services which include the cost of equity-settled share based compensation plans and deferred cash-based compensation plans.

32. POST-EMPLOYMENT BENEFITS

Defined contribution plans

The Company's branch in the Netherlands operated defined contribution pension plans which required contributions to be made into an individual insurance policy for each member, held separately from the assets of the Company, with no legal or constructive obligation to pay further contributions. Contributions made into the plans are recognised within 'Direct staff costs' in 'Other expense' as follows:

	2020 $'000	2019 $'000
Amsterdam branch (transferred out on 31 December 2020)	58	74

Of the above, $nil was accrued at 31 December 2020 (2019: $nil).

The Milan and Frankfurt branches and the DIFC representative office of the Company participate in Morgan Stanley defined contribution pension plans which require contributions to be made to funds held in trust, separate from the assets of the Company. The Company pays fixed contributions to the funds, with no legal or constructive obligation to pay further contributions. Contributions made into the plans are recognised within 'Direct staff costs' in 'Other expense' as follows:

	2020 $'000	2019 $'000
Milan branch (transferred out on 31 December 2020)	370	338
Frankfurt branch (transferred out on 31 December 2020)	128	129
DIFC representative office	33	26
	531	493

Of the above, $264,000 was accrued and transferred from the Company at 31 December 2020 (2019: $225,000).

All the above-mentioned plans are open to all eligible employees of the respective branches of the Company.

32. POST-EMPLOYMENT BENEFITS (CONTINUED)

Defined contribution plans (continued)

As a result of restructuring described in note 34, the defined contribution pension plans offered to employees of the Company's Milan, Frankfurt and Amsterdam branches will now be recognised within the Milan, Frankfurt and Amsterdam branches of MSIM FM.

Post-employment benefit obligation

The Company also operated certain Morgan Stanley defined benefit plans, which provided post-employment benefits that are based on length of service and salary. The Company operated the following defined benefit plans:

- Morgan Stanley Investment Management Limited – Milan Branch Leaving Indemnity Plan
- Morgan Stanley Investment Management Limited – Frankfurt Branch General Plan

In addition, as a result of restructuring described in note 34, as at 31 December 2020, there are no longer defined benefit pension obligations recognised in the Company's Milan and Frankfurt branches.

The following table provides a summary of the movement of the present value of the defined benefit obligation and fair value of defined benefit plan assets:

	Present value of obligation $'000	Fair value of plan assets $'000	Total $'000
At 1 January 2020	(887)	410	(477)
Net expense recognised in the income statement	(168)	47	(121)
Remeasurements recognised in the statement of comprehensive income (gross)	(70)	(7)	(77)
Employer contributions	-	64	64
Transfer to branches of MSIM FM	1,125	(514)	611
At 31 December 2020	-	-	-

	Present value of obligation $'000	Fair value of plan assets $'000	Total $'000
At 1 January 2019	(447)	376	(71)
Net (expense)/ income recognised in the income statement	(223)	(9)	(232)
Remeasurements recognised in the statement of comprehensive income (gross)	(217)	(11)	(228)
Employer contributions	-	54	54
At 31 December 2019	(887)	410	(477)

32. POST-EMPLOYMENT BENEFITS (CONTINUED)

Post-employment benefit obligation (continued)

The total defined benefit plan expense recognised in the income statement was $121,000 (2019: $232,000). Of this expense for the year, $84,000 (2019: $243,000) has been recognised in 'Direct staff costs' in 'Other expense' and a $48,000 loss (2019: $12,000 gain) has been recognised in 'Net foreign exchange losses/gains' in 'Other expense' (2019: 'Other revenue'). Actuarial losses of $77,000 (2019: $228,000 losses) have been recognised in the 'Statement of comprehensive income' in addition to relevant deferred taxes of $77,000 (2019: $77,000).

Plans operated by fellow Morgan Stanley undertakings

In addition to the above, along with a number of other Morgan Stanley Group companies, the Company incurs management charges from fellow Morgan Stanley undertakings in respect of post-employment benefits provided to staff utilised by the Company but employed by other Morgan Stanley entities. These management recharges include post-employment benefit costs related to the Morgan Stanley UK Group Pension Plan ('the Plan') operated by Morgan Stanley UK Limited. The Plan is a defined contribution scheme with a closed defined benefit section.

33. RELATED PARTY DISCLOSURES

Directors' remuneration

The Company paid no remuneration to its Directors during the current or prior year. The charges in respect of Directors' qualifying services to the Company have been borne by other Morgan Stanley Group undertakings. The amount of remuneration received by Directors in respect of their qualifying services to the Company is disclosed below:

	2020 $'000	2019 $'000
Total remuneration of all Directors:		
Aggregate remuneration	2,343	2,425
Long term incentive schemes	273	491
Company contributions to pension schemes	31	35
	2,648	2,951
Disclosures in respect of the highest paid Director:		
Aggregate remuneration	1,400	1,403
Long term incentive schemes	241	222
Company contributions to pension schemes	21	22
	1,662	1,647
Aggregate compensation paid to Directors for loss of office	-	-

Directors' remuneration has been calculated as the sum of cash, bonuses, and benefits in kind.

All Directors who are employees of the Morgan Stanley Group are eligible for shares of the parent company, Morgan Stanley, awarded under the Morgan Stanley Group's equity-based long term incentive schemes. In accordance with Schedule 5 paragraph 1(3)(a) of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the above disclosures do not include the value of shares awarded.

33. RELATED PARTY DISCLOSURES (CONTINUED)

Directors' remuneration (continued)

During the year four Directors received restricted stock unit awards in respect of qualifying services including the highest paid Director (2019: five).

The value of assets (other than shares) awarded under other long term incentive schemes has been included in the above disclosures when the awards vest, which is generally within three years from the date of the award.

In addition, one Director has benefits accruing under the Alternative Retirement Plan, a defined benefit scheme, operated by Morgan Stanley UK Limited (2019: two).

The Morgan Stanley Group operates a defined contribution pension scheme, the Morgan Stanley UK Group Pension Plan. There are four Directors to whom retirement benefits are accruing under this defined contribution scheme (2019: five).

The Company has not provided any loans or other credit advances to its Directors during the year (2019: $nil).

34. RESTRUCTURING - UK WITHDRAWAL FROM THE EU

Transfer of the Company's Milan, Frankfurt and Amsterdam branches

As a result of the UK's withdrawal from the EU, on 31 December 2020 the Company transferred part of its business in its Milan, Frankfurt and Amsterdam branches to MSIM FM, an EU based Morgan Stanley Group undertaking. This involved transferring the following assets and liabilities with the carrying values below. The Company also transferred a number of client contracts to MSIM FM.

2020	**Milan branch $'000**	**Frankfurt branch $'000**	**Amsterdam branch $'000**	**Total $'000**
Assets				
Trade and other receivables	6,606	2,327	979	9,912
Property, plant and equipment	17	-	134	151
	6,623	2,327	1,113	10,063
Liabilities				
Trade and other payables	1,734	113	237	2,084
Other liabilities	4,543	1,685	876	7,104
Post-employment benefit obligations	346	529	-	875
	6,623	2,327	1,113	10,063
Employees	12	7	6	25

34. RESTRUCTURING - UK WITHDRAWAL FROM THE EU (CONTINUED)

Transfer of the Company's Milan, Frankfurt and Amsterdam branches (continued)

Consideration received for each of these transfers were:

- 1 ordinary share in MSIM FM with a fair value of €1 for the Milan branch business.
- 8.7 million ordinary shares in MSIM FM with a fair value of €23 million for the Amsterdam branch business.
- No consideration was received for the Frankfurt branch business.
- No consideration was received for the client contracts.

The equity interests in MSIM FM received as consideration had an aggregate fair value of $28,263,000.

Immediately following the receipt of the equity interests in MSIM FM, the ordinary shares were sold to Morgan Stanley Investments (UK), the Company's immediate parent undertaking, for intercompany consideration representing the fair value.

As a result of the Amsterdam branch transfer, the Company recognised a gain of $28,263,000 within retained earnings; and of the Milan and Frankfurt branch transfers, the Company reflected tax impacts of $645,000 loss and $9,755,000 loss within retained earnings respectively. There were no other gains or losses reflected in the financial statements as a result of these transactions.

35. EVENTS AFTER THE REPORTING PERIOD

There have been no significant events since the reporting date.