Registered number: 01981121

Morgan Stanley

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Morgan Stanley Investment Management Limited

Report and Financial Statements

31 December 2023

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The Directors present their Strategic Report for Morgan Stanley Investment Management Limited (the "Company") for the year ended 31 December 2023.

Company Overview

The ultimate parent undertaking and controlling entity of the Company is Morgan Stanley, which together with the Company and Morgan Stanley's other subsidiary undertakings, forms the "Morgan Stanley Group". Morgan Stanley is a global financial services firm authorised as a Financial Holding Company and regulated by the Board of Governors of the Federal Reserve System in the United States of America ("US").

Morgan Stanley International Limited ("MSI") is the ultimate United Kingdom ("UK") parent undertaking of the Company. MSI, together with all of its subsidiary undertakings, forms the "MSI Group".

The Company operates within the financial services industry and is subject to extensive supervision and regulation. Throughout the Strategic Report, the Directors may refer to policies, procedures and practices that the Company shares with the MSI Group.

Principal Activity

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

There has been no change to the Company's principal activity during the year and no significant change is expected.

The Company conducts business from its headquarters in London, UK and operates a branch in Milan, Italy. The Company has continued to operate a representative office in the Dubai International Financial Centre ("DIFC"). On 30 January 2024, the Company obtained a licence to commence arranging and advising activities through a branch in Abu Dhabi. On 1 April 2024, the Company obtained final approval from the Financial Services Regulatory Authority to conduct regulated activity.

Supervision and Regulation

The Company is authorised and regulated by the Financial Conduct Authority ("FCA").

The Company is subject to the Investment Firm Prudential Regime ("IFPR"). The IFPR sets out a regulatory framework applicable to UK investment firms authorised under the UK Markets in Financial Instruments Directive ("MiFID"). The IFPR aims to provide a proportionate and streamlined regulatory framework for non-systemic investment firms prudentially regulated in the UK.

Risk Factors and Business Environment

The business results of the Company's operations may be impacted by exposure to risk factors and the current business environment in which it operates.

Risk Factors

Risk taking is an inherent part of the Company's business activities. 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's Risk Appetite Statement ("RAS") articulates the aggregate level and type of risk that the Company is willing to accept to execute its business strategy and protect its capital and liquidity resources.

The Company has an established Risk Management Framework to support the identification, monitoring and management of risk.

A description of the material risks and how these risks are managed is outlined in the 'Risk Management' section.

Business Environment

The market environment in aggregate for much of 2023 remained mixed, characterised by inflationary pressures and uncertainty regarding the future path of interest rates, which have remained high. Towards the end of the year, the market environment has improved somewhat with the expectation of lower interest rates into 2024. However, there remains uncertainty regarding the timing and pace of the rate reductions along with concerns regarding heightened geopolitical risks that could impact capital markets in 2024. This environment has impacted the performance of the Company, see 'Overview of 2023 Financial Results' section. To the extent that the business environment continues to remain uncertain, it could adversely impact client confidence and related activity.

War in the Middle East

The Company is monitoring the war and increased tensions in the Middle East and its impact on the regional economy, as well as on other world economies and the financial markets.

Future Developments

The Strategic Report contains certain forward-looking statements and information on future developments. These statements are made by the Board of Directors (the "Board") in good faith, based on the information available at the time of the approval of the report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

Financial Performance and Condition

Performance Indicators

To assess the effectiveness of the execution of the strategy, the Board monitors the results of the Company by reference to a range of performance and required regulatory risk based metrics, including, but not limited to the following. The Company's indicators are as at the years ended 31 December 2023 and 31 December 2022, except where indicated.

The Company has consistently been, and continues to be, fully compliant with its financial resources requirements.

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, net inflows/ outflows and sustainable investing criteria.

Return on Shareholders' Equity

in $'000	2023	2022
Total shareholders' equity at beginning of the year	274,985	415,681
Profit after tax	143,809	105,492
Return on shareholders' equity	52.3%	25.4%

Assets Under Management ("AUM")

in $'billion	2023	2022
Year End Spot AUM	170	153
Yearly Average AUM	163	169

Capital Surplus

in $'million	2023	2022
Own Funds Requirement ("OFR")	74	81
Own funds (Tier 1 and Tier 2 capital)	229	229
OFR Capital Surplus	155	148

Overview of 2023 Financial Results

Set out below is an overview of the Company's financial results.

Income Statement

in $ million	2023	2022	Increase/ (decrease)	Variance %
Net revenue	1,019	979	40	4%
Operating expense	856	850	6	1%
Profit before tax	**163**	**129**	**34**	**26%**
Income tax	19	23	(4)	(17%)
Profit after tax	**144**	**106**	**38**	**36%**

Net Revenue

Net revenue increased by 4% reflecting higher asset management and related fees as well as an increase in net interest income driven by higher interest rates.

Operating Expense

Operating expense increased by 1% driven primarily by increased management charges from other MS Group entities relating to staff costs, driven by an increase in headcount supporting the Company's business. This was partially offset by decreased fee sharing, distribution and sub-advisory expenses due to a shift in the mix of AUM.

Income Tax

The effective tax rate ("ETR") of 11.66% (2022: 17.83%) is lower than the statutory rate of 23.52% primarily driven by UK group relief of $18,335,000 (2022: $nil) received for nil consideration.

Statement of Financial Position

in $ million	2023	2022	Increase/ (decrease)	Variance %
Cash and short term deposits	431	268	163	61%
Loans and advances	131	210	(79)	(38%)
Trade and other receivables	149	112	37	33%
Other assets	75	87	(12)	(14%)
Total Assets	**786**	**677**	**109**	**16%**
Trade and other payables	297	287	10	3%
Debt and other borrowings	130	59	71	120%
Other liabilities	45	56	(11)	(20%)
Total Liabilities	**472**	**402**	**70**	**17%**
Total Equity	**314**	**275**	**39**	**14%**

Total Assets

Cash and short term deposits increased by 61% due to an increase in cash retained by the Company for liquidity management purposes. Loans and advances decreased by 38% due to settlement of loans by other Morgan Stanley group entities. Trade and other receivables increased by 33% driven by higher asset management fee receivables due to higher fourth quarter AUM compared with the fourth quarter of 2022.

Total Liabilities

Trade and other payables increased by 3% driven by higher amounts due to other Morgan Stanley Group undertakings as a result of the timing of settlements of intercompany trade payables. Debt and other borrowings increased by 120% due to funding received from other Morgan Stanley group undertakings.

Total Equity

Total Equity increased by 14% reflecting profit after tax of $143,809,000, partially offset by a dividend paid of $105,000,000. Refer to note 18 for details of the dividends paid.

AUM

Set out below is an overview of the Company's AUM movement and composition for the years ended 31 December 2023 and 31 December 2022

	Changes in AUM	
in $'billion	2023	2022
At 1 January	**153**	**214**
Inflows	27	22
Outflows	(35)	(35)
Market impact	25	(48)
At 31 December	**170**	**153**

	Average AUM	
in $'billion	2023	2022
Equity	96	101
Fixed income and Liquidity	33	28
Alternatives and Solutions	34	40
	163	169

Capital and Liquidity Resource Management and Regulation

The Company actively manages 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.

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. Therefore, in the future the Company may expand or contract its capital base to address the changing needs of its businesses, in line with the Morgan Stanley Group's capital management policies.

The Company conducts an Internal Capital Adequacy and Risk Assessment ("ICARA") at least annually in order to meet its obligations under IFPR which the FCA reviews through its Supervisory Review and Evaluation Process ("SREP").

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 obligations and to withstand unanticipated stress events. The Company complied with all liquidity requirements during the year.

Recovery and Resolution Planning

The UK Banking Act 2009 and related legislation established a recovery and resolution framework for UK institutions, including the MSI Group, of which the Company is a part.

Annually, the MSI Group prepares a recovery plan which identifies mitigation tools available in times of severe stress. The Company is covered in the recovery plan and is identified as a material legal entity of the MSI Group.

The MSI Group and the Company produce information required for resolution purposes by the Bank of England ("BoE"), as the UK Resolution Authority as necessary under UK statutory and regulatory requirements.

The Morgan Stanley Group has developed a resolution plan in accordance with the requirements of Section 165(d) of Title 1 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 Morgan Stanley's strategy for resolution of Morgan Stanley upon material financial distress or failure. 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.

Regulatory Developments

There have been no significant regulatory developments during the year.

Risk Management

The business strategy acts as a key driver for the Company's business model, which in turn drives the risk strategy and the consequent risk profile of the Company. The business strategy and risk strategy are considered and aligned as part of the annual strategic review or more frequently if necessary.

Risk Management Framework

Risk taking is an inherent part of the Company's business activities and effective risk management is vital to the success of the company. The Company has established a Risk Management Framework which encompasses the risk management culture, risk governance, approach and practices that support risk identification, measurement, monitoring, escalation, and decision-making processes. This chapter covers the core components of the Framework.

Three Lines of Defence Framework

The Company operates a "Three Lines of Defence" framework, to create a clear delineation of responsibilities between risk owners and independent risk control functions with a view to addressing potential conflicts of interest. The functions responsible for carrying out the activities across the Three Lines of Defence are summarised below.

- **First Line of Defence:** The Business Unit is responsible for managing its strategy and business activities in accordance with the Risk Appetite and Risk Management Framework. Support functions are independent of the Business Unit and support strategy execution of MSI Group's revenue-generating activities.
- **Second Line of Defence:** Independent Risk Management and Control Functions identify, measure, monitor and control risks. Independent Risk Management and Control Functions include, for example, functions performed by the Europe, Middle East and Africa ("EMEA") Risk Division, EMEA Compliance Department (including Financial Crimes), EMEA Operational Risk Department, and Product Control (part of Finance Division).
  - EMEA Risk Division: The EMEA Chief Risk Officer ("CRO") leads, manages and oversees the EMEA Risk Division and is a member of the MSI Board. The EMEA Risk Division is responsible for the independent identification, analysis, monitoring, reporting, challenge and escalation of all market, credit and liquidity risk exposures arising from the company's and EMEA business activities. The EMEA CRO has overall

responsibility for the Enterprise Risk Management Framework applicable to the Company which includes development of Risk Appetite, oversight of relevant risks reflected in the RAS and monitoring and reporting of risks in line with agreed appetite to relevant Boards. The EMEA CRO is assisted by governance across first and second line functions to discharge this responsibility.

- EMEA Second-Line Non-Financial Risk Organisation: The Compliance Department, the Global Financial Crimes Department and the Operational Risk Department are combined into a single Non-Financial Risk Organisation to ensure comprehensive and consistent coverage of non-financial risk. EMEA Second-Line Non-Financial Risk provides independent oversight and challenge of Non-Financial Risk Management and is responsible for identifying, measuring and monitoring non-financial risks.
- Other Independent Risk Management and Control Functions: Finance Control and Assurance Functions determine whether the conceptual framework, governance, measurement and monitoring systems and controls are appropriate for the Company's size, complexity and business activities. The primary EMEA Finance Control and Assurance Functions include EMEA Product Control and the EMEA Regulatory Reporting Quality Assurance Group.

- **Third Line of Defence:** The EMEA Internal Audit Department ("IAD") reports to the MSI Audit Committee and is independent of the Business Units, Support Functions and Risk Management. IAD provides independent assurance on the design quality and operating effectiveness of the Company'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 Policies and Processes

Morgan Stanley has several well-established policies and procedures which set out the standards that govern the identification, measurement, monitoring, management and escalation of the various types of risks involved in its business activities. The Company follows Morgan Stanley Group risk management policies to address local business and regulatory requirements where appropriate.

Risk Culture

The Company's risk management culture is rooted in the following key principles: integrity, comprehensiveness, independence, accountability, and transparency.

The Company has a risk culture that encourages open dialogue, effective challenge, escalation and appropriate reporting of risk to senior management, the MSI Risk Committee, the MSI Board, the Company's Board and the Company's regulators, as well as external disclosures of risk matters. Developing the Company's risk culture is a continuous process and builds upon Morgan Stanley's commitment to its values, including "Do the Right Thing", which make managing risk each employee's responsibility. Senior management promotes the Company's risk culture, which enables individuals across the organisation to make appropriate risk decisions. The Company's RAS is embedded in the Company's risk culture and is linked to its short-term and long-term strategic, capital and financial plans, as well as compensation programmes.

Risk Identification, Risk Appetite and Risk Reporting

Risk Identification

The Company continues to build and improve its risk management processes to keep pace with the growing complexity of its business and market developments.

The process of Risk Identification is performed on a continuous basis as a part of the day-to-day activities of the EMEA Business Units and the EMEA Independent Risk Management and Control Functions including the EMEA Risk Division, and the EMEA Non-Financial Risk Organisation.

The objectives of the Risk Identification process include identifying material risks that inform risk measurement, monitoring and management, and inform the scenarios that guide the Company's Risk Appetite.

As a part of these processes, the Company identifies all potential material risks related to the Company's business activities. The collection of risks identified through this process are assessed for capital and liquidity adequacy as part of the Company's ICARA and form an integral part of the development of the Company's RAS.

The Company's Risk Identification process is aligned to the MSI Group and leverages Morgan Stanley Group-wide best practices. As determined through the Risk Identification Framework, the following risk types are relevant to the Company's business activities:

- Operational Risk
- Earnings at Risk (also referred to as Strategic Risk)
- Reputational Risk
- Compliance Risk
- Conduct Risk
- Liquidity Risk
- Credit Risk
- Market Risk
- Model Risk
- Climate and Environmental Risk*

*Climate and Environmental Risk is a driver of existing risks and is managed within the Company's existing Risk Appetite.

A summary of risks is outlined below:

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

  This is the Company's most material risk.

  The Company acknowledges that Operational Risk is inherent to the asset management business and cannot, therefore, be entirely eliminated. As such, the Company has articulated an Operational Risk Appetite and, within this, an aggregate quantitative Operational Risk Tolerance.

  The Company has established an Operational Risk framework to identify, measure, monitor and control risk across the Company. This framework is consistent with the framework established by MSI Group and it includes escalation to the Company's Board 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 constantly evolving to reflect changes in the Company 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 in the Operational Risk capital model. The model encompasses both quantitative and qualitative elements. Internal loss data and scenario analysis results are direct inputs to the capital model. 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 and a comprehensive risk management programme which includes the application of specific Operational Risk related policies and procedures, continuous enhancement of defences against cyber attacks, use of legal agreements and contracts to limit Operational Risk exposures, due diligence and exception management processing controls and segregation of duties.

  Exposures to services provided by third parties including external vendors are managed through a variety of means, such as, the performance of due diligence, consideration of Operational Risk, implementation of service level and other contractual agreements, and ongoing monitoring of third parties' performance. The Company maintains a third-party risk management programme with policies, organisation, governance and supporting technology.

The implementation and operation of the Operational Risk Framework is overseen by Risk Committees at different levels within MSI Group's governance structure, but ultimately will be reported up to the Company's Board.

Key Committees are:

- The EMEA Operational Risk Oversight Committee
- The Non-Financial Risk Management Committee
- The EMEA Risk Committee
- The EMEA MSIM Risk Committee
- The EMEA MSIM Operating Committee
- The MSI Risk Committee

- **Earnings at Risk** (also referred to as Strategic Risk) is defined as the risk arising from:
  - Changes to the Company's business, including the acute risk to earnings posed by falling or volatile income, and the broader risk of the Company's business model or strategy proving inappropriate due to macroeconomic, geopolitical, industry, regulatory or other factors.
  - The risk that the Company may not be able to carry out its business plan and desired strategy.
  - Risk arising from the Company's remuneration policy.

  Material potential harms include key persons leaving the Company (e.g. Portfolio Managers), fee pressures and negative client perception towards the Company's investment products. Strategic Risk also includes the evolving regulatory landscape.

  The Company's strategy and business plan enable it to deliver against its capital, risk and control agenda ensuring the overall safety and soundness of the Company. The strategy includes a range of initiatives and performance indicators, including specific qualitative and quantitative business targets and goals for the control and support functions. The Company also has a robust New Product Approval ("NPA") framework, reflecting the importance of the NPA process as a gatekeeping control in preventing the Company from taking on risks which its management do not fully understand or are outside its strategy and risk appetite.

- **Reputational Risk** (also referred to as Franchise Risk), describes the potential risks associated with the way in which the Company conducts its business and the perception of the Company by external parties including shareholders, clients, regulators and the public. Reputational Risks may be triggered by either the nature of the transaction (e.g. unusual complexity or novel issues) or business practice (e.g. a transaction without appropriate economic substance or business purpose) or by the identity or reputation of the client or counterparty (e.g. a client linked to alleged corruption or other improper activities.

  The Company does not have any appetite for transactions, business practices, clients or counterparties that pose a significant franchise risk and jeopardise the firm's reputation.

  The Global Franchise Risk Policy sets out examples of "red flags" that may be indicative of potential Reputational Risk. The primary mitigant to Reputational Risk is a robust Reputational Risk Management Framework, encompassing monitoring, escalation and review.

- **Compliance Risk** is defined as the risk of legal or regulatory sanctions, material financial loss or damage to reputation resulting from the failure to comply with laws, rules, regulations, related self-regulatory organisation standards and codes of conduct applicable to the Company's activities.

  The Company seeks to comply with applicable laws, rules and regulations and has no appetite for transactions, business activities or conduct by employees, contingents, customers, or counterparties that give rise to a significant breach of the Company's compliance obligations.

  The Company is covered by the Global Compliance Policy, which establishes a Firmwide Compliance Risk management program and sets forth the roles and responsibilities of Morgan Stanley Group and

Business Line Management and the Global Compliance Department.

The Company has a range of first and second line controls in place to comply with applicable laws, rules and regulations and a Compliance risk-based monitoring and testing program which helps to provide assurance that standards are being met. The controls are regularly under review, subject to revision and will continue to evolve. In addition, IAD provides independent assurance on compliance controls.

- **Conduct Risk** is defined as the risk arising from misconduct by individual employees or contingent workers (collectively, "Covered Persons") or groups of Covered Persons, or the risk arising from conduct by the Firm where the outcome has an adverse impact on clients or markets.

  The Company is covered by the Global Conduct Risk Policy and the EMEA & MSI Group Conduct Risk Management supplement which sets forth the Conduct Risk Framework.

- **Liquidity Risk** refers to the risk that the Company will be unable to finance its operations due to a loss of access to funding facilities, or difficulty in liquidating its assets. The Company has an inherently low liquidity risk profile given its business model.

  The Company's Board sets the liquidity risk appetite to ensure adequate liquid resources are held to meet potential outflows under normal and stressed conditions and to meet its operating expenses while simultaneously ensuring durability of funding. The Company manages its liquidity risk appetite through the overall Required Liquidity Framework ("RLF"). The RLF establishes the amount of liquidity the Company must hold in both normal and stressed environments to ensure that the Company's financial condition and overall soundness are not adversely affected by an inability (or perceived inability) to meet financial obligations in a timely manner. The RLF ensures the entity holds sufficient liquidity to meet both the Regulatory and Internal Liquidity Requirements. The Company maintains its liquidity reserves in the form of short-term cash deposits within its credit and liquidity risk limit frameworks to remove any risk from liquidating assets.

  The RLF includes the application of specific liquidity risk related policies and procedures in addition to a governance structure designed to oversee the overall level of liquidity risk taken.

- **Credit Risk** refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the Company.

  For the Company, Credit Risk manifests itself as cash in the form of deposits at financial institutions or outstanding payments or loans due to the Company.

  The Company has no direct exposure to the Credit Risk of its AUM.

- **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.

  For the Company, Market Risk is limited to foreign exchange ("FX") risk on non-dollar revenues. The Company does not have any direct Market Risk exposure to the AUM of the funds it manages.

- **Model Risk** is the potential for adverse consequences from decisions based on incorrect or misused model outputs. Model Risk can lead financial loss, poor business and strategic decision making, or damage to the Company's reputation.

  In line with the Morgan Stanley Group-wide approach, the Company's risk appetite includes Model Risk. The Model Risk appetite is set to a level that, after considering the Company's model governance and control processes, does not pose a material risk to the Company's capital adequacy, reputation and regulatory standing.

  Model Risk is assessed qualitatively; (i) Model Risk is managed through the Global Model Risk Management ("MRM") Framework, which includes policies and procedures, as well as enhanced standards for Model Risk governance, roles and responsibilities and reporting, and; (ii) all models are captured in the Morgan Stanley Group's Model Inventory and are subject to Global MRM standards, including independent review (validation), with the progress of the review being monitored by the appropriate senior management governance forum, including the MSIM Model Oversight Committee

- **Climate and Environmental Risk** includes impacts to biodiversity, pollution of land, water or air, climate change, deforestation and forest degradation, and other negative impacts on the environment as a result of human activities. Within climate and environmental risks, the risks arising from climate change are a particular area of focus.

  The Company considers climate and environmental risks through two main categories: transition risks and physical risks.

  - *Transition Risks:* Transitioning to a low-carbon and more environmentally sustainable economy will entail extensive regulatory, policy, legal, technology and market initiatives as society adapts to climate change, mitigates its causes and promotes a more sustainable environment. Depending on the nature, speed and focus of these changes, transition risks may pose varying types and levels of financial and reputational risk to businesses and other organisations.
  - *Physical Risks:* These risks include both acute physical events such as flooding, and chronic physical risks related to longer-term shifts in climate patterns such as more frequent and prolonged drought and progressive shifts like biodiversity loss, land use change, habitat destruction and resource scarcity. Financial implications for organisations can range from direct damage to assets to indirect impacts from supply chain disruption, driven by factors such as changes in water availability, food security and agricultural productivity. Extreme temperature changes may affect an organisation's physical locations, operations, supply chain, transport needs and employee safety.

  In addition, the Company may be exposed to litigation risk or reputational risk losses arising from statements or representations in relation to environmental, social and governance ("ESG") matters which are later discovered to be incorrect or misleading.

  Climate change and other environmental considerations are integrated into the MSI Group Risk Framework as drivers of credit, market, operational, and liquidity risks. Climate and environmental risks are also integrated into policies and procedures. The MSI Group Risk Framework continues to be enhanced to meet requirements set out in new and evolving regulations.

  The primary Transition Risk for the Company is ensuring compliance with sustainability-related regulation, primarily the Sustainable Finance Disclosure Regulation ("SFDR") in the EU. For funds that include ESG related guidelines or consider ESG characteristics of issuers, the Company has a control environment in place to ensure portfolios operate within their objectives and guidelines on a pre and post-trade basis. In addition, there is an independent risk process to monitor adherence to objectives and guidelines such as carbon emissions targets and sector exclusions.

Risk Appetite

The Company's RAS articulates 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 Board in conjunction with its business strategy and in consideration of its capital & liquidity resource adequacy framework.

The RAS includes risks that have both qualitative and quantitative elements such as Operational, Liquidity, Credit and Market Risk, and risks that are qualitative across risk types including Reputational, Conduct and Model Risk. The combination of qualitative Risk Appetite and Tolerance Statements and quantitative limits aims to ensure that the company's businesses are carried out in line with the Risk Appetite approved by the Board, and to protect Morgan Stanley Group's reputation in both normal and stressed environments.

Risk Reporting

The Company has put in place a Risk Reporting Framework to monitor and report the Company's risk profile against set risk limits and tolerances and to provide timely risk information and/or escalation to responsible limit owners, relevant company risk governance forums, as appropriate.

The Risk Reporting Framework covers all material risks, identification of matters for escalation and decision-making and highlights emerging risks, mitigating actions and other risk matters that are deemed significant to the relevant governance forums and/or the Board and senior management. The key purpose of risk reporting is to provide decision makers and risk managers with an accurate and timely representation of risk exposures, including risk concentrations, at the Company level, across business lines and between legal entities.

Sustainability

Sustainable Investing

Morgan Stanley Investment Management ("MSIM")[(1)] believes that ESG factors can present investment risks and opportunities. Understanding and managing these risks and opportunities may therefore contribute to both risk mitigation and long-term investment returns. Effective management of sustainability issues is an important component of MSIM's business approach as it is fundamental to the long-term success of the Company's business and its ability to deliver value for clients. MSIM has governance systems, risk management processes and controls that seek to support the incorporation of sustainability considerations within its business activities. MSIM has a dedicated Sustainability team that supports MSIM's collective sustainable-related processes and governance. These activities include supporting investment teams in relation to sustainability-related reporting and regulatory disclosure requirements, incorporating ESG factors into their investment approaches, developing sustainable products and supporting sustainability data utilisation, development of tools and sustainability research, as appropriate. MSIM's Global Stewardship function, as part of the MSIM Sustainability team, supports and helps investment teams coordinate MSIM proxy voting and investee engagement activities.

MSIM's sustainable investing efforts are also supported by Morgan Stanley's decade-plus commitment to sustainable finance and Morgan Stanley Group-level resources such as the Global Sustainability Office, which partners with teams across the Morgan Stanley Group's three business segments (Institutional Securities Group, Wealth Management, and MSIM) to provide innovative ESG advice, products and solutions for Morgan Stanley's clients.

MSIM's collective purpose in delivering long-term value for clients therefore guides its sustainability business agenda, investment and stewardship activities. MSIM seeks to deliver on this approach in three main areas:

- *Deliver Global Depth and Breadth in Sustainable Investing Expertise:* Within certain MSIM investment teams, there are designated sustainability specialists or individuals responsible for particular aspects of sustainability. These efforts are supported by the MSIM Sustainability Team and other centralised resources;
- *Offer Clients a Spectrum of Flexible and Innovative Sustainable Investing Solutions:* Providing MSIM clients with investment solutions across asset classes that seek alignment with their return objectives alongside their sustainability preferences;
- *Maintain High Standards of Governance and Stewardship:* Effective management of stewardship and sustainability issues is an important component of MSIM's business approach, which requires committed leadership, strategic focus and appropriate checks and balances to enable overall accountability and transparency. To that end, MSIM has established governance systems, risk management and controls to support and advance sustainable investing and stewardship across our business activities.

A more detailed overview of MSIM's approach to sustainable investing across both public and private markets investment teams is outlined in its Sustainable Investing policy, which can be accessed at:

[(1)]MSIM refers to the investment management business segment of the Morgan Stanley Group. MSIM is composed of a number of wholly-owned subsidiaries of the Morgan Stanley Group, including the Company. In some instances, MSIM may leverage or be a part of the Morgan Stanley Group's processes and/ or initiatives related to sustainable investing.

https://www.morganstanley.com/im/publication/resources/msim-sustainable-investing-policy-en.pdf

Portfolio Management Climate-related Disclosures

In the UK, FCA Policy Statement 21/24 has introduced from 1 January 2022 required annual disclosures consistent with the recommendations of the Task Force on Climate-Related Financial Disclosures ("TCFD") at both the entity level and product or portfolio level. MSIM's first TCFD entity-level report ("Climate Report"), in respect of the year ended 31 December 2022, was published in June 2023 in the Sustainable Investing section of the Morgan Stanley website (https://www.morganstanley.com/im/publication/resources/msim_climate_report_2022.pdf), and for separate accounts product-level reports were available on request by clients with a legal or regulatory requirement to receive them. For the year ended 31 December 2023, these reports will be available by 30 June 2024.

Operational Sustainability

Achieving Carbon-Neutral Operations

In 2022, the Morgan Stanley Group achieved its commitment to carbon neutrality across global operations[(2)]. This carbon neutrality status covers direct scope 1 emissions from own operations, scope 2 location-based emissions from purchasing energy and scope 3 emissions from business travel and downstream leased assets. The Morgan Stanley Group's carbon neutrality status for 2023 will be reported in the Morgan Stanley Group's 2023 ESG Report.

Energy Efficiency Opportunities in Operations

Energy efficiency opportunities in operations are represented through UK initiatives such as a quarterly assessment of equipment run-times and operational requirements, to maintain consistent performance.

Our Environmental Footprint

The following table sets out the Company's carbon emissions of the energy sources from its UK locations as required under the Companies Act 2006. 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 for Energy Security & Net Zero (Greenhouse gas reporting: conversion factors 2023), the Department for Environment, Food & Rural Affairs ("DEFRA") (Table 13 – Indirect Emissions from the supply chain, March 2014) and the US EPA Center for Climate Leadership (Emission Factor Hub, April 2021).

In line with the Morgan Stanley Group's organisational structure, properties are primarily leased by service entity subsidiaries of the Morgan Stanley Group. The service entities recharge property and travel costs to the Company reflecting its usage. Total scope 1 and scope 2 emissions reported relate to the Company's usage of UK properties only. Scope 3 emissions relate to the Company's share of UK employee business travel 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 subsidiaries of the MSI Group. Emissions reported exclude any emissions relating to employees working from home as such emissions cannot be reliably quantified.

The table below represents the Company's share of the UK's carbon emissions for the year ended 31 December 2023 and 31 December 2022:

[(2)]Morgan Stanley Group's carbon-neutral status reflects the actions in the Morgan Stanley Group 2022 ESG Report. This is a management-determined metric that may be viewed or calculated differently by others who may use the same "carbon-neutral" terminology. Morgan Stanley Group has determined that the boundary around its carbon-neutrality status is Scope 1, Scope 2 location-based emissions, Scope 3 business travel and downstream leased assets, carbon offsets purchased from the voluntary carbon market, green power contracts and market instruments (e.g. Renewable Energy Certificates ("RECs") and Energy Attributable Certificates ("EACs")). There are instances in which green power contracts and instruments that are accepted for the purpose of meeting carbon neutrality do not align with the criteria required to reflect those purchases in the Scope 2 market-based figure in accordance with the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition) ("GHG Protocol"). For the Morgan Stanley global emissions data aligned with the GHG protocol, please see the Morgan Stanley Group 2022 ESG Report.

	2023		2022 (revised)[1]		2022 (as reported)	
Energy consumption used to calculate emissions in kWh[2]	6,059,229		5,003,633		4,849,977	
	CO2e Tonnes[3]		CO2e Tonnes[3]		CO2e Tonnes[3]	
	Location based	Market based	Location based	Market based	Location based	Market based
Emission source						
Scope 1 – combustion of fuel and operation of facilities	54	54	35	35	35	35
Scope 2 – Electricity, heat, steam and cooling purchased for own use	1,198	1,153	932	1,564	902	138
Total scope 1 and scope 2	**1,252**	**1,207**	**967**	**1,599**	**937**	**173**
Scope 3 – Commercial air and ground transportation	794	794	331	331	331	331
Scope 3 – Employee expensed car mileage	2	2	2	2	2	2
Total emissions	**2,048**	**2,003**	**1,300**	**1,932**	**1,270**	**506**
Intensity ratio (tCO2e/SQM)[4]	0.1476	0.1421	0.1368	0.2262	0.1326	0.0245

[1]The 2022 market-based emissions have been revised to reflect a supplier specific emission factor aligned with the 2023 basis of calculation. In addition, total energy consumption for 2022 has been restated to include 154mWh for one UK location which had previously been omitted, which has also impacted the Scope 2 emissions
[2]Energy consumption includes Scope 1, 2 and Scope 3 - Employee expensed car mileage only
[3]Tonnes of carbon dioxide equivalent
[4]Tonnes of CO2e per square metre of UK real estate (Scope 1 and 2 emissions only)

The Company has chosen to report both location-based and market-based emissions 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 market-based calculation uses supplier specific emission factors or residual mix factors (in order of preference), to align with the GHG Protocol's hierarchy of Scope 2 instruments. Where available, the Company also makes use of renewable energy guarantee of origin certificates to reduce its Scope 2 market-based emissions.

Total energy consumption for 2023 increased by 21% from 2022, driven by a higher allocation of UK real estate from service entity affiliates. Scope 2 location-based emissions increased by a further 29% as a result of UK grid electricity conversion factors increasing due to a decrease in renewable energy generation compared to last year. Scope 2 market-based emissions decreased by 26% due to the usage of renewable energy guarantee of origin certificates in 2023. Scope 3 location and market-based emissions increased by 140% due to higher demand for business travel and due to higher emissions factors published by DEFRA in June 2023 reflective of lower passenger numbers during COVID-19.

The intensity ratio is calculated using square metre ("SQM") of UK real estate. This is considered most appropriate as the service entity subsidiaries of the Morgan Stanley Group recharge property costs to the Company using SQM reflecting their usage. In addition, the Morgan Stanley Group manages its carbon emissions using this metric.

Morgan Stanley Group ESG Disclosures

The Morgan Stanley Group is committed to transparent disclosure of information. The full list of available disclosures is in the Morgan Stanley Group's ESG Report. The Report's data, content and narrative are informed by the Sustainability Accounting Standards Board ("SASB") standards for Investment Banking, Asset Management and Commercial Banking and the recommendations of the TCFD, both of which are now part of the International Sustainability Standards Board ("ISSB").

The Morgan Stanley Group ESG Reports are available at www.morganstanley.com/content/msdotcom/en/about-us/sustainability-at-morgan-stanley. As at publication date of this Strategic Report, the latest ESG Report is the 2022 Report. The 2023 Report will be available at this site when published.

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 employees;
- the need to foster the business relationships with suppliers, customers and others;
- the impact of the 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 reputation, when making decisions. The Company's key stakeholders were considered in 2023, and are listed below with examples of the stakeholder engagement activities that took place in 2023.

Employees

During 2023, a number of Directors continued a program of "open door" sessions at which MSI Group employees were encouraged to ask questions about the Company's business, its strategy, performance, current initiatives and the role of the Board. In 2023 the Board continued to focus on diversity and received an annual update from the MSIM Diversity Focus Committee and a report on Culture and Conduct.

Suppliers

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

Clients

Throughout the year, the Board received regular updates on the fund product range and product governance. These reports provided insights into client behaviour, focus areas, sustainability and drove management actions.

The Board continued to oversee the implementation of the FCA's Consumer Duty Principles.

Community and Environment

Morgan Stanley is committed to giving back to the communities in which it operates through a range of philanthropic programs.

In 2023, Morgan Stanley employees participated in the annual Global Volunteer Month, engaging Morgan Stanley employees across all offices globally to give back to the communities where they live and work. As part of this, 84% of Morgan Stanley employees in the UK dedicated over 39,000 volunteer hours to support local community organisations.

In EMEA, the Morgan Stanley International Foundation granted over £280,000 to 9 charities focused on the fundamentals of children's health and education.

A number of two-year employee nominated charity partnerships were continued during the year, with Morgan Stanley employees raising funds and donations that were matched by the Morgan Stanley International Foundation.

London Morgan Stanley employees supported the Felix Project and raised over £1.8 million which will enable the charity to collect surplus food and distribute 75 million meals by 2026 to hundreds of charities, schools and community groups in East London.

During the year, the Board received regular updates on ESG and sustainability matters, including the TCFD.

Regulators

During the year, the Board received regular updates on interactions with the Company's key regulator and the regulators of its funds, including the FCA, Commission de Surveillance du Secteur Financier and Central Bank of Ireland. This was supplemented by meetings with certain regulators to discuss the investment management business.

Investors

The Company is a wholly owned subsidiary of the MSI Group. The Chair of the Board is a member of the MSI Board 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 with insights on MSI views and priorities.

Making Decisions

When making decisions, the Board 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. The Board considered a number of matters which require annual approval, including the Company's 2022 Internal Capital and Risk Assessment Process, and the submission of the 2023 UK Stewardship Code Report to the UK Financial Reporting Council.

Approved by the Board and signed on its behalf by

DocuSigned by:
Ruairi O'Healai
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R O'Healai

Director

19 April 2024

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 22) for the Company for the year ended 31 December 2023.

Results and Dividends

The profit for the year, after tax, was $143,809,000 (2022: $105,492,000).

During the year, the Company paid a dividend of $105,000,000 (2022: $245,000,000). Refer to note 18 for details of the dividend policy.

Regulation, Risk Management, Branches and Future Developments

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

Energy and Carbon Reporting

Information on the Company's UK energy and carbon reporting has been included in the Strategic Report within the 'Sustainability' section.

Stakeholder Relationships and Engagement

Details of engagement activities undertaken by the Board in 2023 with suppliers, clients and other stakeholders and how they inform decision making are provided in the s172(1) Statement in the Strategic Report.

IFPR Public Disclosures and Country-by-Country Reporting

IFPR sets out a number of public disclosure requirements ("IFPR Public Disclosures").

The 2023 IFPR Public Disclosures (including *required remuneration disclosures) will be made* available on the Morgan Stanley website at https://www.morganstanley.com/about-us-ir/pillar-uk

The Company is also included in the MSI consolidated disclosure 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 Requirement Directive (Directive 2013/36/EU). Country-by-Country Reporting for the MSI Group for the year ended 31 December 2023 will be made available on the Morgan Stanley, website at

https://www.morganstanley.com/investorrelations

Directors

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

T Duhon	(Chair)
D Best	
F Kelly	
R Lockwood	(resigned 31 January 2024)
R O'Healai	
Z Parish	
J Pearce	(appointed 26 July 2023)
Y Goh	(appointed 26 March 2024)

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 and Risk Committee

MSI, the Company's ultimate UK parent undertaking, has appointed the MSI Audit Committee and Risk Committees to assist and provide guidance to the Boards of MSI, the Company and other MSI Group regulated subsidiary undertakings in monitoring, among other things, internal controls, compliance, and external financial reporting obligations. The MSI Audit and Risk Committees each meet and report to the MSI Group Board on a quarterly basis. The MSI Audit and Risk Committees also meet at least annually to focus on the Company and the investment management business in EMEA.

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. The effect of relevant macroeconomic scenarios on the business of the Company have been considered as part of the going concern analysis, including impact on operational capacity, access to capital and liquidity, contractual obligations, asset valuations and other critical accounting judgements and key sources of estimation uncertainty. The Company has access to further Morgan Stanley Group capital and liquidity as required.

Taking all of these factors into consideration, the Directors believe it is reasonable to assume 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 they ought to have taken as a Director to make themselves 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.

Directors' Responsibilities 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.

MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

DIRECTORS' REPORT

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved by the Board and signed on its behalf by

DocuSigned by:
Ruairi O'Healai
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R O'Healai
Director
19 April 2024

Report on 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 2023 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 22.

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.

Based on the work we have performed, we have not identified any 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.

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.

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, including those that are specific to the company's business sector.

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, pensions and tax legislation; 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 fraud 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.

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 or 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.

DocuSigned by:

Kulbir Grewal

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Kulbir Grewal FCA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

19 April 2024

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MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED
INCOME STATEMENT
Year ended 31 December 2023

in $'000	Note	2023	2022
Fee and commission income	4	1,007,356	975,163
Other revenue	5	1,172	(1,917)
Interest income		21,355	7,241
Interest expense		(10,976)	(1,291)
Net interest income	6	10,379	5,950
Net revenues		**1,018,907**	**979,196**
Non-interest expense:			
Operating expense	7	(855,663)	(850,462)
PROFIT BEFORE TAX		**163,244**	**128,734**
Income tax	8	(19,435)	(23,242)
PROFIT FOR THE YEAR		**143,809**	**105,492**

All operations were continuing in the current and prior year.

The notes on pages 27 to 38 form an integral part of the financial statements.

MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED
STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2023

in $'000	Note	2023	2022
PROFIT FOR THE YEAR		**143,809**	**105,492**
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of net defined benefit assets	17	(20)	—
Items that may be reclassified subsequently to profit or loss:			
Currency translation reserve:			
Foreign currency translation differences arising on foreign operations	17	561	(1,188)
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX		**541**	**(1,188)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		**144,350**	**104,304**

The notes on pages 27 to 38 form an integral part of the financial statements.

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MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED
STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2023

in $'000	Note	2023	2022
Share capital – at 1 January and 31 December	**17**	**1,000**	**1,000**
Currency translation reserve - at 1 January		(2,381)	(1,193)
Foreign currency translation differences arising on foreign operations		561	(1,188)
Currency translation reserve - at 31 December	**17**	**(1,820)**	**(2,381)**
Retained earnings and pension reserve - at 1 January		**276,366**	**415,874**
Profit for the year		143,809	105,492
Remeasurement of net defined benefit assets	17	(20)	—
Dividends	18	(105,000)	(245,000)
Retained earnings - at 31 December		**315,155**	**276,366**
Other comprehensive income for the year		541	(1,188)
Total comprehensive income for the year		144,350	104,304
Total equity at 31 December		**314,335**	**274,985**

The notes on pages 27 to 38 form an integral part of the financial statements.

MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

Registered number: 01981121

STATEMENT OF FINANCIAL POSITION
As at 31 December 2023

in $'000	Note	2023	2022
ASSETS			
Cash and short-term deposits		430,917	267,944
Loans and advances	10	131,303	210,131
Investment securities		4	4
Trade and other receivables	11	149,403	111,836
Current tax assets		20	89
Deferred tax assets	16	—	10
Other assets	12	73,228	86,943
Property, plant and equipment		985	234
TOTAL ASSETS		**785,860**	**677,191**
LIABILITIES			
Trade and other payables	14	297,373	286,917
Debt and other borrowings	15	130,462	58,959
Provisions		149	143
Current tax liabilities		43,541	56,187
TOTAL LIABILITIES		**471,525**	**402,206**
Share capital	17	1,000	1,000
Currency translation reserve	17	(1,820)	(2,381)
Pension reserve	17	(20)	—
Retained earnings		315,175	276,366
TOTAL EQUITY		**314,335**	**274,985**
TOTAL LIABILITIES AND EQUITY		**785,860**	**677,191**

These financial statements were approved by the Board and authorised for issue on 18 April 2024.

Signed on behalf of the Board

DocuSigned by:

Ruairi O'Healai

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R O'Healai

Director

The notes on pages 27 to 38 form an integral part of the financial statements.

1. CORPORATE INFORMATION

The Company is incorporated and domiciled in England and Wales, UK, at the following registered address: 25 Cabot Square, Canary Wharf, London, 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) ("MSIUK") which 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: www.morganstanley.com/investorrelations.

2. BASIS OF PREPARATION

a. Statement of Compliance

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

The Company meets the definition of a qualifying entity as defined in FRS 101. The Company has taken advantage of the disclosure exemptions available under FRS 101 in relation to share-based payments, fair value measurement, 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 adopted, related party transactions, leases, and certain income tax disclosures related to the International Tax Reform - Pillar Two Model Rules.

As at 31 December 2023, the Company does not meet the definition of a financial institution under FRS 101. Accordingly, the Company has taken advantage of the following additional disclosure exemptions available under FRS 101:

- the requirements of paragraphs 134-136 of IAS 1 *Presentation of Financial Statements* to present qualitative and quantitative information on capital management;
- the requirements of IFRS 7 *Financial Instruments: Disclosures*; and
- the requirements of paragraphs 91-99 of IFRS 13 *Fair Value Measurement* to the extent that they apply to financial instruments.

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 'Corporate information'.

b. 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 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. The amendments were adopted by the UK in November 2022.

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. The amendments were adopted by the UK in November 2022.

Amendments to IAS 12 '*Income Taxes*': Deferred Tax related to Assets and Liabilities arising from a Single Transaction were issued by the IASB in May 2021, for retrospective application in accounting periods beginning on or after 1 January 2023. The amendments were adopted by the UK in November 2022.

Amendments to IAS 12: International Tax Reform — Pillar Two Model Rules were issued by the IASB in May 2023, for application in accounting periods beginning on or after 1 January 2023. The amendments were adopted by the UK in July 2023. The Company has applied the temporary exception to deferred tax recognition and disclosure, as provided in the amendments.

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

c. 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 UK accounting standards including FRS 101, and UK company law.

d. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In preparing the financial statements, the Company makes 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 effect on the amounts recognised in the financial statements.

Key sources of estimation uncertainty 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 judgements 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 13 'Interests in structured entities'.

There are no key sources of estimation uncertainty in the reporting period 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.

e. 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, and as set out in the Strategic Report, retaining sufficient capital and liquidity to withstand market pressures remains central to the Morgan Stanley Group's and the Company's strategy.

Taking the above 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 report and financial statements.

f. Changes in Presentation

The Company has updated the presentation of 'Other liabilities', which is now presented in the 'Trade and other payables' in the statement of financial position line. In prior reporting periods, 'Other liabilities' were presented as a separate line item in the statement of financial position. This presentation provides more relevant information with appropriate detail being provided in the notes to the financial statements. The comparative period has also been re-presented.

3. SUMMARY OF MATERIAL 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' report are rounded to the nearest thousand US dollars (unless otherwise stated).

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 'Operating expense', except where noted in note 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

Financial Assets and Financial Liabilities at Amortised Cost

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

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 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. 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 'Operating expense'.

Financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument and are initially measured at fair value and subsequently measured at amortised cost. Interest is recognised in the Income Statement in 'Interest expense' using the EIR method. Transaction costs that are directly attributable to the issue of a financial liability are deducted from the fair value on initial recognition.

d. 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 continues 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 obligations created or retained in the transfer.

The renegotiation or modification of the contractual cash flows of a financial instrument can lead to derecognition where the modification is "substantial", determined by qualitative assessment of whether the revised contractual terms of a financial instrument, such as a loan, are significantly different from those of the original financial instrument. In the event that the qualitative assessment is unclear, a quantitative 10% cash flow test is performed.

Where modifications do not result in derecognition of the financial instrument, the gross carrying amount of the financial instrument is recalculated and a modification gain/(loss) is recognised in the Income Statement in 'Other revenue'.

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

e. Impairment of Financial Instruments

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

When assessing significant increase in credit risk ("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.

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.

ECL is recognised in the Income Statement within 'Operating expense'. ECL on financial assets measured at amortised cost is presented as an ECL allowance reducing the net carrying amount on the face of the Statement of Financial Position.

f. 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 'Other 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 'Trade and Other Payables'.

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.

g. Fee and Commission Expense

Fees and commissions classified within 'Operating 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.

h. 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.

i. Income Tax

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 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.

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.

j. 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 on the grant date ("VWAP"). 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 the scheduled conversion date.

Awards generally contain clawback and cancellation provisions. Certain awards provide Morgan Stanley the discretion to clawback or cancel all or a portion of the award under specified circumstances. Where award terms are considered subjective, a grant date cannot be established, and compensation expense for these awards is adjusted for changes in the fair value of the Morgan Stanley's common stock until conversion. Following amendments to clarify specific subjective award terms, from April 2023, a grant date for the awards was established such that compensation expense for those awards is no longer adjusted for changes in the fair value of Morgan Stanley's common stock.

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 the Morgan Stanley Group chargeback agreements, the Company pays Morgan Stanley for the procurement of shares. The Company pays Morgan Stanley the grant date fair value.

Share based compensation expense is recorded within 'Operating expense' in the Income Statement.

ii) Deferred Cash-Based Compensation Plans

Morgan Stanley may award 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 'Operating expense' in the Income Statement. The liability for the awards is measured at fair value and is included within 'Trade and Other Payables' 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 total return swaps entered into by the Company, there is typically a timing difference between the immediate recognition of gains and losses on the total return swaps and the deferred recognition of the related compensation expense over the vesting period.

k. Deferred Commission Assets

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' in 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 'Deferred commission asset' within 'Other assets' in the Statement of Financial Position. The deferred commission asset is assessed for impairment at each reporting date.

4. FEE AND COMMISSION INCOME

in $'000	2023	2022
Investment management fees	881,261	879,069
Distribution fees	20,338	23,992
Administration fees	70,087	43,676
Performance fees	851	(4,191)
Sub-advisory fees	34,819	32,617
Total fee and commission income	**1,007,356**	**975,163**
Total revenue from contracts with customers	*1,040,165*	*1,106,579*

Total fee and commission income is stated after the transfer of revenues totaling $32,809,000 (2022: $131,416,000) to other Morgan Stanley Group undertakings. These transfers are in accordance with Morgan Stanley Group Global Transfer Pricing Policy and do not relate to revenue from contracts with customers.

Included within revenue from contracts with customers are revenues from other Morgan Stanley Group undertakings of $941,312,000 (2022: $987,729,000).

Contract assets from contracts with customers, included within 'Other assets' total $36,547,000 (2022: $38,961,000). There are no contract liabilities from contracts with customers (2022: none).

5. OTHER REVENUE

in $'000	2023	2022
Loss on subordinated loan issuance	—	(1,917)
Net foreign exchange gains	1,172	—
Total other revenue	**1,172**	**(1,917)**

Loss on subordinated loan issuance refers to the amortisation of the realised gain related to the repayment of the subordinated loan issuance from the prior year (refer to note 15 'Debt and other borrowings').

6. INTEREST INCOME AND INTEREST EXPENSE

The table below presents interest income and expense by accounting classification. Interest income and expense is calculated using the effective interest rate method for financials assets and financial liabilities measured at amortised cost.

in $'000	2023	2022
Financial assets measured at amortised cost	21,355	7,241
Total interest income	**21,355**	**7,241**
Financial liabilities measured at amortised cost	10,976	1,291
Total interest expense	**10,976**	**1,291**

7. OPERATING EXPENSE

in $'000	2023	2022
Fee and commission expense:		
Fee sharing and distribution expenses	432,018	446,085
Direct staff costs	4,233	4,226
Management charges from other Morgan Stanley Group undertakings relating to staff costs	288,533	224,956
Management charges from other Morgan Stanley Group undertakings relating to other services	123,351	160,861
Professional services	3,371	5,692
Administration expense	1,807	2,973
Net foreign exchange losses	—	2,857
Auditors remuneration:		
Fees payable to the Company's auditors and its associates for the audit of the Company's annual financial statements	57	54
Fees payable to the Company's auditors and its associates for other assurance services to the Company	20	19
Other	2,273	2,739
Total operating expense	**855,663**	**850,462**

Direct Staff Costs

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

Number	2023	2022
Investment Management	2	2

The costs of direct staff are analysed below:

in $'000	2023	2022
Wages and salaries	4,188	4,480
Social security costs	7	(288)
Pension costs	38	34
	4,233	**4,226**

The Company also utilises staff who are employed by other Morgan Stanley Group undertakings and incurs management charges in respect of these employees, included within 'Management charges from other Morgan Stanley Group undertakings relating to staff costs'.

The amount of remuneration received by Directors in respect of their qualifying services to the Company is disclosed in note 22 'Related party disclosures'.

8. INCOME TAX

in $'000	2023	2022
Current tax expense		
UK corporation tax at 23.52% (2022: 19%)		
Current tax	19,334	22,791
Adjustments in respect of prior years	19	458
Foreign tax		
Current tax	72	—
Adjustments in respect of prior years	—	(7)
Total current tax	**19,425**	**23,242**
Deferred tax expense		
Origination and reversal of temporary differences	10	—
Total deferred tax	**10**	—
Income tax expense	**19,435**	**23,242**

See note 16 'Deferred tax assets' for further details.

Reconciliation of Effective Tax Rate

Finance Act 2021 raised the UK main rate of corporation tax from 19% to 25% with effect from 1 April 2023. This impacts the tax charge in the current and future years.

The current year income tax expense is lower (2022: lower) than that resulting from applying the average standard rate of corporation tax in the UK for the year of 23.52% (2022: 19%). The main differences are explained below:

in $'000	2023	2022
Profit before taxation	163,244	128,734
Income tax using the average standard rate of corporation tax in the UK of 23.52% (2022: 19%)	38,395	24,459
Impact on tax of:		
Expenses/(Income) not deductible/ (taxable)	257	(811)
Group relief received for no cash consideration	(18,335)	—
Effect of tax rates in foreign jurisdictions	(921)	(745)
Other permanent differences	(2)	24
Tax under provided in prior years	29	451
Currency translation on tax	12	(136)
Total income tax expense in the income statement	**19,435**	**23,242**

9. 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.

10. LOANS AND ADVANCES

in $'000	2023	2022
Amounts due from other Morgan Stanley Group undertakings	131,303	210,131

11. TRADE AND OTHER RECEIVABLES

in $'000	2023	2022
Trade receivables	15,194	24,161
Other receivables:		
Amounts due from other Morgan Stanley Group undertakings	133,066	86,748
Other amounts receivable	1,143	927
Total trade and other receivables	**149,403**	**111,836**

12. OTHER ASSETS

in $'000	2023	2022
Deferred commission asset	36,053	47,365
Accrued income	36,547	38,961
Other assets	628	617
Total other assets	**73,228**	**86,943**

Deferred Commission Asset

The following table shows distribution costs deferred and amortised over the expected life of contracts:

Deferred commission asset

in $'000	2023	2022
Carrying amount		
At 1 January	47,365	66,688
Additions	16,081	15,459
Amortisation	(27,393)	(34,782)
At 31 December	**36,053**	**47,365**

Accrued Income

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.

13. INTERESTS IN STRUCTURED ENTITIES

The Company considers itself the sponsor of certain investment funds, which have been established as structured entities and where the Company is involved in providing investment management services to the entities.

The Company receives fee and commission income from such investment funds via delegation of investment management services from other Morgan Stanley Group undertakings, Morgan Stanley Investment Management (ACD) Limited ("MSIM ACD") and MSIM Fund Management (Ireland) Limited ("MSIM FMIL"). 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.

Fee and commission income related to sponsored entities is included within revenue from contracts with customers in note 4. During the current and prior years, no assets were transferred to those sponsored entities.

Consolidated Structured Entities

The decision to consolidate structured entities involves an assessment whether the Company holds the power to make the most significant economic decisions, which 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. The Company does not hold that right.

As at 31 December 2023 the Company did not have any consolidated structured entities (2022: nil).

14. TRADE AND OTHER PAYABLES

in $'000	2023	2022
Trade payables	200	215
Other payables:		
Amounts due to other Morgan Stanley Group undertakings	182,208	176,839
Other amounts payable	7,739	12,563
Accruals and deferred income	107,226	97,300
Total trade and other payables	**297,373**	**286,917**

15. DEBT AND OTHER BORROWINGS

in $'000	2023	2022
Subordinated loans	59,021	58,664
Amounts due to other Morgan Stanley Group undertakings	71,441	295
Total Debt & Other Borrowings	**130,462**	**58,959**

The amounts subject to subordinated loan agreements with MSIUK (the "Lender") are wholly repayable as shown below:

in $'000				2023
Counterparty	Repayment date	Interest Rate	Accrued Interest	Balance
MSIUK	27 September 2032	SOFR[1] plus 129 bps	5,064	60,000

in $'000				2022
Counterparty	Repayment date	Interest Rate	Accrued Interest	Balance
MSIUK	27 September 2032	SOFR[1] plus 129 bps	520	60,000

[1] Secured overnight financing rate ("SOFR")

All amounts outstanding under subordinated loan agreements are repayable at any time at the Company's option. 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 loans during the year.

16. 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:

in $'000	2023	2022
At 1 January	10	10
Amount recognised in the income statement	(10)	—
At 31 December	—	**10**

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:

in $'000	Deferred tax asset 2023	Income statement 2023
Depreciation – temporary differences	—	10
	—	**10**

in $'000	Deferred tax asset 2022	Income statement 2022
Depreciation – temporary differences	10	—
	10	—

Finance Act 2021 raised the UK main rate of corporation tax from 19% to 25% with effect from 1 April 2023. This change affects the deferred tax charge for both the current and future years.

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

17. EQUITY

in $'000	2023	2022
Authorised, Issued and fully paid:		
Ordinary shares of $1 each[(1)]	**1,000**	**1,000**
Ordinary shares of £1 each[(1)]	—	—
Total equity instruments at 31 December	**1,000**	**1,000**

(1) Ordinary shares of $1 each carry 99.999% of the voting rights (2022: 99.999%).Ordinary shares of £1 each carry 0.001% of the voting rights (2022: 0.001%). Ordinary shares are pari passu with each other regardless of currency.

At 31 December 2023, the total equity instruments which the Company authorised and had in issue amounted to $1,000,000 (31 December 2022: $1,000,000) comprising 1,000,000 ordinary shares of $1 each and 2 ordinary shares of £1 each. All equity instruments are fully paid. There have been no changes to equity instruments for the Company from 1 January 2022.

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 $1,820,000 loss (2022: $2,381,000 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 $20,000 loss (2022: $nil) comprises the cumulative actuarial gains or losses on the plan assets and obligations and the impact of the asset ceiling.

18. DIVIDENDS

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

	Dividends on ordinary shares 2023	2022
Per Share $	105	245
Total in $'000	105,000	245,000

On 15 May 2023, the Board approved for the Company to target an ordinary dividend of 100% of retained profit, subject to strategic opportunities and capital requirements.

19. 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 2023			At 31 December 2022		
in $'000	Less than or equal to 12 months	More than 12 months	Total	Less than or equal to 12 months	More than 12 months	Total
ASSETS						
Cash and short-term deposits	430,917	—	430,917	267,944	—	267,944
Loans and advances	131,303	—	131,303	210,131	—	210,131
Investment securities	—	4	4	—	4	4
Trade and other receivables	149,290	113	149,403	111,623	213	111,836
Current tax assets	20	—	20	89	—	89
Deferred tax assets	—	—	—	3	7	10
Other assets	58,766	14,462	73,228	66,138	20,805	86,943
Property, plant and equipment	—	985	985	—	234	234
	770,296	**15,564**	**785,860**	**655,928**	**21,263**	**677,191**
LIABILITIES						
Trade and other payables	294,858	2,515	297,373	284,992	1,925	286,917
Debt and other borrowings	—	130,462	130,462	—	58,959	58,959
Provisions	—	149	149	—	143	143
Current tax liabilities	43,541	—	43,541	56,187	—	56,187
	338,399	**133,126**	**471,525**	**341,179**	**61,027**	**402,206**

20. SEGMENT REPORTING

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

21. EMPLOYEE COMPENSATION PLANS

Morgan Stanley maintains various equity-settled share-based and cash-based deferred compensation plans for the benefit of employees. Awards under these plans are generally granted in January following the performance year.

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 current and former employees' incentive compensation, with awards made in the form of restricted common stock. Awards under these plans are 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.

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 three years from the grant date. 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. 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 7 'Operating expense', 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.

22. RELATED PARTY DISCLOSURES

Director's 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:

in $'000	2023	2022
Total remuneration of all Directors:		
Aggregate remuneration	1,879	1,721
Long term incentive schemes	144	262
Company contributions to pension schemes	46	31
	2,069	**2,014**

Disclosures in respect of the highest paid Director:		
Aggregate remuneration	858	824
Long term incentive schemes	80	209
Company contributions to pension schemes	24	23
	962	**1,056**

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.

During the year five Directors received awards under the Morgan Stanley Group's equity-based long term incentive schemes in respect of qualifying services including the highest paid Director (2022: 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 one to seven years from the date of the award.

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 (2022: six). One Director has benefits accruing under a non-UK defined contribution scheme (2022: none).

In addition, one Director has benefits accruing under the Alternative Retirement Plan, a defined benefit scheme, operated by MS UK Ltd (2022: two).

The Company has not provided any loans or other credit advances to its Directors during the year (2022: $nil).