

Morgan Stanley

# Environmental and Social Policy Statement

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# Morgan Stanley

## 1. Introduction

To help Morgan Stanley deliver long-term value for our clients, shareholders, employees and other stakeholders, we employ comprehensive risk management policies that include environmental and social risk.

Morgan Stanley's Environmental and Social Policy Statement ("Policy Statement") sets forth the processes Morgan Stanley follows to mitigate potential impacts of environmental and social risks to our business and to safeguard shareholder value. These include due diligence, escalation, and guidelines for certain sectors and activities.

All prospective transactions and prospective clients are reviewed individually. Decisions under Morgan Stanley's risk management framework (inclusive of this Policy Statement) are based upon the specific risk factors and mitigants present in each case and are made in compliance with applicable law and regulation.

This Policy Statement incorporates feedback from internal and external stakeholders and is an evolving document that we review annually and update as necessary to reflect our strategy and key developments.

For information on Morgan Stanley's approach to sustainability and related goals, please refer to our annual Environmental, Social and Governance (["ESG" Report](#)).

## 2. Environmental and Social Risk Management

Our due diligence and risk management processes are designed to identify, assess and address, as appropriate, potentially significant environmental and social issues that may impact the Firm, our clients and other stakeholders.

The **Environmental and Social Risk Management Group** ("ESRM") provides internal subject matter expertise on environmental and social risk, manages development and implementation of this Policy Statement and related policies and procedures, conducts due diligence on relevant transactions, engages with stakeholders, and monitors emerging risks and developments in partnership with the business units, the Global Sustainability Office ("GSO") and other relevant control functions.

### Process and Scope

Morgan Stanley's environmental and social risk due diligence processes and the sector and cross-sector and thematic approaches outlined in this Policy Statement apply globally across our business units to the following types of transactions:

- lending (corporate and project),
- debt and equity underwriting,

- private placements,
- investment banking and capital markets advisory assignments,
- investment management<sup>1</sup> activities related to private equity, private real assets and private credit investing, and
- other transactions or activities as applicable and appropriate.

For issues or transactions that fall outside the scope of this Policy Statement, business units and internal control functions may also request ESRM views or advice as appropriate.

We aim to apply this Policy Statement to transactions involving a joint venture between Morgan Stanley and other entities.

### *Due Diligence*

Business units and internal control functions refer transactions to ESRM for due diligence when a transaction involves specific sectors or when potential environmental and social issues are identified that may pose franchise risk to Morgan Stanley.

ESRM assesses environmental and social risks through a due diligence process that considers, where relevant, international frameworks such as the [International Finance Corporation \(IFC\) Performance Standards](#), the [World Bank Group Environmental, Health and Safety Guidelines](#), the [OECD Guidelines for Multinational Enterprises](#) and the Equator Principles as well as relevant industry good practices and sector-specific guidelines<sup>2</sup>. Companies<sup>3</sup> are expected to comply with relevant local and national laws, as well as with host-country obligations under international laws.

ESRM utilizes a risk-based approach and leverages resources such as in-house expertise, publicly available information and company responses to due diligence questions. Through the due diligence process, we assess a company's environmental and social risk management framework, policies and practices, governance, stakeholder engagement, performance, and risk mitigants.

### *Heightened Due Diligence*

ESRM undertakes heightened due diligence when considering certain transactions, including as outlined in the Sector and Cross-Sector and Thematic Approaches sections of this Policy Statement, or if a particular environmental or social issue is identified in the diligence process. This process may include review of a company's policies and practices, operations, stakeholder engagement, and track record in management of specific risks and may involve engagement with the client and/or reports by or consultation with independent third parties.

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<sup>1</sup> Morgan Stanley's approach to sustainability risk for its investment management business is outlined in the Morgan Stanley Investment Management [Sustainable Investing Policy](#). Any sustainability risk provisions are applicable at the product-level and found in respective product-specific offering documentation.

<sup>2</sup> Although the due diligence process may consider international frameworks and guidelines, Morgan Stanley makes business decisions based on its own independent risk-based assessments.

<sup>3</sup> For purposes of this Policy Statement, the term 'companies' is used to refer to clients, companies in which Morgan Stanley invests, and other relevant counterparties.

## *Client Engagement*

Morgan Stanley engages with clients on their material environmental and social issues. In instances where a specific issue has been identified, Morgan Stanley may engage with a client to help it adopt appropriate practices for its businesses to mitigate relevant environmental and social risks and impacts.

Morgan Stanley supports the transition to a low-carbon economy. Our focus remains on understanding and actively supporting our clients' climate strategies and helping them navigate a world where climate risks and opportunities are increasingly important. We engage with clients to understand their greenhouse gas reduction initiatives, diversification and transition strategies, and stakeholder engagement, where appropriate.

When human rights-related impacts are identified, Morgan Stanley engages with clients to understand how such issues are being addressed, including plans for remediation and stakeholder engagement.

## *Escalation*

When potential environmental and social risks are identified in the due diligence process, ESRM may escalate certain transactions to business unit senior management for further discussion. Certain transactions may require escalation to the Firm's Global or Regional Franchise Committees which oversee the process for review of matters posing potentially significant franchise risk.

## **Sector Approaches**

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

### ***Power***

#### *Coal-Fired Power Generation*

We will seek to reduce the proportion of our financing to coal-fired power generation.

We will not finance transactions globally that directly support the development of new or physical expansions of coal-fired power generation or provide financing for a stand-alone coal-fired power plant unless there is carbon capture and storage or equivalent carbon emissions reduction technology.

When considering other transactions involving coal-fired power generation, we will conduct heightened due diligence. Considerations may include technology and emissions controls used, impacts on biodiversity and communities, and the company's framework for and track record in managing greenhouse gas and other emissions, waste and wastewater, occupational health and safety, human rights, and compliance with regulations and international standards.

We will engage with clients in the power sector that derive revenue from coal-fired power generation to understand their greenhouse gas reduction initiatives, transition plans, strategies to diversify away from coal, and net-zero commitments.

## *Nuclear Energy*

When considering transactions directly related to the construction of new or upgrades of existing nuclear power plants, we will conduct heightened due diligence. Considerations may include the host country and international legal, regulatory, and safety frameworks, environmental and social impacts, including community impacts, and the company's framework for and track record in managing seismicity, material and waste management, water use, and occupational health and safety.

## *Hydropower*

When considering transactions directly related to the construction of new large-scale hydropower projects, we will conduct heightened due diligence. Considerations may include review of available environmental and social impact assessments and impacts on legally protected areas and local communities. The International Hydropower Association Sustainability Assessment Protocol will be referenced as guidance.

## **Mining**

### *Coal Mining*

Our exposure to thermal coal mining globally has reduced in recent years, and we will seek to continue to manage our exposure at a reduced level and consistent with this Policy Statement.

We will not provide financing where the specified use of proceeds would be directed toward mountaintop removal (MTR) mining. We will not provide financing for companies that rely on MTR for anything more than a limited portion of their annual coal production, nor will we provide financing for any company that does not have a plan to eliminate existing MTR operations in the foreseeable future.

We will not provide financing where the specified use of proceeds would be directed toward new thermal coal mine development or expansion of existing mines.

When considering transactions involving thermal or metallurgical coal mining, we will conduct heightened due diligence. Considerations may include impacts on biodiversity, freshwater resources, and local communities and Indigenous Peoples, and the company's framework for and track record in managing emissions, waste and wastewater, occupational health and safety, human rights, and compliance with regulations and international standards.

Financing transactions for thermal coal mining companies will require escalation and senior management approval.

We will engage with companies that derive revenue from thermal coal mining operations to understand their transition plans and strategies to diversify away from thermal coal mining.

By 2025, we will not provide lending, capital markets or advisory services to any company with greater than 20% of revenue from thermal coal mining, unless such company has a public diversification strategy or the transaction being provided by our lending, capital markets or advisory services facilitates diversification.

By 2030, we will phase out our remaining credit exposure to companies with greater than 20% of revenue from thermal coal mining globally.

## *Metals Mining*

When considering transactions involving metals mining, we will conduct heightened due diligence. Considerations may include impacts on biodiversity, natural resources, local communities and Indigenous Peoples, and the company's framework for and track record in managing waste (such as tailings storage facilities), water resource management, land acquisition and involuntary resettlement, labor and occupational health and safety, human rights, stakeholder engagement and compliance with regulations and international standards.

## **Oil and Gas**

We will engage with clients in the oil and gas sector to understand their greenhouse gas reduction and gas flaring, venting management and methane abatement practices and commitments, net-zero commitments, stakeholder engagement, transition plans, and other relevant diversification strategies.

## *Arctic Oil and Gas*

Transactions in the Arctic region will require escalation and senior management approval.

We will not provide financing where the specified use of proceeds would be directed toward new oil and gas exploration and development in the Arctic, including the Arctic National Wildlife Refuge.

When considering transactions in the Arctic region, we will conduct heightened due diligence. Considerations may include impacts on biodiversity, freshwater resources, and local communities and Indigenous Peoples, and the company's framework for and track record in managing energy use, greenhouse gas emissions, spills and leaks, emergency response, waste and wastewater, and occupational health and safety.

## *Oil Sands*

When considering transactions related to oil sands development, we will conduct heightened due diligence. Considerations may include impacts on biodiversity, freshwater resources, and local communities and Indigenous Peoples, including Canada's First Nations communities, and the company's framework for and track record in managing greenhouse gas emissions reduction strategies and actions, spills and leaks, waste and wastewater management and occupational health and safety.

## *Ultra-Deepwater Oil and Gas*

When considering transactions related to ultra-deepwater oil and gas, we will conduct heightened due diligence. Considerations may include impacts on biodiversity and the company's framework for and track record in managing greenhouse gas emissions, spills and leaks, and occupational health and safety.

## *Shale Oil and Gas*

When considering transactions related to the exploration and production of shale oil or gas using hydraulic fracturing, we will conduct heightened due diligence. Considerations may include impacts on biodiversity and freshwater resources, local communities and Indigenous Peoples, and the company's framework for and track record in managing seismicity, greenhouse gas emissions, including methane leaks, spills, water use, waste and wastewater management, and occupational health and safety.

## *Oil and Gas Transportation Pipelines and Liquefied Natural Gas (LNG) Export*

When considering transactions related to the construction or operation of oil and gas transportation pipelines or LNG plants and terminals, we will conduct heightened due diligence. Considerations may include impacts on biodiversity, protected areas and freshwater resources, local communities and Indigenous Peoples, and the company's framework for and track record in managing spills and leaks, gas flaring and venting management, methane abatement practices and commitments, and occupational health and safety.

## **Forestry**

Deforestation and forest degradation pose significant threats to the environment, communities, and biodiversity. We seek to support the sustainable management of forests, including the protection of high conservation-value forests.

We will not knowingly finance companies or projects that are engaged in illegal logging or that utilize illegal or uncontrolled fire or commercial logging projects in United Nations Educational, Scientific and Cultural Organization (UNESCO) World Heritage sites.

When considering financing for forestry projects that impact high conservation-value forests, we expect companies that are directly involved in timber logging to have obtained or be working toward Forest Stewardship Council (FSC) or a comparable certification. Compliance with applicable local, national and international laws and regulations is required. Companies that are in compliance with applicable laws and regulations but have not obtained or are not working toward FSC or a comparable certification will be considered on a case-by-case basis if they can demonstrate compliance with the FSC Principles.

For these transactions, due diligence considerations may include a company's policies and practices to manage impacts on local communities and Indigenous Peoples, biodiversity, and sensitive areas, such as peatlands. We will also review companies' policies and practices with respect to the principles of No Deforestation, No Peat, No Exploitation (NDPE), as well as any known controversies.

When considering transactions with companies that process, purchase or trade wood products from higher-risk countries, diligence considerations may include practices for ensuring such products come from legal sources, such as the use of third-party certification for chain-of-custody systems.



## ***Agricultural Commodities***

Morgan Stanley recognizes the environmental and social risks associated with the production and processing of agricultural commodities. The industry is characterized by complex supply chains that often stretch over multiple tiers of suppliers and geographies.

As part of the due diligence process for clients involved in the agricultural commodities and seafood sectors, we will review companies' policies and practices with respect to biodiversity, deforestation, sustainable sourcing, traceability, climate change, working conditions, human rights, animal welfare, aquaculture practices, conservation and treatment of natural and/or critical habitats and environmental stewardship, and community impacts as relevant.

For commodities sourced from higher-risk regions, we will conduct heightened due diligence, which will include review of clients' policies and practices with respect to use of the relevant cut-off dates regarding cleared or converted land, in line with relevant regulations and standards, to the extent possible.

### *Palm Oil*

Morgan Stanley will not provide financing for companies that are directly involved in the production of palm oil unless they have an NDPE policy or time-bound plan to develop one and have achieved Roundtable on Sustainable Palm Oil (RSPO) certification or have a time-bound plan to achieve certification. Compliance with applicable local, national and international laws and regulations is required. For these transactions, we will conduct heightened due diligence, which may include review of a company's policies and practices with respect to managing impacts on local communities and Indigenous Peoples, and biodiversity and sensitive areas.

We expect companies that are involved in palm oil processing and trading to have achieved RSPO certification or have a time-bound plan to achieve certification. When considering transactions involving palm oil processors and traders, we will conduct heightened due diligence, which may include review of a company's sustainable sourcing and NDPE policies and practices, as well as review of any known controversies, active RSPO complaints, and other sensitive issues.

### *Soy*

Morgan Stanley will not provide financing for companies that are directly involved in the production of soy unless they have achieved Roundtable on Responsible Soy (RTRS) responsible soy production certification or have a time-bound plan to achieve certification. When considering transactions involving soy producers, we will conduct heightened due diligence, which may include review of a company's policies and practices with respect to managing impacts on local communities and Indigenous Peoples, biodiversity and sensitive areas, NDPE and sustainable sourcing.

We expect companies that are involved in processing and trading soy to have achieved RTRS chain of custody certification or have a time-bound plan to achieve certification. When considering transactions involving soy processors and traders, we will conduct heightened due diligence, which may include review of a company's sustainable sourcing policies and practices, as well as any known controversies.

## *Beef*

For transactions involving beef producers, particularly those operating in higher-risk regions, we will conduct heightened due diligence which may include review of a company's policies and practices with respect to managing impacts on local communities and Indigenous Peoples, biodiversity and sensitive areas, sustainable sourcing and traceability, and relevant no-deforestation and no-conversion commitments.

## **Cross-Sector and Thematic Approaches**

### ***Biodiversity, Critical Habitats and Critical Cultural Heritage***

Morgan Stanley recognizes the importance of biodiversity and natural capital, critical habitats and cultural heritage as part of its environmental and social risk management framework. Considerations regarding potential impacts on biodiversity and ecosystem services, local communities, Indigenous Peoples and cultural heritage are incorporated into our sector-specific due diligence processes.

We will not knowingly finance projects where the use of proceeds supports the development or expansion of projects in UNESCO World Heritage sites unless there is prior consensus between the host country government and UNESCO that the activity would not adversely impact the Outstanding Universal Value<sup>4</sup> of the site.

We will not knowingly finance or invest in projects where the specified use of proceeds would be used to significantly convert or degrade a critical habitat. Critical habitats are areas of high biodiversity value, such as habitats of significant importance to endangered or endemic species and highly threatened and/or unique ecosystems, legally protected<sup>5</sup> and internationally-recognized areas<sup>6</sup>.

### ***Climate Change***

Morgan Stanley recognizes that climate change is one of the most complex issues of our time, and we aim to consider climate change throughout our business, operational and risk management activities.

Our approach to managing climate risks, including transition risks and physical risks, and pursuing transition finance opportunities is informed by our climate strategy and overall goal of achieving net-zero financed emissions by 2050, as discussed in our most recent ESG Report found [here](#).

### ***Climate Risk Due Diligence***

ESRM incorporates climate risk considerations into its reviews of transactions for specific sectors. In alignment with this Policy Statement, ESRM conducts due diligence, which may include review of a client's framework and track record for managing greenhouse gas emissions, net-zero commitments, and transition plans as available.

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<sup>4</sup> Outstanding Universal Value is defined as cultural and/or natural significance which is so exceptional as to transcend national boundaries and to be of common importance for present and future generations of all humanity.

<sup>5</sup> Legally protected areas are defined by the International Union for Conservation of Nature (IUCN) as "clearly defined geographical space, recognized, dedicated and managed, through legal or other effective means, to achieve the long-term conservation of nature with associated ecosystem services and cultural values."

<sup>6</sup> Consistent with IFC Performance Standard 6, 'Internationally recognized areas' are defined exclusively to include natural World Heritage Sites, Ramsar wetlands, UNESCO Biosphere Reserves and Key Biodiversity Areas.

## *Community Impacts*

Morgan Stanley also recognizes that climate risks extend beyond those to the environment and include risks to society and local communities as well. We support a just transition to a sustainable, low-carbon economy through a process that considers socio-economic implications and engagement with affected stakeholders. Adverse environmental and health impacts on communities particularly vulnerable to climate change and impacts on workers affected by the energy transition will be considered in our due diligence as appropriate.

## **Human Rights**

Morgan Stanley is dedicated to being a responsible corporate citizen, respecting and supporting the protection and advancement of human rights, as described in the International Bill of Human Rights<sup>7</sup> and the International Labor Organization's Declaration on Fundamental Principles and Rights at Work and associated conventions. Our approach to respecting and protecting human rights is informed by the United Nations' Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises.

Our [Statement on Human Rights](#), approved by our Board of Directors, describes our efforts to respect and promote human rights across a range of our activities.

Our [Supplier Code of Conduct](#) outlines our expectations for suppliers with regard to human rights, employment and non-discrimination practices, health and safety, and diversity and inclusion.

Using a risk-based approach, Morgan Stanley's supplier due diligence program assesses risks associated with third-party suppliers. This approach identifies, among other things, the potential for risks associated with human rights and other social and/or environmental issues.

Please refer to Morgan Stanley's [Modern Slavery and Human Trafficking Statement](#) for additional information on our approach to this issue.

## *Human Rights Due Diligence*

Potential human rights issues, including within a company's supply chain, are considered in our transactional due diligence processes. Areas of heightened human rights risks, including modern slavery, and adverse impacts on Indigenous Peoples or vulnerable communities, undergo heightened due diligence and may be escalated to senior management.

For transactions that involve large-scale resettlement, Morgan Stanley expects clients to engage with the appropriate stakeholders and will evaluate their practices in this regard as part of our due diligence. In particular, for transactions in conflict-affected areas, we will review the client's assessment of potential human rights risks and use of security forces, where applicable.

When significant human rights issues are identified in the due diligence process, Morgan Stanley may engage with a client to review the effectiveness of its risk management and remediation approaches, engagement with affected stakeholders and process for collecting and addressing grievances.

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<sup>7</sup> [The International Bill of Human Rights](#) includes the Universal Declaration of Human Rights, as well as the International Covenant on Economic, Social and Cultural Rights and the International Covenant on Civil and Political Rights.

## *Modern Slavery*

Morgan Stanley will not knowingly engage in transactions where there is credible evidence of modern slavery, such as forced labor, human trafficking, or harmful or exploitative forms of child labor.<sup>8</sup>

For transactions that may have potential exposure to modern slavery risks, we conduct heightened due diligence. Considerations may include review of a company's relevant policies, procedures, and controls in place to prevent or mitigate modern slavery risks within their operations and supply chains.

## *Indigenous Peoples*

Morgan Stanley recognizes that the identities and cultures of Indigenous Peoples are inextricably linked to the lands on which they live and the natural resources on which they depend. We respect the rights of Indigenous Peoples globally regarding issues affecting their lands and territories, traditionally owned or otherwise occupied and used.

When financing transactions where the use of proceeds may directly impact Indigenous Peoples, Morgan Stanley expects project sponsors or borrowers to demonstrate alignment with the objectives and requirements of IFC Performance Standard 7, including the requirements for free, prior and informed consent (FPIC)<sup>9</sup>.

For those transactions that may directly and adversely impact Indigenous Peoples, we will conduct heightened due diligence. Considerations may include the company's framework for managing and addressing potential impacts, such as policies on Indigenous Peoples, engagement and consultation processes, including processes to achieve FPIC, culturally appropriate communication, avoidance of impacts on critical heritage and land subject to traditional ownership or customary use, and grievance mechanisms.

## **3. Governance, Implementation and Reporting**

Morgan Stanley has a governance system in place to review and implement this Policy Statement.

### **Governance**

This Policy Statement is reviewed annually by ESRM, senior representatives of the business units, the GSO, and other relevant internal control functions and may be updated as necessary to reflect developments in our sustainability strategy or business operations. This Policy Statement is approved by the Firm's ESG and Global Franchise Committees and material amendments are presented to the Governance and Sustainability Committee of the Morgan Stanley Board of Directors for approval.

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<sup>8</sup> Harmful or exploitative forms of child labor is defined as work that is economically exploitative, is likely to deprive children of their childhood, their potential, and their dignity, and is mentally, physically, socially or morally dangerous and harmful to children. This is consistent with the [International Labour Organization's](#) definition of "child labor".

<sup>9</sup> Although no universal definition of FPIC exists, it is well-accepted that it comprises a process and an outcome in which project sponsors and the government engage in good faith negotiation with the affected Indigenous Peoples to agree on the basis for which a project can proceed. FPIC neither requires unanimous support by individuals or sub-groups within the community nor requires the project sponsors to agree to aspects not under their control.

## Training

Employees and executives across the Firm are responsible for implementing this Policy Statement. We train and provide guidance to our employees to understand and manage ESG risks and opportunities affecting our business.

## Stakeholder Engagement

Morgan Stanley values the perspectives and insights of our internal and external stakeholders.

We are members of, and active participants in, certain external sustainable business initiatives and non-governmental organizations. We regularly engage with external stakeholders to understand the evolving nature of environmental and social risks and to inform the development of this Policy Statement.

With respect to internal stakeholders, we regularly share information on the firm's sustainability initiatives and invite employees to engage on ESG issues. We believe that dialogue with internal stakeholders is important to ensuring that we consider diverse and timely perspectives in our approaches.

## Reporting

Morgan Stanley is committed to regularly providing our stakeholders with information about our environmental and social risk management and sustainability performance. Morgan Stanley publishes an annual [ESG Report](#) that provides an overview of Morgan Stanley's activities, progress and performance on ESG topics, including climate change and human capital. Additional information regarding our sustainability policies and performance can be found in the following locations:

- The [Sustainability at Morgan Stanley](#) webpage
- The [Institute for Sustainable Investing](#) webpage
- Morgan Stanley Investment Management's [Sustainable Investing](#) webpage
- Morgan Stanley Wealth Management [Investing with Impact](#) webpage
- Morgan Stanley [Diversity and Inclusion](#) webpage
- The [Corporate Governance](#) webpage
- Morgan Stanley [Investor Relations](#) webpage

Morgan Stanley is committed to transparent disclosure of information in addition to continuous improvement in our reporting and disclosure.