

Morgan Stanley

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PRIVATE WEALTH MANAGEMENT ASIA

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1. Executive Summary of the Morgan Stanley Bank Asia Limited (“MSBAL”) Private Wealth Management Asia (“PWM Asia”) Climate Risk Management Business Control and Monitoring Policy (the “Policy”)

Environmental, Social and Governance (“ESG”) risk is an increasingly important area for the global capital market. At PWM Asia, we place our initial focus on the environmental aspect of ESG and accordingly develop the Policy to set out how we address climate-related and environmental risks (collectively “climate risk” in the Policy) arising from the business activities of PWM Asia.

Climate change is a growing threat to every walk of life globally and increasingly a potential source of financial risk to financial institutions and corporations.

Consistent with our core value of “Do the Right Thing”, Morgan Stanley (the “Firm”) recognizes the critical importance of considering potential climate risks in all its activities, and embraces sustainability leadership as a business opportunity, a risk mitigation and an essential aspect of our Firm’s core values. It is aligned with the Paris Agreement, which prompts collective actions to combat climate change and support the transition towards a sustainable economy.

The PWM Asia business of MSBAL provides private wealth management services to ultra-high and high net-worth clients. Accordingly, we have developed the Policy for PWM Asia to outline our control and monitoring framework to address climate risks arising from the business activities of PWM Asia.

The Policy primarily defines (amongst others):

- Climate risk and our risk management philosophy
- Climate strategy, risk appetite and risk indicators for PWM Asia
- Control and monitoring framework for client, product and lending
- Risk management

The Policy is applicable to the PWM Asia business and relevant to our business activities which include client acquisition, product management and margin financing.

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2. Climate Risk

The section introduces the concept of climate risk and its implication to financial institutions.

2.1 Introduction

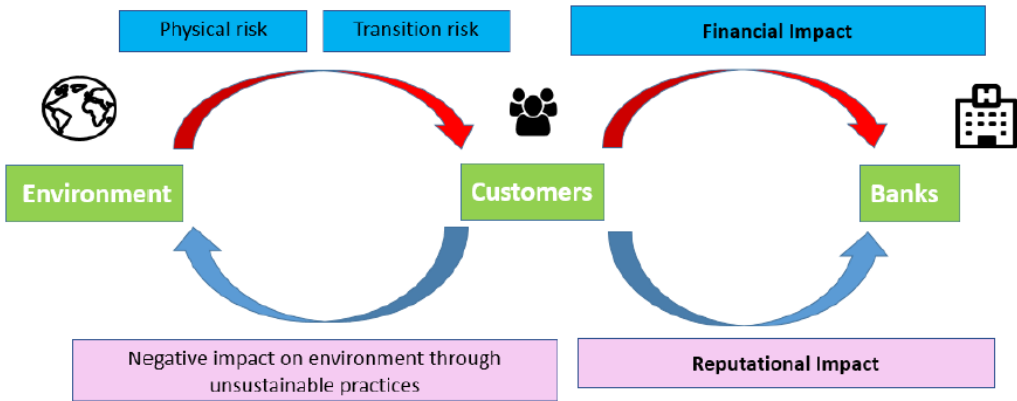
Climate risk generally refers to physical and transition risks experienced by financial institutions brought by climate change, such as impact of extreme weather events or decline in asset value in carbon-intensive sectors due to ongoing shift in carbon-related regulations.

2.2 Driver

Climate risk may pose potential financial and reputational impact to financial institutions through physical and transition risks.

- Physical risks – asset damage and disruption of global supply chains due to the impact of extreme weather events and long-term climate change
- Transition risks – financial impact arising from a gradual shift towards an environmentally sustainable economy, induced by adjustment in global climate policies, technology advancement and shift in market sentiment

Please see below illustration for potential financial and reputational impact of environmental risk on banks:



Source: MAS Guidelines on Environmental Risk Management (Banks)

For details, please refer to MAS Guidelines on Environmental Risk Management (Banks).

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Given the unique characteristics of climate change and the implications¹, there is growing expectation on financial markets whose core function is to allocate capital and channel finance to support carbon transition, and accordingly the inception of regulatory requirements for financial institutions to develop climate risk management frameworks.

2.3 Risk Management Philosophy

The risks posed by climate change may affect us through traditional risk types and hence prompt us to enhance our existing business practices, operations and risk management framework to embed climate-related considerations.

Considering the regulatory landscape and vision of the Firm regarding sustainability leadership, PWM Asia defines its climate strategy and risk appetite, and leverages its market position to help combat global climate change.

3. Roles and Responsibilities

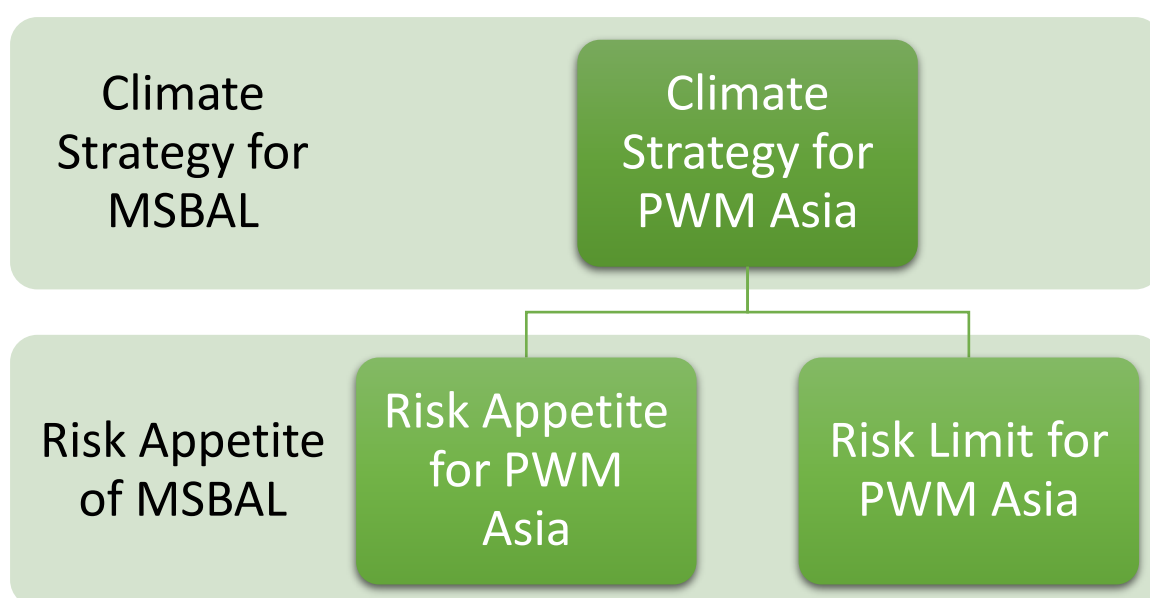
PWM Asia recognizes its role to identify, measure, mitigate, monitor and report climate risk exposure arising from business activities, and consider climate risks and opportunities on both a short-term and long-term basis. Climate-related considerations are embedded into risk appetite, strategies and business plan.

In line with the risk management principles of MSBAL, the responsibilities of managing climate-related risks are allocated among three lines of defense (Business Units and Support Functions (first line), Independent Risk and Compliance Functions (second line) and the Internal Audit Department (third line)), which is designed to separate risk owners from independent risk control functions.

¹ Please refer to HKMA SPM GS-1 Climate Risk Management for unique characteristics of climate change and the implications.

4. Overview of Climate Strategy, Risk Appetite and Risk Indicator

PWM Asia has its specific climate strategy and risk appetite, which underpin our approach to climate resilience and sets forth business control and monitoring processes to address evolving climate issues for PWM Asia.



4.1 Climate Strategy for PWM Asia

The Firm embraces sustainability leadership as a business opportunity, a risk mitigator and an essential aspect of our Firm’s core values.

Climate strategy for PWM Asia is defined according to the climate strategy of the Firm and MSBAL, Morgan Stanley Environmental and Social Risk Management (“ESRM”) Framework, and external factors such as regulatory requirements and evolving climate-related issues.

In line with the Firm’s vision, PWM Asia pursues a strategy to embed climate-related considerations across business activities and existing risk management practices and seeks to:

- Leverage its market position and business infrastructure to promote awareness of sustainable investing

- Consider climate risk in our risk management framework

4.2 Climate-related Risk Appetite for PWM Asia

The risk appetite of PWM Asia is reviewed at least annually, taking into consideration evolving physical and transition risks arising from climate-related issues and the latest circumstances of PWM Asia and MSBAL.

Climate-related risk appetite for PWM Asia is generally and initially qualitative in nature and defined based on our climate strategy to promote awareness of sustainability, and climate-related risk appetite of MSBAL. It is set out in Section 5 of the Policy in accordance with the three core pillars of PWM Asia, namely client selection, product governance and lending, and subject to review at least annually together with the Policy.

4.3 Climate-related Risk Indicator for PWM Asia

Where applicable, quantitative metrics such as risk indicators of PWM Asia is defined (with regards to its climate strategy and risk appetite) on a step-by-step basis to facilitate tracking of the risk appetite for PWM Asia, and regular reporting of climate risk exposure in form of management information reports at MSBAL PWM Asia ESG Committee (“ESGC”). Where deemed necessary, actions can be recommended to optimize the level of risks taken through PWM Asia’s activities within climate risk indicators.

5. Climate Risk Appetite, Control and Monitoring

The section is to illustrate the climate risk appetite of PWM Asia in various pillars, and related controls and metrics to capture business opportunities and address risks because of climate change.

5.1 Client Selection

The Firm, assisted by the Firm Franchise Committee, seeks to manage franchise risk to prevent significant reputational damage to the Firm through the oversight of transactions, business practices, and clients or counterparties that may pose a significant reputational risk to the Firm.

PWM Asia does not have any appetite for transactions, business practices, clients or counterparties that pose a significant franchise risk and jeopardize the Firm's reputation.

PWM Asia recognizes the potential impact of clients' climate-related negative news on our franchise/reputation risk exposure. Accordingly, with growing market expectation on financial institutions in combat of climate issues, PWM Asia leverages on the Firm's franchise risk assessment framework and exercises prudent judgment on onboarding/offboarding of clients associated with climate-related negative news.

5.2 Product Governance

PWM Asia business is positioned to provide clients with a comprehensive suite of products and services that include investments in equity, FX, rates and fund products.

With regards to increasing market awareness and clients' potential preferences for sustainable investing, PWM Asia aims to optimize its product offerings through incorporation of climate-related considerations as relevant to our advisory and discretionary portfolio management activities.

Consistently, PWM Asia seeks to avoid significant franchise and legal risks arising from the introduction of new products and onboarding of external parties (e.g., structured note issuers / OTC counterparties). Accordingly, climate-related considerations are subject to the same product risk governance process of PWM Asia to ensure sufficient management oversight and quality of due diligence results.

5.2.1 Advisory

Qualitative assessment of climate-related risks is incorporated into the product due diligence review.

5.2.2 Discretionary Portfolio Management ("DPM")

PWM Asia recognizes the increasing relevance of climate risk to DPM activities and seeks to gradually embed climate risk considerations into portfolio construction and risk management process to the extent it is commensurate with the scale of DPM business and materiality of climate risk.

Below table summarizes measures in place as the initial step for PWM Asia:

Item	Details
Customizable Portfolio	Bespoke mandate is available for environmentally conscious clients (who meet the required level of asset under management) to employ an overlay to screen out direct investments in companies from the carbon-intensive sectors (as agreed with the clients).
Investment Discipline and Stewardship	<p>The Firm embraces sustainable investing philosophy and recognizes its role to be good stewards of capital it manages/advises.</p> <p>Equities are largely covered by the Firm’s research team, with sustainability and ESG being one of the research areas as relevant to investee companies. DPM investment activities are generally required to be aligned with the Firm’s research results.</p>

5.2.3 Structured Note Issuers / Counterparties

The due diligence of structured note issuers / counterparties has incorporated climate-related questions to gather information about the third parties’ approach to ESG and climate-related products they offer to enrich the product shelf of PWM Asia.

5.3 Lending

Margin lending is available to PWM Asia clients for general purpose of financing clients’ investment activities with their collaterals (e.g., holdings, property). Lending parameters can be calibrated to manage climate risks of lending portfolios (to the extent material) and incentivize sustainable investing.

PWM Asia seeks to gradually incorporate climate considerations into credit risk management of its loan portfolios, which includes data accumulation to analyze the behavior of loan portfolios with regards to physical and transition risks, and, to the

extent material, the formulation of mitigating actions to minimize our risk exposure to an acceptable level.

6. Risk Management

PWM Asia has in place management information reports that capture climate risks that have been identified for the pillars of client selection, product governance and lending for management and ESGC.

Such reports are reviewed against relevant climate risk metrics (and tabled at ESGC for regular risk reporting, consideration of potential mitigation actions, and independent challenge by members of ESGC).

ESGC is also one of the first escalation points for any irregularities or material climate risk issues.

7. Training and communication

Given distinctive nature of climate risks, PWM Asia ensures sufficient resources are allocated to climate strategy implementation.

Regular training is provided to PWM Asia staff to keep them informed of the latest climate-related issues and climate risk management framework for PWM Asia. Climate-related training is embedded in core curriculum for PWM Asia staff and subject to training policy of PWM Asia.

Quarterly newsletter of PWM Asia may include relevant topics like sustainable banking to keep the awareness of PWM Asia staff.