

2010 Sustainability Report



ENVIRONMENT

We work with the public and private sectors to finance and encourage innovation in an exciting sector that stretches from cleantech to carbon trading.



SOCIAL FINANCE

Morgan Stanley's social finance activities enable the provision of basic services to poor and disadvantaged communities.



COMMUNITY DEVELOPMENT

Morgan Stanley is committed to building communities in which all people have social and economic opportunity.



PHILANTHROPY

Giving young people a strong start in life is the most meaningful way Morgan Stanley can contribute to the communities in which we live and work.

About Morgan Stanley

Morgan Stanley is a global financial services firm that provides a wide range of investment banking, securities, investment management and wealth management services to a large, diversified group of clients, including corporations, governments, financial institutions and individuals. We currently employ a global workforce of more than 62,000.

OUR CLIENT-CENTERED BUSINESSES INCLUDE:

Institutional Securities—provides financial advisory and capital-raising services to a diverse group of corporate and other institutional clients globally. In 2010, we ranked #1 in global M&A, #1 in global IPOs and #1 in global equity. We advised on nine of the top ten announced transactions of 2010, and our equity capital markets team achieved the highest market share in a decade. We have best-in-class capabilities across a broad array of businesses, including commodities, credit, cash, equities and capital markets.

Global Wealth Management Group—provides comprehensive financial services to clients through a network of more than 18,000 global representatives and includes the Company's 51 percent interest in Morgan Stanley Smith Barney. The Global Wealth Management Group has \$1.67 trillion in client assets.

Asset Management—offers clients a diverse array of equity, fixed income and alternative investments and merchant banking strategies. With one of the largest global asset management organizations of any full-service financial services firm, we provide investment strategies spanning the risk/return spectrum across geographies, asset classes and public and private markets to a diverse group of clients across the institutional and intermediary channels, as well as to high net worth clients.

For further information about Morgan Stanley, please visit our website, www.morganstanley.com.

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT—OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT—OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

ABOUT THIS REPORT

This report covers our 2010 global operations; the information contained herein is for the year ended December 31, 2010, unless the context indicates otherwise. We will explain our approach to sustainability and outline our performance in the last year, with the aim of informing stakeholders about the risks and opportunities we face.

Summary Consolidated Financial Information (dollars in millions)

	2010	2009
Net Revenues		
Institutional Securities	\$16,366	\$12,853
Global Wealth Management Group	\$12,636	\$9,390
Asset Management	\$2,723	\$1,337
Net Revenues—Consolidated*	\$31,622	\$23,434
Non-Interest Expense	\$25,420	\$22,451
Net Income Applicable to Morgan Stanley	\$4,703	\$1,346
Earnings (Loss) Applicable to Morgan Stanley Common Shareholders	\$3,594	\$(907)

*Consolidated net revenues include intersegment eliminations which are not included in the above table.

Letter from the CEO



As a trusted global advisor to companies, governments and investors, Morgan Stanley has been interpreting global trends to identify investment risks and opportunities for our clients since 1935. As we look ahead to the challenges the global community faces—such as fostering economic prosperity, energy security and political stability—we believe that capital markets and the financial services industry can contribute to finding solutions.

With our broad international footprint, we have a global view of these complex challenges. The skills and ingenuity of our 62,000 employees and our product reach will enable us to identify unique opportunities to contribute in ways that benefit all stakeholders.

Innovation—especially in developing new business models—is the key to creating a sustainable future. We support businesses that tackle pressing problems in energy, health, water, agriculture and access to capital for the billions who live largely outside the mainstream economy.

For us, this means acting as a trusted intermediary in environmental and social financing initiatives. We are acknowledged as one of the leading advisors in clean technology and renewable energy, having intermediated more than \$5.5 billion in securities in this sector in 2010 alone. We intend to build on our strengths by developing new market opportunities in this vitally important area.

We serve microfinance institutions that deliver financial services to low-income individuals who lack access to the formal banking system. Morgan Stanley has intermediated more than \$550 million of microfinance securities, benefitting 30 microfinance institutions that provide capital to local entrepreneurs. In the U.S., we seek to revitalize communities by creating and preserving affordable housing and supporting small businesses to expand economic development and create jobs.

We pride ourselves on running environmentally sound operations and are determined to continue shrinking our environmental footprint. Through employee volunteerism and philanthropy, we enable and encourage our employees to make civic contributions. In 2010, Morgan Stanley's Global Volunteer Month saw an 83 percent rise in the number of employees who participated and a near doubling of the time given. I thank all those who contribute in this way and act as such effective ambassadors for Morgan Stanley.

Throughout the past 75 years, the people of Morgan Stanley have demonstrated a broad and deep commitment to integrity, excellence and productive partnership with our communities. We look forward to building on that tradition by delivering long-term value and working with all of our stakeholders to contribute to a sustainable future.

James P. Gorman
President and Chief Executive Officer

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT—OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

Sustainability at Morgan Stanley

Morgan Stanley is committed to a broad vision of sustainability that encompasses the long-term financial, environmental and social impact of our activities. Through both our client-facing work and our own operations, our integrated approach draws on our unique skills and commercial reach to build environmental and social considerations into the decisions we make.

As a leading financial institution, we are in a unique position to contribute to sustainable development by focusing our intellect, financial acumen and global reach to develop new markets and facilitate access to capital. Morgan Stanley harnesses the power and discipline of the capital markets to create innovative sustainable business models that strengthen communities, advance economic opportunity and protect the environment. Our Global Sustainable Finance group leads the sustainability strategy for the firm.

Morgan Stanley has a long and proud history of contributing to the communities in which we live and work through investments, charitable grants, strategic philanthropic relationships and employee volunteering.

See [Morgan Stanley Sustainability Policies](#).

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

GLOBAL SUSTAINABLE FINANCE

Morgan Stanley's Global Sustainable Finance (GSF) group drives the firm's sustainability strategy and reports directly to the Chief Financial Officer and an Advisory Board of senior leaders.

We Focus on Three Key Areas

Environment—We develop robust financial markets and products that attract private sector capital to protect the environment. We also reduce the environmental impact of our own operations.

Social Finance—We broaden economic opportunity in communities around the world by leveraging our capital market expertise to provide sustainable financing to low-income communities.

Community Development—We seek to revitalize communities in the U.S. by creating and preserving affordable housing and supporting small businesses to expand economic development and job-creation programs.

To execute the firm's sustainability strategy, GSF works closely with business units across the firm, including Investment Banking, Global Capital Markets, Fixed Income, Commodities, Research, Investment Management and Morgan Stanley Smith Barney.

GSF supports investors and clients in the development of long-term sustainable business models and investment products capable of achieving financial, social and environmental returns.

The group is a key point of contact for environmental and social nongovernmental organizations, businesses and investors, and initiates industry research and thought leadership on sustainability-related issues.

Advisory Board

Morgan Stanley's sustainability strategy and efforts are guided by an Advisory Board of senior leaders who:

- Provide guidance on Morgan Stanley's sustainability strategy
- Assist in building the sustainability franchise both internally and externally
- Provide support to specific GSF initiatives

GSF Advisory Board Members

John Mack.....	Chairman of the Board of Directors of Morgan Stanley
Ruth Porat.....	Chief Financial Officer
Paul Taubman.....	Co-President of Institutional Securities
Greg Fleming.....	President of Morgan Stanley Smith Barney and President of Morgan Stanley Investment Management
Linda Riefler.....	Global Head of Research
Eric Grossman.....	Global Head of Legal
Owen Thomas.....	Chief Executive Officer for Asia
Jeff Holzschuh.....	Vice Chairman of Institutional Securities
Mahmoud Mamdani.....	Vice Chairman of Middle East and North Africa
Craig Pfeiffer.....	Vice Chairman of Morgan Stanley Smith Barney
Paul Hatch.....	Head of Investment Strategy & Client Solutions, Morgan Stanley Smith Barney

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

REMUNERATION AND SUSTAINABILITY PERFORMANCE

Remuneration is linked to sustainability performance for those working in groups at Morgan Stanley where sustainability is a key component. These groups develop annual goals around sustainability and are evaluated on their performance in meeting those goals.

INTERNAL COMMUNICATION

We communicate our sustainability efforts to employees globally through a dedicated intranet site featuring our sustainability accomplishments, news, research and guidance on how employees can get involved.

We have established informal working groups—both cross-divisional and within individual business units—to address relevant sustainability issues and explore business and thought leadership opportunities for Morgan Stanley.

In 2010, we launched our first Global Sustainability speaker series, an initiative focused on engaging employees broadly on sustainability issues. We have emphasized our accomplishments, thought leadership and relevant industry issues in areas such as clean technology, microfinance, environmental finance and impact investing. The series featured 23 speaker events, film screenings and volunteering activities in Hong Kong, London and New York.

Morgan Stanley’s Environment and Social Finance Forum, based in Hong Kong, London and New York, is an employee-led group focused on raising awareness of, and educating employees on, sustainability issues. With more than 800 members globally, the Forum hosts discussions and speaker series on topics such as microfinance, environmental innovation and environmental policy.

The Forum also organizes volunteering opportunities with local nonprofits focused on sustainability. During 2010, the Forum engaged a range of industry experts and discussed Morgan Stanley’s work in the sector and how employees can foster sustainability through both their core business functions and personal engagement.

For more information, see [Social Finance](#).

Environmental and Social Risk

We consider sustainability in everything we do: the way we evaluate companies, transactions and risk; how we advise our clients and collaborate with our financing partners and employees; how we conduct our own operations; and how we promote and develop new market opportunities.

Working with our clients, we minimize environmental and social risks by:

- Conducting a thorough due diligence process that identifies, evaluates and escalates environmental and social risks
- Engaging clients, where appropriate, in constructive dialogue about environmental and social issues
- Making sound investments in environmentally beneficial and sustainability-focused technologies

We undertake appropriate environmental due diligence when making investment decisions. If Morgan Stanley has a member on the governing body (e.g., board of directors) of the company in which we invest, we will use reasonable efforts to monitor the company's operations with respect to environmental compliance issues.

We encourage clients to assess and appropriately mitigate or disclose material environmental risks. When appropriate, we highlight concerns with clients in the context of the capital raising or strategic advisory assignment.

Our wide-ranging financial expertise and global presence also provide a significant opportunity for Morgan Stanley to make a meaningful contribution to sustainable development. We promote market-based tools, such as the trading of environmental commodities, and support the development of renewable energy and energy efficient projects.

For more on environmental and social opportunities, see:

- [Environmental Financing Initiatives](#)
- [Social Finance](#)
- [Community Development](#)

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

We seek to understand and mitigate significant environmental and social risks that we and our clients may face. We encourage our clients to do the same in their own businesses.

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT

Our Global Franchise Risk Policy provides a risk management framework for addressing potential risks to our firm’s franchise. It also provides examples of “red flags” that could indicate potentially significant franchise risk situations with respect to a transaction, business practice, client or counterparty that must be escalated to senior management. Our internal Environmental Risk Policy provides guidance on how to identify and assess potential environmental and social risks.

If our due diligence on a transaction presents significant social, environmental, legal, financial or reputational risks, our risk management process requires teams to refer proposed transactions to a review committee. These committees are made up of senior management and sector specialists.

In the context of sustainable development where there are significant environmental risks, we will use the Equator Principles and The Carbon Principles as general guidelines for evaluating financings (including debt and equity underwriting transactions, loans and investment banking advisory assignments) of potentially damaging projects where Morgan Stanley is acting as lead bookrunner or arranger and can trace the transaction proceeds to a particular asset (see page 9). Here are examples:

- *Biodiversity and sustainable natural resource management*—we prohibit financing or investing in industrial activity that degrades important natural habitats
- *Indigenous peoples*—when financing projects in indigenous territories, we aim to ensure that the project sponsor or borrower has consulted the affected people
- *International environmental agreements*—we will not knowingly finance projects that contravene international environmental legal agreements
- *Mountain top removal mining (MTR)*—we will not finance companies for which a predominant portion of their annual coal production is from MTR activities
- *Pollution prevention*—we will not knowingly finance projects unless they adhere to local and World Bank standards; have pollution prevention plans; and offer relevant training to environment, health and safety professionals

Morgan Stanley includes environmental and social issues as part of the due diligence on transactions. In 2010, the firm actively assessed the impact of deals across these potentially high-risk industries, noted in the following chart:

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

2010 Transactions Receiving Environmental Due Diligence

Industry	Number of Deals
Agriculture	7
Chemicals	22
Forestry, Pulp & Paper	4
Industrial	56
Mining	23
Oil, Gas and Power	142
Utilities	60
Total	314

In 2010, Morgan Stanley updated its Environmental Policy Statement to include enhanced due diligence on any commercial lending and investment banking transactions involving a client engaged in MTR mining for coal, and we are publicly committed to report on the implementation of this pledge.

The Carbon Principles

Morgan Stanley is one of three financial institutions that founded and drafted [The Carbon Principles](#) with three leading NGOs: Environmental Defense Fund, National Resources Defense Council and Ceres. The Principles provide a consistent approach for banks and their U.S. power clients to evaluate and address the carbon risks associated with financing traditional power production facilities and aim to encourage development of low-carbon power generation.

Transactions Subject to The Firm's MTR Review Process

Total 2010 potential transactions involving MTR	11
Transactions that did not proceed	6

For more detail see our [Environmental Policy Statement](#).

RISK TRAINING

Our online training ensures that employees understand how to evaluate, manage and mitigate the social and environmental risks that transactions may present. Training is mandatory for the Investment Banking and Global Capital Markets teams and is currently under development for other relevant groups.

In 2010, we provided training on environmental issues to approximately 2,000 additional professionals in both of these divisions around the world.

The Equator Principles

The [Equator Principles](#) are a benchmark for managing environmental and social risks in project financing. They are based on the policies of the World Bank and its private sector arm, the International Finance Corporation. We use the Principles as guidelines for evaluating financing (including debt and equity underwriting transactions, loans and investment banking advisory assignments) when Morgan Stanley is acting in a lead role and can trace the transaction proceeds to a particular asset.

Environmental Financing Initiatives

We contribute to sustainable development by using our financial expertise and know-how to benefit the environment.

Many economic and financial barriers prevent the development of promising environmental technologies and solutions to environmental challenges. We work with the public and private sectors to finance and encourage innovation in an exciting sector that stretches from clean technology to carbon trading.

We are determined to be at the forefront of innovation, and we see significant business opportunity in contributing to emerging markets for technologies and systems that tackle some of the world's biggest environmental issues. We have made a long-term commitment to understanding the issues clearly and positioning ourselves to offer ideas and solutions that drive change.

FINANCING CLEAN TECHNOLOGY AND RENEWABLE ENERGY

Morgan Stanley's leading clean technology franchise provides financial advisory services to clean technology and renewable energy companies. In addition to strategic advice, we work with these clients to raise capital to enhance their operations, stabilize their capital structures and grow their businesses.

In 2010, our clean technology investment banking team intermediated more than \$5.5 billion in securities in the cleantech sector, earning recognition from the *San Francisco Business Times* as the "go-to cleantech investment bank." We worked with leading clean technology and renewable energy companies including Amyris, Enel Green Power, Green Mountain Energy, Ming Yang, Molycorp, Recurrent Energy, Solarfun, Suntien Energy, Tesla Motors and Westport Innovations.

In June 2010, Morgan Stanley was the joint lead bookrunner on the \$226 million initial public offering (IPO) of Tesla Motors. Morgan Stanley's expertise drove the success of the IPO making it one of only two technology IPOs that priced above the expected range at the time it went public in 2010. Tesla was the first company to produce a totally electric vehicle that is federally approved and highway capable, achieving a distance of more than 200 miles from a single charge.

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

In October 2010, Morgan Stanley priced the \$3 billion IPO of Enel Green Power on the Milan and Spanish Stock Exchanges. The transaction was the largest Western European renewable energy IPO since 2007 and the largest Italian IPO since 1999. Morgan Stanley’s expertise helped execute this renewable energy transaction amidst a very challenging economic environment.

We also make direct investments in clean technology and renewable energy companies and projects.

Morgan Stanley has been invited to partner with Desertec, which is proposing to extract solar thermal power from the world’s deserts. The North African desert alone could generate sufficient clean power to meet 15 percent of Europe’s total energy needs by 2050.

COMMODITIES TRADING

Our global Commodities Group plays a leading role in developing the environmental commodities market. We trade and structure carbon-related transactions and other environmental commodities including sulfur dioxide, nitrogen oxide, biodiesel and ethanol. We are active in compliance markets such as the European Union’s Emissions Trading System, and deliver market emissions reductions approved under the Kyoto Protocol.

Morgan Stanley chairs the “Green Exchange,” a consortium of leading banks, brokers, trading firms and exchanges focused on promoting effective and innovative financial tools to develop environmental markets.

Our Commodities Group also provides capital and development services for photovoltaic solar projects developed through strategic relationships with developers, suppliers, installers, governmental agencies, end-users and the community at-large.

Examples of our work include:

- Developed projects to provide discounted renewable energy to municipalities through power purchase agreements
- Created programs in North America that allow companies in which the Commodities Group has invested to lease rooftop space from commercial enterprises to house photovoltaic solar projects. The energy generated from these projects will be sold to local utilities under long-term power purchase agreements or feed-in-tariff contracts

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

ENVIRONMENTALLY SUSTAINABLE BUILDINGS

Morgan Stanley makes direct investments in environmentally sustainable building projects, such as efficiency improvements in new and existing buildings.

Our real estate investing business considers environmental factors in its investing and asset management strategies, recognizing that energy efficiency, environmental improvements and energy audits can have a positive impact on both sustainability and returns on investment.

In addition, increasing energy efficiency helps to create green jobs, reduces emissions and preserves affordability by reducing energy bills for residents. Morgan Stanley partners with community development organizations and local governments to use our financial expertise and drive financing models that bring the benefits of energy efficiency to tenants, owners, investors and governments.

For more information, see [Strengthening Communities through Environmental Improvements](#).

THOUGHT LEADERSHIP

Morgan Stanley produces investment research focused on renewable energy and environmental policy, as well as issues such as greenhouse gas emissions and water.

We are a founding member and active participant of the [U.S. Partnership for Renewable Energy Finance \(U.S. PREE\)](#) which seeks to enhance understanding of renewable energy finance policies. We are one of three financial institutions that founded [The Carbon Principles](#).

We collaborate with experts and specialist groups to listen, learn and stimulate debate on solutions to environmental challenges, and Morgan Stanley leaders frequently participate on premier conference panels around the globe. In 2010, examples of our collaboration and initiatives include:

Global Alliance for Clean Cookstoves

Morgan Stanley is a founding partner of the Global Alliance for Clean Cookstoves—a new public-private partnership that is focused on developing a global market for clean, efficient cookstoves and fuels. With the goal of reducing the many harmful effects of traditional cookstoves and open fires—the primary means of cooking and heating for nearly three billion people in the developing world—the Alliance plans to facilitate the adoption of 100 million clean stoves by the year 2020. This should save lives, empower women, reduce climate change emissions and improve livelihoods.

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

In particular, we are funding research into the impact of low-emission biomass cookstoves on children’s health, with the aim of combating the 1.9 million premature deaths caused each year by exposure to smoke in homes.

Wildlife Conservation Society (WCS)

We partner with the WCS to develop financial mechanisms and markets that will drive conservation efforts around the world. Together, we are working to develop projects to create self-sustaining communities which focus on conservation.

World Resources Institute (WRI)

In 2010, Morgan Stanley provided financial support to WRI’s New Ventures program, which focuses on environmental entrepreneurship.

Our sponsorship will fund a workshop in 2011 in India with policy makers, investors and financial intermediaries to address energy poverty and discuss how to support businesses and technologies that could provide clean energy to some of India’s poorest communities.

The Atlantic Green Intelligence Forum

Morgan Stanley cosponsored the 2010 Atlantic Green Intelligence Forum, an annual conference convening the world’s leading authorities on energy and environmental issues to discuss the changing landscape of energy markets, conservation efforts and alternatives to fossil fuels.

Going Green

Morgan Stanley sponsored two Going Green conferences. These two-and-a-half-day executive events allow industry experts to debate the most promising emerging green technologies and entrepreneurial opportunities.

Morgan Stanley Clean Technology Conference

We held the inaugural Morgan Stanley Clean Technology Conference in December 2010. The event consisted of panel discussions featuring Morgan Stanley thought leaders, investors and industry experts from public and private clean technology companies. Speakers highlighted opportunities in solar and wind power, natural gas and biofuels, and shared their views on the long-term future of global clean energy markets.

Social Finance

Morgan Stanley's social finance activities enable the provision of basic services to poor and disadvantaged communities, including microfinance, housing, micro-energy, health care and water. Our role is to facilitate the flow of capital between investors and the businesses that deliver these services, generating both financial and social returns. We aim to increase the opportunities for communities to address poverty.

SERVING THE MICROFINANCE INDUSTRY

We believe that microfinance—the provision of financial services to low-income individuals without access to the formal banking system—can empower the working poor to achieve financial independence. Morgan Stanley has a strong track record of delivering transactions and thought leadership in microfinance.

Microfinance institutions (MFIs) provide small loans to low-income borrowers. MFIs need consistent, affordable access to capital and broad-based technical expertise. This demand exceeds the resources of philanthropic and international aid sources alone. We act as an intermediary that connects MFIs with the capital markets and specialized technical support. This is an important contribution to the development of a sustainable microfinance industry.

Morgan Stanley has intermediated over \$550 million of microfinance securities, facilitating access to capital for more than 30 MFIs around the globe. This work has benefited several million low-income entrepreneurs. We have completed a wide range of investment banking transactions for our clients, including mergers and acquisitions, structured finance and debt. A core focus of our work in microfinance is innovation, and we are proud that each of our transactions has represented a first for the industry.

Financiera Independencia

In 2010, Morgan Stanley acted as joint-bookrunner for a \$200 million, five-year bond offering by Financiera Independencia, a leading microfinance institution in Mexico. This transaction was the first international bond offering placed by a Latin American microfinance institution, creating a new asset class and introducing the microfinance sector to a new investor base.

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT—OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

COMMITMENT TO DOMESTIC FINANCIAL INCLUSION

The recent financial crisis and rising unemployment have heightened the need for inclusive financial services in the U.S. A study by the Federal Deposit Insurance Corporation, published in December 2009, estimated that 26 percent of U.S. households are either unbanked or underbanked.

Given this need, Morgan Stanley has made a strong commitment to supporting the development of inclusive financial services domestically, applying our international social finance experience to help organizations grow, achieve greater impact and attain financial sustainability. We have provided equity, debt and grant capital to fund managers and nonprofit organizations to support the development of a sustainable inclusive finance industry in the U.S. Several senior Morgan Stanley employees serve on the boards of directors of leading organizations in the sector.

Green Dot

In July 2010, Morgan Stanley acted as bookrunner on the \$150 million IPO of Green Dot, the leading provider of prepaid financial services in the U.S. This transaction was the first IPO in the U.S. prepaid card sector and demonstrates the commercial viability of providing financial services to underbanked consumers.

Core Innovation Capital I, L.P.

In 2010, Morgan Stanley invested in Core Innovation Capital, a first-of-its-kind venture fund that aims to invest in the most innovative companies serving underbanked consumers in the U.S.

The fund's approach reflects a core belief in the ability of financial services to meaningfully improve the lives of underserved people. Focused on early-stage for-profit companies, the fund partners with management teams who share the vision that scalable, technology-driven solutions can deliver shareholder value and social benefits.

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

THOUGHT LEADERSHIP

We measure the scope of our social finance activities not by the volume of our transactions, but by the reach of our expertise. We are engaged increasingly in conversations with institutional investors looking to allocate capital to the social finance sector. Morgan Stanley works with these investors to position the industry as an attractive investment opportunity in which the social mission of the sector enhances the sector’s commercial value proposition.

We leverage Morgan Stanley’s on-the-ground presence in key emerging markets to maintain dialogues with leading social finance institutions around the globe. We work closely with these institutions on areas such as investor readiness and risk management, with the long-term objective of creating a sustainable industry capable of responsibly absorbing capital from investors. We believe these strategic dialogues and information-sharing activities are critical to scaling up the social finance sector in a way that creates long-term value for all stakeholders.

Morgan Stanley participates in industry associations and regularly attends conferences to promote knowledge sharing between stakeholders in the microfinance and broader social finance sectors. For example, we currently serve on the Board of the International Association of Microfinance Investors (IAMFI). We are the sole sponsor of the IAMFI Microfinance Lenders Working Group, which has developed guidelines for the handling of debt defaults by microfinance institutions. The output from the Working Group,

published in 2011, included the report “[Charting the Course: Best Practices and Tools for Voluntary Debt Restructurings in Microfinance.](#)” The report outlines the ways in which industry players can collaborate to ensure that microfinance remains a sound investment opportunity and can improve MFIs’ ability to serve clients through any economic conditions.

During 2010, Morgan Stanley spoke on five microfinance panels around the globe, provided a keynote address at the University of Pennsylvania Microfinance Conference and was cited in an article on microfinance in the International Financing Review’s World Bank-IMF Annual Meeting edition.

We also work to cultivate the passion that many of our most talented employees have for microfinance and other social finance issues. Through our employee-led Environment and Social Finance Forum, we actively engage and educate our employees broadly on microfinance and other base-of-the-pyramid business models.

In 2010, the Forum hosted nine speaker events in New York and London on topics including the African microfinance landscape, delivering health care in developing nations, female entrepreneurship and micro-insurance. These events have engaged a number of outside industry experts, established strong partnerships with organizations, such as the Microfinance Club of New York and Women Advancing Microfinance, and motivated Morgan Stanley employees to apply their financial skills to improve their communities.

Community Development

Morgan Stanley is committed to building communities in which all people have economic and social opportunity. We seek transactions that produce measurable social outcomes through sustainable business models that ensure the continued flow of capital to community investment. We do this through community development lending, investing and by providing grants and volunteers.

Through partnerships with educational institutions, government agencies and nonprofits in the U.S., we provide capital and expertise to produce lasting social and economic benefits, such as affordable housing, small business loans and community services. These partnerships improve the lives of thousands of low- and moderate-income people and families.

CREATING AND PRESERVING AFFORDABLE HOUSING

Morgan Stanley works through national and local community partnerships, investing both financial and intellectual capital to achieve the greatest possible impacts in low- and moderate-income communities. We provide affordable housing loans to developers, leverage public incentives and increase access to capital markets for state and local agencies.

Through these partnerships, Morgan Stanley funded the preservation and construction of more than 3,680 affordable housing units in 2010, which in turn created more than 5,400 construction and permanent jobs.

For example, we partnered with the Community Development Corporation (CDC) of Utah, providing loans to support its efforts to revitalize and stabilize neighborhoods. In 2010, our lending enabled the CDC to purchase and rehabilitate 15 foreclosed single-family residences, which were then sold to income-eligible homebuyers.

In 2010, Morgan Stanley's Low Income Housing Tax Credit (LIHTC) investments created more than 1,300 units of affordable housing throughout the U.S. For example, in New York City, we worked with two separate partners investing in three LIHTC projects to create 179 units of affordable housing for homeless people and those with mental health issues.

We also help state and municipal housing finance agencies (HFAs) access capital markets to fund multi-family and single-family affordable housing. In 2010, our Housing Finance Group worked with HFAs across the U.S. to underwrite over \$933 million of municipal and state bonds.

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

BUILDING COMMUNITIES

Morgan Stanley works with Community Development Financial Institutions (CDFIs) whose primary mission is to provide a wide range of financial services and products to underserved communities. These CDFIs also provide training and technical assistance and promote development efforts that enable individuals and communities to use credit and capital more wisely.

In 2010, we loaned \$55 million to CDFIs to develop affordable housing and community facilities, such as schools. For example, we provided a \$20 million loan to Community Housing Capital to provide capital to local NeighborWorks organizations that are developing affordable housing.

Over the next four years, we will continue to partner with CDFIs through the Living Cities Integration Initiative. The Integration Initiative brings together partners from government, nonprofits and the business community to find solutions to the many challenges facing low-income residents and communities in urban areas. The initiative will provide grants, loans and program-related investments to five urban regions that are finding innovative ways to improve access to education, housing, health care, public transportation and jobs.

In 2010, we provided \$55 million of New Markets Tax Credits to finance two projects that will build community amenities, creating over 950 construction and permanent jobs.

- Salvation Army Ray and Joan Kroc Community Center, South Bend, Indiana. This community center will serve about 2,000 people a day, providing a variety of recreational and fitness opportunities, as well as arts, education and economic empowerment programs and services for the community
- The Laurel Project, St. Louis, Missouri. The project will rehabilitate the historic 630,000 square foot Laurel Building and redevelop the property into a hotel, mixed-income apartments and retail space

FUNDING JOB GROWTH BY SUPPORTING SMALL BUSINESSES

Small business in the U.S. is a primary engine of job creation, particularly during times of economic recovery. According to the U.S. Bureau of Labor Statistics, from 1993 to the second quarter of 2009, firms with fewer than 20 employees were responsible for 22 percent of new jobs. Firms with less than 500 employees provided an additional 43 percent of new jobs.

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

In late 2010, Morgan Stanley initiated a commercial real estate lending program under the American Recovery and Reinvestment Act which enables the U.S. Small Business Administration to offer new economic incentives to small businesses and lenders alike, with the goal of stimulating the economy through lending and investing in small businesses. Morgan Stanley will deliver up to \$500 million of credit to small businesses by working with community bank partners in the secondary market to increase the capital available for commercial real estate investments and job creation.

STRENGTHENING COMMUNITIES THROUGH ENVIRONMENTAL IMPROVEMENTS

A thriving community should be safe and sustainable, promoting a healthier environment for residents and the planet. We are committed to strengthening communities by supporting environmental improvements, such as energy efficiency programs in buildings. These environmental improvements create jobs, reduce energy bills and improve resident health.

Morgan Stanley has invested in a fund with the Community Preservation Corporation to finance energy efficiency upgrades to apartment buildings in low-, moderate- and middle-income communities in New York State. The fund will renovate and retrofit up to 2,500 affordable housing units to lower the use of heating fuel, electricity and water. Residents will benefit from smaller bills and a healthier environment.

Related to this, Morgan Stanley is funding a study with Low Income Investment Fund to explore the feasibility of a green financing program to support energy-saving retrofits in affordable multi-family housing and nonprofit community facilities throughout New York City.

We partnered with Salt Lake County and the Community Development Corporation of Utah on an innovative program that provides low-interest home loans for energy improvements. The program allows homeowners to borrow up to \$50,000 for projects that improve energy efficiency or add renewable energy sources such as wind turbines or solar panels. Homeowners' loan payments are then less than the savings generated by the energy efficiency improvements.

In 2010, Morgan Stanley Solar Solutions (MSSS) partnered with local governments, nonprofits and other partners to finance and develop solar installations at sites that benefit low- and moderate-income communities. MSSS continued to partner with Habitat for Humanity in its "Habitat for Heroes" program to install solar power technology on Habitat homes for veterans returning from Afghanistan and Iraq at no cost to the homeowner.

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

COMMUNITY GRANTS AND VOLUNTEERING

As part of our partnership programs, Morgan Stanley contributes grants, technical assistance and volunteers to support community development organizations. Our grants focus on preserving affordable housing, creating jobs, training workers to be ready for work and encouraging financial independence through financial capability programs and appropriately targeted products for the underbanked.

In 2010, we awarded \$12.6 million in community development grants, and our employees provided thousands of hours of technical assistance and volunteer service.

We are collaborating with the Mayor’s Fund to Advance New York City, the Center for Economic Opportunity and the Office of Financial Empowerment. We donated \$500,000 to the Jobs-Plus/Financial Capability Program in the Bronx, which provides intensive services to help jobless and underemployed public housing residents enter and advance in the workforce. The grant also funds initiatives to provide financial capability training to help residents accrue assets as they build income.

Morgan Stanley provided a grant to support the Utah Individual Development Account Network, which provides financial empowerment through education and a program designed to incentivize low- to moderate-income people to save and build their assets.

Environment—Operations

We minimize the impact of our own business operations on the environment by managing our energy use to reduce greenhouse gas emissions, using sustainable materials where practical and cutting waste.

MANAGING OUR IMPACTS

Our Environmental Committee, composed of senior leaders from across Morgan Stanley, is tasked with implementing our environmental [policy](#) and commitments. To track our progress and identify improvements, we collect and analyze global data on energy and air travel. We monitor waste, recycling and water use at our sites.

Morgan Stanley is a signatory to the Carbon Disclosure Project (CDP) which collects and publishes energy and greenhouse gas (GHG) emissions data from corporations. Each year, we disclose emissions data from our corporate real estate portfolio and corporate air travel. This helps us track our emissions performance against our goals, and enables us to compare our environmental policies and performance with others.

In 2010, we were included in the CDP's Leadership Index (ranked 3rd among S&P 500 financial firms). Our data was verified by Bureau Veritas North America, Inc., a third-party reviewer recognized by the CDP. The Carbon Trust also certified our UK operations.

Green Buildings

All new Morgan Stanley construction and renovation projects are subjected to an internal environmental evaluation, which ensures we use the most efficient designs. We have a set of non-negotiable environmental standards that all projects must meet at a minimum.

The U.S. Green Building Council, which administers the independent efficiency rating system, *Leadership in Energy and Environmental Design* (LEED), has certified 17 Morgan Stanley offices and call centers around the world. Notably, in December 2010, our Hong Kong headquarters was certified LEED Gold. Morgan Stanley also was awarded the Carbon Standard in December 2010 by the Carbon Trust for year-on-year carbon emission reductions in energy consumption across our UK building portfolio.

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT—OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

ENERGY AND CLIMATE

We manage our energy use and GHG emissions by improving efficiency in our offices and data centers, utilizing renewable energy whenever feasible, and using green building design.

OFFICE ENERGY EFFICIENCY

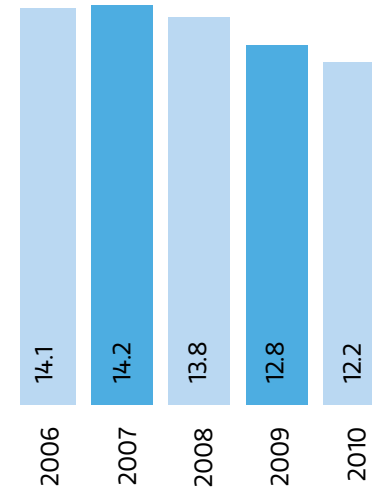
Morgan Stanley has expanded its GHG reduction target to cover all office buildings globally and has increased our commitment to reducing emissions 15 percent by 2013, against a 2006 baseline on a per-square-foot basis.

We are improving energy efficiency by:

- Optimizing heating, ventilation and air conditioning systems both by making capital investments in efficient infrastructure and by operating existing facilities as efficiently as possible
- Improving lighting systems in terms of both overall efficiency and by using controls such as occupancy sensors
- Piloting the use of LED lighting
- Creating a set of minimum environmental standards that are applied to all construction and renovation projects
- Installing thermal storage systems at key facilities
- Participating in peak-load curtailment programs where we agree to limit our electricity use when demand on utilities is highest
- Making simple changes, such as drawing shades to block out the sun and setting thermostats to maximize heating and cooling efficiency

Through a focused effort on energy reduction, Morgan Stanley has made significant progress year over year, coupling strategic investment in new products and technology with firmwide policies aimed at influencing employee behavior.

Normalized Office Emissions
(tCO₂e/Thousand Square Feet)



DATA CENTER EFFICIENCY

Energy used to power and cool data centers accounts for a significant portion of our global electricity consumption and carbon emissions.

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

We use power usage effectiveness (PUE) as a measure to evaluate our data centers. Our goal is to reduce PUE by five percent by 2013, from a 2008 baseline.

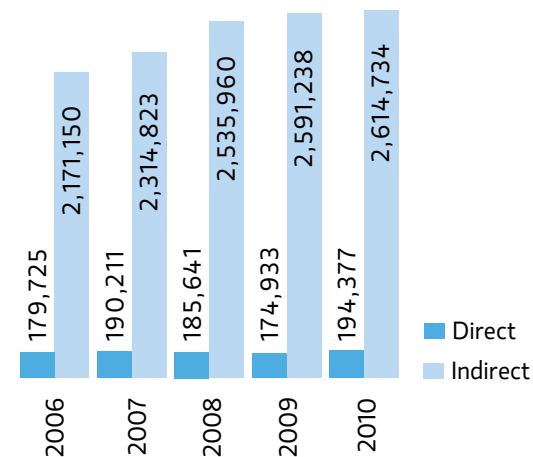
Most data centers use very large amounts of power relative to the amount of power applied to performing useful IT work. Most of the energy loss results from power distribution losses and cooling inefficiencies. Improving the way heat is removed and IT equipment is cooled offers the greatest savings opportunity. A further area of focus is maximizing the efficiency and computing capacity of the IT equipment itself.

We are on track to meet our stated goal related to PUE reduction. Where relevant, we are working with landlords and vendor partners to track progress.

EMPLOYEE TRAVEL

We have a company-wide directive to minimize business travel. All business travel requires administrative approval and video conferencing is encouraged as an alternative.

Total Energy Use (MMBTu)

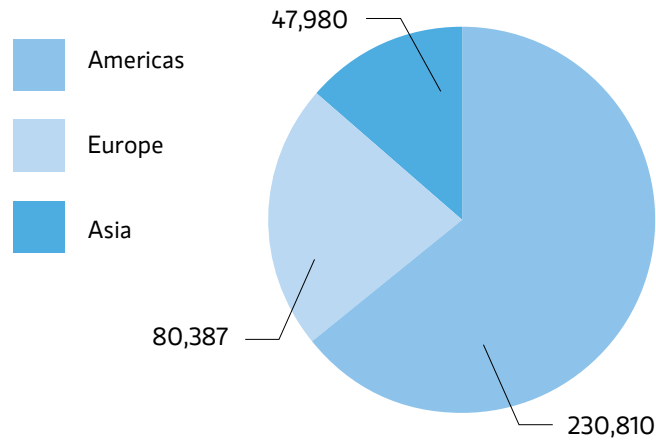


Total Scope 1, 2 and 3 GHG Emissions (tCO₂e)

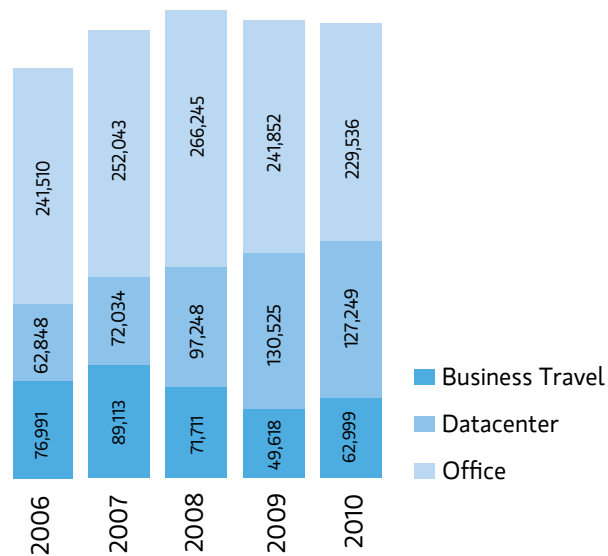
	2006	2007	2008	2009	2010
Scope 1	11,867	12,694	12,935	12,290	14,322
Scope 2	290,797	310,663	349,752	359,249	344,751
Scope 3	77,647	89,748	72,467	50,371	63,103
Total	380,312	413,105	435,154	421,909	422,176

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

Total Emissions in 2010 by Region
(Excluding Business Travel) (tCO₂e)



Total Emissions by Source (tCO₂e)



REDUCING WASTE

Reducing waste saves money and shrinks our environmental footprint. We look for every opportunity to cut waste by efficient purchasing, reusing materials and recycling.

We provide easily accessible and clearly labeled areas for recycling standard items like paper, cardboard, plastic and aluminum. We also recycle batteries, light bulbs, hazardous materials and organic waste. Our Property Services team meets regularly with the cleaning staff and waste haulers to ensure that we recycle as much as possible.

We discourage unnecessary printing and ask employees to print double-sided as a default. We encourage the use of electronic holiday cards, which has reduced the number of paper cards sent by approximately 200,000 since 2007.

Total Waste in Tons (New York Offices Only)¹

	2009	2010
Paper	1,391	1,290
Wet waste	1,229	1,344
Metal, glass and plastic	20	37

¹ We are unable to monitor waste in all of our buildings due to lease arrangements; where we are able, we collect data to ensure that we manage and recycle as much waste as possible.

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

In 2010, Morgan Stanley recycled nearly 50 percent of the total waste from its New York offices. We are working with service vendors to improve reporting so that we can continue to manage our waste actively.

CONSERVING WATER

We are beginning efforts to conserve water in some of our office buildings. We have instituted a low-flow program in kitchens and lavatories in our New York buildings. This includes installing hands-free faucets that reduce average annual water consumption by four percent, and pressurized valves in stalls that reduce each flush by two gallons.

ENGAGING EMPLOYEES

Our employees share our commitment to improving our environmental performance and we encourage them to get involved. We publish information to remind our employees of our environmental efforts and encourage them to make a personal contribution. In particular, the Morgan Stanley Code of Conduct, which employees receive and acknowledge upon hire and are required to review annually, includes statements about sustainability and our commitment to the environment, economic empowerment and our communities.

We take part in Earth Hour, an annual global event organized by the World Wildlife Fund, during which participants promote awareness of climate change by turning off lights for one hour at a predetermined time.

On Earth Day, we provide tours of our offices for employees to learn about the steps that we have taken to reduce our environmental footprint, such as energy efficiency retrofits. We recently developed a real-time energy dashboard that displays energy use at some of our larger buildings. We plan to install monitors displaying this information in public spaces throughout our buildings to demonstrate exactly how much energy is being consumed.

MANAGING OUR SUPPLY CHAIN

Our Firmwide Sourcing (FWS) Policy commits us to sustainable sourcing and we achieve this by including sustainability concerns in our sourcing strategy, working collaboratively with suppliers.

We spent approximately \$11.3 billion with approximately 22,800 suppliers during 2010. Where feasible, we source environmentally sound products. For example, we have minimum standards for green cleaning supplies and define the maximum level of volatile organic compounds allowed in paints and sealants. We recycle office and electronic waste, including paper, furniture, construction debris and IT equipment.

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

We inform all our suppliers of our preference to use companies with certified environmental credentials (ISO 14001 and LEED). FWS also expects suppliers to provide innovative and cost effective, responsible solutions, and commit to continuous improvement.

We train new employees and provide continuing education to staff to ensure they are fully aware of our sourcing policy and are committed to implementing and improving it. More than ten sourcing managers, roughly 15 percent, are trained in our supply chain labor and environmental policies because these issues relate specifically to their sourcing activities.

Supplier Diversity

A diverse vendor base strengthens competition and helps us better serve our clients. It also provides a way to help build the economic base of the communities in which we operate.

Morgan Stanley’s Supplier Diversity Program was created in 1998 to develop and strengthen our supplier pool, which includes businesses owned by women and minority groups as well as lesbian, gay, bisexual or transgender (LGBT), disabled and veteran owners. Since its inception, over \$1 billion has been spent with these vendors.

The program ensures that vendors have equal access and opportunities when bidding for contracts. In 2010, we spent

\$123 million with diverse suppliers, a 36 percent increase over 2009. While these figures include only Tier 1, or direct, vendors, we recognize the importance of including subcontractors and suppliers in our efforts. Thus, we will begin this year to measure the impact of our policies on Tier 2 vendors.

Our dedicated Supplier Diversity team regularly attends local and national trade shows and conferences. We are members of both the National Minority Supplier Diversity Council (NMSDC) and Women Business Enterprise National Council (WBENC). This enables us to attract qualified diverse businesses and build relationships with vendors. We encourage our suppliers to apply this approach to their own business practices by supporting efforts to cultivate partnerships with diverse firms. For example, we outline information about our Supplier Diversity program and our expectations of our vendors in Request for Proposals (RFPs). We ask our top-tier suppliers to provide information about their spending with minority and women business enterprise suppliers.

In 2010, our Supplier Diversity team won an award from the Women Presidents’ Educational Organization for commitment to the success of women’s business enterprises. The National Gay and Lesbian Chamber of Commerce awarded Morgan Stanley the “Diversity Corporation of the Year” at the Diversity and Leadership in Financial Services Awards.

Employees

With more than 62,000 people worldwide, Morgan Stanley's ability to lead depends on the talent of our people. Each day our employees advise and serve clients. Because they are the foundation of our success, we work hard to attract, develop and retain the best, most diverse people possible. We offer competitive rewards and training, and we are committed to helping our employees reach their full potential.

Throughout the firm's history, many talented individuals from disparate backgrounds and various geographies together have developed new ideas and groundbreaking financial products. This diversity is one of Morgan Stanley's greatest strengths.

ENGAGING EMPLOYEES

Clear and open communication keeps employees informed about our business strategy and objectives, enabling them to contribute actively to the firm's success. Regular communication channels with employees include our intranet, townhall meetings and business unit strategy meetings.

In October 2010, we gathered feedback from our employees in our first global engagement survey, with a 71 percent response rate. Results confirmed that 83 percent of employees are very proud to work at Morgan Stanley. This data has outlined for us our strengths and identified what we need to improve. In response to the survey results, we will focus on increasing talent

development for emerging leaders, enhancing communications and building cross-business programs to ensure we deliver the best service to our clients.

TRAINING AND DEVELOPMENT

When employees thrive in their roles and reach their full potential, Morgan Stanley is stronger as a firm. We offer learning opportunities to employees at all levels to improve knowledge and skills, and to help manage their careers.

We invest heavily in our colleagues once they are on board, offering a comprehensive curriculum of technical, financial and professional skills courses. Our extensive Learning and Development curriculum provides courses, coaching opportunities and learning events to enhance leadership, professional, financial and technical capabilities. Our Learning Portal makes thousands of resources available to employees online.

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

To encourage further skill acquisition, Morgan Stanley pays a portion of tuition fees—full-time employees are eligible for up to \$10,000 and part-time employees up to \$5,250 per calendar year. This covers undergraduate and graduate programs, Certified Financial Planner (CFP) and Chartered Institute of Management Accountants (CIMA) maintenance fees as well as New York Institute of Finance courses.

Financial Advisors, Financial Advisor Associates and Private Wealth Advisors are eligible for up to \$5,000 per calendar year. The program also covers the Certified Private Wealth Advisor (CPWA) designation for MSSB employees.

Employees transitioning to new roles are supported by:

- Customized programs to introduce new hires to the company and prepare them for their roles
- Intensive conferences for newly promoted officers that focus on enhancing business knowledge, network and leadership skills
- Specialized half-day programs and one-on-one coaching for senior lateral-hires
- Tailored development programs for rising women leaders

Each year, all employees are eligible for a 360-degree evaluation. This helps us monitor performance, identify training opportunities, set career goals and recognize key talent.

REWARD AND RECOGNITION

Offering competitive incentives allows Morgan Stanley to attract, retain and motivate talented people. We provide comprehensive

and cost-effective programs to meet the needs of our employees, and we strive to ensure that these programs elicit performance that is aligned with business goals and values.

Individual compensation decisions are competitive and fair, compared with industry standards. To drive performance, we also offer incentives related to company and individual performance. A significant portion of long-term incentive compensation is provided in equity to align employee interests with increased shareholder value. As an employee's compensation and responsibilities increase, a greater percentage of incentive compensation is offered as long-term incentive awards, rather than as an immediate cash bonus based on annual results. We endeavor to ensure that the structure of compensation arrangements does not encourage unnecessary and excessive risk-taking.

We offer retirement savings opportunities to help employees plan for their futures. Longer-tenured employees are recognized with special Morgan Stanley Service Awards and are given additional vacation benefits related to the length of their service and seniority.

Health and Wellness

Morgan Stanley encourages a culture of health and wellness, and we offer programs that include private medical insurance and personal health teams dedicated to assisting employees in managing medical conditions such as diabetes, heart disease and asthma. We also encourage employees to improve their general health through lifestyle management programs including stress

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

management, tobacco cessation, healthy eating and weight management. In larger regions, a 24-hour registered nurse line is available to answer general health questions at any time during the day or night.

In our larger offices, we offer onsite fitness centers; where this is not possible, we offer discounted gym memberships. We have onsite health centers in our key locations that provide emergency care as well as treatment of minor illnesses and injuries.

Our regional programs, together with the firm's diversity networks, support families through key milestones. These programs provide training and assistance in areas such as child care and eldercare, new-parent seminars and college application coaching.

DIVERSITY AND INCLUSION

Morgan Stanley values professionals who have diverse backgrounds, talents, perspectives, cultural identities and experiences. A varied and inclusive workforce sharpens our competitive edge, fosters innovative thinking and helps produce superior solutions for our clients.

Our Global Diversity and Inclusion team develops strategies and initiatives to build and maintain a workforce that is diverse in experience and background. The team is supported and championed by an Operating Committee sponsor along with a senior leadership team consisting of executives from around the firm.

Attracting Diverse Talent

To attract the best candidates, we search diverse talent pools, working with outreach programs including:

- *The UK Schools Program*—targeting 30 high-achieving state and independent schools to encourage A-level female students to apply for our three-day work experience program, “Step In, Step Up”
- *Rare Recruitment*—a UK organization which sources talented undergraduates from diverse backgrounds and connects them to job opportunities
- *A Better Chance*—a U.S. organization which offers access to educational opportunities for academically talented youth of color
- *Prep for Prep*—a nonprofit organization that identifies New York City’s most promising students of color and prepares them for placement at independent schools in the city
- *Sponsors for Educational Opportunity*—a New York City-based nonprofit organization that provides hundreds of outstanding undergraduate students from under-represented ethnic minority backgrounds the opportunity to gain summer internships at investment banks
- *Interbank Initiatives*—in collaboration with a number of investment banks, Morgan Stanley participates in events aimed at university students who are lesbian, gay, bisexual or transgender, women and those with disabilities

Our diversity scholarship and internship programs provide diverse graduate, undergraduate and high school students with exposure to the financial services industry. These students work

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

in every area of our company with a team of professionals, allowing them to acquire knowledge and experience. We have other signature programs that complement these programs, like our Early Insights Program for rising first-year diverse MBA students as well as other campus-based initiatives.

Women's Career Development

Our Women's Initiatives are led by a dedicated team responsible for retaining, developing and advancing women. We host regular firmwide programs to enhance the professional skills of our female employees. Many senior women at Morgan Stanley participate by sharing best practices on business development, networking, mentoring, marketing and technical skills. In addition, many of our divisions hold business-specific programming for women at various levels.

U.S. Workforce Demographics

	White %	Black or African-American %	Hispanic or Latino %	Asian %	American-Indian or Alaskan Native %	Native-Hawaiian or Pacific Islander %	Two or More Races %	Females %
Executives/Sr. Officials and Managers	89.6	1.6	2.2	6.5	0.0	0.0	0.1	13.8
1st/Mid-level Managers	73.9	4.7	5.2	15.4	0.1	0.1	0.6	34.7
Professionals	61.2	5.3	5.2	26.9	0.1	0.2	1.0	36.7
All Others ¹	83.2	5.5	5.4	4.9	0.3	0.2	0.6	41.1
Total	78.4	5.2	5.3	10.1	0.2	0.2	0.6	38.5

¹ Includes EEO-1 categories sales workers, office and clerical and service workers.

In September 2010, we launched the Morgan Stanley Women's Business Alliance (WBA), which is led by a cross-functional steering committee of senior women. The WBA sponsors programs for women at all levels and divisions in the U.S. Our women's networks in Asia and Europe host programs in their regions.

Employee Networking Groups

Our employee networking groups play a significant role in advancing the firm's business goals relating to recruitment, leadership development, community outreach, networking, career and business development, and cross-divisional relationship building. Our networking groups operate in the U.S., EMEA and Asia-Pacific regions and include support for women, LGBT, Black and Latino employees, among others.

Our Approach

STAKEHOLDER ENGAGEMENT

Our business centers around people and our success depends on engaging in dialogue with our diverse stakeholders to understand their perspectives and respond to their expectations of Morgan Stanley.

Stakeholder engagement is very much part of what we do every day. Our ongoing activities include speaking with financial analysts, advising cleantech entrepreneurs, and helping nonprofits focused on urban renewal weigh funding options from governments, foundations and the private sector.

Read more about our [environmental](#), [social finance](#) and [philanthropic](#) engagement.

We encourage employees to provide feedback to management and gather their views through our [annual employee survey](#).

Discussions with our stakeholders help us determine those issues which are material to defining our priorities and reporting on our social and environmental performance.

PUBLIC POLICY

We regularly communicate with government and participate in public policy discussions to put forward our position on issues relevant to our business. For example, in 2010 we:

- Consulted with the Joint Economic Committee on Prospects for Jobs and Growth on policies that might help foster economic growth and job creation
- Consulted with the Senate Budget Committee on what policy makers can do to improve the state and outlook of the U.S. Economy, including policies to improve employment
- Participated in an interagency regulatory dialogue to examine future potential changes to the Community Reinvestment Act
- Advised policy makers and thought leaders on environmental finance and clean energy development as a founding member of the U.S. Partnership for Renewable Energy Finance

Employees are allowed to pursue legitimate political activities and to make political contributions as permitted under U.S. law. Our [Code of Conduct](#) includes our policies on political contributions and ensures employees apply sound judgment to their activities and demonstrate commitment to Morgan Stanley's business principles.

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

CORPORATE GOVERNANCE

In 2010, Morgan Stanley’s Board of Directors was composed of 12 leaders (ten independent) with backgrounds in business, government and higher education. Two directors are female.

There are four key standing committees:

1. Audit
2. Compensation, Management Development and Succession
3. Nominating and Governance
4. Risk

A written charter for each committee outlines the mission, membership qualifications, operations and duties of committee members.

Please see [Corporate Governance](#) for detailed information about our corporate structure, board committees and charters, governance policies and ethics practices and procedures.

EXECUTIVE COMPENSATION

Executive compensation is tied to both the individual’s and the company’s performance. We regularly evaluate our compensation to reflect industry practice, the economic environment and our own financial performance. We seek to be transparent about our compensation program.

Since 2007, a greater proportion of compensation has been tied to long-term company performance. Executive compensation is also subject to clawback and qualifies as at-risk compensation. The Compensation, Management Development and Succession Committee oversees our compensation policies for executive officers.

BUSINESS STANDARDS

Morgan Stanley has a tradition of conducting first-class business in a first-class way. Our [Code of Conduct](#) is a statement of our commitment to integrity and high ethical standards in everything we do at Morgan Stanley. The Code defines the behavior that we expect and helps employees make the right decisions in the course of performing their jobs.

The Code reinforces Morgan Stanley’s Business Principles:

- Lead with integrity
- Put clients first
- Win in the marketplace
- Think like an owner
- Keep your balance

Our Compliance Department engages both new and current employees on issues of ethics by publishing the Code of Conduct and related training for all employees. All new hires must complete online training on our Code and all employees are required to acknowledge the Code annually.

Additional Compliance training is required on Morgan Stanley’s Anti-Money Laundering Program, prohibition of insider trading, and other topics applicable to either the firm as a whole or the employee’s business unit. Training on critical ethical matters is required of all employees on a semi-annual basis.

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

Raising Concerns and Reporting Misconduct

Employees are encouraged to speak to their supervisors, Human Resources representatives or Legal and Compliance Division representatives if they ever feel pressured to act, or believe others are acting, in ways that may violate the law, regulations or our Code and policies.

Alternatively, employees can report such violations of the Code anonymously through our Integrity Hotline. All concerns are treated confidentially, as appropriate, and may be reported anonymously. Morgan Stanley takes allegations of misconduct seriously, and prohibits retaliation for reports of misconduct that are made in good faith. Upon receiving a report of potential misconduct, the matter is referred to the firm’s Special Investigations Unit for appropriate follow-up and is dealt with promptly.

For more information, see [Integrity Hotline/Reporting Misconduct](#).

HUMAN RIGHTS

Morgan Stanley has the opportunity to promote human rights in the 42 countries where we do business around the world. We conduct our operations in a way that protects the full range of human rights as described in the United Nations Universal Declaration of Human Rights.

We support and protect the promotion of human rights through our own policies, standards and practices, including our [Code of Conduct](#) and [Business Principles](#). Our Risk Management due diligence process ensures that teams assess, among other concerns, potential human rights issues that may warrant further inquiry before a potential transaction is completed. All employees acknowledge our Code of Conduct, and Investment Banking and Global Capital Markets teams receive [environmental and social risk management training](#).

Morgan Stanley engages with our clients and encourages them to take human rights criteria into consideration when pursuing investment or banking opportunities. We also act on behalf of our investment management clients to convey concern to portfolio companies that are strategic investors in regions where human rights may be at risk or compromised.

For more information, please view our [Statement on Human Rights](#).

Philanthropy

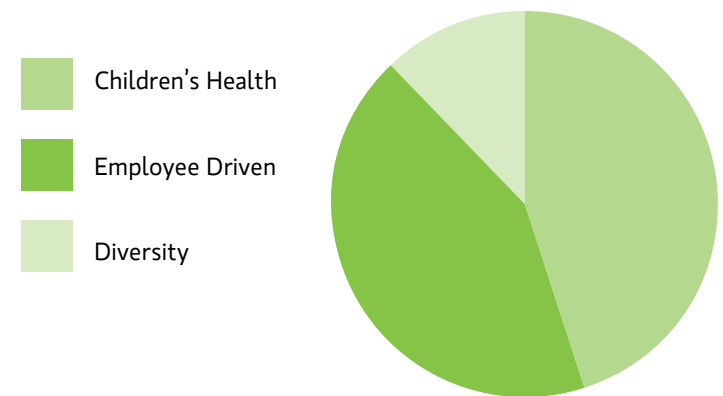
Giving young people a strong start in life is one of the most meaningful ways Morgan Stanley can contribute to the communities in which we live and work.

The Morgan Stanley Foundation and our other corporate charitable programs are focused on achieving this objective by making grants and forging strategic philanthropic partnerships. In 2010, our commitment, coupled with our employees' efforts, was worth nearly \$80 million.

Our employees around the world are dedicated to improving their communities and volunteered more than 130,000 hours of their time in 2010.

We seek to leverage our financial resources as well as our employees' intellectual capital in order to offer opportunities to underserved people worldwide. Our efforts are led by the Morgan Stanley Foundation, headquartered in the U.S., and its sister organization, the Morgan Stanley International Foundation (MSIF), founded in 1994 to provide more localized outreach across Europe, the Middle East and Africa.

Morgan Stanley Foundation 2010 Giving by Category



ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

MORGAN STANLEY GLOBAL ALLIANCE FOR CHILDREN'S HEALTH

Since 1973, Morgan Stanley has helped children get a healthy start in life by investing over \$100 million in pediatric care through our signature effort: the Morgan Stanley Global Alliance for Children's Health.

The Alliance tackles preventable death and disease in young children. We support leading centers of pediatric excellence and organizations providing direct outreach to children around the world. Our employees play a critical role in our programs, lending their expertise and financial support.

Centers of Excellence

Our efforts, led by the Morgan Stanley Foundation, support leading centers of pediatric excellence with whom we conduct research, education programs and direct outreach to the underserved throughout the world.

The flagship of these efforts is an almost 40-year relationship with the Morgan Stanley Children's Hospital of New York-Presbyterian. Opened in 2003, this state-of-the-art hospital is the result of a four-year initiative by Morgan Stanley and our employees to contribute more than \$60 million toward the building of this institution. The hospital currently sees 50,000 patients annually and was among the top eight children's centers in the U.S., according to *U.S. News and World Report's* annual survey.

In addition to our ongoing financial support, our employees work closely with the hospital. Each year, a leading third-year analyst is selected to work at the hospital for 12 months as part of our Ambassador Program. Additionally, close to 1,000 employees give time to the center, serving on leadership boards and committees and volunteering every single working day during June, our Global Volunteer Month.

In 2007, we expanded our outreach internationally, by pledging to raise more than £10 million toward a new clinical building for Great Ormond Street Hospital Children's Charity in the UK, set to open in 2012. A three-year fundraising and engagement campaign, culminating in 2010, raised £11.1 million, enough to also provide a new Angio Bi-Plane Machine, which uses imaging techniques to visualize the body's organs in three dimensions. Our efforts will allow the hospital to treat more children, pioneer new patient treatments and undertake groundbreaking clinical research.

We continued our support of the Beijing Children's Hospital, providing intensive training for the physicians, nurses and administrators of its new hematology and oncology wing. Part of a \$5 million, five-year cooperation, the project was announced in 2009 with a grant from the Morgan Stanley Foundation.

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

Direct Outreach

We partner with charities around the globe to improve the health of underserved communities by directly addressing preventable death and disease in children under five.

Reducing Childhood Malnutrition

We support an extensive network of organizations that provide services to children suffering from malnutrition.

Grow Clinics

Since 2005, we have invested over \$2 million in Grow Clinics, specialty operations that target families with children suffering from medical complications associated with poverty-driven malnourishment. These Grow Clinics, located in Boston, Chicago, Houston and Los Angeles, have nurtured thousands of babies back to good health. Our employees also support the centers, participating annually in our Warm Their Hearts drives, which collect needed items—groceries, clothing, toys and books—for the families treated at the centers. In 2010, Morgan Stanley made \$225,000 in grants to the program, and employees collected more than 5,000 items for the campaign.

Fill the Plate

Nearly 17 million children in the U.S. (almost one in four) do not have enough to eat and even more lack daily access to fresh fruit and vegetables. Morgan Stanley is combating hunger by providing children with nutritious food through our new initiative, Fill the Plate.

Launched in September 2010, the initiative will provide more than \$5 million to address malnutrition over the next two years in partnership with Feeding America, the country's leading hunger relief charity. Our efforts are focused on two specific initiatives:

- To expand Feeding America's BackPack Program, which supplies children with backpacks full of nutritious food that they can take home over the weekend, school vacations and summer months when they are most at risk of hunger
- To address childhood obesity and ensure access to fruit and vegetables by expanding the availability of fresh produce to low-income communities throughout the U.S. through Feeding America's National Produce Program

In total, our commitment will provide more than 2.5 million meals and 23 million servings of fresh fruit and vegetables to children across the country. Close to 2,000 employees also took part in volunteer programs with Feeding America in 2010, filling and handing out backpacks and sorting food for delivery to local pantries.

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

These U.S. efforts complement our global malnutrition program called, Step Up to the Plate, launched in 2009. In 2010, through the work of the Morgan Stanley International Foundation and local offices around the globe, the program continued its efforts to provide wholesome meals to children throughout our communities.

Partners in 2010 included: MEND and Magic Breakfast in the UK; Novo Lar Betania and Banco De Alimentos in Brazil; Quebec Breakfast Club in Canada; Second Harvest in Japan; the World Food Programme in Pakistan (supported by our Asia offices); St. James' Settlement People's Food Bank in Hong Kong; and Exodus Foundation, OzHarvest and the Foodbank NSW Australia in Australia. Employees continue to support each of these campaigns actively, dedicating volunteer time and supporting the effort financially.

Preventing Mother-to-Child Transmission of HIV in South Africa

A child born with HIV in South Africa rarely lives past the age of five. Prevention of mother-to-child transmission is essential. With our support, Save the Children is training healthcare workers to provide HIV testing for pregnant mothers and health care to children. Over the course of this two-year commitment, up to 325,000 children and more than 250,000 pregnant mothers could benefit from the project.

MSIF's £325,000 donation allows 100 health workers and 200 home-based caregivers to be trained in counseling, testing, antenatal care and safe delivery. The project will focus on Limpopo, one of the poorest provinces of South Africa.

Key to the program is a simple, readily available antiretroviral drug that can prevent mother-to-child transmission of HIV. Those with HIV often go untreated because health workers are not properly trained and equipped to perform the relevant tests or administer this important treatment. In many cases, mothers-to-be are simply not aware they are HIV positive and do not know that they can prevent the virus from being passed to their baby.

SOS Children's Villages

A grant from MSIF is funding a two-year health program that aims to reach 1,300 children in 19 villages across Hungary, Italy, Russia and Spain.

The SOS Children's Village program focuses on family-based, long-term care of children who no longer live with their biological families. The program will provide health care for children who often arrive at the SOS villages malnourished, having suffered abuse and neglect. Other children have experienced severe trauma due to war or a natural disaster. SOS mothers will also benefit from health care development training.

EDUCATION

Morgan Stanley has a long-standing commitment to investing in students from minority and underserved communities. In each region, we focus on academic and career development through scholarships, fellowships, job training and internships, concentrating primarily on students at the post-secondary level. We prioritize programs that inspire talented but underserved young people—particularly those offering access to opportunities in the financial services sector.

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

Through our *Richard B. Fisher Scholars* and *Morgan Stanley MBA Fellowship Programs*, we provide scholarships, internships and career development to minority students at both the undergraduate and graduate level, providing unparalleled firsthand exposure to the financial services industry. Fifty-eight students received these scholarships in 2010. Since the 1993 launch, 400 students have participated in the program.

In addition to our own programs, the Morgan Stanley Foundation works with leading scholarship providers to deliver top-quality education and job experiences to minority students across the country. Our partners include: A Better Chance, Albert G. Oliver Program, American Indian College Fund, Hispanic Scholarship Fund, Jackie Robinson Foundation and Sponsors for Educational Opportunity. In 2010, Morgan Stanley in Australia also provided two scholarships to underprivileged individuals through the Youth Off the Streets Program which will fund education and training in the students' chosen fields.

We have awarded over \$17.4 million in scholarships to students through these programs since 1993.

EMPLOYEE COMMUNITY ENGAGEMENT

Employee community engagement is central to our culture and is the cornerstone of our charitable efforts. Through extensive grant-making, matching initiatives and coordinated volunteer efforts, including skills-based initiatives, we encourage our employees to share their time, talent and resources with their communities.

Volunteering

We encourage all employees to give time personally to charitable causes throughout the year. In 2010, we saw a marked increase in the involvement of employees, primarily through our Global Volunteer Month, a campaign which asks every employee to deliver at least one hour of service in their local community during the month of June. Promoted by the firm's Management Committee, all of whom personally participated, the 2010 Global Volunteer Month saw an 83 percent rise in the number of employees who participated and a near doubling of the time given. In total, nearly 20,000 employees volunteered on more than 900 team projects and individually, contributing over 130,000 hours of service and benefiting charities in 530 cities around the world. Projects ranged from team clean-up and painting projects to in-depth, skills-based efforts.

Year-round, we encourage employees to be more consistently involved by promoting ongoing opportunities and training employees on effective board service. We also host a series of Lunch 'n Learn events throughout the year to educate our employees about important causes and introduce them to organizations making a difference.

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

Volunteer Recognition and Incentives

To recognize and support employee volunteer efforts, The Morgan Stanley Foundation offers grants through our Volunteer Incentive Program (VIP). VIP grants are awarded to charities at which employees volunteer to support health, human service and environmental programs. In addition to supporting employees' efforts, this enables us to reach hundreds of local, community-based organizations that may not have access to traditional sources of funding. In 2010, we invested \$3 million through this program. Since its inception in 1993, the VIP has provided more than \$30 million in support to thousands of communities.

As part of our What a Difference a Day Makes program, we publicly recognize and thank our employees for their efforts. We display the name of every employee who reports volunteer hours on an electronic ticker tape outside Morgan Stanley headquarters at 1585 Broadway in Times Square, New York City, at the end of each calendar year. We also encourage employees to provide inspiration to their coworkers by sharing their experiences through our online newsletters. We recognize the Top Ten Volunteers (those contributing the most hours) by making contributions—\$7,500 for the top volunteer and \$5,000 for the remaining nine—in each of their names to a nonprofit agency of their choice.

Morgan Stanley Social Enterprise Strategy Challenge

We offer Morgan Stanley's distinctive skills and competencies as a service to our communities through the Social Enterprise Strategy Challenge.

In this annual program, started in 2009, cross-divisional teams of outstanding employees work directly with nonprofit organizations to provide *pro bono* strategic advice on critical business models. The strategic plans offered by our *pro bono* teams help the nonprofits to grow and tackle community needs more effectively.

The teams' work culminates in a public, day-long competition where their recommendations are evaluated by leading experts from the academic, private and nonprofit sectors. The top three teams earn a grant for their organizations to implement the strategies developed by their advisory teams. The grants are presented by James Gorman, President and CEO of Morgan Stanley.

In 2010, Morgan Stanley employees worked with 12 nonprofits in New York, contributing more than 5,400 hours of *pro bono* service valued at more than \$820,000. The organizations focused on a range of missions, including education, youth development, financial literacy and the environment. The first-place prize was awarded to the team working with Pro Mujer, a microfinance organization that provides women in Latin America with the financial services, health care and training needed to lift themselves from poverty. The team developed a model to evaluate and prioritize countries to which the program could be expanded.

ABOUT MORGAN STANLEY	1
LETTER FROM THE CEO	3
SUSTAINABILITY AT MORGAN STANLEY	4
ENVIRONMENTAL AND SOCIAL RISK	7
ENVIRONMENTAL FINANCING INITIATIVES	10
SOCIAL FINANCE	14
COMMUNITY DEVELOPMENT	17
ENVIRONMENT — OPERATIONS	21
EMPLOYEES	27
OUR APPROACH	31
PHILANTHROPY	34

Employee Giving and Matching

Our employees donate annually through our charitable giving campaigns, which benefit more than 12,000 local charities and the core programs of the Morgan Stanley Foundation. In 2010, employees gave more than \$30 million through the campaign.

To increase the reach and impact of our employees' giving, Morgan Stanley offers a unique matching initiative, Charitable Spending Accounts. Employees in the U.S. who contribute through the Annual Appeal employee giving campaign are eligible to receive up to \$4,000 in corporate funds that they can direct to a charity of their choice. Our MSIF Matching program gives employees across Europe, the Middle East and Africa the opportunity to be recognized for their fundraising or volunteering effort through grants of up to £2,000 to the organizations they support. In 2010, the firm provided nearly \$8 million in matching funds.

Awards

We are pleased to share examples of the awards and recognition that we received for our sustainability efforts in 2010.

100 Best Companies for Working Mothers
Working Mother magazine (United States)

Ranked #2 in 2010 survey, fourth consecutive year in top three
Great Place to Work Institute (Japan)

Ranked Top 20 in the Best Companies to Work For
Sunday Times (United Kingdom)

Top 50 Employers for Women
The Times (United Kingdom)

Top 500 Green Companies in the U.S.
Newsweek magazine (United States)

50 Best Companies to Work for in the U.S.
Latina Style magazine (United States)

Financial Services Diversity Corporation of the Year
National Gay & Lesbian Chamber of Commerce (United States)

Ranked as one of the Top 5 most LGBT Friendly Corporations in the World
International Gay and Lesbian Chamber of Commerce (Canada)

Champions of Diversity Award
New York Urban League (United States)

Ranked as one of the Top Companies that care about LGBT equality and rights
MetroSource magazine (United States)

Sustained Leadership, Accomplishments and Commitment to Diversity in the Securities Industry
Securities Industry and Financial Markets Association (SIFMA) (United States)

100% Corporate Equality Index
Human Rights Campaign (United States)

One of the Top Diversity Employers for African Americans
Black EOE Journal magazine (United States)

Top 60 Diversity Elite 2010
Hispanic Business magazine (United States)

Top U.S. Companies for Asian Pacific Americans
Asian Enterprise magazine (United States)

Top Diversity Employers for Women
Professional Woman's magazine (United States)

Recognized for Commitment to the Success of Women Business Enterprises
Women Presidents' Educational Organization (United States)

ABOUT
MORGAN STANLEY 1

LETTER FROM
THE CEO 3

SUSTAINABILITY AT
MORGAN STANLEY 4

ENVIRONMENTAL
AND SOCIAL RISK 7

ENVIRONMENTAL
FINANCING INITIATIVES 10

SOCIAL FINANCE 14

COMMUNITY
DEVELOPMENT 17

ENVIRONMENT —
OPERATIONS 21

EMPLOYEES 27

OUR APPROACH 31

PHILANTHROPY 34

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