

Registered number: 05694246

Registered office:

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Canary Wharf

London

E14 4AD

MORGAN STANLEY FUND SERVICES (UK) LIMITED

Report and financial statements

31 December 2018



MORGAN STANLEY FUND SERVICES (UK) LIMITED

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MORGAN STANLEY FUND SERVICES (UK) LIMITED

STRATEGIC REPORT

The Directors present their Strategic report for Morgan Stanley Fund Services (UK) Limited (the "Company") for the year ended 31 December 2018.

PRINCIPAL ACTIVITY

The principal activity of the Company is to provide fund administrative services on behalf of Morgan Stanley Group subsidiary undertakings on a sub-delegated basis, with no significant changes expected in 2019.

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

BUSINESS REVIEW

Overview of 2018 performance and key performance indicators

The Company's main key performance indicators are profit after tax, total assets and total liabilities.

The Company's profit after tax for the year amounted to \$9,757,000, compared to \$8,114,000 in the prior year.

The increase in profit of \$1,643,000 is mainly due to increased fee income attributable to the Company for fund administrative services provided in line with the Global Transfer Pricing Policy offset by an increase in management charges from other Morgan Stanley Group undertakings.

The total assets at 31 December 2018 were \$19,311,000 (2017: \$22,957,000). The decrease of \$3,646,000 is mainly driven by a decrease in amounts due from the Company's immediate parent. This is due to increased fee income earned in the financial year offset by the dividend payment made of \$17,962,732 (2017: \$nil) made in June 2018. The total liabilities at 31 December 2018 were \$9,554,000 (2017: \$4,994,000). The increase of \$4,560,000 is mainly a result of an increase in amounts due to other Morgan Stanley Group undertakings.

The performance of the Company is included in the results of the Morgan Stanley Group. The Company's Directors believe that providing further performance indicators for the Company itself would not enhance an understanding of the development, performance or position of the business of the Company.

Risk management

The Directors consider that the Company's key financial risks are credit risk, primarily its concentration of exposure to other Morgan Stanley Group undertakings, and liquidity risk arising through its exposure to other Morgan Stanley Group undertakings presented within other receivables and payables. The Company leverages the Morgan Stanley Group's credit and liquidity risk frameworks to identify, measure, monitor and control credit risk and to ensure that the Company has access to adequate funding.

Credit risk

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the Company. Credit risk includes the risk that economic, social and political conditions and events in a foreign country will adversely affect an obligor's ability and willingness to fulfil their obligations.

Credit risk management policies and procedures for the Company are consistent with those of the Morgan Stanley Group and include escalation to appropriate senior management personnel.

Credit risk exposure is managed on a global basis and in consideration of each significant legal entity within the Morgan Stanley Group. Its credit risk management policies and procedures establish the framework for identifying, measuring, monitoring and controlling credit risk whilst ensuring transparency of material credit risks, ensuring compliance with established limits and escalating risk concentrations to appropriate senior management.

MORGAN STANLEY FUND SERVICES (UK) LIMITED

STRATEGIC REPORT (CONTINUED)

BUSINESS REVIEW (CONTINUED)

Liquidity risk

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

The Morgan Stanley Group's senior management establishes the liquidity and funding policies of the Morgan Stanley Group and the liquidity risk management policies and procedures conducted within the Company are consistent with those of the Morgan Stanley Group. The primary goal of the Morgan Stanley Group's liquidity risk management framework is to ensure that the Morgan Stanley Group, including the Company, has access to adequate funding across a wide range of market conditions and time horizons. The framework is designed to enable the Morgan Stanley Group to fulfil its financial obligations and support the execution of the Company's business strategies.

The Company continues to actively manage its capital and liquidity position to ensure adequate resources are available to support its activities, to enable it to withstand market stresses.

Market risk

Market risk refers to the risk of losses for a position or portfolio due to changes in rates, foreign exchange, equities, implied volatilities, correlations or other market factors.

Market risk management policies and procedures for the Company are consistent with those of the Morgan Stanley Group and include escalation to appropriate senior management personnel.

The Company manages the market risk associated with its trading activities at both a trading division and an individual product level, and includes consideration of market risk at the legal entity level.

Operational risk

Operational risk refers to the risk of loss, or of damage to the Company's reputation, resulting from inadequate or failed processes, people and systems, or from external events (e.g. fraud, theft, legal and compliance risks, cyber attacks or damage to physical assets). Operational risk relates to the following risk event categories as defined by Basel Capital Standards: internal fraud; external fraud, employment practices and workplace safety; clients, products and business practices; business disruption and system failure; damage to physical assets; and execution, delivery and process management. Legal, regulatory and compliance risk is discussed below under "Legal, regulatory and compliance risk".

MORGAN STANLEY FUND SERVICES (UK) LIMITED

STRATEGIC REPORT (CONTINUED)

BUSINESS REVIEW (CONTINUED)

Legal, regulatory and compliance risk

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

The Company, principally through the Morgan Stanley Group's Legal and Compliance Division, has established procedures based on legal and regulatory requirements on a worldwide basis that are designed to facilitate compliance with applicable statutory and regulatory requirements and to require that the Company's policies relating to business conduct, ethics and practices are followed globally.


In addition, the Company has established procedures to mitigate the risk that a counterparty's performance obligations will be unenforceable, including consideration of counterparty legal authority and capacity, adequacy of legal documentation, the permissibility of a transaction under applicable law and whether applicable bankruptcy or insolvency laws limit or alter contractual remedies. The heightened legal and regulatory focus on the financial services and banking industries globally presents a continuing business challenge for the Company.

The Company also manages the risk of potential external impacts on its business (including but not limited to the impact of United Kingdom's (the "UK") decision to leave the European Union (the "EU") of which a thorough assessment has been made by the Company and the Morgan Stanley Group of various Brexit scenarios). The Company maintains a constant planning dialogue with the wider Morgan Stanley Group and accordingly management does not expect any significant impact on the operations and business of the Company arising from these external factors.

Going concern

Retaining sufficient liquidity and capital to withstand market pressures remains central to the Company's strategy. The Company has access to Morgan Stanley Group capital and liquidity. Taking the above factors into consideration, the Directors believe it is reasonable to assume that the Company will have access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Approved by the Board and signed on its behalf by



Director

MARTIN MURPHY
September 27th 2019

MORGAN STANLEY FUND SERVICES (UK) LIMITED

DIRECTORS' REPORT

The Directors present their report and financial statements for the Company for the year ended 31 December 2018.

RESULTS AND DIVIDENDS

The profit for the year, after tax, was \$9,757,000 (2017: \$8,114,000).

During the year, a dividend of \$17,963,000 was paid to the Company's shareholder, Morgan Stanley Fund Services Inc. (2017: \$nil).

RISK MANAGEMENT AND FUTURE DEVELOPMENTS

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

DIRECTORS

The following Directors held office throughout the year and to the date of approval of this report:

A Critides	(appointed 17 April 2018 and resigned 16 August 2019)
E Falzon	(appointed 17 April 2018 and resigned 27 March 2019)
S I Merry	(resigned 30 April 2018)
S A Murdoch	(appointed 2 July 2018)
M J Murphy	(appointed 29 May 2018)
C O'Dwyer	(appointed 8 June 2018 and resigned 14 June 2019)
R E Thomson	(appointed 15 May 2019)

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

DIRECTORS' INDEMNITY

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

EVENTS AFTER THE REPORTING DATE

There have been no significant events since the reporting date up to the date of signing.

AUDITOR

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

MORGAN STANLEY FUND SERVICES (UK) LIMITED

DIRECTORS' REPORT (CONTINUED)

Statement as to disclosure of information to the auditor

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

- so far as each of the Directors is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each of the Directors has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

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

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

Approved by the Board and signed on its behalf by



Director

Aislinn Murphy
September 27th 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY FUND SERVICES (UK) LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Morgan Stanley Fund Services (UK) Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of changes in equity;
- the statement of financial position; and
- the related notes 1 to 15

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

Basis for opinion

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

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

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY FUND SERVICES (UK) LIMITED (CONTINUED)

Other information

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

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

We have nothing to report in respect of these matters.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY FUND SERVICES (UK) LIMITED (CONTINUED)

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report:

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



Paul Cowley, C.A. (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Glasgow, United Kingdom.

27 SEPTEMBER 2019

MORGAN STANLEY FUND SERVICES (UK) LIMITED

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	Note	2018 \$'000	2017 \$'000
Fee Income		25,202	21,072
Interest income	4	641	527
Interest expense	4	(47)	(131)
Net interest income		<u>594</u>	<u>396</u>
Other expense	5	<u>(13,800)</u>	<u>(11,402)</u>
PROFIT BEFORE TAXATION		11,996	10,066
Income tax expense	6	<u>(2,239)</u>	<u>(1,952)</u>
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>9,757</u>	<u>8,114</u>

All operations were continuing in the current and prior year.

The notes on pages 12 to 19 form an integral part of the financial statements.

MORGAN STANLEY FUND SERVICES (UK) LIMITED

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Note	Share capital \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 January 2017		-	9,849	9,849
Profit and total comprehensive income for the year		-	8,114	8,114
Balance at 31 December 2017		-	17,963	17,963
Profit and total comprehensive income for the year		-	9,757	9,757
Transactions with owners:				
Dividends	11	-	(17,963)	(17,963)
Balance at 31 December 2018		-	9,757	9,757

The notes on pages 12 to 19 form an integral part of the financial statements.

MORGAN STANLEY FUND SERVICES (UK) LIMITED

Registered number: 05694246

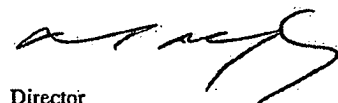
STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 \$'000	2017 \$'000
ASSETS			
Other receivables	7	19,310	22,956
Deferred tax assets	8	<u>1</u>	<u>1</u>
TOTAL ASSETS		<u>19,311</u>	<u>22,957</u>
LIABILITIES			
Other payables	9	5,481	2,628
Current tax liabilities		<u>4,073</u>	<u>2,366</u>
TOTAL LIABILITIES		<u>9,554</u>	<u>4,994</u>
EQUITY			
Share capital	10	-	-
Retained earnings		<u>9,757</u>	<u>17,963</u>
Equity attributable to owners of the Company		<u>9,757</u>	<u>17,963</u>
TOTAL EQUITY		<u>9,757</u>	<u>17,963</u>
TOTAL LIABILITIES AND EQUITY		<u><u>19,311</u></u>	<u><u>22,957</u></u>

These financial statements were approved by the Board and authorised for issue on:

Signed on behalf of the Board



Director

The notes on pages 12 to 19 form an integral part of the financial statements.

MARTIN MURPHY
September 27th 2019

MORGAN STANLEY FUND SERVICES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

1. CORPORATE INFORMATION

The Company is incorporated and domiciled in England and Wales, United Kingdom, at the following registered address 20 Bank Street, Canary Wharf, London, E14 4AD, United Kingdom. The Company is a private company and is limited by shares. The registered number of the Company is 05694246.

The Company's immediate parent undertaking is Morgan Stanley Fund Services Inc. which has its registered office at c/o The Corporation Trust Company, The Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, United States of America and is incorporated in the state of Delaware, in the United States of America.

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

2. BASIS OF PREPARATION

Statement of compliance

These financial statements are prepared on a going concern basis as explained in the Strategic Report and under the historical cost convention in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101.

The Company has taken advantage of the disclosure exemptions available under FRS 101 in relation to financial instruments, capital management, presentation of a cash-flow statement, accounting standards not yet effective and related party transactions.

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

New standards and interpretations adopted during the year

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

IFRS 9 'Financial instruments' ("IFRS 9") was issued by the IASB in November 2009, reissued in October 2010, amended in November 2013, and revised and reissued by the IASB in July 2014. It is effective for annual periods beginning on or after 1 January 2018 and was endorsed by the EU in November 2016. The Company has adopted IFRS 9 from 1 January 2018 with no restatement of comparative periods under the transitional provisions of the Standard. There is no impact on the classification and measurement of the Company's financial assets and liabilities. Impairment of financial assets is based on expected credit losses ("ECL") and the effect on opening reserves was \$nil.

MORGAN STANLEY FUND SERVICES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31 December 2018

2. BASIS OF PREPARATION (CONTINUED)

New standards and interpretations adopted during the year (continued)

IFRS 15 'Revenue from Contracts with Customers' ("IFRS 15") was issued by the IASB in May 2014 for retrospective application in accounting periods beginning on or after 1 January 2018. In addition, amendments relating to clarifications to IFRS 15 were issued by the IASB in April 2016 requiring application in accounting periods beginning on or after 1 January 2018. The Company has completed a project to implement IFRS 15. As part of this project the Company performed an evaluation of the method in which revenue and other receivables are recognised. As a result of this evaluation, no additional disclosures were considered to be relevant for the Company.

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

Critical judgements

No judgements have been made in the process of applying the Company's accounting policies that have had a significant effect on the amounts recognised in the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Functional currency

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

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

b. Foreign currencies

Monetary assets and liabilities denominated in currencies other than US dollars are translated into US dollars at the rates ruling at the reporting date. Transactions and non-monetary assets and liabilities denominated in currencies other than US dollars are recorded at the rates prevailing at the dates of the transactions. All translation differences are recognised through the statement of comprehensive income.

c. Financial instruments

Financial assets and liabilities primarily comprise other receivables and payables due from and to Morgan Stanley group undertakings.

MORGAN STANLEY FUND SERVICES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

Other receivables and payables are recognised when the Company becomes a party to the contractual provisions of the instrument and are initially measured at fair value (see note 3(e) below) and subsequently measured at amortised cost (less allowance for impairment on financial assets). Interest is recognised in the statement of comprehensive income using the effective interest rate ("EIR") method.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risk and rewards of ownership of the asset. The Company derecognises financial liabilities when the Company's obligations are discharged, cancelled or they expire.

d. Impairment of financial assets

From 1 January 2018, the Company recognises loss allowances for expected credit losses ("ECL") for its financial assets classified at amortised cost. ECLs are the present value of cash shortfalls over the expected life of the financial instrument, discounted at the asset's EIR. ECL is recognised in the statement of comprehensive income within 'Net impairment loss on financial instruments' and is reflected against the carrying amount of the impaired asset on the statement of financial position as an ECL allowance. Until 31 December 2017, impairment losses on financial assets were measured as the difference between the carrying amount and the present value of estimated cash flows discounted at the asset's original EIR. The Company has not recognised any ECL losses in the current reporting period, and there is no impact in the Statement of Comprehensive income in the current year.

e. Fair Value

Fair value measurement

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

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

When the Company manages a group of financial assets and financial liabilities on the basis of its net exposure to either market risks for credit risk, the Company measures the fair value of that group of financial instruments consistently with how market participants would price the net risk exposure at the measurement date.

MORGAN STANLEY FUND SERVICES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Fair Value (continued)

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

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

- **Level 1 - Quoted prices (unadjusted) in an active market for identical assets or liabilities**
Valuations based on quoted prices in active markets that the Morgan Stanley Group has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgement.
- **Level 2 - Valuation techniques using observable inputs**
Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- **Level 3 - Valuation techniques with significant unobservable inputs**
Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

f. Fee income

Fee income in the statement of comprehensive income represents fees, commissions and other income for administrative expenses provided and is recognised as the related services are performed.

g. Other expenses

Other expenses in the statement of comprehensive income represent expenses from management charges for services received from other Morgan Stanley Group undertakings. These amounts are recognised as the related services are received.

h. Income tax

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

The tax currently payable and is calculated based on taxable profit for the year. Taxable profit may differ from profit before taxation as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is accounted for using the balance sheet liability method. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

MORGAN STANLEY FUND SERVICES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Income tax (continued)

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

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

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

4. INTEREST INCOME AND INTEREST EXPENSE

'Interest income' and 'Interest expense' represent total interest income and total interest expense for financial assets and financial liabilities that are not carried at fair value.

5. OTHER EXPENSE

	2018 \$'000	2017 \$'000
Management charges from other Morgan Stanley Group undertakings relating to staff costs	10,076	8,642
Management charges from other Morgan Stanley Group undertakings relating to other services	3,703	2,742
Net foreign exchange losses	10	7
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	11	11
	<u>13,800</u>	<u>11,402</u>

The Company employed no staff during the year (2017: nil).

The Company's directors are employed by other Morgan Stanley Group entities. The Directors' services to the Company are considered to be incidental to their other responsibilities within the Morgan Stanley Group and as such, Directors' remuneration is \$nil for the current year (2017: \$nil).

MORGAN STANLEY FUND SERVICES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31 December 2018

6. INCOME TAX EXPENSE

	2018	2017
	\$'000	\$'000
Current tax expense:		
UK corporation tax at 19% (2017: 19.25%)		
- Current year	2,239	1,981
- Adjustment in respect of prior years	-	(29)
Income tax expense	2,239	1,952

Finance (No.2) Act 2015 enacted a reduction in the UK corporation tax rate to 19% with effect from 1 April 2017. Finance Act 2016 enacted a further reduction in the UK corporation tax rate to 17% with effect from 1 April 2020 which will impact the current tax charge in future periods.

Reconciliation of effective tax rate

The current year income tax expense is lower (2017: higher) than that resulting from applying the average standard rate of corporation tax in the UK for the year of 19% (2017: 19.25%). The main differences are explained below:

	2018	2017
	\$'000	\$'000
Profit before taxation	11,996	10,066
Income tax using the average standard rate of corporation tax in the UK of 19% (2017: 19.25%)	2,279	1,938
Impact on tax of		
Tax over provided in prior years	-	(29)
Currency translation on tax	(1)	23
Other permanent differences	-	20
Non-taxable income	(39)	-
Total income tax expense in the statement of comprehensive income	2,239	1,952

7. OTHER RECEIVABLES

	2018	2017
	\$'000	\$'000
Amounts due from other Morgan Stanley Group undertakings	19,310	22,956

MORGAN STANLEY FUND SERVICES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31 December 2018

8. DEFERRED TAX ASSETS

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

	2018 Deferred tax asset \$'000	2017 Deferred tax asset \$'000
At 1 January	1	1
Amounts recognised in the statement of comprehensive income:		
Prior financial year timing differences	-	-
At 31 December	<u>1</u>	<u>1</u>

The deferred tax included in the statement of financial position and changes recorded in 'Income tax expense' are as follows:

	Deferred tax asset 2018 \$'000	Statement of comprehensive income 2018 \$'000	Deferred tax asset 2017 \$'000	Statement of comprehensive income 2017 \$'000
Depreciation - temporary difference	<u>1</u>	<u>-</u>	<u>1</u>	<u>-</u>

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

Finance (No.2) Act 2015 enacted a reduction in the UK corporation tax rate to 19% with effect from 1 April 2017. Finance Act 2016 enacted a further reduction in the UK corporation tax rate to 17% with effect from 1 April 2020. These rate reductions have had an impact on the deferred tax balance as indicated above.

9. OTHER PAYABLES

	2018 \$'000	2017 \$'000
Amounts due to other Morgan Stanley Group undertakings	<u>5,481</u>	<u>2,628</u>

MORGAN STANLEY FUND SERVICES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31 December 2018

10. EQUITY

Ordinary share capital

2018	2017
\$'000	\$'000

Authorised and allotted and fully paid:

1 ordinary shares of £1 each

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

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

11. DIVIDENDS

On 11 June 2018, a dividend of \$17,962,732 (2017: \$nil) was paid to the Company's shareholder Morgan Stanley Fund Services Inc.

12. EXPECTED MATURITY OF ASSETS AND LIABILITIES

None of the Company's assets and liabilities are expected to be recovered or settled more than twelve months after the reporting date (2017: \$none).

13. SEGMENT REPORTING

The Company has only one class of business as described in the Strategic report and operates in one geographic market, Europe, Middle East and Africa ("EMEA").

14. RELATED PARTY DISCLOSURES

Parent and ultimate controlling entity

Information regarding the parent and ultimate controlling entity of the Company is disclosed in note 1 to the financial statements on page 12.

Directors' remuneration

The Company has six directors during the year who are employed by other Morgan Stanley group entities. The Directors' services to the Company are considered to be incidental to their other responsibilities within the Morgan Stanley Group and as such, Director's remuneration is \$nil for the current year (2017: \$nil).

15. EVENTS AFTER THE REPORTING DATE

The Directors confirm that there are no events after the reporting period that are required to be disclosed.