Registered number: 03981282

Registered office:
20 Bank Street
Canary Wharf
London, E14 4AD
United Kingdom

MORGAN STANLEY STRATEGIC INVESTMENTS LIMITED

Report and financial statements

31 December 2019

MORGAN STANLEY STRATEGIC INVESTMENTS LIMITED

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STRATEGIC REPORT

The Directors present their Strategic report for Morgan Stanley Strategic Investments Limited (the "Company") for the year ended 31 December 2019.

PRINCIPAL ACTIVITY

The principal activity of the Company is to hold investments. Details of the Company's investment have been included in note 10.

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 & Co. International plc.

There have not been any significant changes in the Company's principal activity in the year under review and no significant change in the Company's principal activity is expected.

BUSINESS REVIEW

Overview of 2019

The Statement of comprehensive income for the year ended 31 December 2019 is set out on page 10. The Company reported a profit after tax of $967,000 for the year, compared to $346,000 in the prior year. The increase in profit after tax is primarily attributable to an increase in income on investment of $609,000 which also includes the dividend income received from investment securities of $393,000 in current year.

The statement of financial position as at 31 December 2019 is set out on page 12. The Company's total assets at the end of the year were $10,301,000 compared to total assets of $9,334,000 in the prior year. The movement is primarily attributable to an increase of $854,000 in the Company's other receivables alongwith an increase of $113,000 in the value of the investment.

The performance of the Company is included in the results of the Morgan Stanley Group which are disclosed in the Morgan Stanley Group's Annual Report. 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.

The risk management section below sets out the Company's and the Morgan Stanley Group's policies for the management of liquidity and cash flow risk and other significant business risks.

Emergence of COVID-19

The coronavirus disease (COVID-19) pandemic has, and will likely continue to, severely impact global economic conditions, resulting in substantial volatility in the global financial markets, increased unemployment, and operational challenges such as the temporary closure of businesses, sheltering-in-place directives and increased remote work protocols. Governments and central banks around the world have reacted to the economic crisis caused by the pandemic by implementing stimulus and liquidity programmes and cutting interest rates, though it is unclear whether these or future actions will be successful in countering the economic disruption. If the pandemic is prolonged or the actions of governments and central banks are unsuccessful, the adverse impact on the global economy will deepen, and the future results of operations and financial condition of the Company will be adversely affected.

Since the emergence of the pandemic each business segment of Morgan Stanley and the business of the Company has been impacted and such impact will likely be greater in the future if conditions persist (e.g., decline and volatility of asset prices, reduction in interest rates, widening of credit spreads, credit deterioration, market volatility and reduced investment banking advisory activity). Operationally, although the Company have initiated a work remotely protocol and restricted business travel and have not experienced any significant loss of operational capability, if significant portions of the Company's workforce, including key personnel, are unable to work effectively because of illness, government actions,

STRATEGIC REPORT (CONTINUED)

BUSINESS REVIEW (CONTINUED)

Emergence of COVID-19 (continued)

or other restrictions in connection with the pandemic, the business impact of the pandemic could be exacerbated.

While the emergence of the COVID-19 pandemic has impacted the results of Morgan Stanley, the extent to which it, and the related global economic crisis, affects the businesses, the results of operations and financial condition, as well as the regulatory capital and liquidity ratios of Morgan Stanley and the Company, will depend on future developments that are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and any recovery period, future actions taken by governmental authorities, central banks and other third parties in response to the pandemic, and the effects on our customers, counterparties, employees and third-party service providers. The Company continue to use their Risk Management framework, including Stress testing, to understand the attendant uncertainties and their potential impact on our operations, liquidity and capital. Morgan Stanley is maintaining an active dialogue with all its relevant global regulators, during this period.

Risk management

Risk is an inherent part of the Company's business activity. The Company seeks to identify, assess, monitor and manage each of the various types of risk involved in its business activities, in accordance with defined policies and procedures. The Company has developed its own risk management policy framework, which leverages the risk management policies and procedures of the Morgan Stanley Group. The risk management policy framework includes escalation to appropriate senior management of the Company

Market risk

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities, correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio.

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.

Sound market risk management is an integral part of the Company's culture. The Company is responsible for ensuring that market risk exposures are well-managed and monitored. The Company also ensures transparency of material market risks, monitors compliance with established limits, and escalates risk concentrations to appropriate senior management.

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.

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 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. The credit risk management policies and procedures establish the framework for identifying, measuring, monitoring and controlling credit risk whilst ensuring transparency of material credit risks and compliance with established limits and escalating risk concentrations to appropriate senior management.

STRATEGIC REPORT (CONTINUED)

BUSINESS REVIEW (CONTINUED)

Risk management (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 its viability as a going concern as well as 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. Generally, the Company incurs liquidity and funding risk as a result of its trading, investing and client facilitation activities.

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.

Operational risk
Operational risk refers to the risk of loss, or of damage to the Company's reputation, resulting from inadequate or failed processes, from human factors, 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".

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.

Going concern

Business risks associated with the uncertain market and economic conditions are being actively monitored and managed by the Morgan Stanley Group and Company. Retaining sufficient capital and liquidity to withstand these market pressures remains central to the Morgan Stanley Group and Company's strategy.

STRATEGIC REPORT (CONTINUED)

BUSINESS REVIEW (CONTINUED)

Going concern (Continued)

The existing and potential effects of COVID-19 (coronavirus) on the business of the Morgan Stanley Group and Company have been considered as part of the going concern analysis, including impact on operational capacity, access to liquidity and capital, contractual obligations. The Company has access to further Morgan Stanley Group capital and liquidity as required.

Taking all 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.

Section 172 (1) Statement

The directors are aware of their responsibilities to promote the success of the Company in accordance with s172 of the Companies Act 2006. When making decisions, Directors have regard to the interests of stakeholders relevant to the Company as well as the need to maintain a reputation for high standards of business conduct and the long term consequences of decisions. They also fulfil their responsibilities through the application of Morgan Stanley Group policies and practices, underpinned by Morgan Stanley's five core values of: do the right thing, put clients first, lead with exceptional ideas, commit to diversity and inclusion and give back.

Approved by the Board and signed on its behalf by

DocuSigned by:
Susan O'Flynn
A0239014D4C34E8...
S O'Flynn – Director
01 October 2020

MORGAN STANLEY STRATEGIC INVESTMENTS LIMITED

DIRECTORS' REPORT

The Directors present their report and 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 16) for the Company for the year ended 31 December 2019.

RESULTS AND DIVIDENDS

The profit for the year, after tax, was $967,000 (2018: $346,000).

During the year, no dividends were paid or proposed (2018: $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 (except where otherwise shown):

M Gregotti
S O'Flynn

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

DIRECTORS' INDEMNITY

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

EVENTS AFTER THE REPORTING DATE

Since the balance sheet date, the coronavirus disease (COVID-19) pandemic has, and will likely continue to, severely impact global economic conditions, resulting in substantial volatility in the global financial markets and operational challenges. The extent of the impact is highly uncertain and cannot be predicted and could adversely affect the future operations and financial condition of Morgan Stanley and the Company.

AUDITOR

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

Statement as to disclosure of information to the auditor

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

- so far as each of the Directors is aware, there is no relevant audit information (being information needed by the Company's auditor in connection with preparing their report) of which the Company's auditor is unaware; and
- each of the Directors has taken all the steps that 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.

MORGAN STANLEY STRATEGIC INVESTMENTS LIMITED

DIRECTORS' REPORT (CONTINUED)

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 United Kingdom Generally Accepted Accounting Practice (UK Accounting Standards and applicable law), including Financial Reporting Standard ("FRS") 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 UK 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

DocuSigned by:
Susan O'Flynn
A0239014D4C34E8...

S O'Flynn – Director
01 October 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY STRATEGIC INVESTMENTS LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Morgan Stanley Strategic Investments Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 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 16.

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

Basis for opinion

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

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

Conclusions relating to going concern

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 STRATEGIC INVESTMENTS 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 STRATEGIC INVESTMENTS 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.

P. Cowley

Paul Cowley, C.A. (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Glasgow, United Kingdom
01 October 2020

MORGAN STANLEY STRATEGIC INVESTMENTS LIMITED

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2019

	Note	2019 $'000	2018 $'000
Net Income / (losses) from other financial instruments held at fair value	4	506	(103)
Other revenue	5	13	48
Interest income	6	458	407
Other expense	7	(10)	(6)
PROFIT BEFORE TAXATION		967	346
Income tax	8	-	-
PROFIT FOR THE YEAR		967	346

All results were derived from continuing operations.

The notes on pages 13 to 22 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2019

	Share capital $'000	Available-for-sale reserve $'000	Retained losses $'000	Total equity $'000
Balance at 1 January 2019	15,002	-	(5,668)	9,334
Profit for the year	-	-	967	967
Balance at 31 December 2019	15,002	-	(4,701)	10,301
Balance at 1 January 2018	15,002	(133)	(5,881)	8,988
Impact of adoption of new accounting standards	-	133	(133)	-
Profit for the year	-	-	346	346
Balance at 31 December 2018	15,002	-	(5,668)	9,334

The notes on pages 13 to 22 form an integral part of the financial statements.

MORGAN STANLEY STRATEGIC INVESTMENTS LIMITED
Registered number: 03981282

STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Note	2019 $'000	2018 $'000
ASSETS			
Investment securities	10	1,017	904
Trade and other receivables	11	9,284	8,430
TOTAL ASSETS		10,301	9,334
LIABILITIES AND EQUITY			
EQUITY			
Share capital	12	15,002	15,002
Retained losses		(4,701)	(5,668)
Equity attributable to owners of the Company		10,301	9,334
TOTAL EQUITY		10,301	9,334
TOTAL LIABILITIES AND EQUITY		10,301	9,334

These financial statements were approved by the Board and authorised for issue on 01 October 2020

Signed on behalf of the Board

DocuSigned by:
Susan.O'Flynn
A0239014D4C34E8...
S O'Flynn – Director

The notes on pages 13 to 22 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

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 03981282.

The Company's immediate parent undertaking and parent undertaking of the smallest group of companies for which group financial statements are drawn up and of which the Company is a member, is Morgan Stanley & Co. International plc, which has its registered office at 25 Cabot Square, Canary Wharf, London, England, E14 4QA, and is registered in England and Wales. Copies of its financial statements can be obtained from the Registrar of Companies for England and Wales, Companies House, Crown Way, Cardiff CF14 3UZ.

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

2. BASIS OF PREPARATION

Statement of compliance

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

The Company meets the definition of a qualifying entity as defined in Financial Reporting Standards 100 '*Application of Financial Reporting Requirements*' ("FRS 100"). The Company has taken advantage of the disclosure exemptions available under FRS 101 in relation to financial instruments, fair value measurement, capital management, presentation of comparative information in respect of certain assets and shares outstanding, 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 & Co. International plc, in which the Company is consolidated. Copies of Morgan Stanley & Co. International plc's accounts can be obtained as detailed at note 1.

New standards and interpretations adopted during the year

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

As part of the 2015-2017 Annual Improvements Cycle published in December 2017, the IASB made amendments to the following standards that are relevant to the Company's operations: IAS 12 'Income Taxes', for application in accounting periods beginning on or after 1 January 2019.

IFRIC 23 'Uncertainty over Income Tax Treatments' was issued by the IASB in June 2017 for application in accounting periods beginning on or after 1 January 2019. The interpretation was endorsed by the EU in October 2018.

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

Basis of measurement

The financial statements of the Company are prepared under the historical cost basis except for certain

2. BASIS OF PREPARATION (CONTINUED)

Basis of measurement (Continued)

financial instruments that have been measured at fair value as explained in the accounting policies below, and in accordance with applicable UK Accounting Standards, including FRS 101, and UK company law.

Critical accounting judgements and key sources of estimation uncertainty

No critical accounting judgements other than those involving estimations noted below 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.

The preparation of the Company's financial statements requires management to make judgements involving estimates and other assumptions regarding the valuation of the Company's investment securities that affect the financial statements and related disclosures. The Company believes that the estimates used in preparing the financial statements are reasonable, relevant and reliable. Actual results could differ from these estimates.

For further details on the fair value of the Company's investment securities, see accounting policy note 3(d) and note 10.

The going concern assumption

The Company's business activities, together with the factors likely to affect its future development, performance and position, are reflected in the Business review section of the Strategic report on pages 1 to 4. In addition, the notes to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

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

Specifically, the existing and potential effects of COVID-19 (coronavirus) on the operational capacity of the business, access to liquidity and capital, contractual obligations have been considered on pages 1 to 3. The notes to the Company's financial statements include details of its financial instruments and provide further information, not included in the Strategic report, on its credit risk and liquidity risk

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.

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 Strategic and Directors' reports are rounded to the nearest thousand US dollars.

b. Foreign currencies

All monetary assets and liabilities denominated in currencies other than US dollars are translated into US dollars at the rates ruling at the reporting date. Transactions and non-monetary assets and liabilities denominated in currencies other than US dollars are recorded at the rates prevailing at the dates of the transactions. All translation differences are taken through the statement of comprehensive income. Exchange differences recognised in the statement of comprehensive income are presented in 'Other revenue' or 'Other expense', except where noted in note 3(c) below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments

i) *Financial instruments mandatorily at fair value through profit and loss*

Non-trading financial assets at fair value through profit or loss

Non-trading financial assets at FVPL include certain investment securities (unlisted equities).

Non-trading financial assets at FVPL are principally financial assets where the Company makes decisions based upon the assets' fair values and are generally recognised on settlement date at fair value (see note 3(d) below), since they are neither regular way nor are they derivatives. From the date the terms are agreed (trade date), until the financial asset is funded (settlement date), the Company recognises any unrealised fair value changes in the financial asset as non-trading financial assets at FVPL. On settlement date, the fair value of consideration given is recognised as a non-trading financial asset at FVPL.

All subsequent changes in fair value and foreign exchange differences are reflected in the statement of comprehensive income in 'Net income/(loss) from other financial instruments held at fair value'. When interest is included as a component of an instrument's fair value, interest is also reflected in the statement of comprehensive income in 'Net income/(loss) from other financial instruments held at fair value', otherwise it is included within 'Interest income'.

For all non-trading financial assets at FVPL, transaction costs are excluded from the initial fair value measurement of the financial assets. These costs are recognised in the statement of comprehensive income in 'Other expense'.

ii) Financial assets at amortised cost

Financial assets classified at amortised cost include trade and other receivables. These assets were classified previously as loans and receivables under IAS 39 and measured at amortised cost.

Financial assets at amortised cost are recognised when the Company becomes a party to the contractual provisions of the instrument and are initially measured at fair value and subsequently measured at amortised cost (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. 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.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

Fair value measurement (continued)
The 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, block discounts and discounts for equity-specific restrictions that would not transfer to market participants 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.

Valuation process
The Valuation Control ("VC") within Finance is responsible for the Company's fair value valuation policies, processes and procedures. VC is independent of the business units and reports to the Chief Financial Officer of the Morgan Stanley Group ("CFO"), who has final authority over the valuation of the Company's financial instruments. VC implements valuation control processes designed to validate the fair value of the Company's financial instruments measured at fair value including those derived from pricing models.

Model Review
VC, in conjunction with the Model Risk Management Department ("MRM"), which reports to the Chief Risk Officer of the Morgan Stanley Group ("CRO"), independently reviews valuation models' theoretical soundness, the appropriateness of the valuation methodology and calibration techniques developed by the business units using observable inputs. Where inputs are not observable, VC reviews the appropriateness of the proposed valuation methodology to determine that it is consistent with how a market participant would arrive at the unobservable input. The valuation methodologies utilised in the absence of observable inputs may include extrapolation techniques and the use of comparable observable inputs. As part of the review, VC develops a methodology to independently verify the fair value generated by the business unit's valuation models.

Independent Price Verification
The business units are responsible for determining the fair value of financial instruments using approved valuation models and valuation methodologies. Generally on a monthly basis, VC independently validates the fair values of financial instruments determined using valuation models by determining the appropriateness of the inputs used by the business units and by testing compliance with the documented valuation methodologies approved in the model review process described above.

The results of this independent price verification and any adjustments made by VC to the fair value generated by the business units are presented to management of the Morgan Stanley Group's three business segments (i.e. Institutional Securities, Wealth Management and Investment Management), the CFO and the CRO on a regular basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

Independent Price Verification (continued)
VC uses recently executed transactions, other observable market data such as exchange data, broker/ dealer quotes, third-party pricing vendors and aggregation services for validating the fair values of financial instruments generated using valuation models. VC assesses the external sources and their valuation methodologies to determine if the external providers meet the minimum standards expected of a third-party pricing source. Pricing data provided by approved external sources are evaluated using a number of approaches; for example, by corroborating the external sources' prices to executed trades, by analysing the methodology and assumptions used by the external source to generate a price and/ or by evaluating how active the third-party pricing source (or originating sources used by the third-party pricing source) is in the market. Based on this analysis, VC generates a ranking of the observable market data designed to ensure that the highest-ranked market data source is used to validate the business unit's fair value of financial instruments.

VC reviews the models and valuation methodology used to price new material Level 2 and Level 3 transactions and both Finance and MRM must approve the fair value of the trade that is initially recognised.

Level 3 Transactions.
VC reviews the business unit's valuation techniques to assess whether these are consistent with market participant assumptions.

Gains and losses on inception
In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (i.e. the fair value of the consideration given or received). In certain circumstances, however, the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Company recognises a gain or loss on inception of the transaction.

When the use of unobservable market data has a significant impact on determining fair value at the inception of the transaction, the entire initial gain or loss indicated by the valuation technique as at the transaction date is not recognised immediately in the statement of comprehensive income, but is deferred and recognised over the life of the instrument or at the earlier of when the unobservable market data become observable, maturity or disposal of the instrument.

e. Impairment of financial assets

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. Where there has been a reduction in ECL, this will be recognised within 'Net reversal of impairment loss on financial instruments'.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Income tax

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

The tax currently payable is calculated based on taxable profit for the year. Taxable profit may differ from profit before taxation as reported in the 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. Current tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the current tax is also recorded within other comprehensive income or equity respectively.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

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. NET INCOME /(LOSSES) FROM OTHER FINANCIAL INSTRUMENTS HELD AT FAIR VALUE

	2019 $'000	2018 $'000
Net gains / (losses) on:		
Investment securities	113	(103)
Income from investment securities	393	-
	506	(103)

5. OTHER REVENUE

	2019 $'000	2018 $'000
Net foreign exchange gains	13	48
	13	48

MORGAN STANLEY STRATEGIC INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

6. INTEREST INCOME

No other gains or losses have been recognised in respect of financial assets measured at amortised cost other than as disclosed as 'Interest income', foreign exchange differences disclosed in 'Other revenue' (note 5).

All interest income and expense relates to financial assets and financial liabilities at amortised cost and is calculated using the EIR method (note 3(c)(ii)).

7. OTHER EXPENSE

	2019 $'000	2018 $'000
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	(7)	(6)
Net foreign exchange losses	(3)	-
	(10)	**(6)**

The Company employed no staff during the year (2018: nil)

Disclosures relating to remuneration received by Directors in respect of their qualifying services to the Company are included in note 15 Related party disclosures.

8. INCOME TAX

Analysis of expense in the year

	2019 $'000	2018 $'000
Current tax expense		
UK corporation tax at 19% (2018: 19%)		
- Current year	-	-
Income tax	-	-

Finance Act 2016 enacted a reduction in the UK corporation tax rate to 17% with effect from 1 April 2020. This reduction impacts the current tax charge in future periods. However, following the UK Budget on 11 March 2020 and subsequent resolutions given statutory effect under the Provisional Collection of Taxes Act 1968, for the financial year 2020 the UK statutory rate is 19%. While this change does not affect the income tax charge for the year, it will affect future years.

Reconciliation of effective tax rate

The current year income tax expense is lower (2018: lower) than that resulting from applying the average standard rate of corporation tax in the UK for the year of 19% (2018: 19%). The main differences are explained below:

8. INCOME TAX (CONTINUED)

	2019 $'000	2018 $'000
Profit before taxation	967	346
Income tax using the average standard rate of corporation tax in the UK of 19% (2018: 19%)	184	66
Impact on tax of:		
Expenses not deductible for tax purposes	(24)	-
Group relief received for no cash consideration	(85)	(66)
Tax exempt dividends	(75)	-
Total income tax in the statement of comprehensive income	-	-

9. FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY

The following table analyses financial assets and financial liabilities as presented in the statement of financial position by IFRS 9 classification.

31 December 2019	**FVPL (mandatorily) $'000**	**Amortised cost $'000**	**Total $'000**
Investment securities	1,017	-	1,017
Trade and other receivables	-	9,284	9,284
Total financial assets	**1,017**	**9,284**	**10,301**

31 December 2018	**FVPL (mandatorily) $'000**	**Amortised cost $'000**	**Total $'000**
Investment securities	904	-	904
Trade and other receivables	-	8,430	8,430
Total financial assets	**904**	**8,430**	**9,334**

10. INVESTMENT SECURITIES

	2019 $'000	2018 $'000
Investment securities (FVPL – non-trading)		
Corporate equities	1,017	904
Total	**1,017**	**904**

All investments classified as 'Investment securities (FVPL – non-trading)' are unlisted under level 3.

10. INVESTMENT SECURITIES (CONTINUED)

Details of the investments in 'Investment securities (FVPL – non-trading)' by the Company at 31 December 2019 and 31 December 2018 are as follows:

Name of company	Address of undertaking's registered office	Proportion of shares held by the Company (1)(2) 2019	2018	Nature of business
CreditDeriv Limited	c/o Hackwood Secretaries Limited, One Silk Street, London, EC2Y 8HQ	8.42%	8.42%	Holding company

(1) the Company owns 8.42% of the voting shares, which equates to 8.33% of the total share ownership of the Company (one shareholder holds non-voting shares).

(2) All shares held are ordinary shares.

11. TRADE AND OTHER RECEIVABLES

	2019 $'000	2018 $'000
Trade and other receivable		
Other receivables		
Amounts due from other Morgan Stanley Group undertakings	9,284	8,430
Total trade and other receivables	**9,284**	**8,430**

12. EQUITY

	Ordinary shares of $1 each Number	Ordinary shares of $1 each $'000
Allotted and fully paid		
At 1 January 2019 and 31 December 2019	15,002,400	15,002

13. EXPECTED MATURITY OF ASSETS AND LIABILITIES

The table below shows an analysis of assets analysed according to when they are expected to be recovered, realised or settled.

At 31 December 2019	Less than or equal to twelve months $'000	More than twelve months $'000	Total $'000
ASSETS			
Investment securities	-	1,017	1,017
Trade and other receivables:	9,284	-	9,284
	9,284	**1,017**	**10,301**

13. EXPECTED MATURITY OF ASSETS AND LIABILITIES (Continued)

At 31 December 2018	Less than or equal to Twelve Months $'000	More than twelve months $'000	Total $'000
ASSETS			
Investment securities	-	904	904
Trade and other receivables:	8,430	-	8,430
	8,430	**904**	**9,334**

14. 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").

15. RELATED PARTY DISCLOSURES

Parent and subsidiary relationships

Parent and ultimate controlling entities

The parent and ultimate controlling entities are disclosed in note 1 to the financial statements.

Directors' remuneration

The Company has two directors in the period who are employed by another group companies. 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 (2018: $nil).

16. EVENTS AFTER THE REPORTING DATE

Since the balance sheet date, the emergence of the coronavirus disease (COVID-19) pandemic has, and will likely continue to, severely impact global economic conditions, resulting in substantial volatility in the global financial markets and operational challenges. The extent of the impact is highly uncertain and cannot be predicted and could adversely affect the future operations and financial condition of Morgan Stanley and the Company.