



## Fitch Affirms Rating of Morgan Stanley Money Market Fund on ESG Conversion

Fitch Ratings - New York - 31 October 2019:

Fitch Ratings has affirmed the 'AAAmmf' rating assigned to the Morgan Stanley Institutional Liquidity Funds - ESG Money Market Portfolio following the conversion of its investment strategy to incorporate an environmental, social and governance (ESG) focused mandate.

### KEY RATING DRIVERS

The main drivers of the rating are:

- The fund's overall credit quality and diversification;
- Low exposure to interest rate and spread risk;
- Holdings of daily and weekly liquid assets consistent with shareholder profile and concentration;
- The capabilities and resources of Morgan Stanley as the fund's investment advisor.

### ESG Conversion and Investment Process

On Oct. 31, 2019, the Morgan Stanley Institutional Liquidity Funds - Money Market Portfolio revised its name to the Morgan Stanley Institutional Liquidity Funds - ESG Money Market Portfolio and modified its investment strategy by adding an ESG focused mandate.

Preservation of capital, daily liquidity, and income will continue to be the main objectives of the fund. Additionally, the fund will continue to invest 100% of its net assets (excluding cash) in 2a-7 money market eligible securities.

The net assets of the fund will be invested in securities issued or guaranteed by issuers that adhere to Morgan Stanley's ESG investment criteria. The fund's investment process will incorporate ESG considerations into Morgan Stanley's standard portfolio management framework. Morgan Stanley will utilize a proprietary ESG-scoring methodology, combined with third-party data, to assign individual issuers with ESG scores. The ESG overlay applied to the issuers during the screening process will exclude corporations that generate revenue in certain sectors, such as tobacco, firearms and coal, among others. After applying these exclusion screens, Morgan Stanley will consider its proprietary ESG scores for the remaining issuers and prioritize issuers with high ESG scores, while taking into account other portfolio construction considerations, such as yield, credit quality, and duration. The ESG tilt of the fund is a neutral factor in Fitch's rating analysis.

### Portfolio Credit Quality/Diversification

The fund seeks to maintain a diversified, high credit quality portfolio consistent with Fitch's criteria for 'AAAmmf' rated MMFs while giving consideration to Morgan Stanley's proprietary ESG criteria at the time of purchase. As

of the date of this review, the new ESG overlay strategy had not yet been implemented but it is not expected to negatively affect the fund's rating.

The fund's Portfolio Credit Factor (PCF) was in line with Fitch's 'AAAmf' rating criteria of 1.50 or less at the time of this review. PCF is a risk-weighted measure of a portfolio of assets that accounts for the portfolio's credit quality and maturity profile.

#### Maturity Profile

The fund seeks to limit interest rate and spread risk by maintaining weighted average maturities (WAM) and weighted average lives (WAL) below 60 days and 120 days, respectively, as per Fitch's 'AAAmf' criteria.

#### Liquidity Profile

The fund seeks to maintain sufficient levels of daily and weekly liquidity to manage investors' flows. Specifically, the fund invests at least 10% of its total assets in securities offering daily liquidity, and at least 30% in securities maturing within seven days or other qualifying liquid assets.

Fitch's rating criteria for money market funds also considers the degree of shareholder diversification as large unexpected redemptions could constrain liquidity. The fund's shareholder concentration will continue to be managed by Morgan Stanley through risk controls, communication with the distribution team and sizing of the fund's liquidity relative to the shareholder profile, consistent with other Morgan Stanley funds and in line with the assigned rating.

### **INVESTMENT MANAGER**

Fitch views the investment adviser's capabilities, financial and resource commitments, operational controls, corporate governance, and compliance procedures as consistent with the 'AAAmf' rating assigned to the funds.

Morgan Stanley is a global financial services firm with USD497 billion of AUM in the Morgan Stanley Investment Management group as of June 30, 2019.

### **RATING SENSITIVITIES**

The ratings may be sensitive to material changes in the credit quality or market risk profile of the funds. A material adverse deviation from Fitch guidelines for any key rating drivers could cause the ratings to be downgraded.

### **SOURCES OF INFORMATION**

Fitch will continue to receive fund holdings information and other pertinent fund data from the fund's administrators to conduct surveillance of ratings metrics and to maintain the MMF rating.

## RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
Morgan Stanley Institutional Liquidity Funds - ESG Money Market Portfolio	MMF AAAmmf Affirmed	AAAmmf

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

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## Applicable Criteria

Money Market Fund Rating Criteria (pub. 06 May 2019)

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