

30 September 2022

To: All Shareholders of Morgan Stanley Funds (UK) (the "Fund")

Dear Shareholder,

Notification of an update to the Global Sustain Fund (the "Fund"), a sub-fund of Morgan Stanley Funds (UK).

We are writing to you as a shareholder in the Fund to notify you of relevant amendments to the prospectus language of the Fund to:

- (1) improve the accessibility of our environmental, social and governance ("ESG") disclosures for the Fund by providing direct links to our existing ESG factcard, restriction screening and engagement policies on the Fund's webpage; and,
- (2) provide additional clarification on our screening approach regarding tobacco and controversial weapons. Tobacco: the investment adviser indicates that the tobacco revenue threshold has been tightened to 5%. Controversial weapons: having previously used the MSCI World ex Controversial Weapons Index during its screening process, the Fund is now using the MSCI ESG Business Involvement Screening Research database to screen out any companies with any tie to controversial weapons. These amendments have not triggered a realignment in the portfolio.

These changes to the description of the investment strategy of the Fund are shown in full in APPENDIX I of this circular. The new wording is in bold and the wording to be removed is struck through.

Action to be taken

It is not expected that these amendments will result in any material impact. This letter is for information purposes, and you are not required to take any action. However, you may wish to consult your financial adviser for specific investment advice.

The changes became effective on 23 September, 2022.

If you have any questions concerning the proposals, please contact the MSIM ACD via cslux@morganstanley.com between 9.00 a.m. and 5.30 p.m. Monday to Friday, but please be aware that we are not authorised to give investment advice.

Yours sincerely



Zoë Parish
Director

**For and on behalf of
Morgan Stanley Investment Management (ACD) Limited
Authorised corporate director of Morgan Stanley Funds (UK)**

APPENDIX I

Global Sustain Fund

CHANGES TO INVESTMENT STRATEGY WORDING

The Fund is a concentrated portfolio (typically 25-50 holdings) and seeks to identify high quality companies with sustainably high returns on operating capital with dominant franchises, powerful intangible assets including brands, networks, licences and patents, and pricing power. The Fund also seeks to identify capable management teams able to allocate capital effectively to grow the franchise and sustain and/or improve the return on operating capital.

The Fund's investment process focuses on high quality companies with sustainably high returns on operating capital. As an essential and integrated part of the investment process, the Investment Manager assesses relevant factors material to long term sustainably high returns on operating capital including environmental, social and governance (ESG) factors ~~and seeks to engage with company management teams as part of this~~. Subject to the Fund's investment objective and policy above, The Investment Manager retains discretion over which investments are selected. In exercising this discretion, ESG factors are not the sole determinant of whether an investment can be made or a holding can remain in the Fund's portfolio, but instead the Investment Manager considers material risks or opportunities in any of the ESG areas which could threaten or enhance the high returns on operating capital of a company. Further details of its processes and policies in assessing ESG factors are available on request from the ACD.

As part of its long-term investment approach, the Investment Manager seeks to engage with company management teams and boards to understand the long-term viability of a company, including material ESG risks and opportunities. The Investment Manager's ESG engagements have three key purposes: (i) assessment of materiality of specific ESG issues relevant to companies and their strategies to address these issues, (ii) monitoring of progress and (iii) encouraging companies towards better practices. Any issue (e.g. unsatisfactory responses or improvements over time) will be considered by the Investment Manager. Dialogue with companies can be prolonged and require multiple engagements over time. Engagement is one factor that could affect the investment view, valuation, weighting or buy/sell discipline. Any sales will take place over a time period to be determined by the Investment Manager, taking into account the best interests of the Shareholders of the Fund. For detailed information on our approach please refer to our Engagement policy available online at https://www.morganstanley.com/im/publication/msinvf/material/engagementpolicy_msinvf_msfunduk_globalsustain_en.pdf or from the ACD upon request.

The Investment Manager also attempts to encourage good corporate governance through proxy voting responsibilities, raising issues of concern directly with company management, consistent with the objective of maximising long-term investment returns.

In order to meet the low GHG emissions intensity criteria:

- the Fund will firstly exclude investments in any company that the Investment Manager determines:
 - have any tie to fossil fuels (such as oil, gas and coal),
 - any company whose core business activity involves energy, construction materials, gas and electric utilities (excluding renewable energy and water utilities), metals and mining, or
 - for which GHG emissions intensity estimates are not available and/or cannot be estimated (in the Investment Manager's discretion); and
- the remaining issuers will then be ranked according to their GHG emissions intensity estimates, with the worst performers excluded from the reference universe.

The GHG emissions-based investment criteria should collectively result in a reduction of the reference universe by at least 20% and the Investment Manager will use its best efforts to ensure that at least 90% of the issuers in the portfolio are assessed against these criteria.

As noted above, the Fund aims to achieve a GHG emissions intensity that is significantly lower (i.e. 50%) than that of its reference universe by excluding issuers on the basis of their relative GHG emissions intensity estimates. The Investment Manager uses third-party data providers to ascertain the GHG emissions intensity of specific issuers and in some cases data on specific issuers

may not be available or may be estimated by an alternative third-party data provider or the Investment Manager using internal methodologies or reasonable estimates. **A weighted average GHG emissions intensity calculation is made for the portfolio and compared against the MSCI ACWI reference universe. The carbon footprint of the portfolio is reported in the Fund's ESG factcard, which is available online at https://www.morganstanley.com/im/publication/msfundsuk/factsheet/fs_esg_msfunduk_globalsustainportfolio.pdf or from the ACD upon request. Details of third-party data providers and the methodology they use to calculate the GHG emissions intensity can be found in the Fund's restriction screening policy, which is available online at https://www.morganstanley.com/im/publication/msinvf/material/rsp_msinvf_msfunduk_global_sustain_en.pdf or from the ACD upon request.** The methodologies used by different data providers may vary and if the preferred data provider changes its methodology, the GHG emissions intensity estimates for one or more issuers may also change significantly. The Investment Manager will also use its best efforts to exclude any company that the Investment Manager determines have a tie to fossil fuels (e.g. reserve ownership, related revenues and power generation) but in some cases the data may not be available or fully representative of the activities of the issuer.

In addition to the above GHG-related exclusions, investments shall not knowingly include any company whose core business activity involves the following.

- a) Tobacco¹;
- b) Alcohol²;
- c) Adult Entertainment²;
- d) Gambling²;
- e) Civilian Firearms; or²
- f) Weapons²

1) For the purposes of this investment restriction, a "core business activity" for any company is one that accounts for more than 5% of its revenue.

2) For the purposes of this investment restriction, a "core business activity" for any company is one that accounts for more than 10% of its revenue.

The details of the above exclusions can be found in the **Fund's restriction screening policy which is available online at https://www.morganstanley.com/im/publication/msinvf/material/rsp_msinvf_msfunduk_global_sustain_en.pdf or from the Company's website on www.msim.com ACD upon request.** Further to the above, the Investment Manager may, in its discretion, elect to apply additional ESG-related investment restrictions over time that it believes are consistent with its investment objectives. Such additional restrictions will be disclosed as they are implemented on www.msim.com. Investments that are held by the Fund but become restricted under either the first or second bullet point above after they are acquired for the Fund will be sold. Such sales will take place over a time period to be determined by the Investment Manager, taking into account the best interests of the Shareholders of the Fund.

The Investment Manager monitors business practices on an ongoing basis, through data on ESG controversies and standards screening that the Investment Manager sources from third party providers, including UN Global Compact violations, as well as its own engagement with company management and research. The Investment Manager reviews securities of issuers where it believes a significant breach of the above standards and principles has occurred and typically excludes such issuers where, after conducting our research and/or engagement, the Investment Manager believes the breach is material to the sustainability of returns on operating capital, poses significant financial and reputational risk and the issuer has not committed to appropriate remedial action. Such exclusions are determined by the Investment Manager in its discretion rather than by reliance on third party analysis. The analysis may be supported by third party ESG controversies analysis and business involvement metrics.

The Fund will not invest in any company that ~~has been excluded from the MSCI World ex Controversial Weapons Index due to its involvement with controversial weapons, as defined by that index, though it is not constrained by this index and may invest in companies otherwise not on the index~~ **is defined by the MSCI ESG Business Involvement Screening Research ("MSCI ESG BISR") database to have any tie to controversial weapons.**

Where the Fund holds securities in a company that, after the date of purchase, changes its core business activity to include one of the prohibited activities above or ~~becomes excluded from the MSCI World ex-Controversial Weapons Index~~ **is added to the MSCI ESG Business Involvement Screening Research ("MSCI ESG BISR") database as having any tie to controversial weapons**, then such securities will be sold within a reasonable period taking into account the best interests of the Fund.