

MORGAN STANLEY FUNDS (UK)

Sustainable Fixed Income Opportunities Fund

Restriction Screening Policy

BROAD MARKETS FIXED INCOME | SEPTEMBER 2023

Overview and Rationale

The policy and process described below refers specifically to the MS Funds (UK) Sustainable Fixed Income Opportunities Fund (“the Fund”).

The MSIM Fixed Income Sustainable Investing team in collaboration with the Credit Analysts and Portfolio Managers (“the Investment Team”), are responsible for establishing the screening and Environmental, Social, and Governance (ESG) criteria of this Policy, which will be reviewed and updated on at least an annual basis to ensure that it remains consistent with our view on best practice in the context of the goals of the Fund.

Restriction screening refers to intentionally avoiding investments in certain sectors or issuers. In designing the restriction screening policy as part of our investment strategies, we consider the following aspects:

- I. **Reducing exposure to risks related to ESG factors.** These risks may be reputational, regulatory or financial, stemming from the business activities or practices of the issuer. We aim to remove some of the most material of these risks through restriction screening at the sector level.
- II. **Values alignment.** We may decide to exclude certain sectors from the portfolio based on our assessment that they have an overall negative impact on society or the environment which is not aligned to the objectives of the Fund.
- III. **Consideration as to whether there is an opportunity for engagement on ESG issues** and whether an issuer may be able to transition its business activities or practices to a more sustainable model. We therefore may apply thresholds or carve-outs as part of the sector-level exclusions with an aim to engage with certain issuers to help drive positive change and long-term value.
- IV. **Adherence to core basic standards, minimum safeguards and ethical norms.** We expect issuers to adhere to minimum standards as defined by international ESG norms and we aim to not invest in issuers that violate, or are at high risk of violating, these international norms.
- V. **Implications for portfolio construction.** We aim to consider whether restrictions may have an effect on the risk/return profile of the Fund, or narrow the investable universe to an extent to which it may be detrimental to that profile.

Restriction Screening Policy & Process

The Policy is designed to avoid investing in identified sectors and securities. The Policy uses information from third parties – complemented, where needed, by input from our Fixed Income Team Credit Analysts – and is subject to change, which can result in delays in reflecting such changes in the Fund. Where this is the case, we will resolve such instances as soon as possible.

Our restriction screening process combines sector-level exclusions, which are intended to avoid investment in sectors that are not aligned with our core investment principles or our sustainable investing philosophy, and norms-based exclusions, through which we screen out securities of issuers that are found to be in breach of minimum standards of responsible business practice based on international norms.

The current list of restrictions applicable to the Fund is presented on the following pages.

i. Controversial Weapons

MSIM Fixed Income views controversial weapons as indiscriminate and excessively injurious, often resulting in civilian casualties and causing a disproportionate level of pain and suffering. These weapons may also pose a long term risk to civilian population from unexploded ordnance which can detonate long after their initial use. We shall not knowingly invest in securities of issuers that generate **any revenue** from the manufacturing or production of controversial weapons or intended use components, or are a **majority owner of, or majority owned** by controversial weapons companies. Controversial weapons are defined as including anti-personnel landmines, cluster munitions, biological/chemical weapons and nuclear weapons.

Our approach to controversial weapons is consistent with the following treaties:

- The Ottawa Convention, 1999: banning the use, stockpiling, production and transfer of anti-personnel landmines.
- The Oslo Convention 2010: banning the use, stockpiling, production and transfer of cluster munitions.
- Weapons banned under the Biological Weapons Convention, 1975 and the Chemical Weapons Convention, 1997.

ii. Civilian Firearms

We take the view that although firearms can in some cases support rightful and peacekeeping activities, their use by civilians, particularly in the case of automatic and semi-automatic firearms, poses a threat to society as there is a high risk that they might end up being used illegally or indiscriminately against other people, causing mass wounding or death.

We shall not knowingly invest in securities of issuers that generate **any revenue** from the manufacturing or production of civilian firearm systems.

iii. Tobacco

We believe tobacco has significant negative social and economic impacts and is considered the single greatest preventable cause of death. As a result, tobacco companies are exposed to significant ongoing financial and reputational risk from increased regulation. Moreover, in our view, there is no reasonable level of tobacco consumption and we believe engagement with the tobacco industry will not lead to significant change.

We shall not knowingly invest in securities of issuers that generate **any revenue** from the manufacturing or production of tobacco products, or in securities of issuers that generate **10 percent or more of their revenue** from the distribution or retail of tobacco products or the supply of key products necessary for the production of tobacco products, such as filters.

iv. Gambling

We take the view that gambling activities embed a high risk of generating direct negative social impacts, in particular addiction and over-indebtedness, as well as indirect impacts especially for more vulnerable groups, including reduced familial stability and household income and increased propensity to crime.

We shall not knowingly invest in securities of issuers that derive **10 percent or more of their revenue** from gambling activities.

v. Adult Entertainment

We take the view that adult entertainment is associated with social risks in the form of the degradation of human rights and dignity, and potentially promotes negative behaviour involving physical and/or emotional duress and even violence, especially against women.

We shall not knowingly invest in securities of issuers that derive **10 percent or more of their revenue** from adult entertainment activities.

vi. Alcohol

Alcohol can be consumed in a responsible manner, however we recognise that alcohol abuse can have a detrimental impact on society. We view the harmful use of alcohol as a leading risk factor for premature mortality and disability, particularly amongst then more disadvantaged and vulnerable demographics within the population.

We shall not knowingly invest in securities of issuers that derive **10 percent of more of their revenue** from the production of alcoholic products, **25 percent of more of their revenue** from the retail or distribution of such products, or **50 percent or more of their revenue** from the supply of key raw materials and other products used specifically for the production of alcoholic products.

vii. Fossil Fuels

We recognise that climate change poses significant financial, environmental and societal risks to the global economy, and we therefore look to screen issuers with high exposure to carbon-intensive activities directly associated with fossil fuels and fossil fuels-based power, as described below, to mitigate such risks.

Nevertheless, we believe that companies in the mining, energy and utility sectors can play an important role in the transition towards expanding access to electricity globally while reducing its environmental footprint, and where we deem it appropriate, we may engage with these companies to encourage them to define clear emissions reduction and low carbon transition plans.

An exception to the exclusions below may apply to investments made by the Fund in labelled bonds such as Green, Sustainability, Transition, Sustainability-Linked Bonds, as defined further below in this Policy, or other debt securities that are issued to raise capital specifically for climate-related or environmental projects, so long as we have determined that the objectives of such instruments are consistent with a reduction by the issuer in its carbon emissions. Investment in such instruments will be subject to diligence by the MSIM Sustainable Investing team and Credit Analysts.

Thermal Coal

We estimate that coal is the most carbon-intensive fuel source compared to other fossil fuels and it is exposed to significant stranded asset risk from climate policy.

We shall not knowingly invest in securities of issuers that generate **any revenue** from the mining and extraction of thermal coal, or in securities of issuers that generate **10 percent or more of their revenue** from coal-fired power generation.

Oil and Gas

The production and use of oil and gas is estimated to account for approximately half of global greenhouse gas emissions associated with energy consumption. Decarbonising the global economy by 2050 requires a significant reduction in the production and combustion of oil and gas.

We shall therefore not knowingly invest in securities of issuers whose **core business activity** consists of oil and gas exploration, development and production activities, including the more environmentally invasive forms of oil sands extraction and Arctic oil and gas exploration and extraction.

viii. ESG Controversies and International ESG Norms

We expect the issuers we invest in to comply with minimum standards and safeguards around human rights, labour rights, environment, business ethics and corruption as defined by international norms such as the UN Global Compact, the Organisation for Economic Co-operation and Development's (OECD) Guidelines for Multinational Enterprises and the International Labour Organization's (ILO) fundamental principles, and we aim to not invest in issuers that violate these international ESG norms.

We monitor business practices on an ongoing basis, through data on ESG controversies and standards screening that we source from third-party providers.

A "Very Severe" controversy case is defined as an instance or ongoing situation in which company operations and/or products allegedly have an environmental, social, and/or governance impact that is serious or very serious in its nature, and extensive or extremely widespread in its scale.

We shall not knowingly invest in securities of issuers with controversy cases that we view as being "**Very Severe**", including those related to the OECD Guidelines for Multinational Enterprises, based on ratings by relevant ESG data providers, and where we believe appropriate remedial action has not been taken. We shall also not knowingly invest in securities of issuers that **fail to comply** with the UN Global Compact or the ILO fundamental principles.

Policy Compliance

This Policy applies to the physical investments held directly in the Fund. Investments that are held by the Fund but become restricted 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 Team, taking into account the best interests of the Investors in the Fund.

Representatives from several areas of the Morgan Stanley Investment Management are responsible for monitoring the portfolio for compliance as outlined below:

Portfolio managers & the Fixed Income Sustainable Investing team are primarily responsible for ensuring compliance with the policy. Portfolio managers enter orders into the portfolio trading system to ensure compliance with the guidelines of the portfolio.

The Information Technology team is responsible for applying the screening rules outlined in this Policy to the respective reference benchmarks to determine the Fund's investable universe.

Traders are responsible for executing trades that are consistent with policy and subject to best execution. They also must enter trades into the portfolio trading system, which enables traders to monitor individual portfolios for guideline conformity.

The Portfolio Surveillance team is responsible for coding ESG-related rules into our trade compliance system which uses an automated process to monitor the policy and ensure adequate surveillance of the Fund.

DISTRIBUTION

This communication is only intended for and will only be distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations. In particular, the shares are not for distribution to US persons.

United Kingdom: Morgan Stanley Investment Management Limited is authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No. 1981121. Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA.

This document contains information relating to the sub[1]funds of Morgan Stanley Funds (UK) (the 'Company') in accordance with the Open-Ended Investment Companies Regulations 2001 and the rules contained in the Collective Investment Schemes Sourcebook made by the Financial Conduct Authority in exercise of its powers under Section 247 of the Financial Services and Markets Act 2000. The Company is an Undertaking for Collective Investment in Transferable Securities ("UCITS").

Applications for shares in the sub-funds should not be made without first consulting the current Prospectus, Key Investor Information Document ("KIID"), Annual Report and Semi-Annual Report ("Offering Documents"), or other documents available in your local jurisdiction which is available free of charge from the Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA. The document has been prepared solely for informational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy.

Any index referred to herein is the intellectual property (including registered trademarks) of the applicable licensor. Any product based on an index is in no way sponsored, endorsed, sold or promoted by the applicable licensor and it shall not have any liability with respect thereto.

All investments involve risks, including the possible loss of principal.

The material contained herein has not been based on a consideration of any individual client circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

The views and opinions provided here are of the investment management team. These are not the views of the firm as a whole.

The information contained in this communication is not a research recommendation or 'investment research' and is classified as a 'Marketing Communication' in accordance with the applicable regulation. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research. MSIM has not authorised financial intermediaries to use and to distribute this document, unless such use and distribution is made in accordance with applicable law and regulation.

MSIM shall not be liable for, and accepts no liability for, the use or misuse of this document by any such financial intermediary. If you are a distributor of the Morgan Stanley Investment Funds, some or all of the funds or shares in individual funds may be available for distribution. Please refer to your sub-distribution agreement for these details before forwarding fund information to your clients.

The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without MSIM's express written consent.

All information contained herein is proprietary and is protected under copyright law.