This Exclusion policy (the “Policy”) relates to Morgan Stanley Investment Management’s Global Balanced ESG and Sustainable Strategies (the “Strategies”) which are managed by the Portfolio Solutions Group team (the “Investment Team”). This Policy applies to the Strategies in a number of vehicles, including Morgan Stanley Investment Funds (“MS INVF”) and Morgan Stanley Funds (UK) (“MS Funds UK”) (together, the “Funds”), and certain separately managed accounts, as agreed on a client-by-client basis, and sets out the details of the exclusions that the Investment Team applies in managing the Strategies.

Please note, this Policy gives information regarding exclusions for the Strategies only; please consult the relevant offering document or investment management agreement for the applicable investment objective and investment policy, together with a description of the Investment Team’s full investment process (where applicable) that pertains to a particular Strategy.

‘Exclusion’ means intentionally avoiding investments in certain sectors or issuers, based on values or risk-based criteria. Our exclusions process intends to avoid investment in issuers that are not aligned with our core investment principles or our sustainable investing philosophy, and to screen out securities of issuers that are found to be in breach of minimum standards of responsible business practice, based on international norms. To do so we use data from MSCI, a global 3rd-party ESG data provider, supported by our own proprietary internal Environmental Social Governance (ESG) research. This policy applies to the Global Balanced Risk Control (GBaR) strategies with ESG integration. If a company held within the portfolio subsequently qualifies to be excluded, we have an internal process in place to reflect the change in circumstances (see Exclusion Policy Compliance).

i) **Fossil Fuels**

We recognise that climate change poses significant risks to the global economy and we therefore look to exclude issuers with high exposure to carbon-intensive activities, as listed below, to mitigate our climate related financial risks.
**Coal**

We estimate that coal has the highest global warming potential amongst conventional fossil fuels. Coal not only boasts the highest greenhouse gas emissions per heating unit produced among conventional fuels, but its combustion also releases sulphur dioxide, nitrogen oxides, particulate matter, and heavy metals that cause toxic air pollution. Given these characteristics, rapid cuts to coal consumption will be necessary to meet global climate targets. Phasing out our reliance on thermal coal by 2040 is therefore a priority in all climate scenarios.

**Coal Mining**

As the transition towards a lower carbon economy reduces long-term demand for thermal coal, companies engaged in the business of mining the fuel are at risk of substantial stranded assets.

*We exclude issuers that derive 5% or more of their revenues from the mining of thermal coal (including lignite, bituminous, anthracite and steam coal), and from the sale of coal to external parties.*

**Coal-Fired Power Generation**

A faster than expected shift away from thermal coal, through policy intervention or technological advance for example, could render companies generating a high proportion of their revenues from thermal coal generation uncompetitive. While we recognise and support portfolio companies through an orderly transition to cleaner sources of power, we seek to limit our portfolios’ exposure to risks that could negatively impact shareholder value.

*We exclude issuers that derive 50% or more of revenues from coal-fired power generation.*

**Oil and Gas**

We recognise that oil and gas will remain a component of our energy system for some time, in all but the most ambitious decarbonisation scenarios. However, we believe some extraction methods come with additional ESG risks that could negatively impact shareholder value.

**Oil Sands**

Oil sands is a form of heavy oil found in sand and rock. Mining and processing oil sands typically requires expensive, capital-intensive and inefficient methods, such as surface mining or steam injection, leading to higher production costs and significantly higher carbon emissions than conventional drilling. Furthermore, oil sands extraction is associated with high levels of water extraction, land clearance and human rights controversies, which can in turn generate complex legal, regulatory and social risks to exposed companies.

*We exclude issuers that derive 5% or more of their revenues from the extraction of oil sands.*

**Arctic Oil and Gas**

Arctic oil and gas refers to all oil and gas production taking place on or offshore inside the Arctic. Drilling in the Arctic is both costly and technically difficult, due to the lack of infrastructure, harsh conditions and long supply lines. In our view, the exploitation of oil and gas reserves located in highly sensitive biodiverse areas, such as the Arctic, represents a heightened risk of ecological disturbance, which could result in significant financial and reputational penalties.

*We exclude issuers that derive 5% or more of their revenues from Arctic Oil or Gas production.*

**ii) Controversial Weapons**

In our view, controversial weapons are 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 the civilian population from unexploded ordnance, which can detonate long after its initial use.
Our approach to controversial weapons aims to be consistent with the following campaigns, conventions and treaties:

- **Anti-personnel mines** – Anti-Personnel Mine Ban Convention (or Ottawa Treaty)
- **Biological weapons** – Biological Weapons Convention
- **Blinding laser weapons** – Convention on Certain Conventional Weapons, Protocol IV on Blinding Laser Weapons
- **Chemical weapons** – Chemical Weapons Convention
- **Cluster munitions** – Convention on Cluster Munitions (or Oslo Treaty)
- **Depleted uranium weapons** – International Coalition to Ban Uranium Weapons
- **Incendiary weapons** – Convention on Certain Conventional Weapons Protocol III on Prohibitions or Restrictions on the Use of Incendiary Weapons
- **Non-detectable fragments** – Convention on Certain Conventional Weapons, Protocol I on Non-Detectable Fragments

We exclude issuers that have any tie to the manufacturing or production of controversial weapons or intended use components, or are a majority owner of, or are majority-owned by, controversial weapons companies.

**iii) 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 exclude issuers that manufacture or produce civilian firearm systems or ammunition.

**iv) Tobacco**

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 exclude issuers that manufacture tobacco products, and companies that derive 10% or more of their revenues from the supply, distribution, or retail sales of tobacco products.

**v) Gambling**

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 exclude issuers that derive 10% or more of their revenue from gambling related business activities.
vi) **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 exclude issuers that derive 10% or more of their revenues from adult entertainment activities.

vii) **ESG Controversies**

We expect the issuers in which we invest to comply with minimum standards and safeguards around human rights, labour rights, the environment, business ethics and corruption, as defined by international norms such as the United Nations Global Compact.

We exclude issuers with the *most severe* ESG controversy cases, based on assessments from 3rd-party ESG providers and where we believe appropriate remedial action has not been taken. Additionally, we exclude issuers in ongoing *severe* structural controversy cases related to environmental harm and where we believe appropriate remedial action has not been taken.

**Exclusion Policy Compliance**

This exclusion policy applies to the physical investments held directly in the portfolios. The exclusion criteria will not be applied to investments in which the portfolio managers do not have direct control of the underlying holdings, for example collective investment schemes or long derivatives exposures to indices. Investments that are held by the portfolios, but become restricted after they are acquired for the portfolios, will be sold. Such sales will take place over a period to be determined by the portfolio managers, taking into account the best interests of the shareholders of the portfolios.

We review this policy periodically and any changes will be reflected in this document. In addition to ongoing monitoring by the portfolio managers, Morgan Stanley Investment Management’s Portfolio Surveillance team codes the restricted criteria into the firm’s surveillance system, and to help monitor adherence to investment guidelines, including pre- and post-trade guideline monitoring and exception-based screening, and informs the Portfolio Surveillance team of possible guideline violations for this policy.

**Engagement**

Please note, in designing our exclusion policy we considered 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 regularly engage with issuers on materially important ESG issues. For example, we engage with management teams broadly around the topics of decarbonisation and climate risk, including those issuers involved in residual fossil fuel-related activities not covered by this policy.

**RISK DISCLOSURE**

**Past performance is not a guarantee of future performance.** The value of the investments and the income from them can go down as well as up and an investor may not get back the amount invested. There can be no assurance that the Fund will achieve its investment objectives.

There is no assurance that the Strategy will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by the portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly,
you can lose money investing in this portfolio. Please be aware that this strategy may be subject to certain additional risks. There is the risk that the Adviser’s asset allocation methodology and assumptions regarding the Underlying Portfolios may be incorrect in light of actual market conditions and the Portfolio may not achieve its investment objective. Share prices also tend to be volatile and there is a significant possibility of loss. The portfolio’s investments in commodity-linked notes involve substantial risks, including risk of loss of a significant portion of their principal value. In addition to commodity risk, they may be subject to additional special risks, such as risk of loss of interest and principal, lack of secondary market and risk of greater volatility, that do not affect traditional equity and debt securities. Currency fluctuations could erase investment gains or add to investment losses. Fixed-income securities are subject to the ability of an issuer to make timely principal and interest payments (credit risk), changes in interest rates (interest-rate risk), the creditworthiness of the issuer and general market liquidity (market risk). In a rising interest-rate environment, bond prices may fall and may result in periods of volatility and increased portfolio redemptions. In a declining interest-rate environment, the portfolio may generate less income. Longer-term securities may be more sensitive to interest rate changes. Equity and foreign securities are generally more volatile than fixed income securities and are subject to currency, political, economic and market risks. Equity values fluctuate in response to activities specific to a company. Stocks of small-capitalization companies carry special risks, such as limited product lines, markets and financial resources, and greater market volatility than securities of larger, more established companies. The risks of investing in emerging market countries are greater than risks associated with investments in foreign developed markets. Exchange traded funds (ETFs) shares have many of the same risks as direct investments in common stocks or bonds and their market value will fluctuate as the value of the underlying index does. By investing in exchange traded funds ETFs and other Investment Funds, the portfolio absorbs both its own expenses and those of the ETFs and Investment Funds it invests in. Supply and demand for ETFs and Investment Funds may not be correlated to that of the underlying securities. Derivative instruments can be illiquid, may disproportionately increase losses and may have a potentially large negative impact on the portfolio’s performance. A currency forward is a hedging tool that does not involve any upfront payment. The use of leverage may increase volatility in the Portfolio. Diversification does not protect you against a loss in a particular market; however, it allows you to spread that risk across various asset classes.
IMPORTANT INFORMATION

This is a marketing communication. Applications for shares in the Fund should not be made without first consulting the current Prospectus and the Key Information Document (“KID”) or Key Investor Information Document (“KIID”), which are available in English and in the official language of your local jurisdiction at morganstanleyinvestmentfunds.com or free of charge from the Registered Office of Morgan Stanley Investment Funds, European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxemburg B 29 192.

Information in relation to sustainability aspects of the Fund and the summary of investor rights is available at the aforementioned website.

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**U.S.**

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**IMPORTANT INFORMATION**
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