

MORGAN STANLEY INVESTMENT FUNDS (MS INVF)

Global Balanced Sustainable Fund

Restriction Screening Policy

SOLUTIONS & MULTI-ASSET | GLOBAL BALANCED RISK CONTROL TEAM | JUNE 2020

Restriction screening is intentionally avoiding investments in certain sectors or issuers based on values or risk-based criteria. We use a global 3rd-party ESG data provider, supported by our own proprietary internal Environmental Social Governance (ESG) research, to identify companies that are involved in activities that are not in line with our sustainable investment philosophy or that present material financial, reputational and/or regulatory risks. In the event that a company held in MS INVF Global Balanced Sustainable (“Fund”) subsequently qualifies to be excluded, we have an internal process in place to reflect the change in circumstances (see restriction policy compliance).

I. Fossil Fuels

We recognise that climate change poses significant risks to the global economy and we therefore look to exclude the most exposed carbon-intensive sectors from our ESG strategies, to mitigate our climate-related financial risks and where we estimate that we are unable to drive positive impact through engagement towards the low carbon transition.

Coal

We estimate that coal has the highest global warming potential of all fossil fuels and poses a significant stranded asset risk from climate policy.

We exclude companies that are involved in the mining and extraction of thermal coal, as defined by the relevant GICS Sub-Industry Coal & Consumable Fuels.

Oil Sands

We estimate that oil sands require the most expensive and least efficient extraction/refining methods, such as surface mining or steam injection. Furthermore, we estimate that oil sands also have higher Green House Gas (GHG) potency (kg per GJ) than conventional fossil fuels and have significant negative environmental and social impacts, which can in turn generate complex legal, regulatory and social risks to shareholder value.

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

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 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 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.

We exclude companies that manufacture whole weapons systems, intended use components, or are a majority owner of, or majority-owned by, a controversial weapons company.

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 companies that manufacture automatic firearms or semi-automatic firearms for the civilian market.

IV. Tobacco

We believe tobacco has significant negative social and economic impacts and is considered the single greatest preventable cause of death. We estimate that, as a result, tobacco companies are increasingly exposed to significant ongoing financial, reputational and regulatory risk. 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 companies that manufacture tobacco products, or generate 10% or more of their revenues from the supply of key products necessary for the production of tobacco products, such as filters, or that distribute or retail 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 companies that derive 10% or more of their revenue from gambling activities.

VI. ESG Controversies

We consider a severe ESG controversy as an instance or ongoing situation in which company operations and/or products allegedly have a significant negative environmental, social and/or governance impact. These include breaches of international norms such as the UN Global Compact, which pose significant financial and reputational risks.

We exclude companies 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.

Restriction Policy Compliance

This restriction screening policy applies to the physical investments held directly in the Fund. The restriction screening 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 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 portfolio managers, taking into account the best interests of the shareholders of the Fund.

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 in the restricted criteria into the firm's surveillance system, and uses an automated process to 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.

Risk Considerations

- The value of bonds are likely to decrease if interest rates rise and vice versa.
- The value of financial derivative instruments are highly sensitive and may result in losses in excess of the amount invested by the Sub-Fund.
- Issuers may not be able to repay their debts, if this happens the value of your investment will decrease. This risk is higher where the fund invests in a bond with a lower credit rating.
- The fund relies on other parties to fulfill certain services, investments or transactions. If these parties become insolvent, it may expose the fund to financial loss.
- There may be an insufficient number of buyers or sellers which may affect the funds ability to buy or sell securities.
- Commodity investments can change significantly and quickly in value as a large variety of factors affect them.
- There are increased risks of investing in emerging markets as political, legal and operational systems may be less developed than in developed markets.
- Past performance is not a reliable indicator of future results. Returns may increase or decrease as a result of currency fluctuations. The value of investments and the income from them can go down as well as up and investors may lose all or a substantial portion of his or her investment.
- The value of the investments and the income from them will vary and there can be no assurance that the Fund will achieve its investment objectives.
- Investments may be in a variety of currencies and therefore changes in rates of exchange between currencies may cause the value of investments to decrease or increase. Furthermore, the value of investments may be adversely affected by fluctuations in exchange rates between the investor's reference currency and the base currency of the investments.

DEFINITIONS

"ESG" investment: Environmental Social and Governance based investment is an investment approach which takes explicit account of the environmental, social and corporate governance aspects of all proposed investments.

The Asset Allocation strategies provide the Investment Adviser with wide discretion to allocate between different asset classes. From time to time, the Asset Allocation may have significant exposure to a single or limited number of fixed income or equity asset classes. Accordingly, the relative relevance of the risks associated with equity securities, Fixed Income Securities and derivatives will fluctuate over time.

Investments in derivative instruments carry certain inherent risks such as the risk of counter party default and before investing you should ensure you fully understand these risks. Use of leverage may also magnify losses as well as gains to the extent that leverage is employed. These investments are designed for investors who understand and are willing to accept these risks. Performance may be volatile, and an investor could lose all or a substantial portion of his or her investment.

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Applications for shares in the Fund 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: European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxembourg B 29 192. In addition, all Italian investors should refer to the 'Extended Application Form', and all Hong Kong investors should refer to the 'Additional Information for Hong Kong Investors' section, outlined within the Prospectus. Copies of the Prospectus, KIID, the Articles of Incorporation and the annual and semiannual reports, in German, and further information can be obtained free of charge from the representative in Switzerland. The representative in Switzerland is Carnegie Fund Services S.A., 11, rue du Général-Dufour, 1204 Geneva. The paying agent in Switzerland is Banque Cantonale de Genève, 17, quai de l'Île, 1204 Geneva. 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.

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