

MORGAN STANLEY INVESTMENT FUNDS (MS INVF)

Sustainable Asia Equity Fund

Restriction Screening Policy

ACTIVE FUNDAMENTAL EQUITY | GLOBAL EMERGING MARKETS TEAM | DECEMBER 2020

In relation to the MS INVF Sustainable Asia Equity Fund (“Fund”), “Sustainable” means that the Investment Advisor, in its discretion, integrates information about sustainable themes and ESG issues in its investment decision-making. The Investment Advisor will also apply restriction screening, which refers to intentionally excluding investments in certain sectors or issuers. The Investment Advisor may engage with company management around corporate governance practices as well as what it deems to be materially important environment and/or social issues facing a company. The Fund references third party ESG data when narrowing the investible universe for the fund and for specific data points not disclosed by all companies during the security research process, but does not rely on third party ESG data for the purposes of constructing the portfolio.

Overview

In designing the restriction screening policy as part of our investment strategies, we consider the following aspects:

1. **Reducing exposure to risks related to Environmental, Social and Governance (ESG) factors**

These risks may be reputational, regulatory or financial, stemming from the business activities or practices of the issuer. We aim to avoid many of these risks through restriction screening at a sector level.

2. **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.

3. **Adherence to core basic standards, minimum safeguards and ethical norms**

We expect issuers to adhere to minimum standards as defined by international ESG norms, such as the UN Guiding Principle, UN Global Compact, OECD Guidelines for Multinational Enterprises and the International Labour Organization’s (ILO) fundamental principles, and we aim to not invest in issuers that violate, or are at high risk of violating, these international norms.

4. **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 investible universe to an extent to which it may be detrimental.

Investments shall not knowingly include any company whose **core business activity**¹ involves the manufacturing or production of:

I. 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.

We exclude companies that directly manufacture tobacco products, or generate 5% or more of their revenues from the supply of key products necessary for the production of tobacco products, such as filters.

II. Adult Entertainment

We exclude companies that directly produce or own a majority stake (over 50%) in adult entertainment 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 companies that manufacture automatic firearms or semi-automatic firearms for the civilian market.

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

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.

V. Fossil Fuels

We recognize that climate change poses significant risks to the global economy and therefore look to exclude the most exposed carbon-intensive sectors from our MS INVF Sustainable Asia Equity Fund 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 recognize 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 will not 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% or more of their revenue from coal-fired power (defined as “thermal coal-based power” by MSCI).

Oil Sands

We estimate that oil sands have the highest Green House Gas (GHG) potency (kg per GJ) compared to conventional fossil fuels and have significant negative environmental and social impacts related to their extraction/refining methods, which can in turn generate complex legal regulatory and social risks to shareholder value.

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

[Arctic Oil](#)

Since 2011 Arctic sea ice has been declining at a rate of 12.85 percent per decade, relative to the 1981 to 2010 average. This represents a serious threat to ecosystems and wildlife, as well as to local communities and indigenous people living in the region. Arctic oil exploration and production not only capitalizes on the effects of global warming, but also contributes to worsening it through further emissions, and can lead to serious environmental damage in case of spills.

We will not invest in securities of issuers that generate 5 percent or more of their revenue from oil extraction or production in the Arctic region, including in the Arctic National Wildlife Refuge (ANWR).-

VI. 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 will not invest in securities of issuers that derive 5 percent or more of their revenue from gambling activities.

VII. 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, the environment, business ethics and corruption as defined by international norms, such as the UN Guiding Principles, UN Global Compact, the 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 "Severe" ESG controversy is defined as an instance or ongoing situation in which company operations and/or products allegedly have a significant negative environmental, social, and/or governance impact.

We exclude securities of issuers with controversy cases that we view as being "Severe" based on ratings by relevant ESG data providers (MSCI) and where we believe appropriate remedial action has not been taken. We will also not invest in securities of issuers that fail to adhere to the above listed international ESG norms.

¹**Note:** For the purposes of this investment restriction policy, a "core business activity" is one that accounts for more than 5% of the relevant company's revenue. Further to the above, the Investment Advisor 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.morganstanleyinvestmentfunds.com and on www.msim.com.

Restriction Policy Compliance

This restriction screening 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 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.

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.

ESG RISKS

ESG strategies that incorporate impact investing and/or environmental, social and governance (ESG) factors could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. As a result, there is no assurance ESG strategies could result in more favorable investment performance.

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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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