Morgan Stanley

INVESTMENT MANAGEMENT

Restriction Screening Policy

FIXED INCOME TEAM | JANUARY 2023

Marketing Communication

Overview

The Restriction Screening Policy ("the Policy") described below refers specifically to the fixed income Morgan Stanley Investment Funds (MS INVF) listed in footnote 1 ("the Funds").[1]

The Fixed Income ESG team in collaboration with the Credit Analysts and Portfolio Managers ("the Investment Team"), are responsible for establishing the screening criteria of this Policy, which will be reviewed 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 Funds.

Restriction Screening Rationale

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

- **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 country level for sovereign issuers, or sector level for corporate issuers.*
- **Values alignment.** *We may decide to exclude certain countries where inadequate institutions or governance result in social violations, or 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.*
- **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 for corporates or state-owned enterprises with an aim to engage with certain issuers to help drive positive change and long-term value.*
- **Adherence to core basic standards, minimum safeguards and ethical norms***. We expect issuers to adhere to minimum standards as defined by international ESG norms.*
- **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 which may be detrimental to that profile.*

1. This Policy applies to the following funds:
MS INVF Emerging Markets Debt Fund
MS INVF Emerging Markets Domestic Debt Fund

Our current list of restrictions applicable to the Funds is presented below.

I. Social Violations

MSIM Fixed Income promotes good governance and social practices among sovereign debt issuers to ensure that fundamental social rights are enjoyed by the citizens of those countries.

Consequently, we will not make **any new investments** in countries where there is evidence of significant social violations, defined as those countries ranked in the **bottom-10% in terms of their Social Violations Indicator**. The Social Violations custom indicator is calculated based on the World Bank's Worldwide Governance Indicators on Voice & Accountability and Rule of Law.

In addition, the following restrictions apply to the Funds' investments in corporate securities:

II. 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 populations 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 Ottawa Convention 1999, the Oslo Convention 2010, the Biological Weapons Convention 1975, and the Chemical Weapons Convention 1997.

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

IV. 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.

V. Thermal Coal

We estimate that coal is the most carbon-intensive of the fossil fuels and it is exposed to significant stranded asset risk from climate-related policy, and we therefore look to exclude it from the Funds to mitigate our climate-related financial risks.

We shall not knowingly invest in securities of issuers that generate **5 percent or more of their revenue** from the mining and extraction of thermal coal.

The exception to this is that the Fund may invest in labelled Green and Sustainability Bonds, which 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 Fixed Income ESG team, in collaboration with Credit Analysts.

We may also engage issuers' management more broadly around the topics of decarbonisation and climate risk (as well as corporate governance practices and what it deems to be materially important other environmental and/or social issues facing an issuer) including those issuers involved in coal-fired power generation and those that generate less than 5 percent of their revenue from the mining and extraction of thermal coal. As part of such engagements, we will endeavor to encourage issuers to develop decarbonisation strategies and specify science-based targets to transition their business models to more sustainable ones.

VI. Monitoring of ESG Controversies and International Norms

We expect any corporate or state-owned enterprise 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 United Nations Global Compact, the International Labour Organization's (ILO) fundamental principles and the Organisation for Economic Co-operation and Development's (OECD) Guidelines for Multinational Enterprises. We monitor business practices on an ongoing basis, through data on ESG controversies and standards screening that we source from third-party providers. Although failure to comply with such standards will **not automatically result in exclusion from the Funds**, it may cause us to pursue a more cautious stance to the company, conduct further research and due diligence, and engage with company management to try to ensure that our understanding of the issue is as comprehensive as possible, and that any action we take is fully informed.

Policy Compliance

This Policy applies to the physical investments held directly in the Funds. Any sale of existing investments held in the Funds by the Investment Team will take into account the best interests of the Investors in the Funds.

Representatives from several areas of MSIM are responsible for monitoring the portfolio for compliance as outlined below:

Portfolio Managers and the Fixed Income ESG team are primarily responsible for ensuring compliance with the Policy.

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 portfolio.

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