

MORGAN STANLEY INVESTMENT FUNDS (MS INVF)

Sustainable Asia Equity Fund

Sustainable Emerging Markets Equity Fund

Restriction Screening Policy

ACTIVE FUNDAMENTAL EQUITY | GLOBAL EMERGING MARKETS TEAM | OCTOBER 2021

In relation to the MS INVF Sustainable Asia Equity and the MS INVF Sustainable Emerging Markets Equity Fund (“Funds”), “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 Funds reference third party ESG data when narrowing the investible universe for the funds 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 investable 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 where the core business activity involves tobacco manufacturing, supplying or retailing. This means issuers that generate 5% or more of revenue from the manufacture of tobacco products or from the supply of key products necessary for the production of tobacco products, such as filters.

II. Alcohol

We believe the impact of alcohol products are wide ranging and potentially harmful. We exclude companies that manufacture alcohol or supply key raw materials and other products used for alcohol production.

III. Adult Entertainment

We exclude companies that directly produce or derive 10 percent of their revenue from adult entertainment companies.

IV. 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 or retail automatic firearms or semi-automatic firearms for the civilian market.

V. 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. Relevant weapon systems include biological, chemical and nuclear. Any company with revenue associated in these categories is excluded.

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.

VI. 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 10 percent or more of their revenue from the mining and extraction of thermal coal, or from coal-fired power.

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 and Gas

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 and gas extraction or production in the Arctic region, including in the Arctic National Wildlife Refuge (ANWR).

VII. 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.

VIII. ESG Controversies and International ESG Norms

We expect the issuers we invest in to comply with minimum standards and safeguards around human rights, labor 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 Labor 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. Important human capital and corporate behavior controversies we exclude apply to case labor compliance, anti-competitive behaviors, taxes and subsidies, collective bargaining and union labor, controversial workplace accidents, discrimination and diversity, and supply chain labor.

We exclude securities of issuers with controversy cases that we view as being "Severe" based on ratings by relevant ESG data providers (MSCI), 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.

The application of the above ESG criteria should result in a 20% or more reduction of the investible universe in the reference universe. The Investment Team will ensure that at least 90% of the Fund's portfolio is subject to the sustainability analysis above.

¹ Core business activity thresholds are defined as 10% of revenues unless otherwise specified in the

section.

Restriction Policy Compliance

This restriction screening policy applies to the physical investments held directly in the Funds. Investments that are held by the Funds, but become restricted after they are acquired for the Funds, 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 Funds.

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 Investment team of possible guideline violations for this policy.

Issued by MSIM Fund Management (Ireland) Limited. MSIM Fund Management (Ireland) Limited is regulated by the Central Bank of Ireland. MSIM Fund Management (Ireland) Limited is incorporated in Ireland as a private company limited by shares with company registration number 616661 and has its registered address at The Observatory, 7-11 Sir John Rogerson's Quay, Dublin 2, D02 VC42, Ireland.

This document supplements the information provided in the Prospectus. Investors should read the Key Investor Information Document and Prospectus before investing.

There is no assurance that a Fund will achieve its investment objective. Funds are subject to market risk, which is the possibility that the market values of securities owned by the Fund will decline. Accordingly, you can lose money investing in this Fund.