

MORGAN STANLEY INVESTMENT FUNDS (MS INVF)

Sustainable Asia Equity Fund

Restriction Screening Policy

ACTIVE FUNDAMENTAL EQUITY | GLOBAL EMERGING MARKETS TEAM | MARCH 2021

In relation to the MS INVF Sustainable Asia Equity Fund (the “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.

In designing the restriction screening as part of our investment strategy 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 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 issuer *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.*

[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.

¹Note: 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.

VIII. ESG METHODOLOGIES

The Investment Adviser considers that the Fund promotes environmental and social characteristics.

The Fund will invest in companies from the Asia region excluding Japan region markets, with positive and/or improving alignment to one or more sustainability themes including but not limited to climate change, natural capital, human capital and innovation/infrastructure.

The Investment Adviser believes companies with forward-looking management teams that establish proactive strategies on these sustainability and ESG issues will be better positioned from a business and financial perspective over the long term than companies that do not consider them. A security will be considered aligned to one or more of these themes if the company shows evidence of product revenues, policies, initiatives, industry leadership, and/or established targets to proactively address one or more of these themes. Alignment will be determined by the Investment Adviser's research and analysis, supported by direct company engagements and third party sources.

Sustainability indicators

The Investment Adviser measures and monitors the relevant environmental and social characteristics for the Fund with the use of certain sustainability indicators (as indicated below).

The table below specifies some sustainability indicators used in the security selection process and data sources:

Environmental and Social Characteristic	Sustainability indicator	Metrics (Including without limitation)	Methodology	Data sources
Environmental	Climate Change	<ul style="list-style-type: none"> Climate change revenue as measure by the percentage of issuer revenue from products/services aligned to the promotion of renewable and affordable energy, as well as addressing climate change and its impacts. Carbon Emissions intensity as measured by Total greenhouse gas emissions and intensity of company sales as measured by scope 1 and scope 2 emissions normalized by revenue. Scope 1 carbon emissions: emissions generated from sources that are controlled by the company that issues the underlying securities Scope 2 carbon emissions: emissions from the consumption of purchased electricity, steam, or other sources of energy generated upstream from the company that issues the underlying securities Energy intensity calculated as megawatt hours of energy consumed per million of sales 	The Investment Adviser incorporates (available) information regarding company performance on these climate change metrics to make investment decisions. The result of this process is a portfolio which is tilted toward issuers that are implementing best-in-class practices and taking initiative in managing climate risk within their respective industries.	Bloomberg, company reports, MSCI ESG

		revenue in the company's reporting currency.		
Social Characteristics	Diversity & Inclusion Metrics	<p>% of revenues derived from products and services that promote gender equality and reduced inequalities</p> <p>Assessment of company diversity and inclusion taking into consideration, without limitation, factors such as gender diversity of staff and company leadership and remuneration policies.</p>	<p>The investment adviser incorporates (available) information about Company performance on diversity and inclusion metrics as part of the investment decision making process. The result of this process is a portfolio which is tilted towards companies that the investment adviser believes to be best-in-class in managing human capital within their respective industries.</p>	Bloomberg, company reports, MSCI ESG

DATA SOURCES

In undertaking the above analysis and restrictions screening, the Investment Team supplements its own analysis with data from third parties such as MSCI. The Investment Team will bear the costs in relation to the use of third party data.

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.

DISTRIBUTION

This communication is only intended for and will only be distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations. In particular, the Shares are not for distribution to US persons.

United Kingdom: Morgan Stanley Investment Management Limited is authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No. 1981121. Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA. Dubai: Morgan Stanley Investment Management Limited (Representative Office, Unit Precinct 3-7th Floor-Unit 701 and 702, Level 7, Gate Precinct Building 3, Dubai International Financial Centre, Dubai, 506501, United Arab Emirates. Telephone: +97 (0)14 709 7158). Germany: Morgan Stanley Investment Management Limited Niederlassung Deutschland, Grosse Gallusstrasse 18, 60312 Frankfurt am Main, Germany (Gattung: Zweigniederlassung (FDI) gem. § 53b KWG). Italy: Morgan Stanley Investment Management Limited, Milan Branch (Sede Secondaria di Milano) is a branch of Morgan Stanley Investment Management Limited, a company registered in the UK, authorised and regulated by the Financial Conduct Authority (FCA), and whose registered office is at 25 Cabot Square, Canary Wharf, London, E14 4QA. Morgan Stanley Investment Management Limited Milan Branch (Sede Secondaria di Milano) with seat in Palazzo Serbelloni Corso Venezia, 16 20121 Milano, Italy, is registered in Italy with company number and VAT number 08829360968. The Netherlands: Morgan Stanley Investment Management, Rembrandt Tower, 11th Floor Amstelplein 1 1096HA, Netherlands. Telephone: 31 2-0462-1300. Morgan Stanley Investment Management is a branch office of Morgan Stanley Investment Management Limited. Morgan Stanley Investment Management Limited

is authorised and regulated by the Financial Conduct Authority in the United Kingdom. Switzerland: Morgan Stanley & Co. International plc, London, Zurich Branch (Authorised and regulated by the Eidgenössische Finanzmarktaufsicht ("FINMA"). Registered with the Register of Commerce Zurich CHE-115.415.770. Registered Office: Beethovenstrasse 33, 8002 Zurich, Switzerland, Telephone +41 (0) 44 588 1000. Facsimile Fax: +41(0)44 588 1074.

Hong Kong: This document has been issued by Morgan Stanley Asia Limited for use in Hong Kong and shall only be made available to "professional investors" as defined under the Securities and Futures Ordinance of Hong Kong (Cap 571). The contents of this document have not been reviewed nor approved by any regulatory authority including the Securities and Futures Commission in Hong Kong. Accordingly, save where an exemption is available under the relevant law, this document shall not be issued, circulated, distributed, directed at, or made available to, the public in Hong Kong. Singapore: This publication should not be considered to be the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor under section 304 of the Securities and Futures Act, Chapter 289 of Singapore ("SFA"), (ii) to a "relevant person" (which includes an accredited investor) pursuant to section 305 of the SFA, and such distribution is in accordance with the conditions specified in section 305 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. In particular, for investment funds that are not authorized or recognized by the MAS, units in such funds are not allowed to be offered to the retail public; any written material issued to persons as aforementioned in connection with an offer is not a prospectus as defined in the SFA and, accordingly, statutory liability under the SFA in relation to the content of prospectuses does not apply, and investors should consider carefully whether the investment is suitable for them. This publication has not been reviewed by the Monetary Authority of Singapore. Australia: This publication is disseminated in Australia by Morgan Stanley Investment Management (Australia) Pty Limited ACN: 122040037, AFSL No. 314182, which accept responsibility for its contents. This publication, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act.

IMPORTANT INFORMATION

EMEA: This marketing communication has been issued by Morgan Stanley Investment Management Limited ("MSIM"). Authorised and regulated by the Financial Conduct Authority. Registered in England No. 1981121. Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA.

This document contains information relating to the sub-fund ("Fund") of Morgan Stanley Investment Funds, a Luxembourg domiciled Société d'Investissement à Capital Variable. Morgan Stanley Investment Funds (the "Company") is registered in the Grand Duchy of Luxembourg as an

undertaking for collective investment pursuant to Part 1 of the Law of 17th December 2010, as amended. The Company is an Undertaking for Collective Investment in Transferable Securities ("UCITS").

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.

Any index referred to herein is the intellectual property (including registered trademarks) of the applicable licensor. Any product based on an index is in no way sponsored, endorsed, sold or promoted by the applicable licensor and it shall not have any liability with respect thereto.

All investments involve risks, including the possible loss of principal. The material contained herein has not been based on a consideration of any individual client circumstances and is not investment advice, nor

should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

The information contained in this communication is not a research recommendation or 'investment research' and is classified as a 'Marketing Communication' in accordance with the applicable European or Swiss regulation. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

MSIM has not authorised financial intermediaries to use and to distribute this document, unless such use and distribution is made in accordance with applicable law and regulation. MSIM shall not be liable for, and accepts no liability for, the use or misuse of this document by any such financial intermediary. If you are a distributor of the Morgan Stanley Investment Funds, some or all of the funds or shares in individual funds may be available for distribution. Please refer to your sub-distribution agreement for these details before forwarding fund information to your clients.

The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without MSIM's express written consent.

All information contained herein is proprietary and is protected under copyright law.

This document may be translated into other languages. Where such a translation is made this English version remains definitive. If there are any discrepancies between the English version and any version of this document in another language, the English version shall prevail.