

Marketing Communication

**SFDR Article 8 Website Disclosure**

# **MS INV F Floating Rate ABS Fund**

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FEBRURY 2023

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Full Website Disclosure

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Website Disclosure Summary (EN)

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## SFDR Article 8 Website Disclosure

**Product name:** *Floating Rate ABS Fund (the “Fund”)*

**A fund of Morgan Stanley Investment Funds**

**Legal entity identifier:** 549300T7UJE2TXHL2Z08

## No Sustainable investment objective

This financial product promotes environmental or social characteristics, but does not have as its objective sustainable investment.

## Environmental or social characteristics of the financial product

The Fund promotes the social characteristic of avoiding investments in securitisations that violate responsible business or lending practices.

Further detail on the nature of these exclusions is set out below (in response to the section below titled, “*Investment Strategy?*”).

## Investment Strategy

The Fund aims to generate an attractive return, whilst minimising exposure to changes in interest rates through investments in a portfolio of floating rate asset-backed securities (“ABS”), measured in Euro. The Fund will invest primarily in floating-rate Fixed Income Securities with a duration of less than two years that are mortgage-backed securities, commercial mortgage-backed securities, collateralized mortgage obligations, covered bonds that are covered by mortgages including Uniform Mortgage-Backed Securities and other ABS rated investment-grade by an internationally recognised rating agency, securities determined to be of similar creditworthiness by the Investment Adviser, or securities backed by the United States of America.

### Investment strategy used to meet the environmental and social characteristics promoted by the Fund

The binding elements of the investment strategy consist of the exclusionary screening criteria applied to the portfolio construction process, as described in the table below.

The criteria are implemented and monitored by the Investment Adviser using a combination of third-party data and in-house research. This exclusion is implemented in line with the Fund’s Restriction Screening & ESG Policy, which can be found on [www.morganstanleyinvestmentfunds.com](http://www.morganstanleyinvestmentfunds.com) and on [www.morganstanley.com/im](http://www.morganstanley.com/im).

Binding criteria	Description
<p><b>The Fund will not invest in securitisations in which:</b></p>	<ul style="list-style-type: none"> <li>• The underlying loans show evidence of predatory lending, as determined by the applicable usury laws, and in the context of market rates and borrower’s risk profile;*</li> <li>• The lender or servicer of the underlying assets has committed severe malpractice around payment collection or has unjustifiably aggressive foreclosure practices;</li> <li>• The lender or servicer of the underlying assets has committed a severe breach of consumer protection standards:               <ul style="list-style-type: none"> <li>○ as established by the Consumer Financial Protection Bureau (CFPB) in the United States; or</li> <li>○ as established by any relevant regulatory and supervisory agency in the jurisdiction where the securitisation’s originator and/or collateral are located;</li> </ul>               if the breach relates to the securitisation’s underlying collateral, underwriting and servicing practices, unless the Investment Adviser             </li> </ul>

Binding criteria	Description
	<p>considers there is evidence of the breach having been or being remediated;** or</p> <ul style="list-style-type: none"> <li>• The originator, lender or servicer has been involved in controversy cases related to business ethics and fraud that the Investment Adviser views as “Very Severe” based on data by relevant ESG data providers, and where the Investment Adviser considers appropriate remedial action has not been taken.</li> </ul> <p>* A loan is considered a predatory loan if:</p> <ul style="list-style-type: none"> <li>• interest rates do not comply with U.S. usury laws or the equivalent in other jurisdictions; or</li> <li>• interest rates being offered exceed a limit for which the Investment Adviser deems to be exceedingly higher than the industry standard.</li> </ul> <p>The Investment Adviser may choose to proceed with an investment where interest rates surpass this level if following enhanced due diligence (including through direct engagement with the lending team and/or servicing department on the securitisation deal), the Investment Adviser determines that access to the loan is still beneficial to the borrower when taking into consideration its risk profile and alternative borrowing options. The interest rate levels which are considered industry standard are subject to periodic review by the Investment Adviser, based on the prevailing market conditions and prevailing rates across the industry at the time.</p> <p>** This exclusion criterion does not apply to lenders or servicers of U.S. government sponsored mortgage-backed securities, as their compliance of such securitisations with local regulatory standards is already monitored by the U.S. government on an ongoing basis. Such investments will be considered to fall within “#1 Aligned with E/S characteristics”, in response to the section below titled, “<i>Proportion of investments</i>”.</p>

The Investment Adviser may apply additional ESG-related investment restrictions over time that it believes are consistent with the Fund’s investment objectives and with its social characteristics. Such additional investment restrictions will be disclosed as they are implemented on [www.morganstanleyinvestmentfunds.com](http://www.morganstanleyinvestmentfunds.com) and on [www.morganstanley.com/im](http://www.morganstanley.com/im).

In addition to the binding ESG considerations, the Fund integrates ESG considerations in the investment decision-making process to support its social characteristics on a non-binding basis, based on the Investment Adviser’s in-house research and ESG scoring methodologies and, where available, on third-party data.

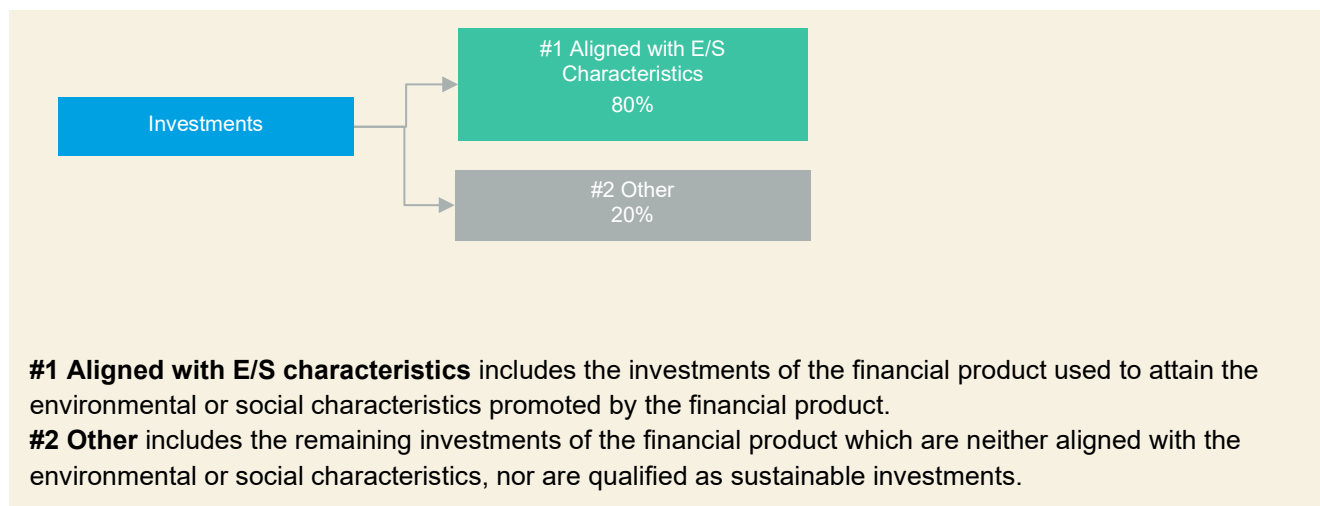
**Governance practices of investee companies**

As part of its bottom-up, fundamental research process, the Investment Adviser systematically incorporates the assessment of the securitisation’s corporate governance and business practices, including but not limited to the business ethics of lenders and servicers, their legal standing and compliance with all regulatory standards under the applicable jurisdictions, the ownership, management and financial structure of lenders, servicers, or special purpose vehicles established in relation to the securitization, and evidence of tax compliance, in order to ensure that every securitisation in which the Fund invests follows good governance practices.

This is done through the gathering of information and data on governance-related, as well as on other environmental and/or social factors and controversies, as part of the investment due diligence process,

through in-house research or third-party data, where available, and through engagement with management teams of issuers of lenders or servicers, on an as needed basis, to request further details around the securitization, such as clarifications on loan rates setting and payment collection mechanisms. The Investment Adviser also monitors the governance of the originators and the collateral over the life of the investment, through third-party providers, including rating agencies' changes in the annual assessments of the investments.

## Proportion of investments



The social exclusions (as described above) will be applied to 80% of the portfolio, which will be aligned with environmental or social characteristics. This is comprised entirely of investments in securitised instruments which provide exposure to underlying loan assets.

These percentages are measured according to the value of the investments.

### "#2 Other" investments

It is anticipated that up to 20% of the Fund's assets may be invested in hedging instruments for efficient portfolio management and in cash as ancillary liquidity. These instruments are included in the "#2 Other" category and are not subject to any environmental or social screening or any minimum environmental or social safeguards.

## Monitoring of environmental or social characteristics

The social characteristics are monitored by the investment team at the time of the investment and then periodically throughout the holding period, using a combination of portfolio screening tools, research, and manual desk reviews and analyses.

The investment process is subject to regular review, as part of a control and monitoring framework implemented by the Investment Adviser. The Investment Adviser's Compliance, Risk and Portfolio Surveillance teams collaborate with the investment team to conduct regular portfolio/performance reviews and systemic checks to ensure compliance with portfolio investment objectives, investment and client guidelines, taking into account changing market conditions, information and strategy developments.

Investments that are held by the Fund but become restricted because they breach the exclusion criteria set out above after they are acquired for the Fund will be sold. Such sales will take place over a time period to be determined by the Investment Adviser, considering the best interests of the shareholders of the Fund.

## Methodologies

The sustainability indicator used to measure the attainment of the Fund's social characteristic of avoiding investments in securitisations which violate responsible business or lending practices is the proportion of the Fund invested in securitisations which breach any of the exclusion criteria.

## Data sources and processing

The Investment Adviser primarily assesses the sustainability characteristics of each investment in the Fund through a proprietary Securitised Sustainability Framework using data from internal research.

The Investment Adviser also leverages ESG data from external vendors. This data is collected and stored in Morgan Stanley's centralized ESG data repository, to allow any Morgan Stanley business unit, including MSIM, to access the information for research, portfolio analysis and construction, including through the investment team's portfolio management systems, and for client and regulatory reporting.

MSIM assesses data quality by liaising with the different data providers to obtain updates to the datasets as the regulation evolves. They also ensure that ESG data adheres to the Firm's data governance and quality standards through procedures to assess the appropriateness and delivery of data feeds. MSIM also conducts as appropriate, due diligence on the external data providers in order to assess whether their methodologies are appropriate for the intended use case.

Due to gaps in data coverage, a small proportion of the data which is used to assess alignment with E/S characteristics is estimated data.

The Investment Adviser will keep data gaps under review and replace the estimated data with third-party data sources or data obtained by other means (e.g., directly from loan originators or servicers) when available.

## Limitations to methodologies and data

The below outlines some of the key themes and commonalities which contribute to limitations in the methodologies and/or data and/or poor data quality of the Fund:

- coverage gaps across asset classes, geographies, and market capitalisations
- availability of sustainability-related data for the loans and assets underpinning securitised investments is very limited, and, where available, it is usually provided to investors on a pre-trade basis only
- data lags i.e., reporting timelines for data may not align with SFDR reporting timelines

Despite these limitations, which impact all consumers of ESG data and investors in securitisations and are not particular to MSIM, the Investment Adviser takes reasonable steps to mitigate the risk of these limitations hindering the Fund's ability to meet its environmental and social characteristics – these include (as appropriate), seeking to collect data directly from loan originators and servicers, using appropriate estimations to manage data gaps and assessing new third-party vendor data quality and methodologies.

## Due diligence

The Investment Adviser combines quantitative and fundamental methodologies to assess the Fund's investment universe, composed of residential MBS, commercial MBS, and ABS, and to examine candidates for purchase.

The due diligence process is conducted by a team of dedicated mortgage/securitised research analysts who conduct analysis of Securitized assets across the credit spectrum.

The analysis of each security's underlying loans or collateral covers factors including, but not limited to: property attributes such as location or sub-market strength; occupancy rates; borrowers' assets, credit availability, and history of prepayments or defaults.

As part of this process, the Investment Adviser also conducts bottom-up due diligence on the securities to identify any sustainability risks that could impact the value of the assets, as well as any positive contribution to environmental or social characteristics, which is considered by the Investment Adviser when making investment decisions on a non-binding basis. The due diligence process is based on in-house research and, where available, third-party data, and it is based on the Investment Adviser's proprietary Securitized Sustainability Framework. The due diligence is then complemented by a detailed projected cash flow analysis, interest payment stability, and the evaluation of potential returns across different market and economic scenarios.

## **Engagement policies**

The Investment Adviser may engage with management teams of lenders or servicers, on an as-needed basis, to request further details around a securitisation, such as clarifications on loan rates setting and payment collection mechanisms, or in case high risk loans are identified, in order to obtain additional information.

## **Designated reference benchmark**

The Fund has not designated a reference benchmark for the purpose of attaining its environmental or social characteristics.

Floating Rate ABS Fund

# Website Disclosure Summaries (Multiple Languages)

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## SFDR Article 8 Website Disclosure

**Product name:** *Floating Rate ABS Fund (the "Fund")*

**A fund of Morgan Stanley Investment Funds**

**Legal entity identifier:** 549300T7UJE2TXHL2Z08

### Summary

#### No Sustainable investment objective

This financial product promotes environmental or social characteristics, but does not have as its objective sustainable investment.

#### Environmental or social characteristics of the financial product

The Fund promotes the social characteristic of avoiding investments in securitisations that violate responsible business or lending practices.

#### Investment Strategy

The Fund's objective is to provide an attractive rate of total return, measured in Euro, through investments primarily in floating-rate Fixed Income Securities with a duration of less than two years that are mortgage-backed securities, commercial mortgage-backed securities, collateralized mortgage obligations, covered bonds that are covered by mortgages including Uniform Mortgage-Backed Securities and other ABS rated investment-grade by an internationally recognised rating agency, securities determined to be of similar creditworthiness by the Investment Adviser, or securities backed by the United States of America.

The Fund meets its environmental and social characteristics through exclusions of securities linked with predatory lending practices, breaches in compliance of standards of the Consumer Financial Protection Bureau (CFPB), severe malpractice in payment collection processes and foreclosure practices, or fraudulent behaviour.

As part of its bottom-up, fundamental research process, the Investment Adviser systematically incorporates the assessment of an issuer's corporate governance and business practices.

#### Proportion of Investments

<b>Aligned with E/S characteristics</b>	<b>80%</b>
<i>Sustainable investments</i>	-
<i>Taxonomy aligned</i>	-
<i>Other environmental</i>	-
<i>Social</i>	-

<i>Other E/S characteristics</i>	<b>80%</b>
<b>Other investments</b>	<b>20%</b>

80% of investments are aligned with environmental or social characteristics. This is comprised entirely of investments in securitised instruments which provide exposure to underlying loan assets.

These percentages are measured according to the value of the investments.

#### Monitoring of environmental or social characteristics

The social characteristics are monitored by the investment team, using a combination of portfolio screening tools, research, and manual desk reviews and analyses.

The Investment Adviser's Compliance, Risk and Portfolio Surveillance teams collaborate with the investment team to conduct regular portfolio/performance reviews and systemic checks to ensure compliance with portfolio investment objectives and environmental and social characteristics.

#### Methodologies for environmental and social characteristics

Compliance with the exclusionary screens is measured based on the percentage of the Fund's investments which breach the exclusionary screens.

#### Data sources and processing

The Investment Adviser primarily assesses the sustainability characteristics of each investment in the Fund through a proprietary Securitised Sustainability Framework.

The Investment Adviser also leverages ESG data from external vendors. This data is collected and stored in Morgan Stanley's centralized ESG data repository, to allow any Morgan Stanley business unit, including MSIM, to access the information for research, portfolio analysis and construction, including through the investment team's portfolio management systems, and for client and regulatory reporting.

Due to gaps in data coverage, a small proportion of the data which is used to assess alignment with E/S characteristics is estimated data.



### **Limitations to methodologies and data**

Availability of sustainability-related data for the loans and assets underpinning securitised investments is very limited, and, where available, it is usually provided to investors on a pre-trade basis only.

Despite these limitations, which impact all investors in securitisations and are not particular to MSIM, the Investment Adviser takes reasonable steps to ensure that these factors do not have a negative impact on the E/S characteristics of the Fund.

### **Due diligence**

The Investment Adviser combines quantitative and fundamental methodologies to assess the Fund's investment universe, composed of residential MBS, commercial MBS, and ABS, and to examine candidates for purchase.

The due diligence process is conducted by a team of dedicated mortgage/securitised research analysts who conduct analysis of Securitized assets across the credit spectrum.

The analysis of each security's underlying loans or collateral covers factors including, but not limited to: property attributes such as location or sub-market strength; occupancy rates; borrowers' assets, credit availability, and history of prepayments or defaults.

As part of this process, the Investment Adviser also conducts bottom-up due diligence on the securities to identify any sustainability risks that could impact the value of the assets, as well as any positive contribution to environmental or social characteristics, which is considered by the Investment Adviser when making investment decisions on a non-binding basis. The due diligence process is based on in-house research and, where available, third-party data, and it is based on the Investment Adviser's proprietary Securitized Sustainability Framework. The due diligence is then complemented by a detailed projected cash flow analysis, interest payment stability, and the evaluation of potential returns across different market and economic scenarios.

### **Engagement policies**

The Investment Adviser may engage with management teams of lenders or servicers, on an as-needed basis, to request further details around a securitisation, such as clarifications on loan rates

setting and payment collection mechanisms, or in case high risk loans are identified, in order to obtain additional information.

### **Designated reference benchmark**

The Fund has not designated a reference benchmark for the purpose of attaining its environmental or social characteristics.

Applications for shares in the Fund should not be made without first consulting the current Prospectus and the Key Investor Information Document (“KIID”), which are available in English and in the official language of your local jurisdiction at [morganstanleyinvestmentfunds.com](http://morganstanleyinvestmentfunds.com) or free of charge from the Registered Office of Morgan Stanley Investment Funds, European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxemburg B 29 192. A summary of investor rights is available in English at the same website.

Information in relation to sustainability aspects of the Fund and the summary of investor rights is available at the aforementioned website.

If the management company of the relevant Fund decides to terminate its arrangement for marketing that Fund in any EEA country where it is registered for sale, it will do so in accordance with the relevant UCITS rules.

## 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.

## 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:

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