Morgan Stanley

INVESTMENT MANAGEMENT

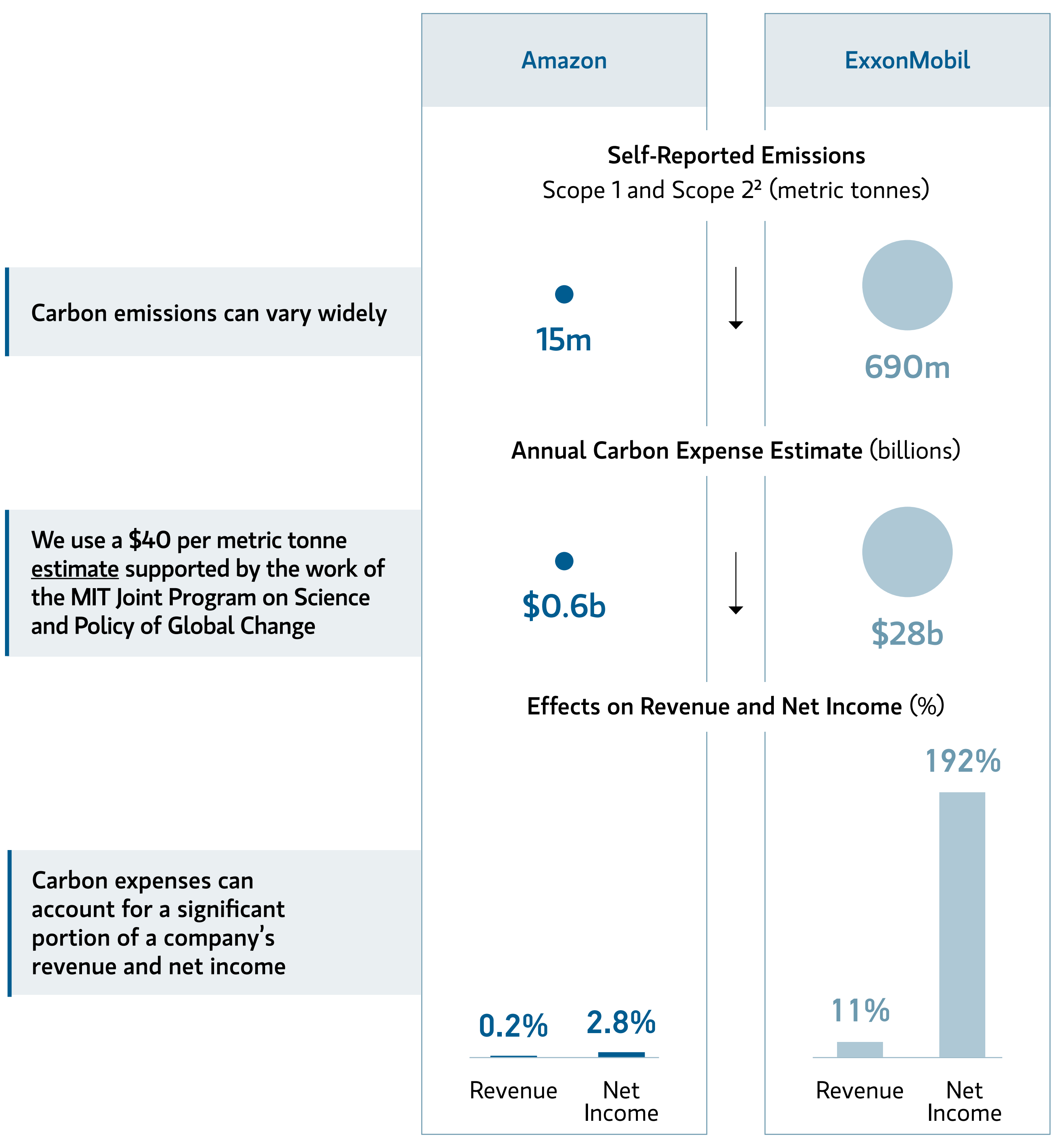
COUNTERPOINT GLOBAL

To Incentivize Decarbonization, Integrate Emissions Costs into Valuations

Counterpoint Global's leading-edge research estimates how emissions can be material to shareholder returns.

In our view, regulatory policy changes that aim to reduce green premiums are on the way, and companies will ultimately be responsible for carbon emission costs.[1] Fundamental analysis today must begin to reflect those expense estimates. Counterpoint Global's Sustainability Research has developed a systematic framework that estimates the potential costs of carbon emissions and shows how a carbon tax could change the long-term expected margin profiles of the businesses we consider for investment.

1 Our framework quantifies the estimated financial impact of carbon emissions on company profitability and thus, stock valuations.

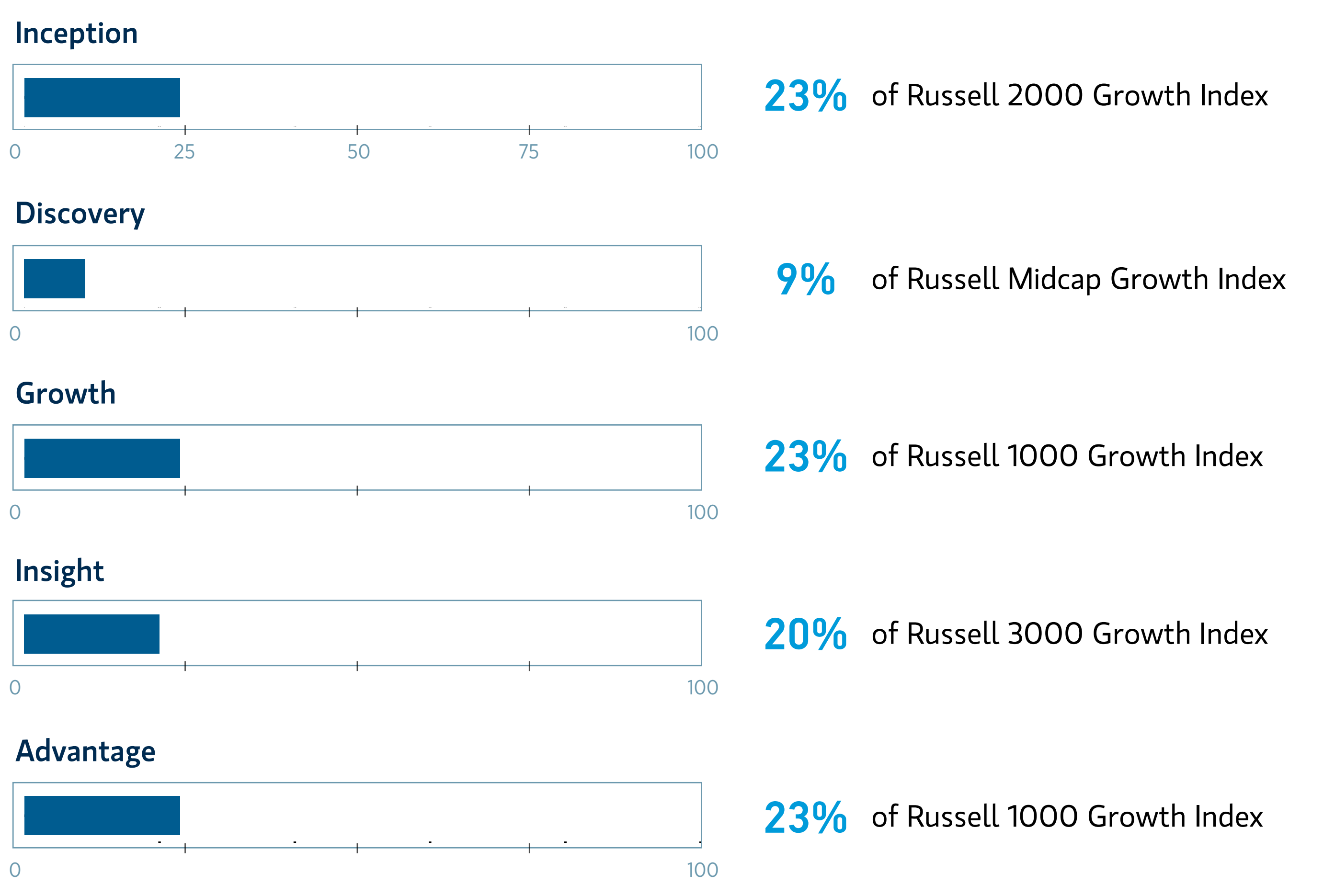


[1]Green premiums are the additional cost of a clean technology alternative compared to a traditional, higher emissions options.
[2]Following Greenhouse Gas Protocol standards, Scope 1 tracks emissions from a company's direct operations and business activity, and Scope 2 looks at carbon exposure from a company's energy suppliers.

Source: Amazon Company Filings, ExxonMobil Company Filings, MSIM. For illustrative purposes only and should not be construed as a recommendation to buy or sell the securities referenced. Amazon and ExxonMobil each represent 0% of the MSIF Growth Portfolio as of March 31, 2022. Carbon price estimate is as of August 2021. Holdings and price estimate are subject to change.

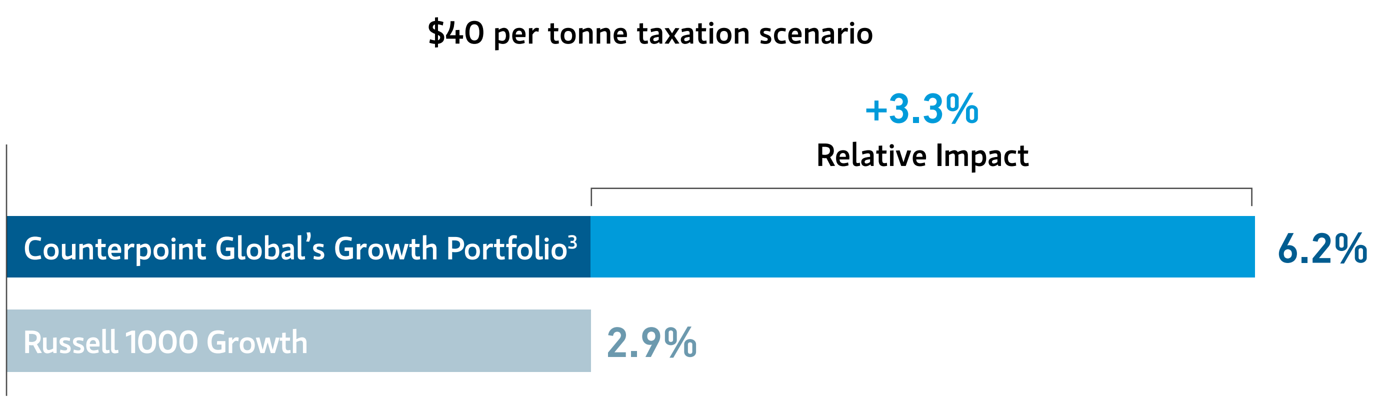
2 Quantifying estimated emissions costs shows how low carbon intensity our portfolios are.

Portfolio Carbon Intensity accounts for the price-to-sales multiples of the investments in the portfolio, as well as the underlying companies' amount of emissions per revenue dollar. For instance, Counterpoint Global's Growth Portfolio only uses 23% of emissions per revenue dollar, as compared to the Russell 1000 Growth Index.



Source: MSCI, Factset, MSIM as of March 31, 2022. Information represents the teams Morgan Stanley Institutional Fund (MSIF) Portfolios and provided for illustrative purposes only. Illustration is based on the emissions data within the Portfolio's and benchmarks' underlying holdings as of March 31, 2022. Carbon price estimate is as of August 2021. Holdings and carbon price estimate are subject to change.

3 Low-carbon intensity portfolios could benefit under different carbon tax scenarios.



[3]Growth portfolio represents how all Counterpoint Global portfolios are managed.

Source: Morgan Stanley Institutional Fund (MSIF) Growth Portfolio Coverage: 95%, MSCI. As of March 31, 2022. Illustration is based on the emissions data within the underlying holdings latest company filings and MSCI data as of March 31, 2022 and factoring in a carbon tax estimate and does not represent the actual fund or index returns, nor returns a shareholder would have or will experience. This is provided for illustrative purposes only. Note: Russell 1000 Growth benchmark has lower emissions than other indexes like the S&P 500; using the same framework the S&P500 index would have a -0.7% return headwind with a $40/tonne scenario.

Bottom line: Our analysis of carbon emissions signals to companies and clients that we factor these costs into our valuations. When active managers are quantifying the risks of carbon emissions, executives and boards have more incentive to allocate corporate resources to the innovations that society needs to decarbonize.

Read more on this topic: Beyond Virtue Signaling: Financial Materiality of Carbon Emissions

For more information about the investment offerings from Morgan Stanley Investment Management's Counterpoint Global, click here.

MIT

Joint Program on the Science and Policy of Global Change

Climate change is likely to cause shifts in the political, technological, social and economic landscape; these changes will create both financial risks and opportunities to transition to a low-carbon economy. There is a self-reinforcing mechanism for action in motion: society is increasingly pressuring government and industry to decarbonize, which drives technological innovation creating a wider array of low-carbon options, in turn creating further societal pressure to implement those options.

The framework developed by Counterpoint Global provides a method to measure the potential cost of carbon emissions and to estimate the financial impact of a carbon tax. An advantage of this framework is it translates these impacts into estimates of stock returns. In quantifying these impacts, Counterpoint Global has shown that asset owners can integrate this analysis into their strategies and ultimately provide executives, boards and other decision makers with more incentives to allocate resources to decarbonizing.

The key for capital allocators and other strategic entities is to quantify the impacts, actively engage in risk assessment and management, and identify opportunities for value creation. Decision makers at different levels need more risk-assessment tools, like the one developed by Counterpoint Global, it will help them to find opportunities for sustainable growth.

SERGEY PALTSEV
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The MIT Joint Program on the Science and Policy of Global Change integrates natural and social sciences to produce analyses of the interactions among our global environment, economy, and human activities, and the potential impact of policies that affect these relationships. The research conducted at MIT is valuable to government agencies, who aim to formulate efficient and effective policies, to industries, who aim to create risk management strategies within national, regional, and global market realities, and to other decision makers, who value a systemic view of the broad interactions inherent in global change. The MIT Joint Program on the Science and Policy of Global Change is not affiliated with MSIM or Counterpoint Global.

Risk Considerations

There is no assurance that a Portfolio will achieve its investment objective. Portfolios are subject to **market risk**, which is the possibility that the market values of securities owned by the Portfolio will decline and that the value of Portfolio shares may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing in this Portfolio. Please be aware that this Portfolio may be subject to certain additional risks. In general, **equities securities'** values also fluctuate in response to activities specific to a company. Investments in **foreign markets** entail special risks such as currency, political, economic, market and liquidity risks. The risks of investing in **emerging market countries** are greater than risks associated with investments in foreign developed countries. **Privately placed and restricted securities** may be subject to resale restrictions as well as a lack of publicly available information, which will increase their illiquidity and could adversely affect the ability to value and sell them (liquidity risk). **Derivative instruments** may disproportionately increase losses and have a significant impact on performance. They also may be subject to counterparty, liquidity, valuation, correlation and market risks. **Illiquid securities** may be more difficult to sell and value than public traded securities (liquidity risk).

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.

Focused Investing Risk: To the extent that the Fund invests in a limited number of issuers **(focused investing)**, the Fund will be more susceptible to negative events affecting those issuers and a decline in the value of a particular instrument may cause the Fund's overall value to decline to a greater degree than if the Fund were invested more widely.

The Adviser actively integrates sustainability into the investment process by using environmental, social and governance (ESG) factors as a lens for additional fundamental research, which can contribute to investment decision-making.

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. **Tangible investments** are those investments made in something that has physical substance, such as hard or real assets or personal property. **Intangible asset** is an asset that is not physical in nature. Goodwill, brand recognition and intellectual property, such as patents, trademarks, and copyrights, are all intangible assets.

INDEX DEFINITIONS

The Russell 1000® Index is an index that measures the performance of the 1,000 largest companies in the Russell 3000 Index. The **Russell 1000® Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000® Index is an index of approximately 1,000 of the largest U.S. companies based on a combination of market capitalization and current index membership. The S&P 500® Index measures the performance of the large cap segment of the U.S. equities market, covering approximately 75% of the U.S. equities market. The Index includes 500 leading companies in leading industries of the U.S. economy. The indexes are unmanaged and do not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

IMPORTANT INFORMATION

Please consider the investment objectives, risks, charges and expenses of the funds carefully before investing. The prospectuses contain this and other information about the funds. To obtain a prospectus please download one at morganstanley.com/im or call 1-800-548-7786. Please read the prospectus carefully before investing.

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Past performance is no guarantee of future results.

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