

# Restriction Screening Policy

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FIXED INCOME TEAM | FEBRUARY 2023

## Marketing Communication

### Overview

### SFDR Classification

The Restriction Screening Policy (“the Policy”) described below refers specifically to the range of fixed income Morgan Stanley Investment Funds (MS INVF) listed in (“the Funds”).<sup>1</sup>

The Funds promote environmental and social characteristics within the meaning of **Article 8** of Regulation (EU) 2019/2088 of 27 November 2019 on sustainability-related disclosures in the financial sector (“**SFDR**”).

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 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 sector level.*
- **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.*
- **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 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 local regulators and 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.*

Our restriction screening process is intended to avoid investment in issuers of securitisations that are not aligned with our core investment principles or our sustainable investing philosophy, or that are found to be in breach of minimum standards of responsible lending and business practice based on local regulation and/or international norms, where relevant.

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

<sup>1</sup> MS INVF Global Asset Backed Securities Fund  
MS INVF Floating Rate ABS Fund

## I. Predatory Lending

Responsible lending practices represent, in our view, the most material ESG factor when investing in securitized transactions. We believe predatory lending causes social harm by imposing unfair and/or abusive financing terms on borrowers, and restricting access to affordable capital. In addition, loans usually have a higher risk of default when there are instances of predatory lending.

We shall not knowingly invest in securities of issuers that the Investment Team evaluates as applying **any form of predatory lending**.

## II. Severe Malpractice in Payment Collection & Foreclosure Practices

We take the view that aggressive payment collection processes and foreclosure practices, from property owners or in the context of on-going loan servicing, may result in economic and moral damage to the borrower, and can lead to higher risk of defaults and pre-payments.

We shall not knowingly invest in securities of issuers that the Investment Team evaluates as displaying **severe malpractice in payment collection** or applying **unjustifiably aggressive foreclosure practices**.

## III. Breaches of Consumer Protection Standards

We expect the issuers we invest in to comply with minimum standards at the local and/or international level, as applicable. One of the key questions in our securitized investment due diligence process asks about the current status of each lender and servicer with the Consumer Financial Protection Bureau (CFPB) in the United States and any relevant regulatory and supervisory agencies in other jurisdictions, to help us ensure fair lending and servicing practices are being applied.

We shall not knowingly invest in securities of issuers that have **any ongoing breaches of the relevant local or international consumer protection standards**.

## IV. Business Ethics & Fraud Controversies

We monitor securitization issuers' business practices on an ongoing basis, to mitigate potential litigation risk associated with controversies on business ethics and fraud allegations.

A "Very Severe" controversy case is defined as an instance or ongoing situation in which company operations and/or products allegedly have an environmental, social, and/or governance impact that is serious or very serious in its nature, and extensive or extremely widespread in its scale.

We shall not knowingly invest in securities of issuers with **controversy cases related to business ethics and fraud that we view as being "Very Severe"** based on data by relevant ESG data providers, and where we believe appropriate remedial action has not been taken.

## Policy Compliance

This 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 Investment Team, taking 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.

## Risk Considerations

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. 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 Fund. Please be aware that this Fund may be subject to certain additional risks. **Fixed-income securities** are subject to the ability of an issuer to make timely principal and interest payments (credit risk), changes in interest rates (interest-rate risk), the creditworthiness of the issuer and general market liquidity (market risk). In a rising interest rate environment, bond prices may fall and may result in periods of volatility and increased fund redemptions. In a declining interest-rate environment, the fund may generate less income. **Longer-term securities** may be more sensitive to interest rate changes. **Mortgage-and asset-backed securities** are sensitive to early prepayment risk and a higher risk of default and may be hard to value and difficult to sell (liquidity risk). They are also subject to credit, market and interest rate risks. **Municipal securities** are subject to early redemption risk and sensitive to tax, legislative and political changes. **High yield securities ("junk bonds")** are lower rated securities that may have a higher degree of credit and liquidity risk. **Public bank loans** are subject to liquidity risk and the credit risks of lower rated securities. The initial interest rate on a **floating-rate security** may be lower than that of a fixed-rate security of the same maturity because investors expect to receive additional income due to future increases in the floating security's underlying reference rate. The reference rate could be an index or an interest rate. However, there can be no assurance that the reference rate will increase. Some floating-rate securities may be subject to call risk. **Foreign securities** are subject to currency, political, economic and market risks. The risks of investing in **emerging market countries** are greater than risks associated with investments in foreign developed countries. **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. **Restricted and illiquid securities** may be more difficult to sell and value than publicly 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.

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This is a marketing communication. Applications for shares in the Fund should not be made without first consulting the current Prospectus, the **Key Investor Document ("KID")**, and the Key Investor Information Document ("KIID"), which are available in English and in the official language of your local jurisdiction [morganstanleyinvestmentfunds.com](https://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.

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