Morgan Stanley

INVESTMENT MANAGEMENT

MORGAN STANLEY INVESTMENT FUNDS (MS INVF)

Sustainable Emerging Markets Equity and Sustainable Asia Equity Funds

Restriction Screening Policy

ACTIVE FUNDAMENTAL EQUITY | GLOBAL EMERGING MARKETS TEAM | DECEMBER 2022

In relation to the MS INVF Sustainable Asia Equity and Sustainable Emerging Markets 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 apply restriction screening, which refers to intentionally excluding investments in certain sectors or issuers that do harm to the environment or humans. 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 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:

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 (as defined by ten percent) involves tobacco manufacturing, supplying or retailing.

II. Alcohol

We believe the impact of alcohol products are wide ranging and potentially harmful. We exclude companies where the core business activity involves the manufacturing of alcohol, supply of key raw materials and/or distribution of alcohol products.

III. Adult Entertainment

We exclude companies that directly produce or derive ten percent or more 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 with any tie, as classified by MSCI Business Involvement Screening Research ("MSCI ESG BISR"), to civilian firearms.

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 have any tie, as classified by MSCI Business Involvement Screening Research ("MSCI ESG BISR"), to the whole weapons systems, intended use components, or are a majority owner, or majority-owned by, a controversial weapons company. Relevant weapon systems include biological, chemical and nuclear.

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 companies from our funds 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. The Funds will exclude investments in any company that the Investment Team determines has ten percent or more revenues from fossil fuels as classified by the MSCI ESG Business Involvement Screening Research ("MSCI ESG BISR") database.

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 ten percent or more of their revenue from the mining and extraction or power generation of thermal coal.

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 more than five percent of 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 more than five percent of revenue from oil and gas extraction or production in the Arctic region, including in the Arctic National Wildlife Refuge (ANWR).

In order to meet our goals of Paris alignment for a two degree Celsius climate change scenario, we have chosen to exclude the companies in our universe with the highest emissions profile. For the Sustainable Emerging Markets Fund, we exclude the MSCI EM index's highest twenty carbon emitters by absolute emissions and highest eighty carbon emitters by carbon intensity. For the Sustainable Asia Equity Fund, we exclude the MSCI AC Asia ex-Japan's highest twenty carbon emitters and highest seventy carbon emitters by carbon intensity.

We also exclude companies which have the worst environmental controversies, based on the MSCI ESG BISR tool.

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 five percent or more of their revenue from gambling activities.

VIII. ESG Controversies and International ESG Norms

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.

ESG Controversies

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 "Very Severe" or "red flag" 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.

IX. State-Owned Enterprises in Emerging Markets excluding Financials, Healthcare and Communication services

In sectors where we we believe the potential for ESG risks is higher, such as corruption, environmental risks and labor controversies, we believe state-ownership (defined as 35%) in Emerging Markets specifically can increase the likelihood that minority shareholder interests are misaligned and/or unaccounted for. We make exceptions to this for the financials, healthcare and communication services sectors but focus on the companies who have demonstrated that they will engage with us and/or have a strong sustainability rationale.

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

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.

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