Morgan Stanley

INVESTMENT MANAGEMENT

An Overview of the Sustainable Finance Disclosure Regulation

MARCH 2021

1. What is the Sustainable Finance Disclosure Regulation (SFDR) ?

The Sustainable Finance Disclosure Regulation (SFDR) seeks to enhance sustainability-related disclosures by imposing requirements on financial market participants (e.g. asset managers and investment advisers) and financial products (e.g. Funds). The regulation is part of the European Commissions' Action Plan on Sustainable Finance and applies to products domiciled in the European Union (EU) or sold to EU investors. The regulation will require 1) the integration of sustainability risks in financial market participants' investment decision-making processes, and transparency with respect to products which target sustainable investment, and 2) updates to product documentation including prospectuses, websites and ad hoc marketing material.

Sustainability risks include environmental, social or governance events or conditions that, should they occur, could cause an actual or a potential material negative impact on the value of your investments.

2. When does the regulation go into effect ?

The SFDR came into force in December 2019. The regulation is split into Level I and Level II requirements. The Level I requirements will apply as of 10 March 2021. Application of the Level II technical standards has been delayed with effective date to be confirmed but anticipated for 2022.

3. Will Morgan Stanley Investment Management be in compliance with the Sustainable Finance Disclosure Regulation ?

The SFDR applies to both products and financial market participants. All of Morgan Stanley Investment Management (MSIM) in scope Funds, separately managed accounts and in scope entities (e.g. MSIM Fund Management [Ireland] Limited) will be in compliance with the relevant requirements of the regulation.

4. What are the product level requirements of the SFDR ?

The SFDR does not require any changes to the way products are managed, but does require an enhanced level of disclosure. The nature and extent of these disclosure requirements depend on product classification under the regulation.

Products which have met certain ESG criterion with respect to investment process or objective may be classified as Article 8 or Article 9 products. All products which do not meet these criterion are classified as Article 6 or 'other' products. Article 8 products consider or promote environmental or social characteristics in the pursuit of other financial objectives. Article 9 products seek to make a positive impact on society or the environment through sustainable investment and have a non-financial objective at the core of their offering. For both Article 8 and 9 products ESG considerations are binding.

5. How will the MSIM Funds that I invest in be classified ?

All of MSIM's EU domiciled Funds are in scope of the regulation (e.g. Morgan Stanley Investment Funds, Morgan Stanley Liquidity Funds, etc.) as are MSIM's funds which are domiciled outside of the EU but which are registered for distribution under AIFMD. For more information on MSIM product classifications in your country please visit morganstanley.com/im/sfdr. Product classifications may change over time with the evolution of investment strategies or following the publication of Level II technical standards.

6. How will I be informed about the SFDR related changes ?

Fund investors will be informed of SFDR through the usual client communication processes. In some cases, updates to product offering documents to meet the disclosure regulation will coincide with product changes. In these instances such changes may be subject to a notice period.

7. I have a separately managed account, how will my account be impacted ?

Investors who have a separately managed account will be informed individually in advance of the deadline of the enhanced disclosure requirements. No changes are required or anticipated to the way that existing separately managed accounts are managed.

8. Where can I find more information about MSIM's sustainability policies ?

MSIM's Sustainable Investing Policy, which describe the firm's high-level approach to ESG and sustainable investing, are available on MSIM's Sustainable Investing webpage along with our Engagement and Stewardship Principles, which describe the firm's commitment to active ownership. In addition, MSIM publishes an annual Global Stewardship report, the latest available is our 2019 Global Stewardship Report.

MSIM will be issuing enhanced entity level sustainability disclosures before March 10 2021 to comply with SFDR. In addition to firm/entity level disclosures, MSIM's individual investment teams may also publish information on their team or strategy specific approaches to sustainable investing and engagement/stewardship. Where relevant these resources are also available on msim.com along with other product level information.

For more information about the Sustainable Finance Disclosure Regulation contact

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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.

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.

In general, **equity securities'** values also fluctuate in response to activities specific to a company. Investments in **foreign markets** entail special risks such as 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. **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 portfolio redemptions. In a declining interest-rate environment, the portfolio may generate less income. Longer-term securities may be more sensitive to interest rate changes. **Real estate investments**, including real estate investment trusts, are subject to risks similar to those associated with the direct ownership of real estate.

Alternative investments are speculative, involve a high degree of risk, are highly illiquid, typically have higher fees than other investments, and may engage in the use of leverage, short sales, and derivatives, which may increase the risk of investment loss. 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 its investment.

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