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MORGAN STANLEY INVESTMENT FUNDS
Société d'Investissement à Capital Variable
Registered office: 6B, route de Trèves, L-2633 Senningerberg
R.C.S. Luxembourg: B 29 192
(the "**Company**")

NOTICE TO SHAREHOLDERS

Luxembourg, 23 April 2021

Dear shareholder,

We are writing to you as a holder of shares in one of more of the following funds of the Company (each a "**Fixed Income Fund**" and collectively, the "**Fixed Income Funds**"):

- Morgan Stanley Investment Funds Emerging Markets Corporate Debt Fund;
- Morgan Stanley Investment Funds Emerging Markets Fixed Income Opportunities Fund;
- Morgan Stanley Investment Funds Euro Bond Fund;
- Morgan Stanley Investment Funds Euro Corporate Bond Fund;
- Morgan Stanley Investment Funds Euro Corporate Bond – Duration Hedged Fund;
- Morgan Stanley Investment Funds Euro Strategic Bond Fund;
- Morgan Stanley Investment Funds European Fixed Income Opportunities Fund;
- Morgan Stanley Investment Funds European High Yield Bond Fund;
- Morgan Stanley Investment Funds Global Asset Backed Securities Fund;
- Morgan Stanley Investment Funds Global Fixed Income Opportunities Fund;
- Morgan Stanley Investment Funds Global High Yield Bond Fund;
- Morgan Stanley Investment Funds Short Maturity Euro Bond Fund;
- Morgan Stanley Investment Funds US Dollar Corporate Bond Fund;
- Morgan Stanley Investment Funds US Dollar High Yield Bond Fund; and
- Morgan Stanley Investment Funds US Dollar Short Duration Bond Fund.

The board of directors of the Company (the "**Board**") has decided to proceed with some amendments to the prospectus of the Company (the "**Prospectus**") as disclosed below. These amendments reflect the Board's decision to increase the integration of sustainability factors into the Fixed Income Funds, taking into consideration the SFDR Article 8 Products requirements as noted below.

I. <u>Background</u>

On 27 November 2019, Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector was published (the "**SFDR**"). The SFDR aims to increase the harmonization and transparency towards the end investors with regard to the integration of sustainability risks, the consideration of adverse sustainability impacts, the promotion of environmental or social characteristics and sustainable investment by requiring pre-contractual and ongoing disclosures to end investors.

The SFDR provides high-level definitions and distinguishes between several categorisations of products including "article 8 products" which are financial products that promote, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices ("**SFDR Article 8 Products**").

The Board has decided to amend the investment policies of the Fixed Income Funds. The changes to the investment policies of the Fixed Income Funds are similar as described under II. below, except for

Morgan Stanley Investment Funds Global Asset Backed Securities Fund for which the changes to its investment policy are described under III. below.

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II. Changes to the Fixed Income Funds (except Morgan Stanley Investment Funds Global Asset Backed Securities Fund – please see III. below)

The Board has resolved to amend the Fixed Income Funds' investment policies as follows:

1. Exclusions

Certain investments (except labelled thematic sustainable bonds, or other debt securities that are issued to raise capital specifically for climate-related or environmental projects, under specific conditions) will be excluded from the investment universe of the Fixed Income Funds, including notably:

- any company whose business activity involves the manufacturing or production of (i) controversial weapons, (ii) civilian firearms, and (iii) tobacco;
- any company whose business activity involves the mining and extraction of thermal coal where the company derives more than five per cent (5%) revenue from such business activity.

2. New investment policy disclosures

As a consequence to the above, the investment policies of the Fixed Income Funds will be supplemented by the following language:

"*The Investment Adviser applies proprietary assessment and scoring methodologies that are bespoke to Fixed Income Securities the Fund may invest in, focussed on corporate, sovereign and securitized issuance. Additionally as part of the Investment Adviser's bottom-up, fundamental research process, and in its engagements with issuers, the Investment Adviser incorporates an assessment of sustainability-related risks and opportunities into the assessment process to determine impacts on credit fundamentals, implications for valuation and spreads, and any material aspects that may affect the trading technicalities of the Fixed Income Securities. These criteria may include, but are not limited to ESG themes such as decarbonisation & climate risk, circular economy & waste reduction, diverse & inclusive business and decent work & resilient jobs. The Investment Adviser will monitor core sustainability indicators, including environmental, social and governance assessments from third-party providers, and carbon footprint (measured by carbon intensity, defined as tonnes of CO2 per $1 million revenue for the proportion of the Fund invested in bonds issued by corporates) in order to measure and evaluate the contribution of the Fixed Income Securities to the ESG themes described above. The indicators will be measured and evaluated at least on an annual basis.*

The Investment Adviser also deploys a proprietary assessment framework for labelled thematic sustainable bonds, through which the robustness, impact and transparency of such instruments are evaluated.

The Investment Adviser promotes the low carbon transition through excluding corporate issuers for which thermal coal production is a core business, and promotes human life through excluding products that are detrimental to health and wellbeing, specifically tobacco, controversial weapons and civilian firearms manufacturing. Accordingly, investments shall not knowingly include any company whose business activity involves the following:

- *manufacturing or production of controversial weapons;*
- *manufacturing or production of civilian firearms; and*
- *manufacturing or production of tobacco.*

With respect to fossil fuel activities specifically, the Investment Adviser may engage company *management around the topics of decarbonisation and climate risk, as well as corporate governance practices and what it deems to be materially important other environmental and/or social issues facing a company. Investments shall not knowingly include any company whose business activity involves the mining and extraction of thermal coal, where the company derives >5% revenue from such business activity.*

The exceptions to the above is that the Fund may invest in labelled thematic sustainable bonds, or other debt securities that are issued to raise capital specifically for climate-related or environmental projects, which are issued by issuers that would otherwise be subject to this fossil fuel exclusion, so long as it has been determined that the objectives of such instruments are consistent with a reduction by the issuer in its carbon emissions. Investment in such instruments will be subject to diligence by the Investment Adviser. The Fund may invest in issuers who may not themselves contribute to the specific environmental or social characteristics promoted by the financial product such as hedging instruments, unscreened investments for diversification purposes, investments for which data are lacking or cash held as ancillary liquidity.

In addition to the above sectoral exclusions, the Investment Adviser monitors business practices on an ongoing basis, through data on ESG controversies and standards screening sourced from third party providers. The Investment Adviser will consider controversy cases that it views as being very severe based on ratings by relevant ESG data providers, and failures to comply with the UN Global Compact or the ILO fundamental principles, although such incidents will not automatically result in exclusion from the portfolio.

Further to the above, the Investment Adviser may, at its discretion, elect to apply additional ESG-related investment restrictions over time that it believes are consistent with its investment objectives. Such additional restrictions will be disclosed as they are implemented on www.morganstanleyinvestmentfunds.com and on www.msim.com.

Investments that are held by the Fund which as a result of the application of the ESG criteria above 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 Investment Adviser, taking into account the best interests of the Shareholders of the Fund. The Investment Adviser uses third-party data and in some cases data on specific issuers, ESG themes or the exclusions noted above may not be available and/or may be estimated by the Investment Adviser using internal methodologies or reasonable estimates. The methodologies used by different data providers may also vary and may result in different scores."

In addition, the current paragraph "*The investment process takes into account information about ESG issues when making investment decisions. The Investment Adviser may engage company management around corporate governance practices as well as what it deems to be materially important environmental and/or social issues facing a company.*" will be deleted from the investment policies of the Fixed Income Funds with the exception of Morgan Stanley Investment Funds Global Fixed Income Opportunities Fund which will see the following paragraph deleted from its investment policy instead: "*The investment process may consider information about ESG issues in its bottom-up stock selection process when making investment decisions. The Investment Adviser may engage with company management regarding corporate governance practices as well as what the Investment Adviser deems to be materially important environmental and/or social issues facing a company.*"

III. Changes to the Morgan Stanley Investment Funds Global Asset Backed Securities Fund

The Board has resolved to amend the Morgan Stanley Investment Funds Global Asset Backed Securities Fund's investment policy as follows:

1. Exclusions

Certain investments will be excluded from the investment universe of the Morgan Stanley Investment Funds Global Asset Backed Securities Fund, including issuers of securitisation involved 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; and
- fraudulent behaviour.

2. <u>New investment policy disclosures</u>

As a consequence to the above, the investment policy of the Morgan Stanley Investment Funds Global Asset Backed Securities Fund will be supplemented by the following language:

"*The Investment Adviser applies proprietary assessment and scoring methodologies that are bespoke to Fixed Income Securities the Fund will invest in. Additionally, as part of the Investment Adviser's bottom-up, fundamental research process, and in its engagements with issuers, lenders and servicers, the Investment Adviser incorporates an assessment of sustainability-related risks and opportunities into the assessment process to determine impacts on credit fundamentals, implications for valuation and spreads, and any material aspects that may affect the trading technicalities of the Fixed Income Securities. The Investment Adviser also deploys a proprietary assessment framework for labelled thematic sustainable bonds, through which the robustness, impact and transparency of such instruments are evaluated.*

The Fund promotes sustainable and responsible business practices by issuers of securitisations. In order to do this, the Fund shall not knowingly purchase any securitisation where the Investment Adviser has perceived any of the following which are directly related to the issuer of a securitisation:

- *predatory lending practices;*
- *breaches in compliance of standards of the Consumer Financial Protection Bureau (CFPB);*
- *severe malpractice in payment collection processes and foreclosure practices; and*
- *fraudulent behaviour.*

The Investment Adviser uses third-party data and in some cases data on specific issuers. ESG themes or the exclusions noted above may not be available and/or may be estimated by the Investment Adviser using internal methodologies or reasonable estimates, using best efforts and in good faith. The methodologies used by different data providers may also vary and may result in different scores.

Further to the above, the Investment Adviser may, in its discretion, elect to apply additional ESG-related investment restrictions over time that it believes are consistent with its investment objectives. Such additional restrictions will be disclosed as they are implemented on www.morganstanleyinvestmentfunds.com and on www.msim.com."

In addition, the current paragraph "*The investment process takes into account information about ESG issues when making investment decisions. The Investment Adviser may engage company management around corporate governance practices as well as what it deems to be materially important environmental and/or social issues facing a company.*" will be deleted.

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The above-mentioned changes listed under II. and III. will be effective as of 1 July 2021 and are included in the version of the Prospectus dated April 2021.

Your options

1. If you agree to the changes, you do not need to take any action. The changes will automatically go into effect for the Fixed Income Funds as of 1 July 2021.

2. If you disagree with the amendments noted above, you may either:

a) Convert your Shares into another Fund. Any applications for conversion must be received by 1 pm CET on 24 May 2021 and be made in accordance with section 2.4 "*Conversion of Shares*" of the

Prospectus. Please ensure that you read the KIID for any Fund that you are considering converting into and seek advice from your financial adviser if you are unsure about the action you should take.

Or,

b) Redeem your investment. Any applications for redemption must be received by 1 pm CET on 24 May 2021.

Conversions or redemptions will be processed free of charge, with the exception of any applicable Contingent Deferred Sales Charges ("**CDSC**"), at the relevant net asset value per share on the Dealing Day on which the relevant shares are redeemed or converted, in accordance with the terms of the Prospectus.

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A copy of this new Prospectus is available upon request at the registered office of the Company.

Capitalised terms used in this notice shall have the meaning ascribed to them in the current Prospectus, unless the context otherwise requires.

The Board accepts responsibility for the accuracy of the information contained in this notice. The Prospectus and the relevant Key Investor Information Document are available to investors, free of charge, at the registered office of the Company or at the offices of foreign representatives.

Should you have any questions or concerns about the foregoing, please contact the Company at its registered office in Luxembourg, the Investment Adviser of the Company or the representative of the Company in your jurisdiction. You should inform yourself of, and where appropriate take advice on, the tax consequences of the foregoing in your country of citizenship, residence or domicile.

Yours sincerely

The Board