

Marketing Communication

## SFDR Article 8 Website Disclosure

# MS INVF Euro Strategic Bond Fund

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DECEMBER 2022

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## SFDR Article 8 Website Disclosure

**Product name:** *Euro Strategic Bond Fund (the "Fund")*

**A fund of Morgan Stanley Investment Funds**

**Legal entity identifier:** *WJ0VQQOXBXWTMJ8MSW75*

## No Sustainable investment objective

This financial product promotes environmental or social characteristics, but does not have as its objective sustainable investment.

The Fund aims to invest a minimum proportion of 30% of its assets in sustainable investments.

The Fund seeks to ensure that the sustainable investments of the Fund do not cause significant harm to relevant environmental or social sustainable investment objectives by:

- testing whether the investment meets the thresholds set by the Investment Adviser for each of the PAI indicators which are mandatory for the Investment Adviser to consider under the EU SFDR rules and which are relevant to the investment; and
- ensuring that the sustainable investments of the Fund are aligned with the OECD Guidelines for Multinational Enterprises and the UN Principles on Business and Human Rights.

## Environmental or social characteristics of the financial product

The Fund promotes the environmental characteristic of climate change mitigation by excluding investments in certain types of fossil fuels. In addition, the Fund promotes the social characteristic of avoiding investments in activities which can cause harm to human health and wellbeing, in sovereign issuers that significantly violate social rights, and securitisations that violate responsible business or lending practices.

Further detail on the nature of these exclusions is set out below (in response to the section below titled, "*Investment Strategy*").

The Fund also aims to make a minimum of 30% sustainable investments in:

- Corporate issuers whose business practices, products or solutions, make a net positive contribution towards United Nations' Sustainable Development Goals ("**SDGs**");
- Sovereign issuers with ESG scores in the top-2 ranks according to the Investment Adviser's proprietary scoring methodology, associated with positive environmental or social attributes; or
- Sustainable Bonds, from any type of issuer, which make a positive environmental or social contribution through their use of proceeds, as explained in response to the section below titled, "*Methodologies*".

## Investment Strategy

The Fund aims to provide an attractive rate of relative return, measured in Euro, through investments in high quality issues of Euro denominated fixed income securities whether issued by corporations, government or government guaranteed issuers, while reducing exposure to sustainability risks through exclusionary screening of selected fossil fuels and of activities which can cause dangers to human health and wellbeing, of sovereign issuers that violate social rights, and of securitisations that violate responsible business or lending practices.

**Investment strategy used to meet the environmental and social characteristics promoted by the Fund**

The binding elements of the investment strategy are described in the table below.

The criteria are implemented and monitored by the Investment Adviser using a combination of third-party data and in-house research.

<b>Binding criteria</b>	
<p><b>The Fund will not invest in corporate issuers which:</b></p>	<p><b><u>Derive any revenue from any of the following activities:</u></b></p> <ul style="list-style-type: none"> <li>• Controversial weapons manufacturing or retail (anti-personnel landmines, cluster munitions, biological or chemical weapons, and nuclear weapons);</li> <li>• Civilian firearms manufacturing or retail;</li> <li>• Tobacco manufacturing; or</li> </ul> <p><b><u>Derive more than 5% revenue from any of the following activities:</u></b></p> <ul style="list-style-type: none"> <li>• Thermal coal mining and extraction. The Fund may, as an exception, invest in labelled Sustainable Bonds issued by fossil fuel companies, which are intended to raise proceeds specifically for projects that promote positive environmental contributions mitigating the adverse sustainability impact of coal, such as renewable energy or energy efficiency, based on information available in the bond issuance documentation.</li> </ul> <p>These exclusions are implemented in line with the Fund's Restriction Screening &amp; ESG policy, which can be found on <a href="http://www.morganstanleyinvestmentfunds.com">www.morganstanleyinvestmentfunds.com</a> and on <a href="http://www.morganstanley.com/im">www.morganstanley.com/im</a>.</p>
<p><b>The Fund will not invest in sovereign issuers which:</b></p>	<p>Are in the bottom-10% ranked countries for social violations, based on the Investment Adviser's custom indicator.</p> <p>The social violations custom indicator is calculated by the Investment Adviser taking into consideration a country's performance on issues including, but not limited to, the application of human rights and civil liberties, the quality of contract enforcement and security, freedom of expression, association and free media, as assessed by underlying data from third parties.</p> <p>Any investments in sovereign issuers exhibiting positive momentum with respect to such violations, shall not be subject to the purchase restriction. For example, if a country is in the process of making significant remediation efforts, such as through electoral or policy reforms and engagement with civil society, with regard to any social violations, the Investment Adviser may not exclude the investment from the Fund, provided this is kept under review by the Investment Adviser.</p>
<p><b>The Fund will not invest in securitisations in which:</b></p>	<ul style="list-style-type: none"> <li>• The underlying loans show evidence of predatory lending, as determined by the applicable usury laws, and in the context of market rates and borrower's risk profile;*</li> <li>• The lender or servicer of the underlying assets has committed a severe breach of consumer protection standards: <ul style="list-style-type: none"> <li>○ as established by the Consumer Financial Protection Bureau (CFPB) in the United States; or</li> <li>○ as established by any relevant regulatory and supervisory agency in the jurisdiction where the securitisation's originator and/or collateral are located; if the breach relates to the securitisation's underlying collateral, underwriting and servicing practices, unless there is evidence of the breach having been or being remediated;** or</li> </ul> </li> <li>• The originator, lender or servicers has been involved in controversy cases related to business ethics and fraud that the Investment</li> </ul>

	<p>Adviser views as “Very Severe” based on data by relevant ESG data providers, and where the Investment Adviser considers appropriate remedial action has not been taken.</p> <p>* A loan is considered a predatory loan if:</p> <ul style="list-style-type: none"> <li>• Interest rates do not comply with U.S. usury laws or the equivalent in other jurisdictions; or</li> <li>• Interest rates being offered exceed a limit for which the Investment Adviser deems to be exceedingly higher than the industry standard. The Investment Adviser may choose to proceed with an investment where interest rates where interest rates surpass this level if following enhanced due diligence (including through direct engagement with the lending team and/or servicing department on the securitisation deal), the Investment Adviser determines that access to the loan is still beneficial to the borrower when taking into consideration its risk profile and alternative borrowing options. The interest rate levels which are considered industry standard are subject to periodic review by the Investment Adviser, based on the prevailing market conditions and prevailing rates across the industry at the time.</li> </ul> <p>** This exclusion criterion does not apply to lenders or servicers of U.S. government sponsored mortgage-backed securities, as their compliance of such securitisations with local regulatory standards is already monitored by the U.S. government on an ongoing basis. Such investments will be considered to fall within “#1 Aligned with E/S characteristics”, in response to the section below titled, “<i>Proportion of investments</i>”</p>
<p><b>Sustainable investments</b></p>	<p>The Fund will maintain a minimum of 30% of sustainable investments, which meet the criteria as set out in response to the section below titled, “<i>Methodologies</i>”</p>

The Investment Adviser may apply additional ESG-related investment restrictions over time that it believes are consistent with the Fund’s investment objectives and its environmental and social characteristics. Such additional investment restrictions will be disclosed as they are implemented on [www.morganstanleyinvestmentfunds.com](http://www.morganstanleyinvestmentfunds.com) and on [www.morganstanley.com/im](http://www.morganstanley.com/im).

In addition to the binding ESG considerations, the Fund integrates ESG considerations in the investment decision-making process to support its environmental and social characteristics on a non-binding basis, based on the Investment Adviser’s in-house research and methodologies and on third-party data.

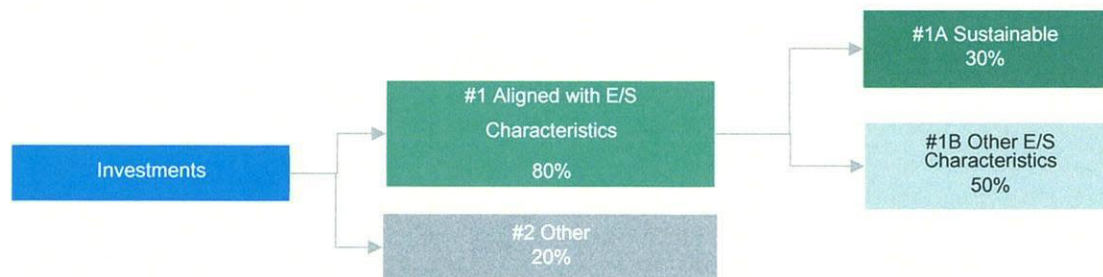
**Good governance of investee companies**

As part of its bottom-up, fundamental research process, the Investment Adviser systematically incorporates the assessment of an issuer’s corporate governance and business practices, including but not limited to evidence of sound management structures and employee relations, fair remuneration of staff, and tax compliance, in order to ensure that every investee company follows good governance practices.

This is done through the monitoring of data on governance-related, as well as on other environmental and/or social factors and controversies, sourced from third party providers, through in-house research, and through engagement with the management of selected issuers on corporate governance and disclosure issues.

In addition, the Fund’s sustainable investments exclude any company that is involved in very severe governance-related controversies.

## Proportion of investments



**#1 Aligned with E/S characteristics** includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

**#2 Other** includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

The category **#1 Aligned with E/S characteristics** covers:

- The sub-category **#1A Sustainable** covers sustainable investments with environmental or social objectives
- The sub-category **#1B Other E/S characteristics** covers investments aligned with the environmental or social characteristics that do not qualify as sustainable investments

The exclusions (as described above) will be applied to at least 80% of the portfolio. The Fund also expects to allocate a minimum of 30% of its assets to sustainable investments.

Of the 80% of investments which are aligned with environmental or social characteristics, most of this comprises of investments which offer direct exposure to investee entities, although a small portion of such 80% may comprise of securitisations which offer indirect exposure to underlying loan assets.

These percentages are measured according to the value of the investments.

### Sustainable investments

The Fund may make sustainable investments which contribute to either environmental or social themes and does not commit to any minimum share of sustainable investments which contribute to an environmental (as opposed to social) objective.

### "#2 Other" investments

It is anticipated that up to 20% of the Fund's assets may be invested in hedging instruments for efficient portfolio management and in cash held as ancillary liquidity. These instruments are included in the "#2 Other" category and are not subject to any environmental or social screening or any minimum environmental or social safeguards.

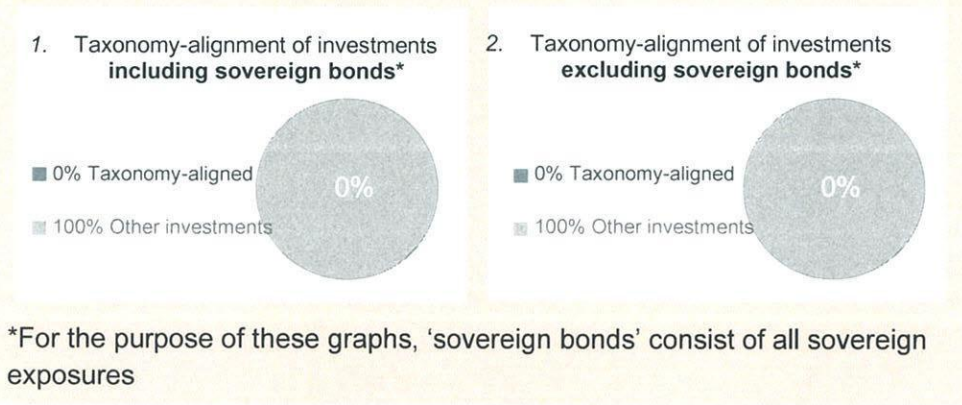
### Taxonomy disclosures

The Fund's sustainable investments do not take into account the EU criteria for environmentally sustainable economic activities within the meaning of the Taxonomy Regulation. Further information can be found in the environmental and social characteristics section.

Although some of these sustainable investments may be Taxonomy aligned, due to lack of available data regarding the Taxonomy alignment of the underlying securities, the Investment Adviser has not been able to confirm whether these investments are in fact Taxonomy aligned and accordingly will not consider them as such in calculations until this data is reported on or otherwise becomes more reliable. As such, the Investment

Adviser uses its own methodology to determine whether certain investments are sustainable in accordance with the SFDR sustainable investment test, and then invests in such assets for the Fund.

**The two graphs below show in green the minimum percentage of investments that are aligned with the EU Taxonomy. As there is no appropriate methodology to determine the Taxonomy-alignment of sovereign bonds\*, the first graph shows the Taxonomy-alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy-alignment only in relation to the investments of the financial product other than sovereign bonds.**



\*For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures

## Monitoring of environmental or social characteristics

The sustainability indicators of the Fund will be measured and evaluated on an ongoing basis, using a combination of tools / screens, portfolio surveillance tools and manual desk reviews and analyses.

The investment process is subject to regular review, as part of a control and monitoring framework implemented by the Investment Adviser. The Investment Adviser's Compliance, Risk and Portfolio Surveillance teams collaborate with the investment team to conduct regular portfolio/performance reviews and systemic checks to ensure compliance with portfolio investment objectives and environmental and social characteristics, taking into account changing market conditions, information and strategy developments.

Investments that are held by the Fund but become restricted because they breach the exclusion criteria set out above 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, considering the best interests of the shareholders of the Fund.

If the Investment Adviser considers that the portfolio or an investment no longer meets the Fund's other binding environmental or social criteria, the Investment Adviser will take such remedial action as it determines to be appropriate. Any such remedial action will be taken over a time period to be determined by the Investment Adviser, considering the relevant circumstances and best interests of the shareholders of the Fund.

## Methodologies

The sustainability indicator used to measure the attainment of the Fund's environmental and social characteristics is the Fund's exposure, in percentage market value, to issuers that violate any of the exclusion criteria, as described in the section above titled, "Investment strategy".

## Sustainable investments

The Fund's sustainable investments will fall within one of the following categories:

- Green, Social or Sustainability Bonds ("**Sustainable Bonds**"), as labelled in the securities' documentation, where the issuer commits to allocate the proceeds to projects making a positive environmental or social contribution. This includes, but is not limited to, bonds that align with the International Capital Market Association (ICMA)'s Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines, and bonds which have been assessed through the Investment Adviser's proprietary Sustainable Bond evaluation framework. Sustainable Bonds mobilise financing directly towards a multiplicity of environmental and social projects whose focus spans across a number of sustainability objectives. Examples include, but are not limited to, financing for renewable energy, energy efficiency, clean transportation, affordable housing, and financial inclusion projects. The specific objectives to which the Sustainable Bonds contribute depend on the eligible environmental and social project categories of each security.
- Bonds from corporate issuers whose business practices, products or solutions, make a net positive contribution towards the SDGs. The SDGs were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet and ensure that by 2030 all people enjoy peace and prosperity. The Investment Adviser defines positive contribution to the SDGs as a net positive aggregate alignment score across all the SDGs (i.e., scores measuring positive contribution to individual SDGs have to, in total, be greater than the total of any negative contribution scores), based on third-party data. The Investment Adviser will also only include issuers which have sufficient positive SDG alignment (in the Investment Adviser's view) with at least one individual SDG, and which do not have any material mis-alignments (in the Investment Adviser's view) on any of the SDGs.
- Bonds from sovereign issuers with an ESG rank of 4 or 5, in a 1-5 range where 5 is best, based on the Investment Adviser's proprietary ESG scoring methodology. Ranks of 4 and 5 reflect a country's positive contribution towards environmental and social themes such as decarbonisation, forestry conservation, promotion of education, health and wellbeing, and good living standards. The Investment Adviser will, however, not treat the investment as sustainable if the sovereign issuer ranked 4 or 5 has experienced recent negative momentum as assessed through in-house research, which is not captured by ESG data providers. For example, this may include circumstances whereif a country is facing significant political and/or social instability.

## PAI indicators

The "do no significant harm" methodology applied by the Investment Adviser on sustainable investments seeks to exclude investments that cause harm to any of the PAI indicators which are mandatory for the Investment Adviser to consider under the EU SFDR rules, and which are relevant to the investment.

The Investment Adviser has determined specific metrics and quantitative thresholds for what constitutes significant harm to screen PAI indicators that are relevant to the investment, using third-party data as well as in-house research. The thresholds are set: (i) on an absolute value basis; (ii) on a relative basis in the context of the investment universe; or (iii) using pass/fail scores. Different metrics or thresholds may apply to issuers located in developed markets and in emerging markets, respectively. This is intended to reflect the different extent to which the Investment Adviser deems that meeting minimum sustainability standards in these markets is currently achievable. In addition, different relative thresholds may apply to similar indicators: for example, the Investment Adviser currently applies a lower threshold to determine significant adverse impact with respect to scope 3 emissions intensity as compared to scope 1 and 2 emissions intensity. This is because: (i) companies have less control over their indirect emissions; and (ii) data estimates for scope 3 emissions, which currently prevail over reported data compared to scope 1 and 2 emissions, may result in a less accurate PAI assessment.

The Investment Adviser may use reasonable proxy indicators sourced from third parties to address the current lack of data for the certain PAI indicators.

The Investment Adviser's use of proxy indicators will be kept under review and will be replaced by PAI data from third-party data providers, when the Investment Adviser determines that sufficiently reliable data has become available.

The Investment Adviser generally conducts the PAI assessment at the issuer level. However, where appropriate the assessment may be done at the security level in whole or in part. For instance, in the case of Sustainable Bonds, as defined above, the PAI indicators that are directly related to the sustainability factors targeted by the bond's use of proceeds will be assessed at the security level, through the Investment Adviser's proprietary Sustainable Bond Evaluation Framework. As an example, the Fund may invest in a Green Bond issued by a utility company that has a negative assessment of the PAI indicators related to GHG emissions and/or GHG intensity, as long as the Investment Adviser evaluates that the issuer has a credible strategy to reduce its GHG emissions, and that the Green Bond specifically contributes towards such goal. Other PAI indicators that are unrelated to the Sustainable Bond's use of proceeds are still assessed at the issuer level.

The Fund's PAI assessment is supported, on a qualitative basis, by the Investment Adviser's engagement with selected issuers on their corporate governance practices, as well as on other material sustainability issues related to the SDGs, in line with the Investment Adviser's Fixed Income Engagement Strategy, available on [www.morganstanley.com/im](http://www.morganstanley.com/im).

#### **Alignment with OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights**

The Fund's sustainable investments exclude issuers which have experienced very severe controversies that are deemed to violate the UN Global Compact, the UN Guiding Principles on Business and Human Rights, or the ILO Fundamental Principles, and issuers with very severe controversies related to violations of the OECD Guidelines for Multinational Enterprises. This screening is done using third-party data.

## **Data sources and processing**

The Investment Adviser leverages ESG data from various external vendors. This data is collected and stored in Morgan Stanley's centralized ESG data repository, to allow any Morgan Stanley business unit, including MSIM Investment teams, to access the information for research, portfolio analysis and construction, and client and regulatory reporting.

MSIM assesses data quality by liaising with the different data providers to obtain updates to the datasets as the regulation evolves. They also ensure that ESG data adheres to the Firm's data governance and quality standards through procedures to assess the appropriateness and delivery of data feeds. MSIM also conducts as appropriate, due diligence on the external data providers in order to assess whether their methodologies are appropriate for the intended use case.

Due to gaps in data coverage, a small proportion of the data which is used to assess alignment with E/S characteristics may be estimated data. The Investment Adviser will keep data gaps under review and replace the estimated data with third-party data sources or data obtained by other means (e.g., directly from investee companies) when available.

The SFDR dataset definitions which this Fund uses are listed below:



Data Set	Definition
Screening/Controversies	Business practices and products/services
SDG	Revenue and/or operational contribution or obstruction towards the UN SDGs
Diversity & Inclusion	Board level diversity metrics and corporate policies
Environmental Metrics	Water use, waste generation, and local pollution
Carbon Metrics	Emissions, Fossil Fuel, and Power Generation
Gender Equality	Gender-related metrics and policies

## Limitations to methodologies and data

The Investment Adviser uses data to assess the PAI indicators from third-party providers. The Fund may use reasonable proxy data for PAI indicators where the Investment Adviser considers that the data is not widely or reliably available. Any use of proxies will be kept under review and will be replaced by data from third-party data providers, when the Investment Adviser determines that sufficiently reliable data has become available. This limitation does not affect how the environmental and social characteristics promoted by the Fund are met because any proxies used are reviewed and assessed by the Investment Adviser to ensure that they are appropriate substitutes for the relevant PAI indicator.

Currently the Fund does not use proxy data for PAI indicators and this document will be updated if the Fund does need to use reasonable proxy data for PAI indicators.

Additionally, the below outlines some of the key themes and commonalities which contribute to limitations in the methodologies and/or data and/or poor data quality of the Fund:

- methodology differences between data providers
- discrepancies in reported vs. estimated carbon emissions data such as Scope 3 emissions
- data lags i.e., reporting timelines for data may not align with SFDR reporting timelines
- coverage gaps across asset classes, geographies, and market capitalisations

Despite these limitations, which impact all consumers of ESG data and are not particular to MSIM, the Investment Adviser takes reasonable steps to mitigate the risk of these limitations hindering the Fund's ability to meet its environmental and social characteristics – these include (as appropriate), assessing vendor data quality and methodologies, comparing ESG data points between vendors or against its own internal analyses and using appropriate estimations to manage data gaps.

## Due diligence

The Investment Adviser relies on internal research to derive its own independent assessment of an issuer's value and credit worthiness, using third-party agency and sell side research as an input.

The Investment Adviser conducts in-depth bottom-up analysis:

- for corporate bonds, to identify bond issuers that meet its investment criteria in terms of competitive position, franchise value and management quality;

- for government bonds, to identify bond issuers that meet its investment criteria that underpin economic progress and resilience of sovereign nations, and which the Investment Adviser considers most material to the performance of their debt; and
- for securitisations, to analyse each security's underlying loans or collateral covering factors such as location, occupancy rates, borrowers' credit availability and history of defaults.

As part of this process, the Investment Adviser also conducts bottom-up due diligence on the Fund's investments to identify any sustainability risks that could impact the value of the assets, which is considered by the Investment Adviser when making investment decisions on a non-binding basis. The due diligence process is based on in-house research and third-party data.

In addition, the Investment Adviser's Risk team conducts top-down sustainability investment risk analysis on the Fund. This information is monitored on an ongoing basis and monthly reports are provided to the Investment Adviser's senior management, and are taken into account as a non-binding element of the Fund's investment decision making processes.

## Engagement policies

The Investment Adviser may engage with selected bond issuers on their corporate and sovereign governance practices, as well as on other material sustainability issues related to the SDGs, including sustainability-related controversies or breaches of international norms and principles. Such engagement activities support, on a qualitative and non-binding basis, the Fund's PAI and good governance assessment.

A non-exhaustive list of examples of the Investment Adviser's engagement priorities are:

- Climate Change – promote policies to hasten energy transition to clean and renewable sources of energy and to address the physical risks of climate change;
- Diversity – advance women and minorities at board and management levels, and promote diversity and inclusion at all levels of the workforce;
- Labour and Human Rights – strengthen performance in company operations and supply chains; and
- Disclosure – improve disclosure of material ESG matters.

The Investment Adviser has developed a Fixed Income Engagement Strategy, available on [www.morganstanley.com/im](http://www.morganstanley.com/im), to structure and conduct engagement meetings with bond issuers.

## Designated reference benchmark

The Fund has not designated a reference benchmark for the purpose of attaining its environmental or social characteristics.

**Euro Strategic Bond Fund**

# **Website Disclosure Summaries (Multiple Languages)**

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## SFDR Article 8 Website Disclosure

**Product name:** *Euro Strategic Bond Fund (the "Fund")*

**A fund of Morgan Stanley Investment Funds**

**Legal entity identifier:**

WJ0VQQOXBW7M8MSW75

### Summary

#### No Sustainable investment objective

This financial product promotes environmental and social characteristics, but does not have as its objective sustainable investment.

The Fund will have a minimum proportion of 30% sustainable investments.

The "do no significant harm" methodology applied by the Investment Adviser seeks to ensure that the Fund's sustainable investments do not cause significant harm to any of the mandatory principal adverse impact ("PAI") indicators in the EU SFDR rules that are relevant to the investment and comply with certain minimum social safeguards.

#### Environmental or social characteristics of the financial product

The Fund promotes the environmental characteristic of climate change mitigation by excluding investments in certain types of fossil fuels. In addition, the Fund promotes the social characteristic of avoiding investments in activities which can cause harm to human health and wellbeing, in sovereign issuers that significantly violate social rights, and securitisations that violate responsible business or lending practices.

In addition, a proportion of the Fund's investments will be sustainable investments in: (a) corporate issuers whose business practices, products or solutions make a net positive contribution towards United Nations' Sustainable Development Goals ("SDGs"); (b) sovereign issuers associated with positive environmental or social attributes based on their ESG scores; or (c) Green, Social or Sustainability Bonds ("**Sustainable Bonds**") that make a positive environmental or social contribution through their use of proceeds.

#### Investment Strategy

The Fund's objective is to generate a return through investments primarily in Euro denominated Fixed Income securities.

The Fund meets its environmental and social characteristics through exclusions of:

- a) corporate issuers which: (i) generate any revenue from controversial weapons, civilian firearms manufacturing or retail or tobacco manufacturing; or (ii) derive 5% or more of their revenue from thermal coal mining and extraction;
- b) sovereign issuers which are in the bottom-10% ranked countries for social violations, based on the Investment Adviser's custom indicator; and
- c) securitisations linked with certain negative behaviours including predatory lending practices, breach of certain consumer protection standards fraudulent behaviour.

In addition, the Fund aims to invest a minimum of 30% of its assets in sustainable investments (as described above).

As part of its bottom-up, fundamental research process, the Investment Adviser systematically incorporates the assessment of an issuer's corporate governance and business practices.

#### Proportion of Investments

<b>Aligned with E/S characteristics</b>	<b>80%</b>
<i>Sustainable investments</i>	30%
<i>Taxonomy aligned</i>	-
<i>Other environmental</i>	-
<i>Social</i>	-
<i>Other E/S characteristics</i>	50%
<b>Other investments</b>	<b>20%</b>

The Fund expects to allocate a minimum of 30% of its assets to sustainable investments.

80% of investments are aligned with environmental or social characteristics. Most of this comprises of investments which offer direct exposure to investee entities, although a portion of such 80% may comprise of securitisations which offer indirect exposure to underlying assets. These percentages are measured according to the value of the investments.

#### Monitoring of environmental or social characteristics

The environmental and social characteristics are monitored using a combination of tools / screens, portfolio surveillance tools and manual desk reviews and analyses.

The Investment Adviser's Compliance, Risk and Portfolio Surveillance teams collaborate with the investment team to conduct regular portfolio/performance reviews and systemic checks to ensure compliance with portfolio investment objectives and environmental and social characteristics.

## Methodologies

Compliance with the exclusionary screens is measured based on the percentage of the Fund's investments which breach the exclusionary screens.

The sustainable investments made by the Fund are assessed as described above in relation to 'environmental or social characteristics of the financial product'.

## Data sources and processing

The Investment Adviser leverages ESG data from various external vendors. This data is collected and stored in Morgan Stanley's centralized ESG data repository, to allow any Morgan Stanley business unit, including MSIM Investment teams, to access the information for research, portfolio analysis and construction, and client and regulatory reporting.

Due to gaps in data coverage, a small proportion of the data which is used to assess alignment with E/S characteristics may be estimated data.

## Limitations to methodologies and data

The Fund may use reasonable proxy data for PAI indicators where the Investment Adviser considers that the data is not widely or reliably available. For further details of data limitations, please see the full website disclosure.

The Investment Adviser takes reasonable steps to ensure that the Fund is able to meet its environmental and social characteristics despite these limitations, including reviewing and assessing proxies to ensure they are appropriate substitutes for the ESG themes promoted by the relevant PAI indicator.

In addition, where third-party screening data in relation to the Fund's exclusions is not available for an issuer, the Investment Adviser will apply its best efforts to verify, through in-house research, that the issuer does not violate the Fund's binding criteria.

## Due diligence

The Investment Adviser relies on internal research to derive its own independent assessment of an issuer's value and credit worthiness, using third-party agency and sell side research as an input. The Investment Adviser conducts in-depth bottom-up analysis:

- for corporate bonds, to identify bond issuers that meet its investment criteria in terms of competitive position, franchise value and management quality;
- for government bonds, to identify bond issuers that meet its investment criteria that underpin economic progress and resilience of sovereign nations, and which the Investment Adviser considers most material to the performance of their debt; and
- for securitisations, to analyse each security's underlying loans or collateral covering factors such as location, occupancy rates, borrowers' credit availability and history of defaults.

As part of this process, the Investment Adviser also conducts bottom-up due diligence on the Fund's investments to identify any sustainability risks that could impact the value of the assets, which is considered by the Investment Adviser when making investment decisions on a non-binding basis. The due diligence process is based on in-house research and third-party data.

In addition, the Investment Adviser's Risk team conducts top-down sustainability investment risk analysis on the Fund. This information is monitored on an ongoing basis and monthly reports are provided to the Investment Adviser's senior management, and are taken into account as a non-binding element of the Fund's investment decision making processes.

## Engagement policies

The Investment Adviser may engage with selected bond issuers on their corporate and sovereign governance practices, as well as on other material sustainability issues related to the SDGs, including sustainability-related controversies or breaches of international norms and principles. Such engagement activities support, on a qualitative and non-binding basis, the Fund's PAI and good governance assessment.

## Designated reference benchmark

The Fund has not designated a reference benchmark for the purpose of attaining its environmental or social characteristics.

## Informativa per i prodotti Articolo 8 SFDR del sito web

**Nome del prodotto:** *Euro Strategic Bond Fund (il "Comparto")*

**Un comparto di Morgan Stanley Investment Funds**

**Identificativo della persona giuridica:**

WJ0VQQOXBW7MJ8MSW75

### Sintesi

#### Nessun obiettivo d'investimento sostenibile

Questo prodotto finanziario promuove caratteristiche ambientali e sociali, ma non persegue l'obiettivo di un investimento sostenibile.

Il Comparto avrà una percentuale minima del 30% di investimenti sostenibili.

La metodologia "non arrecare un danno significativo" (DNSH, do no significant harm) applicata dal Consulente d'investimento del Comparto mira a garantire che gli investimenti sostenibili del Comparto non solo non causino danni significativi ad alcun indicatore obbligatorio dei principali effetti negativi ("PAI") ai sensi delle norme del Regolamento UE SFDR e applicabile all'investimento, ma rispettino anche alcune garanzie sociali minime.

#### Caratteristiche ambientali o sociali del prodotto finanziario

Il Comparto promuove la caratteristica ambientale della lotta ai cambiamenti climatici escludendo gli investimenti in determinati tipi di combustibili fossili. Il Comparto promuove inoltre la caratteristica sociale rappresentata dalla scelta di evitare di investire in attività suscettibili di arrecare danni alla salute e al benessere dell'uomo, in emittenti sovrani che violano gravemente i diritti sociali e in prodotti cartolarizzati che violano prassi aziendali o di finanziamento responsabili.

Inoltre, il Comparto avrà una percentuale di investimenti sostenibili in: (a) emittenti societari con prassi aziendali, prodotti o soluzioni che apportano un contributo positivo netto agli Obiettivi di Sviluppo Sostenibile delle Nazioni Unite. ("SDG"); (b) emittenti sovrani che, sulla base dei punteggi ESG, sono associati a caratteristiche ambientali o sociali positive; (c) investimenti obbligazionari classificati come verdi/sociali/sostenibili ("Obbligazioni sostenibili") che utilizzano i proventi per dare un contributo positivo all'ambiente o alla società.

#### Strategia d'investimento

L'obiettivo del Comparto è quello di generare un rendimento attraverso investimenti in titoli obbligazionari denominati principalmente in euro.

Il Comparto soddisfa le caratteristiche ambientali e sociali operando le seguenti esclusioni:

- emittenti societari che: (i) generano ricavi da armi controverse, dalla produzione o dalla vendita di armi da fuoco per uso civile o dalla fabbricazione di prodotti a base di tabacco; (ii) realizzano il 5% o più

dei ricavi dall'estrazione e dallo sfruttamento del carbone termico;

- emittenti sovrani che, in base all'indicatore elaborato su misura dal Consulente d'investimento, si trovano nel 10% inferiore della classifica dei paesi in cui si verificano violazioni sociali, e
- cartolarizzazioni collegate a determinati condotte negative, tra cui pratiche di prestito predatorie, violazione di determinati standard di protezione dei consumatori e comportamenti fraudolenti.

Inoltre, il Comparto mira a investire almeno il 30% del proprio patrimonio in investimenti sostenibili (come descritto sopra).

Nell'ambito del proprio processo di ricerca fondamentale bottom-up, il Consulente d'investimento integra sistematicamente la valutazione della corporate governance e delle prassi aziendali di un emittente.

#### Quota degli investimenti

<b>Allineati alle caratteristiche E/S</b>	<b>80%</b>
<i>Investimenti sostenibili</i>	30%
<i>Allineati alla tassonomia</i>	-
<i>Altre caratteristiche ambientali</i>	-
<i>Sociali</i>	-
<i>Altre caratteristiche E/S</i>	50%
<b>Altri investimenti</b>	<b>20%</b>

Il Comparto prevede di allocare almeno il 30% del proprio patrimonio negli investimenti sostenibili. L'80% degli investimenti è allineato a caratteristiche ambientali o sociali. La maggior parte di questi investimenti è costituita da investimenti che offrono un'esposizione diretta alle società partecipate, anche se una parte di quell'80% può essere costituita da cartolarizzazioni che offrono un'esposizione indiretta agli attivi sottostanti.

Queste percentuali sono misurate in base al valore degli investimenti.

#### Monitoraggio delle caratteristiche ambientali o sociali

Le caratteristiche ambientali e sociali vengono monitorate utilizzando una combinazione di screening/strumenti, strumenti di monitoraggio del portafoglio e analisi/revisioni della sala operativa. I team responsabili della conformità, del rischio e del monitoraggio del portafoglio del Consulente d'investimento collaborano con il team d'investimento per condurre periodicamente esami del portafoglio/della performance e controlli sistemici per garantire l'aderenza agli obiettivi d'investimento del portafoglio e alle caratteristiche ambientali e sociali.

#### Metodologie

La conformità ai filtri di esclusione viene misurata in base alla percentuale di investimenti del Comparto che viola i filtri di esclusione.

Gli investimenti sostenibili effettuati dal Comparto vengono valutati secondo le modalità sopra descritte in relazione alle "caratteristiche ambientali o sociali del prodotto finanziario".

### Fonti e trattamento dei dati

Il Consulente d'investimento si avvale di dati ESG provenienti da diversi fornitori esterni. Questi dati vengono raccolti e conservati nell'archivio dei dati ESG centralizzato di Morgan Stanley per consentire a qualunque divisione di quest'ultima, ivi compresi i team d'investimento MSIM, di accedere alle informazioni per effettuare ricerche e analisi e occuparsi della costruzione del portafoglio, nonché per fornire a clienti e autorità di regolamentazione le informative richieste. Per via di alcune lacune nella copertura dei dati, una piccola parte dei dati utilizzati per valutare l'allineamento a caratteristiche E/S potrebbe essere costituita da dati stimati.

### Limiti delle metodologie e dei dati

Il Comparto può utilizzare dati surrogati ragionevoli per gli indicatori PAI laddove il Consulente d'investimento ritenga che i dati non siano generalmente disponibili o non siano attendibili. Per maggiori dettagli sui limiti dei dati, si rimanda all'informativa completa presente sul sito web.

Il Consulente d'investimento adotta misure ragionevoli per garantire che il Comparto risponda alle proprie caratteristiche ambientali e sociali nonostante tali limitazioni, conducendo, tra le altre cose, una revisione e una valutazione dei dati surrogati per assicurarsi che siano sostituiti adeguati per i temi ESG promossi dall'indicatore PAI applicabile.

Inoltre, ove per un emittente non fossero disponibili dati di screening forniti da terzi in relazione alle esclusioni del Comparto, il Consulente d'investimento farà del suo meglio per verificare, tramite ricerche interne, che l'emittente non violi i criteri vincolanti del Comparto.

### Dovuta diligenza

Per derivare una valutazione indipendente del valore e del merito di credito di un emittente, il Consulente d'investimento si basa su un'attività di ricerca interna utilizzando i dati di ricerche sell-side e di agenzie terze. Il Consulente d'investimento conduce un'approfondita analisi bottom-up:

- sulle obbligazioni societarie, al fine di individuare gli emittenti obbligazionari che soddisfano i suoi criteri d'investimento in termini di posizionamento competitivo, solidità del marchio e qualità del management;
- sui titoli di Stato, al fine di individuare gli emittenti obbligazionari che soddisfano i suoi criteri di investimento in termini di sostegno al progresso economico e alla resilienza dei paesi sovrani e in termini di rilevanza per la performance del debito di tali paesi;
- sulle cartolarizzazioni, al fine di studiare i prestiti o le garanzie sottostanti a ciascun titolo, tenendo conto di fattori quali l'ubicazione, i tassi di

locazione, la disponibilità di credito dei mutuatari e l'andamento storico delle inadempienze.

Nell'ambito di questo processo, il Consulente d'investimento conduce anche una due diligence bottom-up sugli investimenti del Comparto per individuare eventuali rischi di sostenibilità suscettibili di incidere sul valore degli attivi, tenendone conto al momento di prendere decisioni d'investimento su base non vincolante. Il processo di due diligence si fonda su una ricerca interna e su dati di terzi.

Inoltre, il team di gestione del rischio del Consulente d'investimento esegue un'analisi top-down del rischio d'investimento sulla sostenibilità del Comparto. Queste informazioni vengono monitorate su base continuativa e le relazioni mensili vengono trasmesse al management senior del Consulente d'investimento e prese in considerazione come elemento non vincolante dei processi decisionali d'investimento del Comparto.

### Politiche di impegno

Il Consulente d'investimento può condurre attività di engagement con emittenti obbligazionari selezionati sia in merito alle prassi di governance societaria e sovrana che in merito ad altri aspetti rilevanti sul piano della sostenibilità e relativi agli SDG, ad esempio controversie riguardanti la sostenibilità o violazioni di norme e principi internazionali. Tali attività di engagement contribuiscono, su base qualitativa e non vincolante, alla valutazione dei PAI e della buona governance del Comparto.

### Indice di riferimento designato designato

Per realizzare le proprie caratteristiche ambientali o sociali, il Comparto non ha designato alcun benchmark.

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#### **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.

#### **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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