

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. IF IN DOUBT,  
PLEASE SEEK PROFESSIONAL ADVICE**

## **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 HOLDERS OF SHARE CLASS INDICATOR B SHARES**

Dear Shareholder,

We are writing to you as a holder of Share Class Indicator B Shares ("**B Shares**") in one or more sub-funds ("**Funds**") of the Company.

The Company is making a number of changes to the rights attaching to B Shares in order to simplify how B Shares work. These changes are likely to lead to holders of B Shares having some of their shares converted free of charge into Share Class Indicator A Shares ("**A Shares**"), either as part of the Initial Conversion (as defined below) or as a result of Auto-Conversion (also as defined below) in the future. In addition, distributing B Shares will no longer offer the option of having the income re-invested in additional B Shares. Further information on these changes is set out below.

Shareholders have the option to remain invested in B Shares, to convert their holding of B Shares to a different share class or to redeem their B Shares, in each case as described below. When considering what action you should take, you are recommended to seek your own personal financial advice from an appropriately qualified financial adviser.

#### **Background to B Shares**

B Shares are made available to retail investors through intermediaries. B Shares are subject to a Distribution Fee at the annual rate of 1% of their average daily net asset value, with the exception of the US Dollar Liquidity Fund where the Distribution Fee annual rate is 0.75% of the average daily Net Asset Value. The Distribution Fee is intended to cover the compensation of the intermediary for the financial advisory and execution services offered to the end investor, without any deduction being made from the amount to be invested on behalf of the investor or any separate fee being charged to the investor by the intermediary.

After the fourth anniversary of their issue, B Shares may be converted, at the initiative of the investor, into A Shares. A Shares have the same management fee as B Shares but are not subject to a Distribution Fee.

B Shares that are redeemed or converted into A Shares prior to the fourth anniversary of their issue may bear contingent deferred sales charge ("**CDSC**") at the point of redemption or conversion. When due, CDSC is charged on a sliding scale, depending on how long the B Shares have been in issue. It ranges from 4% for B Shares redeemed or converted in their first year, to 3% in the second year, 2% in the third year and 1% in the fourth year.

#### **Introduction of Auto-Conversion**

The Company is amending the terms of the B Shares to provide that, with effect from 1 July 2018, all B Shares will automatically convert into A Shares on the fourth anniversary of the date on which they were issued or, if that day is not a Dealing Day, on the next Dealing Day ("**Auto-Conversion**").

The Company is introducing this feature in order to simplify the B Shares for investors.

### **Conversion of existing B Shares**

In conjunction with the introduction of Auto-Conversion, the Company will undertake an automatic conversion of all existing B Shares, except for those that are known to be under four years old, into A Shares (the “**Initial Conversion**”). Where there is doubt about the issue date of any particular B Shares, the Company will assume that those B Shares are over four years old and will convert them into A Shares as part of the Initial Conversion.

The Initial Conversion will take place on 2 July 2018 and will affect all B Shares issued on or before 2 July 2014, as well as any B Shares where the issue date is uncertain. In order to facilitate the Initial Conversion, all dealings in B Shares will be suspended from 25 June to 2 July 2018. Shareholders who wish to deal in their B Shares prior to the Initial Conversion must place the relevant order no later than 1pm on Friday 22 June 2018. Orders placed after this time will be processed on the first Dealing Day following the end of the suspension period, being 3 July 2018, on the basis of the Net Asset Value per share determined for that Dealing Day. Dealings in the A Shares arising from the Initial Conversion will be available from Tuesday 3 July 2018.

Following the Initial Conversion, the only B Shares in issue will be less than four years old. These B Shares, together with any B Shares issued after the date of the Initial Conversion, will benefit from the new Auto-Conversion right and will convert into A Shares on the fourth anniversary of the date on which they were issued or, if that day is not a Dealing Day, on the next Dealing Day.

### **Taxation**

Shareholders should note that the conversion from B Shares to A Shares, whether as a result of the Initial Conversion or a future Auto-Conversion, may give rise to a tax liability in their jurisdiction. Shareholders should consult their tax adviser for advice about their personal tax position.

### **Dividends on B Shares**

Currently it is possible for Shareholders who hold distributing B Shares (identified either as BX Shares or BR Shares) to have the dividends that they would otherwise receive reinvested in additional B Shares. As a result of the introduction of Auto-Conversion this feature is being removed. All BX Shares and BR Shares will pay dividends in cash with effect from 1 July 2018.

### **Additional information for Shareholders in Italy**

In order to reflect the introduction of Auto-Conversion on the particular structures and distribution methods used in the Italian market, the Company is making certain changes that will affect Shareholders in Italy. These are described below.

Some Shareholders in Italy invest in the Company’s Shares, including B Shares, through monthly or quarterly savings plans (known as a plan of additional purchases (*Piani di Accumulo*) or “PAC”). As a result of the introduction of Auto-Conversion, all future subscriptions for B Shares through PACs will be rejected with effect from 25 June 2018. B Shares already purchased through PACs will remain in existence until they are converted into A Shares, whether as a result of the Initial Conversion or Auto-Conversion, or they are redeemed by the relevant Shareholder. Subscriptions for other share classes through PACs will continue to be accepted. If you are a Shareholder that currently has a PAC investing in B Shares you are recommended to contact your placement agent or financial adviser to discuss your options. If you wish to continue operating a PAC to invest in the Company’s Funds you will need to set up a new PAC through your placement agent or financial adviser to invest in a different share class.

Italian Shareholders who hold B Shares will not be permitted to transfer their holding of B Shares from one placement agent to another placement agent with effect from 1 July 2018. Italian Shareholders will continue to be permitted to transfer holdings of other share classes, including A Shares arising on Auto-Conversion of B Shares, to other placement agents.

The changes set out above will be reflected in the Company's Italian application form.

The Company has been advised that, for Italian tax purposes, the Initial Conversion and any subsequent Auto-Conversion should not be treated as a taxable event under Italian tax law. Tax laws are subject to change and every Shareholder should consider their own personal tax position and consult a tax adviser in the case of any doubt.

### **What are your options?**

If you do nothing you will remain invested in the relevant Fund(s). Shareholders will, whether it is as a result of the Initial Conversion on 2 July 2018 or Auto-Conversion on a future date, hold Class A Shares in addition to any B Shares they may continue to hold. This will not change your investment exposure and you will not be "out of the market" at any point during the conversion process.

If you wish to redeem your Shares you may do so at any time from the date of this notice up to 1 pm CET on 22 June 2018. No redemption charges will apply but Shareholders should be aware that CDSC will continue to be charged on the redemption of any B Shares that are less than four years old.

If you wish to convert your Shares, whether into a different share class or a different Fund, you may do so at any time from the date of this notice up to 1 pm CET on 22 June 2018. No conversion charges will apply but Shareholders should be aware that if they convert their B Shares into shares of a different class CDSC will be charged on the conversion of any B Shares that are less than four years old. Shareholders who convert their B Shares into B Shares of another Fund will not be charged CDSC regardless of the age of their B Shares.

For the avoidance of doubt, Shareholders' right to redeem or convert their shares on an ongoing basis is not affected by these changes.

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.

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.

Luxembourg, 1 June 2018

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On behalf of the Company

**MORGAN STANLEY INVESTMENT MANAGEMENT (ACD) LIMITED**