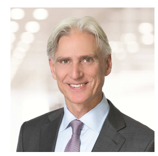
May 2019 Review and Update:
US-China Trade Tensions

SOLUTIONS & MULTI-ASSET | GLOBAL BALANCED RISK CONTROL TEAM | MARKET PULSE | 14 May 2018

AUTHORS



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Since the beginning of this year we have been considering a number of binary risks which have held us back from further increasing equity exposure, despite our otherwise positive expectations for future global economic growth. Key risks among these are the US-China trade tensions, which we have been monitoring closely and recent developments show that our concerns are well founded.

During April we increased our equity allocation across our funds due to the positive economic outlook, but as the trade tensions between the US and China continued to develop we have subsequently **de-risked** substantially[1]. Whilst we did not expect further tariffs to be implemented at this point, we believed that the possibility was not negligible and that the market should not dismiss this. We are comfortable that our focus on risk events has enabled us to identify the trade tensions as a reason to be more cautious of risk assets than would otherwise be the case. In addition in funds which permit their use, we have been using options as a complement to our dynamic asset allocation approach, to further protect funds from potential downside losses, whilst still allowing for the possibility to participate in upside gains.

The current situation remains unclear, but at the time of writing we do not believe that the US and China will resolve the remaining issues surrounding the trade war in the near term. Our assumption is that in the near term there will be no resolution between the two countries given the fundamental differences and the market has under-priced this scenario. However, the recent escalation of tensions is a strong endorsement of the positioning we have taken and we will continue to monitor the situation.

Our relatively defensive positioning should protect us from a potential increase in volatility. In the meantime, we should still receive decent upside if there is a resolution or if the market just ignores the tariffs completely. We have provided the target asset allocations of each of our four Luxembourg SICAV Funds in the following table, as of 13 May 2019. Please note that the positions we hold in cash are comprised of a combination of cash and short term money market instruments, along with the backing of the short futures positions we implemented in our portfolios.

[1] De-risking does not eliminate the risk of loss.

	VOLATILITY P.A.[1]	EQUITY %	FIXED INCOME %	COMMODITIES %	CASH %
MS INVF Global Balanced Risk Control Fund	4% – 10%	26.0	53.5	5.0	15.6
MS INVF Global Balanced Income Fund	4% – 10%	26.0	53.5	5.0	15.6
MS INVF Global Balanced Fund	4% – 10%	31.0	50.0	5.0	14.1
MS INVF Global Balanced Defensive Fund	2% – 6%	8.0	75.0	3.0	14.0

Source: Global Balanced Risk Control team, Morgan Stanley Investment Management.

Allocations are subject to change on a daily basis and without notice. For information only and not a recommendation to buy or sell specific investment strategy. MS INVF standards for Morgan Stanley Investment Funds. 1. Volatility targets are indicative ranges. There is no assurance that these targets will be attained.

RISK CONSIDERATIONS

There is no assurance that the Strategy 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. Accordingly, you can lose money investing in this portfolio. Please be aware that this strategy may be subject to certain additional risks. There is the risk that the Adviser's **asset allocation methodology and assumptions** regarding the Underlying Portfolios may be incorrect in light of actual market conditions and the Portfolio may not achieve its investment objective. Share prices also tend to be volatile and there is a significant possibility of loss. The portfolio's investments in **commodity-linked notes** involve substantial risks, including risk of loss of a significant portion of their principal value. In addition to commodity risk, they may be subject to additional special risks, such as risk of loss of interest and principal, lack of secondary market and risk of greater volatility, that do not affect traditional equity and debt securities. **Currency fluctuations** could erase investment gains or add to investment losses. **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. **Equity and foreign securities** are generally more volatile than fixed income securities and are subject to currency, political, economic and market risks. Equity values fluctuate in response to activities specific to a company. Stocks of **small-capitalization companies** carry special risks, such as limited product lines, markets and financial resources, and greater market volatility than securities of larger, more established companies. The risks of investing in **emerging market** countries are greater than risks associated with investments in foreign developed markets. **Exchange traded funds (ETFs)** shares have many of the same risks as direct investments in common stocks or bonds and their market value will fluctuate as the value of the underlying index does. By investing in exchange traded funds ETFs and other **Investment Funds**, the portfolio absorbs both its own expenses and those of the ETFs and Investment Funds it invests in. Supply and demand for ETFs and Investment Funds may not be correlated to that of the underlying securities. **Derivative instruments** can be illiquid, may disproportionately increase losses and may have a potentially large negative impact on the portfolio's performance. A **currency forward** is a hedging tool that does not involve any upfront payment. The use of **leverage** may increase volatility in the Portfolio. **Diversification** does not protect you against a loss in a particular market; however, it allows you to spread that risk across various asset classes.

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