The **Morgan Stanley Emerging Markets External Debt Strategy** is a value-oriented fixed income strategy that seeks high total return from income and price appreciation by investing in a range of sovereign, quasi-sovereign and corporate debt securities in emerging markets. Investments are mostly denominated in U.S. currency, and, to a lesser extent, in non-U.S. and/or local currencies. To help achieve its objective, the strategy combines top-down country allocation with bottom-up security selection.

### Investment Philosophy

The investment team believes that sovereign, quasi-sovereign and corporate-debt securities of emerging markets experiencing positive fundamental change may present attractive investment opportunities. Further, historical data shows that the performance correlation of emerging market debt with other asset classes can be low, thus providing potential diversification benefits.\(^1\)

The team aims to capture the upside potential of emerging market debt securities through:

- **Country and security analysis:** As emerging markets vary significantly in their development, the team evaluates countries’ relative economic, political and social fundamentals in addition to bottom-up security selection.

- **Value orientation:** The team seeks to identify countries exhibiting fundamental improvements that have not yet been reflected in the prices of their debt securities. By following a country’s incremental rate of change in various areas over time—rather than simply analyzing a static snapshot of parameters—the team believes it can discern improvements at their early stages and monetize them through timely investments.

### Investment Process

The team follows a disciplined investment process that combines top-down macro assessment with bottom-up security evaluation to construct portfolios. All investment recommendations undergo peer review, and final decisions with respect to portfolio construction and market-risk exposure are made on a team basis based on the following analysis:

- **Macro analysis:** The team begins with a top-down macro analysis of the global environment and examines the impact of various geopolitical, economic, and business trends (including global economic growth, business and inflation cycles, and commodities prices) on a universe of over 70 emerging market countries. The output of the team’s macro analysis is an overall risk assessment and risk target for the overall portfolio.

### Strategy at a Glance

<table>
<thead>
<tr>
<th>Inception</th>
<th>July 1993</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Benchmark</strong></td>
<td>JPMorgan Emerging Markets Bond Index Global (“EMBI Global”)(^2)</td>
</tr>
<tr>
<td><strong>Country weight</strong></td>
<td>Typically within ±10 percentage points of the benchmark For non-index countries: Less than 5% of the portfolio at cost</td>
</tr>
<tr>
<td><strong>Available vehicles</strong></td>
<td>Separately managed account Insurance trust Mutual fund Closed-end fund Group Trust</td>
</tr>
</tbody>
</table>

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\(^1\) Past performance is no guarantee of future results. Diversification does not protect you against a loss in a particular market; however it allows you to spread that risk across various asset classes.

\(^2\) The strategy invests in the market capitalization of the JPMorgan Emerging Markets Bond Index Global, which is a market capitalization-weighted index that tracks total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities, including Brady bonds, loans and Eurobonds and local market instruments for over 30 emerging market countries. It is not possible to invest directly in an index.

\(^3\) Weights represent typical ranges, which a portfolio may exceed from time to time due to market conditions and outstanding trades.
• **Country analysis:** The team’s objective is to identify countries that exhibit signs of positive fundamental change using frameworks that meld economic, political, and social assessments. In analyzing economic factors, it distinguishes between policies (such as fiscal, monetary, and exchange rate regimes), and objectives (for example Gross Domestic Product growth, inflation, external accounts and debt serviceability). The team focuses on the government’s ability to formulate and implement policies and on the economy’s responsiveness to them. It also emphasizes socio-political factors including political risks, leadership, election calendars, regime changes, and social stability.

• **Security selection:** The team screens a universe of sovereign, quasi-sovereign and corporate bonds in each country for the most attractive opportunities according to their risk/return profiles.

**Display 1: Country and security analysis helps identify investment opportunities in emerging market domestic debt**

This diagram represents how the portfolio management team generally implements its investment process under normal market conditions.

### Competitive Advantages

- **Global presence:** The team is supported by Morgan Stanley’s presence in nearly every major financial market and region, drawing on the scale and scope of the firm’s global franchise to help manage risks and identify opportunities throughout market cycles.

- **Experience and complementary skill set:** The team is comprised of investment professionals with complementary skills sets, which facilitate informed, well-researched investment decisions. The current portfolio managers have led the strategy for more than ten years, helping to drive its performance record.

- **Morgan Stanley Investment Management’s (MSIM) structure:** The firm’s structure allows for entrepreneurial flexibility, equipping the investment team with the liberty to respond quickly to market developments and swiftly implement investment ideas.

### Investment Team

The Emerging Markets External Debt Strategy is managed by Eric Baurmeister. MSIM has been investing in emerging market debt since 1993. The strategy’s investment team offers a blend of knowledge and experience in implementing emerging market debt strategies across a range of market conditions and fixed income securities, derivatives, and debt instruments.

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4 Subject to certain restrictions.
5 Team members may change from time to time without notice.
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For investments in emerging markets, the volatility and risk to your capital may be greater due to potential price volatility, political and/or economic risks. Debt securities may not be rated by a recognized rating agency.

High yield fixed income securities are considered speculative, involve greater risk of default and tend to be more volatile than investment grade fixed income securities. Securities of small capitalization companies: these securities involve greater risk and the markets for such securities may be more volatile and less liquid.

Strategies that specialize in a particular region or market sector are more risky than those which hold a very broad spread of investments. Where strategy concentration is in one sector it is subject to greater risk and volatility than strategies that are more diversified and its value may be more substantially affected by economic events in a particular industry.

Investments in derivative instruments carry certain inherent risks such as the risk of counterparty default and before investing you should ensure you fully understand these risks. Use of leverage may also magnify losses as well as gains to the extent that leverage is employed.