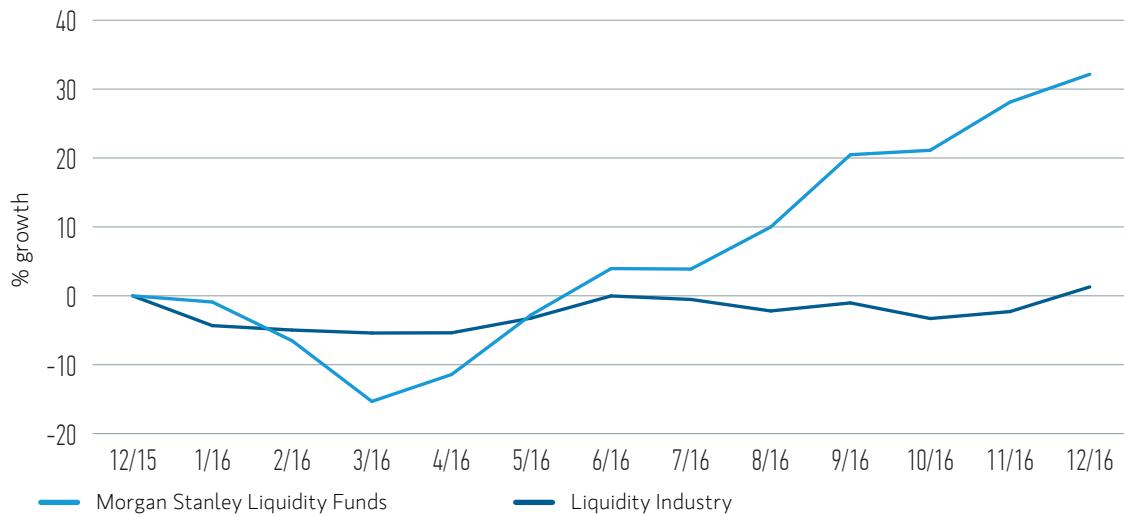


2016 Highlights Outpacing the Industry

LIQUIDITY | GLOBAL LIQUIDITY TEAM | FEBRUARY 2017

In the face of challenging global market conditions in 2016, Morgan Stanley Investment Management's (MSIM) Global Liquidity Solutions business significantly expanded our client relationships, assets under management (AUM), and market share. While industry AUM was largely flat, we grew our AUM by 37% across our dollar, sterling, and euro liquidity funds.¹ As a result, we climbed five spots in the league tables to become the seventh largest constant net asset value (CNAV) money market fund provider in Europe, with over €27BN in assets across three currencies and four funds.²

Morgan Stanley Liquidity Funds (MSLF) Growth vs. the Industry



Source: MSIM and iMoneyNet. Data as at 31.12.16

Past performance is not a guarantee of future performance.

Many factors have contributed to our growth, most notably our ability to deliver to clients a highly disciplined approach to maintaining safety and liquidity while consistently generating competitive yields. Our focus on client engagement was also a key contributing factor to our 2016 results. We conducted numerous client roundtables during the year in cities across Europe. These forums allowed us to share our views on market conditions and industry developments and most importantly were an invaluable opportunity for clients to engage with their peers. Client feedback has been highly positive and we look forward to hosting several more in 2017, in particular focusing on the new European Union (EU) money market fund regulations.

2017 Market Backdrop³

- In Europe, negative rates continued to challenge investors and over the year as the European Central Bank (ECB) cut interest rates further from -0.3% to -0.4%. The ECB also continued and extended their asset purchase programme to help spur economic growth and inflation. Inflation strengthened during 2016, but the ECB still remains accommodative in its monetary policy. Despite delivering negative returns, the MSLF Euro Liquidity Fund has continued to be an attractive option for investors' short-dated cash, with the Fund delivering 43% AUM growth, ending the year at €5.8BN.
- The surprise result of the UK Brexit in June caused volatility and uncertainty in the markets. The Bank of England cut its benchmark interest rate in August and increased asset purchases to help protect the UK's economy.
- The Federal Open Market Committee (FOMC) raised interest rates in December following a year of improved conditions in the labor market and strong economic data. One-month and 3-month LIBOR spiked during the year and continues to increase. Money market fund reform was implemented in the U.S. during the fourth quarter which caused a supply and demand imbalance in the market and a massive shift in money market fund assets towards government fund assets. This created an opportunity for some offshore (non-U.S. domiciled) funds, such as the MSLF USD Liquidity Fund, to purchase certain securities that became in greater supply at very attractive rates. The USD Fund grew AUM by 42% over 2016.

¹ Data for the Morgan Stanley Liquidity Funds (MSLF) as at 31.12.16

² Source: iMoneyNet. Data as at 31.12.16

³ Source: European Central Bank, Bank of England, and Federal Reserve as of 2016

IMPORTANT INFORMATION

FOR PROFESSIONAL CLIENTS ONLY

This material is issued in the United Kingdom by Morgan Stanley Investment Management Limited, 25 Cabot Square, Canary Wharf, London E14 4QA. Authorised and regulated by the Financial Conduct Authority.

The views and opinions are those of the author as of the date of publication and are subject to change at any time due to market or economic conditions and may not necessarily come to pass. The views expressed do not reflect the opinions of all investment personnel at Morgan Stanley Investment Management (MSIM) or the views of the firm as a whole, and may not be reflected in all the strategies and products that MSIM offers.

2017 Regulatory Landscape

After seven years of negotiation, the long anticipated new rules for EU money market funds were agreed upon in December 2016. While designed to increase the liquidity of money market funds and promote stability of their structure, the draft rules introduce significant structural changes that will require fund investors to rethink how they manage cash and modify their policies and procedures.

We plan to leverage our experience and lessons learned in successfully implementing money market fund reform in our U.S. domiciled funds when implementing the new rules in the EU. One of the key factors in our success was due to the continuous and proactive dialogue we nurtured with our clients and we will follow this client-centric approach in 2017. Additionally, the new rules allow for an 18-month implementation period (for existing fund investors), which should provide key stakeholders ample time to prepare and adapt.

Our goal over the coming 18 months is to establish MSIM as your preferred partner to assist you in undertaking the analysis and changes necessary to navigate the new product range. We look forward to sharing our views and addressing your questions as we work towards the implementation deadline.

Delivering on our Commitment to Clients

We believe Treasury professionals require more expertise and resources than ever to manage their institution's liquidity. MSIM Global Liquidity Solutions offers what we consider to be a unique value proposition to clients to help them navigate the ever-evolving liquidity investment landscape—direct and easy access to a combination of expertise, resources and investment solutions. Should you have any further questions, please contact your MSIM Global Liquidity Solutions Relationship Manager.

This document contains information relating to the sub-funds ('Funds') of Morgan Stanley Liquidity Funds, a Luxembourg domiciled Société d'Investissement à Capital Variable. Morgan Stanley Investment Funds (the "Company") is registered in the Grand Duchy of Luxembourg as an undertaking for collective investment pursuant to Part 1 of the Law of 17th December 2010, as amended. The Company is an Undertaking for Collective Investment in Transferable Securities ("UCITS").

Applications for shares in Morgan Stanley Investment Funds should not be made without first consulting the current Prospectus, Key Investor Information Document (KIID), Annual Report and Semi-Annual Report ('Offering Documents'), or other documents available in your local jurisdiction, which are available free of charge from the Registered Office: 6B route de Trèves, L-2633 Senningerberg, Grand-Duchy of Luxembourg.

All information provided is for informational purposes only and should not be deemed as a recommendation. The information herein does not contend to address the financial objectives, situation or specific needs of any individual investor.

Morgan Stanley Investment Management is the asset management division of Morgan Stanley.

Explore our new site at
www.morganstanley.com/liquidity