

Frequently Asked Questions

European Money Market Fund Reform: MSLF Euro Liquidity Fund

LIQUIDITY | GLOBAL LIQUIDITY TEAM | 2019

1. What has changed from our 14 December 2018 announcement?

Our 14 December announcement notified shareholders of our intention to convert the Morgan Stanley Liquidity Fund (MSLF) Euro Liquidity Fund to a Low Volatility Net Asset Value (LVNAV) Fund as at 14 January 2019. The Fund intended to utilise the Reverse Distribution Mechanism (RDM) based on prior discussions with our Luxembourg regulator, the CSSF. As communicated on 10 January¹, we were instructed at short notice by the CSSF that we should not proceed with the planned conversion on 14 January, as they would not authorise money market funds (MMFs) that utilise the RDM.

RDMs enable funds that seek to maintain a stable NAV per share to reflect negative MMF yield as a pro rata reduction in the fund's number of shares, so that the share price or NAV per share of the fund does not decline.

Although by prospectus RDM is available for all MSLF funds, in practice, it has only been utilised by the MSLF Euro Liquidity Fund.

As a result of this most recent regulatory clarification, we have worked with the CSSF and our administrators to develop a compliant solution and ensure a smooth transition for investors affected by this change.

2. What is our proposed solution?

The MSLF Euro Liquidity Fund will still convert to the LVNAV structure. However, all investors currently in distributing share classes will be converted to an equivalent accumulation share class, as outlined below.

PREVIOUS DISTRIBUTING SHARE CLASS	NEW ACCUMULATION SHARE CLASS
Institutional	Institutional Accumulation D
Institutional Select	Institutional Select Accumulation D
MS Reserve	MS Reserve Accumulation D
Qualified	Qualified Accumulation D

Accumulation share classes differ from distributing share classes in that they retain and effectively reinvest the income earned and this is reflected in the value of the accumulation shares. In a negative net yield environment, this equates to a reduction in share value.

This proposal is subject to final approval by the CSSF. At the time of conversion, any holdings of distribution shares that are below the minimum holding amount will be liquidated and the proceeds paid to the Shareholder's bank account.

3. How will the MSLF Euro Liquidity Fund shareholder share class conversion take place?

After close of business on 15 March 2019, sale and purchase transactions will automatically take place to move each investor in the current distribution share classes to the equivalent accumulation D class. No action will be required of clients to initiate these transactions, as they will be automatically executed by the fund's Transfer Agent. The trade and settlement dates of these transactions will be 18 March 2019. No cash will move through the client's bank account and two contract notes will be issued, a redemption contract note and a purchase contract note, as normal.

¹ Announcement Concerning Important Changes to the Morgan Stanley Liquidity Funds

4. What is the effective date of the proposed changes?

All MMFs must comply with the MMF reform (MMFR) regulatory obligations by 21 March 2019.

We plan to undertake the proposed MSLF Euro Liquidity Fund changes on 18 March 2019. It is important to note that because of our decision to delay the conversion of all MSLF Liquidity funds, all of the MMFR changes that were previously notified to investors on 14 December 2018 will now also become effective on 18 March 2019.

5. Are there any unique characteristics of the new accumulation shares?

The initial/offering price of accumulation D classes will be 10,000.0000. This share price is different than the existing accumulation classes and has been set at this level based on client and market feedback.

The new classes are being launched to best accommodate and differentiate those existing and future shareholders who would otherwise prefer to invest in a distributing class, if one were available.

After a stable period of positive yields, and following appropriate shareholder notice, investors in the accumulation D classes may be "switched back" to the equivalent distribution class.

6. How will the fund transact and will the dealing cut-off times remain the same?

The fund will maintain intra-day liquidity and continue to rely on historic pricing. Each day's net income will be incorporated in the calculated NAV per share. De minimis investment unrealized gains and losses will be included in the calculated NAV per share. The end-of-day dealing cut-off time will remain the same, 13:00 GMT, and investors will continue to be able to transact in both cash and shares.

7. Will there be a change in the share class market identifiers (e.g. ISIN)?

Yes, as accumulation D is a new range of share classes, new market identifiers will be required. A further communication will provide the necessary details as soon as they are available.

8. How and when will this change be formally communicated?

A shareholder notice is being prepared and will be mailed to all investors on or about 14 February 2019, providing the required 30-day notice period. Once agreed by the CSSF, the updated MSLF Prospectus will also be available on our website.

9. Are there any tax consequences to investors?

We believe that we are undertaking the proposed changes in a tax-efficient manner; however, each investor's tax position is different and they should seek advice from their tax advisor.

10. Are there any accounting treatment changes?

We expect the MSLF Euro Liquidity Fund to continue to be classified as a cash equivalent; however, investors should confirm the fund's accounting treatment with their auditors.

11. Are there any other changes happening on 18 March 2019?

We have taken the opportunity to align the implementation date of a change in our administrator's operating entity with our MMFR effective date of 18 March 2019. The Depositary, Administrator and Transfer Agent will be The Bank of New York Mellon SA/NV, a bank incorporated under Belgian law whose registered address is 46 Rue Montoyer, B-1000 Brussels, Belgium.

This change in operating entity requires investors in all funds to use new bank instructions when paying for subscriptions. There is no change in any currently available method of submitting dealing requests.

The new payment instructions that must be used from 18 March 2019 will be:

EUR SHARES	
Pay to	IRVTBEBB (BNYM SA/NV Brussels)
For credit to	IRVTLULX (BNYM SA/NV Luxembourg branch IBAN - LU913400108284679780
Reference	FFC Morgan Stanley a/c 8284679780

GBP SHARES	
Account number	8284678260
Sort code	70-02-25
IBAN	LU033400108284678260
Account name	Morgan Stanley

USD SHARES	
For both USD and US Treasury Funds	
Pay to	IRVTUS3N (BNYM New York)
ABA	021 0000 18 / CHIPS no. MBR/0001
For credit to	IRVTBEBB (BNYM SA/NV Brussels) a/c 8900285451
Reference	FFC Morgan Stanley a/c 8284678400

Investors in the MSLF USD Treasury Liquidity Fund should note the dealing deadline for that fund is changing from 3 pm to 4 pm Eastern Standard Time.

Morgan Stanley Liquidity Funds Euro Liquidity Fund: New Share Class Information

ORIGINAL SHARE CLASS	ISIN	CUSIP	NEW SHARE CLASS NAME*	ISIN	CUSIP
Institutional	LU0875333444	L64887208	Institutional Accumulating D	LU1959428894	L64878272
Institutional Select	LU0875333527	L64887216	Institutional Select Accumulating D	LU1959428977	L64878280
Qualified	LU0904783973	MSLEULQ LX	Qualified Accumulating D	LU1959429272	L64878306

* New share classes are effective 18th March 2019

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Low Volatility Net Asset Value (LVNAV) MMF – a MMF qualifying and authorised as a LVNAV MMF in accordance with MMF Regulation which seeks to maintain a stable NAV under the condition that the stable NAV does not deviate from the NAV per Share by more than 20 basis points. In case of a deviation of more than 20 basis points between the stable NAV and the NAV per Share, the following redemption or issue of Shares shall be undertaken at a price that is equal to the NAV per Share.

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