Central Banks to the Rescue

Federal Reserve Board
As COVID-19 continues to spread rapidly around the world, central bankers’ fears surrounding potential impacts have materialized. Responding to the economic impact of the virus, the Federal Reserve (Fed) conducted two unscheduled meetings in March, which resulted in monetary easing and more accommodative monetary policy. The Fed lowered the target range for the federal funds rate to 0.00% - 0.25%. In addition to the rate cut, the Fed implemented several facilities to alleviate stresses in the marketplace. Most notably for short-term fixed income markets, these include the Money Market Mutual Fund Liquidity Facility (MMLF), Commercial Paper Funding Facility (CPFF) and Primary Dealer Credit Facility (PDCF). Additionally, the Federal Open Market Committee (FOMC) announced an open-ended quantitative easing (QE) program that will increase its holdings of Treasury securities, agency mortgage-backed securities and commercial mortgage-backed securities in the amount needed to support the smooth functioning of these markets. The market continues to digest these Fed initiatives along with the fiscal stimulus provided by the U.S. government.

European Central Bank
In tandem with central banks around the world, the European Central Bank (ECB) also delivered emergency relief measures to combat the economic impacts of COVID-19. Although market participants expected the ECB to lower rates in March, it kept rates unchanged. The ECB announced additional QE, buying an additional €120 billion worth of securities throughout the year. In addition to QE, the ECB illustrated that it plans to “support liquidity and funding conditions for households, businesses and banks and help preserve the smooth provision of credit to the real economy” by means of longer-term refinancing operations (LTROs). The ECB said it will “reassess” policy and the current market conditions at its next meeting on April 30th.

Bank of England
Similar to the Federal Reserve, the Bank of England (BOE) Monetary Policy Committee (MPC) lowered the Bank Rate to 0.10%. The move was prompted by steep declines in demand, elevated market uncertainty and risk-off investor appetite stemming from COVID-19. Citing the potential economic fallout from the measures being taken to contain COVID-19, the committee also voted to increase government and corporate bond purchases by £200 billion.

Portfolio Strategy
MSLF EURO LIQUIDITY FUND (LVNAV)
The ECB found itself a little more restricted in its pandemic response. With interest rates at their lowest level ever and already deeply negative, the central bank chose a massive increase in quantitative easing programmes to ease financial conditions, whilst also encouraging central governments to increase their fiscal tools. The ECB also created a commercial paper buying programme which was designed to purchase assets directly from corporates. However, in true European Union style, it was targeted at a tiny section of the wider commercial paper issuing community in Europe. As liquidity conditions in the market deteriorated, the Fund built up a significant liquidity buffer with weekly liquid assets.
increased to over 50% from our typical average of 40% by end of month. This meant the WAM dropping from 50 days to 41 days over the month.

**MSLF STERLING LIQUIDITY FUND (LVNAV)**

With the spread of COVID-19 throughout Europe, central banks were quick to respond with easier monetary policy. The Bank of England cut interest rates twice in March from 0.75% to 0.25% and then to 0.1% on 19 March, the lowest ever, and at the effective floor for U.K. interest rates. This was complemented by an extensive coordinated package with the U.K. government to try to limit the economic damage caused by the lockdown to combat the pandemic, including a plan to purchase commercial paper directly from corporate issuers. Bank balance sheet pressures ahead of quarter end were also a factor as funds attempted to meet redemption requests in an increasingly dysfunctional market. Consequently, the Fund built higher levels of overnight liquidity to ensure continued ability to meet investor liquidity requirements without needing to sell assets into a stressed market, and the WAM fell from 49 days to 35 days by month end.

**MSLF U.S. DOLLAR LIQUIDITY FUND (LVNAV)**

In response to market dynamics, the Fed implemented multiple policy changes to support the credit markets in March. Notably, the MMLF was created on March 18 to support the “flow of credit to households and businesses.” This was a turning point for the industry as SEC Rule 2a-7 prime funds were able to pledge their assets to the Fed at amortized cost, alleviating liquidity stress due to dealer balance sheet constraints. As the month progressed, we prioritized adding liquidity to the portfolio ending the month in excess of 45% weekly liquid assets across the Fund. Going forward, we remain comfortable maintaining elevated levels of liquid assets and conservative positioning, seeking to ensure that we uphold our mandates of capital preservation and liquidity.

**DISPLAY 1**

*Overnight Rates*

<table>
<thead>
<tr>
<th></th>
<th>SONIA (%)</th>
<th>EONIA (%)</th>
<th>OBFR (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overnight</td>
<td>0.07</td>
<td>-0.44</td>
<td>0.06</td>
</tr>
</tbody>
</table>

Source: Bloomberg

**DISPLAY 2**

*LIBOR Rates*

<table>
<thead>
<tr>
<th></th>
<th>GBP LIBOR (%)</th>
<th>EUR LIBOR (%)</th>
<th>USD LIBOR (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overnight</td>
<td>0.06</td>
<td>-0.57</td>
<td>0.12</td>
</tr>
<tr>
<td>1 week</td>
<td>0.13</td>
<td>-0.48</td>
<td>0.50</td>
</tr>
<tr>
<td>1 month</td>
<td>0.24</td>
<td>-0.39</td>
<td>0.99</td>
</tr>
<tr>
<td>2 months</td>
<td>0.43</td>
<td>-0.35</td>
<td>1.26</td>
</tr>
<tr>
<td>3 months</td>
<td>0.60</td>
<td>-0.25</td>
<td>1.45</td>
</tr>
<tr>
<td>6 months</td>
<td>0.73</td>
<td>-0.20</td>
<td>1.18</td>
</tr>
<tr>
<td>12 months</td>
<td>0.86</td>
<td>-0.18</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Source: Bloomberg

**DISPLAY 3**

*Yield Curves*

<table>
<thead>
<tr>
<th></th>
<th>U.K. GOVERNMENT BONDS</th>
<th>GERMAN GOVERNMENT BONDS</th>
<th>U.S. GOVERNMENT BONDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 year</td>
<td>0.12</td>
<td>-0.70</td>
<td>0.25</td>
</tr>
<tr>
<td>5 year</td>
<td>0.20</td>
<td>-0.66</td>
<td>0.38</td>
</tr>
<tr>
<td>10 year</td>
<td>0.35</td>
<td>-0.47</td>
<td>0.67</td>
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<tr>
<td>30 year</td>
<td>0.82</td>
<td>0.02</td>
<td>1.32</td>
</tr>
</tbody>
</table>

Source: Bloomberg
MSLF U.S. DOLLAR TREASURY LIQUIDITY FUND (PUBLIC DEBT CNAV)

The significant rate cuts of 150 basis points by the FOMC and the uncertain impacts to the economy from the virus drove investors to buy U.S. Treasuries in mass, driving yields down significantly and to negative levels in the very front end of the curve. Additional buying pressure in Treasuries also came from large inflows into government and Treasury money market funds across the industry. The combination of large client inflows in a relatively short time frame with limited supply drove yields to single digits across the better part of the curve. Once Congress passed the stimulus package, the U.S. Treasury Department quickly announced and issued multiple cash management bills and continues to issue record amounts of bill supply to fund the package. The new supply pushed Treasury yields higher by several basis points as the market digests this ongoing supply. Overnight repo rates fell to low single digits due to market dynamics and high demand. During the month, we bought fixed-rate Treasuries in tenors between 4 months and up to one year, to lock in fixed yields. We continued to hold a large amount of the portfolio in overnight repos collateralized by Treasuries. We continue to ensure high levels of liquidity and manage the portfolio to be responsive to changes in market conditions and interest rate levels.

12 Month Performance Periods to Latest Month End (%)

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>MAR '19 - MAR '20</th>
<th>MAR '18 - MAR '19</th>
<th>MAR '17 - MAR '18</th>
<th>MAR '16 - MAR '17</th>
<th>MAR '15 - MAR '16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional Accumulation Share Class</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MSLF Euro Liquidity Fund (LVNAV)</td>
<td>-0.52</td>
<td>-0.49</td>
<td>-0.52</td>
<td>-0.45</td>
<td>-0.13</td>
</tr>
<tr>
<td>MSLF Sterling Liquidity Fund (LVNAV)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institutional Distributing Share Class</td>
<td>0.65</td>
<td>0.59</td>
<td>0.24</td>
<td>0.34</td>
<td>0.45</td>
</tr>
<tr>
<td>MSLF U.S. Dollar Liquidity Fund (LVNAV)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institutional Distributing Share Class</td>
<td>1.78</td>
<td>1.96</td>
<td>0.99</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>MSLF U.S. Dollar Treasury Liquidity Fund (Public Debt CNAV)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institutional Distributing Share Class</td>
<td>1.76</td>
<td>1.94</td>
<td>0.90</td>
<td>0.22</td>
<td>0.04</td>
</tr>
</tbody>
</table>

Past performance is not a reliable indicator of future results. The net performance data shown is calculated net of annual fees. The sources for all performance and Index data is Morgan Stanley Investment Management. Please visit our website www.morganstanley.com/im to see the latest performance returns for the fund’s other share classes.
Institutional Distributing and Institutional Accumulation Share Class Risk and Reward Profile

Lower Risk  Higher Risk

1  2  3  4  5  6  7

Potentially Lower Rewards  Potentially Higher Rewards

The risk and reward category shown is based on historic data.

- Historic figures are only a guide and may not be a reliable indicator of what may happen in the future.
- As such this category may change in the future.
- The higher the category, the greater the potential reward, but also the greater the risk of losing the investment. Category 1 does not indicate a risk free investment.
- The fund is in this category because it invests in money market securities and the fund’s simulated and/or realised return has experienced low rises and falls historically.
- This rating does not take into account other risk factors which should be considered before investing, these include:
  - The value of bonds are likely to decrease if interest rates rise and vice versa.
  - Issuers may not be able to repay their debts, if this happens the value of your investment will decrease. This risk is higher where the fund invests in a bond with a lower credit rating.
  - The fund relies on other parties to fulfill certain services, investments or transactions. If these parties become insolvent, it may expose the fund to financial loss.
  - While it is intended that the distributing share classes will maintain a share price of €1/$1/£1 this may not be achieved due to the creditworthiness of the issuers of investments held or changes in interest rates.

Past performance is no guarantee of future results. Please refer to the Prospectus for full risk disclosures. All data as of 30 September 2019 and subject to change daily.

INDEX INFORMATION

One Week Euro LIBID Index – One week London Interbank Bid Rate - The average interest rate which major London banks borrow Eurocurrency deposits from other banks.

One Month Euro LIBID Index – One month London Interbank Bid Rate - The average interest rate which major London banks borrow Eurocurrency deposits from other banks.

Euro Overnight Index Average (EONIA) – The standard interest rate at which banks provide loans to each other with a duration of 1 day within the Eurozone.

FTSE 1 Month Treasury Bill Index – index calculated by FTSE that is an average of the last one month Treasury bill month-end rates.

One Week USD LIBID Index – 1 week London Interbank Bid Rate - The average interest rate which major London banks borrow deposits from other banks.

One Month USD LIBID – 1 month London Interbank Bid Rate - The average interest rate which major London banks borrow deposits from other banks.

FED Funds – excess cash reserves that commercial banks and other financial institutions deposit at regional Federal Reserve banks; these funds can be onward lent to other market participants with insufficient cash on hand to meet their lending and reserve needs.

One Week GBP LIBID Index – 1 week London Interbank Bid Rate - The average interest rate which major London banks borrow deposits from other banks.

One Month GBP LIBID – 1 month London Interbank Bid Rate - The average interest rate which major London banks borrow deposits from other banks.

SONIA – the standard interest rate at which banks provide loans to each other with a duration of 1 day within the Sterling market.

DEFINITIONS

Public Debt Constant Net Asset Value (CNAV) MMF – A MMF qualifying and authorised as a Public Debt CNAV MMF in accordance with MMF Regulation which seeks to maintain a stable NAV and invests 99.5% of its assets in money market instruments issued or guaranteed by sovereign entities, reverse repurchase agreements secured with government debt and cash.

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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The Funds are authorised to invest up to 100% of their assets in Money Market Instruments issued or guaranteed separately or jointly by a Sovereign Entity and by any other member states of the OECD and their central authorities or central banks subject to certain conditions. Please see Prospectus for further details.

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