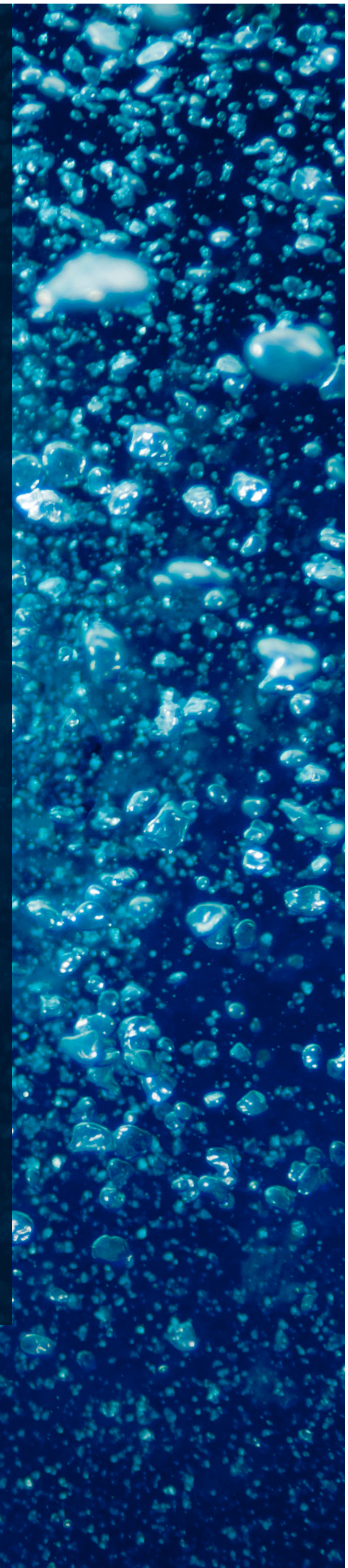
Morgan Stanley

INVESTMENT MANAGEMENT

New Realities of Liquidity Investment Options: "What to Do Now?"



LIQUIDITY | GLOBAL LIQUIDITY TEAM | IMPLEMENTATION GUIDE | 2020

Global markets have experienced unprecedented volatility during early 2020. This uncertainty has been met by swift and comprehensive actions from central banks, which have acted to stimulate the economy by cutting rates and announcing various quantitative easing programs. As investors digest the ongoing COVID-19 outbreak, levels of cash and liquidity assets remain at elevated levels. This dynamic of very high levels of cash and very low interest rates presents a unique challenge.

We will review ways to think about managing cash and other liquidity assets, as well as discuss balancing the desire for capital preservation and seeking to achieve attractive levels of income.

Review of Liquidity Investment Options

At a high level, liquidity investment options are quite broad but fall into several general categories. These include commingled funds, bank deposits and direct securities. We provide an outline of each category below.

DISPLAY 1
Understanding the Investment Options

COMMINGLED FUNDS	BANK DEPOSITS	DIRECT SECURITIES
• Socialized liquidity • Diversification[1] • Professional active management and credit resources • For many types of commingled funds, investment returns will fluctuate and portfolio shares, when redeemed, may be worth more or less than their original cost.[2]	• Ease of use • Liquidity • Stable value • FDIC insured up to $250,000 per bank entity	• Customizable • Tax efficiency • Investment returns could fluctuate when redeemed and may be worth more or less than their original cost
Examples • Money market funds • Bond mutual funds, including ultra-short and short duration bond funds	**Examples** • Bank deposit sweeps • Money market demand accounts • Time deposits	**Examples** These portfolios can be constructed through a separately managed account or a brokerage account: • Money market securities • Government securities • Municipal securities • Corporate bonds

This is for informational purposes only and is not exhaustive.

Within each of these categories, money market funds (MMFs), bank deposits and ultra-short bond funds are three of the key product types that investors consider when making their liquidity investments. We review each on the next page.

[1] Diversification neither assures a profit nor guarantees against loss in a declining market.

[2] This is not the case for government MMFs that transact at a stable NAV.

Money Market Funds

A money market fund is a mutual fund that offers shares in a diversified portfolio of high-quality, short-term instruments, mostly bank and sovereign credits. Shareholders have a proportional claim to the underlying fund assets, spreading credit risk across multiple issuers. By investing in a money market fund, investors outsource credit analysis to the fund manager. Funds must adhere to stringent investment guidelines on quality, maturity and liquidity. Typically, funds in compliance with SEC Rule 2a-7 qualify for the highest credit ratings from major rating agencies.

Examples:

- **Government MMFs**—Invest only in treasury and agency securities. These funds seek to maintain a stable $1.00 NAV.
- **Prime MMFs**—Invest in high-quality corporate credit. Institutional prime MMFs seek to operate with floating NAVs while retail (prime) MMFs seek to maintain a stable $1.00 NAV.
- **Municipal MMFs**—Invest in municipal securities and offer federally tax-free income. Institutional municipal MMFs seek to operate with floating NAVs while retail (prime) MMFs seek to maintain a stable $1.00 NAV.

Bank Deposits

Simply put, a bank deposit is a loan to a bank. Deposit transactions are recorded on the bank's books as a liability, representing the amount owed by the bank to the customer. As such, depositors are unsecured creditors subject to the general creditworthiness of the deposit bank. In the U.S., the Federal Deposit Insurance Corporation (FDIC) insures deposits up to $250,000 per bank entity. Taking this into consideration is key as insured deposits should be viewed differently from a risk standpoint compared to uninsured deposits. Rates are not market-based and can vary greatly.

Examples:

- The following deposits can be FDIC insured or uninsured:
  - **Bank Account/Sweep Account**—Full overnight liquidity
  - **Money Market Demand Account**—Typically allow for several redemptions per month
  - **Certificates of Deposit or Time Deposits**—Offer a higher yield, typically with a longer final maturity

Ultra-Short Bond Funds

While ultra-short bond funds are not cash investments, they can be used as compliments to traditional cash investment options like bank deposits and MMFs. An ultra-short bond fund is a mutual fund that purchases short-term fixed income securities and has a duration of one year or less. From there, funds can vary greatly in their approach and risk appetite, with some focusing on capital preservation and liquidity while others strive for maximizing yield or total return. Investors must be aware of the composition of their ultra-short funds and make sure they are in sync with their expectations and objectives for a short-term investment vehicle. Taking one step beyond ultra-short bond funds, short duration bond funds typically have a duration between one to three years and can be used to further complement your liquidity portfolio.

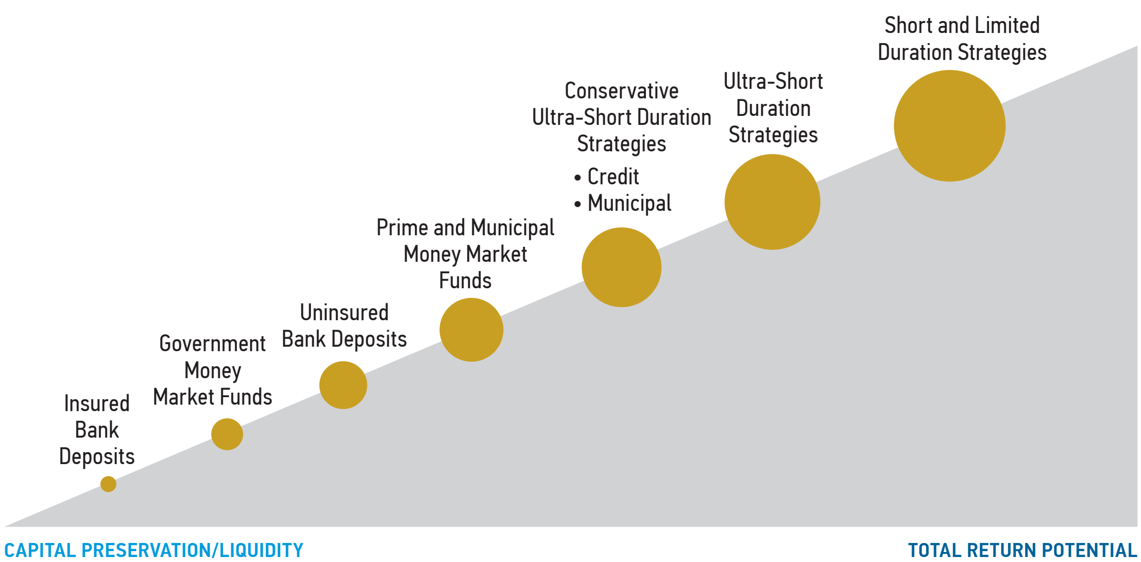
Examples:

- **Conservative Ultra-Short funds**—Invest in higher-quality, shorter-duration securities. These funds usually limit holdings to investment-grade bonds and tend to focus on keeping the portfolio duration well under one year.
- **Traditional Ultra-Short funds**—These funds invest across the risk spectrum in fixed income, with some investing heavily in structured products, high-yield securities and hedging duration profiles with derivatives.

Risk Spectrum of Liquidity Investment Options

Liquidity investment options vary from daily liquidity product to longer-duration fixed income strategies. The chart below illustrates the different options available to investors along with potential risk and return.

DISPLAY 2
Liquidity investment Options



Source: Morgan Stanley Investment Management.
This chart is shown for illustrative purposes only and is not meant to depict a specific investment.

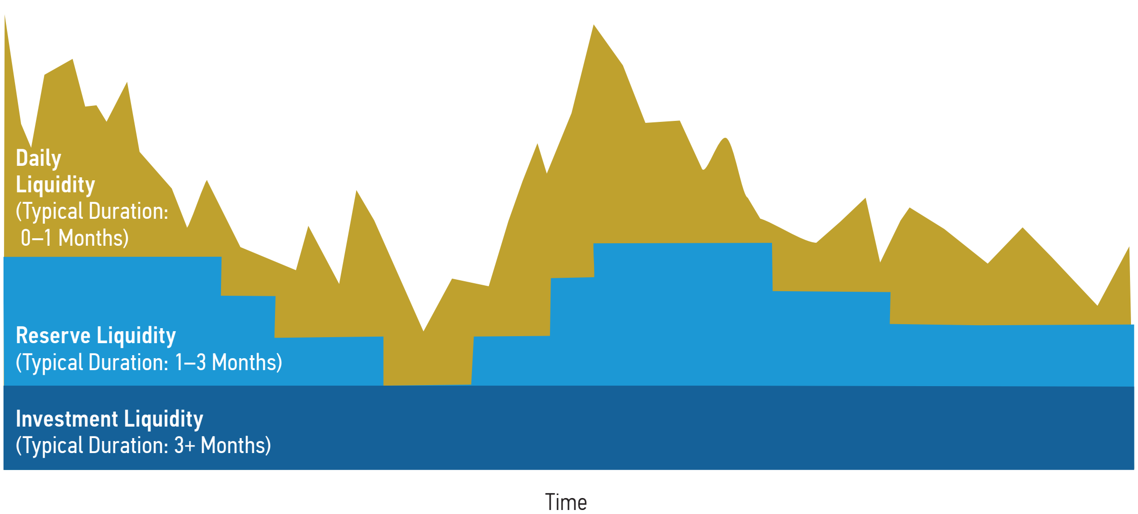
Best Practices for Liquidity Allocations

When investing for liquidity, the same basic principles should be followed whether you are an individual investor or a Fortune 500 company. A liquidity forecast likely shapes the risk appetite and objectives of your investment program and can have long-term benefits. As investors adapt their investment strategy to the new market paradigm, we believe an important aspect will be the ability to stratify liquidity.

Investors who can reasonably forecast their flows are better equipped to segment their liquidity into distinct pools, each with its own purpose and investment opportunity set. More specifically, investors will likely need to segment their liquidity into balances needed immediately and those that are more stable. From there, the dispersion expands as some have multiple longer-term liquidity tiers and others do not. These longer-term tiers can be tied to specific needs, construction projects, bond maturities or other purposes. Some have definitive end dates, while others are open-ended.

The below diagram shows an example of an investor's liquidity flows.

DISPLAY 3
Model Liquidity Balances



Source: Morgan Stanley Investment Management. The information shown is provided solely for illustrative purposes only.

DISPLAY 4

Liquidity Segmentation Explained

	DAILY LIQUIDITY	RESERVE LIQUIDITY	INVESTMENT LIQUIDITY
Description	These are balances that need to be used immediately. This high liquidity comes with a sacrifice of lower yields.	Where immediate liquidity is not needed, more options are available. These additional options can help diversification and slightly enhance potential returns.	This segment focuses on excess liquidity with no planned need (barring a major change). This offers investors the ultimate flexibility and potential to enhance returns.
Time Horizon	0-1 month	1-3 months	3 months or longer
High-Net Worth Investor Examples	Check writing/bill payment	Rainy-day liquidity, money on the sidelines with intention of allocating in the equity or fixed income markets	Longer-term expenditures, strategic ultra-short duration portion of fixed income allocation
Institutional Investor Examples	Daily and weekly liquidity used to fund normal operations: payrolls, other short-term payables	Known periodic payments (supplier payments, accounts payable, tax payments, dividend payments, bond proceeds, debt repayment)	Acquisitions, capital expenditures, other strategic uses

Source: Morgan Stanley Investment Management.

DISPLAY 5

Potential Investment Options by Segment

	DAILY LIQUIDITY (TYPICAL INVESTMENT HORIZON: 0-1 MONTH)	RESERVE LIQUIDITY (TYPICAL INVESTMENT HORIZON: 1-3 MONTHS)	INVESTMENT LIQUIDITY (TYPICAL INVESTMENT HORIZON: 3+ MONTHS)
Bank Deposits	●	●	●
Government MMFs	●	●	●
Prime MMFs		●	●
Ultra-Short Bond Funds		●	●
Direct Securities		●	●
Short Duration Bond Funds			●

Source: Morgan Stanley Investment Management. The information shown is provided solely for illustrative purposes only.

Hypothetical Liquidity Portfolio Allocations

After considering your investment objectives and liquidity needs, portfolio allocation decisions can be made. As mentioned earlier, tying investment strategies to your liquidity flows and segmentation is an efficient allocation plan as it allows for you to effectively manage the need for liquidity while still obtaining potentially higher yields on longer-duration assets.

Below are three different liquidity portfolio options that can address different risk, return and liquidity concerns.

DISPLAY 6
Allocations, Assuming an Investment of $5 million

Allocation	Option
Allocation • 50% Bank Deposits • 50% Government MMF	**OPTION 1** **Most Conservative** • Money market funds have daily liquidity and seek a stable NAV of $1.00 • Lowest potential return, highest liquidity • A strict focus on capital preservation and liquidity
Allocation • 10% Bank Deposits • 40% Government MMF • 50% Ultra-Short Bond Fund	**OPTION 2** **Less Conservative** • This introduces some credit risk and greater risk investments with floating net asset values that do not seek a stable NAV • Enhanced potential return, high liquidity • A good balance across the key objectives of capital preservation, liquidity and yield
Allocation • 10% Government MMF • 70% Ultra-Short Bond Fund • 20% Short Duration Bond Fund	**OPTION 3** **Least Conservative** • This focuses on slightly extending duration into high-quality, investment-grade credit • Highest potential return, more potential volatility • For investors with a higher risk tolerance and a slightly longer time horizon

The allocations are shown solely for information and educational purposes and do not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy.

Selecting the Right Strategy

Portfolio allocation decisions can be informed by the following questions, which touch on many key investors themes:

- Can you tolerate price volatility and a floating NAV?
- How much daily liquidity is needed?
- Do you have more stable liquidity balances that are not needed to fund daily operations?
- How do you emphasize the different objectives of capital preservation, liquidity and yield?

Answering these questions will help identify pain points and areas of focus for each investor. For example, those investors who need daily liquidity will likely need to use option 1 (in *Display 5*), while investors with more flexibility can potentially move toward portfolio options 2 and 3.

Our Liquidity Product Offerings

Money Market Funds (MMFs)

FUND NAME	SHARE CLASS	NAV STRUCTURE	TICKER	1-DAY NET YIELD (%)[3]	1-DAY UNSUBSIDIZED NET YIELD (%)[3]	7-DAY CURRENT YIELD (%)[3]	7-DAY UNSUBSIDIZED CURRENT YIELD (%)[3]	PORTFOLIO ASSETS ($MM)[3]	MINIMUM INITIAL INVESTMENT ($)
Government MMFs									
MSILF Government Portfolio	Institutional	Stable	MVRXX	0.04	0.02	0.05	0.03	96,380	$1.00
MSILF Treasury Portfolio	Institutional	Stable	MISXX	0.05	0.04	0.06	0.05	36,822	$1.00
MSILF Treasury Securities Portfolio	Institutional	Stable	MSUXX	0.03	0.02	0.06	0.06	46,915	$1.00
MS U.S. Government Money Market Trust	Class S	Stable	DGEXX	0.01	-0.14	0.01	-0.14	736	1,000
Retail Tax-Exempt MMFs									
MS Tax-Free Daily Income Trust	Class S	Stable	DFRXX	0.05	-0.52	0.06	-0.49	49	5,000
MS CA Tax-Free Daily Income Trust	Class S	Stable	DFSXX	0.01	-0.94	0.01	-0.90	35	5,000
Institutional Prime and Tax-Exempt MMFs									
MSILF Prime Portfolio	Institutional	Floating	MPFXX	0.39	0.31	0.41	0.31	18,459	$1.00
MSILF ESG Money Market Portfolio	Institutional	Floating	MPUXX	0.36	0.27	0.37	0.26	3,828	$1.00
MSILF Tax-Exempt Portfolio	Institutional	Floating	MTXXX	0.08	-0.06	0.09	-0.06	458	$1.00

Bond Funds

FUND NAME/ INCEPTION	SHARE CLASS	TICKER	1-DAY NET YIELD (%)[3]	1-DAY UNSUBSIDIZED NET YIELD (%)[3]	7-DAY CURRENT YIELD (%)[3]	7-DAY UNSUBSIDIZED CURRENT YIELD (%)[3]	30-DAY SEC YIELD (%)[3]	30-DAY UNSUBSIDIZED SEC YIELD (%)[3]	AVERAGE ANNUAL TOTAL RETURN[4] 1 YEAR	5 YEAR	10 YEAR	SINCE INCEPTION	NET/ GROSS EXPENSE RATIO (%)	PORTFOLIO ASSETS ($MM)[3]	MINIMUM INITIAL INVESTMENT ($)
Ultra-Short and Short Duration Bond Funds															
MSIFT Ultra-Short Income Portfolio (4/28/2016)	Class IR[2]	MULSX	0.67	0.58	0.70	0.61	0.74	0.64	1.51	1.92	–	1.65	0.25/0.30	16,273	10,000,000
	Class IN[1]	MUIIX	0.62	0.53	0.65	0.56	0.68	0.59	1.46	1.87	–	1.59	0.30/0.34		5,000,000
	Class A	MUAIX	0.42	0.33	0.45	0.36	0.49	0.39	1.26	1.67	–	1.39	0.55/0.55		1,000
MSIFT Ultra-Short Municipal Income Portfolio (12/19/2018)	Class IR[2]	MULMX	0.39	0.14	0.42	0.17	0.43	0.19	1.21	–	–	1.34	0.25/0.52	331	15,000,000
	Class IN[1]	MUIMX	0.29	0.02	0.32	0.05	0.33	0.08	1.21	–	–	1.30	0.35/0.62		10,000,000
	Class A	MUAMX	0.19	-0.06	0.22	-0.03	0.23	0.00	1.01	–	–	1.13	0.45/0.72		1,000
MSIFT Short Duration Income Portfolio (3/31/1992)	Class A	MLDAX	–	–	–	–	1.07	0.83	2.90	3.20	2.39	0.59	0.55/0.76	256	1,000

Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. For the most recent month-end performance figures, please visit www.morganstanley.com/im. Investment returns will fluctuate and fund shares, when redeemed, may be worth more or less than their original cost.

Where the net expense ratio is lower than the gross expense ratio, certain fees have been waived and/or expenses reimbursed. These waivers and/or reimbursements will continue for at least one year from the date of the applicable fund's current prospectus (unless otherwise noted in the applicable prospectus) or until such time as the fund's Board of Directors acts to discontinue all or a portion of such waivers and/or reimbursements. Absent such waivers and/or reimbursements, returns would have been lower. Expenses are based on the fund's current prospectus. Returns are net of fees and assume the reinvestment of all dividends and income. Returns for less than one year are cumulative (not annualized). Performance of other share classes will vary. Returns for less than one year are cumulative (not annualized). Performance of other share classes will vary.

[1] IN shares have a $5 million minimum for MSIFT Ultra Short Income Portfolio and a $10 million minimum for MSIFT Ultra Short Municipal Income Portfolio.

[2] IR share class is only available in advisory accounts.

[3] As of June 30, 2020.

About Morgan Stanley Investment Management Liquidity Solutions

Morgan Stanley Investment Management has managed liquidity solutions since 1975 and is dedicated to offering clients unique investment solutions through institutional money market funds and highly customized solutions. The Global Liquidity Solutions team, which has over $247 billion* in assets under management, is composed of highly experienced professionals across the U.S., Europe and Asia. We welcome the opportunity to advise on the issues impacting short-term markets, both broadly and with respect to your overall cash investing strategy. If you have further questions or require additional assistance, please contact your Morgan Stanley Investment Management Relationship Manager.

*As of March 31, 2020.

There is no assurance that a portfolio 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. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing in these portfolios

Ultra Short Income Portfolio - Please be aware that this portfolio may be subject to certain additional risks. **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 and may result in periods of volatility and increased portfolio redemptions. In a declining interest-rate environment, the portfolio may generate less income. **Longer-term securities** may be more sensitive to interest rate changes. The Portfolio is more susceptible to any economic, business, political, regulatory or other developments that adversely affect issuers in the financial services industry than a fund that does not concentrate its investments in the **financial services** industry. Asset-backed securities are sensitive to early prepayment risk and a higher risk of default and may be hard to value and difficult to sell (liquidity risk). They are also subject to credit, market and interest rate risks. **Asset-backed securities** are sensitive to early prepayment risk and a higher risk of default and may be hard to value and difficult to sell (liquidity risk). They are also subject to credit, market and interest rate risks. Certain **U.S. Government securities** purchased by the Strategy, such as those issued by Fannie Mae and Freddie Mac, are not backed by the full faith and credit of the U.S. It is possible that these issuers will not have the funds to meet their payment obligations in the future. **Repurchase agreements** are subject to default and credit risks. By investing in municipal obligations, the Fund may be susceptible to political, economic, regulatory or other factors affecting their issuers. **Foreign securities** are subject to currency, political, economic and market risks. **Illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk).

STABLE NAV FUNDS

You could lose money by investing in the Funds. Although the Funds seek to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. The Funds may impose a fee upon the sale of your shares or may temporarily suspend your ability to sell shares if the Funds' liquidity falls below required minimums because of market conditions or other factors. An investment in the Funds is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Funds' sponsor has no legal obligation to provide financial support to the Funds, and you should not expect that the sponsor will provide financial support to the Funds at any time.

FLOATING NAV FUNDS

You could lose money by investing in the Fund. Because the share price of the Fund will fluctuate, when you sell your shares they may be worth more or less than what you originally paid for them. The Fund may impose a fee upon the sale of your shares or may temporarily suspend your ability to sell shares if the Fund's liquidity falls below required minimums because of market conditions or other factors. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Funds' sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time.

The Tax-Exempt Portfolio, the CA Tax Free Daily Income Trust , and Tax Free Daily Income Trust may invest a portion of its total assets in bonds that may subject certain investors to the federal Alternative Minimum Tax (AMT). Investors should consult their tax adviser for further information on tax implications.

For each MSILF fund shown and the Ultra Short Income Portfolio, its corresponding prospectus must precede or accompany this material. For an additional copy of the Income Portfolio prospectus click here. The prospectus contains about the fund, including the investment objectives, risks, charges and expenses. Please read the prospectus carefully before investing.

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