

European Money Market Fund Reform Transition Plan Announcement

LIQUIDITY | GLOBAL LIQUIDITY TEAM | 2018

Morgan Stanley is pleased to announce our anticipated money market fund (MMF) product range in response to the new European Union (EU) MMF regulations. Our new product lineup has been designed to offer our clients:

- Seamless transition to the new regulatory regime
- Comprehensive product range within three currencies
- Consistent intra-day liquidity
- Continued operational simplicity
- Provisional conversion date targeted for the fourth quarter of 2018

After carefully taking into consideration client feedback, our product lineup will include constant net asset value (CNAV) funds, low volatility net asset value (LVNAV) funds, and variable net asset value (VNAV) funds. Please note that the planned line up set out in the below table is subject to regulatory and board approval and may change in response to client demand. The lineup will be as follows:

Planned MMF Product Spectrum

Existing Funds

CURRENCY	EXISTING FUNDS	TO CONVERT TO
USD	USD CNAV Fund	USD LVNAV
USD	USD CNAV Treasury Fund	USD Public Debt CNAV
EUR	Euro CNAV Fund	EUR VNAV (short-term)
GBP	GBP CNAV Fund	GBP LVNAV

Proposed New Funds

CURRENCY	FUND TYPE
USD	USD VNAV (short-term)
USD	USD VNAV (standard)
EUR	EUR LVNAV*
EUR	EUR VNAV (standard)
GBP	GBP VNAV (short-term)

* Subject to positive net yield environment

What's happening with EUR?

There has been much discussion by the regulatory authorities about the reverse distribution mechanism (RDM) which is currently utilised by EUR CNAV funds to reflect the net negative yield that the funds generate. This mechanism has previously allowed euro-denominated MMFs to continue to transact at a constant EUR 1.00 unit price despite the negative interest rate environment. At the time of writing, it appears likely that the regulators will not allow RDM to be utilised post reform, making LVNAV and Public Debt CNAV structures for EUR MMFs unfeasible as long as the net negative interest rate environment for EUR persists. As a result, we are converting our existing CNAV EUR Fund to a short-term VNAV EUR fund.

We intend to have a LVNAV EUR fund offering in our prospectus in readiness for when returns become positive. Additionally, in the current negative yield environment we will offer only an accumulating share class for the VNAV structure. Once the yield turns positive, we will offer both a distributing and accumulating share class for the LVNAV and VNAV structures.

What can I expect around and after the implementation date?

If you are an existing investor in the Morgan Stanley Liquidity Funds, you will be automatically converted to the new structures referenced above. Investors will be asked to vote on updates to the Funds' articles of incorporation. We anticipate a smooth and seamless transition to the new fund structures.

However, your ongoing user experience will be impacted depending on which fund(s) you're invested in:

FOR THE USD AND GBP LVNAV FUNDS:

- There will be **no** change to the intraday liquidity provided
- **No** change to the daily dealing process
- **No** change to cutoff times
- **No** expected change to the accounting classification of cash and cash equivalents (C&CE*)

FOR THE EUR SHORT-TERM VNAV FUND:

- Intraday liquidity will be provided at two points
- No expected change to the accounting classification of C&CE*

PLEASE SEE THE FOLLOWING PIECES TO LEARN MORE ABOUT MORGAN STANLEY'S PERSPECTIVES ON EU MMF REFORM:

- [Perspectives on EU MMF Reform: Key Considerations for Investors](#)
- [Perspectives on EU MMF Reform: Executive Summary of Survey Results](#)
- [Understanding the Public Debt CNAV Fund](#)
- [Understanding the LVNAV Fund](#)
- [The VNAV Option](#)

Morgan Stanley's product experts and liquidity strategists can assist you in understanding the new regulations and the transition process to the new structures. We are committed to providing you with leading edge educational materials, information and insights to help you navigate through the new MMF regulations. For more information, please visit www.morganstanley.com/liquidity, contact your Morgan Stanley Investment Management Relationship Manager or Kim Hochfeld, Head of Global Liquidity EMEA distribution at +44 20 7677-6161.

* The fund will have a similar investment strategy as it does today. Please confirm the accounting treatment with your auditors.

RISK CONSIDERATIONS

- 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 funds invests in a bond with a lower credit rating.
- The fund rely on other parties to fulfill certain services, investments or transactions. If these parties become insolvent, it may expose the funds 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.
- The value of the investments and the income from them will vary and there can be no assurance that a fund will achieve its investment objectives.

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