

Morgan Stanley

INVESTMENT MANAGEMENT

Morgan Stanley Funds (UK)

Sterling Corporate Bond Fund



A Uniquely Positioned Fund Seeking the Best Value Opportunities Within the Sterling Corporate Bond Markets

We believe size of business will be a factor in return generation and our smaller, agile sized sterling fixed income business is able to execute the active strategies identified by the investment team. Driven by a value oriented philosophy, we seek to identify the best value opportunities within the sterling corporate bond market. We focus on undervalued securities where the potential for price appreciation, combined with attractive yield, can provide superior total returns over the market cycle; we do not buy bonds just for yield generation. The emphasis on active management is vital to investment decisions, reflecting all market opportunities available within the sterling corporate bond universe.

Adopting a process driven by a combination of fundamental and quantitative analysis, we seek to add value from three distinct areas: macroeconomic credit allocation, sector allocation and security selection. Our seamless investment process produces a consistent and repeatable investment approach, capable of reacting quickly to changing market conditions. Each investment idea is subject to rigorous internal debate and is thoroughly tested prior to portfolio implementation. We incorporate a wide variety of risk management techniques to control portfolio risk, and carefully monitor factors such as sensitivity to interest rate movements. Our asset allocation procedure blends investment ideas to create the optimal mix of individual security risks, ensuring broad diversification of the portfolio.

Seeking Undervalued Opportunities

We position the Fund with a view of where we are in the business cycle. We maintain a number of proprietary models to deepen our understanding of the macroeconomic environment and outlook. Daily team interaction ensures we remain informed on the often challenging backdrop for fixed income markets, creating a robust forum for the debate, review and implementation of investment ideas. We have the ability to incorporate a small proportion of below investment grade securities, providing additional yield generation and capital appreciation potential. This is important in the current economic environment characterised by low yields and low expected defaults.

Our specialist research team uses a combination of fundamental and quantitative analysis to select the most promising opportunities within various sectors of the sterling corporate universe. For example, the case for investing in the strongest financials remains in place. Driven by regulation, banks have increased both the quantity and quality of capital, and are still de-risking their balance sheets. Monetary policy, particularly from the European Central Bank, provides banks with ample liquidity. We are also experienced in analysing hybrid securities and believe the case for investing

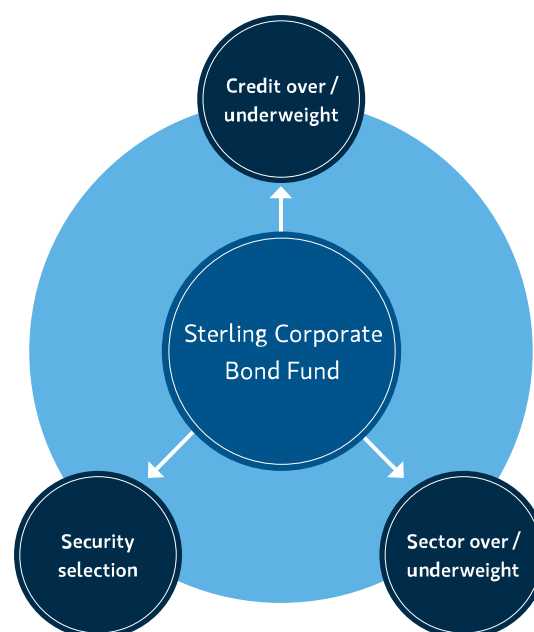
in hybrids is strong. There is a substantial yield pick-up for taking the structural risk in hybrids in fundamentally sound names.

Well Positioned Team

Managed by a well-resourced and experienced global credit team, the Fund seeks to identify the best relative value opportunities across regions, industry sectors and individual credits, denominated in sterling currency. The combination of a global approach plus local expertise, applied in a framework of rigorous risk management, equips us for the task of investing in the sterling corporate bond market.

Since the crisis of 2008/2009, banks have significantly curtailed the amount of risk capital devoted to making markets, thus restricting liquidity. This is even more pertinent given the small nature of the corporate bond market in sterling. Our smaller size allows us successfully to navigate the sterling corporate bond market with maximum efficiency, without impacting market liquidity.

We seek to add value to the portfolio in a number of ways, as detailed below:



This represents how the portfolio management team generally implements its investment process under normal market conditions included here for informational purposes only.

Investment Team

Richard Ford, Managing Director
Dipen Patel, Vice President

INVESTMENT EXPERIENCE

28 years
5 years

Team members may be subject to change at any time without notice.

Differentiators**1. Long Track Record**

We have been researching and investing in fixed income assets since 1975, and in European Fixed Income since 1990.

2. Widely Resourced Team

Access to the resources of the Global Fixed Income Team, a group of over 60 investors across London, New York, Tokyo and Singapore.

3. Seamless Investment Process

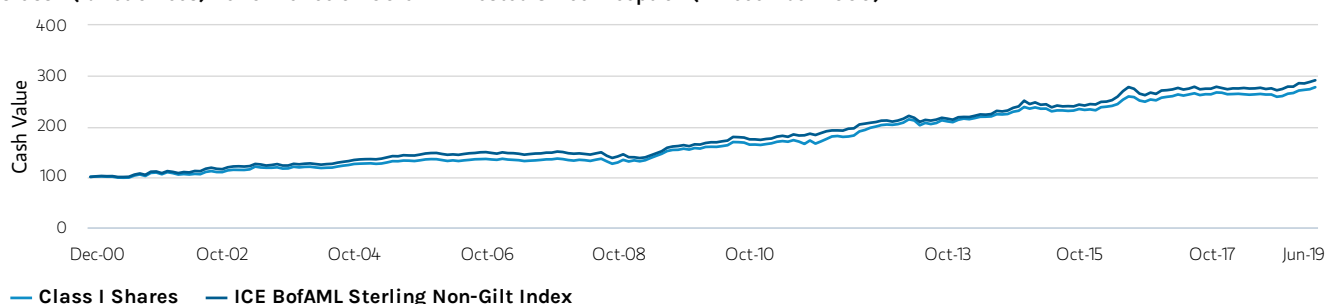
That produces a consistent and repeatable investment approach capable of reacting quickly to changing market conditions.

4. Optimal Size

We are of optimal size to navigate the sterling corporate bond market.

5. Value Driven Investing

We seek to identify undervalued securities which can provide a superior total return over the entire market cycle, and not just for yield generation.

MSF UK Sterling Corporate Bond Fund**Class I (% net of fees) Performance of 100 GBP Invested Since Inception (11 December 2000)****12 Month Performance Periods to Latest Month End (%)**

	JUNE '18 - JUNE '19	JUNE '17 - JUNE '18	JUNE '16 - JUNE '17	JUNE '15 - JUNE '16	JUNE '14 - JUNE '15
Class I Shares	5.66	0.66	6.91	6.24	4.84
ICE BofAML Sterling Non-Gilt Index	5.97	0.72	5.45	8.88	6.52

Past performance is not a reliable indicator of future results. Returns may increase or decrease as a result of currency fluctuations. All performance data is calculated NAV to NAV, net of fees, and does not take account of commissions and costs incurred on the issue and redemption of units. The sources for all performance and Index data is Morgan Stanley Investment Management. All data as of 30 June 2019 and subject to change daily. Please visit our website www.morganstanley.com/im to see the latest performance returns for the fund's other share classes.

The Blended Index performance shown is calculated using the ICE BofAML STG non-gilt all stocks 10yr+ Index from inception through 3 November 2003 and the ICE BofAML Sterling Non-Gilt Index thereafter.

Share Class I Risk and Reward Profile

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 fixed interest securities and the fund's simulated and/or realised return has experienced medium rises and falls historically.
- The fund may be impacted by movements in the exchange rates between the fund's currency and the currencies of the fund's investments.

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.
- The value of financial derivative instruments are highly sensitive and may result in losses in excess of the amount invested by the Sub-Fund.
- 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.
- There may be an insufficient number of buyers or sellers which may affect the fund's ability to buy or sell securities.
- Past performance is not a reliable indicator of future results. Returns may increase or decrease as a result of currency fluctuations. The value of investments and the income from them can go down as well as up and investors may lose all or a substantial portion of his or her investment.
- The value of the investments and the income from them will vary and there can be no assurance that the Fund will achieve its investment objectives.
- Investments may be in a variety of currencies and therefore changes in rates of exchange between currencies may cause the value of investments to decrease or increase. Furthermore, the value of investments may be adversely affected by fluctuations in exchange rates between the investor's reference currency and the base currency of the investments.

DEFINITIONS

Corporate bonds are debt securities issued by a corporation. Fundamental analysis is the analysis of overall economic, industry and/or company metrics. Quantitative analysis is the analysis of number measurements. Investments in securities rated below investment grade (commonly known as “junk bonds”) present greater risk of loss to principal and interest than investment in higher-quality securities.

INDEX INFORMATION

The **ICE BofAML Sterling non-gilt all stocks 10yr+ Index** tracks the performance of GBP denominated investment grade non-sovereign debt publicly issued in the eurobond or U.K. domestic market with a 10 year or longer maturity.

The **ICE BofAML Sterling Non-Gilt Index** tracks the performance of GBP denominated investment grade non-sovereign debt publicly issued in the eurobond or UK domestic market, including quasi-government, corporate, securitized and collateralized securities. Defaulted securities are excluded from the Index.

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