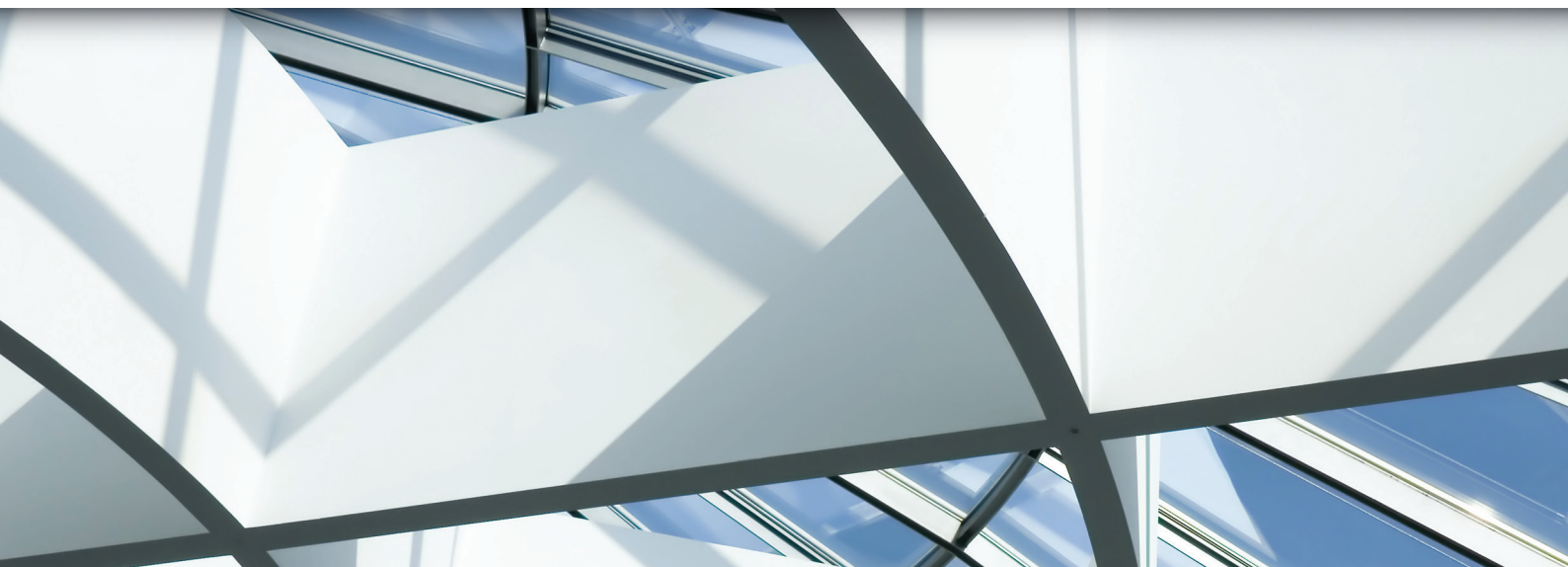


Overview

Global Quality



Global Quality Overview

We believe there are two key tenets to investing:

First, that the best route to long-term investment returns is through compounding and downside protection

Second, that high-quality companies can generate superior returns over the long term

Quality companies are those that steadily grow their intrinsic value over time. Such businesses are typically built on dominant market positions, underpinned by powerful, hard to replicate intangible assets that can generate resilient, high, unlevered cross cycle returns on operating capital.

The Importance of Quality

Our primary goal is to compound the wealth of our investors over time. We believe the best way to achieve this goal is to invest in companies that can themselves compound their intrinsic value (the sum of future free cash flows discounted to the present). Compounders usually run asset-light business models. Their resilient returns on operating capital tend to generate attractive real returns over the long term. Critically, the economic robustness of quality companies helps to deliver returns when you need them most, namely during difficult and challenging market environments. This is important because the key to compounding shareholder wealth is to avoid permanent loss of capital.

Introducing the Morgan Stanley Global Quality Strategy

The Morgan Stanley Global Quality Strategy is a concentrated, global equity strategy which invests in a portfolio of world class companies. The strategy seeks to generate attractive long-term absolute and relative returns with good potential upside capture while retaining a clear focus on downside protection.

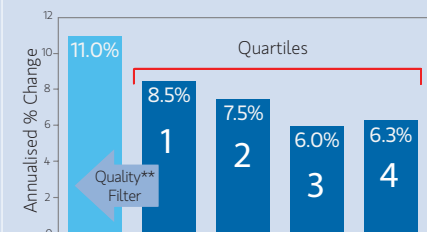
The strategy uses fundamental analysis and bottom up stock selection to identify companies characterised by resilient, high cross-cycle, unlevered returns on operating capital, and strong free cash flow generation. The strategy aims to buy these stocks at attractive valuations relative to their cash flow-based intrinsic value. This results in a concentrated portfolio aimed at earning attractive long-term absolute returns with less volatility than the broader markets.

What is a "Compounder"?

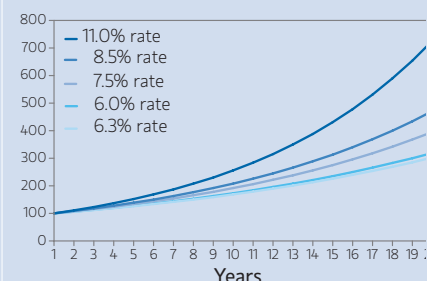
The true economic compounder is able to grow steadily and is relatively robust in economic downturns. The resilience of its earnings stream drives the resilience of its free cash flow, allowing management to continue to reinvest in the business at high returns on operating capital and/or return capital to shareholders.

The Quality effect:*

Quality companies have generated healthy long-term returns, especially those with a history of growing or maintaining their return on operating capital



What these rates of return deliver over the long term:
\$100 compounded over 20 years



* The bar graph shows the 20-year average annualised return of the MSCI World ranked into quartiles by a measure of quality (see below for detail of calculation).

** To those companies ranked in the 1st quartile the team applies an extra Quality Filter, which is selecting those companies from the 1st Quartile that either maintained or improved return on operating capital (ROIC) over the 20-year period.

Source and time series: MSCI World index in USD, data from December 1993 to December 2013 of companies with a minimum market cap in 1993 of \$500m. Quartile measure of quality is calculated thus: ROIC is Earnings before Interest and Taxes (EBIT) / Property, plant and equipment (PPE) + trade working capital (excludes goodwill) and Margin Stability (1-(standard deviation of average EBIT margin / mean of average EBIT margin)).

What We Look For

We believe a company must exhibit certain features to compound at attractive rates of return:

The “Economic Moat”

The company must protect its franchise. The “economic moat”, a phrase coined by Warren Buffett, simply means a company’s ability to maintain its superior economics over long periods of time while sustaining its pricing power.

A dominant market position will not last if it can be replicated to produce a similar, cheaper or better product. We place great importance on the power of intangible, hard to replicate assets. Brands are the most recognizable intangible assets; others include networks, licenses and product patents.

Innovation, Advertising and Pricing Power

Innovation, advertising and promotion reinforce the strength of the intangibles and help sustain pricing power, seen through strong gross margins. If you can re-invest in your brands and products; if you ensure your advertising and promotion can capture your client’s attention and decision process, and if you can lead your category through innovation, then you will help protect and strengthen your moat.

Low Capital Intensity

The less operating cash flow required to maintain the fixed asset base, the greater the opportunity to allocate cash flows to further investment in growth or returns to shareholders.

High Returns on Operating Capital

Naturally, low capital intensity implies a relatively modest physical asset base, and high returns suggest strong profitability. Combining the two generates strong free cash flow. With this, management can then invest in the company’s future, protect its moat, and return surplus capital to shareholders.

Resilience

We look for companies which can deliver robust sustainable top line growth that is less sensitive to the business cycle and encourages capital preservation.

Management

Poor management can undermine even the highest quality companies. It is vital that management is not distracted from the long-term task of building and improving the company’s intangible assets by the temptation to meet short-term targets. The other risk stems from unwise allocation decisions for the free cash flow naturally generated by high return operations. Investing at low returns, either through acquisitions or expanding into lower return areas, can undermine the overall quality of the business. The erosion of returns at the expense of short-term profit gains will eventually lead to the permanent destruction of shareholder wealth.



Introducing the Morgan Stanley Investment Funds Global Quality Fund

Investment Process

The team follows an investment process based on fundamental analysis and bottom-up stock selection with sector, industry and stock weights driven by an assessment of each stock's quality and value characteristics.

Investment Universe – Quantitative Research

We screen for companies that possess the financial attributes the team believes are associated with high quality companies. These include resilient, high returns on operating capital, high gross margins, and low capital intensity.

Security Selection – Qualitative Research

Each candidate is assessed for the depths of its quality characteristics, as described above, with particular attention paid to:

- The quality and resilience of the business
- Its overall financial strength
- Industry position
- Management quality

The investment team discusses the outcome of their research at the portfolio review meeting. This includes an assessment of the franchise and management quality, strengths and risks to the investment case, an assessment of the companies' financial position, and an estimate of the stock's fair value. The team will decide if an investment should be initiated. The team uses the same approach to monitor portfolio holdings.

WHY THE GLOBAL QUALITY FUND?

1 DEFENSIVE CHARACTERISTICS, COMPOUNDING POTENTIAL

The team believes that high quality companies with successful, resilient franchises can offer superior cross-cycle returns.

2 WE FOCUS ON MANAGING THE RISKS THAT MATTER

The team believes that quality compounders are less vulnerable to economic volatility, while indices, in its view, are inherently risky. We aim to avoid low quality companies and to continually monitor our high quality holdings for any deterioration in franchise, management, financial health or valuation.

3 A TEAM OF PATIENT AND EXPERIENCED INVESTORS

An experienced team of nine investment professionals provides a competitive advantage in itself. Their years of working together, their breadth of experience across sectors, and the culture of critical analysis underpins their focus on quality. The team's long-term investment horizon seeks to allow these rare, high quality businesses to compound shareholder wealth over time.

FUND AT A GLANCE

Inception	August 2013
Benchmark	MSCI World (Net) Index ¹
Typical Number of Holdings	35 – 55 Holdings
Investment Universe	Our investment universe currently includes all stocks listed globally with a free float greater than \$5 billion
Currency Denomination	Base currency is USD
Portfolio Management Team	William Lock Lead Portfolio Manager Christian Derold Portfolio Manager Bruno Paulson Portfolio Manager Vladimir Demine Portfolio Manager Dirk Hoffmann-Becking Portfolio Manager Marcus Watson Portfolio Manager

¹ A comparison to this index is provided for informational purposes only; the index is subject to change. The portfolio manager retains discretion in regards to the fund's particular investments.

Our Investment Team

The Global Quality Strategy is managed by an experienced investment team with a history of providing strong, long-term, absolute and relative returns with a measure of downside protection relative to the benchmark. The team is led by William Lock.



WILLIAM LOCK
Managing Director

William is a portfolio manager and co-head of the London-based International Equity team. He joined Morgan Stanley in 1994 and has 23 years of investment experience. Prior to joining the firm, he worked at Credit Suisse First Boston's Corporate Finance Group, and was a management consultant with Arthur D. Little. William received a B.A. in modern history from Keble College, Oxford.

About Morgan Stanley Investment Management*

Morgan Stanley Investment Management (MSIM), together with its investment advisory affiliates, has 585 investment professionals around the world and \$403 billion in assets under management or supervision as of December 31, 2014. MSIM strives to provide outstanding long-term investment performance, service and a comprehensive suite of investment management solutions to a diverse client base, which includes governments, institutions, corporations and individuals worldwide.

For more information, please email us at msim_web_enquiry@morganstanley.com or visit our website at www.morganstanley.com/im

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Past performance is not a guarantee of future performance. The value of the investments and the income from them can go down as well as up and an investor may not get back the amount invested. 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.

For investments in emerging markets, the volatility and risk to your capital may be greater due to potential price volatility, political and/or economic risks.

Securities of small capitalization companies: these securities involve greater risk and the markets for such securities may be more volatile and less liquid.

Funds that specialize in a particular region or market sector are more risky than those which hold a very broad spread of investments. Where portfolio concentration is in one sector it is subject to greater risk and volatility than other portfolios that are more diversified and the value of its shares may be more substantially affected by economic events in a particular industry.

Investments in derivative instruments carry certain inherent risks such as the risk of counter party default and before investing you should ensure you fully understand these risks. Use of leverage may also magnify losses as well as gains to the extent that leverage is employed.

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