

European Currencies High Yield Bond Fund

FIXED INCOME | GLOBAL FIXED INCOME TEAM | MONTHLY COMMENTARY | 31 JANUARY 2019

Performance Review

In the one month period ending 31 January 2019, the Fund's I shares returned 1.94% (net of fees)¹, while the benchmark returned 2.30%.

Over the course of January, the market rallied strongly. The Fund underperformed its benchmark by 36 basis points (bps) as a result of its underweight to high beta and stressed securities.

Market Review

January saw a drift wider in credit spreads over the first few days of the month, followed by sharp rally back to November spread levels. The iTraxx Crossover, a gauge of market sentiment, ended the month at 310 bps, roughly 42 bps tighter, and index option-adjusted spreads were 66 bps tighter at 456 bps.

The best performing sectors for the month were food & beverage and pharmaceuticals. Despite the strong rally, cyclicals continued to get hit, with metals & mining and autos as the worst performing sectors.

The January primary pipeline, which has historically been robust, was muted. A selection of small add-on or mirror deals tested the waters and generally performed well on the break. For those deals where book size was made public, demand was strong. The asset class also saw inflows over the course of the month, which further supports the technical for the asset class.

Portfolio Activity

We added to positions in the gaming sector, where the Fund had previously been underweight, and further reduced our exposure to the autos sector during the month. We used the market strength to reduce positions which we believed became expensive relative to long-term fundamentals.

Strategy and Outlook

Post the strong rally in January, valuation for European high yield is approaching fair value, trading tight on spread to long-run averages for the asset class. The technical for the asset class is still supportive, with January seeing strong inflows and limited issuance. Corporate fundamentals have weakened, as demonstrated by a slowdown in earnings growth over the third quarter, but remain relatively sound.

The Federal Open Market Committee's response to weakness in economic data and equity markets suggest the potential for easier financial conditions to stay in place, which would be supportive for the asset class. We continue to pay close attention to the changing macro landscape and potential for divergence between Europe and the U.S.

We continue to monitor the developments surrounding Brexit. Prime Minister Theresa May's deal was struck down by a 230-vote margin in early January, and we await news of whether she can renegotiate a deal with the European Union that will be accepted by Parliament. Our Fund remains market weight to the U.K., with an underweight to the U.K. consumer.

For further information, please contact your Morgan Stanley Investment Management representative.

¹ Source: Morgan Stanley Investment Management Limited. Data as of 31 January 2019.

FUND FACTS

Launch date

01 December 1998

Base currency

Euro

Index

ICE BofAML European Currency High Yield 3% Constrained Ex-Sub Financials Index

12 Month Performance Periods to Latest Month End (%)

	JANUARY '18 - JANUARY '19	JANUARY '17 - JANUARY '18	JANUARY '16 - JANUARY '17	JANUARY '15 - JANUARY '16	JANUARY '14 - JANUARY '15
MS INVF European Currencies High Yield Bond Fund - I Shares	-2.81	5.82	12.33	-1.56	5.52
ICE BofAML European Currency High Yield 3% Constrained Ex-Sub Financials Index	-1.45	5.84	11.82	-1.11	5.30

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. **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 BofA ML European Currency Constrained High Yield Index from inception through 31 March 2009 and the ICE BofA ML European Currency High Yield 3% Constrained Ex-Sub Financials Index thereafter.

Share Class I Risk and Reward Profile

Lower Risk

Higher Risk



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 fixed income 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.
- Investment in Fixed Income Securities via the China Interbank Bond Market may also entail additional risks, such as counterparty and liquidity risk.
- 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.

Please refer to the Prospectus for full risk disclosures. All data as of 31 January 2019 and subject to change daily.

INDEX INFORMATION

The **ICE BofAML European Currency Constrained high**

yield index: The index is designed to track the performance of euro- and British pound sterling-denominated below

investment grade corporate debt publicly issued in the eurobond, sterling domestic or euro domestic markets by issuers around the world.

The **ICE BofAML European Currency High Yield 3% Constrained Ex-Sub Financials Index**: contains all non-Sub Financial securities in the ICE BofAML European Currency High Yield Index but caps issuer exposure at 3%. Index constituents are capitalization-weighted, based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 3%.

The **Markit ITraxx Crossover Index** is a benchmark for the cost of protecting bonds against default and an increase signals deteriorating perceptions of credit quality.

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