

Morgan Stanley Investment Funds European High Yield Bond

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

Performance Review

In the one month period ending 31 August 2019, the Fund's I shares returned 0.79% (net of fees)¹, while the benchmark returned 0.63%.

As volatility rose in August, the Fund outperformed its benchmark by 16 basis points (bps), due to avoiding several negative idiosyncratic stories.

Market Review

August was a mixed month for risky assets, amid the continued dovish tone from global central banks. Cash spreads were 8 bps tighter, outperforming synthetic spreads, which closed 2 bps tighter.

The best-performing sectors in August included supermarkets, telecommunications and lodging, while the bottom-performing sectors were paper, consumer cyclical services and metals & mining.

Euro high yield issuance was lower in August (at €0.9 billion, down from €7.4 billion in July), reflective of declining market activity in summer. Issuance was relatively well-digested, with final pricing not being walked in too aggressively from initial price talk.

Portfolio Activity

We selectively participated in new issues.

Strategy and Outlook

Within technicals, supply and demand remains strong as a result of flows into the asset class. As valuations have richened below the long-term average, we remain very selective on new opportunities amid rising idiosyncratic risks.

Recent speeches from the Federal Reserve (Fed) policymakers give us further confidence that the Fed is committed to being flexible regarding future interest rate policy. With that being said, at this point we believe additional 'insurance' rate cuts may be warranted over the next 12 months to help lengthen the economic cycle and avoid a recession, with at least one cut expected at the September meeting.

In the eurozone, the European Central Bank (ECB) has stepped away from its previous hawkish policy and has eliminated the first rate hike call from the fourth quarter of 2019 to two 10 basis point rate cuts by the end of next year. Markets now expect there to be a rate cut at the ECB's September meeting, in conjunction with additional stimulus measures. We are gradually reducing our underweight duration stance.

In the U.K., the Bank of England held rates at 0.75% on August 1 and kept its asset purchase targets steady. On the political front, the focus was the government advising the Queen to prorogue the Parliament in the week beginning September 9, therefore reducing time for MPs to pass laws blocking the U.K.'s exit from the European Union without a negotiated deal. Our Fund remains market weight to the U.K., with an underweight to the U.K. consumer sector. Broadly speaking, we focus on companies which are less affected by Brexit.

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

¹ Source: Morgan Stanley Investment Management Limited. Data as of 31 August 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 (%)

	AUGUST '18 - AUGUST '19	AUGUST '17 - AUGUST '18	AUGUST '16 - AUGUST '17	AUGUST '15 - AUGUST '16	AUGUST '14 - AUGUST '15
MS INVF European High Yield Bond - I Shares	4.62	0.37	6.54	6.68	1.69
ICE BofAML European Currency High Yield 3% Constrained Ex-Sub Financials Index	5.13	1.26	6.57	7.21	1.46

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 funds 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 August 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%.

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