Morgan Stanley

INVESTMENT MANAGEMENT

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Morgan Stanley Investment Funds

Global Balanced Defensive Fund

SOLUTIONS AND MULTI-ASSET | GLOBAL BALANCED RISK CONTROL TEAM | MONTHLY COMMENTARY | 30 APRIL 2019

Performance Review

In the one month period ending 30 April 2019, the Fund's Z shares returned 0.69% (net of fees)[1].

Risk assets gained again in April, sustaining their year-to-date positive streak. Recession fears receded further, with positive surprises in U.S., Europe and China gross domestic product (GDP) growth readings for the first quarter of 2019 and central banks remaining accommodative amid muted inflation pressures. Optimism for an eventual U.S.-China trade deal also continued to bolster investor sentiment during the month. Corporate earnings reports for the January to March period saw most companies meeting or beating lowered expectations with some high-profile disappointments mixed in. Our allocations to U.S. and European equities and European corporate bonds were the top contributors to the portfolio's positive performance on the month; allocation to commodities was the main detractor.

Market Review

United States

The MSCI USA Index returned 3.97% in U.S. dollar terms (USD) and 4.01% in euro terms. U.S. GDP grew a better-than-expected 3.2% in the first quarter of 2019, according to the government's 'advance' estimate. However, much of the gain was attributed to trade and inventories, which are more volatile components of GDP, while consumer and business spending softened. The April Institute for Supply Management (ISM) gauges of the U.S. manufacturing and services sectors' health indicated growth but at a reduced pace. The manufacturing index registered 52.8 in April, down from 55.3 in March, due to slower growth in new orders, production and employment. Notably, export orders contracted for the first time in three years. The services index came in at 55.5 in April, falling from 56.1 in March. Services sector business activity increased in the month, but new orders and employment weakened. In contrast to the ISM employment data, the government reported strong jobs growth in April with the unemployment rate falling to 3.6%. Wage growth remained unchanged at 3.2% year-over-year. Consumer prices rose 2.0% in April year-over-year, and minus food and energy, the core measure was up 2.1%

Europe

The MSCI Europe Index returned 3.77% in euro terms and 3.74% in USD terms. Eurozone GDP grew 1.2% year-over-year in the first quarter of 2019, according to Eurostat's second flash estimate. Eurozone manufacturing activity continued to contract in April. However, the pace of decline slowed slightly, as the IHS Markit Eurozone Manufacturing PMI increased to 47.9 from 47.5 in March. Germany's factory conditions were the weakest, while Greece, Ireland, the Netherlands and Spain saw expansions. France's manufacturing activity stagnated at the 50.0 no-change mark. Across the region overall, new orders continued to decline due to weak export demand and production fell, while hiring increased marginally. The services sector, however, continued to grow, albeit at a slower rate. The IHS Markit Eurozone PMI Services Business Activity Index read 52.8 in April, down from 53.3 in March. New business registered a slight increase, leading to increased staffing. Joblessness across the region continued to fall with the March unemployment number declining to 7.7% in March. Eurozone inflation provisionally rebounded in April with the headline number coming in at 1.7% year-over-year and the core measure up 1.2% year-over-year.

Japan

The MSCI Japan Index returned 2.05% in yen terms and 1.58% in euro terms. Manufacturing activity in Japan resumed expansion during April. The Nikkei Japan Manufacturing PMI rose to 50.2 from 49.2 in March. Slower declines in new orders and output, along with an acceleration in hiring, helped reverse the factory sector's contraction that began in February. Registering 51.8 in April, the Nikkei Japan Services PMI showed resilience in the domestic demand sector while export demand weakened. Although the April print was a decline from 52.0 in March, output and hiring continued to rise. Industrial production fell 0.9% month-on-month and 4.6% over the year ended March 2019, according to the Ministry of Economy, Trade and Industry. Autos, production

[1] Source: Morgan Stanley Investment Management Limited. Data as of 30 April 2019.

machinery and fabricated metals were the main detractors. Unemployment remained at a very low level at 2.5% for March. The headline consumer price index rose 0.5% on the year in March; excluding food and energy, the measure remained unchanged at 0.4% year-over-year.

Portfolio Activity

We gradually increased equity exposure at the beginning of April as economic data globally appeared to be bottoming out. We upgraded the signal on eurozone equities to neutral as a result of the pick-up in underlying data and generally improving external environment. In addition to option positions on eurozone and U.S. equities, we also added a call option on the Nikkei 225 Index. They should provide some protection against a number of binary risks we have been considering since the beginning of the year, which have held us back from further increasing equity exposure despite the generally improving economic backdrop. The effective equity exposure at the end of the month was 28%.

Strategy and Outlook

GDP growth in major economies has come in better than expected in the first quarter of 2019, though risks remain tilted towards the downside. A strong economic recovery, together with the dovish Federal Reserve pivot and trade deal optimism, have helped support the equity markets' rally year-to-date. The setback in U.S.-China trade negotiations has caught investors by surprise as the market had priced in a positive trade deal until the unexpected turnaround on 5 May. The U.S. subsequently increased tariffs on the existing $200 billion of Chinese imports to 25% and threatened to impose additional levies on all remaining Chinese imports. China retaliated with higher tariffs on a range of American goods. A deal is still possible as the negotiation continues, but the uncertainty is high and the downside risk has increased substantially in our opinion. Volatility is likely to remain high in the near term until there is more clarity on a potential resolution. We will continue to monitor the situation and have increased allocations to safe-haven assets such as government bonds and gold in addition to our option protection in the portfolio. We should still receive decent upside if there is a resolution or if the market just ignores the tariffs completely, which in our opinion is a less likely scenario.

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

FUND FACTS

Launch date	Base currency
23 August 2016	Euro

12 Month Performance Periods to Latest Month End (%)

	APRIL '18 - APRIL '19	APRIL '17 - APRIL '18	APRIL '16 - APRIL '17	APRIL '15 - APRIL '16	APRIL '14 - APRIL '15
MS INVF Global Balanced Defensive Fund - Z Shares	2.91	-1.78	--	--	--

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.**

Share Class Z Risk and Reward Profile

Lower Risk						Higher Risk
1	2	**3**	4	5	6	7
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 a range of assets with different levels of risk 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.
- Commodity investments can change significantly and quickly in value as a large variety of factors affect them.
- There are increased risks of investing in emerging markets as political, legal and operational systems may be less developed than in developed markets.
- 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 30 April 2019 and subject to change daily.

INDEX INFORMATION

The **MSCI USA Index** is designed to measure the performance of the large and mid cap segments of the US market. With 631 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the US.

The **MSCI Europe Index** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe. The term "free float" represents the portion of shares outstanding that are deemed to be available for purchase in the public equity markets by investors. The performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends.

The **MSCI Japan Index** is a free-floated adjusted market capitalization weighted index that is designed to track the equity market performance of Japanese securities listed on the Tokyo Stock Exchange, Osaka Stock Exchange, JASDAQ and Nagoya Stock Exchange. The MSCI Japan Index is constructed based on the MSCI Global Investable Market Indices Methodology, targeting a free-float market capitalization coverage of 85%.

The **Nikkei 225 Index** is a price-weighted index of Japan's top 225 blue-chip companies on the Tokyo Stock Exchange.

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