

Morgan Stanley Investment Funds

Global Balanced Risk Control Fund of Funds

SOLUTIONS & MULTI-ASSET | GLOBAL BALANCED RISK CONTROL TEAM | MONTHLY COMMENTARY | 31 JANUARY 2019

Performance Review

In the one month period ending 31 January 2019, the Fund's Z shares returned 2.64% (net of fees)¹.

Both stocks and credit rebounded in January after a tough December. Macroeconomic data from around the world continued to be mixed. But the markets rallied on several developments that were considered positive: The U.S. Federal Reserve turned more dovish than expected, U.S.-China trade talks resumed, and the majority of quarterly corporate earnings reports beat their lowered expectations. Our allocations to U.S., European and emerging market equities were the top contributors to the portfolio's positive performance on the month. Active management within the underlying funds also added to the overall portfolio performance.

Market Review

United States

The MSCI USA Index returned 8.18% in U.S. dollar terms (USD) and 8.20% in euro terms. Economic activity in the U.S. manufacturing and services sectors continued to grow in January. The Institute for Supply Management (ISM) Manufacturing PMI increased by more than expected to 56.6 in January from 54.3 in December, as factories reported strong demand and rising output. The ISM Non-Manufacturing PMI, however, fell by more than expected due to uncertainty stemming from the government shutdown. The January services gauge read 56.7, down from 58.0 in December. Retail sales fell 1.2% in December for the sharpest monthly decline of the expansion since September 2009. The unemployment rate increased to 4.0% in January, reflecting the temporary layoff status of some government workers during the partial shutdown. Wages grew by 3.2% over the 12 months ended January 2019. Separately, the Bureau of Labor Statistics reported the headline consumer price index (CPI) rose 1.9% and core CPI, which excludes food and energy prices, was up 2.2% in the year ended December 2018.

Europe

The MSCI Europe Index returned 6.19% in euro terms and 6.17% in USD terms. Eurozone economic activity remained subdued in the fourth quarter, growing by 0.2% compared to the third quarter, according to Eurostat's flash estimate. Italian economy slipped into a technical recession, with consecutive contractions in the third and fourth quarters of 2018. The IHS Markit Eurozone Manufacturing PMI remained marginally above stagnation levels at 50.5, down from 51.4 in December. The four largest economies saw the weakest factory activity, with German manufacturing falling into contraction and Italy's contraction accelerating. Services sector activity stayed at a 49-month low, with the IHS Markit Eurozone PMI Services Business Activity Index at 51.2 in both January 2019 and December 2018. France and Italy continued to see weakening conditions in the new year, while Germany and Spain's services activity improved. Diminished energy price pressures slowed the eurozone's headline inflation rate in January, as Eurostat's flash estimate showed CPI falling to 1.4% from 1.6% in December. Excluding energy, food, alcohol and tobacco prices, the core measure only increased slightly to 1.1% in January from 1% in December. The unemployment rate held steady at 7.9% in December.

Japan

The MSCI Japan Index returned 5.29% in yen terms and 6.12% in euro terms. Japan's manufacturing activity weakened at the start of 2019. The Nikkei Japan Manufacturing PMI declined to 50.3 in January from 52.6 in December, as output fell for the first time in more than two years due to shrinking domestic and export demand. The services sector was more resilient, however. At 51.6 in January, the Nikkei Japan Services PMI improved from 51.0 in December, supported by strong demand and employment growth. Industrial production slipped 0.1% from November to December and remained down 1.9% from the previous year. Household spending in Japan, in real terms, increased 0.1% on the year in December after falling 0.5% in November. As household spending remained weak, consumer price inflation slowed again in December. The core inflation rate, excluding fresh

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

food, rose 0.7% on the year in December, compared with 0.9% for the prior month. The jobs market remained tight as labour shortages continued. The unemployment rate fell to 2.4% in December from 2.5% in November, according to the Statistics Bureau.

Portfolio Activity

We increased equity exposure gradually throughout January as volatility fell to more normal levels. Investor risk appetite improved, and global equity valuations appeared to be attractive after the December sell-offs. We used options to implement some of the increase in equity exposure to give us downside protection. We also removed our negative signal on technology stocks following the sharp downward adjustment in prices and earnings expectations in December and took profits on a tactical long position in Mexican equities. The effective equity exposure at the end of the month is 40.3%.

Strategy and Outlook

A number of positive fundamental catalysts helped to propel the rally in January. Firstly, China has been announcing incremental stimulus plans amidst an ongoing deceleration in Chinese growth. The authorities appear to be increasingly concerned about the impact on social stability from deteriorating labour market conditions. Secondly, the Federal Reserve moved from raising rates to an outright pause and appears much more dovish following its January meeting. Furthermore, fourth quarter earnings have held up better than expected, although part of the reason for companies surprising to the upside is that the earnings bar was already lowered meaningfully in the third quarter when companies revised down their 2018 profit estimates. Last, but not least, the prospect of some sort of resolution in the U.S.-China trade conflict has also given the market a boost. What is key for positive gains to be sustained in 2019 is that the U.S. (and global) economy does not fall into recession. In our view, the main source of support to the economy which will avoid such an outcome is the announcement of fiscal stimulus. While our base case is that we will see meaningful fiscal stimulus from both the U.S. and China, the risk is that this scenario does not play out. In the near term, barring a negative shock, sentiment is likely to support market momentum.

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

FUND FACTS

Launch date

02 November 2011

Base currency

Euro

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 Global Balanced Risk Control Fund of Funds - Z Shares	-2.83	6.68	7.59	0.38	16.08

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



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 fund's ability to buy or sell securities.
- 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 31 January 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%.

DISTRIBUTION

This communication is only intended for and will only be distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations. In particular, the Shares are not for distribution to US persons.

Ireland: Morgan Stanley Investment Management (Ireland) Limited. Registered Office: The Observatory, 7-11 Sir John

Rogerson's, Quay, Dublin 2, Ireland. Registered in Ireland under company number 616662. Regulated by the Central Bank of Ireland. **United Kingdom:** Morgan Stanley Investment Management Limited is authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No. 1981121. Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA, authorised and regulated by the Financial Conduct Authority. **Dubai:** Morgan Stanley Investment Management Limited (Representative Office, Unit Precinct 3-7th Floor-Unit 701 and 702, Level 7, Gate Precinct Building 3, Dubai International Financial Centre, Dubai, 506501, United Arab Emirates. Telephone: +97 (0)14 709 7158). **Germany:** Morgan Stanley Investment Management Limited Niederlassung Deutschland 4th Floor Junghofstrasse 18-26, 60311 Frankfurt am Main, Germany (Gattung: Zweigniederlassung (FDI) gem. § 53b KWG). **Italy:** Morgan Stanley Investment Management Limited, Milan Branch (Sede Secondaria di Milano) is a branch of Morgan Stanley Investment Management Limited, a company registered in the UK, authorised and regulated by the Financial Conduct Authority (FCA), and whose registered office is at 25 Cabot Square, Canary Wharf, London, E14 4QA. Morgan Stanley Investment Management Limited Milan Branch (Sede Secondaria di Milano) with seat in Palazzo Serbelloni Corso Venezia, 16 20121 Milano, Italy, is registered in Italy with company number and VAT number 08829360968. **The Netherlands:** Morgan Stanley Investment Management, Rembrandt Tower, 11th Floor Amstelplein 1 1096HA, Netherlands. Telephone: 31 2-0462-1300. Morgan Stanley Investment Management is a branch office of Morgan Stanley Investment Management Limited. Morgan Stanley Investment Management Limited is

authorised and regulated by the Financial Conduct Authority in the United Kingdom. **Switzerland:** Morgan Stanley & Co. International plc, London, Zurich Branch. Authorised and regulated by the Eidgenössische Finanzmarktaufsicht ("FINMA"). Registered with the Register of Commerce Zurich CHE-115.415.770. Registered Office: Beethovenstrasse 33, 8002 Zurich, Switzerland, Telephone +41 (0) 44 588 1000. Facsimile Fax: +41 (0) 44 588 1074.

Australia: This publication is disseminated in Australia by Morgan Stanley Investment Management (Australia) Pty Limited ACN: 122040037, AFSL No. 314182, which accepts responsibility for its contents. This publication, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. **Hong Kong:** This document has been issued by Morgan Stanley Asia Limited for use in Hong Kong and shall only be made available to "professional investors" as defined under the Securities and Futures Ordinance of Hong Kong (Cap 571). The contents of this document have not been reviewed nor approved by any regulatory authority including the Securities and Futures Commission in Hong Kong. Accordingly, save where an exemption is available under the relevant law, this document shall not be issued, circulated, distributed, directed at, or made available to, the public in Hong Kong. **Singapore:** This document should not be considered to be the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor under section 304 of the Securities and Futures Act, Chapter 289 of Singapore ("SFA"), (ii) to a "relevant person" (which includes an accredited investor) pursuant to section 305 of the SFA, and such distribution is in accordance with the conditions specified in section 305 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. In particular, for investment funds that are not authorized or recognized by the MAS, units in such funds are not allowed to be offered to the retail public; any written material issued to persons as aforementioned in connection with an offer is not a prospectus as defined in the SFA and, accordingly, statutory liability under the SFA in relation to the content of prospectuses does not apply, and investors should consider carefully whether the investment is suitable for them. This material has not been reviewed by the Monetary Authority of Singapore.

IMPORTANT INFORMATION

EMEA: This marketing communication has been issued by Morgan Stanley Investment Management (Ireland) Limited. Registered Office: The Observatory, 7-11 Sir John Rogerson's, Quay, Dublin 2, Ireland. Registered in Ireland under company number 616662. Authorised and regulated by Central Bank of Ireland. ("MSIM Ireland").

This document contains information relating to the sub-fund ("Fund") of Morgan Stanley Investment Funds, a Luxembourg domiciled Société d'Investissement à Capital Variable. Morgan Stanley Investment Funds (the "Company") is registered in the Grand Duchy of Luxembourg as an undertaking for collective investment pursuant to Part 1 of the Law of 17th December 2010, as amended. The Company is an Undertaking for Collective Investment in Transferable Securities ("UCITS").

Applications for shares in the Fund should not be made without first consulting the current Prospectus, Key Investor

Information Document ("KIID"), Annual Report and Semi-Annual Report ("Offering Documents"), or other documents available in your local jurisdiction which is available free of charge from the Registered Office: European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxembourg B 29 192. In addition, all Italian investors should refer to the 'Extended Application Form', and all Hong Kong investors should refer to the 'Additional Information for Hong Kong Investors' section, outlined within the Prospectus. Copies of the Prospectus, KIID, the Articles of Incorporation and the annual and semi-annual reports, in German, and further information can be obtained free of charge from the representative in Switzerland. The representative in Switzerland is Carnegie Fund Services S.A., 11, rue du Général-Dufour, 1204 Geneva. The paying agent in Switzerland is Banque Cantonale de Genève, 17, quai de l'Île, 1204 Geneva. The document has been prepared solely for informational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy.

Any index referred to herein is the intellectual property (including registered trademarks) of the applicable licensor. Any product based on an index is in no way sponsored, endorsed, sold or promoted by the applicable licensor and it shall not have any liability with respect thereto.

The views and opinions expressed are those of the portfolio management team at the time of writing/of this presentation and are subject to change at any time due to market, economic, or other conditions, and may not necessarily come to pass. These comments are not representative of the opinions and views of the firm as a whole. Holdings, countries and sectors/region weightings are subject to change daily. All information provided is for informational purposes only and should not be deemed as a recommendation to buy or sell securities in the sectors and regions referenced. Information regarding expected market returns and market outlook is based on the research, analysis, and opinions of the team. These conclusions are speculative in nature, may not come to pass, and are not intended to predict the future of any specific Morgan Stanley Investment Management investment. Past performance is no guarantee of future results.

All investments involve risks, including the possible loss of principal. The material contained herein has not been based on a consideration of any individual client circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

The information contained in this communication is not a research recommendation or 'investment research' and is classified as a 'Marketing Communication' in accordance with the applicable European or Swiss regulation. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

MSIM Ireland has not authorised financial intermediaries to use and to distribute this document, unless such use and distribution is made in accordance with applicable law and

regulation. MSIM Ireland shall not be liable for, and accepts no liability for, the use or misuse of this document by any such financial intermediary. If you are a distributor of the Morgan Stanley Investment Funds, some or all of the funds or shares in individual funds may be available for distribution. Please refer to your sub-distribution agreement for these details before forwarding fund information to your clients.

The whole or any part of this work may not be reproduced,

copied or transmitted or any of its contents disclosed to third parties without MSIM Ireland's express written consent.

All information contained herein is proprietary and is protected under copyright law.

This document may be translated into other languages. Where such a translation is made this English version remains definitive. If there are any discrepancies between the English version and any version of this document in another language, the English version shall prevail.