Performance Review

In the one month period ending 31 January 2021, the Fund’s I shares returned -1.03% (net of fees), while the benchmark returned -0.88%.

The portfolio underperformed over the month. The portfolio’s securitized debt exposure was the largest contributor to returns, primarily allocations to asset-backed securities (ABS) and non-agency residential mortgage-backed securities (RMBS). The largest detractor was emerging markets (EM) currency positioning (Brazilian real and South Korean won long positions). Overweight positioning to investment grade corporates also detracted from relative performance, primarily the financials and industrials sectors.

Market Review

January ushered in a pause in the global melt-up in asset prices. Government bond yields rose in most countries with the sell-off in U.S. Treasuries among the worst. Only Australian and Canadian government yields rose more than the U.S. yields while emerging market countries generally saw their yields rise even more. Returns were muted in credit markets as a deluge of supply in the high yield market counteracted good macro fundamentals. Securitized credit bucked the trend and delivered solid, if not stellar, returns (in some sectors).

The big policy news was, of course, the implications of the Democratic sweep of the Georgia U.S. Senate runoff elections. A Democratic majority in the Senate, combined with the inauguration of now-President Biden, offers a radical change in prognosis for fiscal policy. Instead of contentious negotiations with a Republican-controlled Senate, the new administration can use the Congressional budget reconciliation process (the one used by Republicans to get their tax cuts passed in 2017) to push through aggressive fiscal expansion. As of early February, it looks like the Democrats will aim to push through another fiscal support package north of $1 trillion. And it also looks likely this will be followed by another stimulus package in the fall of another $1 trillion or more, possibly with tax hikes included. These, of course, come on the heels of the $900 billion fiscal package passed just recently. If the Democrats succeed in legislating these two new fiscal deals, a truly extraordinary amount of support/stimulus will be injected into the economy. Forecasts of 6%-plus 2021 U.S. gross domestic product (GDP) growth could be low. Indeed, the U.S. might grow faster than China!

What this means is that the hope/belief that yields on government and other high quality bonds would remain stable and low have been challenged. Expectations of low inflation, the pandemic, central bank quantitative easing and central bank forward guidance are slowing the rate rise, but rising they are. The Federal Reserve (Fed) and other central banks are unlikely to enter the fray (meaning commenting or doing something policy-wise) until the consequences are known. Financial conditions remain very easy in the U.S.; not as easy in the eurozone but with euro credit spreads low, most government bond yields negative and, maybe most importantly, with 10-year Italian/German bond yield spreads below 100 basis points, there is little evidence that financial conditions are not propitious for economic recovery.

On the other hand, the global economy looks to have decelerated in the first quarter due to rising COVID-19 infection rates/hospitalizations, renewed/enhanced targeted social distancing and a slow rollout of vaccinations. The emergence of new COVID-19 strains also gives rise to new risks concerning the efficacy of vaccines and the potential continuation of social distancing restrictions farther into the future or continued conservatism of households and companies with regard to normalization of behavior. The good news is that social distancing restrictions seem to be working in bringing down infection rates, vaccination rates are improving and the Johnson & Johnson vaccine looks likely to be approved for emergency use in the U.S. soon.

As previously discussed, interest rate/duration risk has not been friendly to bond market returns in 2021; this is likely to continue. Massive (proposed) U.S. fiscal spending will propel the U.S. economy stronger, with some of the spending spilling

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over to the rest of the world. Increased spending in conjunction with greater normalization of behavior should be good for corporate cash flow (earnings will depend on costs), which should be supportive of credit markets. We remain positioned to benefit from riskier fixed income assets outperforming and government bonds underperforming, with duration likely to be a headwind to returns rather than a tailwind, like in 2020.

**Portfolio Activity**

During the month, we reduced securitized debt exposure, primarily agency RMBS. We added investment grade corporate debt in the financials and industrials sub-sectors. We added EM corporates and increased high yield corporates exposure in the industrials sector. In terms of duration positioning, we reduced duration in Italy, Australia, Greece and Japan, while adding to Germany and France. Within currencies, we reduced the U.S. dollar short, added to the British pound and Norwegian krone longs, closed out of the Brazilian real long position, and covered the euro overweight position. We also established Swedish krona, Canadian dollar, New Zealand dollar and Polish zloty short positions.

**Strategy and Outlook**

Policy news continues to be good for the global economy. Despite wobbles in Europe and deceleration in the U.S., the economic outlook remains positive, leading to a rebound in growth over the course of the first quarter into the second. The benefits of vaccinations should become more and more apparent as vaccination rates rise, targeted restrictions on social mobility should be relaxed, and fiscal policy is running at its most pro-cyclical in generations. The Biden administration appears determined to add another huge dollop of spending to the U.S. economy as it accelerates later in the first quarter. Moreover, the likely surge in the U.S. economy will occur when other countries are also expanding again, resulting in a synchronized global expansion. Financial conditions are easy; policy rates are zero (in most of the world outside of EM); short- and long-term real yields are negative; corporate yields are low (if not negative in real terms for higher quality companies); companies continue to report better than expected earnings; commodity prices are rising; inflation is rising but off very low levels, and big time fiscal easing is coming in the U.S., more modestly in Europe and, importantly, no tightening anywhere else. These conditions are an excellent backdrop for risk taking; not so good for government bonds.

With policymakers fixated on expansionary policies, obsessed with NOT making the same mistakes post Global Financial Crisis, we will end up with pro-cyclical monetary and fiscal policies for the first time in a generation. There is a commitment to get unemployment down in the U.S. at almost any cost, it seems. The logic is that any delays (not related to COVID-imposed restrictions) will lead to hysteresis in unemployment, the tendency of high unemployment to persist such that we end up in an equilibrium with a too-high unemployment rate and a very unequal distribution of that resultant unemployment. Thus, expect monetary and fiscal policy to focus on creating boom-like conditions, rising, of course, that inflation rises sooner than later, an outcome welcomed if contained but problematic if it rises too quickly.

Thus, outside of ongoing pandemic risks (vaccination rates, vaccine-resistant new strains), policies are looking very, very easy, and risking going too far, resulting in inflation rising faster and more than expected and putting pressure on central banks to dial back monetary policy before employment/growth targets are achieved. We think central banks will resist any calls to rein in policy measures and will allow inflation and nominal yields to rise. Indeed, with short rates anchored, this is a recipe for steeper yields curves globally. And, of course, the more vaccines work, the more powerful effect easy policies will have, creating a powerful virtuous circle in terms of stronger and stronger growth and lower and lower unemployment and higher yields. And, as long as rises in yields do not tighten financial conditions, central banks are likely to stand aside and let them rise (a big change from market views at the beginning of the year). This reflation process is unlikely to be smooth and asset prices and interest rates will fluctuate along the way. In this environment, we believe active management, security selection and valuation will be critical to generate a robust fixed income strategy.

This suggests that one of the impediments to investment returns in 2021 might be duration, the reverse of 2020 when falling government bond yields significantly boosted the returns of other assets. The duration of the bond universe has lengthened significantly in recent years, helping boost returns as yields fell. Now markets are at risk of the reverse: longer-duration bonds with higher yields lead to even lower returns. While we are not looking for a large upward movement in yields, they are likely to trend higher. Indeed, markets may decide, as they want to, to test the Fed’s mettle when it comes to levels which might be construed as uncomfortable for the Fed. This is a recipe for overshooting to the upside. All this suggests the optimal investment strategy is to reduce interest rate sensitivity where one can.

Given the pro-cyclical policies expected in 2021 and beyond, the synchronized nature of the global business cycle and the relatively low level of nominal and real yields, we believe fixed income asset allocation should be oriented towards cyclical assets and away from high quality/high interest rate-sensitive ones. However, discrimination remains key given valuation levels. The search for yield in a yield-starved world has eliminated undervaluation in most sectors. But, we believe to generate reasonable income, more risk needs to be taken. Given the very strong macro outlook, a movement to generally reduce credit quality, reduce interest rate sensitivity, overweight emerging markets and look for reasonable risk premium seems appropriate. This includes moving down the credit spectrum in high yield from BB to B, and from A to BBB in investment grade: more default risk, less interest risk. And, of course, the major risk to this outlook is a resurgence of the pandemic, or more likely, the inability of the world to rid itself of COVID-19 to the degree it does not keep households socially distant.
Therefore, discrimination remains key in our choice of assets, and we continue to try to avoid the two tails of the risk spectrum: very high-quality flow yielders and very low-quality high yielders, in credit, securitized and sovereign markets. We want to own exposure in those areas that can withstand some further volatility in macro/virus backdrop and higher yields but have enough yield/spread to offer reasonable 2021 return potential.

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

<table>
<thead>
<tr>
<th>FUND FACTS</th>
<th>Base currency</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Launch date</td>
<td>U.S. dollars</td>
<td>Bloomberg Barclays Global Aggregate Index</td>
</tr>
</tbody>
</table>

12 Month Performance Periods to Latest Month End (%)

<table>
<thead>
<tr>
<th></th>
<th>JANUARY '20</th>
<th>JANUARY '19</th>
<th>JANUARY '18</th>
<th>JANUARY '17</th>
<th>JANUARY '16</th>
</tr>
</thead>
<tbody>
<tr>
<td>MS INVF Global Bond Fund - I Shares</td>
<td>8.28</td>
<td>7.29</td>
<td>-2.24</td>
<td>10.20</td>
<td>4.48</td>
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<tr>
<td>Bloomberg Barclays Global Aggregate Index</td>
<td>6.87</td>
<td>6.58</td>
<td>-0.88</td>
<td>7.46</td>
<td>2.35</td>
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</table>

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 JPM Global Traded Unhedged Index from inception through 31 March 2004, the FTSE WGBI Index to 31 January 2010 and the Bloomberg Barclays Global Aggregate Bond Index thereafter.

Share Class I Risk and Reward Profile

<table>
<thead>
<tr>
<th>Lower Risk</th>
<th>Higher Risk</th>
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<tbody>
<tr>
<td>1</td>
<td>7</td>
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<tr>
<td>2</td>
<td>6</td>
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<tr>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Potentially Lower Rewards</td>
<td>Potentially Higher Rewards</td>
</tr>
</tbody>
</table>

The risk and reward category shown is based on historic data.

- 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.
- 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 can go down as well as up 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 2021 and subject to change daily.
INDEX INFORMATION
The Bloomberg Barclays Global Aggregate Index provides a broad-based measure of the global investment grade fixed-rate debt markets. Total Returns shown is unhedged USD. The index is unmanaged and does not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

The JPM Global Traded Unhedged Index provides a broad-based measure of the global investment grade fixed-rate debt markets. Total Returns shown is unhedged USD. The index is unmanaged and does not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

The FTSE WGBI Index measures the performance of fixed-rate, local currency, and investment grade sovereign bonds. The WGBI provides a broad benchmark for the global sovereign fixed income market.

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