Performance Review

In the one month period ending 31 March 2020, the Fund’s I shares returned -4.09% (net of fees), while the benchmark returned -2.24%.

In March, relative returns were negative as spreads widened across all fixed income sectors.

An overweight position in the securitized sector was the largest relative detractor from performance over the month, particularly in non-agency residential mortgage-backed securities (RMBS) and asset-backed securities (ABS). Concerns regarding a potential recession and how it will impact the consumer, coupled with the forced liquidations of investors in the space, caused spreads to widen. An underweight in U.S. rates and an overweight in emerging markets (EM) debt (both hard currency and local currency) detracted from relative performance as EM yields rose, spreads widened and U.S. Treasury yields fell. Overweight positions in investment grade and high yield corporate debt also detracted from relative performance, as spreads widened in both areas, particularly high yield. Losses were concentrated in the industrials sector, particularly after the energy sector was hard hit in the month.

Positive contributors to relative performance in the month included the income earned from cash securities, a CDX (a credit default swap index) position used to reduce exposure to high yield corporate debt and underweight positions in government debt in Japan and Europe.

We want to provide some background on the fluctuation experience in the net asset value (NAV) of some of the fixed income funds in the week commencing March 16, 2020. In current market conditions where liquidity is challenged, it is vital that we use the tools available to us to protect shareholders from the impact of flows on the funds.

We operate a partial swing pricing mechanism on the funds to protect shareholders from the impact, which occurs because of other investors’ subscription and redemption activity. Swing pricing aims to protect the fund by adjusting the NAV of a fund either up or down to better reflect trading costs as a result of net subscription and redemptions on a particular day.

Swing pricing may increase the variability of the fund’s returns, causing the fund to appear more volatile than in practice. However, this should not be interpreted as an increase in the inherent level of portfolio risk. The percentage by which the NAV is swung is an estimate of trading costs incurred and will therefore protect the fund’s performance in the long term.

Market Review

The rapid pace at which COVID-19 emerged has caused a sudden stop in global economies as many have been forced to quarantine themselves. The economic impact is clear: a sharp decline in growth. From a market perspective, this has caused extreme stress in terms of liquidity shortages. The ability for institutions, individuals, governments and companies to fund their obligations is raising concerns about solvency over the longer term. We have seen asset values fall due to these concerns.

There has been significant central bank and fiscal support to address the liquidity concerns in the market. Many funding facilities have been created to provide access to capital in order to reduce liquidity concerns. It appears that recent central bank action taken by monetary authorities is starting to work. The decline in asset valuations across the fixed income markets has begun to stabilize and even improve towards the end of the month, with notable recoveries in high-quality areas such as investment grade corporates and agency mortgage-backed securities (MBS). As such, we believe asset prices will likely continue to improve as investors regain confidence in the market. We still expect bond prices to be volatile and much still depends on the path the virus takes on the population.


This document constitutes a commentary and does not constitute investment advice nor a recommendation to invest. The value of investments may rise as well as fall. Independent advice should be sought before any decision to invest.
**Portfolio Activity**

We have been active in the re-opened new issue market in governments, agencies, covered bonds and high-quality corporates where we believe there are attractive new issue premia to be harvested. We believe it makes sense to invest in those areas of the markets that are closest to policy support. Notable changes include:

- **Reduced risk via reductions in EM currencies on the strength of the U.S. dollar and concerns about the effect of China’s slowdown on these markets.**
- **Reduced risk in high yield through adding CDX exposure, but we have retained the underlying exposure to high yield given the difficult liquidity and market conditions that have hit the high yield markets particularly hard. Active management in high yield is particularly crucial. Our high yield analysts are continuously monitoring the credits that the Fund is invested in.**
- **New purchases have been concentrated in high-quality areas such as investment grade corporates, where we have been finding significant value. We have been adding here via new issues as well as in the secondary market. We view the market as cheap today, but also recognize that the uncertainty in the economic impact of the coronavirus means we will likely have more volatility and more choices to buy at cheap prices, so we have kept some powder dry.**
- **We added to developed markets rates when duration sold off in the middle of March in the U.S., Australia and New Zealand, as well as in higher-quality EM sovereign external debt. Early in the month, we rotated from peripheral countries to those in the core developed markets and also reduced EM local debt exposure.**
- **In the securitized position, we aimed to keep our exposure constant, although reductions did occur as paydowns were received. We will look to eventually add modestly to the sector. Such additions would include high-quality AAA assets backed by residential mortgages and consumer assets, like rental housing and auto loans. They may also include select opportunities that have wider spread levels, but with strong fundamentals.**
- **Any future additions to high yield will be in companies and industries that we believe have a lower default risk.**

**Strategy and Outlook**

We highlight our current positioning and strategy below.

- **Sovereigns:** The portfolio is 0.2 years long interest rate duration versus the benchmark, concentrated in developed markets. The largest sovereign overweight is in Australia, Austria, Canada and New Zealand, as these yields look attractive in our opinion.
- **Securitized:** We maintain our exposure to securitized credit, focused on securities collateralized by residential property (RMBS and CMBS), with an underweight to agency MBS. Near term, we expect mortgage delinquencies to go up with higher unemployment rates, and home sales to slow down due to social distancing measures. Longer term, we do not anticipate losses on the same scale as the 2008 recession, given the stronger housing fundamentals. Mortgage underwriting standards are stronger than they were pre-crisis, and home prices are supported by limited supply, increased household formations and low interest rates. Increased mortgage delinquencies equate to less underlying cash flow to pay bondholders. However, with our portfolio positioned mostly in senior tranches, structural protections will likely lessen the impact of delinquencies and losses. We are largely avoiding troubled sectors such as aircraft ABS and commercial mortgage-backed securities (CMBS) collateralized by hotels and retail shopping centres, which should be more substantially impacted by the coronavirus quarantines. Senior securities in some of these troubled sectors could represent an attractive buying opportunity given the substantial levels of structural credit support for the senior securities. Mark-to-market risks will likely remain high for these securities, but we believe the structural credit protections can protect against substantial levels of defaults and that many of these securities will be fine from a fundamental credit perspective. Additionally, we expect this sector to rebound, as there have been forced liquidations of investors in these markets. While significant risks exist in the more credit-oriented securitized sector, we hold securities we believe have attractive fundamental value and see potential opportunity for the market to turn around.
- **Investment Grade Corporates:** Our relative overweight exposure is focused on U.S. industrials and banks. The Federal Reserve (Fed) is supporting this market by purchasing corporate bonds of U.S. issuers in the primary and secondary market. This is new ground for the Fed. Furthermore, the Fed will also purchase exchange-traded funds (ETF) that invest in the investment grade corporate market. Within European corporates, we remain overweight in subordinated financials and utilities, and underweight in industrials overall. In response to the coronavirus economic fallout, the European Central Bank has announced an additional quantitative easing asset purchase program.
- **High Yield:** While we have been reducing exposure to high yield year-to-date in 2020, we maintain a small long position in the portfolio. The exposure is idiosyncratic, with no large sector plays. We have a bias toward higher credit quality (BB rated) and are focused on entities without direct exposure to the coronavirus. These sectors include building materials, cable & satellite, media and diversified manufacturing. While there are real default risks in the high yield sectors, there are also real opportunities.
- **EM**: We maintain modest idiosyncratic exposure in EM, including small positions in countries with high real yields, steep yield curves and room for fiscal policy responses. Unlike in previous crises, we expect EM central banks to continue cutting rates.

- **Convertible bonds**: We have small exposure in the convertible bond sector. Convertible bond exposure provides the opportunity to take advantage of an equity market recovery. We like that many technology companies in the sector are less negatively impacted by the virus. There may be opportunities to add exposure in the convertible bond market as companies may turn to the convertible securities market to source capital.

*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>
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</thead>
<tbody>
<tr>
<td>Launch date</td>
<td></td>
<td>Bloomberg Barclays Global Aggregate Index</td>
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<tr>
<td>01 November 1989</td>
<td>U.S. dollars</td>
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**12 Month Performance Periods to Latest Month End (%)**

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<tr>
<th></th>
<th>MARCH ’19 - MARCH ’20</th>
<th>MARCH ’18 - MARCH ’19</th>
<th>MARCH ’17 - MARCH ’18</th>
<th>MARCH ’16 - MARCH ’17</th>
<th>MARCH ’15 - MARCH ’16</th>
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<tbody>
<tr>
<td>MS INV F Global Bond Fund - I Shares</td>
<td>2.25</td>
<td>-1.38</td>
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<td>1.93</td>
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<td>Bloomberg Barclays Global Aggregate Index</td>
<td>4.20</td>
<td>-0.38</td>
<td>6.97</td>
<td>-1.90</td>
<td>4.57</td>
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**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**

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<th>Higher Risk</th>
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<td>Category 5</td>
<td>Category 6</td>
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<tr>
<td>Category 7</td>
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</table>

**Potentially Lower 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.

**Potentially Higher Rewards**
- This rating does not take into account other risk factors which should be considered before investing, these include:
  - The value of bonds is 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.

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**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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