

Morgan Stanley Investment Funds

Global Convertible Bond Fund

FIXED INCOME | GLOBAL FIXED INCOME TEAM | MONTHLY COMMENTARY | OCTOBER 31, 2017

FOR PROFESSIONAL CLIENTS ONLY.

PERFORMANCE REVIEW

In the one month period ending 31 October 2017, the fund's I shares returned 1.57% (net of fees) while the benchmark returned 1.32%.

Technology had another big month, with equity sector returns over 7%, more than double any other sector and contributing the four top performing names in the fund. On the way down, consumer discretionary had four of the bottom performers in the month and energy gave back ground after a strong September.

MARKET REVIEW

Global stocks rallied on solid third quarter earnings, rising oil prices and upbeat manufacturing data. Regionally, Japanese equity markets lead the way again with the Topix index up almost 7%, while U.S. and European indices rose between 2-3%. On the bond side, the Bloomberg Barclays Global Corporate Credit index returned 0.64%.

PORTFOLIO ACTIVITY

The continued equity rally in 2017 has driven a lot of popularly traded securities in the convertible market to equity-like price levels. In October, we sold or reduced several long-term holdings such as Suzuki, Red Hat, Salesforce.com, Intel and Micron Technology which now have prices ranging from 30 to 60 points above par! Clearly, a convertible fund that is promising asymmetric returns and downside protection needs to own more balanced securities to deliver on that promise over the longer term.

STRATEGY AND OUTLOOK

The built-in mechanism in the convertible market to maintain market size is that as stocks rise, in-the-money bonds are sold or called away, and new deals come as issuers are willing to bring new paper when their stocks are hitting new highs. As at October, 31, 2017, both the Dow Jones and DAX Performance indices are at all-time highs, and the Tokyo Stock Price Index (Topix) is at its highest level in over 25 years.

Peak market levels combined with a rising rates environment have historically brought boom times to convertible market supply and so the market expectation is for a steady issuance calendar going forward. One factor keeping issuance down so far, however, is the low level of market volatility, which suppresses the value of the embedded equity option, thereby saving the issuer less in terms of coupon paid. In any case, we have recently seen good signs of supply, most notably in Asia where three large new deals came to market and were all over-subscribed.

For further information, please contact your Morgan Stanley representative.

FUND FACTS

Fund launch

July 2002

Investment team

Christian Roth, Tom Wills, Mikhael Breiterman-Loader

Location

New York

Base currency

U.S. dollars

Benchmark

Thomson Reuters Convertible Global Focus (USD Hedged) Index

IMPORTANT INFORMATION

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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. The value of the investments and the income from them can go down as well as up and an investor may not get back the amount invested. There are additional risks involved with this type of investment. Please refer to the Prospectus and relevant Key Investor Information for full risk disclosure.

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