

Morgan Stanley Investment Funds

Global Convertible Bond Fund

FIXED INCOME | GLOBAL FIXED INCOME TEAM | MONTHLY COMMENTARY | 28 FEBRUARY 2018

Performance Review

In the one month period up until 28 February 2018, the Fund's I shares returned -1.23% (net of fees)¹, while the benchmark returned -0.92%.

Somewhat surprisingly, cyclical sectors still managed to perform best during a down month, led by technology with five of the top 10 performing names in the Fund. On the downside, energy delivered the worst equity sector returns on a 5% drop in the price of crude, but the Fund has limited exposure to the sector.

Market Review

After over a year of historically low volatility, it returned dramatically in February, characterised by rising inflation and the impact on the rates outlook, along with a lot of covering on excessively high short volatility positions. Global convertibles behaved as we would expect in this environment, protecting investors against much of the equity sell-off. MSCI All Country World Index equities broke a 15-month run of positive returns, falling 4.36% in U.S. dollar terms, its largest drop since August 2015. Credit also fell in this environment, with the Barclays Global Aggregate Index falling 98 basis points.

Portfolio Activity

We performed detailed reviews of financials, health care, technology and utilities in February and made a number of portfolio adjustments. Names sold or reduced included Acorda, Service Now and Silicon Precision, while we added new positions such as Country Garden, China Overseas Land, Wright Medical and Hon Hai Precision.

Strategy and Outlook

After such a strong start to the year, markets braced for a pullback and it came quickly as February losses largely eliminated January gains. Equity volatility also finally came back as the VIX index rose from 13 to start the month to 37 at the highs. It is important to note that convertibles are more related to longer-term volatility, while the VIX is a measure of short-term volatility, but as volatility rises in the short term, it of course eventually affects longer-term levels. We again observe that historically when volatility rises, convertibles have tended to outperform stocks.

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

FUND FACTS

Launch date
17 July 2002

Base currency
U.S. dollars

Index
Thomson Reuters Convertible Global Focus (USD Hedged) Index

12 Month Performance Periods to Latest Month End (%)

	FEBRUARY '17 - FEBRUARY '18	FEBRUARY '16 - FEBRUARY '17	FEBRUARY '15 - FEBRUARY '16	FEBRUARY '14 - FEBRUARY '15	FEBRUARY '13 - FEBRUARY '14
MS INVF Global Convertible Bond Fund - I Shares	3.93	10.92	(8.04)	2.92	15.04
Thomson Reuters Convertible Global Focus (USD Hedged) Index	4.90	9.34	(5.34)	5.37	14.48

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 ICE BofA ML G300 Global Convertible Index Local Currency to 31 October 2005, the ICE BofA ML G300 Global Convertible Index USD Hedged to 30 April 2011 and the Thomson Reuters Thomson Reuters Convertible Global Focus (USD Hedged) Index thereafter.

¹ Source: Morgan Stanley Investment Management Limited. Data as of 28 February 2018.

Share Class I 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 fixed income securities which convert into company shares 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 28 February 2018 and subject to change daily.

INDEX INFORMATION

The **Thomson Reuters Convertible Global Focus USD Hedged Index** is a market weighted index with a minimum size for inclusion of \$500 million (US), 200 million (Europe), 22 billion Yen, and \$275 million (Other) of Convertible Bonds with an Equity Link.

ICE BofAML G300 Global Convertible Index - Local Currency is a global convertible index composed of companies representative of the market structure of countries in North America, Europe and the Asia/Pacific region. It is composed of securities denominated in their respective local currencies.

ICE BofAML G300 Global Convertible Index USD Hedged is a global convertible index composed of companies representative of the market structure of countries in North America, Europe and the Asia/Pacific region. It is hedged to the U.S. dollar.

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