

### Morgan Stanley Investment Funds

# Global Convertible Bond Fund

FIXED INCOME | GLOBAL FIXED INCOME TEAM | MONTHLY COMMENTARY | SEPTEMBER 30, 2017

FOR PROFESSIONAL CLIENTS ONLY.

#### PERFORMANCE REVIEW

In the one month period ending 30 September 2017, the fund's I shares returned 1.28% (net of fees) while the benchmark returned 0.87%.

Technology was strong again, and energy names rebounded after a poor run with three of our top five performers, lead by Ensco, Weatherford and Nabors. On the way down, healthcare names featured among the bottom two performers: Dexcom and Intercept Pharmaceuticals.

#### MARKET REVIEW

Global stocks continued their uninterrupted run of performance with the MSCI World equity index rising for the 11th month in a row. Regionally, both European and Japanese equity markets lead the way with major indices up over 3%. Meanwhile in the U.S., the S&P 500 composite climbed 2.15%. On the bond side, Bloomberg Barclays Global Corporate Credit index returned (0.25)%.

#### PORTFOLIO ACTIVITY

The equity rally of 2017 has been broadly based with eight out of 10 MSCI sector indices up in double digits for the year to date. The leader has been technology, which has risen 28% through September 30, 2017. Not surprisingly, this creates turnover in the fund as we look to sell names which have become deep in-the-money and which therefore no longer offer any meaningful downside protection. This past month, we sold or trimmed exposure in names such as Micron Tech, Zhen Ding Tech, NXP Semiconductor and Microchip Tech, while including new balanced tech names such as Synaptics, Zillow, EFII, IAC and Cardtronics.

#### STRATEGY AND OUTLOOK

Two of the main drivers of convertible bond supply are rising rates and rising equity prices. Therefore, the market has been fairly busy absorbing new deals in the current environment with over 20 new issues bringing nearly \$10 billion in supply coming in the month. Historically, the U.S. has been characterised more by high growth mid-cap issuers, while Europe and Asia have been supplied more by larger, stable, investment-grade firms. One trend we have observed in 2017 is that in Europe in particular, the supply has been more like what we normally see in the U.S., i.e. a shift towards smaller deals from growth companies. This makes the European space more appealing in the environment of rallying stocks.

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

### FOR PROFESSIONAL CLIENTS ONLY.

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.

This communication has been issued and approved in the UK by Morgan Stanley Investment Management Limited, 25 Cabot Square, Canary Wharf, London E14 4QA, authorised and regulated by the Financial Conduct Authority.

This document contains information relating to the sub-funds ("Funds") 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").

The purpose of this document is to provide a commentary on the performance and management of the Fund. Any discussion of individual stocks is included solely for that purpose and concerns the way in which the Company has sought to use that stock, in combination with others, in seeking to pursue the Fund strategy as a whole. Any comments should therefore not be taken out of context and should not be treated as advice on or a recommendation as to whether to transact in that stock.

The views and opinions are those of the Investment team as of the date of publication and are subject to change at any time and may not necessarily come to pass. The views expressed do not reflect the opinions of all Investment teams at Morgan Stanley Investment Management (MSIM) or the views of the firm as a whole, and may not be reflected in all the strategies and products that the Firm offers. This communication is not a product of Morgan Stanley's Research Department and should not be regarded as a research recommendation. The information contained herein has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

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 in the United States or to US persons.

Applications for shares in Morgan Stanley Investment Funds 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 are 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, Key Investor Information Document, 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 source for all performance and index data is Morgan Stanley Investment Management Limited. Calculations are NAV to NAV. Performance is quoted net of fees and with income reinvested. The indices do not include any expenses, fees or sales charges, which would lower performance. The indexes are unmanaged and should not be considered an investment. It is not possible to invest directly in an index.

For cash management purposes the Fund may invest in shares in the Liquidity Funds of Morgan Stanley Liquidity Funds.

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.

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 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.