

### Morgan Stanley Investment Funds

# Global Convertible Bond Fund

FIXED INCOME | GLOBAL FIXED INCOME TEAM | MONTHLY COMMENTARY | 30 JUNE 2018

#### Performance Review

In the one month period ending 30 June 2018, the Fund's I shares returned -0.12% (net of fees)<sup>1</sup>, while the benchmark returned -0.25%.

Consumer discretionary names recovered from a poor May with six of the Fund's top 10 performers in June, led by Tesla, Dish Networks and Sony. On the downside, technology had an overdue weaker month, led lower by names such as Microchip Technology, Weibo and Workday.

#### Market Review

Global convertibles declined slightly in June, alongside falling global equities and bonds. Global equities fell 70 basis points (bps) in the month and global credit fell 29 bps amid continued caution around the global trade environment (as measured by the MSCI World Index and Bloomberg Barclays Global Aggregate Index, respectively).

#### Portfolio Activity

In June, we performed detailed reviews of consumer discretionary/staples, materials and industrials, and made several portfolio adjustments. We continue to watch the technology sector closely, selling names that have gone too far in-the-money, such as Zillow, Extra Space Storage, United Microelectronics and Nutanix, and replacing them with newer issues such as Momo and Vishay Intertechnology.

#### Strategy and Outlook

At the year's halfway point, we observe that the market has priced \$58 billion in new paper, the highest amount in a decade, with the U.S. leading at \$34 billion. The reasons that make convertibles compelling in 2018 are mostly due to trends in the U.S. – rising rates, a higher volatility environment and changes to the U.S. tax code. Europe, on the other hand, lags due to slower growth, which means less impetus to drive up rates and volatility. Supply has followed returns as the U.S. convertible market has returned nearly 6% year-to-date, while other regions' returns are flat or slightly down.

**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

<sup>1</sup> Source: Morgan Stanley Investment Management Limited. Data as of 30 June 2018.

## 12 Month Performance Periods to Latest Month End (%)

	JUNE '17 - JUNE '18	JUNE '16 - JUNE '17	JUNE '15 - JUNE '16	JUNE '14 - JUNE '15	JUNE '13 - JUNE '14
MS INVF Global Convertible Bond Fund - I Shares	2.11	10.40	(6.86)	2.58	13.39
Thomson Reuters Convertible Global Focus (USD Hedged) Index	2.39	9.36	(3.69)	4.07	13.51

**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](http://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.

## 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 30 June 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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