

## Morgan Stanley Investment Funds US Dollar Liquidity Fund

LIQUIDITY | GLOBAL LIQUIDITY TEAM | MONTHLY COMMENTARY | 31 OCTOBER 2018

### Performance Review

In the one month period ending 31 October 2018, the Fund's I shares returned 0.19% (net of fees)<sup>1</sup>, while the benchmark returned 0.18%.

### Market Review

In October, the markets experienced heightened volatility amid continued geopolitical uncertainty, particularly leading into the U.S. midterm elections.

Following the Federal Reserve's (Fed) September rate hike, the minutes from the meeting were released, which provided further insight into the Fed's current mindset. The Fed unanimously voted to raise rates and indicated it plans to continue raising rates for the foreseeable future. The minutes stated, "With regard to the outlook for monetary policy beyond this meeting, participants generally anticipated that further gradual increases in the target range for the federal funds rate would most likely be consistent with a sustained economic expansion, strong labor market conditions, and inflation near 2% over the medium term." While the Fed does not consider the recent volatility as a viable threat to future rate hikes, officials still caveated their statement by saying that they still are closely monitoring developments in the market and incoming data.

The minutes also discussed the rationale behind removing the word "accommodative" from the Federal Open Market Committee (FOMC) statement. Chairman Jerome Powell stated that investors should not read too much into it and that the fed funds rate still remains well below its longer rate target. Many investors perceived the removal of accommodative as a bullish signal, due to the fact that Fed is on a tightening path.

U.S. gross domestic product grew at a 3.5% annual rate in the third quarter, above expectations for 3.3%. This was largely driven by consumer spending, which accelerated at its fastest rate since 2014 and accounts for circa 70% of the economy, as well as government spending, which rose by the most since 2016. This data indicates that a robust job market and lower taxes continue to propel demand.

In the eurozone, the European Central Bank (ECB) took no action at its meeting on October 25. However, the ECB did confirm, once again, its plan to end monetary easing by the end of this year. The ECB expects to raise rates at some point in the second half of 2019, after the summer.

In the U.K., despite the economy growing above trend and operating at full employment, it is expected that the Monetary Policy Committee will vote to maintain the status quo on rates and the Asset Purchase Facility at the November 1 meeting. This is due to the ongoing uncertainty surrounding Brexit. Regarding Brexit, Prime Minister May stated that 95% of the terms of the agreement were agreed upon but the Irish border was still a "considerable sticking point."

### Portfolio Activity

In October, we continued to position the portfolio for rising rates, favoring floating-rate Treasuries and short fixed-rate agencies. Yields on Treasuries and agencies continued to move higher on more supply and expectations of another rate hike in December. Fannie Mae issued its second Secured Overnight Financing Rate (SOFR)-indexed floating-rate note this month. Market demand was strong for the \$5 billion issue, spread across 6-month, 1-year and 18-month maturity tenors. SOFR-indexed issuance will continue to grow from the agencies as the replacement for LIBOR issuance. The U.S. Treasury conducted its inaugural 2-month bill auction on October 16, totaling \$25 billion. This represents the first bill to mature on a Tuesday as the Treasury seeks to smooth out its settlement calendar.

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<sup>1</sup> Source: Morgan Stanley Investment Management Limited. Data as of 31 October 2018.

## Strategy and Outlook

We continued to position the portfolio for a rising rate environment, with an emphasis on minimizing interest rate risk.

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

### FUND FACTS

#### Launch date

03 June 1998

#### Base currency

U.S. dollars

#### Index

One Week USD LIBID Index

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

	OCTOBER '17 - OCTOBER '18	OCTOBER '16 - OCTOBER '17	OCTOBER '15 - OCTOBER '16	OCTOBER '14 - OCTOBER '15	OCTOBER '13 - OCTOBER '14
MS INV F US Dollar Liquidity Fund - I Shares	1.65	0.88	0.25	0.01	0.01
One Week USD LIBID Index	1.62	0.81	0.26	0.02	0.00

**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 FTSE 3 Month US T-bill Index from inception through 30 September 2013 and the One Week USD LIBID 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 mainly invests in the Morgan Stanley Liquidity Funds - US Dollar Liquidity Fund and the fund's simulated and/or realised return has experienced low 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.
- 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.
- Purchases and sales of fund shares received before 1pm CET will be invested into/disinvested from the Morgan Stanley Liquidity Funds - USD Liquidity Fund on the same day.
- While it is intended that the distributing share classes will maintain a share price of \$1, this may be affected by the creditworthiness of the issuers of investments held or large changes in interest rates.
- 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 31 October 2018 and subject to change daily.

### INDEX INFORMATION

**FTSE 3 Month US T-bill Index** is an unmanaged index representing monthly return equivalents of yield averages of the last 3 month Treasury Bill Issues.

**One Week USD LIBID Index** 1 week London Interbank Bid Rate - The average interest rate which major London banks borrow deposits from other banks.

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