

Emerging Markets Fixed Income Opportunities Fund

FIXED INCOME | GLOBAL FIXED INCOME TEAM | MONTHLY FUND ANALYSIS | 31 March 2019

Commentary

MARKET REVIEW

EM fixed income asset returns were mixed in the month as EM currencies weakened versus the U.S. dollar, while local bond performance and external debt returns were positive. Within the hard currency segment, investment grade outperformed high yield as U.S. Treasury yields fell in the period, and sovereigns outperformed corporates. Commodity prices were also mixed in the period, with continued strength in oil prices, while precious metals and agricultural commodity prices declined. Investment flows continued their positive momentum, with \$16 billion flowing into EM fixed income funds during the month, according to JPMorgan. The inflows were roughly split between institutional and retail flows, primarily in favor of hard currency strategies, followed by local currency and then blended.

The broader EM Debt market returned 0.47% in the month as measured by the Blended Index (equal-weighted index comprised of the JP Morgan GBI-EM Global Diversified Index (Domestic debt), JP Morgan EMBI Global Index (External debt), and the JP Morgan CEMBI BD Index (Corporate debt). EM external debt led the way with a return of 1.45%, followed by corporate debt returned 1.28%, while domestic debt trailed with a return of -1.33% as currencies weakened versus the US dollar.

PERFORMANCE REVIEW

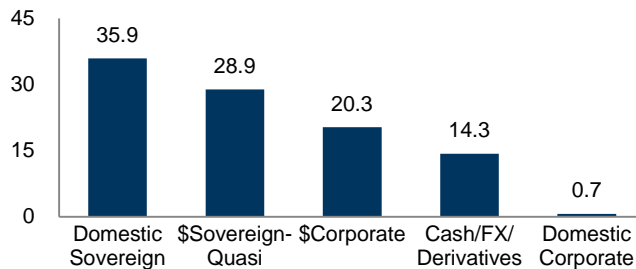
Dollar-denominated sovereign and debt contributed to returns, while local currency debt detracted in the month. From a country perspective, exposure in Mexico, Indonesia, Ukraine, and Qatar contributed the most to performance. Conversely, holdings in Argentina, Turkey, and Brazil detracted the most from performance.

MAIN STRATEGY CHANGES IN THE MONTH

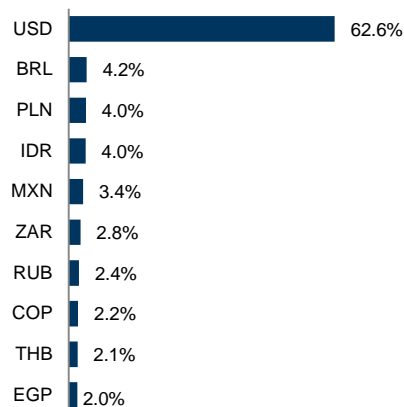
During the month we added to Nigeria, Qatar, Sri Lanka, and Ghana, rotated in Russia, and trimmed in Mexico, Kenya and Egypt.

Source: Morgan Stanley Investment Management. As of 31st March 2019.

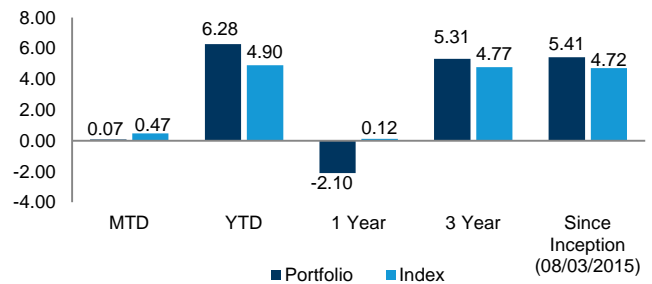
Sector Breakdown – Market Value %



Currency - Top 10 - Market Value %



Investment Performance (% net of fees) in USD - Z Class Shares



12 Month Performance Periods to Latest Month End (%)

Class Z Shares (Net)	Mar '19- Mar '18	Mar '18- Mar '17	Mar '17- Mar '16	Mar '16- Mar '15	Mar '15- Mar '14
Class Z Shares (Net)	-2.10	7.80	10.67	X.XX	X.XX

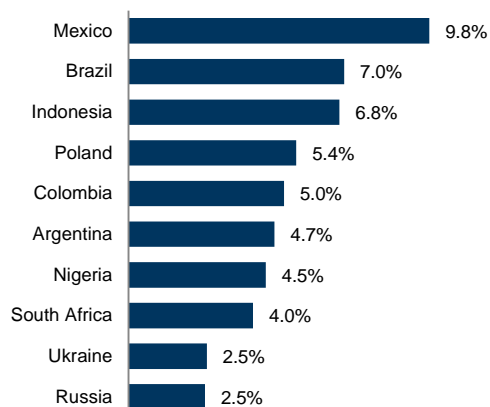
Portfolio inception date: 3rd August 2015. Index shown is the Blended Index (equal-weighted index comprised of the JP Morgan GBI-EM Global Diversified Index, JP Morgan EMBI Global Index, and the JP Morgan CEMBI BD Index.

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.**

Statistics

Statistics	Portfolio
Effective Interest Rate Duration (years)	5.24
Spread Duration (years)	3.43
Weighted Average Life (years)	9.20
Yield to Maturity (%)	6.95
Average Credit Quality Moody's	Baa3
Average Credit Quality S&P	BB+
Standard Deviation (Since Inception, %) - Z Class Shares	7.97
Sharpe Ratio (Since Inception, %) - Z Class Shares	0.65

Country - Top 10 - Market Value %



Source: Morgan Stanley Investment Management, Blackrock, JP Morgan. Data as of March 31, 2019. *United States allocation is typically cash holdings.

Provided for informational purposes only, not to be construed as investment recommendations for securities, sectors or countries listed herein. Holdings data is subject to change on a daily basis

Investment Approach

- Holistic approach to gain exposure to the broad spectrum of dollar-denominated and local currency sovereign, quasi-sovereign and corporate debt.
- Process integrates bottom-up security selection with top-down macroeconomic, sovereign, sector and currency analysis.
- The team conducts fundamental sovereign analysis using frameworks that combine economic, political and social assessments. The prime objective of this analysis is to distinguish between those countries exhibiting positive and negative rates of change. We analyze a country's ability and willingness to service its debt obligations, domestic factors which impact interest rates and exchange rates, and how these elements may influence the overall business environment and therefore the fundamentals of public and private sector credit. We use a variety of spread, currency, interest rate, and yield curve models to guide our view of "fair value" and compare our views with the market's to identify value opportunities.
- Interest rate and currency decisions are made independently and each potential security is analyzed through a variety of valuation metrics. The team's models provide perspective on market valuations in different cycles and time periods, enabling them to identify potential mispricing and alpha opportunities, as well as determine the relative value between corporate, sovereign, or quasi-sovereign debt.
- Risk management is integrated into our entire investment process.

Risk Considerations

- 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.

Definitions

Cash & Equivalents are assets that are cash or can be readily converted into cash. **Effective Interest Rate Duration** is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices. **NAV** is the Net Asset Value per share of the Fund (NAV), which represents the value of the assets of a fund less its liabilities. **Sharpe Ratio** is a risk-adjusted measure calculated as the ratio of excess return to standard deviation. The Sharpe ratio determines reward per unit of risk. The higher the Sharpe ratio, the better the historical risk-adjusted performance. **Spread Duration** is a measurement of the spread of a fixed-income security rate and the risk-free rate of return. **Volatility (Standard deviation)** measures how widely individual performance returns, within a performance series, are dispersed from the average or mean value. **Weighted average life (WAL)** is a measure of sensitivity to liquidity and/or credit risk. Weighted average life takes into account all call options exercised by the issuer as well as permissible maturity shortening devices such as demand features. **Yield to maturity (YTM)** measures the annual return on interest-bearing securities. In this it is assumed that they will be held to maturity. This metric includes both the coupon payments received during the term of the security and the repayment of the capital on maturity.

Index Information

Blended Index (EM Debt, Equal-Weighted) – Represented by a Blended Index of equal-weighted (1/3%) of JP Morgan EMBI Global, JP Morgan CEMBI Broad Diversified and JP Morgan GBI-EM Global Diversified Index. The JP Morgan Emerging Markets Bond Index Global (EM External) tracks total returns for traded external debt instruments in the emerging markets and is an expanded version of the EMBI+. As with the EMBI+, the EMBI Global includes U.S. dollar-denominated Brady bonds, loans and eurobonds

Fund Characteristics Summary

Benchmark	• Blended Index* for reference only
Fund Launch	• 3 rd August 2015
Investment Universe (Alpha Source)	• Debt securities of emerging market country issuers (sovereigns, quasi sovereigns, corporate bonds)
Denominated in	• U.S. dollar, and to a lesser extent, non U.S. or EM local currencies
Country	• Typically 0-20%
Sector	• Maximum 80% in any one EM sector (corporate, external, domestic)
Effective Interest Rate Duration	• In the range of 0-8 years
Yield to Maturity	• Typically 5-7%
Average Credit Quality (Moody's/S&P/Fitch)	• Typically: Ba/BB/BB to Baa2/BBB/BBB
Portfolio Managers**	• Eric Baumeister, Warren Mar and Sahil Tandon

*Blended Index is comprised 1/3 JP Morgan Emerging Markets Bond Global Index, 1/3 JP Morgan GBI-EM Global Diversified Index and 1/3 JP Morgan CEMBI Broad Diversified Index.

** Managers may change from time to time without notice.

with an outstanding face value of at least \$500 million. The JP Morgan Corporate Emerging Markets Bond Index Broad Diversified Index (EM Corporate) is a global, liquid corporate emerging markets benchmark that tracks U.S.-denominated corporate bonds issued by emerging markets entities. The JP Morgan Government Bond Index-Emerging Markets Global Diversified Index (EM Domestic) is a market-capitalization weighted, liquid global benchmark for U.S.-dollar corporate emerging market bonds representing Asia, Latin America, Europe and the Middle East/Africa.

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