

# Global Balanced Income Fund

SOLUTIONS & MULTI ASSET | GLOBAL BALANCED RISK CONTROL TEAM | FUND ANALYSIS | 30 APRIL 2019

## Commentary

### PERFORMANCE REVIEW

- In the one month period ending 30 April 2019, the Fund's Z shares returned 1.28% (net of fees)<sup>1</sup>.
- Risk assets gained again in April, sustaining their year-to-date positive streak. Recession fears receded further, with positive surprises in U.S., Europe and China gross domestic product (GDP) growth readings for the first quarter of 2019 and central banks remaining accommodative amid muted inflation pressures. Optimism for an eventual U.S.-China trade deal also continued to bolster investor sentiment during the month. Corporate earnings reports for the January to March period saw most companies meeting or beating lowered expectations with some high-profile disappointments mixed in. Our allocations to U.S. and European equities and European corporate bonds were the top contributors to the portfolio's positive performance on the month; allocation to commodities was the main detractor.

### MARKET REVIEW

- **U.S.:** The MSCI USA Index returned 3.97% in U.S. dollar terms (USD) and 4.01% in euro terms. U.S. GDP grew a better-than-expected 3.2% in the first quarter of 2019, according to the government's 'advance' estimate. However, much of the gain was attributed to trade and inventories, which are more volatile components of GDP, while consumer and business spending softened. The April Institute for Supply Management (ISM) gauges of the U.S. manufacturing and services sectors' health indicated growth but at a reduced pace. The manufacturing index registered 52.8 in April, down from 55.3 in March, due to slower growth in new orders, production and employment. Notably, export orders contracted for the first time in three years. The services index came in at 55.5 in April, falling from 56.1 in March. Services sector business activity increased in the month, but new orders and employment weakened. In contrast to the ISM employment data, the government reported strong jobs growth in April with the unemployment rate falling to 3.6%. Wage growth remained unchanged at 3.2% year-over-year. Consumer prices rose 2.0% in April year-over-year, and minus food and energy, the core measure was up 2.1%.
- **Europe:** The MSCI Europe Index returned 3.77% in euro terms and 3.74% in USD terms. Eurozone GDP grew 1.2% year-over-year in the first quarter of 2019, according to Eurostat's second flash estimate. Eurozone manufacturing activity continued to contract in April. However, the pace of decline slowed slightly, as the IHS Markit Eurozone Manufacturing PMI increased to 47.9 from 47.5 in March. Germany's factory conditions were the weakest, while Greece, Ireland, the Netherlands and Spain saw expansions. France's manufacturing activity stagnated at the 50.0 no-change mark. Across the region overall, new orders continued to decline due to weak export demand and production fell, while hiring increased marginally. The services sector, however, continued to grow, albeit at a slower rate. The IHS Markit Eurozone PMI Services Business Activity Index read 52.8 in April, down from 53.3 in March. New business registered a slight increase, leading to increased staffing. Joblessness across the region continued to fall with the March unemployment number declining to 7.7% in March. Eurozone inflation provisionally rebounded in April with the headline number coming in at 1.7% year-over-year and the core measure up 1.2% year-over-year.
- **Japan:** The MSCI Japan Index returned 2.05% in yen terms and 1.58% in euro terms. Manufacturing activity in Japan resumed expansion during April. The Nikkei Japan Manufacturing PMI rose to 50.2 from 49.2 in March. Slower declines in new orders and output, along with an acceleration in hiring, helped reverse the factory sector's contraction that began in February. Registering 51.8 in April,

the Nikkei Japan Services PMI showed resilience in the domestic demand sector while export demand weakened. Although the April print was a decline from 52.0 in March, output and hiring continued to rise. Industrial production fell 0.9% month-on-month and 4.6% over the year ended March 2019, according to the Ministry of Economy, Trade and Industry. Autos, production machinery and fabricated metals were the main detractors. Unemployment remained at a very low level at 2.5% for March. The headline consumer price index rose 0.5% on the year in March; excluding food and energy, the measure remained unchanged at 0.4% year-over-year.

### PORTFOLIO ACTIVITY

- We gradually increased equity exposure at the beginning of April as economic data globally appeared to be bottoming out. We upgraded the signal on eurozone equities to neutral as a result of the pick-up in underlying data and generally improving external environment. In addition to option positions on eurozone and U.S. equities, we also added a call option on the Nikkei 225 Index. They should provide some protection against a number of binary risks we have been considering since the beginning of the year, which have held us back from further increasing equity exposure despite the generally improving economic backdrop. The effective equity exposure at the end of the month was 52%.

### STRATEGY AND OUTLOOK

- GDP growth in major economies has come in better than expected in the first quarter of 2019, though risks remain tilted towards the downside. A strong economic recovery, together with the dovish Federal Reserve pivot and trade deal optimism, have helped support the equity markets' rally year-to-date. The setback in U.S.-China trade negotiations has caught investors by surprise as the market had priced in a positive trade deal until the unexpected turnaround on 5 May. The U.S. subsequently increased tariffs on the existing \$200 billion of Chinese imports to 25% and threatened to impose additional levies on all remaining Chinese imports. China retaliated with higher tariffs on a range of American goods. A deal is still possible as the negotiation continues, but the uncertainty is high and the downside risk has increased substantially in our opinion. Volatility is likely to remain high in the near term until there is more clarity on a potential resolution. We will continue to monitor the situation and have increased allocations to safe-haven assets such as government bonds and gold in addition to our option protection in the portfolio. We should still receive decent upside if there is a resolution or if the market just ignores the tariffs completely, which in our opinion is a less likely scenario.

### Statistics as of 30 April 2019

Effective Duration	1.93
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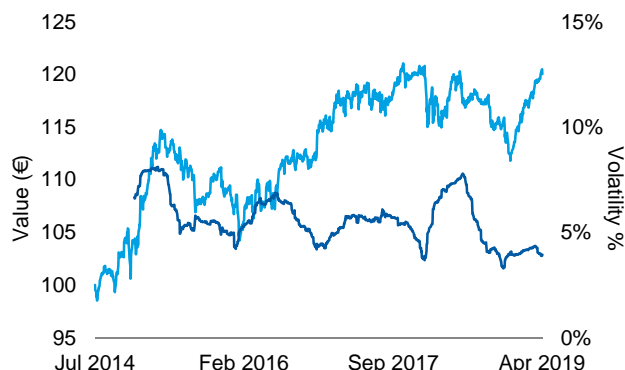
<sup>1</sup>Source: Morgan Stanley Investment Management Data as of 30 April 2019.

Asset Allocation as of 30 April 2019

	Current Weight %
<b>EQUITY</b>	<b>52.0</b>
S&P 500 Stock Basket	9.8
S&P 500 Futures	-1.6
S&P 500 Long Call Options	5.2
MSCI Europe Stock Basket	5.3
Euro Stoxx 50 Futures	2.4
Euro Stoxx 50 Long Call Options	3.8
Euro Stoxx 50 Put Options (Short Position)	2.3
MSCI Japan Stock Basket	4.6
iShares MSCI Japan Small Cap UCITS ETF	0.5
Nikkei 225 Futures	-0.7
Nikkei 225 Call Options	2.7
Nikkei 225 Put Options (Short Position)	3.2
MSCI EM Stock Basket	2.8
MSCI EM Futures	0.2
Amundi MSCI EM LatAm UCITS ETF	0.5
MSCI Asia ex-Japan Stock Basket	5.0
iShares Developed Markets Property Yield UCITS ETF	3.0
MS INVF Global Infrastructure Fund Z	3.0
<b>Commodities</b>	<b>4.9</b>
Invesco Physical Gold ETC ETF	2.0
ETFS Industrial Metals ETC ETF	2.9
<b>Fixed Income</b>	<b>41.8</b>
Euro Government Bonds	2.5
US TIPS	5.0
iShares EM Local Govt Bond ETF	2.0
Short Maturity Euro Corporate Bonds	6.1
Euro Corporate Bonds	12.6
iTraxx Europe Main 5Y CDS	4.6
iTraxx Euro X-Over 5Y CDS	2.4
iTraxx US High Yield CDS	3.6
iTraxx EM Sovereign CDS	3.1
<b>Cash</b>	<b>1.3</b>
Physical Cash & Short Maturity Bonds	18.8
Synthetic Cash	-17.5
<b>TOTAL</b>	<b>100.0</b>

Performance as of 30 April 2019 (%)

Class Z shares, performance of €100 invested since inception (31 July 2014) and 6-month rolling volatility



— Performance (Left Scale) — Volatility (Right Scale)

This chart illustrates the performance and volatility of a hypothetical €100 investment in the Fund since inception through to 30 April 2019 and includes the reinvestment of dividends and other distribution. The sources of all performance and volatility data is Morgan Stanley Investment Management.

12 Month

Performance Periods to Latest Month End (%)

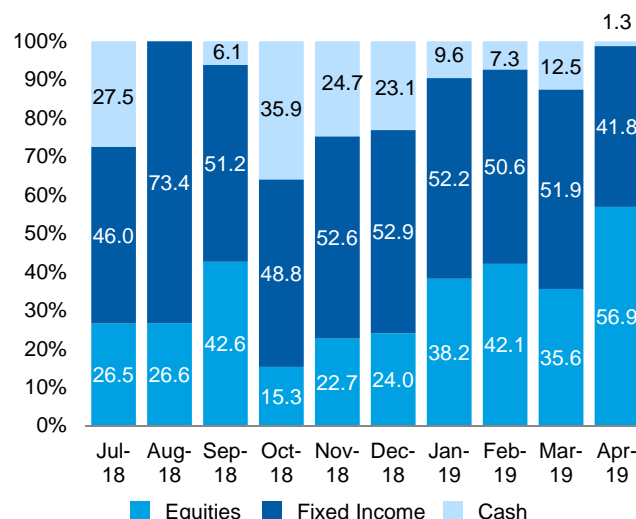
	Apr'19- Apr'18	Apr'18- Apr'17	Apr'17- Apr'16	Apr'16- Apr'15	Apr'15- Apr'14
Class Z Shares (Net) LU1078119408	1.94	-0.17	9.06	-4.32	-

Calendar Year Returns (%)

	2018	2017	2016	2015	*2014
Class Z Shares (Net) LU1078119408	-6.23	4.75	4.83	5.08	-

Portfolio inception date: 31 July 2014. **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.** \*2014 is partial year performance.

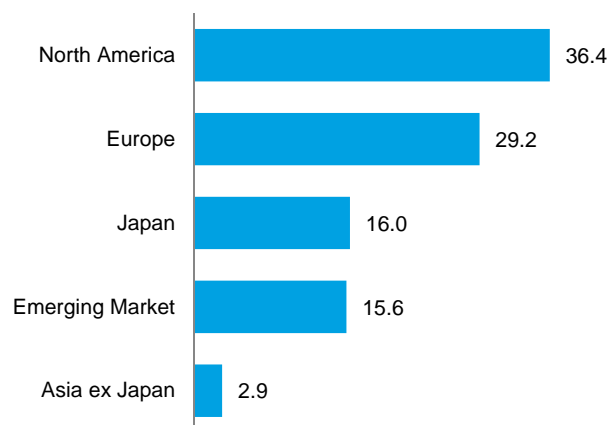
Rolling Asset Class Weights (%) as of 30 April 2019



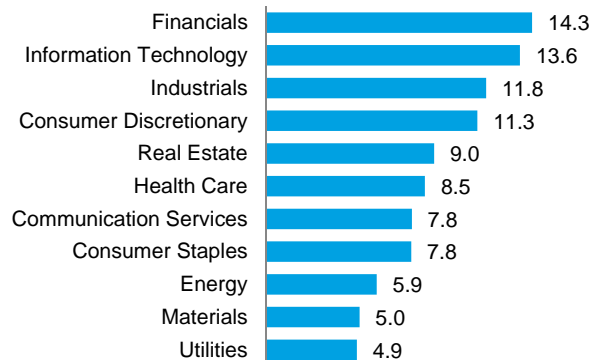
Due to their implementation, the commodities exposure is included within equities.

Source: Morgan Stanley Investment Management. As of 30 April 2019.

**Equity Regional Breakdown <sup>(1) (2)</sup> as of 30 April 2019 (%)**

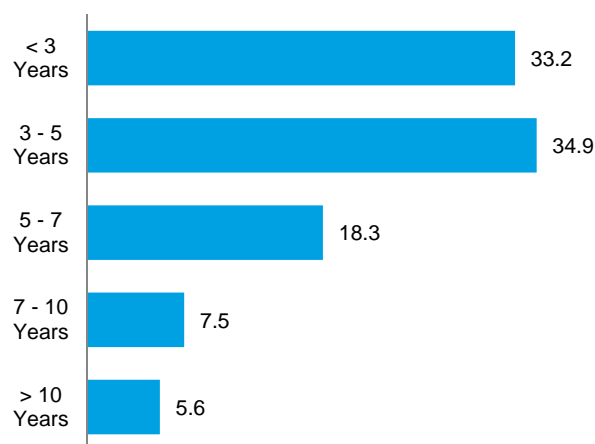


**Equity Sectors Breakdown <sup>(1) (2)</sup> as of 30 April 2019 (%)**

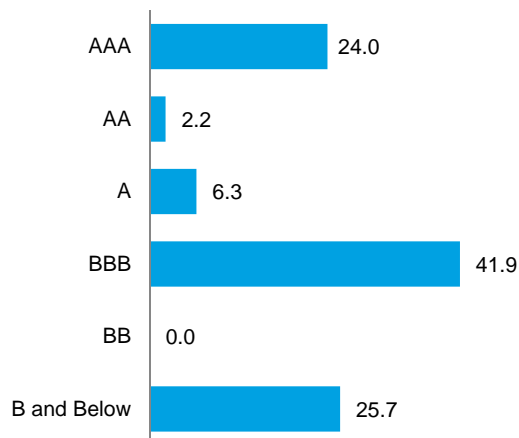


For additional information regarding sector classification/definitions please visit <https://www.msci.com/gics>. Note the short positions are fully covered on the "Synthetic Cash" portion of the portfolio and may have resulted from a sector mismatch from futures hedging.

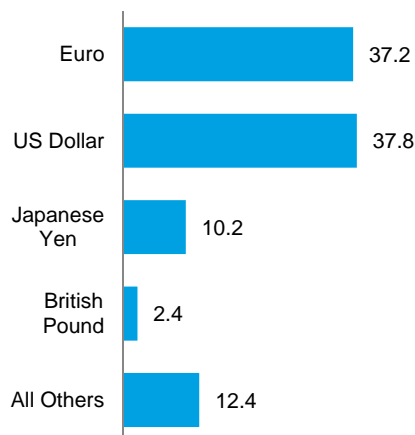
**Maturity Breakdown <sup>(1) (2)</sup> as of 30 April 2019 (%)**



**Rating Breakdown <sup>(1) (2)</sup> as of 30 April 2019 (%)**



**FX Breakdown <sup>(1) (2)</sup> as of 30 April 2019**



1. Aggregate based on a look through basis of the fund holdings information.

2. Information is provided on a delayed basis consistent with sub-funds public disclosure and is calculated utilising top ten holdings or entire holdings conditional on availability.

Source: Morgan Stanley Investment Management. 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.

**Credit Rating** refers to the rating given by a Nationally Recognized Statistical Rating Organization ("NRSRO") such as Standard & Poor's Ratings Group ("S&P"), Moody's Investors Services, Inc. ("Moody's") or Fitch Ratings ("Fitch") and is the rating firms' subjective opinion concerning the ability and willingness of an issuer to meet its financial obligations in full and on time. Ratings apply only to the underlying holdings of the portfolio and do not remove the Fund's market risk. If two or more NRSROs have assigned a rating, the highest rating is used. Ratings other than S&P ratings are converted into their equivalent S&P rating.

### 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 funds 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.
- The derivative strategy aims to increase the income paid to investors, but there is potential for the fund to suffer losses.
- 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

**Bloomberg** stands for 'Bloomberg Global Identifier (BBGID)'. This is a unique 12 digit alphanumeric code designed to enable the identification of securities, such as the Morgan Stanley Investment Funds sub-funds at share class level, on a Bloomberg Terminal. The Bloomberg Terminal, a system provided by Bloomberg L.P., enables analysts to access and analyse real-time financial market data. Each Bloomberg code starts with the same BBG prefix, followed by nine further characters that we list here in this guide for each share class of each fund. **Cash & Equivalents** are defined as the value of assets that can be converted into cash immediately. These include commercial paper, open FX transactions, Treasury bills and other short-term instruments. Such instruments are considered cash equivalents because they are deemed liquid and not subject to significant risk of changes in values. **ISIN** is the international securities identification number (ISIN), a 12 digit code consisting of numbers and letters that distinctly identifies securities. **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. (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.

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Applications for shares in the Fund 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 is available free of charge from the Registered Office: European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxemburg 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, KIID, the Articles of Incorporation and the annual and semiannual 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 document has been prepared solely for informational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy.

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#### **Index Definitions**

The **MSCI USA Index** is designed to measure the performance of the large and mid cap segments of the U.S. market.

The **MSCI Europe Index** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe. The term "free float" represents the portion of shares outstanding that are deemed to be available for purchase in the public equity markets by investors. The performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends.

The **MSCI Japan Index** is a free-floated adjusted market capitalization weighted index that is designed to track the equity market performance of Japanese securities listed on the Tokyo Stock Exchange, Osaka Stock Exchange, JASDAQ and Nagoya Stock Exchange. The MSCI Japan Index is constructed based on the MSCI Global Investable Market Indices Methodology, targeting a free-float market capitalization coverage of 85%.

The **Nikkei 225 Index** is a price-weighted index of Japan's top 225 blue-chip companies on the Tokyo Stock Exchange.