

## Commentary

### PERFORMANCE REVIEW

For the month, both spread and macro decisions contributed to performance. Rate positioning in the euro contributed the most to performance, followed by dollar-denominated emerging market (EM) debt and currencies in developed and emerging markets. Positioning in investment grade and high yield corporate debt also contributed to performance, as did exposure to convertibles and securitized debt. Conversely, rate exposure in emerging markets detracted from performance, primarily in Poland, Hungary and Indonesia.

### MARKET REVIEW

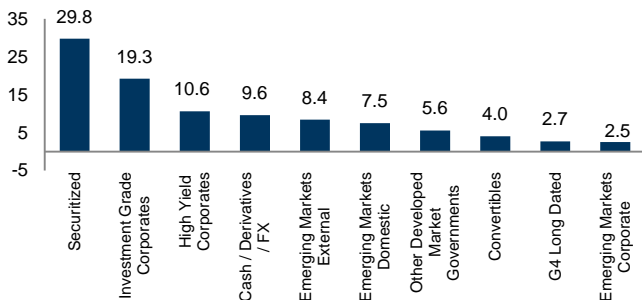
In April, investor confidence continued to rally as markets continued to fare well and volatility declined. U.S. Treasury yields widened across the curve and investors took on more risk, particularly as U.S. gross domestic product (GDP) numbers beat expectations and surprised the markets. Globally, economic data was satisfactory as the 'Goldilocks' condition returned – not too hot and not too cold. Yields also widened across Europe, in Japan and New Zealand. The U.S. dollar marginally strengthened against other developed markets currencies overall.

### MAIN STRATEGY CHANGES

During the month we added to our cash position, as well as in emerging markets where we rotated to dollar-denominated debt from local currency debt. We also trimmed developed market government exposure, as well as sold into strength in investment grade and high yield corporates and securitized debt.

Source: Morgan Stanley Investment Management. As of 30<sup>th</sup> April 2019.

### Sector Breakdown (%)



### Country Positioning

Fund / Sector	% NAV of Portfolio
Total	100.00
Dollar Bloc	46.49
EU Bloc	26.40
Cash & FX	7.59
Latin America Bloc	5.98
Asia Bloc	5.80
Middle East Bloc	3.10
Other European Countries	2.75
Africa Bloc	1.89
Oceania Bloc	0.00
Supranational	0.00

### Risk Summary

Fund / Sector	Portfolio
Duration	3.29
Spread Duration <sup>^</sup>	3.63
Yield to Maturity	4.76
Option Adjusted Spread	196

<sup>^</sup>Portfolio spread duration is understated by 0.03 due to a swap spread widener position intended as a portfolio hedge.

Source: Morgan Stanley Investment Management. As of 30<sup>th</sup> April 2019.

### Overall Asset Allocation

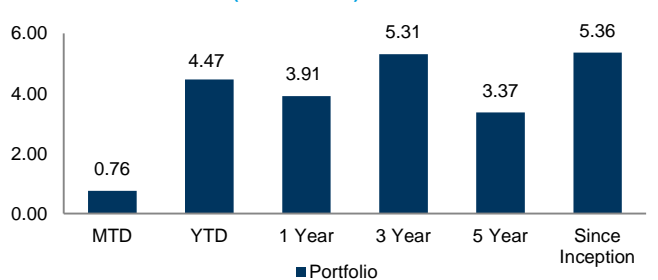
Fund / Sector	% NAV Portfolio	Spread Duration Contribution to Portfolio <sup>^</sup>
<b>Total Assets</b>	100.0%	3.63
<b>OECD Governments</b>	8.3%	0.44
Peripheral Governments	5.6%	0.44
G4	2.7%	0.00
<b>Investment Grade Corporates</b>	19.3%	1.01
Financial Institutions	9.8%	0.50
Industrial	8.4%	0.43
Utility	1.1%	0.07
<b>High Yield Corporates</b>	10.6%	0.40
<b>Emerging Markets</b>	18.4%	0.74
Emerging Markets Domestic	7.5%	0.00
Emerging Markets External	8.4%	0.60
Emerging Markets Corporate	2.5%	0.14
<b>Convertibles</b>	4.0%	0.08
<b>Securitized</b>	29.8%	0.99
<b>Cash / Derivatives / FX</b>	9.6%	-0.03

### PORTFOLIO SPREAD DURATION<sup>^</sup>: 3.63 years.

Focus on emerging market local rates, non-agency RMBS, high yield credit, convertible bonds and Lower Tier 2 Financials of systemically important institutions. A low growth, low inflationary environment has historically been supportive of spread assets.

G-4 government bonds positions are concentrated at the longer-ends of yield curves. Duration position can be viewed as counterweight to spread sector positioning.

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



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

Period	Apr '19- Apr '18	Apr '18- Apr '17	Apr '17- Apr '16	Apr '16- Apr '15	Apr '15- Apr '14
Class Z Shares (Net)	3.91	5.58	6.45	-1.53	2.62

Portfolio inception date: 7th November 2011. 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.**

## Principal Currency Positions as of 30 April 2019

Currency	% NAV of Portfolio
USD	98.0%
EGP	1.3%
IDR	0.5%
BRL	0.5%
MXN	0.5%
PEN	0.5%
ZAR	0.5%
GBP	0.1%
EUR	-0.4%
NZD	-0.6%
CAD	-0.9%

## Investment Approach

- Maximise the benefits of our global approach across all sectors of Fixed Income to ensure "best ideas" are represented
- Target attractive yield and total return over a market cycle (three- to five-year horizon)
- Focus on absolute and risk-adjusted returns (versus Tracking Error relative to an Index)
- Invest across global fixed income sectors, interest rate markets, and currency markets
- Include exposures to sectors such as emerging markets, high yield and investment grade credit, securitized (RMBS/CMBS/ABS), global government bonds, and convertibles
- Incorporate risk management into entire portfolio construction 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 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.
- 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

**Alpha** is the excess return or value added (positive or negative) of the portfolio's return relative to the return of the benchmark. **Cash & Equivalents** are assets that are cash or can be readily converted into cash. **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. **Option Adjusted Spread** is a measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is adjusted to take into account an embedded option. Typically, an analyst would use the Treasury securities yield for the risk-free rate. The spread is added to the fixed-income security price to make the risk-free bond price the same as the bond. **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. **Spread Duration** is a measurement of the spread of a fixed-income security rate and the risk-free rate of return. **Securitized assets** are instruments whose income payments and value are derived from a specified pool of underlying collateral. **Tracking error** is the standard deviation of the difference between the returns of an investment and its benchmark. **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.

## Principal Interest Rate Positions as of 30 April 2019

Currency	Duration Contribution to Portfolio
<b>Total</b>	3.29
USD	2.04
EUR	0.75
AUD	0.10
MXN	0.09
PEN	0.06
IDR	0.05
NZD	0.05
BRL	0.05
ZAR	0.04
PLN	0.03

## Fund Characteristics Summary

<b>Investment Universe (Alpha Source)</b>	<ul style="list-style-type: none"> <li>• Credit: Investment Grade, High Yield, Emerging Market, Convertibles</li> <li>• Securitized (RMBS/CMBS/ABS)</li> <li>• Government bonds: Developed and Emerging Market</li> </ul>
<b>Currency Risk (Alpha Source)</b>	<ul style="list-style-type: none"> <li>• Active currency management allowed</li> </ul>
<b>Duration</b>	<ul style="list-style-type: none"> <li>• In the range of 0-6 years</li> </ul>
<b>Derivatives</b>	<ul style="list-style-type: none"> <li>• Can use derivatives (futures / swaps) consistent with investment guidelines / UCITS</li> </ul>
<b>Target Return</b>	<ul style="list-style-type: none"> <li>• In the range of 5%</li> </ul>
<b>Principal Portfolio Managers*</b>	<ul style="list-style-type: none"> <li>• Christian Roth, Michael Kushma, Jim Caron, Richard Ford</li> </ul>

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

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