

Global Multi-Asset Opportunities Fund

SOLUTIONS & MULTI ASSET | GLOBAL MULTI-ASSET TEAM | BI-WEEKLY FUND ANALYSIS | 15 May 2019

Commentary⁽¹⁾

- The last minute scuttling of a trade deal between the U.S. and China took markets by surprise as a normalization of relations had been expected. Global stocks fell -3.3% (MSCI ACWI, local FX), G-4 bonds rallied (U.S. 10-year yield -13 bps to 2.37%), credits spreads widened (Bloomberg Barclays U.S. high yield spread +43 bps to 401 bps), and commodities fell.
- While a temporary détente is still likely at some point, the recent apparent hardening of public positions makes it unlikely in coming months. Longer-term, the irreconcilable nature of the dispute is likely to make a lasting return to the status quo unlikely. Conventional analysis suggests limited impact of tariffs on global growth, earnings, and inflation. Even if 25% tariffs are imposed on the remaining \$300 billion of the U.S. imports from China on top of those implemented to date, global economic growth would slow by 10-20 bps and corporate earnings would be 2-3% lower. U.S. inflation would accelerate by 30-40 bps for 1-2 years.
- China's economy and markets would likely see the greatest impact (0.85% slower GDP growth, ~4% hit to EPS), consistent with the underperformance of Chinese assets over the past two weeks. China H-shares were down -6.4% (HSCEI Index, local FX) and the renminbi down -2.1%, both underperforming global peers. The risk to China's growth outlook has risen materially.
- Gold rallied +1.0% (spot) as a safe haven and on more pronounced expectations of rate cuts in the U.S. (~2.4 cuts expected by the end of 2020). With inflation potentially heading higher because of tariffs, the lower real rates outlook should remain supportive for gold.
- Although the Reserve Bank of Australia did not cut rates, contrary to expectations, most activity data confirmed a continuing slowdown in the economy and housing market as well as moderated inflation expectations. Bank earnings reports were weak in the context of anemic credit growth, exacerbated by 'remediation' charges. Reflecting the weak economy and dovish policy outlook, the Australian dollar fell -1.7%, even as iron ore rallied on supply interruption.
- The Fund returned -0.7% in the first two weeks of May. Contributors included longs in North American midstream energy and in U.S. housing stocks, both vs. U.S. equities. Detractors included longs in Eurozone domestic vs. U.S. equities, Eurozone banks vs. Eurozone equities, and a directional long in China A-Shares. A short in Australian banks vs. developed markets bank and defensives also detracted.
- We initiated a long in Japanese real estate vs. Japanese domestic stocks on the view that demand for Tokyo office space would be more resilient than the consensus expects. We also initiated a long in the euro vs. the U.S. dollar as we forecast that a deteriorating U.S. fiscal account and a compressing spread between U.S. and global growth will put downward pressure on the dollar. We modified existing directional longs in Australian rates and in German equities, adding hedges to and increasing both positions, and increased our short in Australian banks and our long in Eurozone domestic stocks. We reduced our long in Eurozone banks. We closed longs in metals & mining and Eurozone auto stocks, both vs. global stocks, as well as a long in U.S. banks vs. U.S. equities, and our directional longs in China A-Shares and U.S. 10-year Treasuries.

Footnotes

- Views expressed herein are the opinions of the Global Multi-Asset Team and are subject to change based on market and economic conditions. These views are not necessarily representative of MSIM or the firm as a whole.
- Contribution to returns by asset class are meant to be representative of performance and may not sum to actual.
- Net exposure % calculated as [(MV of long cash security and derivative positions)-(absolute value of MV in short derivative positions)]/(portfolio MV).
- Gross exposure % calculated as [(MV of long cash security and derivative positions)+(absolute value of MV in short derivative positions)]/(portfolio MV).
- The Fixed income exposures are duration-adjusted (U.S. 10Yr Treasury equiv.).

Net Performance (%)					Since
	MTD	QTD	YTD	SSC†	Inception††
GMAO Fund*	-0.7	-0.5	-0.8	-3.1	-3.0
Strategy Composite**	-0.3	0.2	0.6	-0.7	3.2

12 Month Performance Periods to Latest Month End (%)	Apr'18-	Apr'17-	Apr'16-
	Apr'19	Apr'18	Apr'17
GMAO Fund*	-3.4	-1.4	-2.3

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, with income reinvested, net of fees. It 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 returns for the fund's other share classes.

* Global Multi-Asset Opportunities (GMAO) Fund Z Share Class (Net) returns.
 ** Absolute Return Strategy Composite (Gross) returns. MTD performance is estimated based on the Net Asset Value of each composite constituent.

† SSC (Since Strategy Change) = For both the Global Multi-Asset Opportunities Fund and Absolute Return Strategy Composite, annualized performance since change of Fund's strategy on 21 June 2017. Prior to 21 June 2017, the Global Multi-Asset Opportunities Fund was a lower volatility version of its current absolute return strategy.

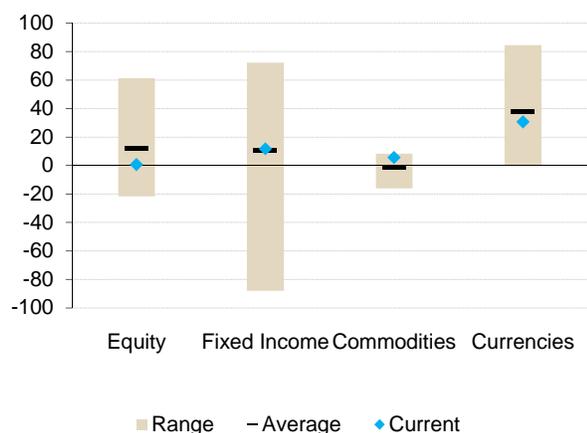
†† Since Inception = For Global Multi-Asset Opportunities Fund, annualized performance since the Fund's inception on 22 April 2014. For Absolute Return Strategy Composite, annualized performance since the strategy's inception on 31 August 2011.

Fund Contribution to Gross Return (%) ²				
	MTD	QTD	YTD	SSC†
Equity	-0.5	-0.2	-0.3	-2.1
Fixed Income	-0.1	0.0	0.9	1.4
Commodities	0.1	0.0	-0.1	-0.8
Cash/Currency	0.0	-0.2	-1.1	-1.3

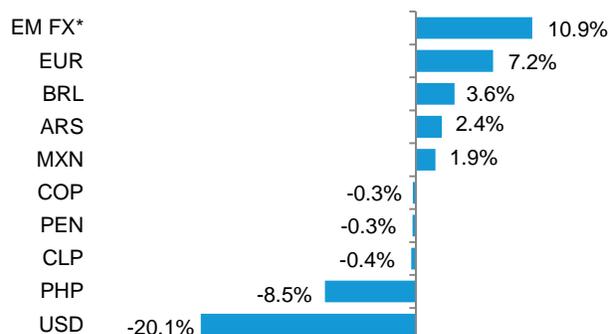
Fund Asset Allocation (%)		
	Net Exposure ³	Gross Exposure ⁴
GLOBAL EQUITY	0.5	103.0
Developed Markets	0.8	99.8
U.S. & Canada	-17.4	56.9
Europe	24.1	27.6
Japan	2.5	5.9
Asia ex-Japan	-8.4	9.3
Emerging Markets	-0.2	3.3
GLOBAL FIXED INCOME⁵	11.8	48.6
Developed Markets	4.2	41.1
U.S. & Canada	1.1	11.3
Europe	-13.3	13.3
Japan	0.0	0.0
Asia ex-Japan	16.4	16.4
Emerging Markets	7.6	7.6
COMMODITIES	5.6	5.6
Gold	5.6	5.6
TOTAL EXPOSURE (Net of cash)	17.9	157.3

Source: Morgan Stanley Investment Management; Bloomberg. All data is as of 15 May 2019, unless otherwise stated.

Absolute Return Strategy Historical Net Exposures (%)⁷



Fund Top Currency Net Exposures (%)⁸



* EM FX does not include ARS, BRL, CLP, PEN, COP, MXN, and PHP which are shown separately.

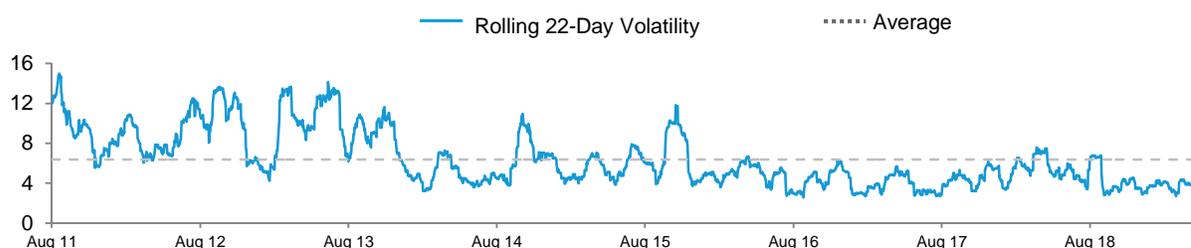
Fund Top Thematic Equity Positions (%)

	Gross Long ⁴	Gross Short ⁴	Net ³
Long Eurozone Domestic Equities / Short U.S. Equities	14.5	-14.5	0.0
Short Australian Banks / Long Developed Market Defensives & Banks	8.9	-8.9	0.0
Long N. American Midstream Energy / Short U.S. Equities	6.2	-6.2	0.0
Long Global Equities (ex-U.S.) / Short U.S. Equities	5.5	-5.5	0.0
Long German Equities / Short Global Equities	5.5	-5.5	0.0
Long U.S. Housing Equities / Short U.S. Equities	4.6	-4.6	0.0
Long U.S. Healthcare / Short U.S. Defensives	2.6	-2.6	0.0
Long Eurozone Banks / Short Eurozone Equities	2.3	-2.3	0.0
Long Japanese Real Estate / Short Japan Equities	1.8	-1.8	0.0
Short Global Elevator Manufacturers / Long Global Equities	1.8	-1.8	0.0
TOTAL EXPOSURE	53.7	-53.7	0.0

Fund Top Fixed Income Positions (%)⁹

	Rating ⁷	Gross Long ⁴	Gross Short ⁴	Net ³
Long Australian 3-Year Rates / Short U.S. Rates	NR	17.1	-17.1	0.0
Long Greek 10-Year Bonds / Short Germany, Italy, France, and Spain 10-Year Bonds	B / NR	6.7	-6.7	0.0
Long U.S. 10-Year Treasuries / Short German 10-Year Bonds	NR / NR	6.5	-6.5	0.0
Long Argentina 10-Year Bonds	B	1.1	0.0	1.1
TOTAL EXPOSURE		31.4	-30.3	1.1

Absolute Return Strategy Rolling 22-Day Volatility (%)



Source: Morgan Stanley Investment Management. Bloomberg (unless otherwise stated). 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.

7. Net exposure % calculated as [(MV of long cash security and derivative positions)-(absolute value of MV in short derivative positions)]/(portfolio MV).
 8. Currency exposure is relative to the Fund's base currency (EUR).
 9. Ratings include derivatives. Futures, IRS and CDX are not rated (NR).

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.
- Commodity investments can change significantly and quickly in value as a large variety of factors affect them.
- 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

Average yield to maturity 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. **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. **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. **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. **Number of holdings** provided are a typical range, not a maximum number. The portfolio may exceed this from time to time due to market conditions and outstanding trades.

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