

# Multi-Asset Risk Control Fund

SOLUTIONS & MULTI ASSET | GLOBAL BALANCED RISK CONTROL TEAM | FUND ANALYSIS | 31 DECEMBER 2020

## Commentary

### PERFORMANCE REVIEW

- In the one month period ending 31 December 2020, the Fund's Z shares returned 2.31% (net of fees)<sup>1</sup>.
- Closing a historic year for the markets, December saw broad equity indexes near record highs, bond yields near all-time lows, the U.S. dollar weaker and commodities on the mend. Global economies closed the year short of a full rebound from the supply-demand shocks caused by the pandemic; nonetheless, investor optimism persisted as Europe, the U.K. and U.S. began distribution of authorized/approved vaccines in December. Allocations to the global clean energy exchange-traded fund, U.S. equities and European equities were the top contributors to the positive portfolio performance over the month of December. Allocations to U.S. corporate bonds and U.S. Treasuries were the main detractors in December.

### MARKET REVIEW

- **U.S.:** The MSCI USA Index returned 4.08% in U.S. dollar terms (USD) and 1.77% in euro terms. The Institute for Supply Management (ISM) Manufacturing Index rose to a two-and-a-half-year high of 60.7 in December, up from 57.5 in November. Production and new orders accelerated from the prior month and hiring resumed a positive trend. Beating expectations for a lower reading, the ISM Services PMI increased in December, rising to 57.2 from 55.9 in November. Business activity and new orders gained momentum, offsetting a decline in employment after three months of expansion. Notably, supply chain disruptions also contributed to the PMI increase for both manufacturers and service firms. The U.S. economy lost 140,000 jobs in December, according to the U.S. Bureau of Labor Statistics (BLS), and the unemployment rate was 6.7%, unchanged from November. By year-end, just over half of the 22 million jobs lost since February 2020 have been recovered. Separately, the BLS said both the headline (all items) and core (excluding food and energy) 12-month inflation rates were unchanged in November at 1.2% and 1.6%, respectively, the same annual rates recorded in October.
- **Europe:** The MSCI Europe Index returned 2.37% in euro terms and 4.69% in USD terms. The IHS Markit Eurozone Manufacturing PMI rose to 55.2 in December, its highest reading since 2018, up from 53.8 in November. Germany's manufacturers continued to lead, with the Netherlands and Italy also performing well. Production increased along with new orders and export growth, but employment continued to sag. However, the services sector remained depressed by renewed lockdowns. The IHS Markit Eurozone PMI Services Business Activity Index improved to 46.4 in December from 41.7 in November as new business activity and employment marked sustained declines. Eurozone inflation remained negative for the fifth successive month. Eurostat estimated the all-items index contracted -0.3% in the December annual period, unchanged from the November annual rate. Annual core inflation, which excludes energy, food, alcohol and tobacco, was stable at 0.2% in both December and November. Separately, Eurostat reported that unemployment unexpectedly fell in November, declining to 8.3% from 8.4% in October in the euro area and to 7.5% from 7.6% in the European Union (EU).
- **Japan:** The MSCI Japan Index returned 3.10% in yen terms and 1.82% in euro terms. The au Jibun Bank Japan Manufacturing PMI closed the year at 50.0, the no-change threshold, up from 49.0 in November. Factory output was unchanged from the prior month and the contraction in new orders continued to soften, leading manufacturers to marginally increase hiring for the first time since February. The service sector recovery, however, continued to lag. The au Jibun Bank Japan Services PMI was little changed at 47.7 in December from 47.8 in November, as new business declined amid a third wave of coronavirus infections and weak

export sales. Household spending rose for the second consecutive month in November. Government data showed an increase of 1.1% from a year earlier, after rising 1.9% in October. The annual inflation rate weakened further in November, with the all-items consumer price index (CPI) falling -0.9% and the core-core CPI excluding fresh food and energy down -0.3% over the year, faster than the -0.4% for the all-items index and -0.2% for the core-core index in the October annual period.

### PORTFOLIO ACTIVITY

- We added to risk assets again at the beginning of December against a backdrop of diminishing global policy uncertainty and constructive outlook on growth. We think this background will support the VIX moving back into a more subdued range, with implied volatility likely to fall back below 20 in 2021. The effective equity exposure at the end of the month was 38.4%.

### STRATEGY AND OUTLOOK

- The last month of the year had no shortage of market-moving events, which for the most part, proved positive for equities. COVID-19 vaccinations were rolled out globally; a U.K.-EU Brexit deal was finally passed seven days before the U.K. left the EU customs union and single market, averting a shift to World Trade Organization terms of trade but also excluding any agreement on services (~80% of the U.K. economy); and outgoing President Trump finally signed a \$900 billion pandemic relief bill, triggering the flow of aid to individual and businesses. Congress also passed \$1.4 trillion in government spending to fund federal agencies through the end of the fiscal year in September. Rising COVID-19 cases and weaker economic data likely prompted a bipartisan compromise, but the package, despite offering roughly half the support provided in March, is very encouraging news for consumers.
- Looking ahead to 2021, we remain positive about the outlook for economic growth in 2021, barring a disaster such as the vaccine proving ineffective against a new strain of the virus – an outcome experts do not anticipate. The past month has re-enforced our conviction, with steady gains in a number of cyclical recovery indicators: 1) Korean exports have rebounded to levels last seen in December 2018 (Korea is a key industrial exporter in Asia); 2) Iron ore and copper prices have also soared. Copper prices have risen over 20% since early October to seven-year highs while iron ore prices recently breached 2013 highs. China's cyclical recovery is clearly intact; 3) Global transportation stocks started to outperform the MSCI World Index in September and have ended the year ahead of the global benchmark.
- With the Democratic sweep in Georgia, we could see incremental stimulus announcements from the incoming Biden administration propelling the market further. We expect equities to outperform fixed income in 2021. Within our equity allocation, our portfolio has a tilt towards cyclicals and value—we are overweight the Russell 2000, the DAX, financials and Latin America—while in fixed income, we are underweight rates. One risk we are keeping an eye on is high equity valuations. By traditional metrics, equities are overvalued. If they were to adjust to more normal levels, the timing would be very difficult to anticipate. Moreover, history shows that when it occurs, it can lead to substantial negative volatility.

### Characteristics as of 31 December 2020

Portfolio Effective Duration	3.53
Fixed Income Duration	6.49

<sup>1</sup> Source: Morgan Stanley Investment Management Limited. Data as of 31 December 2020.

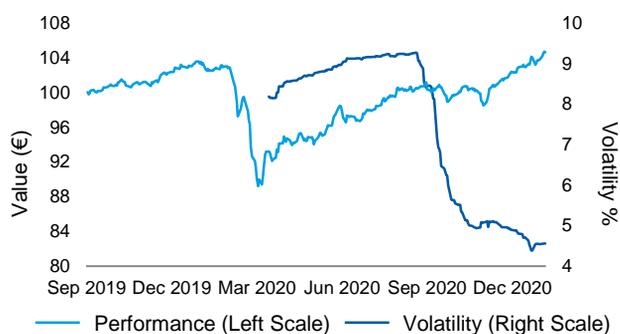
Views expressed herein are the opinions of the Team and are subject to change based on market and economic conditions. These views are not necessarily representative of Morgan Stanley Investment Management (MSIM) or the firm as a whole.

Asset Allocation	Current Weight %
<b>Equities</b>	<b>38.4%</b>
S&P 500 ESG Stock Basket	7.7%
S&P 500 Futures	3.6%
XTrackers MSCI World Financials	0.7%
MSCI World Consumer Staples ETF	0.9%
MSCI Europe ESG Stock Basket	5.8%
Eurostoxx 50 Futures	2.9%
XTrackers DAX UCITS ETF	1.0%
MSCI Japan ESG Stock Basket	4.9%
Nikkei Futures	1.3%
MSCI Emerging Markets ESG Stock Basket	3.5%
MSCI Emerging Markets Futures	-1.2%
iShares MSCI China A UCITS ETF	0.5%
MSCI Asia ex-Japan ESG Stock Basket	2.9%
Amundi EM Latam ETF	1.6%
iShares Global Clean Energy UCITS ETF	2.4%
<b>Commodities</b>	<b>2.6%</b>
Invesco Physical Gold ETC ETF	1.5%
WisdomTree Industrial Metals Enhanced ETC	1.1%
<b>Fixed Income</b>	<b>54.4%</b>
Euro Government Bonds	4.5%
UK Government Bonds	1.3%
US Government Bonds	13.9%
Japanese Government Bonds	4.6%
iShares J.P. Morgan EM Local Govt Bond UCITS ETF	1.5%
iShares J.P. Morgan \$ EM Bond UCITS ETF	0.5%
iTraxx US Investment Grade Corporate CDS	7.3%
iTraxx Europe Main 5Y CDS	6.0%
iTraxx Euro X-Over 5Y CDS	1.9%
iTraxx US High Yield CDS	5.7%
iTraxx Emerging Market Sovereign CDS	5.8%
iShares JPM\$ EM Corp Bond Ucits ETF	1.5%
<b>Cash</b>	<b>4.6%</b>
Physical Cash & Short Maturity Bonds	12.2%
Synthetic Cash	-7.6%
<b>Total</b>	<b>100.0%</b>

Source: Morgan Stanley Investment Management. As of 31 December 2020.

### Performance as of 31 December 2020 (%)

Class Z shares, performance of €100 invested since inception (30 September 2019) and 6-month rolling volatility



This chart illustrates the performance and volatility of a hypothetical €100 investment in the Fund since inception through to 31 December 2020 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 (%)	Dec'20- Dec'19	Dec'19- Dec'18	Dec'18- Dec'17	Dec'17- Dec'16	Dec'16- Dec'15
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Class Z Shares (Net)	1.87	-	-	-	-
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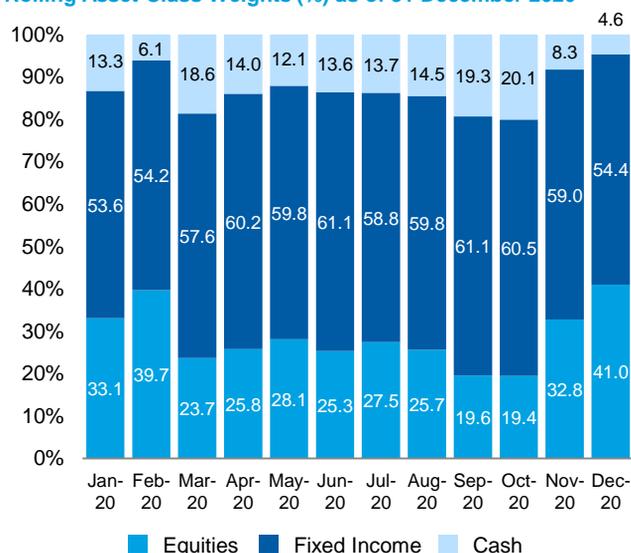
### Calendar Year Returns (%)

	2020	2019	2018	2017	2016
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Portfolio inception date: 30 September 2019. **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

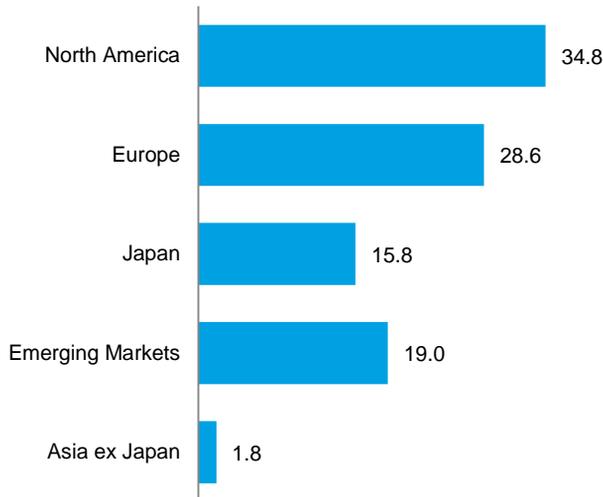
Morgan Stanley Investment Management. **Please visit our website [www.morganstanley.com/im](http://www.morganstanley.com/im) to see the latest performance returns for the fund's other share classes.**

### Rolling Asset Class Weights (%) as of 31 December 2020

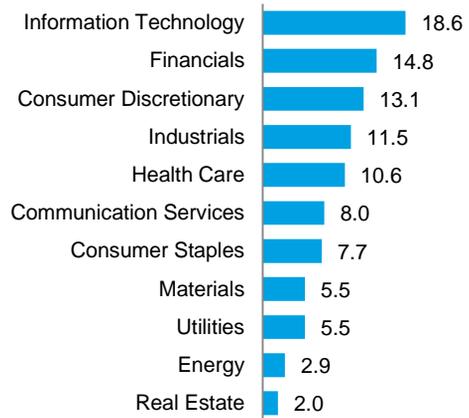


Due to its implementation, the Commodities exposure is included within the Equities asset class weight.

**Equity Regional Breakdown <sup>(2)</sup> <sup>(3)</sup> as of 31 December 2020 (%)**

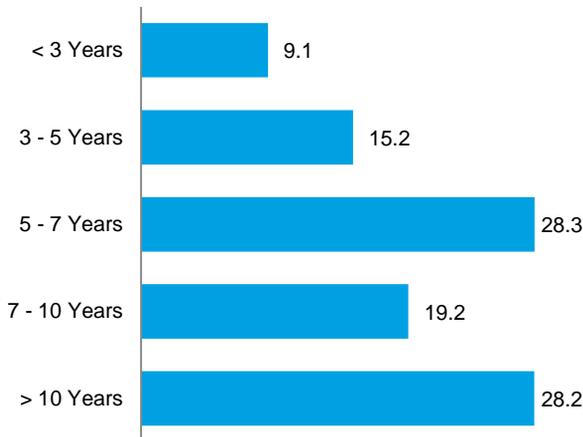


**Equity Sectors Breakdown <sup>(2)</sup> <sup>(3)</sup> as of 31 December 2020 (%)**

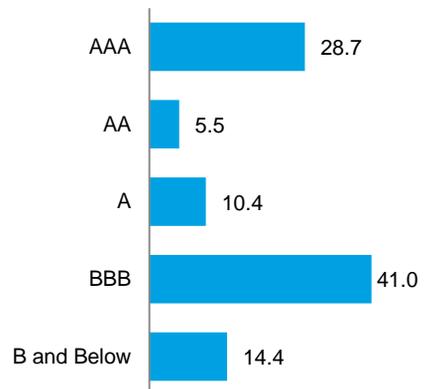


For additional information regarding sector classification/definitions please visit <https://www.msci.com/gics>. Note the short positions are fully covered on the "Synthetic Cash" portion of the portfolio and may have resulted from a sector mismatch from futures hedging.

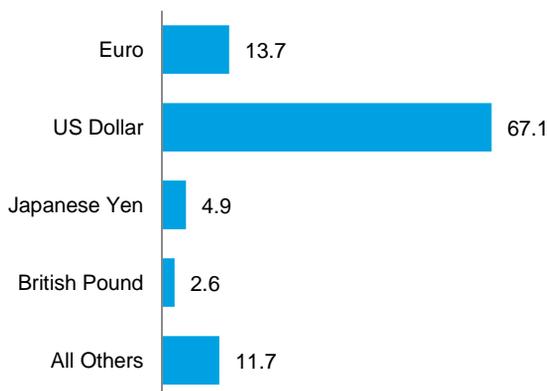
**Maturity Breakdown <sup>(2)</sup> <sup>(3)</sup> as of 31 December 2020 (%)**



**Rating Breakdown <sup>(2)</sup> <sup>(3)</sup> as of 31 December 2020 (%)**



**Currency Breakdown <sup>(2)</sup> <sup>(3)</sup> <sup>(4)</sup> as of 31 December 2020**



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

3. 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.

4. The breakdown is post hedging.

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.
- 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

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#### Index information

The **MSCI USA Index** is designed to measure the performance of the large and mid cap segments of the US market. With 631 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the US.

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 **Russell 2000® Index** is an index that measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

The **DAX Index** is a blue-chip stock market index measuring the performance of Germany's 30 largest companies trading on the Frankfurt Stock Exchange.

The **Volatility Index (VIX)** is the ticker symbol for the Chicago Board Options Exchange Market Volatility Index, a popular measure of the implied volatility of S&P 500 index options. It represents one measure of the market's expectation of stock market volatility over the next 30-day period. The VIX is quoted in percentage points and translates, roughly, to the expected movement in the S&P 500 index over the next 30-day period, which is then annualized.

The **MSCI World Net Index** is a free float adjusted market capitalization weighted index that is designed to measure the global equity market performance of developed markets. 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 index is unmanaged and does not include any expenses, fees or sales charges. It is not possible to invest directly in an index.