

Morgan Stanley

INVESTMENT MANAGEMENT

Morgan Stanley Funds (UK)

# Sterling Corporate Bond Fund



# A Uniquely Positioned Fund Seeking the Best Value Opportunities Within the Sterling Corporate Bond Markets

We believe size of business will be a factor in return generation and our smaller, agile sized sterling fixed income business is able to execute the active strategies identified by the investment team. Driven by a value oriented philosophy, we seek to identify the best value opportunities within the sterling corporate bond market. We focus on undervalued securities where the potential for price appreciation, combined with attractive yield, can provide superior total returns over the market cycle; we do not buy bonds just for yield generation. The emphasis on active management is vital to investment decisions, reflecting all market opportunities available within the sterling corporate bond universe.

Adopting a process driven by a combination of fundamental and quantitative analysis, we seek to add value from three distinct areas: macroeconomic credit allocation, sector allocation and security selection. Our seamless investment process produces a consistent and repeatable investment approach, capable of reacting quickly to changing market conditions. Each investment idea is subject to rigorous internal debate and is thoroughly tested prior to portfolio implementation. We incorporate a wide variety of risk management techniques to control portfolio risk, and carefully monitor factors such as sensitivity to interest rate movements. Our asset allocation procedure blends investment ideas to create the optimal mix of individual security risks, ensuring broad diversification of the portfolio.

## Seeking Undervalued Opportunities

We position the Fund with a view of where we are in the business cycle. We maintain a number of proprietary models to deepen our understanding of the macroeconomic environment and outlook. Daily team interaction ensures we remain informed on the often challenging backdrop for fixed income markets, creating a robust forum for the debate, review and implementation of investment ideas. We have the ability to incorporate a small proportion of below investment grade securities, providing additional yield generation and capital appreciation potential. This is important in the current economic environment characterised by low yields and low expected defaults.

Our specialist research team uses a combination of fundamental and quantitative analysis to select the most promising opportunities within various sectors of the sterling corporate universe. For example, the case for investing in the strongest financials remains in place. Driven by regulation, banks have increased both the quantity and quality of capital, and are still de-risking their balance sheets. Monetary policy, particularly from the European Central Bank, provides banks with ample liquidity. We are also experienced in analysing hybrid securities and believe the case for investing

in hybrids is strong. There is a substantial yield pick-up for taking the structural risk in hybrids in fundamentally sound names.

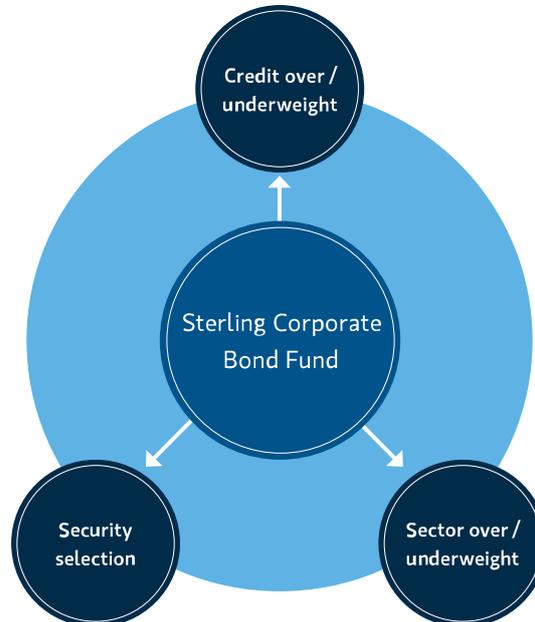
## Well Positioned Team

Managed by a well-resourced and experienced global credit team, the Fund seeks to identify the best relative value opportunities across regions, industry sectors and individual credits, denominated in sterling currency. The combination of a global approach plus local expertise, applied in a framework of rigorous risk management, equips us for the task of investing in the sterling corporate bond market.

Since the crisis of 2008/2009, banks have significantly curtailed the amount of risk capital devoted to making markets, thus restricting liquidity. This is even more pertinent given the small nature of the corporate bond market in sterling. Our smaller size allows us successfully to navigate the sterling corporate bond market with maximum efficiency, without impacting market liquidity.

---

**We seek to add value to the portfolio in a number of ways, as detailed below:**



This represents how the portfolio management team generally implements its investment process under normal market conditions and is being provided for informational purposes only.

**Investment Team**

**Richard Ford, Managing Director**  
**Dipen Patel, Vice President**

**INVESTMENT EXPERIENCE**

**28 years**  
**5 years**

Team members may be subject to change at any time without notice.

**Differentiators****1. Long Track Record**

We have been researching and investing in fixed income assets since 1975, and in European Fixed Income since 1990.

**2. Widely Resourced Team**

Access to the resources of the Global Fixed Income Team, a group of over 60 investors across London, New York, Tokyo and Singapore.

**3. Seamless Investment Process**

That produces a consistent and repeatable investment approach capable of reacting quickly to changing market conditions.

**4. Optimal Size**

We are of optimal size to navigate the sterling corporate bond market.

**5. Value Driven Investing**

We seek to identify undervalued securities which can provide a superior total return over the entire market cycle, and not just for yield generation.

**MSF UK Sterling Corporate Bond Fund****Class I (% net of fees) Performance of 100 GBP Invested Since Inception (11 December 2000)**

— Class I Shares

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

|                                    | SEPTEMBER '18<br>- SEPTEMBER '19 | SEPTEMBER '17<br>- SEPTEMBER '18 | SEPTEMBER '16<br>- SEPTEMBER '17 | SEPTEMBER '15<br>- SEPTEMBER '16 | SEPTEMBER '14<br>- SEPTEMBER '15 |
|------------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Class I Shares                     | 8.60                             | 0.41                             | 1.56                             | 11.83                            | 3.17                             |
| ICE BofAML Sterling Non-Gilt Index | 10.25                            | 0.22                             | -0.39                            | 14.32                            | 4.57                             |

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. All data as of 30 September 2019 and subject to change daily. 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.

**Share Class I Risk and Reward Profile**

The risk and reward category shown is based on historic data.

- Historic figures are only a guide and may not be a reliable indicator of what may happen in the future.
- As such this category may change in the future.
- The higher the category, the greater the potential reward, but also the greater the risk of losing the investment. Category 1 does not indicate a risk free investment.
- The fund is in this category because it invests in fixed interest securities and the fund's simulated and/or realised return has experienced medium rises and falls historically.
- The fund may be impacted by movements in the exchange rates between the fund's currency and the currencies of the fund's investments.

This rating does not take into account other risk factors which should be considered before investing, these include:

- 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.
- 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

**Corporate bonds** are debt securities issued by a corporation. Fundamental analysis is the analysis of overall economic, industry and/or company metrics. Quantitative analysis is the analysis of number measurements. Investments in securities rated below investment grade (commonly known as "junk bonds") present greater risk of loss to principal and interest than investment in higher-quality securities.

## INDEX INFORMATION

The **ICE BofAML Sterling Non-Gilt Index** tracks the performance of GBP denominated investment grade non-sovereign debt publicly issued in the eurobond or UK domestic market, including quasi-government, corporate, securitized and collateralized securities. Defaulted securities are excluded from the Index.

The Index has been selected as a target benchmark because it is representative of the type of bonds in which the Fund is likely to invest, and it is therefore an appropriate target for the Fund's performance.

## DISTRIBUTION

This communication is only intended for and will only be distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations. In particular, the Shares are not for distribution to US persons.

**United Kingdom:** Morgan Stanley Investment Management Limited is authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No. 1981121. Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA. **Switzerland:** Morgan Stanley & Co. International plc, London, Zurich Branch I Authorised and regulated by the Eidgenössische Finanzmarktaufsicht ("FINMA"). Registered with the Register of Commerce Zurich CHE-115415.770. Registered Office: Beethovenstrasse 33, 8002 Zurich, Switzerland, Telephone +41 (0) 44 588 1000. Facsimile Fax: +41(0) 44 588 1074.

## IMPORTANT INFORMATION

EMEA: This marketing communication has been issued by Morgan Stanley Investment Management Limited ("MSIM"). Authorised and regulated by the Financial Conduct Authority. Registered in England No. 1981121. Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA. Morgan Stanley Funds (UK), an investment company with variable capital incorporated in England and Wales under registered number, IC000012.

The Company is an Undertaking for Collective Investment in Transferable Securities ("UCITS"). Applications for shares in Morgan Stanley Funds (UK)

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 are available free of charge from the Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA.

Any index referred to herein is the intellectual property (including registered trademarks) of the applicable licensor. Any product based on an index is in no way sponsored, endorsed, sold or promoted by the applicable licensor and it shall not have any liability with respect thereto.

All investments involve risks, including the possible loss of principal. The material contained herein has not been based on a consideration of any individual client circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

**The information contained in this communication is not a research recommendation or 'investment research' and is classified as a 'Marketing Communication' in accordance with the applicable European or Swiss regulation. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.**

MSIM has not authorised financial intermediaries to use and to distribute this document, unless such use and distribution is made in accordance with applicable law and regulation. MSIM shall not be liable for, and accepts no liability for, the use or misuse of this document by any such financial intermediary. If you are a distributor of the Morgan Stanley Investment Funds, some or all of the funds or shares in individual funds may be available for distribution. Please refer to your sub-distribution agreement for these details before forwarding fund information to your clients.

The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without MSIM' express written consent.

All information contained herein is proprietary and is protected under copyright law.

This document may be translated into other languages. Where such a translation is made this English version remains definitive. If there are any discrepancies between the English version and any version of this document in another language, the English version shall prevail.