A Highly Disciplined Approach to Identifying the Best Opportunities Within Emerging Market Corporate Credit

We believe that emerging markets corporate debt provides investors with the opportunity to capitalise upon the growth of private sector companies as they become leaders in their domestic markets and relevant in the global arena.

Emerging markets (EM) are in the midst of a multi-decade convergence towards developed market status in terms of economic development, as well as environmental, social, and governance standards. Dynamic companies within emerging markets are key contributors to this development process. This convergence process is characterised by improving macroeconomic fundamentals, strengthening legal frameworks and judicial systems that contribute to a supportive corporate landscape, and consequently attractive opportunities for investors as risk premiums compress.

We believe that rigorous security selection is critical to success within the emerging markets corporate debt universe, and is primarily a function of making long-term investments in the corporate debt of companies that exhibit sustainable competitive advantages, as well as the ability to redeploy capital at high rates of return.

The Case for Emerging Markets Corporate Debt

An allocation to emerging markets corporate debt provides the opportunity for investors to enhance their diversification across fixed income asset classes and add the potential for risk-adjusted returns, in excess of developed markets corporate credit. Given the encouraging macroeconomic backdrop in emerging markets and improving corporate governance, more companies are able to access the international debt markets. This can help promote a virtuous cycle that broadens their investor base and extends their maturity profiles, and lowers their cost of capital. These improvements should benefit the companies, the countries they operate in, as well as offering investors an opportunity to capitalize on this development process.

Attractive valuations, in addition to strong fundamental and technical factors, create a robust case for EM corporate debt investing. In a world of negative to low real yields, EM corporates offer an attractive real-yielding asset class, and are well-positioned to benefit from an improvement in analyst coverage and investor interest. However, as the market has yet to develop fully, a relative lack of sell-side coverage and a fragmented buyer base offers market dislocations that present significant opportunities to diligent investors. We seek to identify and capitalise on these types of opportunities and challenge ourselves to find other types of systematic bias to profit from.

Rigorous Investment Process

Our mind-set is long-term and we focus on identifying companies that exhibit unique features, and we emphasize:

- Long-term ownership and development of insights, focusing on companies which are
  - Market leaders and/or positioned to benefit from EM’s growing middle class
  - Developing into global market leaders with defensible market niches
  - Special situations where we have a strong view of the company’s prospects as a going concern

- Identifying and exploiting systemic bias and stereotypes
  - Relative Lack of Coverage: sell side coverage of EM corporates has grown, but remains selective and relatively shallow
  - Fragmented Buyer Base: Differing views on what constitutes absolute and relative value by dedicated EM investors and EM external & crossover investors creates market dislocations
  - Short-term Bias: market participants’ overemphasis on the next event, which adds volatility to the asset class

We position our strategies to exploit the value we believe to be inherent in these opportunities, increasing exposure when sufficiently compensated and reducing risk exposure when risk premia are unusually low.

Our robust investment process combines top-down macroeconomic and sovereign analysis with bottom-up credit analysis and security selection. We work to understand how the business environment in emerging markets is shaped by macroeconomic and political trends. We conduct fundamental sovereign analysis using frameworks that combine economic, political, and social assessments. The prime objective of this analysis is to distinguish between those countries exhibiting positive and negative rates of change.

We believe that our approach to forward looking credit analysis enables us to exploit undervalued securities, as well as to mitigate exposure to deteriorating credit, business and sector risk. Our dedicated credit team engage in ongoing in-depth analysis, utilising proprietary fundamental research, which is a cornerstone of our rigorous credit investment process. Comprehensive risk management is an important component in our process, and we combine powerful modelling systems with in-depth analysis to manage and monitor overall risk in the portfolio.

Experienced Investors

We are pioneers in emerging markets debt investing since 1993, giving us one of the longest track records in the business. We have successfully managed to invest through periods of volatility and diverse economic conditions, providing us with valuable insight and experience of various market cycles.
**Investment Team**

<table>
<thead>
<tr>
<th>Name</th>
<th>INVESTMENT EXPERIENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Warren Mar, Managing Director</td>
<td>26 years</td>
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<tr>
<td>Eric Baumesteiner, Managing Director</td>
<td>27 years</td>
</tr>
<tr>
<td>Sahil Tandon, Managing Director</td>
<td>17 years</td>
</tr>
<tr>
<td>Budi Suharto, Executive Director</td>
<td>13 years</td>
</tr>
</tbody>
</table>

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

**Differentiators**

1. **Significant and Growing Asset Class**
   The emerging markets corporate debt universe is over $11 trillion USD in size.¹

2. **Compelling Asset Class**
   Given supportive conditions, many emerging markets countries and companies have been able to access international debt markets, broadening their investor base and extending maturity profiles.

3. **Focus on Credit Analysis**
   We believe that rigorous security selection is critical to success and focus on this throughout the investment process.

4. **Diversification Benefits²**
   Investment in the emerging markets corporate debt benchmark provides access to over 700 securities, a significantly broader and more diversified universe than emerging markets sovereign only benchmark.³

5. **Experienced Team**
   Complementary skill sets within an experienced team facilitate informed, well researched investment decisions.


² Diversification does not protect against a loss in a particular market; however it allows to spread that risk across various asset classes.

³ Data as of September 2020.

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**MS INVF Emerging Markets Corporate Debt Fund**

**Share Class Z Risk and Reward Profile**

**Lower Risk**

<table>
<thead>
<tr>
<th>Lower Risk</th>
<th>Higher Risk</th>
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<tbody>
<tr>
<td>1</td>
<td>2</td>
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<td>2</td>
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<td>6</td>
<td>7</td>
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</tbody>
</table>

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 income securities from emerging markets 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 funds ability to buy or sell securities.
- Investment in Fixed Income Securities via the China Interbank Bond Market may also entail additional risks, such as counterparty and liquidity risk.
- 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 their 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.

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

<table>
<thead>
<tr>
<th></th>
<th>DECEMBER ’19 - DECEMBER ’20</th>
<th>DECEMBER ’18 - DECEMBER ’19</th>
<th>DECEMBER ’17 - DECEMBER ’18</th>
<th>DECEMBER ’16 - DECEMBER ’17</th>
<th>DECEMBER ’15 - DECEMBER ’16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class Z Shares</td>
<td>5.00</td>
<td>13.22</td>
<td>-4.52</td>
<td>10.67</td>
<td>10.77</td>
</tr>
<tr>
<td>JPM Corporate Emerging Markets Bond Index-Broad Diversified</td>
<td>7.13</td>
<td>13.09</td>
<td>-1.65</td>
<td>7.96</td>
<td>9.65</td>
</tr>
</tbody>
</table>

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 is as of 31 December 2020 and subject to change daily. Please visit our website www.morganstanley.com/im to see the latest performance returns for the fund’s other share classes.
DEFINITIONS

Fundamental factors are overall economic, industry and company metrics. Technical factors are statistics generated by market activity. Private sector consists of companies that are not under direct government control and are not traded on public markets. Sell side refers to the part of the financial industry that is involved in the creation, promotion and sale of stocks, bonds, foreign exchange and other financial instruments.

INDEX INFORMATION

JP Morgan CEMBI Broad Diversified Index is a global, liquid corporate emerging markets benchmark that tracks U.S.-denominated corporate bonds issued by emerging-markets entities.

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