

Morgan Stanley

INVESTMENT MANAGEMENT

Morgan Stanley Investment Funds (MS INVF)

European Currencies High Yield Bond Fund



For Professional Clients Only

FIXED INCOME | GLOBAL FIXED INCOME TEAM
FUND OVERVIEW | SEPTEMBER 30, 2017

An Actively Managed Approach to High Yield Investing that Seeks to Identify the Best Value Opportunities Within the European Markets

The European high yield market is a growing asset class, with an increasing number of issuers and issues.

The Morgan Stanley Investment Funds European Currencies High Yield Bond Fund offers investors the opportunity to participate in the improving conditions in the European corporate landscape with dedicated exposure to the European high yield market, providing diversification from a typical global high yield portfolio, where U.S. high yield is a significant constituent.¹

The Opportunity for European High Yield

The low interest rate environment, and tighter credit spreads than after the crisis, present a challenging backdrop to investors. However, these market conditions have been valuable to the high yield sector over recent years, providing issuers with the opportunity to extend their repayment schedule and repay higher coupon debt, thereby reducing refinancing risk. The sector has experienced a period of relatively low default rates, which has helped sustain investor demand and generate excess returns. We expect default rates to remain low, but remain alert to factors that may lead to a change in this view.

The size of European high yield market has grown to over USD 335 billion, creating opportunities for active managers to build a diversified product.² In addition, increased investor demand and a growing supply of high yield bonds have created further opportunities for active managers. We believe regulatory requirements will drive banks to raise additional tier 1 capital, through new issuance, to strengthen their balance sheets.

The new issues are generally high yield and are likely to be priced attractively compared to existing issues, providing an opportunity for unconstrained investors, like ourselves, to generate excess returns, subject to passing our rigorous credit analysis.

Furthermore, the continuing accommodative monetary policy stance from the ECB, with the quantitative easing programme being the latest example, provides strong technical support to the market. A key transmission mechanism to support the high yield market is what President Draghi refers to

as the “Portfolio Rebalancing Effect” where investors are encouraged to move into higher yielding assets to maintain reasonable returns.

An Active Approach³

A passive approach to high yield investing can expose investors to idiosyncratic risk. We seek to avoid this, adopting an active approach to portfolio management, focused on rigorous credit analysis. We believe that this approach is particularly important in the current environment (characterised by low yields) in order to avoid capital losses. We also believe that an active approach is required to navigate successfully the constantly changing macroeconomic backdrop.

We combine top-down macroeconomic assessment with market specific valuation analysis in order to determine the optimal beta positioning for the portfolio. This is complemented by our rigorous approach to bottom-up fundamental analysis, which seeks to identify individual undervalued securities where the potential for price appreciation, combined with an attractive yield, can provide superior total returns over the entire market cycle. Following the broader tightening of credit spreads post crisis, we believe our expertise in individual security selection is now of greater importance in finding opportunities to generate excess returns.

Our credit team covers both high yield and investment grade credit, in order to understand the entire credit universe, providing a comprehensive view of industry fundamentals that helps to pinpoint industry trends, such as potential mergers and acquisitions activity.

Well Positioned Team

The MS INV F European Currencies High Yield Bond Fund is managed by Leon Grenyer, lead Portfolio Manager, Head of European High Yield and Head of European Credit Research, and Alice la Trobe Weston. Leon and Alice are complemented by input from the wider Global Fixed Income team, a well-resourced and experienced global credit team.

¹ Benchmark for the MS INV F Global High Yield Bond Fund is the Barclays Global High Yield — Corporate Index, United States Market Value- 51.66%, data as of 29 August 2014.

² **SOURCE:** Morgan Stanley Investment Management, as at 31 December 2015.

³ This represents how the portfolio management team generally implements its investment process under normal market conditions included here for informational purposes only.

Investment Team and Years of Experience

LEON GRENYER
MANAGING DIRECTOR, 20 YEARS

SARAH HARRISON
VICE PRESIDENT, 8 YEARS

Team members are subject to change from time to time without notice.

Morningstar Overall Rating

CLASS I SHARES



EAA Fund EUR High Yield Bond
Out of 397 Funds. Based on Risk Adjusted Return.



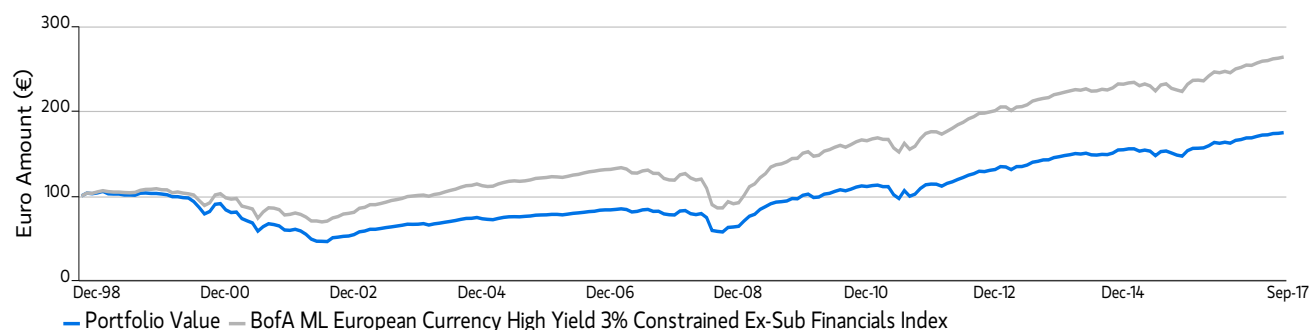
WHY INVEST?

- 1. Dedicated Exposure to the European HY Markets**
We seek to uncover the best value opportunities within the European high yield markets.
- 2. Global Approach**
Our global approach to investing helps to understand the entire spectrum of high yield credit.
- 3. Growing Asset Class**
The European high yield market is an asset class of growing significance characterised by an increased quantity of issues.
- 4. Comprehensive Approach**
Analysis of both high yield and investment grade credit provide the opportunity to assess the entire global credit universe and pinpoint market trends.
- 5. Experienced Team**
Our lead Portfolio Managers bring significant market experience and leading track records. Our optimal size allows for efficient execution, providing the ability to navigate the markets with minimal impact on market liquidity.

MS INVF European Currencies High Yield Bond Fund Performance Information*

	QTD	YTD	1 YEAR	3 YEARS (Annualised)	5 YEARS (Annualised)	10 YEARS (Annualised)	SINCE INCEPTION (Annualised)
MS INVF EUROPEAN CURRENCIES HIGH YIELD BOND FUND	1.51%	5.54%	7.70%	5.57%	7.47%	7.65%	3.02%
BOFA ML EUROPEAN CURRENCY HIGH YIELD 3% CONSTRAINED EX-SUB FINANCIALS INDEX	1.62%	5.62%	7.55%	5.67%	7.14%	7.37%	5.30%
OUTPERFORMANCE	-0.11%	-0.08%	0.15%	-0.10%	0.33%	0.28%	-2.28%

Growth of €100 Investment in the MS INVF European Currencies High Yield Bond Fund Since Inception*



*SOURCE: Morgan Stanley Investment Management, data as at 30 September 2017. "I" Share Class data (inception: 1 December 1998) is shown in the fund's base currency (Euro). 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. Past performance is not a reliable indicator of future performance.

General Fund Information

FUND LAUNCH DATE: December 1998

BASE CURRENCY: EUR

CURRENCIES AVAILABLE: EUR, USD

To Learn More About This Fund Please Visit Our Website

www.morganstanley.com/im

IMPORTANT INFORMATION

For Professional Clients Only

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Past performance is not a guarantee of future performance. The value of the investments and the income from them can go down as well as up and an investor may not get back the amount invested. There can be no assurance that the Fund will achieve its investment objectives. There are additional risks involved with this type of investment. Please refer to the Prospectus and relevant Key Investor Information for full risk disclosure.

Citywire

Source & Copyright: Citywire – Morgan Stanley are GOLD rated in the BONDS – GLOBAL HIGH YIELD Sector by Citywire for their rolling risk adjusted performance, across the sector, over the period 31/12/2009 – 31/12/2016.

Morningstar:

The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. Ratings do not take into account sales loads. © 2017 Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. **Past performance is no guarantee of future results.**

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