

Morgan Stanley

INVESTMENT MANAGEMENT

Morgan Stanley Investment Funds (MS INVF)

Global Mortgage Securities Fund

For Professional Clients Only

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

A Means to Access the Unique Characteristics of Asset-Backed Securities in a Globally Diversified Portfolio

Asset-backed securities (ABS) are instruments whose income payments and value are derived from a specific pool of underlying collateral, often providing liquidity to a pool of assets that are unable to be sold individually. The unique characteristics of these securities differ from those of “traditional” fixed income investments, such as responsiveness to changes in interest rates and principal repayment schedule; providing potential portfolio diversification benefits to investors.

Introduction to the Investment Universe

The ABS universe offers a broad array of securities that may be secured using a variety of underlying collateral, such as residential mortgages, commercial mortgages, credit card receivables and automobile loans. Mortgage-backed securities remain a significant component of the ABS universe, and derive their cash flows from underlying mortgages. There are two broad categories of mortgage-backed securities: Residential Mortgage-Backed Securities (RMBS) and Commercial Mortgage-Backed Securities (CMBS). The principal difference lies in the underlying mortgages used; RMBS derive their cash flow from residential debt, such as mortgages or home-equity loans, whereas CMBS provide exposure to the commercial property market.

Specifically within the U.S. residential market, securities are frequently referred to as agency and non-agency issues. This can be seen as a broad reflection of the underlying credit quality of the security. Agency RMBS are those issued by government entities that fully back the obligations and hence offer a higher degree of credit quality, whereas non-agency securities are those made available from private companies. The MS INV Global Mortgage Securities Fund considers the entire investment universe of ABS, seeking to utilise investment expertise to identify the best opportunities available within the market.

A Rigorous Process

Given the complexity of the asset class, deep expertise and a rigorous credit analysis process are necessary. It is also important to know how to engage the market in order to source investment opportunities. Our approach to investing thoroughly assesses the risks and rewards of every security we consider and encapsulates both top-down macro analysis and bottom-up security selection.

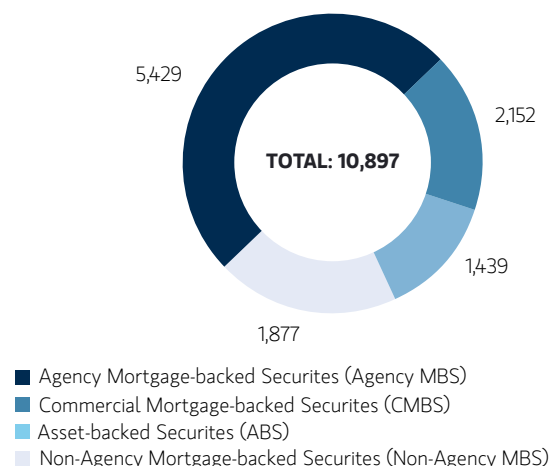
We focus on rigorous analysis of both the security's capital structure and the underlying assets to evaluate the level of prepayment and default risk. Our advanced, proprietary analytics are key to our investment process; these models help

to determine the underlying asset value and borrower credit. In order to understand possible variations of security values, our team thoroughly assess the behaviour and incentives of the ABS originators and servicers. Each security is analysed both on its individual metrics and in the context of the overall portfolio. This allows us to construct more efficient portfolios that provide diversified exposure to the securitized sector.

The Right Time for ABS?

The prospect of monetary stimulus withdrawal and rising interest rates presents a challenging backdrop to investors. The securitised sector provides a valuable opportunity to allocate to securities that are less sensitive to the macroeconomic environment than “traditional” fixed income. Within the securitised sector, we believe that there are selective opportunities to pick-up yield relative to unsecured debt of similar credit quality. The recent stabilisation and recovery of the European property market and quantitative easing programmes from the ECB have improved the reliability of cash flows and provided broad support to the European MBS market. In the U.S., the sustained growth of the economy and gradual recovery of the housing market supports the non-agency RMBS sector. We believe that a strong top-down case, combined with our in-depth bottom-up capabilities allows our team to identify the best securities available within each segment of the ABS market.

Our Experienced Team Manage Assets Across the Entire Securitised Universe (\$m)



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

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

GREGORY A. FINCK
MANAGING DIRECTOR, 25 YEARS

NEIL STONE
MANAGING DIRECTOR, 32 YEARS

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

WHY INVEST?

1. Experienced Team

We have research expertise across the entire spectrum of the mortgage market including: origination and financing, securitisation, asset valuation, behavioural modelling, prepayment and default modelling.

2. Diversification Benefits

Provides the opportunity to diversify a portfolio with a higher-yielding, fixed income investment alternative.

3. Proprietary Quantitative Analytics

We utilise advanced, proprietary analytics to evaluate both asset valuations and borrower credit.

4. Global Presence

Our investment team is located across the globe, with a presence in the U.S., Europe and Asia.

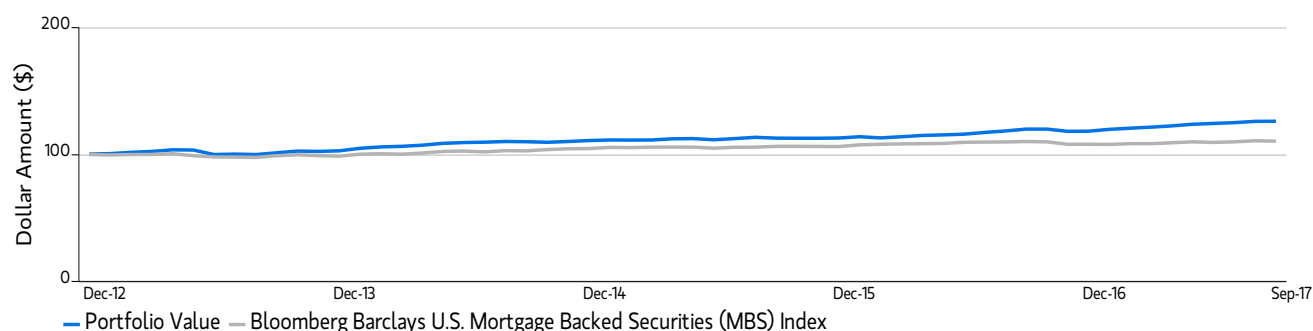
5. Unique Securities

In an environment characterised by potentially rising rates, these securities are less affected by this change in risk in comparison with traditional fixed income investments.

MS INVF Global Mortgage Securities Fund Performance Information*

	QTD	YTD	1 YEAR	3 YEARS (Annualised)	5 YEARS (Annualised)	10 YEARS (Annualised)	SINCE INCEPTION (Annualised)
MS INVF GLOBAL MORTGAGE SECURITIES FUND	1.38%	6.63%	5.10%	4.64%	-	-	4.93%
BLOOMBERG BARCLAYS U.S. MORTGAGE BACKED SECURITIES (MBS) INDEX	0.96%	2.32%	0.30%	2.44%	-	-	2.11%
OUTPERFORMANCE	0.42%	4.31%	4.80%	2.20%	-	-	2.82%

Growth of \$100 Investment in the MS INVF Global Mortgage Securities Fund Since Inception*



*SOURCE: Morgan Stanley Investment Management, data as at 30 September 2017. "Z" Share Class data (inception: 3 December 2012) is shown in the fund's base currency (U.S. dollars). 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 2012

BASE CURRENCY: USD

CURRENCIES AVAILABLE: USD, EUR

To Learn More About This Fund Please Visit Our Website

www.morganstanley.com/im

IMPORTANT INFORMATION

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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.

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