Morgan Stanley

INVESTMENT MANAGEMENT

Innovative Income Solutions

Morgan Stanley Investment Funds (MS INVF) Global Balanced Income Fund

SOLUTIONS & MULTI-ASSET | GLOBAL BALANCED RISK CONTROL TEAM | INVESTMENT IDEA | JUNE 2019

We believe that the time has come to think differently about income generation. Traditional methods often rely heavily on the prevailing macroeconomic environment. In today's low-yield environment the quest for income has driven up prices of many traditional income-producing assets.

To generate additional income beyond that offered by traditional investments—and to diversify income sources—the MS INVF Global Balanced Income Fund also sells put options.

Innovative Solutions for Today's Environment

The **MS INVF Global Balanced Income Fund** seeks to generate attractive long-term returns and deliver 4%[1] income per annum. Income can be generated from two sources—from the Fund's underlying securities through the asset allocation process, and further enhanced through additional income generated by the sale of put options. In the team's view, an actively managed strategy of sold put options has the potential to significantly increase income potential over time without disrupting the underlying asset allocation process.

1 **4%[1] Income Target**

The team's innovative approach seeks to produce an attractive and consistent stream of income and capital growth. The process incorporates access to the options markets within an established asset-allocation strategy. These two income sources are expected to produce 4%[1] per annum.

2 **A Stable Risk Profile**

The Fund's underlying strategy is to invest in an array of global asset classes—including equities and fixed income—dynamically allocating between asset classes, following a time-tested, risk-targeted process. This approach enables the team to navigate changing market conditions, aiming to provide investors with a stable risk profile.

3 **Differentiated Income Source**

In addition to yields from traditional asset classes, the Fund seeks to generate a stable income stream from the option premium received through selling one-month at-the-money puts on a quarterly basis. We sell puts in a way that enables the fund to maintain the same total portfolio risk and asset class exposures, whilst benefitting from a differentiated source of income that is not dependent on the prevailing yield environment.

[1] Targets provided are indicative only and are not guaranteed in any way. 4% is the 2019 target income estimate for the euro share class, 6.0% for the US dollar and 5.5% for the AUD share class. When income is paid from the capital, the result will be a reduction of the capital that the Fund has available for investment. This represents how the investment team generally applies the investment process under normal market conditions. There can be no assurance that the Fund will achieve its objectives. Asset allocation shown is for illustration only and subject to change. **Past performance is no guarantee of future results.** The income target is reviewed annually.

Investing in options involves additional risks. See Risk Warnings for additional information. There can be no assurance that the Fund will achieve its investment objective or target returns.

MS INVF Global Balanced Income Fund's Profile[2]

Volatility target[1]

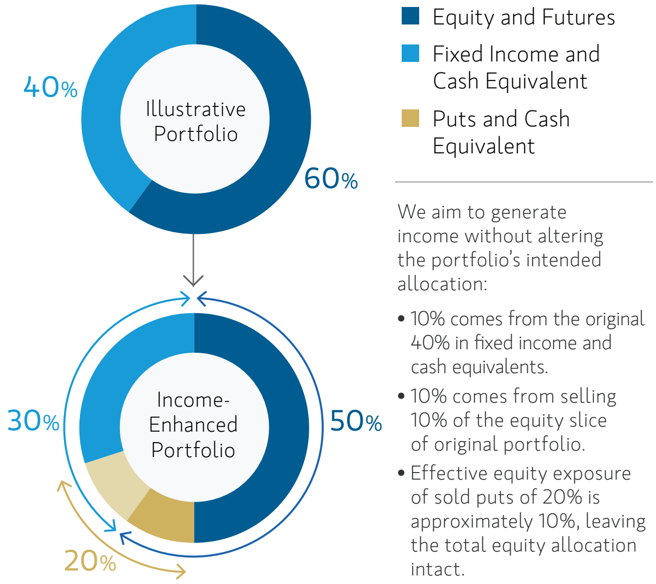
4%-10% per annum

Income target[1]

- 4% annually.
- The fund's underlying equity and fixed income securities are expected to yield approximately 2%.
- The sold put options are expected to yield approximately 2%.

Asset-class targets

Not managed to a benchmark allocation; highly flexible to meet volatility target and provide stable risk profile.



We aim to generate income without altering the portfolio's intended allocation:

- 10% comes from the original 40% in fixed income and cash equivalents.
- 10% comes from selling 10% of the equity slice of original portfolio.
- Effective equity exposure of sold puts of 20% is approximately 10%, leaving the total equity allocation intact.

[2] Illustrative purposes only. The information presented represents how the portfolio management team generally applies their investment process under normal market conditions. The portfolio manager has discretion over final tactical allocation decisions and may deviate from research conclusions and other allocation decisions within the Global Balanced Risk Control (GBaR) team. This information is provided solely for information purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy.

Risks 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.
- There are increased risks of investing in emerging markets as political, legal and operational systems may be less developed than in developed markets.
- The derivative strategy aims to increase the income paid to investors, but there is potential for the fund to suffer losses.
- 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

Volatility is a statistical measure of the dispersion of returns for a given security or market index. The team measures volatility on an ex-ante (forward-looking) basis using the manager's proprietary risk management system. **Targets** are typical ranges. **Put Option** is a contract that provides the purchaser the right (but not the obligation) to sell a futures contract at an agreed price (the strike price) at any time during the life of the option. A put option is purchased in the expectation of a decline in price. Index futures are based on the projected movement of a share price index, such as the FTSE 100. **Option Writing Strategy** is writing put options involves the risk that the Portfolio may be required to buy the underlying security or instrument (or settle in cash an amount of equal value) at a disadvantageous price or above the market price of such underlying security or instrument, at the time the option is exercised. There are special risks associated with selling put options which expose the Portfolio to potentially significant loss. The **Asset Allocation strategies** provide the Investment Adviser with wide discretion to allocate between different asset classes. From time to time, the Asset Allocation may have significant exposure to a single or limited number of fixed income or equity asset classes. Accordingly, the relative relevance of the risks associated with equity securities, Fixed Income Securities and derivatives will fluctuate over time. Investments in derivative instruments carry certain inherent risks such as the risk of counter party default and before investing you should ensure you fully understand these risks. Use of leverage may also magnify losses as well as gains to the extent that leverage is employed. These investments are designed for investors who understand and are willing to accept these risks. Performance may be volatile, and an investor could lose all or a substantial portion of his or her investment. **Yields** are subject to change with economic conditions. Yield is only one factor that should be considered when making an investment decision

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