

Morgan Stanley

INVESTMENT MANAGEMENT

# A High Quality Solution for a Low-Yielding Environment

MORGAN STANLEY INVESTMENT FUNDS (MS INVF)

# Short Maturity Euro Bond Fund

FIXED INCOME

GLOBAL FIXED INCOME TEAM

INVESTMENT IDEA

SEPTEMBER 2020

SHARE CLASS

Class Z

LU0360478795

Given the persistent negative yield environment in Europe, investors face challenges to generate positive returns from their shorter-maturity bond allocations. The **MS INVF Short Maturity Euro Bond Fund** is an actively managed and diversified portfolio of shorter duration, high quality bonds with the potential to deliver consistent, uncorrelated returns while reducing directional risk through diversified sources of alpha.

## 1 Positioned to Capitalise on Evolving Opportunities

The highly accommodative policy stance from the ECB and the actions of European governments support European Fixed Income, and should continue to do so for some time. However, not all assets have behaved in the same way post crisis. This dislocation creates tactical and longer-term opportunities which the Fund can exploit.

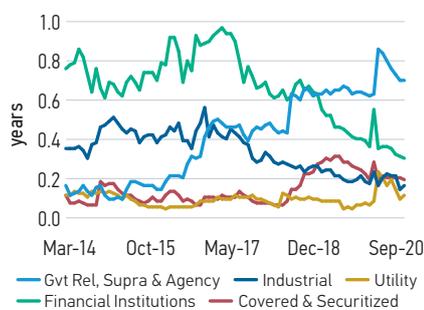
## 2 An Uncertain Outlook Calls for Active Management

Our focus is to preserve value in rapidly changing market conditions, while taking advantage of the opportunities the current macro economic landscape offers. The Fund can take active positions across the European investment-grade universe, which includes duration, European sovereigns, agencies and supranationals, covered bonds, and corporate bonds.

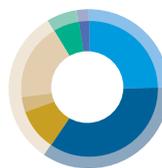
## 3 High Quality Portfolio with an Attractive Yield

With an average credit rating of A2/A, the fund has historically shown a low correlation to riskier assets. We only buy investment grade bonds in euros. The Fund also offers a compelling yield of 0.03%, compared with a cash rate of -0.50%.<sup>1</sup>

### Active Spread Duration Exposure by Credit Sector<sup>2</sup>

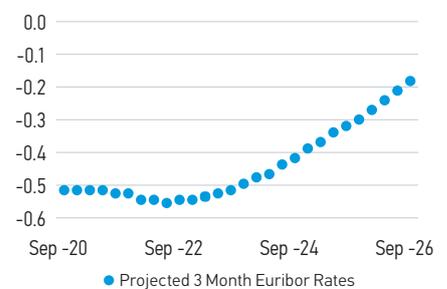


### Portfolio Sector Composition<sup>3</sup>



● Treasuries	29.35
● Government Related	32.55
● Corporates	30.10
● Industrial	9.50
● Utility	3.32
● Financial Institutions	17.29
● Securitized	5.70
● Cash & Equivalents	2.30

### Three month expected Euribor rates derived from Euribor futures<sup>4</sup>



<sup>1</sup> Credit rating as of 30 September 2020 and refers to the credit ratings of the funds' underlying holdings. Source: Bloomberg as of 30 September 2020

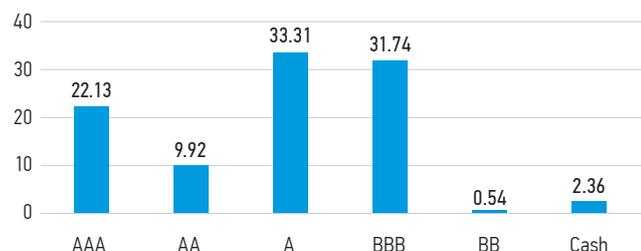
<sup>2</sup> Source: Morgan Stanley Investment Management, BlackRock, as of 30 September 2020. Benchmark: Bloomberg Barclays Euro-Aggregate: Treasury 1-3 Years. Note: In December 2017, the BlackRock Aladdin system changed its methodology for calculating spread duration. All European government bonds except those issued by Germany are now deemed to have spread duration. Investors should carefully review the risks of each asset class prior to investing. For risks considerations of the fund, please refer to the back cover and the fund's prospectus.

<sup>3</sup> As of 30 September 2020. Allocation shown for MS INVF Short Maturity Euro Bond Fund may not sum to 100% due to rounding

<sup>4</sup> Source: Bloomberg as of 18 September 2020. Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass.

## Credit Quality Distribution

% of Total Net Assets



Source: Morgan Stanley Investment Management as of 30 September 2020.

May not sum to 100% due to the exclusion of other assets and liabilities. Quality distribution data for securities is sourced from Fitch, Moody's and S&P. Where the credit ratings for individual securities differ between the three ratings agencies, the 'highest' rating is applied. The rating of credit default swaps is based on the 'highest' rating of the underlying reference bond. 'Cash' includes investments in short term instruments, including investments in Morgan Stanley liquidity funds.

## Investment Performance – Class Z (% net of fees)\*

Average annual total return (Periods ending 30 September 2020)

	QTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE INCEPTION 01/08/1994
<b>MS INVF Short Maturity Euro Bond Fund</b>	0.49	-0.52	-0.09	0.22	1.02	1.69
<b>Bloomberg Barclays Euro-Aggregate: Treasury 1-3 Years Index</b>	0.09	-0.44	0.01	0.08	1.05	1.75

\* Past performance is not a reliable indicator of future results. Returns are net of fees and assume the reinvestment of all dividends and income. Returns for less than one year are cumulative (unannualised). Performance for other share classes will vary.

## Investment Team

	TITLE	YEARS OF INDUSTRY EXPERIENCE
<b>Leon Grenyer</b>	Managing Director	24
<b>Richard Ford</b>	Managing Director	29
<b>Richard Class</b>	Managing Director	20
<b>Dipen Patel</b>	Executive Director	6

Team members may change, without notice, from time to time.

## PORTFOLIO CHARACTERISTICS – CLASS Z (AS OF 30 SEPTEMBER 2020)

<b>Duration (years)</b>	1.85
<b>Average yield to maturity (%)</b>	0.03
<b>Number of holdings</b>	162

## 12-Month Performance Periods to Latest Month End (%) – Class Z

	SEP '15 - SEP '16	SEP '16 - SEP '17	SEP '17 - SEP '18	SEP '18 - SEP '19	SEP '19 - SEP '20
<b>Share Class I EUR (%)</b>	0.86	0.52	-1.17	1.44	-0.52
<b>Bloomberg Barclays Euro-Aggregate: Treasury 1-3 Years Index (%)</b>	0.56	-0.19	-0.77	1.23	-0.44

Source: MSIM, Bloomberg Barclays.

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.

## Risk 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.
- 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 investment.

## DEFINITIONS

**Average yield** to maturity measures the annual return on interest-bearing securities. In this it is assumed that they will be held to maturity. This metric includes both the coupon payments received during the term of the security and the repayment of the capital on maturity. **Cash & Equivalents** are defined as the value of assets that can be converted into cash immediately. These include commercial paper, open FX transactions, Treasury bills and other short-term instruments. Such instruments are considered cash equivalents because they are deemed liquid and not subject to significant risk of changes in values. **Duration** is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices. ISIN is the international securities identification number (ISIN), a 12 digit code consisting of numbers and letters that distinctly identifies securities. **Number of holdings** provided are a typical range, not a maximum number. The portfolio may exceed this from time to time due to market conditions and outstanding trades.

## INDEX DEFINITIONS

The **Bloomberg Barclays Euro Aggregate Treasury 1-3 Years Index** is a benchmark that measures the 1-3 year maturity Treasury euro-denominated issues. Inclusion is based on currency denomination of a bond and not country of risk of the issuer.

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