May 2019 Review and Update: US-China Trade Tensions

Since the beginning of this year we have been considering a number of binary risks which have held us back from further increasing equity exposure, despite our otherwise positive expectations for future global economic growth. Key risks among these are the US-China trade tensions, which we have been monitoring closely and recent developments show that our concerns are well founded.

During April we increased our equity allocation across our funds due to the positive economic outlook, but as the trade tensions between the US and China continued to develop we have subsequently de-risked substantially. Whilst we did not expect further tariffs to be implemented at this point, we believed that the possibility was not negligible and that the market should not dismiss this. We are comfortable that our focus on risk events has enabled us to identify the trade tensions as a reason to be more cautious of risk assets than would otherwise be the case. In addition in funds which permit their use, we have been using options as a complement to our dynamic asset allocation approach, to further protect funds from potential downside losses, whilst still allowing for the possibility to participate in upside gains.

The current situation remains unclear, but at the time of writing we do not believe that the US and China will resolve the remaining issues surrounding the trade war in the near term. Our assumption is that in the near term there will be no resolution between the two countries given the fundamental differences and the market has under-priced this scenario. However, the recent escalation of tensions is a strong endorsement of the positioning we have taken and we will continue to monitor the situation.

Our relatively defensive positioning should protect us from a potential increase in volatility. In the meantime, we should still receive decent upside if there is a resolution or if the market just ignores the tariffs completely. We have provided the target asset allocations of each of our four Luxembourg SICAV Funds in the following table, as of 13 May 2019. Please note that the positions we hold in cash are comprised of a combination of cash and short term money market instruments, along with the backing of the short futures positions we implemented in our portfolios.

1 De-risking does not eliminate the risk of loss.
MARKET PULSE

<table>
<thead>
<tr>
<th>VOLATILITY P.A.</th>
<th>EQUITY</th>
<th>FIXED INCOME</th>
<th>COMMODITIES</th>
<th>CASH</th>
</tr>
</thead>
<tbody>
<tr>
<td>MS INVF Global Balanced Risk Control Fund</td>
<td>4% – 10%</td>
<td>26.0</td>
<td>53.5</td>
<td>5.0</td>
</tr>
<tr>
<td>MS INVF Global Balanced Income Fund</td>
<td>4% – 10%</td>
<td>26.0</td>
<td>53.5</td>
<td>5.0</td>
</tr>
<tr>
<td>MS INVF Global Balanced Fund</td>
<td>4% – 10%</td>
<td>31.0</td>
<td>50.0</td>
<td>5.0</td>
</tr>
<tr>
<td>MS INVF Global Balanced Defensive Fund</td>
<td>2% – 6%</td>
<td>8.0</td>
<td>75.0</td>
<td>3.0</td>
</tr>
</tbody>
</table>

Source: Global Balanced Risk Control team, Morgan Stanley Investment Management.
Allocations are subject to change on a daily basis and without notice. For information only and not a recommendation to buy or sell specific investment strategy. MS INVF standards for Morgan Stanley Investment Funds. 1. Volatility targets are indicative ranges. There is no assurance that these targets will be attained.

RISK CONSIDERATIONS

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