

Shareholder Q&A on MS INVF Anti-Dilution Measures

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Morgan Stanley Investment Funds (“MS INVF”) operates a ‘partial swing pricing’ policy. It aims to protect shareholders from the impact of dilution which occurs as a result of other investors’ subscription and redemption activity.

Why does MS INVF need to Implement Anti-Dilution Measures?

As investors enter or exit a fund, the portfolio manager will purchase and sell securities. This activity incurs trading costs such as brokerage fees, transaction charges and taxes, which are charged to the fund and are borne by all existing shareholders, rather than the investor who has just traded. This problem is magnified when the fund is valued each day using the Net Asset Value (NAV) per share. This is because the price at which investors buy and sell shares is based on the last traded price of the underlying securities at the valuation point, which does not reflect trading costs resulting from investment subscriptions and redemptions. This is known as dilution and can negatively impact returns for existing shareholders of the fund.

What is Swing Pricing?

Swing pricing aims to address the dilution effect outlined above by ‘adjusting’ the NAV of a fund either up or down to better reflect trading costs incurred as a result of net subscriptions and redemptions on a particular day.

MS INVF has adopted a partial swing pricing policy in order to protect existing shareholders from the value of their shares being diluted. This approach is accepted as the industry standard across Luxembourg domiciled funds as published in ‘The Association of the Luxembourg Fund Industry (“ALFI”) 2011 best practice brochure.’

A ‘Partial Swing Pricing’ policy considers that small amounts of shareholder activity will not trigger material trading costs and can be covered with existing cash balances held within a fund. If subscriptions or redemptions on a dealing day cause the net shareholder activity to exceed a defined threshold – the ‘Swing Threshold’, the NAV per share of all share classes within the fund will be ‘swung’ up or down by a defined percentage – the ‘Swing Factor’, to compensate for this.

Swing Pricing in Practice

Below are 3 hypothetical scenarios of how swing pricing operates in practice.

For the purpose of the examples, the assumption is that the NAV per share is \$100 and the swing factor is 100 basis points (bps).

1. Net subscriptions/redemptions do not exceed the swing threshold
 - There is no adjustment made to the NAV
 - A NAV per share of \$100 is published
2. Net shareholder activity has resulted in net inflows that exceed the swing threshold
 - The NAV per share is swung upwards by 100bps
 - A NAV per share of \$101 is published

Shareholders trading in the fund, including those redeeming, receive a NAV of \$101. Investors subscribing to the fund receive fewer shares, compensating existing shareholders for dilution resulting from significant inflows.

3. Net shareholder activity has resulted in net outflows that exceed the swing threshold

- The NAV per share is swung down by 100bps
- A NAV per share of \$99 is published

Shareholders trading in the fund, including those subscribing, receive a NAV of \$99. Investors redeeming from the fund receive a lower price per share, compensating existing shareholders for dilution resulting from significant outflows.

INVESTOR IMPACT			
	NET INFLOWS EXCEED THRESHOLD	NET FLOWS DO NOT EXCEED THRESHOLD	NET OUTFLOWS EXCEED THRESHOLD
INVESTOR ACTIVITY	NAV Adjusted Upwards	NAV Remains Constant	NAV Adjusted Downwards
Subscribing	Pay \$101	Pay \$100	Pay \$99
Holding	No Dilution Impact	No Impact	No Dilution Impact
Redeeming	Receive \$101	Receive \$100	Receive \$99

How is the Swing Threshold and Swing Factor Determined?

The swing threshold and swing factor for each MS INV FUND sub-fund is established as a percentage of total assets of the fund and is reviewed and determined by Morgan Stanley Investment Management's Anti-Dilution Subcommittee ("ADS").

The swing threshold is reviewed on at least a quarterly basis with the primary objective being to protect existing shareholders whilst minimising NAV volatility. By taking into account factors such as, but not limited to, fund size, liquidity of holdings, fund cash management policy, and Investor activity, the swing threshold is set at a level that will not be triggered by shareholder activity for which the dilution impact would be considered immaterial to existing shareholders.

The swing factor is calculated and updated on a monthly basis or as frequently as market conditions require per market best practice and will take account of bid/offer spreads of the underlying securities, asset class, associated transaction costs, taxes and market conditions.

How is Performance Impacted by Swing Pricing?

Swing pricing aims to protect the overall performance of the fund. When the swing threshold of a particular sub-fund is breached, the price will be swung for all share classes of that sub-fund and an adjusted NAV will be stated. This NAV will be used in all measures of performance and for accounting purposes.

Swing pricing may increase the variability of the fund's returns causing the fund to appear more volatile than in practice, however, this should not be interpreted as an increase in the inherent level of portfolio risk. The percentage by which the NAV is swung is an estimate of trading costs incurred and will therefore improve the fund's performance in the long-term.

Is Swing Pricing Just Another Charge for Investors?

No. Swing pricing is a widely used mechanism designed solely for the protection of ongoing investors within a fund, to reduce the impact of trading costs incurred by other investors entering or exiting the fund. A swung price includes a best estimation of these trading costs, so that they are rightfully allocated to those investors that generated them.

Does MS INV FUND Publish the Swing Threshold for its Sub-Funds?

In line with industry practice, MS INV FUND will not disclose the swing thresholds applicable to each of its sub-funds in order to protect its shareholders from investors who may intend to trade just below the threshold in order to avoid the price being swung.

Does MS INV F Publish the Swing Factors Applied to its Sub-Funds?

MS INV F does not publish swing factors calculated for each of its funds; however, there is an investor disclosure policy in place to manage specific investor requests.

PROSPECTIVE/EXISTING INVESTORS

The swing factor is not published for any funds. Upon request, MS INV F provides investors with the following summary statistics relating to the most recent rolling 12 month period: swing factor high, swing factor low, swing factor average and number of times the NAV has been swung. Prospective investors may need to sign an NDA.

POST SUBSCRIPTION/REDEMPTION

The swing factor is not published for any funds; however, MS INV F will confirm upon request if an investor received a swung price post full redemption and the factor that was applied to their transaction. In the case of a subscription or partial redemption, MS INV F will confirm, upon request, 30 days post trade date the following:

- if an investor received a swung price,
- whether the fund swung to bid or offer,
- and the factor that was applied to the transaction.

Under exceptional circumstances, the 30-day lag may be changed at the discretion of the ADS.

Who Can I Contact if I have a Question about Swing Pricing?

Please contact Client.Service.Administration.Luxembourg@morganstanley.com

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