Market Overview

In the third quarter, we saw a major rates sell-off in developed market debt. U.S. Treasuries widened 30 to 40 basis points (bps) across the curve and the move was echoed by German bunds and U.K. gilts with sell-offs across their curves of 15 to 30 bps and 20 to 50 bps, respectively. While the short end of Japanese bonds didn’t move, the Japanese 30-year government bond widened 24 bps in the quarter. In July, the Bank of Japan (BOJ) surprised the market by tweaking its yield curve policy. The band around the 0% yield target will widen from +/-10 bps to +/-20 bps, which should give the BOJ more flexibility in adjusting the 10-year rate. Italian government debt sold off 92 bps for 5-year bond and 77 bps for the 10-year bond due to market worries regarding the upcoming 2019 budget plan. The government proposed the deficit at 2.4% for next year, 2.1% in 2020 and 1.8% in 2021. However, the growth assumptions for the budget (15%, 16% and 14%, respectively) were much more optimistic than consensus estimates. The European Commission commented that budget plan has gone “substantially beyond” the rule and the plan posed a “serious concern.” The contagion to other peripheries was relatively small as Spanish government bonds widened 10 to 20 bps across the curve while Portugal’s widened less than 20 bps. The U.S. dollar (USD) appreciated on average 1.3% among developed market currencies. The biggest currency move in developed markets was the Australian dollar and New Zealand dollar, each dropping approximately 4% against USD. The only positive currency against USD was the Canadian dollar, which was up 1.9% for the quarter against the backdrop of positive trade development in late September.

One of the main themes of this quarter was global trade. U.S. President Donald Trump formally announced the implementation of the next round of punitive tariffs on imports from China. The levies took effect on September 24 and covered $200 billion of goods, including some consumer goods. The initial tariff rate has been set at 10%, which will rise to 25% on January 1, 2019. China retaliated by imposing tariffs of 5% to 10% on $60 billion worth of U.S. goods. On the positive note, a deal has been struck between the U.S., Mexico and Canada to replace the North American Free Trade Agreement (NAFTA). The new deal, which is expected to be signed by the end of November, is to be called the U.S.-Mexico-Canada Agreement, or USMCA. Brexit negotiation continued, and early into the quarter, the U.K. released a series of white papers advising corporations on what to do in the case of “no-deal.” The pound sold off as markets started to price in higher possibilities of a hard Brexit. However, positive tones started to come out in early August. Both parties have shown some signs of progress; however, key obstacles remained. Following the sentiment, the pound rallied as the chance of a soft Brexit looked increasingly likely. The hope lasted for a while until, in an Austria Summit, the European Union (EU) rejected the Chequers plan outright on economic concerns. Prime Minister Theresa May responded by recommitting to her existing stance and maintained her Brexit plan during a speech given to the Conservative Party conference.

In terms of central bank activity, the Swiss National Bank kept rates unchanged as expected and maintained its intervention threat on its currency. Norges Bank raised its policy rate by 25 bps to 0.75% but unexpectedly lowered its longer-term projections for the key rates. The Riksbank’s September meeting minutes’ tone came in hawkish. The probability of a hike in December increased and Swedish krona also rose in conjunction with the rising rate expectation. The Reserve Bank of New Zealand kept rates unchanged but pushed back its forecast for a rate hike to late 2020. The Bank of England kept its key interest rate at 0.75%. The Federal Reserve (Fed) hiked its short-term interest rate by 25 bps and dropped the reference to “accommodative.” The dot plot showed firmer expectations by Fed policy committee members for another rate hike in December. While the Bank of Canada did not hold a meeting, Deputy Governor Wilkins said they were considering dropping the

1 Source: Bloomberg L.P. Data as of September 30, 2018.

This document constitutes a commentary and does not constitute investment advice nor a recommendation to invest. The value of investments may rise as well as fall. Independent advice should be sought before any decision to invest.
commitment to a "gradual approach" to rate hikes, which could signal a potential acceleration in the pace of hikes beyond the currently discounted path of one per quarter.

**Fund Strategy and Performance**

During the quarter, both macro decisions and sector spreads contributed to performance. Exposure to developed market rates and USD exposure contributed to performance. From a spread sector perspective, holdings in emerging market (EM) external debt, convertibles, investment grade and high yield corporate bonds, and securitized debt also contributed. Conversely, EM currency exposure detracted from performance, specifically in South Africa and Russia, as did rate exposure in Russia, Brazil, Mexico, Spain and Portugal.

During the period, we reduced exposure to EM debt (primarily domestic debt) and securitized debt, while adding to investment grade and high yield corporate debt.

**Outlook**

The key price action investors are focused on at present is the rise in U.S. Treasury yields. Higher yields should not have been surprising, as the Fed has been clearly communicating its intention to keep on steadily raising interest rates, but the market had been reluctant to price in rate hikes beyond 2019. The recent strong growth data supports the case for more and a longer hiking cycle. In addition, with interest rate term premium estimates still negative, there is lots of potential for yields to rise through valuations normalizing along with tighter Fed policy being priced. The correlated nature of global bond markets means higher U.S. Treasury yields are leading to higher yields everywhere, almost regardless of domestic fundamentals. Our view is the risks remain skewed to yields rising further from here, led by the U.S.

To the extent the Fed is raising interest rates because the economy is doing better, this shouldn’t necessarily be a headwind for risky assets. The risk of the Fed over-tightening seems small, especially given that inflationary pressures remain subdued, so the pace can always be slowed, as has happened multiple times during the current tightening cycle. While there is growing evidence of tight labor markets pushing up wage inflation, both in the U.S. and Europe, the pick-up mainly supports the argument that monetary policy needs to be tightened rather than it needs to be tightened faster. This should mean the impact on risky assets, in the U.S., is benign.

However, the concern is if asset markets outside of the U.S. can cope with higher yields with the same resilience. After briefly converging, it appears the U.S. economy is once again outpacing the rest of the world economy. Europe is growing notably slower than in 2017 and is being dragged down by political and fiscal uncertainties in Italy. The key concern in emerging markets is the resilience of the Chinese economy, not helped by an acrimonious dialogue with the U.S. on trade.

On balance we think stronger U.S. growth and higher U.S. yields will not disrupt the global economy and financial markets. This is partly because strong U.S. growth is still good for the global economy and also because there is a feedback loop to Fed policy if higher yields prove to be disruptive. That having been said, we believe discrimination needs to be used in emerging markets, picking between countries which have better and worse fundamentals. The Italian situation also runs the risk of becoming far more disruptive even though there are few signs of contagion so far.

Stronger growth may be too much of a good thing, if it leads to excessive monetary policy tightening. But, as Mae West commented, too much of a good thing can also be wonderful.
Performance (%)  
As of date September 30, 2018 (Class I Share at NAV)

<table>
<thead>
<tr>
<th>Fund/Metric</th>
<th>MTD</th>
<th>QTD</th>
<th>YTD</th>
<th>1 YR</th>
<th>3 YR</th>
<th>5 YR</th>
<th>10 YR</th>
<th>SINCE INCEPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>MS Global Fixed Income Opportunities Fund - I Shares</td>
<td>0.48</td>
<td>1.09</td>
<td>1.38</td>
<td>2.54</td>
<td>4.74</td>
<td>4.22</td>
<td>6.79</td>
<td>4.29</td>
</tr>
<tr>
<td>Bloomberg Barclays Global Aggregate Hedged USD Index</td>
<td>(0.38)</td>
<td>(0.05)</td>
<td>0.02</td>
<td>0.82</td>
<td>2.35</td>
<td>3.13</td>
<td>4.07</td>
<td>4.97</td>
</tr>
<tr>
<td>Blended Index</td>
<td>(0.38)</td>
<td>(0.05)</td>
<td>0.02</td>
<td>0.82</td>
<td>1.39</td>
<td>0.40</td>
<td>2.71</td>
<td>4.27</td>
</tr>
<tr>
<td>Bloomberg Barclays Global Aggregate Index</td>
<td>(0.86)</td>
<td>(0.92)</td>
<td>(2.37)</td>
<td>(1.32)</td>
<td>1.98</td>
<td>0.75</td>
<td>2.89</td>
<td>4.36</td>
</tr>
</tbody>
</table>

Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. For the most recent month end performance figures, please visit morganstanley.com/im. Investment returns and principal value will fluctuate and fund shares, when redeemed, may be worth more or less than their original cost.

The gross expense ratio is 0.58% for Class I shares and the net expense ratio is 0.58%. Where the net expense ratio is lower than the gross expense ratio, certain fees have been waived and/or expenses reimbursed. These waivers and/or reimbursements will continue for at least one year from the date of the applicable fund’s current prospectus (unless otherwise noted in the applicable prospectus) or until such time as the fund’s Board of Directors acts to discontinue all or a portion of such waivers and/or reimbursements. Absent such waivers and/or reimbursements, returns would have been lower. Expenses are based on the fund's current prospectus. The minimum initial investment is $5,000,000.

Returns are net of fees and assume the reinvestment of all dividends and income. They are compared to an unmanaged market index. Returns for less than one year are cumulative (not annualized). Performance for one year or more is based on average annual total returns. The returns are reported for Class I shares. Performance for other share classes will vary.

Effective January 1, 2017, the benchmark index for the MS Global Fixed Income Opportunities Fund changed from Bloomberg Barclays Global Aggregate Index to the Bloomberg Barclays Global Aggregate Hedged USD Index. Blended Index performance is calculated using the Bloomberg Barclays Global Aggregate Index from inception through 12/31/2016 and the Bloomberg Barclays Global Aggregate Hedged USD Index thereafter.

RISK CONSIDERATIONS

There is no assurance that a mutual fund will achieve its investment objective. Funds are subject to market risk, which is the possibility that the market values of securities owned by the fund will decline and that the value of fund shares may therefore be less than what you paid for them. Accordingly, you can lose money investing in this fund. Please be aware that this fund may be subject to certain additional risks. Fixed-income securities are subject to the ability of an issuer to make timely principal and interest payments (credit risk), changes in interest rates (interest-rate risk), the creditworthiness of the issuer and general market liquidity (market risk). In the current rising interest-rate environment, bond prices may fall and may result in periods of volatility and increased portfolio redemptions. Longer-term securities may be more sensitive to interest rate changes. In a declining interest-rate environment, the portfolio may generate less income. Mortgage- and asset-backed securities are sensitive to early prepayment risk and a higher risk of default and may be hard to value and difficult to sell (liquidity risk). They are also subject to credit, market and interest rate risks. Certain U.S. government securities purchased by the Strategy, such as those issued by Fannie Mae and Freddie Mac, are not backed by the full faith and credit of the U.S. It is possible that these issuers will not have the funds to meet their payment obligations in the future. High yield securities (“junk bonds”) are lower rated securities that may have a higher degree of credit and liquidity risk. Public bank loans are subject to liquidity risk and the credit risks of lower rated securities. Foreign securities are subject to currency, political, economic and market risks. The risks of investing in emerging market countries are greater than risks associated with investments in foreign developed countries. Sovereign debt securities are subject to default risk. Derivative instruments may disproportionately increase losses and have a significant impact on performance. They also may be subject to counterparty, liquidity, valuation, correlation and market risks. Restricted and illiquid securities may be more difficult to sell and value than publicly traded securities (liquidity risk). Due to the possibility that prepayments will alter the cash flows on Collateralized mortgage obligations (CMOs), it is not possible to determine in advance their final maturity date or average life. In addition, if the collateral securing the CMOs or any third party guarantees are insufficient to make payments, the portfolio could sustain a loss.

INDEX INFORMATION

The Bloomberg Barclays Global Aggregate Hedged Index provides a broad-based measure of the global
investment grade fixed-rate debt markets. Total Returns shown is hedged USD.

The Bloomberg Barclays Global Aggregate Index provides a broad-based measure of the global investment grade fixed-rate debt markets. Total Returns shown is unhedged USD.

The Indexes are unmanaged and do not include any expenses, fees or sales charges. It is not possible to invest directly in an Index.

IMPORTANT INFORMATION

The views and opinions expressed are those of the investment team at the time of writing and are subject to change at any time due to market, economic, or other conditions, and may not necessarily come to pass. These comments are not representative of the opinions and views of the firm as a whole. Holdings and sectors/region weightings are subject to change daily. All information provided is for informational purposes only and should not be deemed as a recommendation to buy or sell securities in the sectors and regions referenced.

This material is a general communication, which is not impartial and all information provided has been prepared solely for informational and educational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The information herein has not been based on a consideration of any individual investor circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

Certain information herein is based on data obtained from third party sources believed to be reliable. However, we have not verified this information, and we make no representations whatsoever as to its accuracy or completeness.

Please consider the investment objectives, risks, charges and expenses of the fund carefully before investing. The prospectus contains this and other information about the fund. To obtain a prospectus, contact your financial advisor or download one at morganstanley.com/im. Please read the prospectus carefully before investing.

Morgan Stanley Investment Management is the asset management division of Morgan Stanley.

NOT FDIC INSURED | OFFER NO BANK GUARANTEE | MAY LOSE VALUE | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY | NOT A DEPOSIT