The Morgan Stanley Emerging Markets Corporate Debt Strategy is a value-oriented fixed income strategy that seeks to maximize total return from income and price appreciation by primarily investing across the credit spectrum in the debt securities of emerging market corporate issuers. Investments are mostly denominated in U.S. currency, and include non-U.S. and/or local currencies. To help achieve its objective, the team follows a disciplined investment process that combines top-down country allocation with bottom-up credit analysis to identify undervalued emerging market corporate debt securities.

Investment Philosophy

The investment team believes that corporate, sovereign and quasi-sovereign debt securities of emerging market countries experiencing positive fundamental change may present attractive investment opportunities. Further, historical data shows that the performance correlation of emerging market debt with other asset classes can be low, thus providing potential diversification benefits.¹

The team aims to capture the upside potential of emerging market corporate debt securities through:

- **Country and security analysis**: As emerging markets vary significantly in their development, the team not only engages in bottom-up security selection, but also evaluates countries’ relative economic, political and social fundamentals.

- **Value orientation**: The team seeks to identify countries exhibiting fundamental improvements that have not yet been reflected in the prices of their debt securities. By following a country’s incremental rate of change in various areas over time—rather than simply analyzing a static snapshot of parameters—the team believes it can discern improvements at their early stages and monetize them through timely investments.

- **Credit analysis**: The team believes that prudent risk taking grounded in fundamental credit analysis will be the key to adding consistent alpha over a full market cycle. Key factors driving credit quality include free cash flow generation and leverage trends, business volatility, sponsor reputation and track record, as well as legal/regulatory considerations. Good investment opportunities exist across the full credit quality spectrum and can be found in the corporate bonds of countries in which credit fundamentals are experiencing positive rates of change.

### Strategy at a Glance

<table>
<thead>
<tr>
<th>Feature</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inception</td>
<td>November 2010</td>
</tr>
<tr>
<td>Benchmark</td>
<td>JPMorgan Corporate Emerging Markets Bond Index Broad Diversified²</td>
</tr>
<tr>
<td>Country weight</td>
<td>Typically within ±10 percentage points of the benchmark. For non-index countries: Less than 5% of the portfolio at cost per country.</td>
</tr>
<tr>
<td>Sector weight</td>
<td>Typically within +/-10% of the benchmark.</td>
</tr>
<tr>
<td>Credit ratings</td>
<td>No credit ratings restrictions. The team believes that opportunities reside across the entire credit spectrum and do not set any minimum rating requirement for the portfolio. In addition, they do not believe that credit ratings are the best gauge of sovereign risk, as they tend to be lagging indicators. Credit rating, while considered, is not a primary factor in the decision to take a position.</td>
</tr>
</tbody>
</table>

¹ Diversification does not protect you against a loss in a particular market; however it allows you to spread that risk across various asset classes.

² The J.P. Morgan Corporate EMBI Broad Diversified Index is a global, liquid corporate emerging-markets benchmark that tracks U.S.-denominated corporate bonds issued by emerging-markets entities. It is not possible to invest directly in an index.

³ Weights represent typical ranges, which a portfolio may exceed from time to time due to market conditions and outstanding trades.

This material is for Professional Client use only, except in the U.S. where the material is for Institutional Investor use only. The material may not be redistributed or used with the general public.
Investment Process

The team follows a disciplined investment process that combines top-down country allocation with bottom-up security evaluation. All investment recommendations undergo peer review, and final decisions with respect to portfolio construction and market-risk exposure are made on a team basis based on the following analysis:

- **Macro analysis**: The team begins with a top-down macro analysis of the global environment and examines the impact of various geopolitical, economic and business trends (including global economic growth, business and inflation cycles, and commodities prices) on the universe of emerging market countries. The output of the team’s macro analysis is an overall risk assessment and risk target for the overall portfolio.

- **Sovereign analysis**: The team’s objective is to estimate “fair sovereign risk premiums” based not only on economic fundamentals but also on structural and sociopolitical factors. Their sovereign risk model focuses on a broad range of factors considered important determinants of sovereign risk including macroeconomic, socio-political assessments and global variables, to come up with “fair sovereign risk premium” estimates. By comparing “fair-value” sovereign spreads with those embedded in actual bond prices, our framework provides relevant value signals that, combined with other factors not easily captured by econometric models (such as market liquidity, or positioning, for example), guide our investment decision process.

- **Credit analysis and industry outlook**: The team reviews a variety of indicators to evaluate the credit metrics of specific issuers. Additionally, the team considers the industry outlook for each issuer. Fundamental credit analyses incorporate financial models, competitive positioning, free cash flow generation, business volatility, liquidity capital structure, and legal/regulatory considerations. Risk analyses consider business risk, financial risk, management experience, shareholder reputation, earnings stability, free cash flow, balance sheet strength and the trajectory of the credit profile.

- **Security selection**: The team screens a universe of corporate, sovereign and quasi-sovereign bonds in each country for the most attractive opportunities. Securities are selected based on yield, targeted duration, security, covenants and other considerations.

- **Portfolio construction**: The team uses a Positioning & Sizing framework that takes into consideration the total return potential of investment alternatives, the volatility of returns and correlation of such potential positions to assess risk, and a conviction factor about the return/risk trade-off based on a comprehensive review of event risk (including near-term political factors) and the market technicals such as planned issuance, investors’ positioning and outlook for asset class flows.

- **Risk management**: Risk management is integrated throughout the team’s investment process. An independent team also monitors portfolio adherence to guidelines, overall risk levels and composition.

Display 1: **Country and security analysis helps identify investment opportunities in emerging market corporate debt**

This diagram represents how the portfolio management team generally implements its investment process under normal market conditions.

Competitive Advantages

- **Global presence**: The team is supported by Morgan Stanley’s presence in nearly every major financial market and region, drawing on the scale and scope of the firm’s global franchise to help manage risks and identify opportunities throughout market cycles.

- **Experience and complementary skill set**: The team has been through a variety of volatile markets and is comprised of investment professionals with complementary skill sets, which facilitate informed, well-researched investment decisions. Morgan Stanley Investment Management has managed dedicated EMD assets since 1993, with the head of the EMD effort being involved since 1997.

- **Morgan Stanley Investment Management’s structure**: The firm’s structure allows for entrepreneurial flexibility, equipping the investment team with the liberty to respond quickly to market developments and swiftly implement investment ideas.

---

4 Subject to certain restrictions.
Investment Team

The Emerging Markets Corporate Debt Strategy is managed by Warren Mar, Eric Baumleister, Jens Nystedt and Sahil Tandon. In addition to the macroeconomic, sovereign, and credit analysts dedicated to the Emerging Markets universe, the team also draws on the wider expertise of the Global Fixed Income team.

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

This material is for Professional Client use only, except in the U.S. where the material is for Institutional Investor use only. The material may not be redistributed or used with the general public.

This communication is a marketing communication. The document has been prepared 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. The material contained herein has not been based on a consideration of any individual client 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.

Except as otherwise indicated herein, the views and opinions expressed herein are those of the portfolio management team, are based on matters as they exist as of the date of preparation and not as of any future date, and will not be updated or otherwise revised to reflect information that subsequently becomes available or circumstances existing, or changes occurring, after the date hereof.

Any index referred to herein is the intellectual property (including registered trademarks) of the applicable licensor. Any product based on an index is in no way sponsored, endorsed, sold or promoted by the applicable licensor and it shall not have any liability with respect thereto.

All information contained herein is proprietary and is protected under copyright law.

RISK WARNINGS

Past performance is not a guarantee of future performance. There can be no assurance that the Strategy will achieve its investment objectives. Portfolios are subject to market risk, which is the possibility that the value of the investments and the income from them can go down as well as up and an investor may not get back the amount invested. Accordingly, you can lose money investing in this strategy. Please be aware that this strategy 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 a rising interest-rate environment, bond prices may fall. In a declining interest-rate environment, the portfolio may generate less income. Investments in foreign markets entail special risks such as currency, political, economic, and market risks. The risks of investing in emerging market countries are greater than the risks generally associated with investments in foreign developed countries. High yield securities (“junk bonds”) are lower rated securities that may have a higher degree of credit and liquidity risk. Sovereign debt securities are subject to default risk. U.S. government bonds and fixed income investments are guaranteed by the issuer as to the timeliness of the payment of principal and interest and pay a fixed rate of interest. Derivative instruments can be illiquid, may disproportionately increase losses and may have a potentially large negative impact on the portfolio’s performance.

This communication is only intended for and will be only distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations.

There is no guarantee that any investment strategy will work under all market conditions, and each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market. Prior to investing, investors should carefully read the relevant offering document(s).

EMEA:

This communication was issued and approved in the UK by Morgan Stanley Investment Management Limited, 25 Cabot Square, Canary Wharf, London E14 4QA, authorized and regulated by the Financial Conduct Authority, for distribution to Professional Clients only and must not be relied upon or acted upon by Retail Clients (each as defined in the UK Financial Conduct Authority’s rules).

Financial intermediaries are required to satisfy themselves that the information in this document is suitable for any person to whom they provide this document in view of that person’s circumstances and purpose. MSIM shall not be liable for, and accepts no liability for, the use or misuse of this document by any such financial intermediary. If such a person considers an investment she/he should always ensure that she/he has satisfied herself/himself that she/he has been properly advised by that financial intermediary about the suitability of an investment.

US:

A separately managed account may not be suitable for all investors. Separate accounts managed according to the Strategy include a number of securities and will not necessarily track the performance of any index. Please consider the investment objectives, risks and fees of the Strategy carefully before investing. A minimum asset level is required. For important information about the investment manager, please refer to Form ADV Part 2.

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

Hong Kong:

This document has been issued by Morgan Stanley Asia Limited for use in Hong Kong and shall only be made available to “professional investors” as defined under the Securities and Futures Ordinance
of Hong Kong (Cap 571). The contents of this document have not been reviewed nor approved by any regulatory authority including the Securities and Futures Commission in Hong Kong. Accordingly, save where an exemption is available under the relevant law, this document shall not be issued, circulated, distributed, directed at, or made available to, the public in Hong Kong.

Singapore:
This document should not be considered to be the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor under section 304 of the Securities and Futures Act, Chapter 289 of Singapore (“SFA”), (ii) to a “relevant person” (which includes an accredited investor) pursuant to section 305 of the SFA, and such distribution is in accordance with the conditions specified in section 305 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Australia:
This publication is disseminated in Australia by Morgan Stanley Investment Management (Australia) Pty Limited ACN: 122040037, AFSL No. 314182, which accept responsibility for its contents. This publication, and any access to it, is intended only for “wholesale clients” within the meaning of the Australian Corporations Act.

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