Morgan Stanley
Global Emerging Markets Equity Strategy

The **Morgan Stanley Global Emerging Markets Equity Strategy** is a core strategy with a growth bias that seeks attractive long-term, risk-adjusted returns by investing in emerging market equities. To help achieve its objective, the strategy combines top-down country allocation with bottom-up stock selection and disciplined risk management.

Investment Philosophy

The Global Emerging Markets Equity team bases its investment philosophy on proprietary research which shows that both country-level and stock-specific factors can drive risks and returns in emerging markets. Therefore, the team seeks to add value by integrating top-down country allocation and bottom-up stock selection with a growth bias.

The team believes that in the long term, the dynamics of emerging markets are beneficial to the earnings of selective growth companies. Rather than focus on short-term cyclical bubbles, the team takes a thematic approach to investing to identify longer-term trends not fully appreciated by the market. As often as possible, the team takes contrarian positions. This allows them to develop sound reasons for why consensus may overlook or ignore elements of a country or a stock where positive change may yet occur.

Investment Process

The team follows a disciplined investment process that integrates top-down country allocation with bottom-up security selection *(see display on next page)*:

TOP-DOWN COUNTRY ALLOCATION

- **Global analysis:** The team analyzes global economic conditions, paying particular attention to the economies of the United States, Japan, China and Europe—and their impact on emerging-market performance.
- **Emerging market analysis:** The team closely analyzes an investment universe of some 25 to 30 countries (MSCI EM countries and others) to identify improving fundamentals and compelling catalysts. The team overweights countries where improving macroeconomic, social and political fundamentals may not yet be fully reflected in market valuations and sentiment.
- **Country allocation:** Lead portfolio manager Ruchir Sharma determines the strategy's country allocation, drawing on frequent travel, the input of regional portfolio managers and the macroeconomic assessment of the analyst team.

Strategy at a Glance

Inception	November 1991
Benchmark	MSCI Emerging Markets Index (MSCI EM)[1]
Country weight[2]	±5% of the benchmark
Industry weight[2]	±10% of the benchmark
Security weight[2]	±3% of the benchmark
Typical number of holdings[3]	125–150

[1] The strategy invests in the market capitalization range of the MSCI Emerging Markets Index (Net), which is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. It is not possible to invest directly in an index.

[2] Weights represents typical ranges and are not a maximum number. The portfolio may exceed this from time to time due to market conditions and outstanding trades.

[3] The number of holdings provided is a typical range, not a maximum number. The portfolio may exceed this from time to time due to market conditions and outstanding trades.

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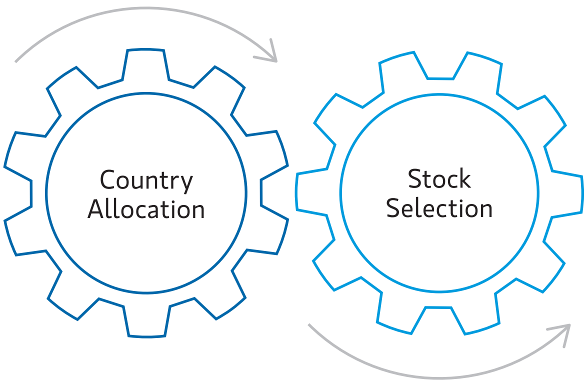
BOTTOM-UP SECURITY SELECTION

- **Investable universe:** The team monitors an investment universe of approximately 2,000 companies based on a liquidity analysis of trading volumes and commonly available information on each security.
- **Closely followed universe:** The team then conducts a deeper analysis of companies, focusing on a group of 400 to 450 companies based on a combination of factors, including index representation, company visits, industry analysis and a screening of sell-side research.
- **Security selection:** Among the closely followed universe, the team's portfolio managers select a total of roughly 125-150 stocks from companies exhibiting quality management; a strong business model with competitive advantages; good free cash-flow[4] generation and the effective use thereof; a healthy balance sheet; and the potential for high earnings growth. Throughout this process, the portfolio managers identify themes, contribute ideas and perspectives to the overall team, and collaborate on identifying what they believe to be the best stocks for their respective regions. Each portfolio manager is accountable at the country level for portfolio performance.

Display 1: **We translate macro-thematic research and fundamental bottom-up analysis into a growth-oriented portfolio**



The information presented represents how the portfolio management team generally applies their investment management process under normal market conditions.

Competitive Advantages

Morgan Stanley Investment Management pioneered investing in emerging markets in 1986, and has demonstrated expertise through all market cycles. As core investors with a growth bias, the team believes its integration of country allocation with stock selection helps drive competitive performance.

- **Country allocation:** The team believes future economic growth matters most for stock returns. The team overweights countries whose growth will likely beat expectations, and underweights problem countries.
- **Stock selection:** In constructing the portfolio, the team focuses on stocks exhibiting potential for high earnings growth, a growing market share, robust corporate governance, and quality management.
- **Performance:** Through their disciplined approach, the team seeks to generate consistent alpha over various market cycles and provide a measure of downside protection.

Investment Team[5]

Led by Ruchir Sharma, the Global Emerging Markets investment team includes portfolio managers and research analysts based in New York and Singapore. In addition, the team has research analysts and portfolio advisors located in Mumbai. The team believes that their extensive collective investment experience, obtained throughout various market cycles, enables superior investment decision-making and can help generate attractive long-term returns.

[4] Free cash flow equals operating cash flows (net income plus amortization and depreciation) minus capital expenditures and dividends.

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

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