

Global Infrastructure Securities Strategy

REAL ASSETS | GLOBAL LISTED REAL ASSETS TEAM | STRATEGY PROFILE | 2017

The Morgan Stanley Global Infrastructure Securities Strategy seeks attractive long-term, risk-adjusted returns by investing in the equity securities of publicly traded infrastructure companies worldwide. The investment team utilizes proprietary research to drive a value-oriented, fundamental investment process that combines bottom-up and top-down analyses.

Investment Philosophy

The Global Listed Real Assets team believes that the performance of infrastructure securities is most highly correlated with the underlying value of their assets. In aiming to achieve core infrastructure exposure in a cost-effective manner, the team utilizes proprietary research to invest in the equity securities of publicly listed infrastructure companies that it views as offering the best value relative to their underlying assets and growth prospects.

The investment team defines the core infrastructure securities universe as exhibiting certain characteristics. These companies:

- Serve an essential function in society or the economy;
- Have long, useful life spans;
- Hold a monopoly/quasi-monopoly market position or high barriers to entry;
- Operate in a regulated environment and/or are resistant to business cyclicality;
- Have the potential to produce stable, predictable cash flows, often linked to inflation; and
- Represent entities that are difficult to replicate due to high construction costs and/or scarcity of resources, such as land or planning restrictions.

Of these characteristics, the investment team in particular values: 1) barriers to entry, and 2) stability of cash flow. For the latter, this means seeking to eliminate or mitigate commodity price exposure to the greatest extent possible, particularly for those companies in the oil and gas, and electricity sectors.

As a result, the investment team seeks to invest in companies with direct exposure to infrastructure versus those that are exposed to the infrastructure “theme” but may not possess the structural attributes highlighted previously. Thus, the team focuses on companies with hard assets as opposed to those involved in service businesses.

Investment Process

The Global Infrastructure Securities Strategy is actively managed, utilizing internal proprietary research to implement a value-oriented, fundamental investment process that combines bottom-up and top-down research.

STRATEGY AT A GLANCE

Inception	September 2010
Benchmark	Dow Jones Brookfield Global Infrastructure Index ¹
Country Weight ²	Generally no more than +/-20% to any country versus the benchmark
Security Weight ²	Generally no more than 10% of portfolio market value or benchmark weight +10%
Sector Weight ²	Generally no more than +/-20% to any sector versus the benchmark
Typical Turnover Range ²	25 to 50 percent

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BOTTOM-UP ANALYSIS

- **INFORMATION GATHERING:** Through a review of public information and meetings with company management, the team evaluates each company's historical operating results, accounting practices, and business goals and strategies. In order to better understand a company's portfolio, the team may visit selected company-owned and comparable assets.
- **SECURITY EVALUATION AND SELECTION:** Using proprietary valuation models, the investment team seeks to assemble a portfolio comprised of individual securities that it believes provide the best value relative to the companies' underlying assets and growth prospects. The team maintains a disciplined focus on net asset value (NAV)³ or intrinsic value analysis as the primary valuation metric for evaluating companies within the investable universe. Results from this proprietary modeling are triangulated versus private infrastructure valuations and/or acquisition multiples to the extent available. The team believes that understanding private infrastructure value is vital, as publicly listed infrastructure assets represent only a small portion of the overall universe.

TOP-DOWN ANALYSIS

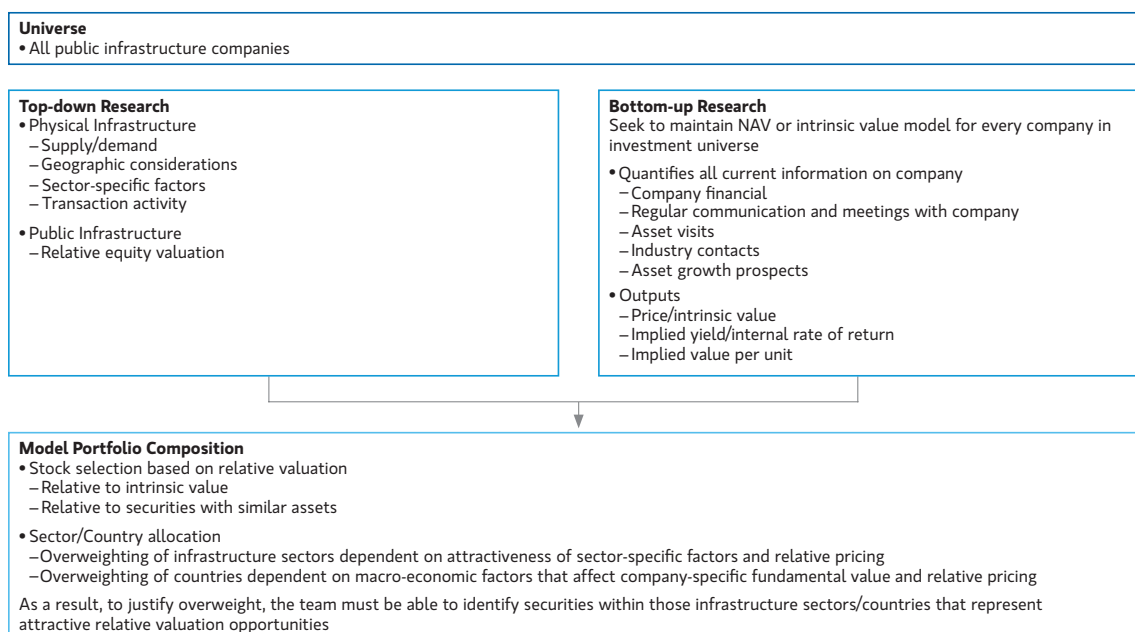
- **EVALUATION OF CYCLICAL FACTORS:** The team examines cyclical factors affecting infrastructure markets in order to determine which countries and sectors are most attractive on a relative basis. The supply and demand drivers of each physical infrastructure market within each country are analyzed to determine the potential risk/return characteristics of the companies' underlying assets. The team also examines sector-specific factors and transaction activity.
- **GLOBAL ALLOCATION BY SECTOR AND COUNTRY:** The output of the team's top-down research is an asset-allocation framework that provides a suggested optimal exposure to each major economic infrastructure sector and country, with an overweighting to sectors and countries that the team believes offer the best relative value.

RISK MANAGEMENT

The team seeks to manage sector and country risk by generally limiting portfolio allocation to no more than 20 percent overweight/underweight in either category versus the benchmark. At the same time, the team generally limits the maximum security weight to 10 percent of the portfolio per stock or benchmark weight plus 10 percent.

DISPLAY 1

Top-down macro analysis integrated with bottom-up fundamental analysis helps drive competitive performance



The diagram above represents how the portfolio management team generally applies its investment process under normal market conditions.

Competitive Advantages

ATTRACTIVE RISK/RETURN CHARACTERISTICS

- The global infrastructure securities market has historically provided strong risk-adjusted returns compared to the general equity markets⁴ while potentially providing portfolio diversification benefits.⁵

COST-EFFICIENT ACCESS TO A GROWING ASSET CLASS

- Public infrastructure securities can offer investors liquid, efficient access to an asset class that the investment team believes is poised for significant growth potential, and generally accepted as a distinct asset class within a multi-asset class portfolio.⁶

CONSISTENT ADHERENCE TO INVESTMENT PHILOSOPHY AND PROCESS

- The team remains committed to its investment philosophy irrespective of short-term trends, and pursues a disciplined, value-oriented investment process that utilizes proprietary research, which is designed to identify stocks that trade at discounts to underlying infrastructure value.

EXPERIENCED INVESTMENT TEAM

- The portfolio managers possess more than 45 years of combined experience. The team also leverages its real estate experience in managing the Global Infrastructure Securities Strategy and has implemented a similar investment philosophy and process to the strategy it has been utilizing for Real Estate Securities since 1995, as the team believes the analysis of both public real estate and infrastructure companies share many common characteristics.

Investment Team⁷

The Global Infrastructure Securities Strategy is managed by lead portfolio manager Ted Bigman and portfolio manager Matt King, who are supported by a team of fully dedicated research analysts. Bigman, a Managing Director at MSIM, joined the firm in 1995 and has 30 years of investment experience. King, a Managing Director, joined the firm in 2008 and has 17 years of financial industry experience.

¹ The Dow Jones Brookfield Global Infrastructure Index is a float-adjusted market capitalization weighted index that measures the stock performance of companies worldwide that exhibit strong infrastructure characteristics. The Index intends to measure all sectors of the infrastructure market. The index is unmanaged and should not be considered an investment. It is not possible to invest directly in an index.

² Information provided 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 Net asset value (NAV) represents the underlying asset value of a company.

⁴ Source: Morgan Stanley Investment Management, FactSet, Dow Jones Brookfield, MSCI, Standard & Poors, Russell. Data for the period July 14, 2008 through December 31, 2016. **Past performance is not indicative of future results.** Investments involve risks including the possible loss of principal. Equity securities are more volatile than bonds and subject to greater risks. Companies within the infrastructure industry are subject to a variety of factors that may adversely affect their business or operations. Investments in foreign markets entail special risks such as currency, political, economic, and market risks. The risks of investing in emerging market are greater than the risks generally associated with foreign investments.

⁵ Diversification does not protect an investor against a loss in a particular market; however, it allows an investor to spread that risk across various asset classes.

⁶ Source: S&P, Dow Jones Brookfield. As of December 31, 2016.

⁷ Team members may change from time to time without notice.

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