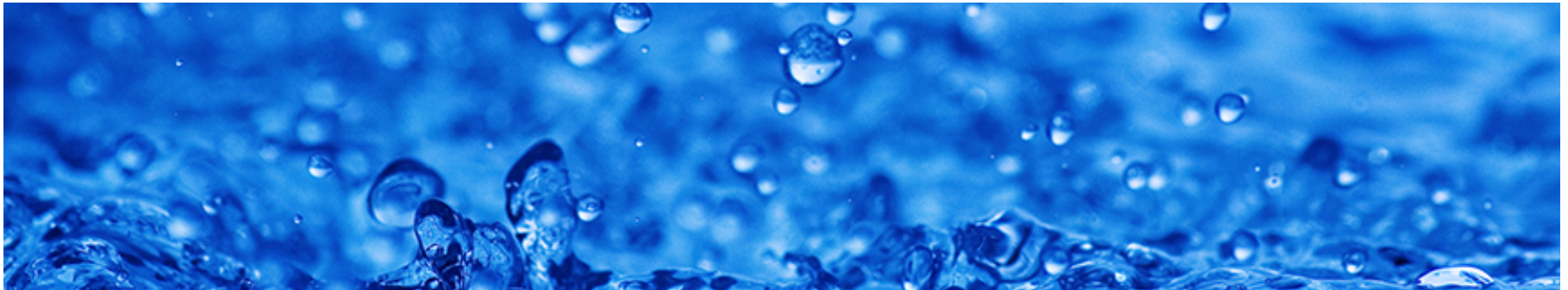


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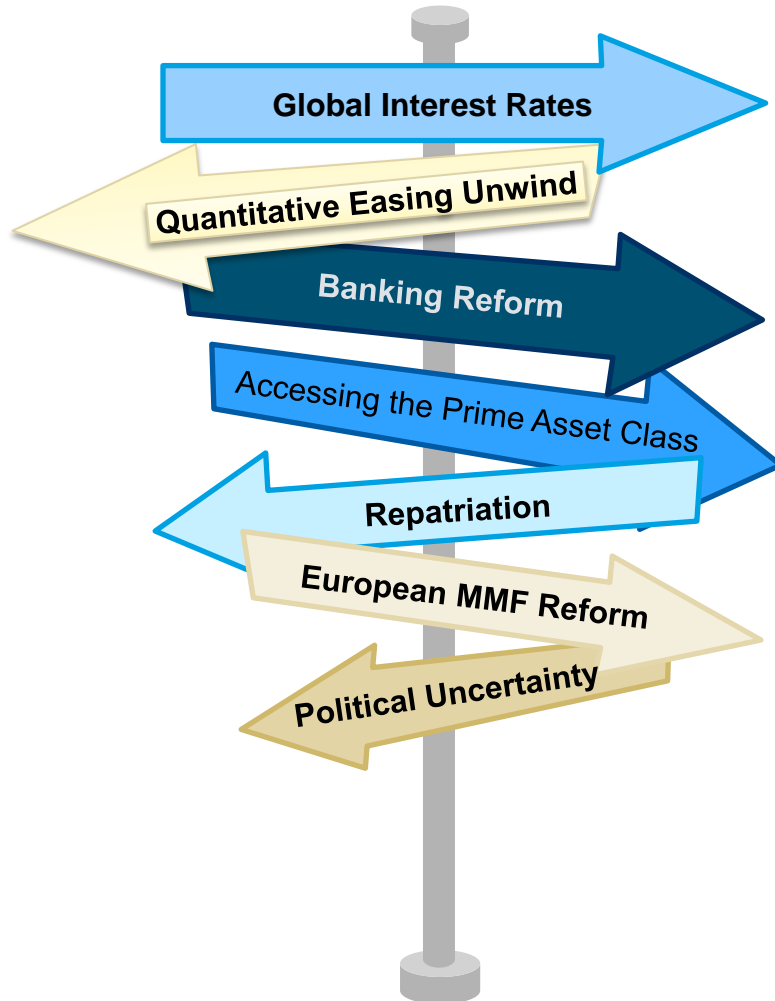
INVESTMENT MANAGEMENT

Key Issues for Short-Term Investors

May 21, 2018



The Path Forward for Liquidity Investors Remains Uncertain



Developments in the short-term markets will lead to further evolution and implications for liquidity investors. While the market effects will be primarily on supply and demand, which ultimately influence yields, other developments may impact investment strategy and capital allocation decisions.

Global Monetary Policy Is on a Gradual Tightening Path

United States

- The FOMC's expectations project 3 rate hikes in 2018 and 2-3 rate hikes in 2019
- At this rate, the Fed should approach its neutral rate of 2.75% by late 2019

United Kingdom

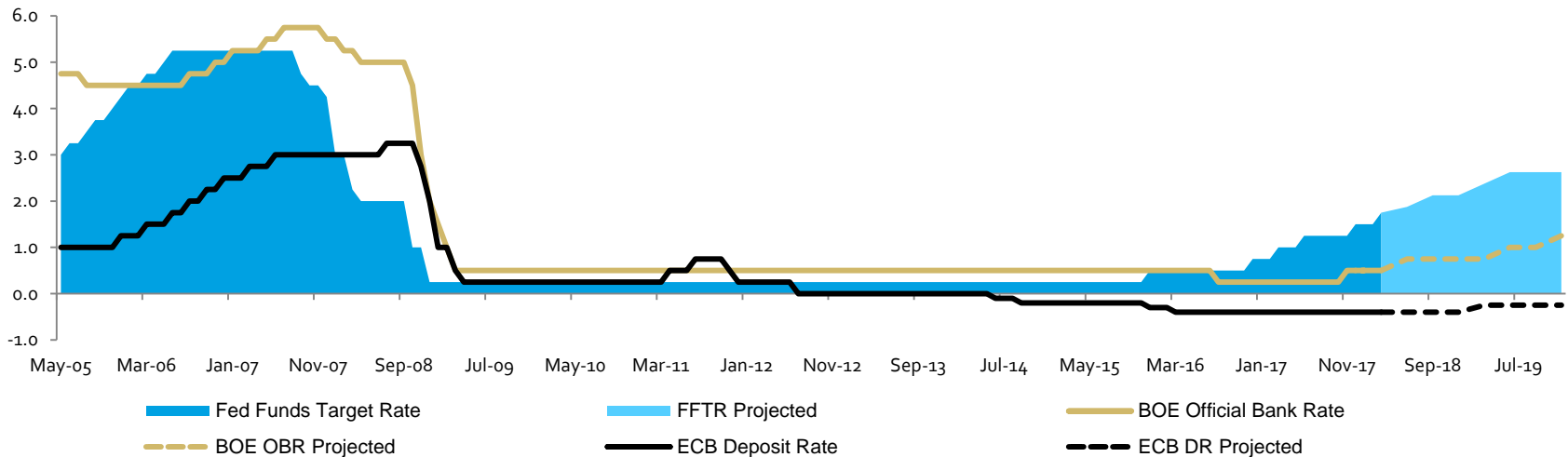
- Despite the overhang of Brexit, economic news has been generally positive and productivity and wage pressures have been mounting recently
- This could put pressure on the MPC to raise rates

Eurozone

- The asset purchase programme was halved from €60 Bn per month to €30 Bn per month while being extended by nearly one year in 2017
- Positive economic news is supportive of ending purchases by September 2018
- Inflation has been muted, which could keep rates on hold for some time

Global Central Bank Rates (%)

May 31, 2005 – December 31, 2019

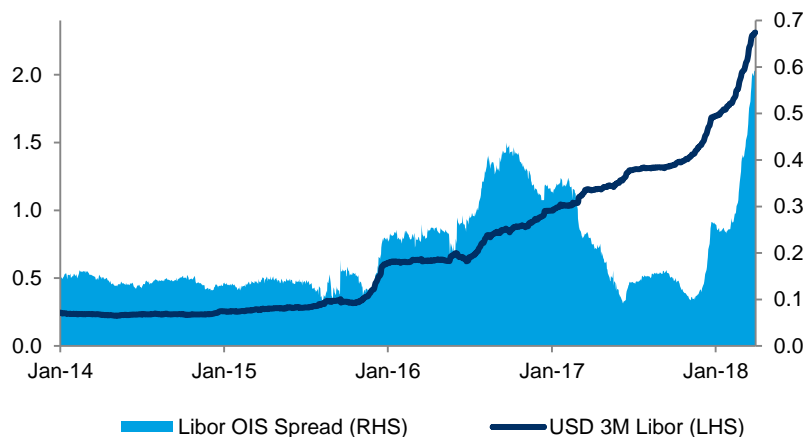


Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass.
 Source: Bloomberg, Morgan Stanley Research.

Market Supply and Demand is Pushing Spreads Wider

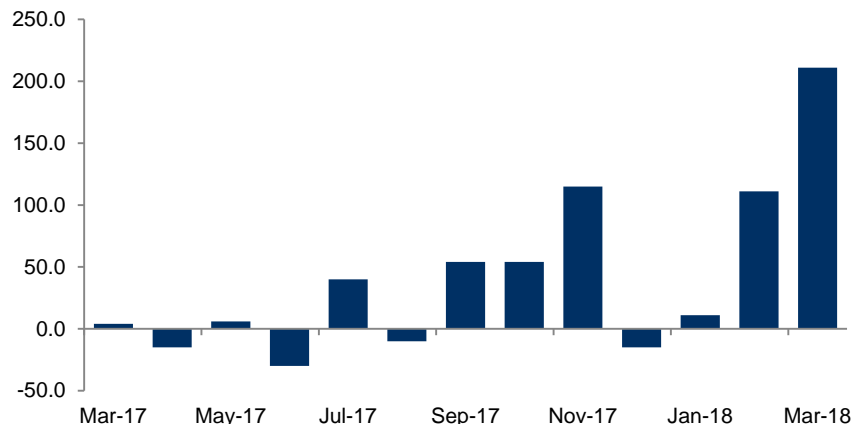
Libor-OIS Spread

January 1, 2014 – March 31, 2018 (%)



Treasury Bill Issuance

March 2017 – March 2018 (\$BN - Net)



Supply – Increasing

- Increase in Treasury Bill supply and CP outstanding

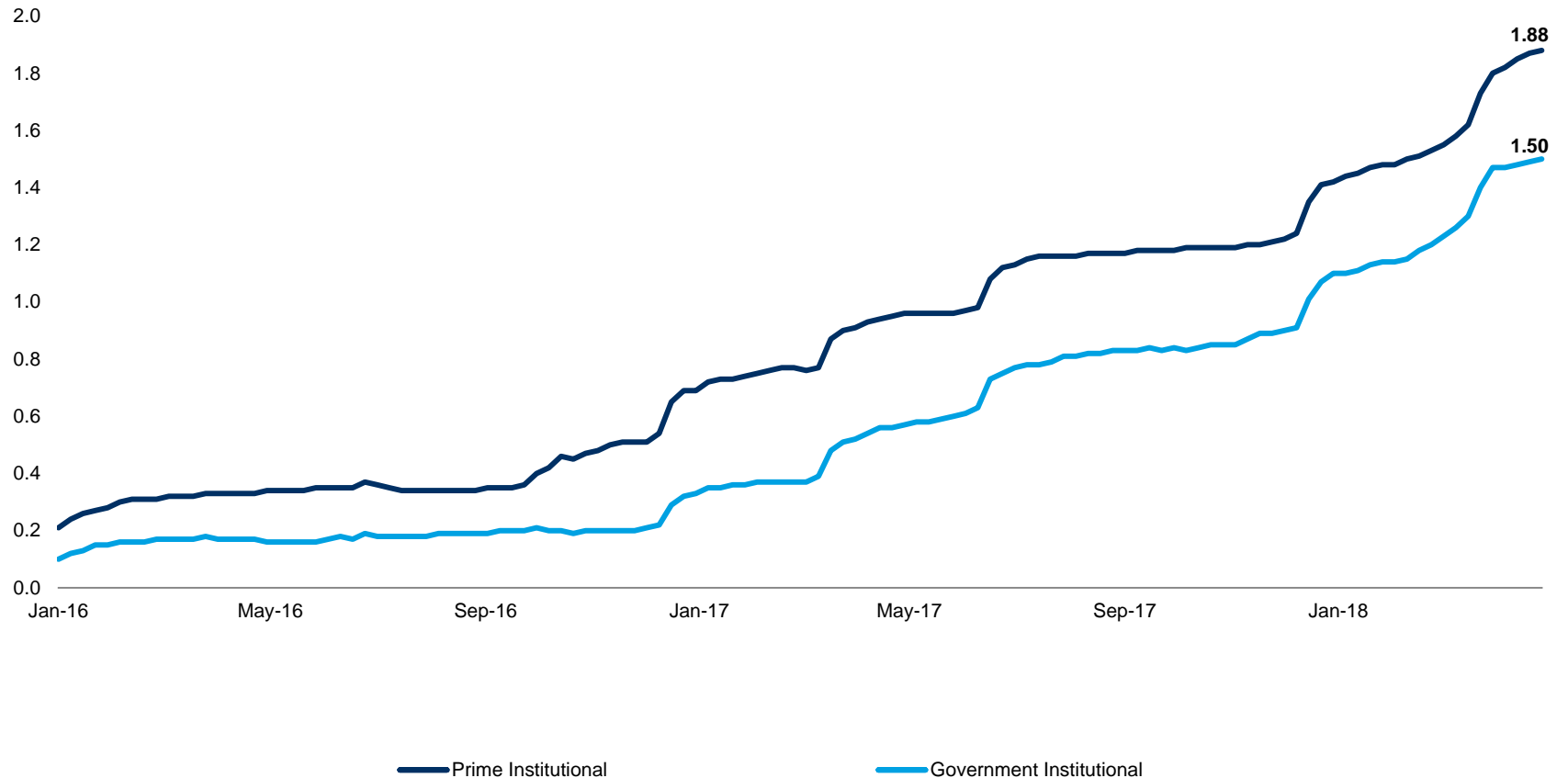
Demand – Decreasing

- Tax reform decreasing demand from large US corporates with cash overseas
- Less demand from global central banks as they taper their quantitative easing programs and shrink balance sheets

Source: Bloomberg

Yield Spread Between Government and Prime MMFs Remains Attractive

Yield Spread Between Government and Prime MMFs
January 1, 2016 – May 1, 2018 (Yield %)



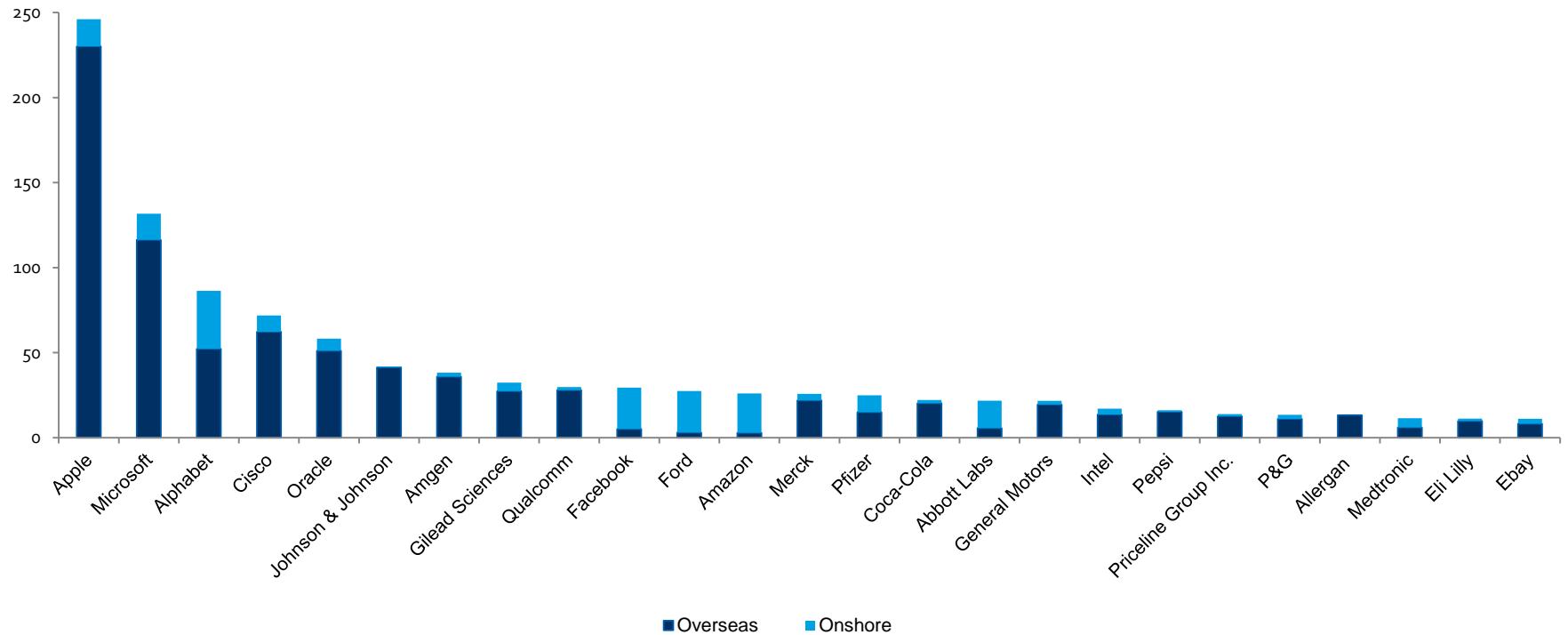
Source: iMoneyNet

U.S. Tax Reform and Repatriation Puts Offshore Cash in Motion

The U.S. corporate tax system moves from a worldwide to a territorial system

U.S. Multinational Corporate Cash Balances

Data as of December 31, 2016 (\$Bn)



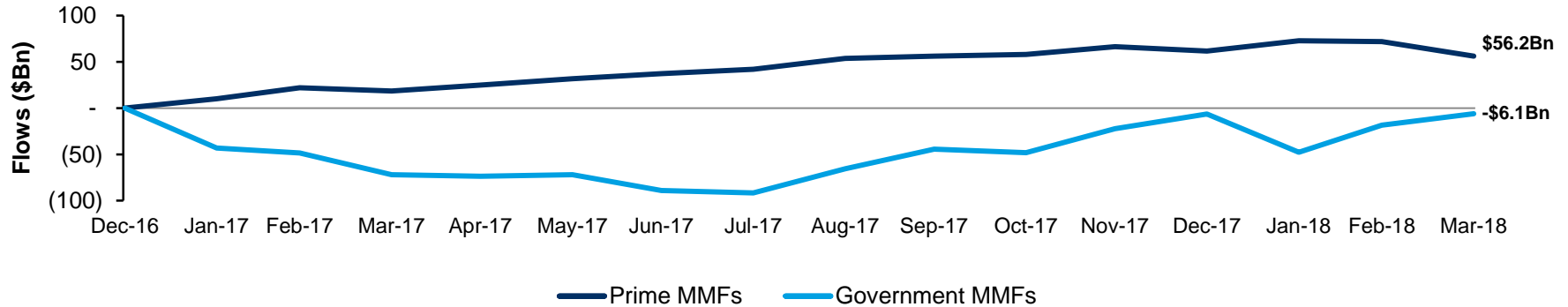
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Source: Morgan Stanley Investment Management, SEC 10-Q/10-K Disclosures

Some Investors Are Moving Beyond Government Funds Into Conservative Credit

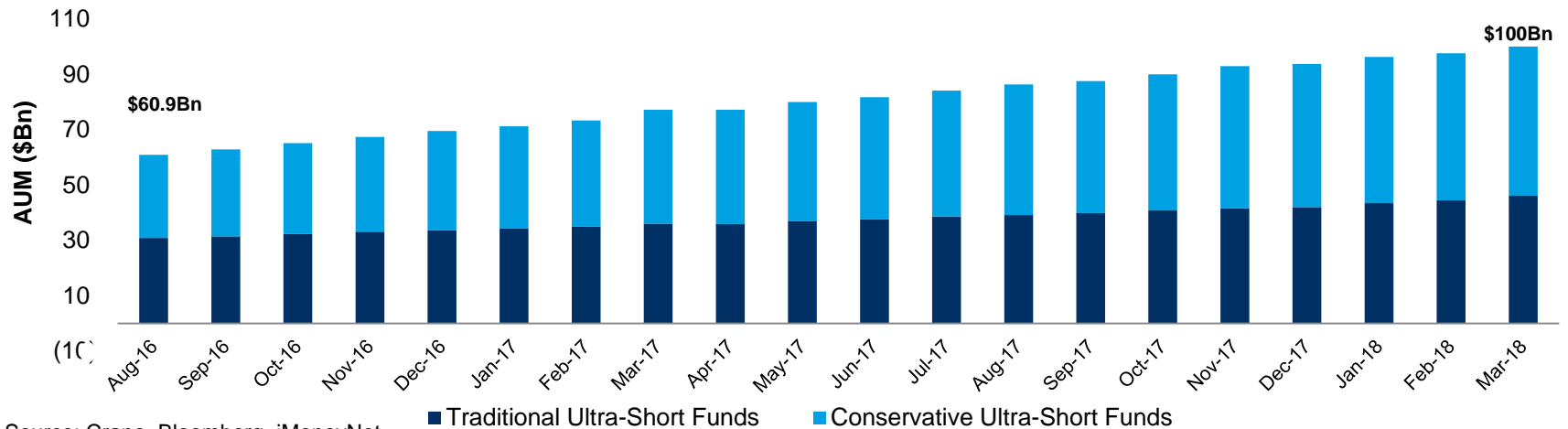
Institutional Prime MMF flows have been consistently positive

December 31, 2016 – March 31, 2018



Conservative Ultra-Short Funds Have Gained Momentum

August 31, 2016 – March 31, 2018



Source: Crane, Bloomberg, iMoneyNet

Duration Migration

Investor Duration Preferences are Shifting



Investor Trends

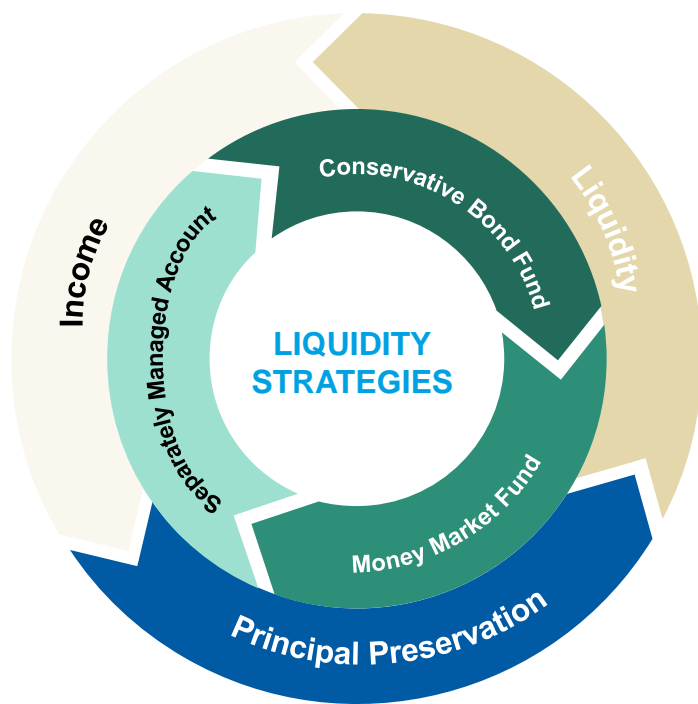
- U.S. multinationals – Shortening durations on offshore cash to prepare for repatriation
- High net worth investors – Shortening durations on bond fund holdings in light of rising rates and widening spreads
- Liquidity investors – Looking to move beyond bank deposits and government MMFs

Bank deposits are FDIC insured and offer a fixed rate of return.

Ultra-short bond funds, like money market funds, are mutual funds that generally invest in fixed-income securities with short maturities. However, money market funds may only invest in certain high-quality, short-term investments issued by the U.S. government, U.S. corporations and state and local governments and they are subject to strict diversification and maturity standards. Ultra-short bond funds are not subject to these requirements and may pursue strategies aimed at producing higher yields by investing in securities with higher risks. The NAV of an ultra-short bond fund will fluctuate.

How Do You Navigate the Environment?

Liquidity Strategy Comparison



FEATURES	MONEY MARKET FUNDS	CONSERVATIVE ULTRA-SHORT BOND FUND	SEPARATELY MANAGED ACCOUNT
Capital Preservation	✓	✓	✓
Liquidity	✓	✓	✓
Income	✓	✓	✓
Customization	N/A	N/A	Yes
Operational Complexity	Low	Low	Medium
Custody	Embedded	Embedded	Segregated
Fees	Fixed	Fixed	Flexible
Gates & Fee Option	Yes (Non-Government)	N/A	N/A
Portability	N/A	N/A	Yes
Transparency	Medium	Medium	High
Accounting Simplicity	High	Medium	Medium

Investors continue to evaluate alternative strategies to prime money market funds including conservative ultra-short duration bond funds, separately managed accounts and bank balance sheet access. This is for illustrative purposes only and is not exhaustive.

Brexit



- The vote took place on 23 June 2016 with 52% voting in favour of leaving the EU
- Article 50 was triggered on 29 March 2017, meaning the UK is scheduled to depart at 11pm UK time on Friday 29 March 2019
- There is no strict definition of hard and soft Brexit but they generally refer to the closeness of the UK's relationship with the EU, post-Brexit
 - A “hard” (or “clean”) Brexit could involve quitting without a deal in place. This would mean no compromise on issues like the free movement of people, leaving the EU single market and trading with the EU as if it were any other country outside Europe, based on World Trade Organization rules
 - A “soft” Brexit could involve keeping close ties with the EU, possibly through some form of membership of the European Union single market, in return for a degree of free movement.
- There are anticipated to be economic impacts
 - Weaker growth likely

These views are that of the Investment Team and do not reflect views of other Investment Teams at MSIM or those of the firm as a whole. Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass.

Source: Morgan Stanley Research

Key Points of EU Money Market Fund Reform

- New rules for European Union (EU) domiciled MMFs are set to come into force for existing funds in January 21, 2019 and beginning in July 21, 2018 for newly created funds.
- Three new fund types will be allowed under the new regulations:
 - Public Debt Constant Net Asset Value (CNAV)
 - Low Volatility Net Asset Value Funds (LVNAV)
 - Variable Net Asset Value Funds (VNAV)

Fund Structure Comparison

FUND TYPE	PUBLIC DEBT CNAV MMF	LOW VOLATILITY NAV MMF (LNAV)	VARIABLE NAV MMF (VNAV)	STANDARD (VNAV) MMF
FUND CATEGORY	Short Term MMF	Short Term MMF	Short Term MMF	Standard MMF
WAM/WAL	60 days / 120 days	60 days/ 120 days	60 days/ 120 days	180 days / 365 days
MAX. MATURITY	397 days	397 days	397 days	2 Years, 397 days reset
MINIMUM LIQUIDITY	10% Daily / 30% Weekly	10% Daily / 30% Weekly	7.5% Daily/15% Weekly	7.5% Daily / 15% Weekly
DISCRETIONARY FEES AND GATES	Weekly Liquidity <30% & Daily Redemptions >10%	Weekly Liquidity <30% & Daily Redemptions >10%	Existing Provisions	Existing Provisions
MANDATORY LIQUIDITY FEES AND GATES	Yes, Weekly Liquidity <10%	Yes, Weekly Liquidity <10%	No	No
VALUATION METHOD	Amortised cost accounting	Amortised cost for securities < 75 days. Securities > 75 days or 10bps away from market – Market/Model	Market/Model	Market/Model
NAV ROUNDING	Fund Collar 50bps	Fund collar – 20bps	N/A	N/A
FUND VALUATION	2 decimal places	2 decimal places	4 decimal places	4 decimal places

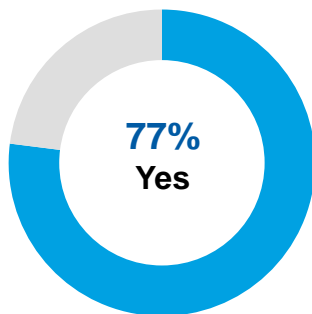
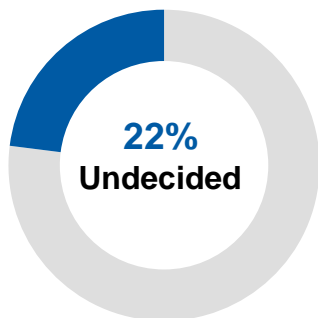
Source: IMMFA, Morgan Stanley Investment Management

European Money Market Fund Reform – Investor Perspective

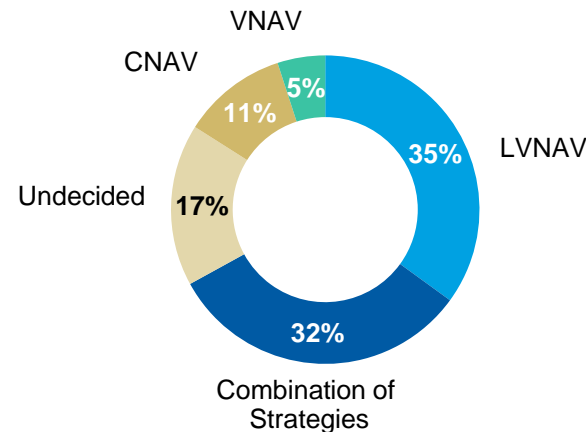
BASED ON AN MSIM SURVEY OF CASH INVESTORS:

- LVNAV is the fund structure of choice
- Yield and fund size will be the most significant considerations in selecting MMFs
- The most cited concerns include:
 - For LVNAV funds, it is the potential shift from CNAV to VNAV pricing if market value collars are breached
 - For VNAV funds, it is the potential for capital loss
 - The need to amend investment policies for the pending changes

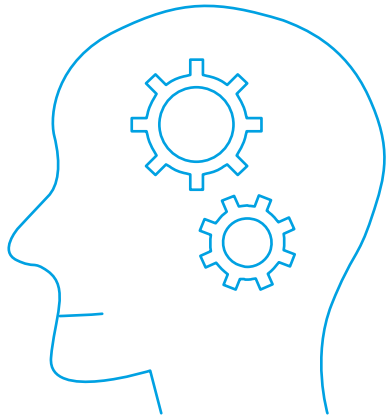
Respondents Who Anticipate Using MMFs Post Reform:



Respondents Who Anticipate Using MMFs Post Reform:



Key Considerations for Investors



1

Is a stable NAV required

2

Is yield an important factor

3

What could be the impact of trigger based fees and gates

4

What intraday liquidity is required

5

Is there a minimum fund size required

6

Is cash and cash equivalent accounting important

Steps Investors are Taking in Light of the Changing Liquidity Landscape



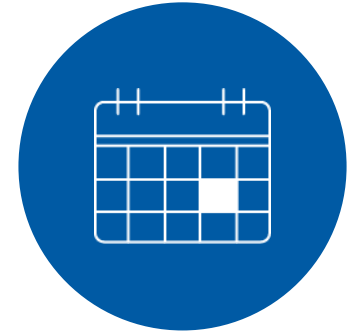
Preparation

- Capital allocation
- Investment policy review
- Cash segmentation



Investment Strategies

- Regulatory influences
- Availability
- Product innovation



Operations/Accounting

- Investment platforms
- Accounting
- Organizational resources

The information shown is provided solely for illustrative purposes only.

Important Disclosures

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Please consider the investment objective, risks, charges and expenses of the fund carefully before investing. The prospectus contains this and other information about the fund. To obtain a prospectus, download one at morganstanley.com/im or call 1-800-548-7786. Please read the prospectus carefully before investing.

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