

Euro Strategic Bond Fund

As of 31 May 2005

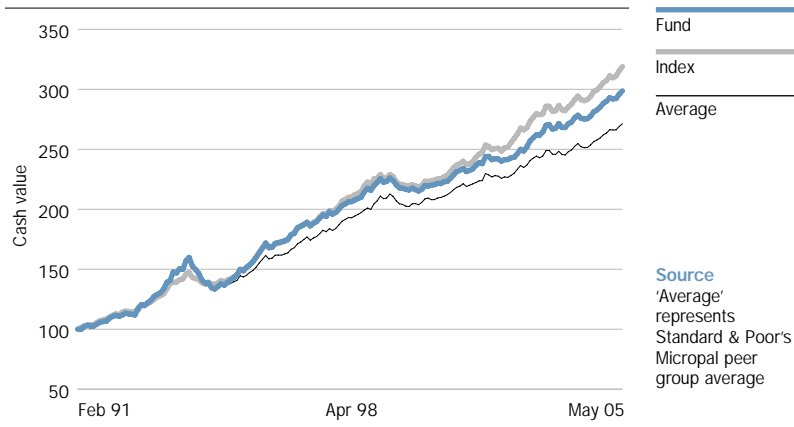
European bond yields continued to fall – and prices rose further – during May. The yield on Eurozone government bonds slipped by 10-12 basis points. Market participants continued to react to the wide variety of statistics, which pointed to the weakness of the Eurozone economy. Unlike in April, corporate bond spreads remained broadly unchanged. After a particularly difficult month in April, US automotive sector bonds were clear outperformers; widely perceived as having been oversold, they rallied strongly. The Fund's relative performance continued to be restrained slightly as a result of its underweight duration. However, this was partially offset by an overweighting to US automotive sector bonds. There were no substantial changes to the portfolio during May. Looking forward, we expect that bond yields in the Eurozone will rise. The valuation of bonds currently imply that the Eurozone will remain in a sustained period of economic weakness. We believe that such a view is overly pessimistic. We are looking for opportunities to take advantage of the weakness in bond prices to add higher yielding assets to the Fund.

Returns in euro vs. MSCI Euro Debt Index²

Period	Fund (net of fees) %			Index	Peer group ranking
	Class I	Class A	Class B		
Last three months	2.29	2.16	1.91	3.04	46/94
YTD 2005	3.00	2.82	2.42	3.81	49/94
One year	8.50	8.06	6.97	9.81	38/92
Three years (annualised)	7.36	6.90	5.84	8.23	11/81
Five years (annualised)	6.31	5.85	4.81	7.37	12/70
Ten years (annualised)	7.15	n/a	n/a	7.84	4/33

Class I shares vs. MSCI Euro Debt Index³

Performance of 100 euro invested since inception



Facts and figures

As of 31 May 2005

Launch date	February 1991
Fund management team	David Germany Michael Kushma Christian Roth
Location	London
Base currency	euro
Total assets	€ 572.0 million
NAV €	29.87
NAV \$	36.81

Statistics⁴

As of 31 May 2005

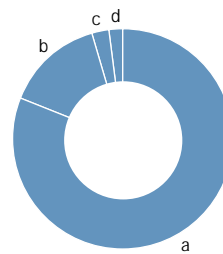
	Class I	Index
Alpha	0.45	0.00
Beta	0.84	1.00
R Squared	0.85	1.00
Information ratio	(0.67)	0.00
Tracking error	1.21	0.00
Standard deviation	2.89	0.00

As of 1 May 2005

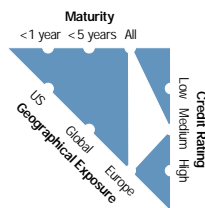
Portfolio characteristics	Class I	Index
Duration	5.48	5.73
Average maturity	7.97	7.45
Average yield to maturity	3.01	3.37
Number of securities	116	1697

Quality distribution (S&P)		%
AAA		82.31
AA		1.94
A		4.92
BBB		5.28
BB		2.85
B		0.47
Not available		0.21
Cash & equivalents		2.02
Total		100.00

Sector distribution		%
a) Government		81.04
b) Corporate		14.43
c) Other		2.51
d) Cash & equivalents		2.02
Total		100.00



Fund style



Fund aim

Seeks to provide an attractive rate of return, measured in Euro, through market, instrument and currency selection. The Fund consists of fixed income securities of varying maturities denominated primarily in the Euro and other European currencies which are probable candidates for joining the Economic and Monetary Union at a later date.

Investment implementation

- Interest rate strategy and country allocation are based on real interest rates, prospective inflation and yield curve slopes. Proprietary technology is used to manage sensitivity to interest rate movements.
- Country and currency exposure are separated: we favour higher-yielding currencies.
- At a security level, forward-looking credit analysis calculates fair value option and credit-adjusted spreads.

² Source: Standard & Poor's Micropal. Peer group rankings refer to Class I.

³ Calculations are NAV to NAV. Performance of the SICAV is calculated net of fees.

⁴ Based on monthly observations over last 3 years, Standard & Poor's Micropal.

Please refer to back cover for important information and risk warnings.

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Risk warnings

Past performance is not necessarily a guide to future performance and the value of the Shares and income from them may fall as well as rise. On redemption of Shares, an investor may receive back an amount less than the original amount of his investment. The assets of the Funds will be in a variety of currencies and therefore movements in the value of currencies may also affect the value of an investor's holdings. Furthermore, the value of Shares may be adversely affected by fluctuations in exchange rates between the investor's reference currencies and the base currencies of the Funds.

There are special risk considerations associated with investing in:

- 1) Emerging country securities; including (1) restrictions on foreign investment and on repatriation of capital (2) currency fluctuations, (3) potential price volatility and lesser liquidity of shares, (4) political and economic risks, including the risk of nationalisation or expropriation of assets and the risk of war (5) settlement systems may be less well organised and less developed and (6) debt may not be rated by any internationally recognised credit rating organisation.

There are also varying levels of government supervision and regulation of exchanges, financial institutions and issuers in various countries. In addition, accounting, auditing, financial and other reporting standards are not equivalent to those of more developed countries, and therefore less information may be available than in more developed countries.

- 2) High yield securities; investment in higher yielding securities is speculative as it generally entails increased credit and market risks. Such securities are subject to the risk of an issuer's inability to meet principal and interest payments on the obligations (credit risk) and may be subject to price volatility due to such factors as interest rate sensitivity, market perception of the credit worthiness of the issuer and general market liquidity.
- 3) Securities of small capitalisation companies; these securities involve greater risk than large capitalisation companies and the markets for such securities may be more volatile and less liquid.
- 4) Securities of companies engaged in the real estate industry; including the cyclical nature of real estate values, risks related to general and local economic conditions, overbuilding and increased competition, increases in property taxes and operating expenses, demographic trends and variations in rental income, changes in zonal laws, casualty or condemnation losses, environmental risks, regulatory limitations on rents, changes in neighbourhood values, related party risks, changes in the appeal of properties to tenants, increases in interest rates and other real estate capital market influences. Generally, increases in interest rates will increase the costs of obtaining financing, which could directly and indirectly decrease the value of the relevant Fund.

Please refer to the Prospectus for full disclosure of the individual Fund aims.

Issued by Morgan Stanley Investment Management Limited, 25 Cabot Square, Canary Wharf, London E14 4QA.

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