<u>Fund Liquidity Risk</u>

Many investors rely on mutual funds, exchange-traded funds ("ETFs") and money market funds to meet their financial goals. It is important for investors to understand the liquidity risks involved with each product.

Mutual Funds

Shareholders in domestic mutual funds may redeem (*i.e.*, sell) their investments on any business day. Although many mutual funds pay out redemptions within a few business days, investors should be aware that mutual funds may have up to seven days to fulfill redemption requests.

It is important to keep in mind that a number of factors play a role in a mutual fund's ability to provide liquidity to shareholders, including a fund's investment strategy. For example, mutual funds that invest in less liquid securities, such as bank loans and below-investment grade securities, among others, may be more susceptible to liquidity concerns, particularly during times of market stress.

If a domestic mutual fund cannot fulfill its redemption requests, it must seek permission from the Securities and Exchange Commission (the "SEC") to suspend redemptions, which would likely lead to the liquidation of the fund. Although this has rarely occurred, it underscores that mutual funds are not guaranteed investments and can lose money.

Also, please keep in mind that when investors redeem mutual fund shares, funds generally pay redemption proceeds in cash. Many funds reserve the right, however, to pay redemption proceeds by giving investors actual portfolio securities in lieu of cash. This is generally referred to as a redemption in-kind. If this occurs, you will likely have to pay transaction costs, such as brokerage commissions, to sell those securities. You will also bear the risks of owning the securities, which include the possibility that the price of the securities will decrease while you hold them. Lastly, please note that redemptions in-kind from domestic mutual funds are generally taxed in the same manner as redemptions paid in cash and that sales of such securities may generate taxable gains.

ETFs

ETFs offer liquidity to investors in a different manner than mutual funds. For example, investors buy and sell shares of ETFs on stock exchanges (hence their name), as opposed to directly transacting with the funds at prices based on their net asset values ("NAV"). As a result, the price of an ETF share is determined by the market as opposed to the value of the assets held by the ETF.

This impacts the liquidity of an ETF's shares. If few market participants want to buy or sell a particular ETF – *i.e.*, it is "thinly traded" – an investor may have to accept a lower price if they desire to sell their ETF shares in the short-term. This risk may be exacerbated during times of market stress if the trading volume for an ETF decreases or if more participants desire to sell rather than buy an ETF's shares. Either case may lead to an investor selling their shares at a "discount" to what the ETF's underlying holdings are actually worth.

ETFs rely on large institutions to make a market in their shares, which provides liquidity to the trading of the ETF and can help keep the market price of ETF shares close to the NAV of the fund. Although this process has been generally successful, market disruptions, new types of ETFs and/or other events can make it difficult or impossible for such institutions to continue their market making activities. As a result, ETFs can trade at substantial discounts to their NAVs, which will negatively impact ETF shareholders, particularly those that need to sell their shares at such times.

Money Market Funds

Similar to domestic mutual funds, shareholders in domestic money market funds may redeem their investments on any business day. While money market funds may have up to seven days to fulfill redemption requests, most do so the next business day. Even though money market funds are sometimes used for cash management purposes, they are not guaranteed investments.

Domestic money market funds are subject to specialized rules that seek to mitigate the risk that a fund will be unable to meet redemption requests. For instance, money market funds may use liquidity fees during times of market stress. This is intended to help money market funds manage redemptions without negatively impacting shareholders who remain invested in the funds. Please review a money market fund's prospectus for more information on the use of liquidity fees.

It is also important to note that while domestic money market funds have been known for maintaining a stable $1.00 price per share, certain money market funds now maintain "floating" NAVs, which means their share price fluctuates along with the value of the fund's assets. Government money market funds, as well as "retail" money market funds that limit their investors to natural persons (as opposed to institutions and/or businesses), may continue to utilize stable share prices.

If despite these tools, a domestic money market fund cannot meet its redemption obligations or maintain a stable NAV, the fund may seek permission from the SEC to permanently suspend redemptions or do so without SEC approval if the fund promptly liquidates its assets afterwards. In addition, if a money market fund that seeks to maintain a stable NAV experiences negative yields, it also has the option of converting its stable NAV to a floating NAV, or to cancel a portion of its shares (which is sometimes referred to as a "reverse distribution mechanism" or "RDM"). Investors in money market funds that cancel shares will lose money and may experience tax consequences.

In addition to money market funds, many investors utilize ultra-short bond funds for cash management purposes. Please note that ultra-short bond funds are not money market funds, and as such, may not make use of the specialized tools for money market funds described above. Ultra-short bond funds have floating NAVs and are subject to market risk and the risks associated with debt securities. Please refer to an ultra-short bond fund's prospectus for more information regarding the fund.

Conclusion

Please discuss your liquidity needs with your Financial Advisor before investing in a mutual fund, ETF and/or money market fund. Investors should carefully review a fund's prospectus, which describes the principal risks of investing in a fund, as well as a fund's shareholder reports for additional information regarding fund liquidity. Please ask a member of your Morgan Stanley team if you need assistance obtaining these documents.