

# Morgan Stanley Investment Management

## Emerging Markets Debt

*Foreign investing involves certain risks, including currency fluctuations and controls, restrictions on foreign investments, less governmental supervision and regulation, less liquidity and the potential for market volatility and political instability. In addition, investing in emerging markets may involve a relative higher degree of volatility.*

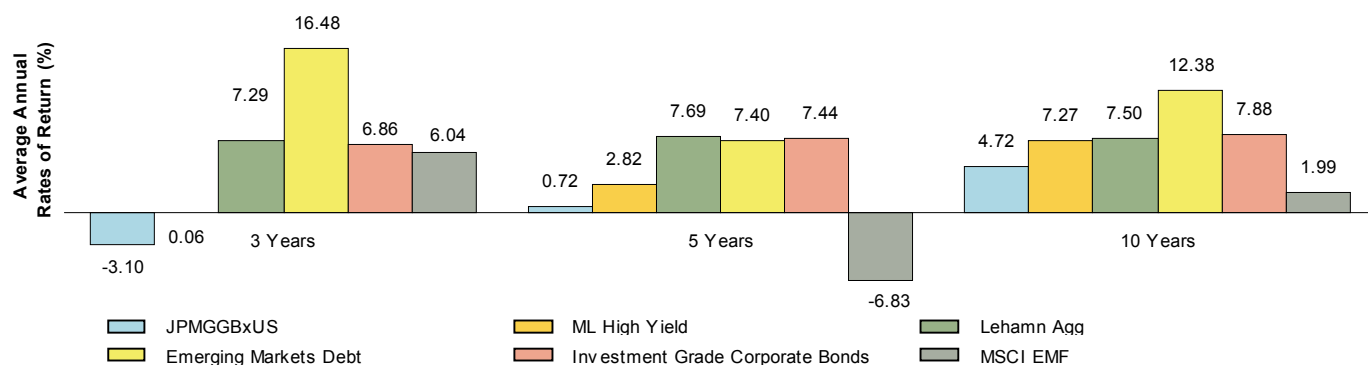
## Why Emerging Markets Debt?

# Strategic and Tactical Allocation

- Longer term correlations between emerging markets debt and other markets are relatively low
- Historically, emerging markets debt has demonstrated strong returns

### Historical Multi-Year Performance Record for Various Asset Classes<sup>(1)</sup>

Data as of February 28, 2002



### Correlations of Emerging Markets Debt vs. other Asset Classes<sup>(2)</sup>

	EMBI Global	MSCI EMF	ML HY	S&P 500	Lehman Govt	JPM GGBxUS	MSCI EAFE	NASDAQ	ML BBB	Lehman Agg
EMBI Global	1.00	-	-	-	-	-	-	-	-	-
MSCI EMF	0.70	1.00	-	-	-	-	-	-	-	-
ML HY	0.45	0.47	1.00	-	-	-	-	-	-	-
S&P 500	0.53	0.63	0.50	1.00	-	-	-	-	-	-
Lehman Govt	0.15	-0.16	0.25	0.10	1.00	-	-	-	-	-
JPM GGBxUS	-0.03	-0.08	0.08	0.05	0.34	1.00	-	-	-	-
NASDAQ	0.41	0.61	0.49	0.77	-0.03	-0.01	1.00	-	-	-
MSCI EAFE	0.46	0.58	0.38	0.64	0.00	0.32	0.56	1.00	-	-
ML BBB Corp	0.35	0.10	0.56	0.31	0.88	0.30	0.21	0.16	1.00	-
Lehman Agg	0.23	-0.08	0.35	0.18	0.98	0.32	0.04	0.06	0.93	1.00

1. Past performance is not a guarantee of future results.  
2. Based on month-end data from February 1992 through February 2002.

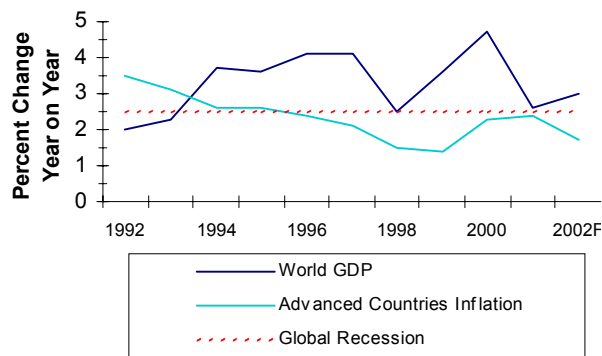
Process

# Macro Analysis of the Asset Class

## Market Assessment

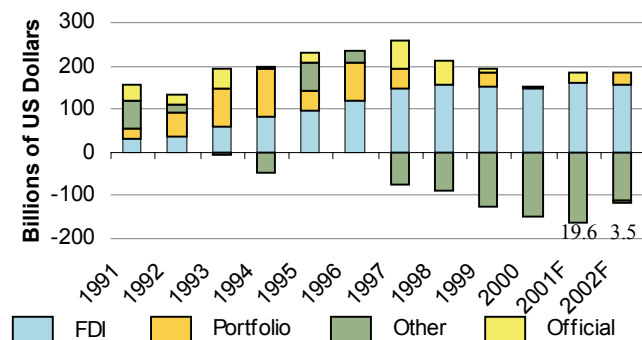
- We first assess the global environment and how it interfaces with economic fundamentals in the emerging economies themselves
- For this assessment the Emerging Markets Debt team draws upon the global resources of Morgan Stanley Investment

### Global Business/Inflation Cycle



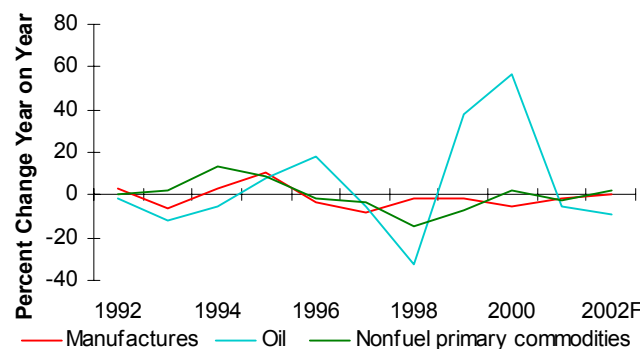
Source International Monetary Fund, World Economic Outlook

### Net External Capital Flows to Emerging Markets



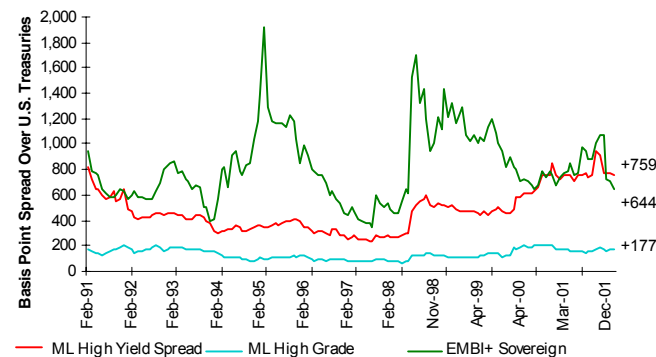
Source International Monetary Fund, World Economic Outlook

### Global Export Prices



Source IMF, World Economic Outlook

### Emerging Markets Relative Valuations



Source JP Morgan, Merrill Lynch

Process

# Comprehensive Review of Economic Factors

## Country Analysis

- We assess each country's rate of change in the underlying political, economic and social factors, rather than examining static snapshots of variables

Debt Exports  
External Debt to GDP 2000

Debt Service Ratio  
Short Term Debt to Reserves  
Current Account to GDP  
Fiscal Balance to GDP

Exchange Regime  
Export Concentration Index

Sovereign Risk Profile				
Data as of February 28, 2002				
	Argentina	Brazil	South Korea	Russia
<b>Macroeconomics</b>				
Solvency	9	6	4	5
Liquidity	9	8	2	4
Vulnerability	9	8	4	7
<b>Structural</b>				
Markets	8	6	4	6
Institutions	7	5	5	6
Competitiveness	9	5	5	4
Governance/Transparency	8	7	5	7
<b>Socio-political</b>				
Pluralism	7	4	4	7
Policy Immunity	9	8	5	7
Human Development	7	7	3	6
<b>Dynamics</b>	<b>10</b>	<b>7</b>	<b>4</b>	<b>4</b>
<b>Score (0-110)</b>	<b>92</b>	<b>71</b>	<b>45</b>	<b>63</b>

Values are assigned on an absolute basis with risk scores from 0-10 (low - high).

Lower numbers are favorable

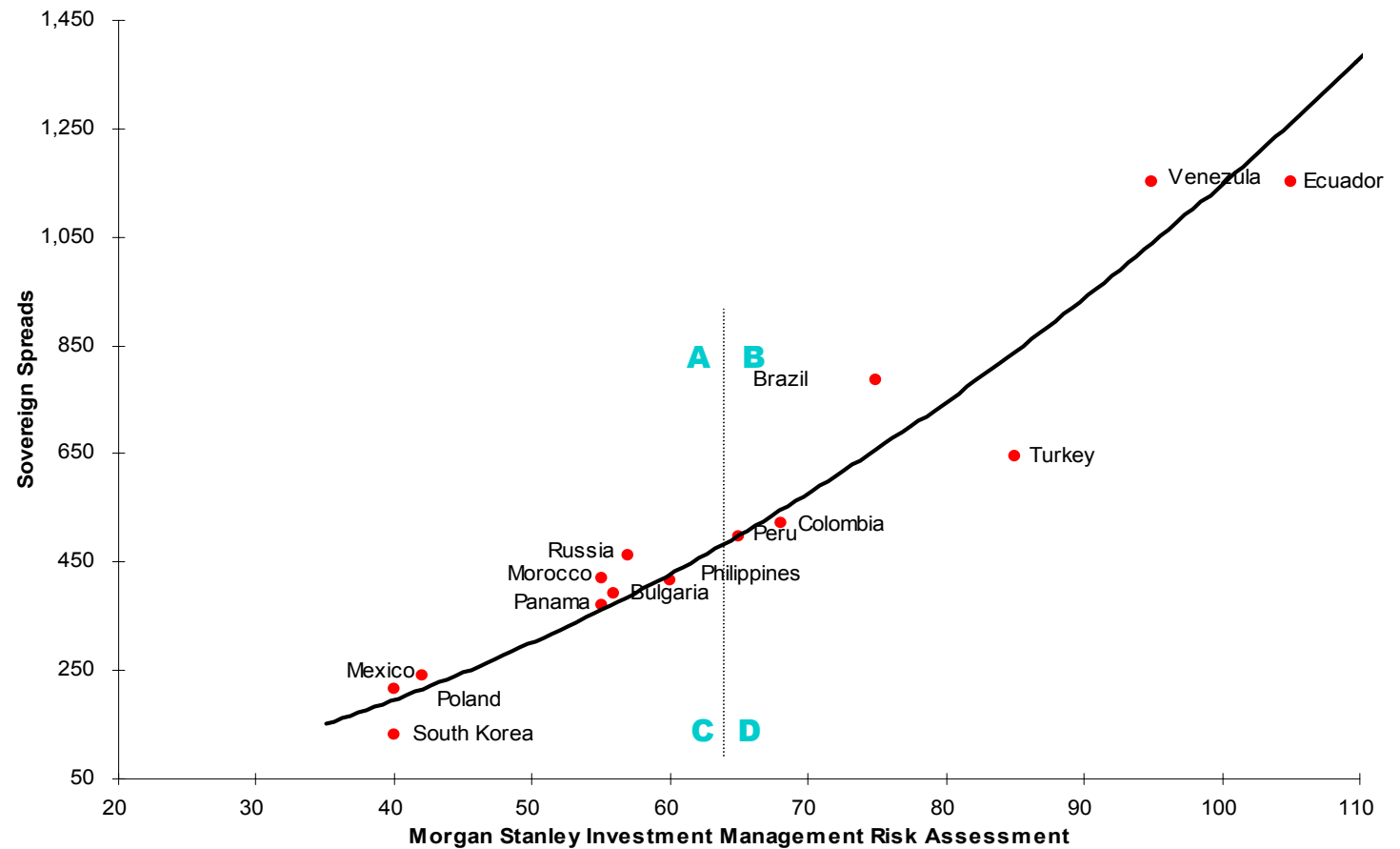
We perform risk profile analysis on all emerging countries.

# Country Valuation

- We combine sovereign risk assessment with security valuation, resulting in a real relative value.
- Our analysis determines each country's over/underweight in the portfolio.

## Risk & Return

Data as of February 28, 2002



<b>A</b> Material Overweight Low Risk/High Return	<b>B</b> Overweight/Neutral High Risk/High Return	<b>C</b> Underweight/Neutral Low Risk/Low Return	<b>D</b> Material/Underweight High Risk/Low Return
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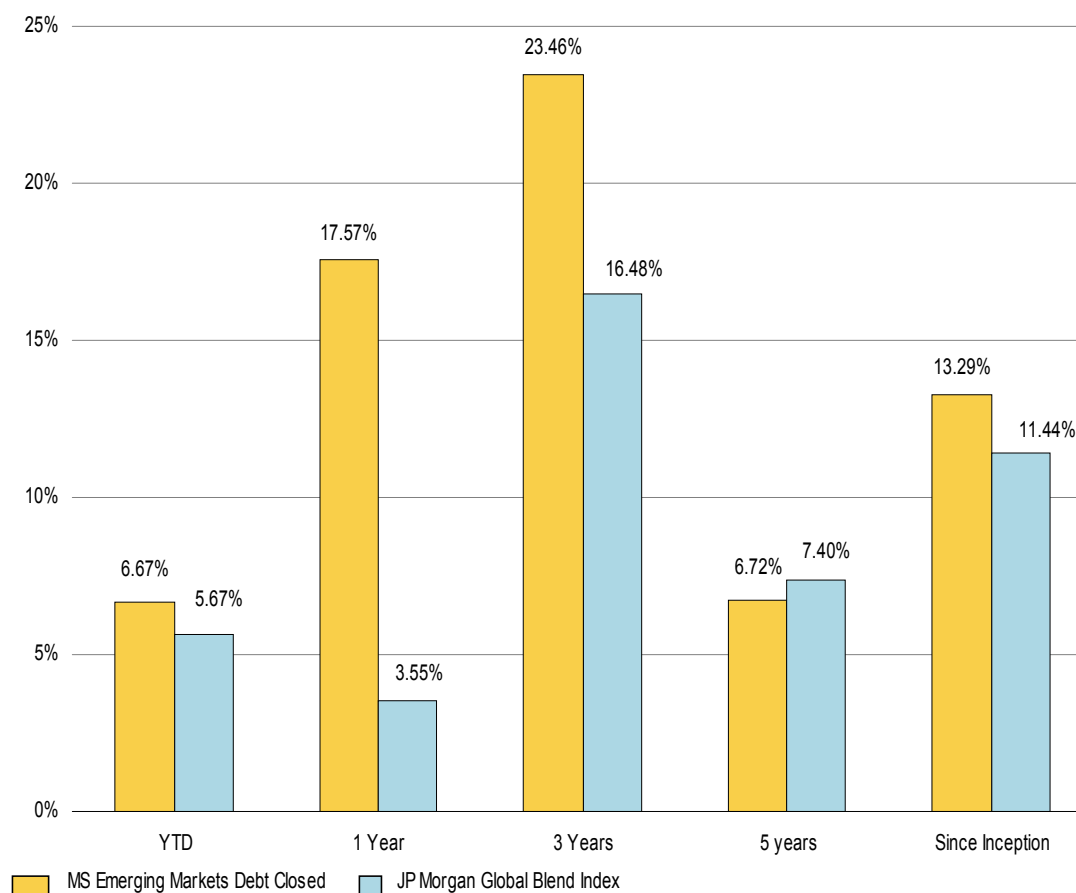
Performance

# Emerging Markets Debt Performance

- Results shown <sup>(1)</sup> are Gross of investment advisory fees, quoted in USD, and would be lower if fees were deducted

Performance Returns as of February 28, 2002<sup>(1)</sup>

The inception date of the MS Emerging Markets Debt Closed End Fund is July 23, 1993.



1. Past performance should not be construed as a guarantee of future performance. Performance returns reflect the average annual rates of return. Periods less than 1 year are not annualized. Morgan Stanley Investment Management has prepared and presented this report in compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS). AIMR has not been involved with the preparation or review of this report. Please refer to the Emerging Markets Debt Composite Disclosure document for additional information including NET of fees performance. The comparison index is JPM EMBI Plus & Global Blend Index.

## Performance Review of 2001

### **The Emerging Debt Markets**

- While outperforming equities, Emerging Market Debt returns in 2001 lagged the returns of some high quality bonds. The market withstood economic crisis in Argentina and Turkey quite well. Ex Argentina spreads for emerging market debt tightened 132 basis points.

### **Our Relative Performance**

- Our EMD portfolio strategy outperformed the benchmark during 2001.

### **Positive Factors**

- Underweight Argentina and Venezuela.
- Overweight Russia and Qatar.

### **Negative Factors**

- Underweight Turkey.
- Security selection in Indonesia and Poland.

## The Outlook for 2002

### **Reasons for Optimism:**

- Low U.S. and European rates typically have typically been a powerful motivation for capital flows to emerging markets.
- Global Economic cycle turnaround should provide support for emerging economics later in the year.
- Resolution of Argentina credit crisis likely
- Potential for double digit returns even with Argentina restructuring

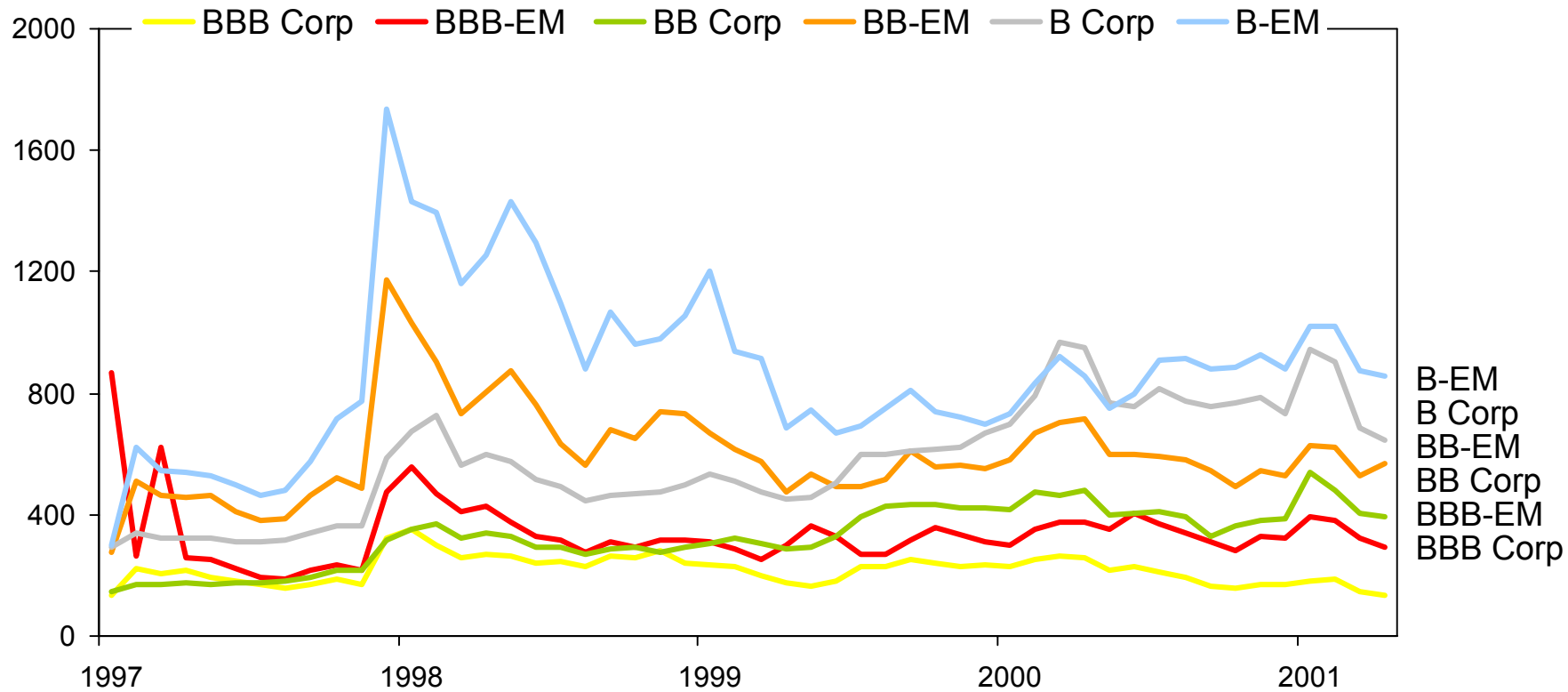
### **Concerns for 2002:**

- Global economic turnaround muted
- Brazilian Elections
- Political instability in the Andean region

# Cheap Versus Comparable Corporate Credit

## Emerging Market Debt Valuations

- One third of the asset class is investment grade
- Liquidity in Emerging markets superior to other credit products



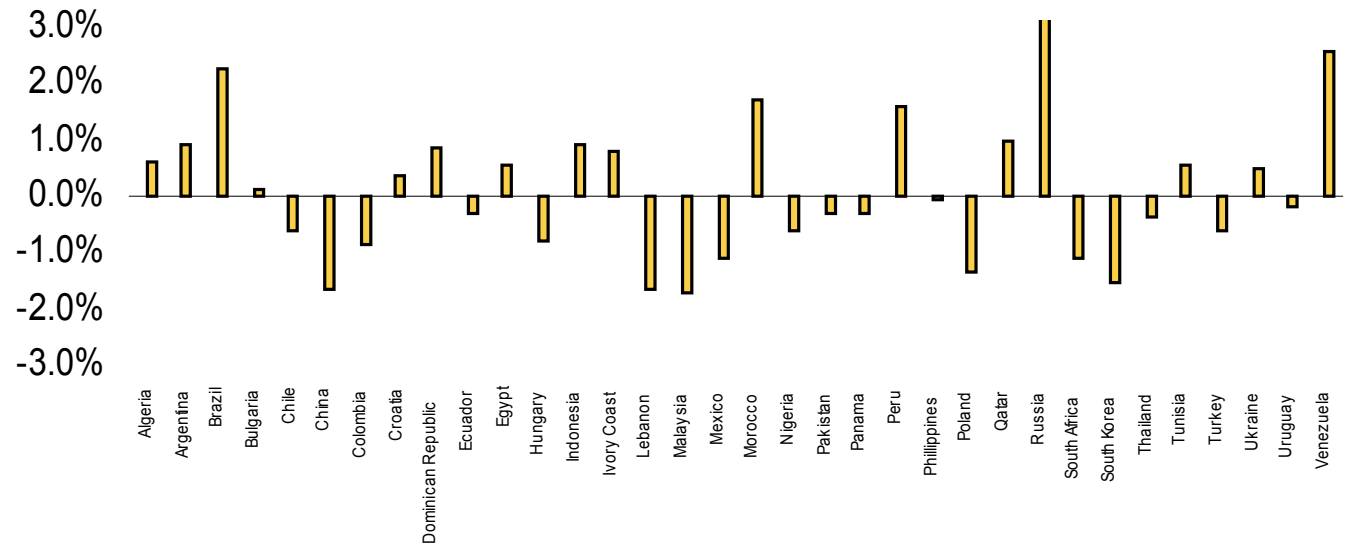
## Statistics

	Portfolio	Benchmark
Spread Duration	5.63	4.93
Interest Rate Duration	5.62	5.33
Current Yield	8.10	8.22
Average YTM	9.45	8.99
Average Life	13.55	12.23
Average Coupon	7.80	7.92
Average Price	90.71	87.09
Average Maturity	15.43	13.44
Average Rating	Ba3/BB-	Ba2/BB
Beta	1.25	1.00

**Note**

1. Data as of February 28, 2002. The benchmark is the JP Morgan Emerging Markets Bond Index Global, which began in January 2000.

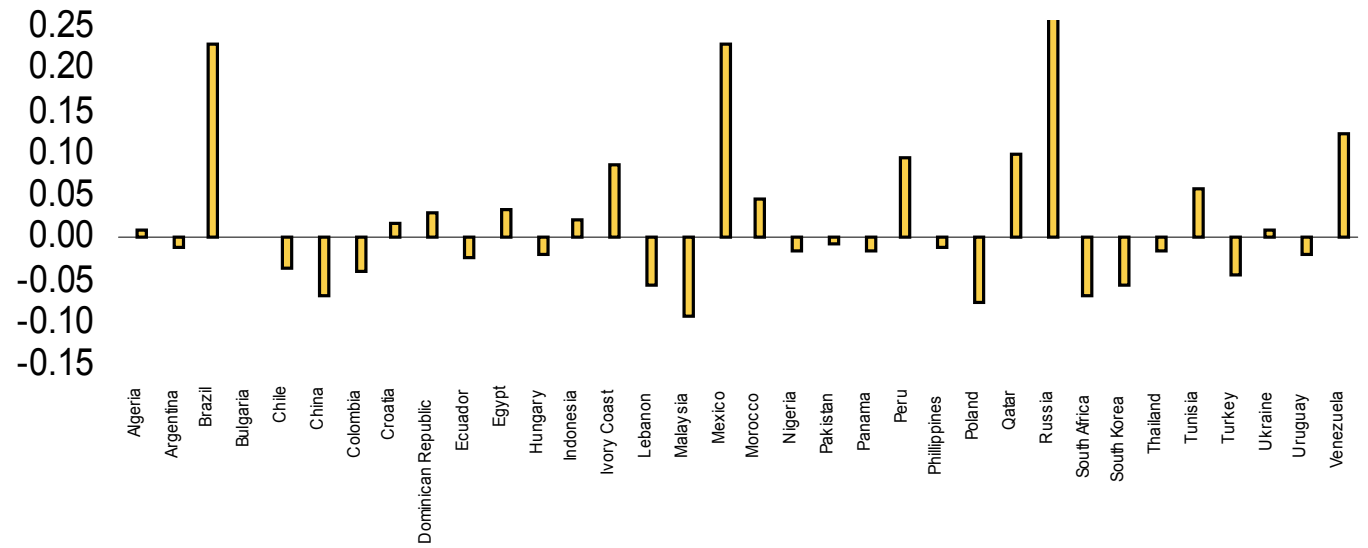
# Country Breakdown



**Note**

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# Spread Duration

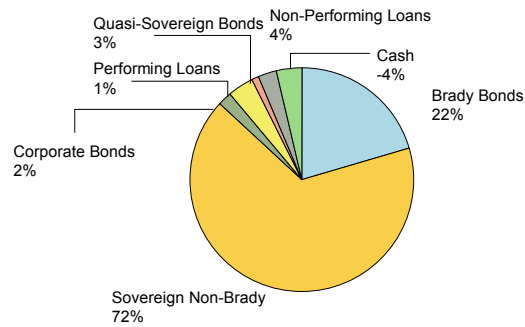


**Note**

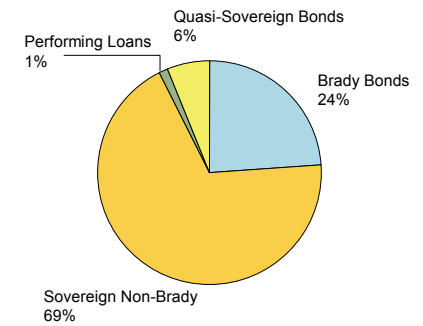
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# Portfolio Characteristics

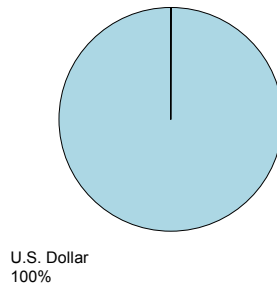
## Portfolio Asset Breakdown



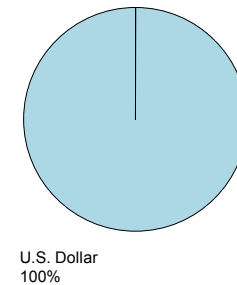
## Benchmark Asset Breakdown



## Portfolio Currency Breakdown



## Benchmark Currency Breakdown

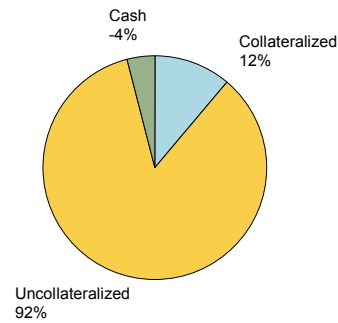


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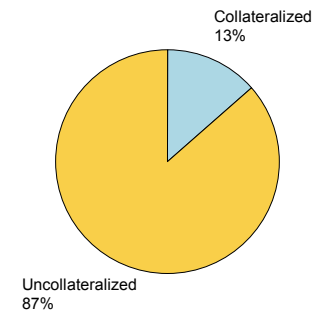
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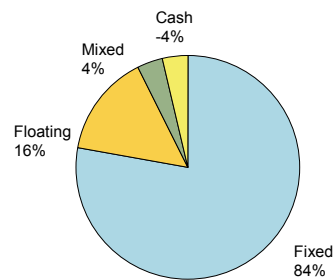
## Portfolio



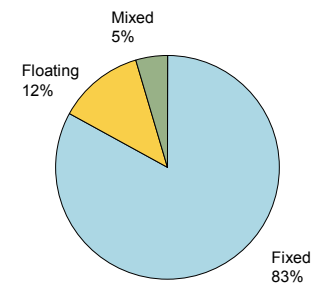
## Benchmark



## Portfolio



## Benchmark



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## Top Ten Holdings

Security	Portfolio (%)
Russian Federation Bonds 5.00% 03/31/2030	6.53
Mexico Global 11.375% 09/15/2016	5.94
Russia Global 12.75% 06/24/2028	5.61
Mexican Utd Sts Global Nts 7.50% 01/14/2012	4.84
Brazil Republic Bonds 11.00% 01/11/2012	3.93
Sojuzzdravexport 04/25/91 02/20/1991	3.85
Brazil Republic Global Bds 11.25% 07/26/2007	3.42
Brazil Discount Bonds 3.1875% 04/15/2024	3.27
Venezuela Global 9.25% 09/15/2027	2.99
Brazil Republic Global Bds 8.875% 04/15/2024	2.97

**Note**

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