

Morgan Stanley Investment Funds

Calvert Sustainable US Equity Select Fund



Performance Review

In the three month period ending 30 September 2023, the Fund's Z shares returned -4.44% (net of fees)¹, while the benchmark returned -3.15%.

Calvert Sustainable US Equity Select Fund (the Fund) strategy is designed to offer long-term shareholder return through exposure to companies that are leaders in the environmental, social and governance (ESG) landscape or improvers in addressing environmental and social challenges and managing material ESG risks. Calvert believes that companies that demonstrate leadership and/or improvement in the management of financially material ESG risks and opportunities offer long-term value creation for shareholders. The investment approach identifies ESG leaders and improvers using a proprietary quantitative and qualitative analysis to construct a portfolio that manages active risk relative to the market benchmark, the Russell 1000 Index. The portfolio also aims to maintain a carbon footprint 50% lower than the benchmark and higher levels of board gender diversity compared to the benchmark.

In the third quarter, the portfolio's performance was hampered by underperformance in communication services, energy and consumer staples, but buoyed by strong performance in industrials and information technology.

The Fund's underweight to communication services hurt performance, in particular not holding Alphabet and Meta Platforms. Alphabet was removed from the portfolio last quarter as it no longer met our criteria for ESG leadership and improvement. Meta Platforms is not eligible for investment according to the Calvert Principles for Responsible Investment due to ongoing data privacy and governance concerns. Our relative overweight to The Walt Disney Company hurt performance as well. Walt Disney was down over the quarter due to streaming subscriber losses and one-time impairment charges related to removing content from its streaming platforms and ending third-party licensing agreements. Walt Disney is held in the portfolio because it demonstrates leadership on human capital management and diversity.

Our underweight to energy also hampered performance due to ongoing high energy prices. The underweight to energy is driven in part by Calvert's Principles for Responsible Investment research framework, which identifies outsize environmental risks among most energy companies that are often not addressed using appropriate management systems or strategies for the transition away from fossil fuels.

Consumer staples, another underweight position, dragged on performance this quarter. The sector was down overall, in part due to inflationary cost pressures. Not holding certain industries and names mitigated some of the drag in this sector. For example, the Fund does not hold discount retailers such as Dollar General and Dollar Tree, which performed poorly due to reduced sales and increased shrink. These retailers do not meet our ESG leadership criteria for this strategy. The Fund also does not hold any beverage companies as they do not currently meet our ESG leadership criteria, and this slightly boosted performance. On the other hand, the Fund holds several names in the food products industry, which performed poorly across the board due to higher manufacturing and input costs. Estee Lauder, the cosmetics and personal care manufacturer, also detracted as it faces a challenging sales environment in travel retail and a slow recovery in the Chinese market. Estee Lauder is held in the portfolio for its leadership in management of the environmental impact of its supply chain.

On the positive side, the portfolio's overweight to and relative stock selection in industrials and information technology boosted performance.

In industrials, not holding aerospace and defense and passenger airlines companies helped performance. These two industries have been hurt by high fuel costs and supply chain inputs. Secondly, our allocation to electrical equipment contributed to returns from this sector. In particular, we saw strong returns from Eaton Corp, a climate leader providing electrification and electric vehicle solutions, and Emerson Electric, another climate leader thanks to its climate technologies business.

The Fund is overweight information technology, but relative stock selection drove outperformance versus the benchmark. The Fund benefited from strong performance from several semiconductor names, including Nvidia and Micron Technology: Nvidia is classified as a social leader due to the company's efforts around ethics and artificial intelligence (AI) and Micron Technology is a leader with regards to human capital management. IT services names such as Akamai Technologies and Okta, Inc. also performed well — both are leaders in data security and privacy.

Market Review

In the third quarter of 2023, the equity rally that had previously defied rising interest rates and shaken off three of the largest bank failures in U.S. history ended, as many investors — lured by higher interest rates, particularly for long-term U.S. Treasuries — deserted riskier stocks in favor of relatively risk-free government bonds.

¹ Source: Morgan Stanley Investment Management Limited. Data as of 30 September 2023.

The period saw record-low unemployment, strong job creation and robust consumer spending. While these trends are typically good news stories, in this environment they have been seen as bad news for inflation and fuel for further rate hikes that would weigh on stock prices. As the U.S. Federal Reserve (Fed) repeatedly confirmed its intent to bring inflation down to 2%, investors' anticipation of "higher for longer" interest rates grew more high and more long during the quarter.

In the first month of the period, however, the global stock rally that had started in January — fueled largely by exuberance over AI — continued. The number of economists and pundits predicting a soft landing for the U.S. economy grew larger. When the Fed hiked interest rates 25 basis points on 26 July, many observers expected it might be the final hike of this tightening cycle.

But the end of July would prove to be the high-water mark for U.S. and global equity indexes for the first three quarters of 2023. In early August, as investors came around to the view that the Fed might leave rates higher for longer than they had expected just a month or two earlier, a rise in longer-term bond rates gathered steam. In mid-August, the release of minutes from the Fed's July meeting showed that further rate hikes to quell inflation were under consideration. At the Fed's August conference in Jackson Hole, Wyoming, European Central Bank President Christine Lagarde expressed the sentiment that higher rates would persist for some time in Europe as well.

Things got worse for equity investors in September, the toughest month of 2023 so far. Government interest rates continued to rise around the world and global equity prices tumbled, as long-term government bond yields and even money market funds offered attractive alternatives to stocks for the first time in years. While the Fed left rates unchanged at its September meeting, it appeared to predict at least one more rate hike this year, and it pushed out expectations for a return to falling rates later into 2024.

In response, stocks fell further as investors also weighed the negative effects of a potential U.S. government shutdown in November, ongoing labor strikes by the United Auto Workers and SAG-AFTRA actors, and the resumption of college loan payments that could impinge on consumer spending. The energy sector, boosted by a significant rise in oil prices that pushed up gasoline prices for consumers, was one of only two sectors in the S&P 500 Index with a positive return during the quarter.

The good news was that, despite a tough quarter that saw nearly all major global indexes deliver negative returns, most of those same indexes were still solidly in positive territory for the year-to-date as of 30 September.

We remain cautiously optimistic about continued inflation reduction in the U.S., U.K. and eurozone, and we believe a full-fledged recession in the U.S. is unlikely. However, there are several factors at play in the U.S. that could slow the economy's progress. Further, the slow growth rates in China and Japan, combined with the renewed Israel-Gaza conflict, present uncertainty for the global economy for the remainder of this year and into 2024.

Portfolio Activity

There was no significant portfolio activity reported during the quarter.

Strategy and Outlook

As we look ahead with a focus on major factors that are shaping a multidecade transformation of the global economic system relevant to responsible long-term investors, four areas have the potential for the greatest impact from a risk and opportunity perspective: i) Changes to the global energy system — both in terms of the existing fossil fuel system and the development of a distributed, lower-carbon system — are accelerating and revealing challenges for companies globally; ii) Demographic changes, including educational attainment, continue to impact the workforce, as well as the ultimate size of consumer markets globally, with the vast majority of companies yet to fully adapt to these massive changes; iii) Higher costs, including interest rates, wages and raw materials, present unique challenges to every industry and will result in greater differentiation between companies that are able to manage their cost structure and improve productivity and those that are less efficient or trapped in a high fixed operating cost model; iv) Finally, various forms of pricing of externalities — either by governments or through market action — are taking effect and will act to raise costs and influence corporate and consumer behavior.

With this future state in mind, leadership on issues of sustainability across industries requires a company to evolve its product strategy, refine its corporate strategy and continually strengthen its ability to provide effective oversight and execution of the sustainable transition before us.

The Calvert Sustainable US Equity Select strategy is built on our belief that companies addressing the sustainability challenges presented by this multidecade transformation are better positioned to deliver shareholder return and positive societal outcomes. The Fund seeks to invest in companies that are leaders and improvers at managing this future business state, either through their operations and corporate strategy, or through the products and services that they offer.

Using ESG performance on financially material issues as the primary criteria for stock selection, the Fund uses a combined quantitative and qualitative approach to narrow the investment universe and identify and invest in the best-performing companies in the Calvert Research System from an ESG standpoint. The portfolio is then optimized to manage risk, lower the overall greenhouse gas emissions of the portfolio and increase the board level diversity of the portfolio against the benchmark. The result is an actively managed portfolio of large-cap U.S. stocks designed to provide risk-controlled returns in excess of the Russell 1000 Index, with exceptional performance on environmental and social issues.

For further information, please contact your Morgan Stanley Investment Management representative.

Fund Facts

Launch date	08 April 2022
Base currency	U.S. dollars
Benchmark	Russell 1000 Index

Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

	YTD	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Class Z Shares	9.65	--	--	--	--	--	--	--	--	--	--
Russell 1000 Index	13.01	--	--	--	--	--	--	--	--	--	--

All performance data is calculated NAV to NAV, net of fees, and does not take account of commissions and costs incurred on the issue and redemption of units. The sources for all performance and Index data is Morgan Stanley Investment Management. **Please visit our website www.morganstanley.com/im to see the latest performance returns for the fund's other share classes.**

Share Class Z Risk and Reward Profile

The risk and reward category shown is based on historic data.

- Historic figures are only a guide and may not be a reliable indicator of what may happen in the future.
- As such this category may change in the future.
- The higher the category, the greater the potential reward, but also the greater the risk of losing the investment. Category 1 does not indicate a risk free investment.
- The fund is in this category because it invests in company shares and the fund's simulated and/or realised return has experienced high rises and falls historically.

This rating does not take into account other risk factors which should be considered before investing, these include:

- The Fund relies on other parties to fulfill certain services, investments or transactions. If these parties become insolvent, it may expose the Fund to financial loss.
- There may be an insufficient number of buyers or sellers which may affect the Fund's ability to buy or sell securities.

- Sustainability factors can pose risks to investments, for example: impact asset values, increased operational costs.
- Past performance is not a reliable indicator of future results. Returns may increase or decrease as a result of currency fluctuations. The value of investments and the income from them can go down as well as up and investors may lose all or a substantial portion of his or her investment.
- The value of the investments and the income from them will vary and there can be no assurance that the Fund will achieve its investment objectives.
- Investments may be in a variety of currencies and therefore changes in rates of exchange between currencies may cause the value of investments to decrease or increase. Furthermore, the value of investments may be adversely affected by fluctuations in exchange rates between the investor's reference currency and the base currency of the investments.

Please refer to the Prospectus for full risk disclosures. All data as of 30 September 2023 and subject to change daily.

Applications for shares in the Fund should not be made without first consulting the current Prospectus and the Key Information Document ("KID") or Key Investor Information Document ("KIID"), which are available in English and in the official language of your local jurisdiction at morganstanleyinvestmentfunds.com or free of charge from the Registered Office of Morgan Stanley Investment Funds, European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxembourg B 29 192.

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INDEX INFORMATION

The **Russell 1000® Index** is an index that measures the performance of the 1,000 largest companies in the Russell 3000 Index. The index is unmanaged and does not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

The **Standard & Poor's 500® Index (S&P 500®)** measures the performance of the large cap segment of the U.S. equities market, covering approximately 80% of the U.S. equities market. The Index includes 500 leading companies in leading industries of the U.S. economy.

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