A Sub-Fund of Morgan Stanley Investment Funds

Sustainable Emerging Markets Equity Fund

EMERGING MARKETS EQUITY TEAM

Performance Review

In the three month period ending 31 December 2024, the Fund's I shares returned -7.62% (net of fees)[1], while the benchmark returned -8.01%.

For the year, the portfolio returned 7.20% (I shares net of fees) versus the index return of 7.50%.

For the quarter, contributors to relative performance included our positioning in and underweight allocation to Korea and stock selection in Taiwan and India. Stock selections in Mexico, South Africa and China also added to returns. Detractors included the overweight allocation to India, overweight to and stock selection in Brazil, zero allocations to Saudi Arabia and the U.A.E., and allocation to select materials companies, including Chile-based copper miner Antofagasta and Grupa Kety in Poland.

Top contributors to performance during the quarter are outlined below:

The underweight to Samsung Electronics and the overall underweight allocation to Korea contributed as the market was negatively impacted by the currency's sharp weakness in the quarter, particularly following now-impeached President Yoon's sudden declaration of martial law on 3 December. This volatility, combined with headwinds in the third quarter (including technology and memory industry sell-offs, yen carry trade reversal and rising geopolitical risks), led Korean equities to be the worst performing market in the index in the second half of the year.

Technology was the best performing sector in the MSCI Emerging Markets Index in 2024 and the only sector to post a positive return in the quarter, led by outperformance of the semiconductors industry (which ended 2024 up over 50%). Our overweight allocations to select positions in the sector in Taiwan—including Wiwynn, TSMC, Alchip and Delta Electronics—contributed to returns. Wiwynn was the largest security contributor to returns for the quarter as the stock rallied nearly 50% on the back of strong Amazon Web Services (AWS) Application Specific Integrated Circuits (ASICs) demand (servers equipped with extra artificial intelligence accelerators). Overall, we continue to have positive investment theses on the technology and semiconductor companies held in the portfolio, based on our expectations that both the cyclical recovery and secular growth drivers should provide long-term tailwinds with rising demand for high-performance computing.

In India, our stock selection added to returns, particularly the overweight allocations to Macrotech Developers (Lodha), Max Healthcare, MakeMyTrip and select financials, though the overweight allocation to the market detracted on the back of a cyclical correction in the quarter. We believe Lodha remains a clear leader in India's real estate market, and the current real estate cycle should lead to a long-term property recovery helped by robust affordability and lower inventory levels.

Our stock selections in South Africa and Mexico added to returns through our allocations to Capitec and Qualitas, though our overweight allocations to these markets detracted as both underperformed. The South African rand fell against the strengthening U.S. dollar after the Federal Reserve signaled a slower pace of interest rate cuts in 2025. We maintain our constructive outlook for South Africa and our holdings in the country, including Capitec, which was also a top stock contributor to returns for the full year. We believe the bank can continue to gain market share in retail banking as well as through the replication of its disruptive growth strategy in the informal economy in South Africa.

Within China, our overweight selections to Trip.com, Yum China, China Merchants Bank, China Construction Bank and Bank of Jiangsu and the zero allocation to PDD contributed to returns. Chinese equities lost steam in October and November following the September rally, though still ended the year as one of the best performing markets with a return of nearly 20%.[2] In December, Chinese equities had a mixed month of performance, rallying nearly 5% in the first two weeks as the December Politburo meeting initially boosted investor optimism, with announcements including a shift to "moderately loose" monetary policy, signaling for increased public borrowing and spending in 2025 and a focus on boosting consumption. The market then traded sideways for the remainder of the month after investors were disappointed with the lack of concrete details on stimulus initiatives out of the two-day Central Economic Work Conference. We continue to have a structurally cautious view on the economy, and the long-term effects of a fiscal stimulus remain to be seen. We have been taking a tactical view and continue to follow any policy developments that could enable a more durable recovery and sustained earnings growth.

Top detractors from performance during the quarter are outlined below:

The overweight allocation to and stock selection in Brazil detracted, impacted by our allocations to Raia Drogasil, Itau Unibanco and WEG. The equity market sold off in the second half of the year on investor concerns about fiscal sustainability. The Brazilian real

1 Source: Morgan Stanley Investment Management Limited. Data as of 31 December 2024.
2 Regional and country returns are represented by their respective MSCI regional/country indexes, which are broad measures of the region/country's stock market performance. Data as of 31 December 2024.

weakened further in December (falling over 20% against the dollar in 2024)[3] after the Lula administration's final spending cut package passed by Congress largely disappointed investors.

The zero allocations to Saudi Arabia and the U.A.E. detracted from returns as both equity markets outperformed the index in dollar terms on the back of U.S. dollar strength (both currencies are pegged to the dollar).

Our allocations to Antofagasta in Chile and Grupa Kety in Poland hampered returns as the prices of copper and other base metals slid on headwinds including potential U.S. tariffs, the contraction in China's manufacturing PMIs (purchasing managers' indexes) and the lack of clarity on China's stimulus measures. Kety is engaged in the design and production of aluminum-based extruded products and aluminum systems for the transport, industrial and building industries. It also has a flexible packaging business, which designs and produces lightweight flexible packing for fast-moving consumer goods customers.

Portfolio Activity

During the quarter, we initiated positions in ASE Technology and Alchip in Taiwan. ASE is an advanced packaging company that is positioned to become a beneficiary of Nvidia's supply chain by cooperating with TSMC on Chip on Wafer on Substrate (CoWoS), the advanced wafer packaging technology. TSMC is likely to outsource the "oS" part of the packaging to ASE to better allocate its capital and expand supply chain cooperation. We think advanced packaging will become a more visible growth driver for ASE driven by demand for Nvidia's chips and other chiplets designs going forward. Alchip is a leading integrated circuit (IC) design service company. We believe the IC design service sector should see strong growth in the coming years from rising complexity and costs in advanced nodes chip design and increasing artificial intelligence (AI) application-specific integrated circuit (ASIC) opportunities. We believe near-term tailwinds should help Alchip capture the upside of the AI semiconductors market in the next year.

Elsewhere in Taiwan, we exited our position in UMC as the company may be impacted by the slower-than-expected recovery in non-AI related semiconductors. We also exited E-Ink Holdings, taking profits on outperformance. While we remain constructive on E-Ink's opportunities in electronic shelf label (ESL) and outdoor signage, we think the upside has now been priced in by the market and that margins could now come in below expectations.

We took the opportunity during the market correction to add to our overweight allocation to Mexico through our existing positions in Walmex and Banorte. We believe the equity market looks oversold and the macro situation in Mexico could surprise to the upside. We also initiated a position in Kimberly-Clark de Mexico, a leader in consumer personal care and family hygiene products. Our investment thesis is driven by a favorable input cost backdrop and strong free cash flow generation, with room for the company to potentially increase dividends and buybacks. We think the stock is attractively valued post the market sell-off and could rerate, given that growth has been in the high single digits historically with solid return on invested capital (ROIC).

In Brazil, we added MercadoLibre, one of the largest e-commerce platforms in Latin America with a growing fintech business. MercadoLibre has an impressive customer base and strong gross merchandise value, which should support sustained growth through continued market share gains, rising operating leverage and scaling of its unsecured credit portfolio to both consumers and merchants (including building out the MercadoLibre credit card). To fund this trade, we reduced our allocation to Itau Unibanco. We also exited our position in Localiza given increasing risks of used car prices being under pressure in the market, which would affect the company's ROIC profile.

We added to our existing position in IDFC First Bank in India as we are positive on the bank's runway for growth, with multiple levers that can be used to improve profitability (including new asset lines, especially with its notable transition toward becoming a retail liability franchise). Potential rate cuts by the Reserve Bank of India could be an additional tailwind—75 basis points[4] of cuts in the repo rate are expected through the end of 2025.

Within China, we initiated a position in Bank of Jiangsu, a leading regional bank that we believe should continue to benefit from a strong foothold in Jiangsu province and the industrial migration from southern to northern Jiangsu (seeking a more balanced development of manufacturing in the Jiangsu province). We think fiscal stimulus initiatives should be an additional tailwind for provincial banks such as Bank of Jiangsu. Elsewhere in China, we also added Yum China, Trip.com and JD.com, the latter on stabilizing incremental gross merchandise value market share and improving revenue growth and profitability. To fund these trades, we exited our position in SIG Group.

We also exited our position in Korea Zinc as the stock was up nearly 60% year-to-date after private equity firm MBK Partners and Young Poong launched a tender offer for shares.

Strategy and Outlook

We believe that our integrated top-down and bottom-up analysis remains critical to identify the most attractive macro and stock investments across emerging markets (EM). Both levers continue to be balanced drivers of active returns and risk. In what we expect to be a mixed outlook for growth and ongoing realignment in the global economy, we believe the portfolio is well positioned while providing significant diversification with active positioning at both the country and stock level.[5]

We remain overweight **India** given secular, domestic-driven growth supported by a low base, supply-side investments and digitization. The economy is undergoing cyclical adjustments, led by a slowdown in consumption (following the withdrawal of accommodative monetary policy since 2022) and subdued government-led capital expenditure spending (which had driven gross

3 Source: Bloomberg L.P. Data as of 31 December 2024.
4 One basis point = 0.01%
5 Diversification neither assures a profit nor guarantees against loss in a declining market.

fixed capital formation in the years following the pandemic). Consumption growth has historically been linked closely with the availability of credit or easier liquidity conditions, requiring monetary policy to resume growth acceleration. In the Reserve Bank of India's (RBI) bi-annual Financial Stability Report, the new central bank governor wrote of projected growth of around 6.5% for the fiscal year 2025, though growth should rebound next year with pick-ups in domestic consumption and investment. He reiterated the RBI's focus on financial stability—the targets to lower the fiscal deficit and debt-to-gross domestic product (GDP) ratio could marginally impact growth in the short term.

While the cyclical slowdown is leading to pockets of earnings consolidation and short-term market corrections, India ended 2024 with strong absolute and relative performance to EM. We continue to believe in the fundamental and structural growth story for India. India remains one of the fastest-growing economies globally, higher than the U.S. and other larger EM countries. Even with short-term consolidation, we believe corporates are well positioned as returns on equity and profitability of listed companies are strong and earnings visibility remains high. The strength of corporate balance sheets remains intact and the banking system's ability to support capital expenditure is already in place. Shifts in growth should coincide with changes in liquidity conditions, monetary policy, government spending and the flow of credit. Our exposure in India is diversified and includes what we consider to be well-managed financials, industrials and consumer names, along with select IT, real estate, health care, energy and materials companies.

We maintain our overweight allocation to **Mexico**. The equity market underperformed in 2024 driven by slowing growth and a weak peso, which was one of the worst performing EM currencies during the year. U.S. President-elect Trump's policy priorities for Mexico will likely focus on immigration and drugs, evidenced by the recent announcement of proposed 25% tariffs on Mexico and Canada. Meanwhile, trade/near-shoring and investment are key priorities for President Claudia Sheinbaum's administration to help bolster economic growth. While there may be short-term noise, more holistically we believe strategic and economic interests will likely prevail and help keep the relationship between the U.S. and Mexico on track. We will closely monitor how further reforms are legislated into practice and how potential U.S. policy changes by the incoming Trump administration could impact the currently favorable conditions for foreign direct investment and the U.S.-Mexico-Canada Agreement (USMCA). Structurally, Mexico's GDP growth has remained strong with no major imbalances, growing real wages and continued investment (led by foreign direct investment and the country's attractive strategic positioning in the global supply chain). We believe many domestically focused companies trade at attractive valuations and should continue to benefit from a strong macro outlook (in both Mexico and the U.S.), which would likely translate into solid earnings growth and yields.

We are overweight **South Africa**. The African National Congress (ANC)-backed coalition government with the reform-oriented Democratic Alliance (DA), which comprises the Government of National Unity (GNU), could result in more effective governance and general improvement in business confidence could boost investment in the country after years of deleveraging. While reforms have taken place over the years—including energy reform, which led to significant investment in the sector and the end of "load-shedding"—the key issue has been on policy continuity and execution. The creation of the GNU and the replacement of dozens of government officials as part of the coalition agreement could improve both the prospects for reform and the capacity for implementation. We believe South Africa is on a better path following the elections and equity valuations remain attractive.

We remain overweight **Brazil.** Growth has remained steady around 2%-3% in recent years, bolstered by investment, consumption and a trade surplus that reached an all-time high earlier in 2024. However, equities suffered in 2024 on the risks of high government spending and debt sustainability, and the consequent need for fiscal consolidation. A weaker currency has further led to slowing relative earnings per share (EPS) growth in dollar terms relative to the rest of EM. Signs of fiscal austerity could help lead to improved confidence and recovery; government expenditure has already been falling in recent months with revenue picking up. We continue to monitor the rate changes, policy proposals and fiscal risk in Brazil. External balances remain in good shape and equity valuations are at historically low levels. Within Brazil we are focused on companies with quality management and solid earnings growth.

We are constructive on **Malaysia** given the improving macro situation with rising GDP growth, improving EPS expectations for 2025, a reasonably tight labor market, low inflation, improving industrial sector data and decent external balances. After the fragile governments of recent years, the United Malays National Organization (UMNO) Government has provided some political stability since the November 2022 elections. Digital investment is on the rise, particularly in data centers. With the government's support, incremental reform on power networks and grid access should attract more data centers and investments in the country.

We maintain our structural underweight to **China**, though we have reduced some of the underweight allocation on a tactical view. Our longer-term concerns of high debt, government intervention and property inventory overhang remain. We believe it is unlikely the policy stimulus announcements made so far will lead to a marked improvement in the economy's underlying fundamentals given the level of debt in the system. Recent announcements, including that of special bond issuances, are a positive step, but only cover a portion of the estimated total local government debt. In his New Year's address, President Xi noted some challenges currently facing the economy but recommitted to a 5% growth target for 2025. We are monitoring further policy announcements to see if they translate into higher GDP growth and ultimately earnings growth, and we continue to evaluate the size of our underweight to the market. Over the course of the last year, we have tactically reduced the size of the underweight to the market. We remain selective in our exposure in China and are invested in companies that we believe have competitive advantages, strong corporate governance and solid medium-term growth prospects.

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

Fund Facts

Launch date	01 July 1993
Base currency	U.S. dollars
Benchmark	MSCI Emerging Markets Net Index

Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

	YTD	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Class I Shares	7.20	7.20	13.96	-25.90	3.40	14.24	18.72	-17.05	35.20	5.83	-10.66
MSCI Emerging Markets Net Index	7.50	7.50	9.83	-20.09	-2.54	18.31	18.42	-14.57	37.28	11.19	-14.92

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 shares. The sources for all performance and index data is Morgan Stanley Investment Management ('MSIM Ltd'). **Please visit our website www.morganstanley.com/im to see the latest performance returns for the fund's other share classes.**

Effective 1st November 2021 the Morgan Stanley Investment Funds Emerging Markets Equity Fund was renamed to Sustainable Emerging Markets Equity Fund.

Share Class I Risk and Reward Profile

- The fund may be impacted by movements in the exchange rates between the fund's currency and the currencies of the fund's investments.
- 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.
- Sustainability factors can pose risks to investments, for example: impact asset values, increased operational costs.
- There may be an insufficient number of buyers or sellers which may affect the funds ability to buy or sell securities.
- Investments in China involves a risk of a total loss due to factors such as government action or inaction, market volatility and reliance on primary trading partners.
- Investment in China A-Shares via Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connect programs may also entail additional risks, such as risks linked to the ownership of shares.
- There are increased risks of investing in emerging markets as political, legal and operational systems may be less developed than in developed markets.
- 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, available at www.morganstanleyinvestmentfunds.com. All data as of 31.12.2024 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 language of countries authorized for fund distribution and is available online at Morgan Stanley Investment Funds Webpages or free of charge from the Registered Office at European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxemburg B 29 192.

The summary of investor rights is available in the aforementioned languages and website location under the General Literature section.

Information in relation to sustainability aspects of the Fund is available in English online at: Sustainable Finance Disclosure Regulation.

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