

Morgan Stanley Investment Funds

Sustainable Emerging Markets Equity Fund

EMERGING MARKETS EQUITY TEAM

Performance Review

In the three month period ending 31 March 2024, the Fund's I shares returned 3.48% (net of fees)¹, while the benchmark returned 2.37%.

Over the one-year period, the portfolio returned 13.75% (I shares net of fees), outperforming the index return of 8.15%.

During the quarter, aggregate stock selection contributed strongly to returns, led by positioning in India, Korea and Indonesia. The overweights to TSMC and Antofagasta were among the top stock contributors to returns. The underweight allocation to China also contributed. Positioning in Poland, the zero allocations to Turkey and Saudi Arabia, and the underweight allocation to Taiwan detracted.

Top contributors to performance during the quarter are outlined below:

The portfolio benefited from our positioning in India, led by our allocations to Bajaj Auto, MakeMyTrip and Max Healthcare. Bajaj Auto's stock outperformed on strong monthly sales data during the quarter and the extension of the government's electric vehicle incentive scheme through July; the program aims to boost domestic manufacturing and demand for electric two- and three-wheelers, which we believe can benefit Bajaj.

Within Korea, our overweight allocations to SK Hynix and KB Financial contributed to returns. Hynix began producing its next-generation high bandwidth memory (HBM) chip and also announced a partnership with Nvidia to invest \$4 billion in a U.S.-based chip-packaging facility. We remain constructive on the outlook for semiconductors given the cyclical recovery and secular growth drivers, including artificial intelligence (AI) and data centers, and continue to be invested in the leading semiconductors/memory manufacturers. Another positive for performance was our stock selection in Indonesia, led by our overweight selection to Bank Mandiri and our allocation to Cisarua Mountain Dairy (Cimory).

China equities saw a mild gain in March on the back of improved short-term macro data, with exports exceeding expectations and signs of improvement in the manufacturing sector. However, for the full quarter the market underperformed the broader MSCI Emerging Markets Index, and our underweight allocation to the market contributed to returns. Performance also benefited from our positioning within China, largely led by the zero allocations to PDD and Wuxi Biologics. Our overweights to China Merchants Bank and Postal Savings Bank of China and the allocation to Alibaba also contributed.

TSMC rallied in the quarter and was among the largest stock contributors to returns. We continue to believe TSMC is a leading foundry and the best proxy in EM to participate in AI-driven secular growth.

The allocation to copper miner Antofagasta—whose mines are concentrated in Chile—added to returns. We remain positive on the outlook for copper given the electrification of global primary energy and growth of electric vehicles and renewable energy as part of this transition.

Top detractors from performance during the quarter are outlined below:

Positioning in Poland was the largest drag to performance for the quarter, led by the allocation to LPP. Short-seller Hindenburg Research released a report in March alleging that the company had not fully exited its business operations in Russia following the invasion of Ukraine in 2022. The company addressed the issues raised in the report, and while we do not believe they were material to its ongoing business, it did raise concerns on transparency and governance. This will likely continue to overhang the stock and ultimately raise the equity risk premium. We exited the position following this news.

The underweight allocation to Taiwan detracted as the market's strong performance continued in March and the quarter, largely driven by the AI boom. The zero allocations to Turkey and Saudi Arabia also detracted.

Portfolio Activity

While our structural longer-term view on China has not changed based on fundamental issues in the economy, we reduced the size of our underweight during the quarter based on our macro country framework, as sentiment levels are at extreme lows and the market has significantly derated. We initiated a position in gaming company NetEase, as we believe the regulatory pressure on the Chinese gaming sector has likely peaked, as supported by recent stronger gaming gross profit performance. We also see NetEase as a more focused player in the gaming segment compared to its competitors. We also added AIA Group, Trip.com, Ping An Insurance and Shenzhen Inovance, and added to our existing positions in Alibaba and Tencent.

Within Taiwan, we initiated positions in E-Ink and Wiwynn and added to our existing position in Unimicron. E-Ink is one of the global leaders in e-ink and e-paper. We believe there are several growth drivers for the company as it should benefit from secular retail automation tailwinds and new products such as colored e-paper adoption—which could drive an e-reader upgrade cycle (e.g.,

¹ Source: Morgan Stanley Investment Management Limited. Data as of 31 March 2024.

colored Kindle reader)—and revenue that is highly aligned to ESG (environment, social and governance) as its products help with carbon footprint reduction (through the reduction in the use of paper).

Wiwynn is a leading cloud infrastructure/data center provider. We think both Wiwynn and Unimicron are poised to benefit from the next wave of technologies advancement including AI, server demand, advanced driver assistance systems (ADAS) and data centers. To fund these trades, we reduced our position in Delta Electronics as the growth momentum in the first half of this year could be muted on slower global electric vehicle demand.

Within Korea, we initiated a position in DB Insurance. Korean insurance companies have historically been undervalued, largely due to previous accounting methods, which had limited transparency. With the adoption of the new accounting standards, including International Financial Reporting Standard 17 (IFRS17), we believe Korean insurance companies can begin to report solid operations and allow the market to properly analyze them among regional peers. With the implementation of the new accounting framework, we think the company will better reflect its business and more closely align with shareholder interests.

Further, in February Korea announced the “Value-Up” program, which aims to enhance corporate value by encouraging companies to adopt policies favorable to shareholders. While the win by Korea’s liberal opposition party in the recent parliamentary elections may slow the program, we do not believe this will derail it, as the opposition party supports improving governance and shareholder returns and boosting market returns. Korean corporates are also taking genuine interest in following the Value-Up guidelines, regardless of government policy. Progress on these fronts could create a further rerating opportunity for equities, which have historically traded at a discount to peers in emerging and developed markets.

We exited our position in LPP and initiated a position in PZU, one of the largest insurers in Poland. We think PZU has a strong competitive advantage in its core business of life and property and casualty (P&C) insurance. Profitability should remain supported by its competitive positioning in investment income, and we believe the stock is attractively valued.

We initiated a position in Brazilian digital bank Nubank. We believe Nubank should see sustained growth in active customers and the company’s credit portfolio. Further, we believe deploying the low loan-to-deposit ratio into consumer loans combined with operating leverage is likely to boost Nubank’s earnings growth materially higher than peers for the next few years. Given Nubank’s business model, we have included this position in our sustainable thematic of Access, Affordability and Economic Growth.

Within South Africa, we exited our position in Mondi and reduced our position in branded consumer company AVI. Elsewhere, we exited our positions Hindalco and Norsk Hydro as our thesis of supply tightness for aluminum and a rising cost curve has not materialized.

We also exited our position in ICICI Prudential Life Insurance. ICICI Prudential has performed strongly over the one-year period; however, life insurance is traditionally a medium-to-long-term savings proxy which usually only benefits when term premiums are high. Higher short-term rates and increased competition for deposits in a tighter liquidity environment are likely to lag on savings product sales, which was a key driver for the company.

Strategy and Outlook

We continue to believe that our integrated top-down and bottom-up analysis is important to identify the most attractive macro and stock investments across emerging markets (EM). Both levers continue to be balanced drivers of active risk and portfolio performance. In what we expect to be a mixed growth environment and realigning global economy, we believe our portfolio is well positioned and diversified² with active positioning across countries and stocks.

We remain overweight **India** given secular, endogenous-driven growth supported by a low base, supply-side investments, and digitization. We remain constructive on the secular growth story for India and confident that forward earnings justify the current multiples of our holdings. Key drivers for our view on the equity market include India’s ability to withstand external shocks, continued growth outlook (led largely by increased investment), a large domestic market to drive consumption and a strong institutional framework. India remains one of the most sector- and industry-diverse markets in EM, offering an equity market with both depth and breadth of quality, growth opportunities. Our exposure in India includes well-managed financials, industrials and consumer names, along with select IT, health care, energy and materials companies.

We maintain our overweight allocation to **Mexico**. We believe Mexico has several sustainable drivers for above-trend economic growth, including a tighter labor market, growing real wages and continued investment (led by foreign direct investment and the country’s attractive strategic positioning in the global supply chain). Further, the country has no macro imbalances and has maintained rational monetary and fiscal policies. We believe the domestic companies trade at attractive valuations and should continue to benefit from a strong macro outlook, which can translate into solid earnings growth and yields.

We are overweight **Poland**. We believe growth should reaccelerate this year, as pressure on the consumer reverses, consumer and business sentiment improves and positive real wage growth returns. External balances are healthy, with a trade surplus and strong capital inflows, specifically from foreign direct investment and European Union funds. Poland is also arising as a European nearshoring beneficiary; Poland’s share in German imports has increased consistently over the last 20 years. Market earnings are set to recover, and we believe equity valuations are attractive. Our positions in Poland include a quality consumer company and a leading insurer.

² Diversification neither assures a profit nor guarantees against loss in a declining market.

We maintain our underweight to **China** relative to other opportunities across emerging markets. We remain cognizant of maintaining tactical and structural views on the market. From a structural standpoint, we continue to have concerns about headwinds including elevated debt levels, aging demographics and lagging consumer sentiment. The real estate sector remains under pressure; however, there has been news of continued support from policymakers, including promoting tech- and innovation-led productivity gains and the announcement of the “large-scale equipment renewal program” to push manufacturing facility upgrades and the trade-in of consumer goods (such as appliances) to boost the economy. While we believe overall growth is likely to remain muted in the medium term, there are some signs of green shoots, and the “green” and digital parts of the economy are likely to become the economy’s growth drivers. In China, we are invested in companies with 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	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Class I Shares	3.48	13.96	-25.90	3.40	14.24	18.72	-17.05	35.20	5.83	-10.66	-4.30
MSCI Emerging Markets Net Index	2.37	9.83	-20.09	-2.54	18.31	18.42	-14.57	37.28	11.19	-14.92	-2.19

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.**

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 fund's 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. All data as of 31 March 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 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. Luxemburg B 29 192.

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INDEX INFORMATION

The **MSCI Emerging Markets Net Index** is a free float-adjusted market capitalization weighted index that is designed to measure equity market performance of emerging markets. The term "free float" represents the portion of shares outstanding that are deemed to be available for purchase in the public equity markets by investors. The MSCI Emerging Markets Index currently consists of 24 emerging-market country indices. The performance of the index is listed in U.S. dollars and assumes reinvestment of net dividends.

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