

Morgan Stanley Investment Funds US Insight Fund



Performance Review

In the three month period ending 30 June 2023, the Fund's Z shares returned 16.04% (net of fees)¹, while the benchmark returned 12.47%.

Counterpoint Global seeks high quality companies, which we define primarily as those with sustainable competitive advantages. We manage concentrated portfolios that are highly differentiated from the benchmark, with securities weighted on our assessment of the quality of the company and our conviction. The value added or detracted in any period of time will typically result from stock selection, given our philosophy and process.

The long-term investment horizon and conviction-weighted, highly active investment approach embraced by Counterpoint Global can result in periods of performance deviation from the benchmark and peers. The portfolio outperformed the Russell 3000 Growth Index this quarter due to favourable sector allocations; stock selection also contributed, albeit to a lesser extent.

Growth equities, as measured by the Russell 3000 Growth Index, advanced over the quarter. Information Technology, Communication Services and Consumer Discretionary posted the highest return in the Russell 3000 Growth Index. Most sectors advanced over the period; however, Utilities and Real Estate posted negative returns and were the relative underperformers in the index. Against this backdrop, Counterpoint Global continued to focus on stock selection and the long-term outlook for companies owned in the portfolio.

Recession fears, downside earnings risks for 2023, and the recent failure of several U.S. regional banks continued to weigh on market sentiment and contributed to continued volatility. Against this backdrop, we continued to focus on company-specific fundamentals, which across portfolio holdings have largely remained healthy and in line with our expectations. We continue to own many high-quality companies with attractive end-game potential, strong balance sheets, and multiple competitive advantages. We believe today's market offers an attractive opportunity to buy unique companies with strong fundamentals that can be long-term winners over the next three to five years. While we have opportunistically added to some positions and initiated new ones, overall, we have made few changes as we remain confident in the long-term prospects for the businesses we own.

Industrials and Consumer Discretionary were the top contributors in the portfolio primarily due to strong stock selection in each sector. Tesla, a leading designer and manufacturer of electric vehicles, was one of the largest contributors in Consumer Discretionary and across the portfolio. The company reported strong quarterly results characterised by better-than-expected delivery numbers, and announced major charging deals with several large competitors, which buoyed investor sentiment. Strength in Tesla and a diverse set of other holdings was partially offset by weakness in Peloton Interactive, which was the third largest detractor across the portfolio. Peloton Interactive is a connected fitness platform that makes interactive hardware which pairs with streaming and live content. Despite the company continuing to execute well on its strategy of reducing inventory and improving cash flow, its shares underperformed due to a legal settlement to resolve a patent dispute and the negative publicity associated with a seat recall for Peloton bikes.

Information Technology also contributed to relative results as strong stock selection more than offset the adverse impact of an average underweight position in the sector. Shopify, which operates a cloud-based software and services platform that enables merchants to build an ecommerce presence, was the top contributor across the portfolio. Its outperformance was driven by continued strong business execution in a tougher economic environment, ongoing traction with new product offerings, and divestment of the company's capital-intensive logistics business unit.

A lack of exposure to Consumer Staples, Energy, and Real Estate, as well as favourable stock selection and an average underweight position in Materials also aided performance.

Conversely, Health Care was the top detractor in the portfolio this quarter, due to unfavourable stock selection and the adverse impact of an average overweight position. Agilon Health was the second greatest detractor in the sector and across the portfolio. Agilon is a health care services provider, offering its Total Care platform to a network of community-based physicians who are looking to transition from a traditional fee-for-service reimbursement model and towards a value-based care model for their Medicare Advantage patients. The company reported better-than-expected results; however, its shares languished due to broader investor concerns around medical loss ratios trending higher for businesses focused on Medicare Advantage patients. Royalty Pharma, one of the largest buyers of biopharmaceutical royalties and a leading funder of innovation across academic institutions, non-profits, biotechnology, and pharmaceutical companies, was the fourth greatest detractor across the portfolio. The company reported solid results; however, its shares remained pressured due to investors' ongoing concerns around clinical trial results for a few of its partners' new therapies and the impact to potential related royalties.

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

Communication Services was the second greatest detractor in the portfolio due to unfavourable stock selection. Weakness in overall stock selection in the sector was partially offset by strength in Trade Desk, which was the third greatest contributor across the portfolio. The company sells an industry-leading software suite that enables digital marketers to better manage their advertising spend. Its shares advanced as the company continues to outperform the growth rates of the digital advertising industry and gain market share within the broader advertising market. Trade Desk has been a beneficiary of the growing importance of programmatic advertising in marketing budgets.

Lastly, Financials and Utilities – a sector the portfolio has no exposure to – each had an overall negligible impact on relative performance.

Outlook

Counterpoint Global looks to own a portfolio of unique companies with diverse business drivers, strong competitive advantages and positioning, and healthy secular growth prospects whose market value we believe can increase significantly over the long term for underlying fundamental reasons, independent of the macro or market environment. We find these companies through fundamental research. Our emphasis is on secular growth, and as a result short-term market events are not as meaningful in the stock selection process.

Counterpoint Global believes having a market outlook can be an anchor. We focus on assessing company prospects over a five-year investment horizon. Current portfolio positioning reflects what we believe are the best long-term investment opportunities.

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

Fund Facts

Launch date	28 November 2014
Base currency	U.S. dollars
Benchmark	Custom- Blended Benchmark

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	35.37	-61.75	-6.51	118.97	16.58	-9.85	20.57	33.45	-5.27	--	--
Blended Benchmark	28.05	-28.97	25.85	38.26	24.87	-8.58	13.19	18.40	-4.12	--	--

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 very high rises and falls historically.
- The fund may be impacted by movements in the exchange rates between the fund's currency and the currencies of the fund's investments.

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.
- 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.

- 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.
- 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 June 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. Luxemburg B 29 192.

Information in relation to sustainability aspects of the Fund and the summary of investor rights is available at the aforementioned website.

If the management company of the relevant Fund decides to terminate its arrangement for marketing that Fund in any EEA country where it is registered for sale, it will do so in accordance with the relevant UCITS rules.

INDEX INFORMATION

The **Blended Index** performance shown is calculated using the **Russell 3000® Value Index** from inception through 30th August 2019 and the **Russell 3000® Growth Index** thereafter.

The **Russell 3000® Growth Index** measures the performance of the broad growth segment of the U.S. equity universe. It includes those Russell 3000® Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 3000® Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market.

The **Russell 3000® Value Index** measures the performance of those companies in the Russell 3000® Index with lower price-to-book ratios and lower forecasted growth values. The Russell 3000® Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market.

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