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Morgan Stanley Investment Funds

# Eurozone Equity Alpha Fund

ACTIVE FUNDAMENTAL EQUITY | EUROPEAN EQUITY TEAM | MONTHLY COMMENTARY | 29 FEBRUARY 2020

## Performance Review

In the one month period ending 29 February 2020, the Fund's I shares returned -9.97% (net of fees)<sup>1</sup>, while the benchmark returned -7.92%.

The portfolio's stock selection in consumer discretionary (Continental), information technology (ASML, SAP) and health care (Grifols) contributed positively to performance in the month. The stock selection in industrials (Airbus, Deutsche Post), energy (Repsol, Royal Dutch Shell, Eni) and financials (ING, Axa) contributed negatively to performance in the month.

## Market Review

The eurozone's manufacturing sector remained in a downturn but only marginally so. The IHS Markit Eurozone Manufacturing PMI came in at 49.2 February, an improvement from 47.9 in January. Goods producers reported supply-side constraints related to the coronavirus, while new orders and production fell at slower rates. Employment contracted for another month and deflationary pressures were evident. The eurozone services sector remained resilient. The IHS Markit Eurozone PMI Services Business Activity Index mildly improved to 52.6 in February from 52.5 in January.

Inflation cooled in February as energy prices fell. Eurostat's flash estimate showed consumer prices rising at an annual rate of 1.2%, slower than 1.4% recorded in January. Core inflation (excluding food, energy, alcohol and tobacco) rose slightly to an estimated 1.2% in February from 1.1% in January. Separately, Eurostat said euro area unemployment held steady at 7.4% in January 2020, unchanged from December 2019 and the European Union (EU) jobless rate registered 6.6% in January, up from 6.2% in December.

The Governing Council of the European Central Bank (ECB) did not hold a February meeting. After initially taking a cautious stance toward responding to the coronavirus threat, ECB President Lagarde provided a statement in early March that the central bank is 'ready to take appropriate and targeted measures' to buffer the economy from coronavirus-related risks.

European equities declined during the month, with the MSCI EMU Index falling -7.92% in euros and -8.73% in U.S. dollars. While January data pointed to some early signs of stabilization in the region, a rebound in economic growth looks to be on hold as coronavirus effects were already evident in February data. During the month, Italy became one of the largest epicentres of the virus outside of China.

In a flight to safety, the 10-year German bund yield dropped to -0.61% at month end from -0.44%, while Italian bonds sold off, propelling 10-year yields 21 basis points higher to 1.13%, on news of COVID-19 spreading in the country. Spain's 10-year yield rose 5 basis points to close February at 0.28%. European corporate bonds underperformed government bonds during the month as spreads widened.

## Portfolio Activity

During the month, we completely sold out of our position in German telecommunications company Deutsche Telecom and continued to build our position in Dutch medical equipment company Philips.

## Strategy and Outlook

We continue to believe that careful stock selection can be an important source of investment performance. We apply a disciplined and proven investment process to identify individual stocks that we feel are attractively valued relative to their future prospects. Typically, the companies on which we focus are characterised by strong business models, financial strength and management teams of demonstrable competence.

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

<sup>1</sup> Source: Morgan Stanley Investment Management Limited. Data as of 29 February 2020.

## FUND FACTS

### Launch date

05 April 2000

### Base currency

Euro

### Index

MSCI EMU (Net) Index

## 12 Month Performance Periods to Latest Month End (%)

	FEBRUARY '19 - FEBRUARY '20	FEBRUARY '18 - FEBRUARY '19	FEBRUARY '17 - FEBRUARY '18	FEBRUARY '16 - FEBRUARY '17	FEBRUARY '15 - FEBRUARY '16
MS INVF Eurozone Equity Alpha Fund - I Shares	1.81	-4.69	7.64	16.21	-13.11
MSCI EMU (Net) Index	2.77	-2.87	9.90	16.77	-13.43

**Past performance is not a reliable indicator of future results.** Returns may increase or decrease as a result of currency fluctuations. 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](http://www.morganstanley.com/im) to see the latest performance returns for the fund's other share classes.**

**The Blended Index performance shown is calculated using the MSCI Europe (Net) Index from inception through 31 October 2006, the MSCI Europe (Net) Hedged Index to 31 May 2007 and the MSCI EMU (Net) Index thereafter.**

## Share Class I Risk and Reward Profile

Lower Risk

Higher Risk



Potentially Lower  
Rewards

Potentially Higher  
Rewards

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.
- 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.
- There may be an insufficient number of buyers or sellers which may affect the fund's ability to buy or sell securities.
- 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 29 February 2020 and subject to change daily.

## INDEX INFORMATION

The **MSCI Europe (Net) Index** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe. 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 performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends.

The **MSCI EMU (European Economic and Monetary Union) Net Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of countries within EMU.

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