

### Morgan Stanley Investment Funds

# Asia Opportunity Fund

MARKETING COMMUNICATION | GLOBAL OPPORTUNITY TEAM | QUARTERLY COMMENTARY | 30 JUNE 2022

#### Important information

- The Fund primarily invests in high quality established and emerging companies located in Asia (excluding Japan).
- Investment involves risks. Key risks for this fund include Risk of Investment in Equity, Concentration Risk, Risk associated with Investments in the PRC, Risk associated with Investments in China A-Shares via Stock Connect, Emerging Market Risk and Exchange Rate Risk.
- There is a risk that you may potentially lose your entire investment in this Fund.
- The investment decision is yours but you should not invest unless the intermediary who sells it to you has advised you that it is suitable for you and has explained why, including how buying it would be consistent with your investment objectives. You should not make any investment decision solely based on this document. Please read the relevant offering document carefully for further fund details including risk factors.

#### Performance Review

In the three month period ending 30 June 2022, the Fund's A shares returned -6.18% (net of fees)<sup>1</sup>, while the benchmark returned -9.00%.

The Global Opportunity team creates a high conviction, concentrated portfolio of undervalued, high quality businesses. The long-term investment horizon and high active share approach can result in periods of performance deviation from the benchmark. The Fund outperformed the MSCI All Country ("AC") Asia ex Japan Index this period due to favourable sector allocation and stock selection.

#### Market Review

Asia ex Japan equities declined in a volatile trading environment characterised by a broad sell-off in high growth equities driven by increased macroeconomic and geopolitical uncertainty. The information technology, materials, communication services and financials sectors led declines. Consumer discretionary and consumer staples were the only sectors to advance, while real estate and utilities also outperformed the MSCI AC Asia ex Japan Index.

For the second consecutive quarter, value outperformed growth by a historic margin - over 866 basis points globally in one of the largest factor-driven value rotations in any quarter over the last five decades.<sup>2</sup> Central banks including the U.S. Federal Reserve raised interest rates in response to higher inflation. Geopolitical risk also continued to weigh on markets as Russian military operations in Ukraine entered their fifth month.<sup>3</sup>

With regards to macroeconomic risks, we continue to believe that the prevailing market narrative that higher inflation and interest rates negatively impact companies with higher growth rates is overstated, as discussed in *Opportunity Optimum*. Our analysis has demonstrated that companies with underlying competitive advantages, recurring revenue models and strong pricing power are better positioned to pass on input cost inflation to customers.

We believe that the fundamentals of our portfolio companies are strong and improving. Consensus estimates for future growth rates have increased on both an absolute and relative basis despite the economic uncertainty, which indicates resilience and a level of anti-fragility. By and large our companies are in a much better position compared to the time before COVID-19, and in our opinion, this is not reflected in current stock prices. In our view, the best times to consider our portfolios have historically been after a period

<sup>1</sup> Source: Morgan Stanley Investment Management Limited. Data as of 30 June 2022.

<sup>2</sup> For the three months ending 30 June 2022, the MSCI AC World Value Net Index returned -11.49% and the MSCI AC World Growth Net Index returned -20.15%. Source: MSCI. Data as of 30 June 2022. One basis point = 0.01%

<sup>3</sup> As of 30 June 2022, the portfolio did not have direct exposure to and did not hold companies listed or domiciled in Russia, Belarus or Ukraine. As for indirect exposure, portfolio companies have limited exposure to Russia at approximately 0.1% of revenues across the portfolio.

of underperformance as the market goes through a factor rotation and oscillates between greed and fear, while our companies tend to focus on what they can control to come out of the economic volatility even stronger.

## Portfolio Review

A sector underweight position in information technology was the greatest overall contributor to the relative performance of the portfolio during the period, due to an underweight position in Taiwan Semiconductor Manufacturing Company (TSMC), the world's largest semiconductor foundry service provider. We are attracted to TSMC's cost leadership advantage, driven by technological leadership and manufacturing excellence that enables customers' time to market, and its customer engagement.

Stock selection in real estate contributed positively, with shares of KE Holdings the top individual contributor across the portfolio. KE Holdings owns the quality-focused, first-party agency brand Lianjia in high tier cities and is expanding via an asset-light, third-party model by aggregating and digitalising small to mid-sized offline agency stores. KE Holdings has strong network effect with a unique agent cooperation network to enable efficient cross-store collaboration. We believe KE Holdings can monetise by increasing market share with its first-party and third-party model, leveraging its brokerage platform scale to secure more favourable terms, and potentially digitalising the real estate value chain to become a one-stop platform for all property-related services.

Stock selection and a sector overweight position in consumer staples also contributed positively, driven by strength in shares of Chinese beverages brands Kweichow Moutai, China Resources Beer and Tsingtao Brewery.

Stock selection in consumer discretionary was the greatest overall detractor during the period, partially offsetting a sector overweight position that contributed positively to relative performance. Strength in shares of Chinese social commerce platform Meituan and online travel agent Trip.com offset weakness in shares of Korean e-commerce platform Coupang. Coupang is Korea's largest ecommerce company operating under a first-party and third-party model, with a focus on building the next-generation customer experience by enabling a large selection of items at low prices delivered same day or next day, and a frictionless return process. We believe it is unique due to its scalable logistics infrastructure, a low customer acquisition cost structure coupled with a loyal customer base under its Rocket WOW membership program, and a growing third-party marketplace that may be further monetised through advertising and fulfilment services. We believe its differentiation and efficient scale may enable it to continue to gain market share, and it has the potential to extend its ecosystem beyond its core business and establish strong positions in new verticals such as food delivery and fintech.

Stock selection in financials contributed negatively to relative performance, with shares of KakaoBank the top individual detractor across the portfolio. KakaoBank is a digital bank with full banking license in Korea, servicing 60% of an economically active population. We believe KakaoBank is unique due to of its strong technological infrastructure, customer interface, differentiated products and Kakao brand name. KakaoBank is fully digital with no branches, which reduces the cost of operating the business and we believe can sustain long-term profitability. The Korean banking system is large with weak incumbents and smartphone penetration in the country is high, creating an ideal backdrop for KakaoBank to grow through market share gains. Shares of Indian private banks HDFC Bank Ltd. and IndusInd Bank Ltd. also underperformed.

Stock selection in communication services and industrials also detracted on weakness in shares of Korean search engine Naver Corp., Southeast Asian games and ecommerce company Sea Ltd. and Southeast Asian mobility platform Grab Holdings.

Finally, a sector underweight position to utilities also contributed negatively to relative performance during the period.

## Outlook

As a team, we continue to focus on bottom-up stock selection and the long-term outlook for companies owned in the portfolio. We assess company prospects over a five- to ten-year time horizon and own a portfolio of what we believe are undervalued, high quality companies with diverse business drivers not tied to any particular market environment.

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

### FUND FACTS

**Launch date**  
31 March 2016

**Base currency**  
U.S. dollars

**Index**  
MSCI All Country Asia Ex Japan Net Index

---

## Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

	YTD	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Class A Shares	-23.40	-21.10	50.38	40.37	-15.50	73.30	--	--	--	--	--
MSCI All Country Asia Ex Japan Net Index	-16.28	-4.72	25.02	18.17	-14.37	41.72	--	--	--	--	--

Investment involves risks. All performance data is calculated NAV to NAV, net of fees, and assume the reinvestment of all dividends and income. The sources for all performance and Index data is Morgan Stanley Investment Management. Please refer to the relevant offering documents for fund details, including risk factors.

---

### INDEX INFORMATION

The **MSCI All Country Asia Ex-Japan Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of Asia, excluding Japan. The performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends. The index is unmanaged and does not include any expenses, fees or sales charges. It is not possible to directly invest in an index.

The **MSCI All Country (AC) World Growth Index** captures large- and mid-cap securities exhibiting overall growth style characteristics across 23 developed markets countries and 24 emerging markets countries.

The **MSCI All Country (AC) World Value Index** captures large- and mid-cap securities exhibiting overall value style characteristics across 23 developed markets countries and 24 emerging markets countries.

### DISTRIBUTION

This material is only intended for and will be only distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations. It is the responsibility of any person in possession of this material and any persons wishing to make an application for Shares in pursuant to the Prospectus to inform themselves and observe all applicable laws and regulations of any relevant jurisdictions.

**Hong Kong:** This document has been issued by Morgan Stanley Asia Limited for use in Hong Kong. The contents of this document and website have not been reviewed by the Securities & Futures Commission of Hong Kong. The investment returns are denominated in base currency. HK/US dollar-based investors are therefore exposed to exchange rate fluctuations.

### IMPORTANT INFORMATION

Any index referred to herein is the intellectual property (including registered trademarks) of the applicable licensor. Any product based on an index is in no way sponsored,

endorsed, sold or promoted by the applicable licensor and it shall not have any liability with respect thereto. The Fund is actively managed, and the management of the fund is not constrained by the composition of the Benchmark.

All investments involve risks, including the possible loss of principal. The material contained herein has not been based on a consideration of any individual client circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

MSIM has not authorised financial intermediaries to use and to distribute this material, unless such use and distribution is made in accordance with applicable law and regulation. MSIM shall not be liable for, and accepts no liability for, the use or misuse of this material by any such financial intermediary. If you are a distributor of the Morgan Stanley Investment Funds, some or all of the funds or shares in individual funds may be available for distribution. Please refer to your sub-distribution agreement for these details before forwarding fund information to your clients.

The whole or any part of this material may not be directly or indirectly reproduced, copied, modified, used to create a derivative work, performed, displayed, published, posted, licensed, framed, distributed or transmitted or any of its contents disclosed to third parties without the Firm's express written consent. This material may not be linked to unless such hyperlink is for personal and non-commercial use. All information contained herein is proprietary and is protected under copyright and other applicable law.

This material may be translated into other languages. Where such a translation is made this English version remains definitive. If there are any discrepancies between the English version and any version of this material in another language, the English version shall prevail.