Morgan Stanley

INVESTMENT MANAGEMENT

Morgan Stanley Investment Funds

Latin American Equity Fund

EMERGING MARKETS TEAM | MONTHLY COMMENTARY | 31 OCTOBER 2021

Important information

- The Fund invests primarily in the common shares of companies incorporated in Latin American countries.
- Investment involves risks. Key risks for this fund include Risk of Investment in Equity, Emerging Market Risk, Exchange Rate Risk and Risk of Exposure to the Euro and Eurozone.
- 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 one month period ending 31 October 2021, the Fund's A shares returned -9.38% (net of fees)[1], while the benchmark returned -5.33%.

Strategy and Outlook

Latin America has been hit hard by the effects of the COVID-19 pandemic and the limitations of its policy response from both a public health and an economic policy perspective. Broadly helping the region's growth prospects, however, has been the rise in commodities prices on the global economic recovery. Following a broad inflation acceleration, most central banks in Latin America have begun raising interest rates, with Brazil's among the sharpest rise in October. The heavy election cycle this year, including presidential elections in Chile later in November, will continue to contribute to uncertainty, particularly in markets such as Peru and Chile, which may well see a swing to the left in terms of policy, depending on final results and the outcome of constitutional change in Chile. We have constructed a portfolio seeking to minimize exposure to these macro challenges and the political uncertainty by focusing on a combination of high quality growth names with secular drivers, as well as exposure to cyclical recovery plays that meet our criteria for high quality, lasting growth.

We have reduced our allocation to **Brazil**. While the country has been experiencing a strong cyclical recovery, fiscal challenges are restraining its comeback. Fiscal policy in response to the pandemic has not been sufficient to improve real growth, and both the right and the left are likely to push their respective policy boundaries during the upcoming election cycle. This could continue to keep the currency weaker than it should be and the long end of the yield curve elevated, in our view.

Structurally, we are encouraged by Brazil's large domestic economy, which offers significant growth opportunities given fragmented and/or inefficient industry structures, the limited presence of global players and relatively nascent digital adoption. We believe the stocks we own in the country can execute against these opportunities and have high quality management teams and sustainable competitive advantages, and that they will likely benefit from ongoing market share gains (often enabled by superior digital value propositions) and/or a broader economic recovery and subsequent market share growth.

We have been gradually increasing our position in **Mexico**. We believe Mexico will emerge from the pandemic potentially in a better macroeconomic position than it entered, with strong growth in both real and nominal terms.

The country's economy should benefit for the next couple of years from the massive fiscal stimulus and economic recovery taking place in major trading partner the United States. What mainly hurt the portfolio earlier this year was our choice not to own some of the deep-value cyclicals, which rose sharply on the prospect of the global economic recovery, but do not meet our growth standards longer term. In the long run, Mexico should benefit from the reformulated United States-Mexico-Canada Agreement, particularly given the relatively weak currency, the reconfiguration of supply chains and its proven monetary policy framework. Now at the halfway point of its six-year term, the AMLO administration has shown fiscal rectitude, even if the state has increased its role in the oil and electricity sectors. Uncertainties and risks that will mark the second half of the term are potential further reversals of

1 Source: Morgan Stanley Investment Management Limited. Data as of 31 October 2021.

past reforms in the energy and electricity sectors, a central bank governor nomination that could contain a dual mandate, and a fiscal reform that seeks to increase the property tax rate. We believe the stocks we own are likely to recover as they emerge from the crisis to deliver above-average growth, and we have increased our allocation to Mexican banks given the positive backdrop for earnings growth acceleration from better economic growth prospects and higher interest rates, faster loan growth, normalization of provisions and efficiency improvement.

We have zero allocation to **Peru**. The market appears to be taking positive signals from President Pedro Castillo's more moderate political appointments recently. The economic recovery has been strong so far with the rise of commodities prices. Furthermore, Castillo and his team have softened the campaign rhetoric of earlier this year by highlighting he would guarantee a stable economy and respect private property and private investment. The team is proposing more prudent plans to hike mining taxes by reviewing contracts that lock in tax rates in the long term. Investors appeared to have been encouraged by the team assembled at the central bank as well.

The macroeconomic outlook in **Chile** is starting to see improvements given favorable external factors, including the tailwind of high copper prices, as well as potential moderate changes to the constitutional documents and a faster recovery in economic activity given the country's successful vaccination rollout. The cost of mining is likely to increase due to higher infrastructure requirements, electricity costs and wages, but given Chile's major percentage of global supply, the government should continue to acknowledge the importance of the sector.

We remain zero weight domestic **Argentina**. Our only Argentine holding is Globant, which derives most of its revenue outside of Argentina. The country was already facing an extremely difficult economic outlook before the coronavirus hit and lockdowns were established. We are continuing to monitor the situation in Argentina as it evolves (economic policy and sovereign debt renegotiation) but, at this point, we do not see opportunity in the market.

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

FUND FACTS

Launch date	Base currency	Index
02 August 1994	U.S. dollars	MSCI EM Latin America Index

12 Month Performance Periods to Latest Month End (%), Presented in USD Terms

	OCTOBER '20 - OCTOBER '21	OCTOBER '19 - OCTOBER '20	OCTOBER '18 - OCTOBER '19	OCTOBER '17 - OCTOBER '18	OCTOBER '16 - OCTOBER '17
MS INVF Latin American Equity Fund - A Shares	10.77	-28.97	11.96	-8.02	9.63
MSCI EM Latin America Index	21.93	-33.14	7.73	-2.43	10.14

Investment involves risks. 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 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 Emerging Markets Latin America Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets within Latin America. The MSCI Emerging Markets Latin America Index consists of the following 5 emerging market country indices: Brazil, Chile, Colombia, Mexico and Peru.

The **MSCI Emerging Markets Index (MSCI EM)** is a free float-adjusted market capitalization weighted index that is designed to measure equity market performance of emerging markets.

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

DISTRIBUTION

This communication is only intended for and will only be distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations. In particular, the Shares are not for distribution to US persons.

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.

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 document, 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 document 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 work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without MSIM's express written consent.

All information contained herein is proprietary and is protected undercopyright law.

This document 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 document in another language, the English version shall prevail.