

A Sub-Fund of Morgan Stanley Investment Funds

Sustainable Emerging Markets Equity Fund

EMERGING MARKETS EQUITY TEAM

Important Information

- The Fund invests primarily in emerging country equity securities.
- Investment involves risks. Key risks for this fund include Risk of Investment in Equity, Emerging Market Risk, ESG Investing 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 three month period ending 30 September 2025, the Fund's A shares returned 9.67% (net of fees)¹, while the benchmark returned 10.64%.

Our stock selections in Taiwan and Korea and allocation to Antofagasta in Chile contributed to returns during the quarter. Stock selection in India was positive, though gains were offset by our overweight allocation to the market as equities underperformed on tariff volatility and net foreign outflows. The underweight to and aggregate stock selection in China detracted from returns as did stock selection in South Africa.

Top contributors to performance during the quarter are outlined below:

Artificial intelligence (AI) optimism continued during the quarter and our stock selection in Taiwan contributed to returns, led by the overweights to select AI hardware and semiconductor-related companies including Hon Hai, TSMC, Delta Electronics, Wiyynn and Unimicron. We believe Taiwan is one of the best positioned markets in the AI hardware supply chain given it is home to TSMC (which is the sole supplier for almost all AI chips and dominates the advanced packaging technology capacity) and to companies like Hon Hai and Wiyynn, which have significant market share in the AI server assembly space.

Stock selection in Korea contributed, led by the overweight allocation to Samsung Electronics. Samsung's stock rallied after the company received a long-awaited certification from Nvidia (the dominant buyer of advanced memory) on its HBM3E (high-bandwidth memory), which is now approved for use in AI accelerators. Though the initial amount of chips to be supplied to Nvidia is expected to be relatively small, the qualification from Nvidia marked a significant milestone for Samsung, particularly in the competitive and rapidly advancing AI chip race.

Materials were the best performing sector in emerging markets (EM), returning +24% for the quarter and over 45% year-to-date, led by mining and processing companies in gold, copper and rare earth metals, as the spot prices for many of these reached highs in the quarter. The portfolio benefited from the allocation to Antofagasta in Chile as the copper spot price continued to increase year-to-date and rose again in September following a mine disruption in Indonesia that led to a supply shock and a downward revision in supply forecasts.

Top detractors from performance during the quarter are outlined below:

The underweight to and stock selection in China detracted from returns. Chinese equities rallied during the quarter on continued AI and technology momentum, bolstered by Alibaba's CEO announcing at the company's annual cloud conference that their investment in AI would surpass \$50 billion over the next three years. Additionally, Alibaba launched its most advanced AI model, Qwen3-Max, which ranks high in code and agentic capabilities. Select Chinese holdings in the portfolio added to relative returns during the quarter, including Contemporary Amperex Technology (CATL), Tencent, Shenzhen Inovance and Xiaomi, along with the zero allocation to Meituan. However, gains were offset by the allocations to China Merchants Bank and Bank of Jiangsu, as major banks reported lower first-half net interest margins in their second quarter earnings reports.

While our stock selection in India was positive, the overweight to the country hampered relative returns as the market optimism around goods and services tax (GST) rate reductions was offset by changes to the U.S. H-1B visa program and tariff policy. Foreign institutional investors were net sellers of equities for the quarter, though domestic institutional investors continued with net inflows, with contributions to India's systematic investment plans reaching a record high in September. Within the market, our allocations to Lodha Developers, Max Healthcare, Hitachi Energy, ICICI Bank and Reliance Industries detracted. Lodha and other real estate developers were impacted by concerns on increasing supply and greater investor focus on more defensive sectors, while Reliance's stock slid after quarterly results showed weakness in its retail segment and refining business.

Stock selection in South Africa detracted, impacted by the zero allocations to select gold mining companies as these stocks rallied on the back of the rising gold spot price. The allocation to Capitec Bank also detracted after the stock traded largely flat for the

¹ Source: Morgan Stanley Investment Management Limited. Data as of 30 September 2025.

quarter. Capitec recently announced results for the first half of its fiscal year through August 31, 2025, reporting a 26% increase in profits with growth driven by its fintech and banking segments and continued expansion of its active customer base.

Portfolio Activity

During the quarter, within India we initiated a position in Avenue Supermarts (DMart), a high-quality brick and mortar retail franchise in India focused on food and grocery, non-food fast-moving consumer goods and general merchandise/apparel. It is one of the lowest-cost retailers globally, operating on an everyday low cost, everyday low-price model, which helps drive its throughput. While we were previously cautious due to heightened competition and slower expansion, we believe these headwinds have shown signs of bottoming out. We think DMart could see accelerating revenue growth led by continued store expansion (management is targeting 10%-15% new store growth per annum)² and same-store sales growth.

We also initiated a position in Powszechna Kasa Oszczednosci Bank (PKO), one of the largest financial services institutions in Poland. Our investment thesis is driven by an improving outlook for corporate loan growth as private investment picks up in Poland, as well as the winding down of its Swiss franc mortgage losses by this year, which should result in strong earnings growth as it offsets net interest margin impact from lower rates. We exited our position in insurer PZU in Poland as the company is undergoing a corporate restructuring which could have a dilutive impact in the medium term. Elsewhere in the Central and Eastern European (CEE) region, we added Gedeon Richter, one of the region's largest pharmaceutical and biotechnology companies. Since the launch of the company's antipsychotic drug in 2016, more than 650,000 patients have been treated and the drug is available in 50 countries worldwide, including the U.S., where more than 5 million prescriptions have been made.³ We believe the company has more avenues for growth as the 2030 patent expiration date for the antipsychotic drug approaches and the company enters new areas (with a new management team), such as specialty pharma (women's health care, neuropsychiatry and biotech), capitalizing on positive trends in the industry while also striving to make medicines and treatments more accessible.

We established a position in Credicorp in Peru, funded by exiting the position in Gruma, where we believe most of the pricing upside and margin improvements have played out. Credicorp is the largest bank in Peru with a large share of both loan and deposits. We think the bank will likely benefit from accelerating loan growth in the country, strong non-interest income from its digital wallet Yape, and a strong capital ratio and dividend payouts.

The portfolio added OUTsurance in South Africa, a non-life insurance company with an innovative direct distribution (direct to consumer) model. We believe OUTsurance is a high-quality growth company with solid return on equity and a strong management team, and we believe the company can be successful in replicating its success in new markets outside of South Africa, such as Ireland.

We added to the allocation to Korea during the quarter, reducing the underweight to the country based on the strength of post-election sentiment and the government's Value Up measures. We initiated a position in Hyundai Motor and added to the existing position in NAVER. Hyundai will likely increase its market share in hybrid electric vehicles (HEVs), with HEV profitability expected to remain strong. In addition, battery electric vehicle (BEV) profitability has remained relatively stable. NAVER has seen healthy growth within its e-commerce business and management has a focused approach to launching quick commerce and last-mile delivery solutions. The company also continues to grow its on-service AI strategy that is centered on the utility of users and advertisers.

We added CATL to the portfolio, a leading player in lithium batteries in China that has maintained and grown market share over time, proving its technology leadership and profitability through cycles. The company is working on different technologies, including all-solid-state battery, lithium iron phosphate (LFP) battery (which uses iron and phosphate over cobalt, costing less and having a longer lifespan) and a fast-charging battery. According to its 2024 annual report, CATL's research and development expense in 2024 was \$2.5 billion, the highest among battery makers. We think the company will likely benefit from the long-term trend of electrification in the autos industry and increasing demand for energy storage from renewable energy. Energy storage is an important solution for renewable energy consumption and this segment could see a strong compound annual growth rate in the next few years.

We initiated a position in a leading regional commercial bank in China, Bank of Ningbo. The bank has built a differentiated client franchise with more private sector exposure, focusing on private enterprises, small and medium-sized enterprises (SMEs), export-oriented manufacturers and retail customers. The bank has continued to deliver market share gains and maintained steady loan growth and decent double-digit pre-provision operating profit growth, even amid a macroeconomic slowdown. The bank's first half 2025 preliminary results came in higher than expectations, suggesting that clearing of non-performing loans is progressing faster than expected, which is likely to support earnings acceleration.

Elsewhere in China, we reduced the allocation to BYD and exited JD.com. BYD saw seasonality weakness after a period of sustained growth, with sales growth slowing relative to previous periods. There could be additional near-to-medium term headwinds from the ongoing price competitiveness among electric vehicle (EV) companies, which has led to the government's "anti-involution" campaign.

Strategy and Outlook

We believe that our integrated top-down and bottom-up analysis remains critical to identify the most attractive macro and stock investments across EM. Both levers continue to be balanced drivers of active returns and risk. In what we expect to be a mixed

² Source: Avenue Supermarts company update/meeting July 2025.

³ Source: Gedeon Richter as published as of October 2025 at gedeonrichter.com/en/areas-of-expertise/neuropsychiatry/cariprazine.

outlook for growth and ongoing realignment in the global economy, we believe the portfolio is well positioned while providing significant diversification with active positioning at both the country and stock level.⁴

We remain overweight India where our long-term secular, domestic-driven growth thesis remains unchanged. We are closely watching for impacts from external factors such as developments in U.S. economic growth and ongoing tariff discussions (with the 50% U.S. tariff on imports now in effect). Prime Minister Modi made multiple changes to the GST, which became effective 22 September and could help boost consumption across a number of categories and be another tailwind for the equity market. Early estimates were that the tax cuts could add 0.6 percentage points to nominal growth and reduce inflation by 0.6-0.8 percentage points.⁵ The Reserve Bank of India remains focused on financial stability, and we believe corporates are well positioned as returns on equity and profitability of listed companies are strong and earnings visibility remains high. Shifts in economic growth should coincide with changes in liquidity conditions, monetary policy, government spending and the flow of credit. Our exposure in India is diversified⁴ and includes what we consider to be well-managed financials, industrials and consumer names, along with select IT, real estate, health care, energy and materials companies.

The portfolio is overweight Poland, where we believe the economy is well positioned for sustained growth, led by domestic demand, manageable inflation, a tight labor market, improved external balances and low debt. Private investment should be a key driver of growth, aided by disbursement of European Union funds, and Germany's fiscal stimulus package should provide additional support in the medium term. Poland's Monetary Policy Council (MPC) unexpectedly cut rates by 25 basis points (bps) in July and following the reported drop in inflation data, the MPC cut the benchmark rate by another 25 bps in September, bringing the total reduction for 2025 so far to 100 bps.⁶ Overall, we believe the Poland economy is structurally among the strongest in the CEE region (particularly given its greater domestic focus) and remain invested in the largest bank in the country, an infrastructure construction company, an e-commerce platform and a producer of flexible packaging solutions and aluminium systems.

Brazil continues to be a portfolio overweight. While gross domestic product (GDP) growth is expected to slow this year due to high real interest rates and tariff uncertainty, we think that inflation and therefore rates should begin to come down in the next three to six months, which will likely be positive for rate-sensitive names owned in the portfolio. The October 2026 presidential elections could introduce more pro-business policies, adding a further catalyst to the equity market—we are closely monitoring the potential candidates likely to run against President Lula. Other tailwinds for the economy include strong private sector job creation, a higher trade surplus, solid foreign direct investment and attractive currency and equity valuations.

We are overweight Mexico. While we are closely monitoring the tariff news and impacts to trade and growth (an exemption for USMCA-compliant goods and President Trump announcing a 90-day tariff delay beginning 31 July as negotiations continue), we believe strategic and economic interests will likely prevail and help keep the relationship between the U.S. and Mexico on track. Structurally, Mexico's GDP growth has remained strong with no major imbalances, growing real wages and continued investment (led by foreign direct investment and the country's attractive strategic positioning in the global supply chain with more competitive manufacturing wages). We believe many domestically focused companies trade at attractive valuations and should continue to benefit from a solid macro outlook, which would likely translate into solid earnings growth and dividend yields.

We maintain our structural underweight to China as the fundamental issues in the economy (excess unproductive investment, overcapacity and the need to shift to a consumption-led growth model) will take time to fully address. Volatility around the tariff hikes on Chinese imports by the U.S. and European Union is an additional headwind, and with higher tariffs and a global trade slowdown, external drivers are not likely to be the main driver of growth in the near term. On the other end, we believe the emergence of DeepSeek marked a turning point in China's broader resurgence in innovation, investment and global competitiveness. China's strengths in consumer technologies and cost efficiency could unlock a more diversified AI opportunity set, one that balances the high-cost, high-performance AI segment with China's more accessible, cost-efficient solution. We are positioned in what we believe are the most sustainable beneficiaries of the AI thematic. We remain selective in our exposure in China and are invested in attractive growth themes, such as EVs and edge AI, and within those themes are focused on companies with competitive advantages, strong corporate governance and solid 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

⁴ Source: Diversification neither assures a profit nor guarantees against loss in a declining market.

⁵ Source: IDFC First Bank Ltd. as of 17 August 2025.

⁶ One basis point = 0.01%

Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

	YTD	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Class A Shares	25.47	6.22	13.32	-26.30	2.83	13.61	18.08	-17.52	34.45	5.23	-11.17
MSCI Emerging Markets Net Index	27.53	7.50	9.83	-20.09	-2.54	18.31	18.42	-14.57	37.28	11.19	-14.92

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 ('MSIM Ltd'). Please refer to the relevant offering documents for fund details, including risk factors.

Effective 1st November 2021 the Morgan Stanley Investment Funds Emerging Markets Equity Fund was renamed to Sustainable Emerging Markets Equity Fund.

Applications for shares in the Sub-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 language of countries authorized for fund distribution and is available online at [Morgan Stanley Investment Funds Webpages](#) or free of charge from the Registered Office at European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxembourg B 29 192.

The summary of investor rights is available in the aforementioned languages and website location under the General Literature section.

Information in relation to sustainability aspects of the Fund is available in English online at: [Sustainable Finance Disclosure Regulation](#).

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 UCITS rules.

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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.

The index is unmanaged and does not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

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