Morgan Stanley

INVESTMENT MANAGEMENT

Morgan Stanley Investment Funds

US Advantage Fund

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

Important information

- The Fund invests primarily in equity securities of companies domiciled or exercising the predominant part of their economic activity in the US.
- Investment involves risks. Key risks for this fund include Risk of Investment in Equity, Derivatives 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 June 2022, the Fund's A shares returned -39.63% (net of fees)[1], while the benchmark returned -16.10%.

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 underperformed the S&P 500 Index this quarter primarily due to unfavourable stock selection; sector allocations also detracted to a lesser extent.

U.S. large-cap equities, as measured by the S&P 500 Index, declined sharply over the quarter. Communication Services and Consumer Discretionary posted the greatest declines in the S&P 500 Index. All sectors declined over the period; however, Consumer Staples was the relative outperformer 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.

Fear and uncertainty due to concerns about inflation, rising interest rates, geopolitical tensions, and ongoing effects of the global pandemic resulted in overall greater market volatility and a continued sell-off in high growth equities. We believe this sell-off, which began in the fourth quarter of 2021, remains driven by primarily non-fundamental factors. Fundamentals across portfolio holdings have largely remained healthy and in line with our expectations. Despite market volatility, we continue to find many high quality companies with attractive end-game potential due to compelling fundamentals, 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.

Information Technology was the top detractor in the portfolio this quarter, due to mixed stock selection. Cloudflare, which offers a global cloud platform that provides security, performance, and reliability services to the applications of its customers, was the top detractor in the sector and across the portfolio. Despite reporting overall solid fundamentals, characterised by strong sales and customer growth and expanding profit margins, its shares languished due to the broader sell-off in high growth equities. Shopify, which operates a cloud-based software and services platform that enables merchants to build an ecommerce presence, was the third greatest detractor. We attribute the weakness to the broader sell-off, as well as investor concerns around the company's ongoing reinvestment plans geared towards building out greater fulfilment and warehousing capabilities, slower growth across ecommerce following a period of heightened demand earlier in the pandemic, and the emergence of new competition to its Shop Pay payment services business. Within the sector the weakness in these and other holdings was partly offset by strength in Zoom

[1] Source: Morgan Stanley Investment Management Limited. Data as of 30 June 2022.

Video Communications, which was the fourth greatest contributor across the portfolio. Shares of Zoom, which is the largest provider of cloud-based video communication services, outperformed due to solid fundamentals characterised by continued traction with newer products, better than expected profitability, and a strong full-year outlook.

Most other sectors also detracted from relative performance over the quarter due to stock selection; among them, Industrials, Communication Services, and Consumer Discretionary had the greatest adverse impact. Mobility services provider Uber was the greatest detractor among these areas and the second greatest across the portfolio. While fundamental developments were positive, with the company reporting revenue, bookings, and profit growth ahead of Street expectations and healthy growth in driver supply, Uber shares languished due to broader concerns about weakening consumer demand while inflation remains high. Stock selection in Communication Services was mixed, as a number of holdings across the interactive media and video gaming areas detracted; this was partly offset, however, by the portfolio's position in global communications platform Twitter, which was the second greatest contributor across the portfolio. While the company has been facing some fundamental headwinds due to weakening demand for brand advertising, its shares spiked on the announcement that the company will be acquired by business executive and investor Elon Musk. In Health Care, most holdings detracted; however, this was partly offset by strength in Royalty Pharma, which was the third greatest contributor in the portfolio. The company is one of the largest buyers of biopharmaceutical royalties and a leading funder of innovation in the industry. Its shares held up amid a period of greater market volatility as the company is well positioned to become a partner of choice and benefit from current market conditions, which have been characterised by weaker capital market and funding access for a variety of health care businesses. Royalty Pharma indicated its pipeline for deals remains robust, and the company raised its longer-term targets for capital deployment, which buoyed investor sentiment.

Lastly, Real Estate and Materials – sectors the portfolio has no exposure to – each had a negligible impact on relative performance this period.

Strategy and 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	Base currency	Index
01 December 2005	U.S. dollars	Blended Benchmark

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	-54.84	-3.90	75.62	25.53	0.96	31.12	1.49	10.69	8.04	35.20	12.64
Blended Benchmark	-19.96	28.71	18.40	31.49	-4.38	21.83	11.96	1.38	13.69	32.39	16.00

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 Blended Index performance shown is calculated using the **S&P 500 Index** from inception through 31 August 2009, the **Russell 1000 Growth Net 30% Withholding Tax TR Index** to 31 March 2010 and the S&P 500 Index thereafter.

The **Standard & Poor's 500® Index (S&P 500®)** measures the performance of the large cap segment of the U.S. equities market, covering approximately 80% of the U.S. equities market. The Index includes 500 leading companies in leading industries of the U.S. economy.

The **Russell 1000 Growth Net 30% Withholding Tax TR Index** measures the performance of the large-cap growth segment of the U.S. equity universe, net 30% withholding tax TR. It includes those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000® Index is an index of approximately 1,000 of the largest U.S. companies based on a combination of market capitalization and current index membership.

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