

Morgan Stanley Investment Funds

US Growth Fund

MARKETING COMMUNICATION | COUNTERPOINT GLOBAL TEAM | QUARTERLY COMMENTARY | 31 DECEMBER 2021

Important information

- The Fund invests primarily in growth oriented equity securities of large capitalisation 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 31 December 2021, the Fund's A shares returned -5.32% (net of fees)¹, while the benchmark returned 11.58%.

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 Russell 1000 Growth Index this quarter primarily due to unfavourable stock selection; sector allocations also detracted to a lesser extent.

Large-cap growth equities, as measured by the Russell 1000 Growth Index, advanced over the quarter. Materials posted the greatest return in the Russell 1000 Growth Index. All sectors advanced over the period; however, Communication Services posted the lowest return and was the greatest relative laggard. Against this backdrop, Counterpoint Global continued to focus on stock selection and the long-term outlook for companies owned in the portfolio.

Greater market volatility and a widespread sell-off in high growth and high multiple equities was a significant headwind to portfolio performance this quarter and throughout 2021. We believe the sell-off was driven by a broad rotation out of such names and not due to company-specific fundamentals, which, across most of the portfolio, remained largely robust. The portfolio's lack of exposure to some of the largest benchmark holdings also weighed on relative performance. Overall, we tried to take advantage of the volatility and opportunistically added to some positions and initiated new positions, in holdings where we believe the fundamentals remained intact and the valuation became more attractive.

Information Technology was the top detractor in the portfolio this quarter, due to mixed stock selection. Block (formerly Square), which provides payment, point of sale, capital, and business management solutions to facilitate commerce between businesses and consumers, was the top detractor in the sector and the third greatest across the portfolio. We attribute the weakness to heightened volatility across the payments space as well as a deceleration in the company's gross profit growth following a period of outperformance earlier in the pandemic. Zoom Video Communications, which offers a proprietary cloud-based communications platform that connects users through frictionless video, voice, chat, and content sharing, was the fifth greatest detractor across the portfolio. Its shares languished on mixed results, characterized by solid revenue growth and continued traction with its Zoom Phone offering, but lower than expected growth in billings and growth with smaller customers. Within the sector, the weakness in these and other holdings was partly offset by strength in Datadog, Snowflake, Trade Desk, and Cloudflare, which were all among the top contributors across the portfolio. Application monitoring platform Datadog has been experiencing healthy fundamentals overall, with expanding usage of its products and low customer churn. Snowflake is a cloud native data warehousing services provider. Its

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

platform enables customers to consolidate data into a single source of truth and therefore derive important business insights, build data driven applications, and share data more effectively. Snowflake shares advanced on strong quarterly results, as the company continued to see strong demand for its Data Cloud, with a growing number of enterprises moving their data to the public cloud and looking to store, process, and analyse more data in their business operations. Shares of global advertising technology company Trade Desk outperformed as, unlike other peers in the advertising space, the company reported no impact from changes to Apple's privacy and data collection policy. The company reported overall healthy fundamentals including strong growth in its international business. Cloudflare is a global network that provides security, performance, and reliability services to the applications of its customers. The company's cloud platform has a proprietary architecture that allows it to scale rapidly to meet customer demands, and its services are easily deployed and enable customers to run their applications without managing expensive and complex network hardware internally. Cloudflare shares outperformed on strong fundamentals, characterized by better-than-expected sales growth, a record number of new enterprise customers, healthy customer retention levels, and a raised financial outlook.

Communication Services, Consumer Discretionary, and Health Care were also significant detractors, largely due to unfavourable stock selection in each sector. A number of the portfolio's internet media holdings were among the top detractors in Communication Services and across the portfolio, in part due to IDFA (Identifiers for Advertisers) changes recently implemented by Apple, which are broadly limiting advertisers' ability to precisely target and track users within applications on Apple devices. Image and video communications platform Snap was the top detractor in the portfolio this quarter. The company reported disappointing results, as headwinds related to reduced ad targeting and measurement abilities and overall moderated advertising demand led to lower than expected revenue growth and a cautious financial outlook. Global communications platform Twitter was the fourth greatest detractor. The noted user tracking and targeting constraints also impacted Twitter's fundamentals, albeit to a somewhat lesser extent. We believe some general investor scepticism around the company's ability to make additional improvements to its advertising business under new leadership may have also weighed on sentiment to an extent. Within Communication Services, the weakness in these holdings was partly offset by strength in video gaming platform Roblox, which was the top contributor in the portfolio. After experiencing elevated user growth earlier in the pandemic, its platform demonstrated a return to healthy year-over-year user growth. The company has also been successful in gaining greater traction with older users and in attracting a growing list of brands to create sponsored content on its platform. Wayfair, an e-commerce leader in the home furnishings category, was the top detractor in Consumer Discretionary and among the greatest across the portfolio. Its shares continued to languish due to a year-over-year decline in sales, as the company faced reopening headwinds and tough comparisons from the previous year when the onset of the pandemic had led to a surge in demand for home furnishings. Shorter-term factors impeding profitability which we believe will prove transitory – including higher shipping and labour costs – also weighed on investor sentiment.

Stock selection in Financials, Materials, Real Estate, and Industrials also impeded relative performance, to a lesser extent, as did a lack of exposure to Consumer Staples.

Lastly, Energy and Utilities – sectors the portfolio has no exposure to – had an overall negligible impact.

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

01 August 1992

Base currency

U.S. dollars

Index

Russell 1000 Growth Net 30% Withholding Tax TR Index

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

	DECEMBER '20 - DECEMBER '21	DECEMBER '19 - DECEMBER '20	DECEMBER '18 - DECEMBER '19	DECEMBER '17 - DECEMBER '18	DECEMBER '16 - DECEMBER '17
MS INVF US Growth Fund - A Shares	1.12	115.52	21.40	4.78	43.06
Russell 1000 Growth Net 30% Withholding Tax TR Index	27.32	38.08	35.88	-1.89	29.67

Investment involves risks. Past performance is not a reliable indicator of future results. 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 **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.

The **Russell 1000® Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. 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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