

Developing Opportunity Fund

ACTIVE FUNDAMENTAL EQUITY | GLOBAL OPPORTUNITY TEAM | QUARTERLY COMMENTARY | 30 JUNE 2020

Performance Review

As the Fund is less than a year old we are constrained from commenting on its performance.

The long-term investment horizon and conviction-weighted approach embraced by the Global Opportunity team can result in periods of performance deviation from the benchmark and peers. Over time, this has led to the strong record we have developed over our product set. The Fund outperformed the MSCI Emerging Markets Index this period due to favourable stock selection and sector allocation.

Our team continues to focus on bottom-up stock selection and the long-term outlook for companies owned in the portfolio; accordingly, we have had very little turnover in the portfolio to date, and we continue to find new ideas for inclusion in the portfolio that meet our strict criteria for quality and long-term value creation.

Emerging markets equities advanced during the period, led by outperformance in health care, materials, communication services, energy and consumer discretionary. The real estate, financials, utilities and consumer staples sectors underperformed the MSCI Emerging Markets Index.

Stock selection in consumer discretionary was the greatest overall contributor to the relative performance of the portfolio, with Chinese social commerce platform Meituan Dianping the top contributor across the portfolio. Latin American e-commerce platform MercadoLibre, Brazilian omni-channel e-commerce company Magazine Luiza and Chinese tutorial provider TAL Education also contributed positively. Meituan Dianping is a leading social commerce platform for local services such as food delivery, dine-in and travel. Meituan enjoys a strong network effect by offering integrated local services on a single platform, with the largest coverage of merchants and users. We believe that Meituan may continue to benefit from urbanisation and consumption growth in China. MercadoLibre is the leading e-commerce platform across Latin America, with over 267 million users of its online marketplaces, auctions and digital payments technologies (Source: Company data as of 10 February 2020). We believe MercadoLibre can increasingly benefit by monetising the uniqueness of its platform in Latin America, which has a population over 635 million and one of the fastest growing internet penetration rates in the world. Magazine Luiza is the leading omni-channel e-commerce company in Brazil, supported by strong IT capabilities and an integrated logistic platform. We believe Magazine Luiza is well positioned to benefit from increased online penetration and the growth of online retail sales in Brazil as the company transitions from physical bricks-and-mortar stores. TAL Education is the leading provider of math and science tutoring, with over four million student enrolments across 871 learning centres in 70 cities in China (source: Company data as of 28 April 2020). We believe TAL Education is unique because of its strong Xueersi brand, excellent teaching quality and leadership in mathematics, as well as its proven track record of scalability and capital-efficient business model. Within the sector, Chinese online K-12 after-school tutoring service provider GSX Techedu and an underweight position in Chinese social commerce platform Alibaba contributed negatively.

Stock selection in communication services contributed positively, as shares in Korean search engine Naver outperformed. Strength in shares of Naver was partially offset by an underweight position in shares of Chinese social networking platform Tencent and underperformance in shares of Chinese live-streaming gaming platform HUYA. A sector underweight detracted from the relative performance.

The portfolio's sector underweight position in health care was the greatest overall detractor, as shares of China's leading clinical stage biopharmaceutical company Alphasigma Oncology underperformed. Alphasigma Oncology has a fully integrated proprietary biologics platform in biospecifics and protein engineering. We believe Alphasigma Oncology is well positioned to benefit from growth of the domestic health care industry due to its next-generation, in-house developed biospecific antibody candidates with blockbuster potential, robust pipeline of other in-house developed candidates, and fully-integrated platform supporting drug discovery, development and manufacturing.

Stock selection in information technology, consumer staples and financials contributed positively. Conversely, the portfolio's sector underweight positions in materials and energy detracted from the relative performance.

Strategy and 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 three- to five-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

20 December 2019

Base currency

U.S. dollars

Index

MSCI Emerging Markets Net Index

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 does not take account of commissions and costs incurred on the issue and redemption of units. The sources for all performance and Index data is Morgan Stanley Investment Management. **Please visit our website www.morganstanley.com/im to see the latest performance returns for the fund's other share classes.**

Share Class I Risk and Reward Profile

Lower Risk

Higher Risk



Potentially Lower Rewards

Potentially Higher Rewards

The risk and reward category shown is based on historic data.

- Historic figures are only a guide and may not be a reliable indicator of what may happen in the future.
- As such this category may change in the future.
- The higher the category, the greater the potential reward, but also the greater the risk of losing the investment. Category 1 does not indicate a risk free investment.
- The fund is in this category because it invests in company shares, and the fund's simulated and/or realised return has experienced high rises and falls historically.
- The fund may be impacted by movements in the exchange rates between the fund's currency and the currencies of the fund's investments.

This rating does not take into account other risk factors which should be considered before investing, these include:

- The fund relies on other parties to fulfill certain services, investments or transactions. If these parties become insolvent, it may expose the fund to financial loss.

- There may be an insufficient number of buyers or sellers which may affect the funds ability to buy or sell securities.
- Investment in China A-Shares via Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connect programs may also entail additional risks, such as risks linked to the ownership of shares.
- There are increased risks of investing in emerging markets as political, legal and operational systems may be less developed than in developed markets.
- Past performance is not a reliable indicator of future results. Returns may increase or decrease as a result of currency fluctuations. The value of investments and the income from them can go down as well as up and investors may lose all or a substantial portion of his or her investment.
- The value of the investments and the income from them will vary and there can be no assurance that the Fund will achieve its investment objectives.
- Investments may be in a variety of currencies and therefore changes in rates of exchange between currencies may cause the value of investments to decrease or increase. Furthermore, the value of investments may be adversely affected by fluctuations in exchange rates between the investor's reference currency and the base currency of the investments.

Please refer to the Prospectus for full risk disclosures. All data as of 30 June 2020 and subject to change daily.

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 23

emerging-market country indices. The performance of the index is listed in U.S. dollars and assumes reinvestment of net dividends.

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