

Morgan Stanley Investment Funds

Developing Opportunity Fund

GLOBAL OPPORTUNITY

Performance Review

In the three month period ending 30 June 2024, the Fund's I shares returned 5.57% (net of fees)¹, while the benchmark returned 5.00%.

The Global Opportunity team creates a high conviction, concentrated portfolio of undervalued, high quality businesses. The long-term investment horizon and high active share approach can result in periods of performance deviation from the benchmark. The Fund outperformed the MSCI Emerging Markets Index this quarter due to favourable stock selection despite unfavourable sector allocation.

Market Review

Emerging markets equities advanced in the quarter, led by the information technology, communication services, utilities and consumer discretionary sectors. The health care, consumer staples and materials sectors declined, underperforming the benchmark. On a country basis, Turkey, Taiwan, South Africa, India, Hungary and China were the leading outperformers, while Mexico, Indonesia, Brazil and the Philippines declined, underperforming the benchmark.

Portfolio Review

Stock selection in financials, consumer discretionary and industrials, and sector underweight positions in materials and health care were the greatest overall contributors to relative performance. Top individual contributors included Korean ecommerce platform Coupang, Chinese leading consumer services super-app Meituan, Indian private sector banks HDFC Bank and Axis Bank, and Latin American ecommerce platform MercadoLibre.

Conversely, an underweight position in information technology, stock selection in consumer staples and communication services, and sector overweight positions in consumer staples and real estate were the greatest overall detractors from the relative performance of the portfolio during the period. Top individual detractors included an underweight position in Taiwan Semiconductor Manufacturing Co., Korean digital bank KakaoBank, Chinese hot pot restaurant Haidilao, Chinese baijiu brand Kweichow Moutai and Korean search engine Naver.

Top contributor Coupang is Korea's largest ecommerce company operating under a first-party and third-party model, with a focus on building a next-generation customer experience by enabling a large selection of items at low prices delivered on the same or next day, with a frictionless return process. For example, the average Rocket delivery time was under 12 hours and nearly 99% of orders were delivered within one day.² We believe Coupang is unique due to its scalable logistics infrastructure, low customer acquisition cost structure, loyal customer base of nearly 14 million paid subscribers³ to its Rocket WOW membership program, and a growing third-party marketplace that may be further monetised through advertising and fulfilment services. The company's differentiation and efficient scale may enable it to gain share of a fragmented ecommerce market, with the potential to extend its ecosystem beyond its core business and establish strong positions in new verticals such as food delivery and fintech. Coupang currently accounts for a small percentage of Korea's overall commerce market, which is projected to exceed \$600 billion by 2025,⁴ and we have seen from other geographies that an ecommerce market leader can capture as much as one-sixth of the country's total retail sales.⁵

Top detractor KakaoBank is a digital bank with full banking license in Korea, servicing 73% of an economically active population.⁶ We believe KakaoBank is unique due to its strong technological infrastructure, customer interface, differentiated products and Kakao brand name. KakaoBank is fully digital with no branches, which reduces the cost of operating the business and we believe can sustain long-term profitability. The Korean banking system is large with weak incumbents, and smartphone penetration in the country is high, creating what we believe is an ideal backdrop for KakaoBank to grow through market share gains.

We have made minimal changes to the portfolio given our conviction in the long-term investment thesis of existing holdings. We have optimised the portfolio by re-allocating to positions where we believe that market valuations have disconnected from intrinsic value.

¹ Source: Morgan Stanley Investment Management Limited. Data as of 30 June 2024.

² Source: Coupang earnings call transcript, FY 2021 Q3.

³ Source: Coupang earnings release as of 31 December 2023.

⁴ Source: Coupang earnings call transcript, FY 2022 Q3.

⁵ Source: Alibaba earnings call transcript, March Quarter 2020 and FY 2020 Results.

⁶ Source: Company data as of 31 March 2023.

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 five- to ten-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
Benchmark	MSCI Emerging Markets Net Index

Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

	YTD	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Class I Shares	8.59	6.77	-29.43	-18.79	59.39	--	--	--	--	--	--
MSCI Emerging Markets Net Index	7.49	9.83	-20.09	-2.54	18.31	--	--	--	--	--	--

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

- The fund may be impacted by movements in the exchange rates between the fund's currency and the currencies of the fund's investments.
- 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.
- Sustainability factors can pose risks to investments, for example: impact asset values, increased operational costs.
- There may be an insufficient number of buyers or sellers which may affect the fund's ability to buy or sell securities.
- Investments in China involves a risk of a total loss due to factors such as government action or inaction, market volatility and reliance on primary trading partners.
- 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 2024 and subject to change daily.

Applications for shares in the 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 official language of your local jurisdiction at morganstanleyinvestmentfunds.com or free of charge from the Registered Office of Morgan Stanley Investment Funds, European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxembourg B 29 192.

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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 does not include any expenses, fees or sales charges, which would lower performance.

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