Morgan Stanley

INVESTMENT MANAGEMENT

NOT FOR DISTRIBUTION OR USE WITH HONG KONG GENERAL PUBLIC

Morgan Stanley Investment Funds

Emerging Europe, Middle East & Africa Equity Fund

ACTIVE FUNDAMENTAL EQUITY | EMERGING MARKETS TEAM | MONTHLY COMMENTARY | 30 NOVEMBER 2018

Performance Review

In the one month period ending 30 November 2018, the Fund's I shares returned 6.60% (net of fees)[1], while the benchmark returned 4.58%.

The biggest contributor to performance in the month was our stock selection and overweight allocation to Russia. Also contributing strongly was our zero weight allocation to both the U.A.E. and Qatar and our overweight allocation and stock selection in Hungary. Our overweight position in Capitec Bank in South Africa and retailer CCC in Poland were the top stock contributors.

The biggest detractor from returns was our overweight allocation to Austria through Erste Bank. Our overweight allocation and stock selection to Egypt also detracted during the month.

Market Review

MSCI EMEA Index equities returned 4.58% in euro terms in the month, outperforming both the MSCI World (+1.21%) and MSCI Emerging Markets (+4.19%).

Turkey (+13.18%), Hungary (+8.89%) and South Africa (+8.84%) were the best performing markets during the month. The U.A.E. (-5.27%), Greece (-3.26%) and Egypt (-2.65%) were the laggards.

Portfolio Activity

We reduced our holding in Russian energy company Lukoil during the month. Lukoil has outperformed this year as its improved governance has been fully recognized by the market and as the price of oil has been strong. We believe a more "range-bound" outlook is appropriate. The stock has rerated, and we see fewer visible earnings growth drivers from here.

We also reduced our position in the Russian bank Sberbank. Fundamentally, the bank is delivering as we expected – good loan and fee income growth, with moderate operating expenses and cost of risk. Nonetheless, the risk of more sanctions, both on the Russian economy and corporates, is clouding the investment case.

Strategy and Outlook

We continue to overweight the Central and Eastern European region. We think that growth in Central and Eastern Europe should remain healthy, driven by strong consumption and investment. We see the region as offering attractive investment opportunities through a combination of this solid economic growth and overlooked equity markets. We continue to like stocks that are exposed to secular growth opportunities in consumer markets in the region. We also have a substantial position in financials, which we believe could particularly benefit from an increase in interest rates after having suffered from low rates and tighter regulation.

In Russia, we think that the economic recovery can continue, though we note that the policy reforms (value added tax and pension) should lead to a deceleration next year. These reforms should bolster the resiliency of the system but not address the low potential growth rate of the country. We also continue to believe the monetary and fiscal policies of the Russian government have not only reduced inflation to post-Soviet lows but also are reducing materially the sensitivity of the Russian economy to oil and leading to a less volatile domestic economy. In terms of our portfolio, we are invested in companies that should benefit from these macro policies, specifically commodity producers where stronger commodity prices are no longer offset by a strong ruble and where free cash flow is returned to shareholders via dividends. We also continue to like select domestic names for their secular growth opportunities, which should gain additional support from the economic recovery. Despite such growth profiles, we would note that certain stocks have remained under pressure due to the continuing uncertainty around the potential for new U.S. sanctions with the new Congress in 2019.

---

1 Source: Morgan Stanley Investment Management Limited. Data as of 30 November 2018.

In South Africa, much of the improved sentiment that followed Cyril Ramaphosa's election to head the African National Congress (ANC) has yielded to concerns about his challenges in trying to placate the left-leaning wing of the party. The market has given back much of its gains since his election. As his administration seeks to overcome nine years of mismanagement during the Zuma administration, he will face challenges consolidating power within the ANC, stabilizing economic policy and focusing on winning next year's presidential election. The country entered recession in the first half of 2018, external accounts deteriorated and the rand has weakened. Inflation is likely to rise. All that said, there have been many improvements since his election including better public/private sector relations, stabilization of state-owned enterprises (SOEs) and key institutions, and more credible fiscal policy. Following the national elections in 2019, Ramaphosa could embark on more structural reforms and an investment cycle may ensue as corporates have underinvested in South Africa for many years, focusing instead on investing abroad. While we are still underweight the market, we have a significant absolute weight in South Africa stocks and continue to see compelling opportunities from a bottom-up perspective. In particular, industrials and financials companies in South Africa that are levered to the domestic economy could see earnings upgrades and re-rating.

Turkey endured a major sell-off in August and September due to deterioration in relations with the U.S. and its substantial external imbalances. The country has relied heavily on foreign capital to fund growth, resulting in large current account deficits, large net external liabilities (+25% of gross domestic product) and high corporate leverage. While this was possible in an environment of low global rates and ample liquidity, Turkey's economy has started a rebalancing process (i.e., the country is decreasing its dependence on foreign funding, reducing domestic demand and increasing savings). Hence, the Turkish lira has depreciated, interest rates have increased and the economy will likely enter a recession. Though the prospects for the economy do not look good, valuations have become more attractive on the currency and on stocks. For now, we continue to remain underweight to the country and are positioned in stocks exposed to either the export market or to longer-term secular growth stories within Turkey.

For further information, please contact your Morgan Stanley Investment Management representative.

FUND FACTS

Launch date	Base currency	Index
16 October 2000	Euro	MSCI Emerging Europe, Middle East and Africa Index

12 Month Performance Periods to Latest Month End (%)

	NOVEMBER '17 - NOVEMBER '18	NOVEMBER '16 - NOVEMBER '17	NOVEMBER '15 - NOVEMBER '16	NOVEMBER '14 - NOVEMBER '15	NOVEMBER '13 - NOVEMBER '14
MS INVF Emerging Europe, Middle East & Africa Equity Fund - I Shares	-9.40	16.47	-0.54	9.41	-3.57
MSCI Emerging Europe, Middle East and Africa Index	-3.96	11.05	3.41	-8.39	1.80

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**

1 2 3 4 5 **6** 7

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 shares of companies from emerging markets 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.
- There are increased risks of investing in emerging markets as political, legal and operational systems may be less developed than in developed markets. Due to the nature of the markets in which the fund invests, there might be circumstances where the safekeeping and custody arrangements of the fund are not as secure as those of more 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 November 2018 and subject to change daily.

INDEX INFORMATION

The **MSCI Emerging Markets Europe, Middle East and Africa Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of Europe, the Middle East & Africa.

The **MSCI Emerging Markets Index (MSCI EM)** is a free float-adjusted market capitalization weighted index that is designed to measure equity market performance of emerging markets.

The **MSCI World Index** is a free float adjusted market capitalization weighted index that is designed to measure the global equity market performance of developed 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 performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends.

DISTRIBUTION

This communication is only intended for and will only be distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations. In particular, the Shares are not for distribution to US persons.

United Kingdom: Morgan Stanley Investment Management Limited is authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No. 1981121. Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA, authorised and regulated by the Financial Conduct Authority. **Dubai:** Morgan Stanley Investment Management Limited (Representative Office, Unit Precinct 3-7th Floor-Unit 701 and 702, Level 7, Gate Precinct Building 3, Dubai International Financial Centre, Dubai, 506501, United Arab Emirates. Telephone: +97 (0)14 709 7158). **Germany:** Morgan Stanley Investment Management Limited Niederlassung Deutschland Junghofstrasse 13-15 60311 Frankfurt Deutschland (Gattung: Zweigniederlassung (FDI) gem. § 53b KWG). **Italy:** Morgan Stanley Investment Management Limited, Milan Branch (Sede Secondaria di Milano) is a branch of Morgan Stanley Investment Management Limited, a company registered in the UK, authorised and regulated by the Financial Conduct Authority (FCA), and whose registered office is at 25 Cabot Square, Canary Wharf, London, E14 4QA. Morgan Stanley Investment Management Limited Milan Branch (Sede Secondaria di Milano) with seat in Palazzo Serbelloni Corso Venezia, 16 20121 Milano, Italy, is registered in Italy with company number and VAT number 08829360968. **The Netherlands:** Morgan Stanley Investment Management, Rembrandt Tower, 11th Floor Amstelplein 1 1096HA, Netherlands. Telephone: 31 2-0462-1300. Morgan Stanley Investment Management is a branch office of Morgan Stanley Investment Management Limited. Morgan Stanley Investment Management Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom. **Switzerland:** Morgan Stanley & Co. International plc, London, Zurich Branchl Authorised and regulated by the Eidgenössische Finanzmarktaufsicht ("FINMA"). Registered with the Register of Commerce Zurich CHE-115.415.770. Registered Office: Beethovenstrasse 33, 8002 Zurich, Switzerland, Telephone +41 (0) 44 588 1000. Facsimile Fax: +41 (0) 44 588 1074.

Australia: This publication is disseminated in Australia by Morgan Stanley Investment Management (Australia) Pty Limited ACN: 122040037, AFSL No. 314182, which accept responsibility for its contents. This publication, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. **Hong Kong:** This document has been issued by Morgan Stanley Asia Limited for use in Hong Kong and shall only be made available to "professional investors" as defined under the Securities and Futures Ordinance of Hong Kong (Cap 571). The contents of this document have not been reviewed nor approved by any regulatory authority including the Securities and Futures Commission in Hong Kong. Accordingly, save where an exemption is available under the relevant law, this document shall not be issued, circulated, distributed, directed at, or made available to, the public in Hong Kong. **Singapore:** This document should not be considered to be the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor under section 304 of the Securities and Futures Act, Chapter 289 of Singapore ("SFA"), (ii) to a "relevant person" (which includes an accredited investor) pursuant to section 305 of the SFA, and such distribution is in accordance with the conditions specified in section 305 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. In particular, for investment funds that are not authorized or recognized by the MAS, units in such funds are not allowed to be offered to the retail public; any written material issued to persons as aforementioned in connection with an offer is not a prospectus as defined in the SFA and, accordingly, statutory liability under the SFA in relation to the content of prospectuses does not apply, and investors should consider carefully whether the investment is suitable for them.

IMPORTANT INFORMATION

EMEA: This marketing communication has been issued by Morgan Stanley Investment Management Limited ("MSIM"). Authorised and regulated by the Financial Conduct Authority. Registered in England No. 1981121. Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA.

This document contains information relating to the sub-fund ("Fund") of Morgan Stanley Investment Funds, a Luxembourg domiciled Société d'Investissement à Capital Variable. Morgan Stanley Investment Funds (the "Company") is registered in the Grand Duchy of Luxembourg as an undertaking for collective investment pursuant to Part 1 of the Law of 17th December 2010, as amended. The Company is an Undertaking for Collective Investment in Transferable Securities ("UCITS").

Applications for shares in the Fund should not be made without first consulting the current Prospectus, Key Investor Information Document ("KIID"), Annual Report and Semi-Annual Report ("Offering Documents"), or other documents available in your local jurisdiction which is available free of charge from the Registered Office: European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxemburg B 29 192. In addition, all Italian investors should refer to the 'Extended Application Form', and all Hong Kong investors should refer to the 'Additional Information for Hong Kong Investors' section, outlined within the Prospectus. Copies of the Prospectus, KIID, the Articles of Incorporation and the annual and semi-annual reports, in German, and further information can be obtained free of charge from the representative in Switzerland. The representative in Switzerland is Carnegie Fund Services S.A., 11, rue du Général-Dufour, 1204 Geneva. The paying agent in Switzerland is Banque Cantonale de Genève, 17, quai de l'Ile, 1204 Geneva. The document has been prepared solely for informational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy.

Any index referred to herein is the intellectual property (including registered trademarks) of the applicable licensor. Any product based on an index is in no way sponsored, endorsed, sold or promoted by the applicable licensor and it shall not have any liability with respect thereto.

The views and opinions expressed are those of the portfolio management team at the time of writing/of this presentation and are subject to change at any time due to market, economic, or other conditions, and may not necessarily come to pass. These comments are not representative of the opinions and views of the firm as a whole. Holdings, countries and sectors/ region weightings are subject to change daily. All information provided is for informational purposes only and should not be deemed as a recommendation to buy or sell securities in the sectors and regions referenced. Information regarding expected market returns and market outlook is based on the research, analysis, and opinions of the team. These conclusions are speculative in nature, may not come to pass, and are not intended to predict the future of any specific Morgan Stanley Investment Management investment. Past performance is no guarantee of future results.

All investments involve risks, including the possible loss of principal. The material contained herein has not been based on a consideration of any individual client circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

The information contained in this communication is not a research recommendation or 'investment research' and is classified as a 'Marketing Communication' in accordance with the applicable European or Swiss regulation. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

MSIM has not authorised financial intermediaries to use and to distribute this document, unless such use and distribution is made in accordance with applicable law and regulation. MSIM shall not be liable for, and accepts no liability for, the use or misuse of this document by any such financial intermediary. If you are a distributor of the Morgan Stanley Investment Funds, some or all of the funds or shares in individual funds may be available for distribution. Please refer to your sub-distribution agreement for these details before forwarding fund information to your clients.

This document may be translated into other languages. Where such a translation is made this English version remains definitive. If there are any discrepancies between the English version and any version of this document in another language, the English version shall prevail.