

A Sub-Fund of Morgan Stanley Investment Funds

Emerging Leaders Equity Fund

EMERGING MARKETS EQUITY TEAM

Investors should note that, relative to the expectations of the Autorité des Marchés Financiers, this UCITS presents disproportionate communication on the consideration of extra-financial criteria in its management.

Performance Review

In the one month period ending 31 October 2025, the Fund's Z shares returned 0.85% (net of fees)¹, while the benchmark returned 4.18%.

Emerging markets (EM) delivered another strong month of returns, rising +4.18% for the month of October (as measured by the MSCI Emerging Markets Index). The Fund underperformed, returning 0.85% (Z share net of fees). The reasons for underperformance were the following: 1) a sharp run-up in Korea (artificial intelligence [AI] rally) and 2) the underperformance of Brazil, which is a key overweight for us. On the positives, our underweight allocation to China and stock selection in India led gains. India (another key overweight for us) outperformed the broader EMs after a hiatus of more than a year. Korea was the true outlier during the month on back of AI capital expenditure euphoria, returning nearly 23% in USD terms for the month.² Our underweight allocation in Korea detracted while a correction in Sea Limited detracted from our performance in Indonesia.

At the stock level, our zero-weight selections to Chinese holdings (Tencent, Alibaba and Xiaomi) contributed to returns as there was some pullback in the market. Our overweight allocations to Indian holdings Divi's Laboratories, Laurus Labs and Bharti Airtel contributed to returns. Divi's Lab outperformed due to strong pharmaceutical exports and margin expansion. Laurus Labs benefited from robust demand in active pharmaceutical ingredients (APIs) and new product launches. Bharti Airtel gained on consistent improvements in average revenue per user (ARPU).

SEA and Banorte detracted due to declines in anticipation of a softer quarter. SK Hynix and Samsung Electronics did well on the back of higher memory prices and improved demand narrative from AI.

Portfolio Activity

We have been adding into fresh ideas such as True Corp (Thailand) and Samvardhana Motherson (India). We also increased our positions in Sea Limited, Eternal and Divi's Labs.

During the month, we trimmed our existing position in MercadoLibre to reinvest into other ideas within Brazil, including NU, XP and Localiza.

We trimmed our position in HDFC Bank and redeployed the capital to Cholamandalam Investment and Finance. With recent interest rate cuts in India and anticipation for more, we believe Chola will likely be a key beneficiary.

We trimmed our position in Ambuja Cement as our thesis of a subsequent price improvement hasn't materialised as expected.

Strategy and Outlook

On a year-to-date basis, our overweight allocation to India has been a key detractor while our significant underweights in Korea and China have hurt us. A large part of EM outperformance can be explained by a rally in key index weights related to technology, including TSMC, Tencent, Alibaba, SK Hynix and Samsung Electronics. Stocks related to the AI supply chain in Taiwan (including materials stocks) and industrials (power and defence-linked stocks) in Korea have further added to the EM returns. Together, information technology, industrials and materials that are linked to AI as a theme account for approximately 75% of the Fund's relative underperformance.

We continue to flag that a large part of the EM rally excluding Taiwan is driven by: 1) multiple rerating without much upgrade in earnings (such as China). The Hang Sang Tech Index 2025 earnings per share (EPS) estimates have been revised down by nearly 25% over the last 12 months, with 2026 estimates revised 13% lower over the same period.³ Or, 2) a cyclical bounce in earnings (such as memory stocks in Korea). In our previous newsletters, we have discussed in detail why we remain nearly zero weight on China. While we don't dispute the technical innovation in China, we continue to flag that competitive intensity remains high and entry barriers remain weak, which are a precursor to reap benefits of any innovation (free cash flow generation led by higher return on capital employed [ROCE] over a longer time period). We already see some of those challenges in the auto sector in China, which has been long perceived as a leader in electric vehicles (Xiaomi and BYD have corrected more than 33% from their recent highs).⁴ And this appears to be a repeat of what we have already seen in solar, real estate, capital goods, quick service restaurants, cosmetics and several other sectors.

¹ Source: Morgan Stanley Investment Management. Data as of 31 October 2025.

² Regional and country returns are represented by their respective MSCI regional/country indexes, which are broad measures of the region/country's stock market performance. Data as of 31 October 2025.

³ Source: Bloomberg L.P. Data as of 11 November 2025.

⁴ Source: Bloomberg L.P. Data as of 31 October 2025.

Similarly for Korea, where memory stocks and other AI-linked sectors have been rising meaningfully, we continue to believe many of these products remain commoditised in nature (and hence cyclical), eventually with limited pricing power with their customers. The narrative around strong AI demand (which has also propelled many stocks in Taiwan) remains centred around Open AI, where a capital expenditure commitment of \$14 trillion has been made while its own revenues are only \$13 billion.⁵ While we don't doubt the revolutionary power of AI, we highlight the concerns around incrementally debt-fuelled capital expenditure as well as the circular nature of the demand among various AI players. We think the aggressive capital expenditure over recent years and adoption by real world consumers (whether corporates or individuals) are travelling on different tangents, and both need to eventually match to a respectable ROCE to sustain the recent run-up in valuations.

Our portfolio remains defensively positioned towards the "old world" of ROCEs and free cash flows, largely centred around India and Brazil. By our measures, Brazil remains one of the cheapest markets on both price-to-earnings and dividend yields. We continue to find high quality businesses in Brazil at what we believe are very attractive valuations. We are positioning our portfolio for upcoming interest rate cuts and potential for a political change.

On other hand, India's valuations have meaningfully corrected versus the rest of EMs over the past 12 months while earnings have bottomed out. India's earnings growth was muted over the last 12 months due to significant regulatory and monetary tightening as well as a slowdown in government capital expenditure spending. We think those challenges are dissipating given recent tax cuts and monetary easing. Fiscal discipline remains a cornerstone of India's governance, and we believe that also argues for a reduction in equity risk premiums for India. We note Indian earnings have continued to be ahead of other large EM peers while the recent outperformance of other EM markets has been driven by multiple rerating.

Overall, we continue to focus on finding what we consider to be high quality businesses across emerging markets at fair valuations while avoiding tail risks such as regulatory, key man and capital misallocation. In these days of exceptional volatility, valuations can get dislocated on both sides in very short time periods, providing good opportunities to both buy and sell stocks.

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

Fund Facts

Launch date	17 August 2012
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	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Class Z Shares	10.08	2.96	12.41	-33.10	2.91	58.88	26.14	-12.78	26.73	2.53	-6.44
MSCI Emerging Markets (Net) Index	32.86	7.50	9.83	-20.09	-2.54	18.31	18.42	-14.57	37.28	11.19	-14.92

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 shares. The sources for all performance and index data is Morgan Stanley Investment Management ('MSIM Ltd'). **Please visit our website www.morganstanley.com/im to see the latest performance returns for the fund's other share classes.**

⁵ Source: The Financial Times. Published on 7 November 2025.

Share Class Z 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 involve 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, available at www.morganstanleyinvestmentfunds.com. All data as of 31.10.2025 and subject to change daily.

Applications for shares in the Sub-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 language of countries authorized for fund distribution and is available online at Morgan Stanley Investment Funds Webpages or free of charge from the Registered Office at European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxemburg B 29 192.

The summary of investor rights is available in the aforementioned languages and website location under the General Literature section.

Information in relation to sustainability aspects of the Fund is available in English online at: Sustainable Finance Disclosure Regulation.

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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 is unmanaged and does not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

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