Morgan Stanley Investment Funds

European Property Fund

GLOBAL LISTED REAL ASSETS TEAM

Performance Review

In the one month period ending 31 March 2024, the Fund's I shares returned 8.61% (net of fees)[1], while the benchmark returned 8.49%.

After a weak start to the year, listed real estate rebounded in March and the Fund performed in line with its benchmark, the European listed property index. Overall, markets showed strength on the back of dovish commentaries from major central banks, which propelled key equity indexes to reach all-time high levels. The FTSE EPRA Nareit Developed Europe UCITS Daily Capped Net Total Return Index outperformed the broader European stock market by 4.3% and reversed part of its year-to-date underperformance.

During this risk-on month, the Fund benefited from its relative underweight positioning to defensive Swiss stocks, which are generally lower beta in nature. The Fund's overweight positions in German residential and U.K. and European logistics contributed positively to performance, whereas the underweight position in Swedish stocks was the main detractor, as the region outperformed given its higher-levered/higher-beta stocks. More specifically, among the individual holdings of the Fund, the overweight positions in the German residential investor LEG Immobilien and the Swedish logistics investor and developer Catena were the top contributors to relative performance. Conversely, the underweight position in Swedish diversified investor AB Balder weighed on performance.

Market Review

March marked the end of the 2023 full-year results season. Once again, the overarching theme was the solid operational performance across different sectors. The tone of management commentary erred on the positive side, with discussions around real estate valuations pointing to a consensus that the bulk of the declines have already taken place.

In Germany, there was a slew of residential landlords reporting their full-year results. Among the largest names, LEG Immobilien was the first to announce, showing an inline-with-estimates set of numbers. The major news was the reinstatement of the dividend as management commented that "the peak of the property crisis is already over for LEG". Guidance on asset disposals screened on the low side but was in line with management outlook and belief that the balance sheet is under control. TAG Immobilien followed with similar operational results and valuation write-downs, but continued to withhold dividend payments as management aims to use the retained dividends to finance new projects in Poland, the company's main growth area. Vonovia, in one of the most widely anticipated publications, provided the market with operational results in line with guidance and analyst forecasts. However, the introduction of new financial KPIs (key performance indicators) and dividend policy surprised the market and led to a large negative correction in the share price on the day of the results. The stock recovered those losses during the following week once the market digested and reflected on the changes.

In the logistics sector, CTP, the Central and Eastern Europe developer and investor, reported a positive set of operational results and showed no intention of slowing down its substantial development pipeline, given that it is supported by healthy demand dynamics. CTP continues to benefit from strong momentum in the logistics space and increasingly profitable development projects. The company reported a +15% increase in its net asset value (NAV) per share metric in 2023, materially outperforming its peers. Management commented that they anticipate further rental growth in most markets and yields to stay flat or slightly compress, providing a good outlook for full-year 2024 valuations.

Looking at the U.K. student accommodation sector, Empiric reported positive figures and guided to rental growth "in excess" of 6% for full-year 2024.[2] Management highlighted that the demand and supply imbalance continues, whilst the U.K. remains a very attractive, high quality and affordable higher education destination of choice. Notably, the year saw a net increase in Purpose Built Student Accommodation ("PBSA") beds of only 8,760, the lowest in a decade. This illustrates further the challenges faced in the planning, construction and financing processes.

Following up on the recent merger and acquisition (M&A) activity seen on the U.K. listed property market, U.K. logistics investor and developer Tritax Big Box announced its firm offer for U.K. Commercial Property REIT (UKCM). In an update to investors, the Tritax management clarified their intention to dispose the non-logistics part of the UKCM portfolio within 24 months and to remain a logistics pure-play vehicle. The all-share merger, which will create the fourth largest REIT in the U.K., has the backing of UKCM's cornerstone investors and is expected to complete in May. Elsewhere, abrdn Property Income Trust (API) saw both potential bidders Urban Logistics REIT and Custodian REIT walking away from a potential all-share deal. API will now pursue a managed wind-down of the company, subject to shareholder approval.

Equity markets are open to real estate companies operating in the strongest subsectors. Swedish logistics investor and developer Catena successfully carried an equity issue of 2.1 billion krona, representing circa 9% of market capitalisation. The pricing of the deal

1 Source: Morgan Stanley Investment Management Limited. Data as of 31 March 2024.
2 Source: Empiric Student Property plc "Preliminary results for the year ended 31 December 2023" press release, 14 March 2024.

was the tightest we have seen from logistics players who raised equity during the past few months, coming in at a 2.3% discount to last close price. Catena signalled its intention to use the proceeds for acquisitions at attractive yields in the range of 6% and to continue executing on its sizeable development pipeline. The company started delivering on its ambitions almost immediately with the acquisitions of a last-mile facility outside Copenhagen and a newly constructed asset in Helsingborg.

Access to the best capital markets remains strong for all but the most highly levered companies. U.K. diversified investor Landsec tapped the bond market by issuing a £300 million bond with a 7.5-year term and a 4.75% coupon (on a tight 103 basis point spread), to be used for general corporate purposes. Moody's revised Hammerson's outlook from stable to positive and affirmed its long-term issuer rating of Baa3. The rating action reflects the U.K. retail investor's improved credit metrics and Moody's expectation that the accumulated cash will be used to reduce gross debt in 2024 and 2025. Merlin Properties, the Spanish investor in offices, retail, logistics and data centres, saw an upgrade in its S&P credit rating to BBB+, with a stable outlook. The credit rating upgrade is a small positive for the company, as it is largely dependent on bond financing on the debt side. Lastly, Vonovia was assigned a first-time rating of BBB+ and stable outlook by Fitch.

Strategy and Outlook

The team uses internal proprietary research to invest in public real estate companies that we believe offer the best value relative to their underlying assets and growth prospects. The team combines a bottom-up approach, assessing the intrinsic value, equity multiples and growth prospects of each security, with a top-down view that incorporates fundamental inflection points, macroeconomic considerations, and geopolitical and country risk. By incorporating both an equity market valuation and a more traditional real estate valuation with a top-down overlay, we believe the Fund will be better prepared to identify securities with the best expected total returns.

Given the stabilization in interest rates across the globe and the increasing likelihood of interest rate cuts, forecasted returns for the asset class have improved. Moreover, we believe relative strength in cash flows can be expected given the unique nature of listed real estate. Specifically, the contracted rental streams with inflation-linked escalations and the necessity-based nature of real estate — the listed real estate market evolves and grows with the broader needs of society and the economy and sits at the epicentre of how people live, work, shop and communicate — coupled with limited new real estate supply additions in the vast majority of sectors should result in cash flow growth. Additionally, secular themes driving demand for necessity-based real estate, including Technology and Innovation, Aging Demographics, Housing Shortages and Affordability, Global Supply Chain Reorganization and Onshoring, and External Growth Opportunities, are powerful catalysts that can propel growth above expectations for years to come and ultimately reset valuations higher in exposed sectors. Finally, we believe the relative valuation of real estate securities is attractive, specifically when compared to direct property investment and the broader equities market, and is presenting an interesting pricing arbitrage opportunity for investors.

Secular trends will result in winners and losers for real estate.

- In office, the work-from-home impact on the Continent is expected to be more modest than in the U.S. or U.K. Landlords on the Continent are reporting rising tenant demand, particularly for higher quality stock, supported by improving return-to-office levels. London office tenant demand is increasingly pointing to a bifurcated market, with “green,” best-in-class space significantly outperforming.
- In retail, the Continent’s traffic and retail sales are not far off pre-pandemic levels, although secular challenges remain. In the U.K., further deterioration in shopping centre rents and values is anticipated, but there are signs of stabilization for retail parks. While we favour nondiscretionary and convenience-oriented retail landlords, we are increasingly favourable on discretionary landlords given strong fundamentals stemming from the resilient consumer.
- Industrial demand remains robust, as onshoring, logistics and supply chain remain front of mind and low vacancy continues to drive up rental growth, amid a very low new supply environment.

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

Fund Facts

Launch date	01 September 1997
Base currency	Euro
Benchmark	Custom- Blended Benchmark

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	-0.73	16.86	-29.31	15.28	-20.82	29.60	-12.28	10.79	-5.94	17.77	25.09
Blended Benchmark	-2.82	16.37	-36.59	19.92	-10.89	30.47	-8.12	13.18	-3.70	17.60	23.38

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.
- There are additional risks associated with investing in real estate.
- 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 funds ability to buy or sell securities.
- 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 31 March 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. Luxemburg B 29 192.

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INDEX INFORMATION

The **Blended Index** performance shown is calculated using the **GPR General Quoted Europe Net Index** from inception through 30th June 2022 and the **FTSE EPRA Nareit Developed Europe UCITS Daily Capped Net Total Return Index** thereafter.

The **GPR General Quoted Europe Net Index** is a sub-index of the GPR General Index and is composed of listed real estate securities in the European real estate markets.

FTSE EPRA Nareit Developed Europe UCITS Daily Capped Net Total Return Index is a market capitalization-weighted equity index designed to help investors and investment product providers meet the UCITS concentration requirements for European Union registered funds. It is designed to track the performance of listed real estate companies and REITs in Developed Europe. Relevant real estate activities are defined as the ownership, trading and development of income-producing real estate.

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