

## Morgan Stanley Investment Funds Europe Opportunity Fund

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

### Performance Review

In the three month period ending 30 June 2020, the Fund's Z shares returned 26.32% (net of fees)<sup>1</sup>, while the benchmark returned 12.60%.

**For the period from team inception on April 21, 2020 ending June 30, 2020, the Fund outperformed the MSCI Europe Index due to favourable stock selection.**

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.

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

European equities advanced led by outperformance in industrials, information technology, utilities and materials. The health care, consumer staples, energy and real estate sectors underperformed the MSCI Europe Index.

Stock selection in communication services was the greatest overall contributor to relative performance as shares of streaming platform Spotify were the top individual contributor across the portfolio after the company announced accelerated subscriber growth and new podcast programming deals. Headquartered in Sweden, Spotify is an innovative global music streaming subscription service provider with differentiation leadership by leveraging the unique data of 286 million monthly active users, including 130 million premium subscribers (source: Company data as of April 29, 2020), and strong position to expand its user base given its extensive playlists. We believe Spotify's strong growth can be supported by entering new geographies, investing in its advertising business and expanding the non-music content as well as user experience.

Stock selection in the consumer discretionary sector contributed positively, as strength in shares of meal delivery service HelloFresh SE and luxury retailer Farfetch offset weakness in shares of Italian luxury brand Moncler SpA, which were the greatest individual detractor across the portfolio, German sports apparel brand adidas AG and Just Eat Takeaway.com, which underperformed after announcing a deal to acquire Grubhub to enter the U.S. market. We believe that Moncler is unique due to its strong brand heritage, excellent quality and elegance and integrated business model. Moncler's upmarket focus on sleek, distinctive high-end outerwear and direct control of higher value-added activities can give the company strong pricing power, high margins and return on invested capital. Just Eat Takeaway.com is a leading online food delivery marketplace that connects consumers to nearby restaurants to order food delivered to their homes. Just Eat Takeaway.com has a strong network effect combining Just Eat operations in the United Kingdom, Denmark and Norway with Takeaway.com's market leadership in the Netherlands, Germany, Belgium, Austria, Poland, Bulgaria, Israel and presence in other markets (Source: Company data as of 21 April 2020). Based on our industry research, we believe Just Eat Takeaway.com can continue to benefit from the growing penetration of online food delivery globally.

Stock selection in information technology contributed positively as shares of Dutch payment platform Adyen NV outperformed. Adyen is uniquely positioned as a technology company within the payment processing industry that is differentiated from peers with a single stack platform enabling acceptance and processing of cards and local payments globally across its merchants' online, mobile and point of sale channels. We believe that Adyen can benefit from increasing card payment penetration globally as its offerings increase price transparency while providing industry-leading authorization rates and superior unified commerce experiences.

Stock selection in consumer staples as also contributed positively as outperformance in shares of British beverages company Fевertree Drinks plc offset underperformance in shares of Swiss chocolatier Lindt & Sprüngli AG and British multinational

<sup>1</sup> Source: Morgan Stanley Investment Management Limited. Data as of 30 June 2020.

beverages company Diageo plc. We believe that Fevertree's differentiated line of mixers sourced from natural ingredients and its highly scalable outsourced business model have contributed to its strong pricing power and competitive advantage in the upscale beverages market.

A sector underweight position in the financials sector was the greatest overall detractor from the relative performance of the portfolio during the period. In health care, Swiss dental equipment manufacturer Straumann underperformed. Sector underweight positions in materials, utilities and industrials also detracted despite strength in shares of asset-light Danish transport and logistics company DSV Panalpina AS. DSV enjoys leading positions in air and sea globally as a result of strategic acquisitions which have diversified the firm out of the core road forwarding business. The company's information technology platform, people and processes differentiate DSV from other freight forwarders and allow DSV to operate efficiently in the value-added activities in forwarding that have been more immune from digital disruptions. Real estate had a negligible impact upon relative performance.

#### FUND FACTS

##### Launch date

08 April 2016

##### Base currency

Euro

##### Index

MSCI Europe Index

#### 12 Month Performance Periods to Latest Month End (%)

	JUNE '19 - JUNE '20	JUNE '18 - JUNE '19	JUNE '17 - JUNE '18	JUNE '16 - JUNE '17	JUNE '15 - JUNE '16
MS INVF Europe Opportunity Fund - Z Shares	20.62	4.42	3.54	14.54	--
MSCI Europe Index	-5.48	4.46	2.85	17.96	--

**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](http://www.morganstanley.com/im) to see the latest performance returns for the fund's other share classes.**

**Effective 20th April 2020 the Morgan Stanley Investment Funds Eurozone Equity Alpha Fund merged into the Morgan Stanley Investment Funds European Champions Fund. Subsequently, effective 20th April 2020, the Morgan Stanley Investment Funds European Champions Fund is renamed to Morgan Stanley Investment Funds Europe Opportunity Fund, and the investment approach is revised.**

#### Share Class Z 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 fund's 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 30 June 2020 and subject to change daily.

## INDEX INFORMATION

The **MSCI Europe (Net) Index** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe. As of September 2002, the MSCI Europe Index consisted of the following 16 developed market country indices: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.

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