

Morgan Stanley Investment Funds

Europe Opportunity Fund

MARKETING COMMUNICATION | GLOBAL OPPORTUNITY TEAM | COMMENTARY | 31 MARCH 2022

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Performance Review

In the three month period ending 31 March 2022, the Fund's Z shares returned -23.23% (net of fees)¹, while the benchmark returned -5.32%.

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 underperformed the MSCI Europe Index this period due to unfavourable stock selection and sector allocation.

Market Review

The investment team does not typically comment on geopolitical developments given our long-term ownership mindset and focus on bottom-up stock selection; however, we want to be as transparent as possible with our partners given recent market volatility. Increased macroeconomic, geopolitical and regulatory uncertainty contributed to a broad sell-off in high growth equities that negatively impacted portfolio performance during the period. This factor-driven rotation saw value outperform growth by a historic margin of 877 basis points globally in the first quarter – the largest value rotation in any quarter for over two decades.² Our portfolios have historically underperformed during similar macro-driven, rotational market environments.

With regards to macroeconomic risks, we believe that the prevailing market narrative that higher inflation and interest rates both negatively impact companies with higher growth rates is over-stated. Our analysis has demonstrated that companies with underlying competitive advantages, recurring revenue models and strong pricing power are better positioned to pass on input cost inflation to customers. Geopolitical risks intensified following Russian military operations in Ukraine. First and foremost, our thoughts are with the Ukrainian people impacted. Secondly, as of 31 March 2022, the portfolio did not have direct exposure to and did not hold companies listed or domiciled in Russia, Belarus or Ukraine. As for indirect exposure, portfolio companies have limited exposure to Russia at approximately 1.7% of revenues across the portfolios.

Against this challenging backdrop, portfolio underperformance was largely driven by negative contributions from non-specific factors, including country, industry, currency and risk indices tracked by MSCI Barra.

European equities declined during the period, led lower by underperformance in the consumer discretionary, information technology and industrials sectors. Energy, communication services, health care and materials advanced, outperforming the MSCI Europe Index.

Portfolio Review

Stock selection in consumer discretionary was the greatest overall detractor from the relative performance of the portfolio during the period, as shares of online luxury marketplace Farfetch Limited, Evolution AB and luxury brand Moncler SpA underperformed. Farfetch operates the largest global marketplace at scale for fashion and luxury goods, with high return on invested capital in a fragmented industry given its capital-light business model that connects buyers and sellers on the online platform. Based on our industry analysis, we believe the company can continue to benefit from the digital transition trend and growing demand from millennials. A sector overweight position also detracted.

Stock selection in consumer staples contributed negatively, as shares of German meal kit delivery service HelloFresh SE declined. HelloFresh is a global leader in online meal kits, delivering fresh food directly to consumers' doors across North America and Europe. HelloFresh is unique based on its differentiation focus competitive advantage, integrated supply chain, and its data-driven technology platform that allows it to optimise the customer experience by differentiating meal kits with data-based recipes. Based

¹ Source: Morgan Stanley Investment Management Limited. Data as of 31 March 2022.

² For the three months ending 31 March 2022, the MSCI AC World Value Net Index returned -0.95% and the MSCI AC World Growth Net Index returned -9.72%. Source: MSCI. Data as of 31 March 2022. One basis point = 0.01%

on our industry analysis, we believe that HelloFresh is well positioned to benefit from the continued adoption of recipe-based cooking and can transform consumer eating habits.

Stock selection in communication services and information technology also detracted on weakness in shares of Spotify Technology SA and an Eastern European business services firm. Headquartered in Sweden, Spotify is an innovative audio streaming platform with differentiation leadership by leveraging the unique data of 406 million monthly active users, including 180 million paying premium subscribers (Source: company data as of 2 February 2022), and is in a 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. A sector overweight allocation contributed positively.

A sector underweight position in industrials contributed positively, with shares of AutoStore the top individual contributor across the portfolio. The company is a pioneering robotics and software technology company and a leading provider in the automated storage and retrieval systems (AS/RS) industry. Founded in 1996, the company offers warehouse automation solutions to a variety of customers, including in the e-commerce industry. As of 14 June 2021, the company had operations and installations in over 35 countries around the world with an installed or contracted base of 667 systems (source: company initial public offering prospectus). We believe that AutoStore may continue to benefit from its differentiated positioning, which has made the company a clear market leader in cubic storage automation technology. The company may also benefit from increased demand and penetration of warehouse automation, driven by megatrends such as the global expansion of the e-commerce industry.

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
08 April 2016

Base currency
Euro

Index
MSCI Europe (Net) Index

Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

	YTD	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Class Z Shares	-23.23	24.21	41.12	30.08	-9.25	10.76	--	--	--	--	--
MSCI Europe (Net) Index	-5.32	25.13	-3.32	26.05	-10.57	10.24	--	--	--	--	--

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 Z Risk and Reward Profile



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.

- 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.
- 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.
- 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 2022 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.

The **MSCI All Country (AC) World Growth Index** captures large- and mid-cap securities exhibiting overall growth style characteristics across 23 developed markets countries and 24 emerging markets countries.

The **MSCI All Country (AC) World Value Index** captures large- and mid-cap securities exhibiting overall value style characteristics across 23 developed markets countries and 24 emerging markets countries.

MSCI Barra Risk Indices measures a portfolio/benchmark's sensitivity to various market themes, such as Growth, Value, Volatility, Momentum, etc.

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