

Morgan Stanley Investment Funds

Eurozone Equity Alpha Fund

ACTIVE FUNDAMENTAL EQUITY | EUROPEAN EQUITY TEAM | MONTHLY COMMENTARY | 31 DECEMBER 2018

Performance Review

In the one month period ending 31 December 2018, the Fund's I shares returned -7.31% (net of fees)¹, while the benchmark returned -5.90%.

The portfolio's stock selection in consumer staples (Ahold, underweight Anheuser-Busch InBev) and materials (Linde) contributed positively to performance in the month. Detractors from performance included the stock selection in industrials (Deutsche Post, Siemens Gamesa) and financials (AXA, ING, BNP). The underweight allocation to utilities also detracted from performance.

Market Review

Manufacturing activity in the eurozone continued to slow through the end of the year. The IHS Markit Eurozone Manufacturing PMI registered 51.4 in December, down from 51.8 in November. Goods production contracted in Italy and France, while Germany and Spain recorded the slowest expansions of the eight countries represented in the index. Business conditions in the services sector also deteriorated. Falling to a four-year low, the IHS Markit Eurozone PMI Services Business Activity Index read 51.2 in December, down from 53.4 in November. The French services sector was disrupted by the fuel protest, German activity cooled further and Italy's conditions registered a slight improvement. Spain's services sector, in contrast, remained relatively robust.

Eurozone inflation weakened in December. According to Eurostat's flash estimate, consumer prices fell to 1.6% in the month from 1.9% in November, almost entirely due to a slowdown in energy prices. Core inflation, which excludes food and energy prices, came in at 1%. Separately, Eurostat's unemployment report indicated eurozone joblessness fell below 8% for the first time in a decade. At 7.9% in November, euro area unemployment rate dropped from October's 8.1% reading. The European Union's jobless rate held steady at 6.7% in November.

The European Central Bank's (ECB) asset purchase programme ended on schedule in December. While acknowledging that the balance of risks to growth is shifting to the downside, the ECB said cash from maturing bonds will be reinvested to help keep borrowing costs down and interest rates will remain unchanged at least through the summer of 2019.

European equities declined over the month as macro data weakened and political turmoil dominated headlines. Capping a two-month stand-off, Italy and the European Commission agreed to a narrower deficit projection for Italy's 2019 budget. Fuel protests across France, some of which turned violent, prompted President Macron to suspend the planned tax increase. The MSCI EMU Index was down 5.90% for the month and down 12.71% for the year in euro terms.

Portfolio Activity

We continued to build the position in Deutsche Telekom.

Strategy and Outlook

We continue to believe that careful stock selection can be an important source of investment performance. We apply a disciplined and proven investment process to identify individual stocks that we feel are attractively valued relative to their future prospects. Typically, the companies on which we focus are characterised by strong business models, financial strength and management teams of demonstrable competence.

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

¹ Source: Morgan Stanley Investment Management Limited. Data as of 31 December 2018.

FUND FACTS

Launch date

05 April 2000

Base currency

Euro

Index

MSCI EMU (Net) Index

12 Month Performance Periods to Latest Month End (%)

	DECEMBER '17 - DECEMBER '18	DECEMBER '16 - DECEMBER '17	DECEMBER '15 - DECEMBER '16	DECEMBER '14 - DECEMBER '15	DECEMBER '13 - DECEMBER '14
MS INVF Eurozone Equity Alpha Fund - I Shares	-15.34	10.63	3.59	10.73	1.67
MSCI EMU (Net) Index	-12.71	12.49	4.37	9.81	4.32

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.**

The Blended Index performance shown is calculated using the MSCI Europe (Net) Index from inception through 31 October 2006, the MSCI Europe (Net) Hedged Index to 31 May 2007 and the MSCI EMU (Net) Index thereafter.

Share Class I 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 31 December 2018 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. 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.

The **MSCI EMU (European Economic and Monetary Union) Net Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of countries within EMU.

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