Morgan Stanley

INVESTMENT MANAGEMENT

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Morgan Stanley Investment Funds

Global Advantage Fund

ACTIVE FUNDAMENTAL EQUITY | COUNTERPOINT GLOBAL | QUARTERLY COMMENTARY | 31 DECEMBER 2018

Performance Review

In the three month period ending 31 December 2018, the Fund's Z shares returned -14.31% (net of fees)[1], while the benchmark returned -12.75%.

Market Review

There is a discrepancy between the attribution and performance data due to pricing and NAV calculations for the INVF portfolio. The final performance for the Fund is reflected above. The long-term investment horizon and conviction-weighted investment approach embraced by the team since 1998 can result in periods of performance deviation from the benchmark and peers. The Fund underperformed its benchmark over this period largely due to unfavourable sector allocations.

Global equities declined during the quarter. Energy and information technology posted the steepest declines and were the relative laggards in the index. All sectors posted a decline with the exception of utilities, which was the relative outperformer.

Communication services was the greatest detractor in the portfolio during the quarter, largely due to unfavourable stock selection. Video game publisher Activision Blizzard was the greatest detractor in the sector and the second greatest across the portfolio. The company reported in-line results, however, concerns about the underperformance of certain game franchises and a somewhat weaker than expected outlook weighed on investor sentiment. Within the sector the weakness in Activision Blizzard was somewhat offset by relative strength in global communications platform Twitter. The company has continued to take actions to help improve the overall quality of the platform and is gaining greater traction with its various advertising initiatives.

Consumer discretionary also detracted, due to both stock selection and a sector overweight position. Amazon.com, a leader in online retail and cloud computing services, was the greatest detractor both in the sector and across the portfolio. The company reported somewhat mixed quarterly results, characterized by better than expected profit growth but weaker than expected sales growth, particularly in its international business, and a lower than expected financial outlook. We also attribute the underperformance to ongoing concerns about the potential for greater regulatory risk and some mean reversion, as the stock had performed strongly through much of the year and declined during the broader sell-off in higher multiple stocks over the fourth quarter. Farfetch, a global online marketplace for luxury goods, was the third greatest detractor in the portfolio. We attribute the weakness in Farfetch largely to broader concerns about macroeconomic weakness in China and the potential for slowing consumer demand for luxury goods regionally. Within the sector, the weakness in these and a diverse set of other holdings was partly offset by strength in global coffee retailer Starbucks, which was the top contributor across the portfolio. After weaker performance earlier in the year, Starbucks shares recovered this quarter due to stabilizing same-store sales growth in China and improving sales trends in the United States.

A sector underweight in financials and stock selection in health care, along with a lack of exposure to consumer staples, real estate and utilities also detracted, to a lesser extent. Metro Bank, which provides retail and corporate banking services in the United Kingdom, was the poorest performer in financials and the fourth greatest detractor across the portfolio. The company reported largely in-line quarterly results, so we attribute the underperformance to general ongoing concerns regarding Brexit. Within financials the weakness in Metro Bank was partly offset by strength in HDFC Bank, which is India's largest private bank. HDFC Bank was the third greatest contributor in the portfolio. Its shares advanced on healthy quarterly results, characterized by strong growth in personal loans and credit cards, and net income margin expansion.

Conversely, information technology was the top contributor in the portfolio this quarter, due to favourable stock selection which more than offset the adverse impact of a sector overweight position. Workday, which provides cloud-based human resources and financial management software solutions to enterprises, was the top contributor in the sector and the second

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

greatest across the portfolio. Its shares advanced on strong reported results, characterized by accelerating billings growth and a raised financial outlook. Workday has also seen early success integrating its recent acquisition, Adaptive Insights; results have been ahead of plan and the company has been able to leverage its distribution capabilities to cross sell Adaptive's solutions to its existing customer base.

Stock selection in industrials and a lack of exposure to energy also contributed, to a lesser extent.

Lastly, materials – a sector the portfolio has no exposure to – had a negligible impact on relative performance this quarter.

Strategy and Outlook

The investment team is looking for high quality companies that generally have these attributes: a sustainable competitive advantage, business visibility, rising return on invested capital, free cash flow and a favourable risk/reward. We find these companies through intense fundamental research. Our emphasis is on secular growth, and as a result short-term market events are not as meaningful in the stock selection process. It is our goal to hold a portfolio of high quality companies we believe will perform well longer term regardless of the market environment.

As a team, we believe having a market outlook can be an anchor. Our focus is on assessing a company over a three- to five-year horizon.

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

FUND FACTS

Launch date	Base currency	Index
31 January 2013	U.S. dollars	MSCI All Country World 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 Global Advantage Fund - Z Shares	-6.89	40.65	0.52	4.44	1.68
MSCI All Country World Index	-9.42	23.97	7.86	-2.36	4.16

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.**

Share Class Z Risk and Reward Profile

Lower Risk | **Higher Risk**

1	2	3	4	**5**	6	7

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 funds ability to buy or sell securities.
- 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. All data as of 31 December 2018 and subject to change daily.

INDEX INFORMATION

The **MSCI All Country World Index (ACWI)** is a free float-adjusted market capitalization weighted index designed to measure the equity market performance of developed and 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 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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