Morgan Stanley

INVESTMENT MANAGEMENT

NOT FOR DISTRIBUTION OR USE WITH HONG KONG GENERAL PUBLIC

Morgan Stanley Investment Funds

Global Balanced Sustainable Fund

GLOBAL BALANCED RISK CONTROL TEAM | MONTHLY COMMENTARY | 31 OCTOBER 2020

Performance Review

As the Fund is less than a year old we are constrained from commenting on its performance.

Market Review

United States

The MSCI USA Index returned -2.63% in U.S. dollar terms (USD) and -2.00% in euro terms. Heading into the fourth quarter, the manufacturing sector maintained its momentum, while service sector growth eased. The Institute for Supply Management (ISM) Manufacturing Index increased to 59.3 in October from 55.4 in September. New orders surged in October while production accelerated and hiring increased for the first time since July 2019. At 56.6 in October, the ISM Services PMI continue to signal expansion but at a slightly slower pace than September's 57.8 reading. New orders growth was robust but eased, while employment growth was sluggish for service firms. In the broad economy, job growth slowed for the fourth consecutive month in October. The Bureau of Labor Statistics (BLS) said unemployment fell to 6.9% in October from 7.9% in September after adding 638,000 jobs over the month. The headline all-items inflation index registered 1.4% in the 12-month period ended September 2020, up slightly from 1.3% in the August 2020 period. Excluding food and energy, the annual core inflation rate was unchanged from the prior month at 1.7% in September.

Europe

The MSCI Europe Index returned -5.01% in euro terms and -5.62% in USD terms. The IHS Markit Eurozone Manufacturing PMI rose to 54.8 in October, from 53.7 in September, on the back of sharp global demand growth for German-made autos, business equipment and machinery. Growth across the remainder of the region's manufacturers, however, was mixed, and headcounts continued to be reduced. The service sector's contraction worsened in October, reflecting the impact of renewed coronavirus lockdowns in the region. The IHS Markit Eurozone PMI Services Business Activity Index fell to 46.9 in October from 48.0 in September. Weak demand both domestically and abroad hampered new business, and job losses persisted for the eighth month in a row. Consumer price inflation remained muted. The all-items index held steady at an annual rate of -0.3% in October, unchanged from September. The core index, which excludes energy, food, alcohol and tobacco, was also unchanged at 0.2% year-over-year in both October and September. After rising for five successive months, unemployment was flat in September at 8.3% for the euro area and 7.5% for the EU, the same rates as August, according to Eurostat.

Japan

The MSCI Japan Index returned -2.52% in yen terms and -0.96% in euro terms. The au Jibun Bank Japan Manufacturing PMI came in at 48.7 in October, up from 47.7 in September. Declines in both output and new orders eased during the month, aided by a return to growth in export orders. The au Jibun Bank Japan Services PMI improved to 47.7 in October from 46.9 in September, lifted by easing declines in business activity and new orders, as well as stable employment levels. Inflation was subdued in September as government subsidies on travel and overall weaker consumption due to the pandemic weighed on prices. Both the headline consumer price index (CPI) and core-core CPI (excluding fresh food and energy) were 0% in September from the previous year, compared to 0.2% for headline CPI and -0.1% for the core-core measure in the August annual period. Unemployment in Japan held steady at 3.0% in September, the same rate as August.

Portfolio Activity

We maintained relatively cautious portfolio positioning due to uncertainty from the U.S. election and surging COVID-19 infection rates in Europe and the U.S. From mid-October, equity markets started to weaken and by the end of the month they closed near or below September lows. Price action in the final week of October also suggested that the strong momentum enjoyed by growth and technology stocks this year was finally starting to unwind and investors may be starting to refocus on valuations. The effective equity exposure at the end of the month was 18.2%.

Strategy and Outlook

With the U.S. presidential election finally called, closely followed by encouraging news on vaccine progress, we may have finally reached a turning point on a number of factors creating uncertainty. We are watching closely for two major catalysts, which could prove positive for markets. Since the election, Senate Majority Leader Mitch McConnell has stated that achieving an agreement for fiscal stimulus is the top priority, raising hopes of a deal. In fact, a split Congress could be a net positive for markets as a Republican-controlled Senate is likely to mitigate against major tax increases. In addition, a credible approach to managing the virus is one of the indicators to buy back into the market that we have been monitoring since the beginning of the pandemic. During his campaign, Joe Biden put virus control as a top priority and his transition team has already unveiled the members of his COVID-19 task force made up of doctors and academics. Biden's determination to contain COVID-19 is a major long-term positive and is one of the signs we have been waiting for. It is possible that policy actions addressing COVID-19 may not take place until 20 January 2021. However, given the virus escalation in the U.S. and the urgency, tighter lockdown measures may happen sooner at the state rather than federal level, which could add to market volatility in the short term. Markets may have to look through a potentially chaotic interim period, as we believe Biden will be more credible leader with clear direction and communication.

Given the rapid progress being made on vaccine development, we remain confident that a vaccine will be available in 2021 – currently there are nine companies engaged in vaccine trials, with interim progress announcements expected to start coming out from November. This should solidify the containment of the virus and reduce the chances of its resurgence next year. As a result, we expect market volatility to decrease, which could provide an opportunity for an upward adjustment in risk allocations.

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

FUND FACTS

Launch date	Base currency
30 June 2020	Euro

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 a range of assets with different levels of risk and the fund's simulated and/or realised return has experienced medium 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 value of bonds are likely to decrease if interest rates rise and vice versa.
- The value of financial derivative instruments are highly sensitive and may result in losses in excess of the amount invested by the Sub-Fund.
- Issuers may not be able to repay their debts, if this happens the value of your investment will decrease. This risk is higher where the fund invests in a bond with a lower credit rating.
- 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.
- Commodity investments can change significantly and quickly in value as a large variety of factors affect them.
- 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 October 2020 and subject to change daily.

INDEX INFORMATION

The **MSCI USA Index** is designed to measure the performance of the large and mid cap segments of the US market. With 631 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the US.

The **MSCI Europe 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 Japan Index** is a free-floated adjusted market capitalization weighted index that is designed to track the equity market performance of Japanese securities listed on the Tokyo Stock Exchange, Osaka Stock Exchange, JASDAQ and Nagoya Stock Exchange. The MSCI Japan Index is constructed based on the MSCI Global Investable Market Indices Methodology, targeting a free-float market capitalization coverage of 85%.

DISTRIBUTION

This communication is only intended for and will only be distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations. In particular, the Shares are not for distribution to US persons.

Ireland: Morgan Stanley Investment Management (Ireland) Limited. Registered Office: The Observatory, 7-11 Sir John Rogerson's Quay, Dublin 2, Ireland. Registered in Ireland under company number 616662. Regulated by the Central Bank of Ireland. **United Kingdom:** Morgan Stanley Investment Management Limited is authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No. 1981121. Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA, authorised and regulated by the Financial Conduct Authority. **Dubai:** Morgan Stanley Investment Management Limited (Representative Office, Unit Precinct 3-7th Floor-Unit 701 and 702, Level 7, Gate Precinct Building 3, Dubai International Financial Centre, Dubai, 506501, United Arab Emirates. Telephone: +97 (0)14 709 7158). **Germany:**Morgan Stanley Investment Management Limited Niederlassung Deutschland, Grosse Gallusstrasse 18, 60312 Frankfurt am Main, Germany (Gattung: Zweigniederlassung (FDI) gem. § 53b KWG). **Italy:** Morgan Stanley Investment Management Limited, Milan Branch (Sede Secondaria di Milano) is a branch of Morgan Stanley Investment Management Limited, a company registered in the UK, authorised and regulated by the Financial Conduct Authority (FCA), and whose registered office is at 25 Cabot Square, Canary Wharf, London, E14 4QA. Morgan Stanley Investment Management Limited Milan Branch (Sede Secondaria di Milano) with seat in Palazzo Serbelloni Corso Venezia, 16 20121 Milano, Italy, is registered in Italy with company number and VAT number 08829360968. **The Netherlands:** Morgan Stanley

Investment Management, Rembrandt Tower, 11th Floor Amstelplein 1 1096HA, Netherlands. Telephone: 31 2-0462-1300. Morgan Stanley Investment Management is a branch office of Morgan Stanley Investment Management Limited. Morgan Stanley Investment Management Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom. **Switzerland:** Morgan Stanley & Co. International plc, London, Zurich BranchI Authorised and regulated by the Eidgenössische Finanzmarktaufsicht ("FINMA"). Registered with the Register of Commerce Zurich CHE-115.415.770. Registered Office: Beethovenstrasse 33, 8002 Zurich, Switzerland, Telephone +41 (0) 44 588 1000. Facsimile Fax: +41 (0) 44 588 1074.

Australia: This publication is disseminated in Australia by Morgan Stanley Investment Management (Australia) Pty Limited ACN: 122040037, AFSL No. 314182, which accepts responsibility for its contents. This publication, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. **Hong Kong:** This document has been issued by Morgan Stanley Asia Limited for use in Hong Kong and shall only be made available to "professional investors" as defined under the Securities and Futures Ordinance of Hong Kong (Cap 571). The contents of this document have not been reviewed nor approved by any regulatory authority including the Securities and Futures Commission in Hong Kong. Accordingly, save where an exemption is available under the relevant law, this document shall not be issued, circulated, distributed, directed at, or made available to, the public in Hong Kong. **Singapore:** This publication should not be considered to be the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor under section 304 of the Securities and Futures Act, Chapter 289 of Singapore ("SFA"), (ii) to a "relevant person" (which includes an accredited investor) pursuant to section 305 of the SFA, and such distribution is in accordance with the conditions specified in section 305 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. In particular, for investment funds that are not authorized or recognized by the MAS, units in such funds are not allowed to be offered to the retail public; any written material issued to persons as aforementioned in connection with an offer is not a prospectus as defined in the SFA and, accordingly, statutory liability under the SFA in relation to the content of prospectuses does not apply, and investors should consider carefully whether the investment is suitable for them. This publication has not been reviewed by the Monetary Authority of Singapore.

IMPORTANT INFORMATION

EMEA: This marketing communication has been issued by Morgan Stanley Investment Management Limited ("MSIM"). Authorised and regulated by the Financial Conduct Authority. Registered in England No. 1981121. Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA.

This document contains information relating to the sub-fund ("Fund") of Morgan Stanley Investment Funds, a Luxembourg domiciled Société d'Investissement à Capital Variable. Morgan Stanley Investment Funds (the "Company") is registered in the Grand Duchy of Luxembourg as an undertaking for collective investment pursuant to Part 1 of the Law of 17th December 2010, as amended. The Company is an Undertaking for Collective Investment in Transferable Securities ("UCITS").

Applications for shares in the Fund should not be made without first consulting the current Prospectus, Key Investor Information Document ("KIID"), Annual Report and Semi-Annual Report ("Offering Documents"), or other documents available in your local jurisdiction which is available free of charge from the Registered Office: European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxemburg B 29 192. In addition, all Italian investors should refer to the 'Extended Application Form', and all Hong Kong investors should refer to the 'Additional Information for Hong Kong Investors' section, outlined within the Prospectus. Copies of the Prospectus, KIID, the Articles of Incorporation and the annual and semi- annual reports, in German, and further information can be obtained free of charge from the representative in Switzerland. The representative in Switzerland is Carnegie Fund Services S.A., 11, rue du Général-Dufour, 1204 Geneva. The paying agent in Switzerland is Banque Cantonale de Genève, 17, quai de l'Ile, 1204 Geneva. The document has been prepared solely for informational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy.

Any index referred to herein is the intellectual property (including registered trademarks) of the applicable licensor. Any product based on an index is in no way sponsored, endorsed, sold or promoted by the applicable licensor and it shall not have any liability with respect thereto.

The views and opinions expressed are those of the portfolio management team at the time of writing/of this presentation and are subject to change at any time due to market, economic, or other conditions, and may not necessarily come to pass. These comments are not representative of the opinions and views of the firm as a whole. Holdings, countries and sectors/ region weightings are subject to change daily. All information provided is for informational purposes only and should not be deemed as a recommendation to buy or sell securities in the sectors and regions referenced. Information regarding expected market returns and market outlook is based on the research, analysis, and opinions of the team. These conclusions are speculative in nature, may not come to pass, and are not intended to predict the future of any specific Morgan Stanley Investment Management investment. Past performance is no guarantee of future results.

All investments involve risks, including the possible loss of principal. The material contained herein has not been based on a consideration of any individual client circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

The information contained in this communication is not a research recommendation or 'investment research' and is classified as a 'Marketing Communication' in accordance with the applicable European or Swiss regulation. This means that this marketing communication (a) has not been prepared in accordance

with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

MSIM has not authorised financial intermediaries to use and to distribute this document, unless such use and distribution is made in accordance with applicable law and regulation. MSIM shall not be liable for, and accepts no liability for, the use or misuse of this document by any such financial intermediary. If you are a distributor of the Morgan Stanley Investment Funds, some or all of the funds or shares in individual funds may be available for distribution. Please refer to your sub-distribution agreement for these details before forwarding fund information to your clients.

This document may be translated into other languages. Where such a translation is made this English version remains definitive. If there are any discrepancies between the English version and any version of this document in another language, the English version shall prevail.