

Morgan Stanley Investment Funds

Global Discovery Fund

ACTIVE FUNDAMENTAL EQUITY | GROWTH TEAM | BIANNUAL COMMENTARY | 30 JUNE 2018

Performance Review

In the six month period up until 30 June 2018, the Fund's Z shares returned 3.34% (net of fees)¹, while the benchmark returned -0.43%.

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 can result in periods of performance deviation from the benchmark and peers. The Fund outperformed the benchmark over this period due to favourable stock selection and sector allocations.

Our team continues to focus on bottom-up stock selection and the long-term outlook for companies owned in the portfolio. Global stocks declined slightly during the period under review, with Telecommunication Services posting the sharpest decline in the MSCI All Country World Index. Information Technology, Energy, Consumer Discretionary, and Health Care were the only sectors to post positive returns and hence were the relative outperformers in the index.

Consumer Discretionary accounted for the majority of the portfolio's outperformance over this period, due to stock selection and a sector overweight position. Department store operator Dillard's was the top contributor in the sector and across the portfolio. In February, the company reported quarterly results that beat Street expectations, characterized by better-than-expected same-store sales and gross profit margin expansion. Luxury goods holding company Christian Dior was the second greatest contributor in the portfolio, due to continued strong underlying fundamentals at Louis Vuitton Moet Hennessy. Autoliv, a leader in automotive safety components, was the fourth greatest contributor in the portfolio. In January, the shares advanced on strong quarterly results and several positive Street reports including a ratings upgrade. The shares also benefited from news that an activist investor, Cevian Capital, has taken a nearly 7% stake in the company, and sees strong potential for the company to create value by separating its electronics business, Veoneer. Autoliv management had indicated last year that it plans to split its business into two listed companies – with one focused on high-tech safety equipment including radar and vision systems that are used in self-driving vehicles. Within the sector, the outperformance of these and a diverse set of other holdings was partly offset by weakness in motorcycle maker Harley Davidson, which was the greatest detractor in the portfolio. Earlier in the period, the company reported mixed quarterly results, as earnings beat expectations but retail sales in the U.S. and international business were softer than expected. Management also provided a weaker-than-expected outlook, which led the shares to sell off.

To a lesser extent, Financials also contributed, due to both stock selection and a sector underweight position, as did stock selection in Industrials and Materials and a lack of exposure to Consumer Staples and Telecommunication Services. Within Materials, the outperformance of several holdings was partly offset by weakness in steel components maker ThyssenKrupp, which was the fourth greatest detractor in the portfolio. The company reported largely in-line results, but a disappointing outlook, which weighed on its shares.

Conversely, stock selection in Health Care and Real Estate, as well as an underweight in Energy and Information Technology, impeded relative results over this period. Novo Nordisk, a leader in the diabetes market, was the weakest performing holding among these areas and the third greatest detractor across the portfolio. We attribute the performance largely to some mean reversion, as the stock had been a strong performer over the preceding period.

Lastly, Utilities – a sector the portfolio had no exposure to -- had a negligible impact on relative results over this period.

¹ Source: Morgan Stanley Investment Management Limited. Data as of 30 June 2018.

Strategy and Outlook

The Global Discovery strategy takes a flexible, benchmark agnostic, all-cap approach. We construct a highly active portfolio concentrated on high conviction ideas which we believe are well positioned to deliver an attractive total return over three to five years. The value added or detracted in any period of time will result from stock selection, given our philosophy and process.

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.

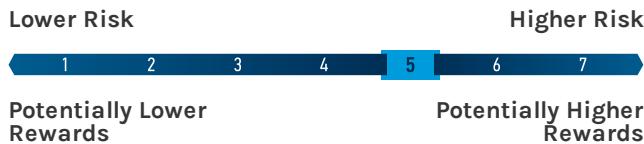
FUND FACTS				
Launch date	Base currency	Index		
28 November 2014	U.S. dollars	MSCI All Country World Index		

12 Month Performance Periods to Latest Month End (%)

	JUNE '17 - JUNE '18	JUNE '16 - JUNE '17	JUNE '15 - JUNE '16	JUNE '14 - JUNE '15	JUNE '13 - JUNE '14
MS INVF Global Discovery Fund - Z Shares	13.51	40.78	4.09	--	--
MSCI All Country World Index	10.73	18.78	(3.73)	--	--

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



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 30 June 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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