Morgan Stanley Investment Funds

Global Focus Property Fund

GLOBAL LISTED REAL ASSETS TEAM

Performance Review

In the three month period ending 31 March 2024, the Fund's I shares returned -0.05% (net of fees)[1], while the benchmark returned -1.67%.

Global real estate securities declined (FTSE EPRA Nareit Developed Extended Net Total Return Index, "the Index," -1.67%) for the quarter and underperformed the broader equity markets (MSCI World Net Index, 8.88%). Global stock markets posted strong gains in the first quarter driven by a resilient U.S. economy and continued enthusiasm around artificial intelligence, epitomized by the performance of the "Magnificent 7" stocks. Central bank interest rate cut expectations also lifted markets despite a likely slower pace of cuts than the market had hoped for at the end of 2023, which significantly contributed to the real estate sector underperformance. The Fund outperformed the benchmark, returning -0.05% for the quarter (Class I shares net of fees).

In the U.S., real estate securities posted declines in the quarter, and meaningfully underperformed the broader equity markets. U.S. equities advanced in the quarter, supported by strong corporate earnings, ongoing expectations of interest rate cuts later this year as well as resilient U.S. economic data. In the Index, the billboards sector was a top performer, as sector fundamentals exceeded expectations in the fourth quarter and an economic soft landing could have positive implications for the billboard companies. The mall sector was another top performer as the sector continues to see positive occupancy gains and higher re-leasing spreads. The skilled nursing health care sector was another key outperformer as tenant operations are improving, occupancy is increasing from depressed levels, and labor cost growth is moderating. The data center sector also outperformed once again, as it continues to benefit from favorable secular demand trends driven by data growth and digital transformation combined with limited new supply growth. Finally, the hotel sector outperformed, benefiting from favorable economic data suggesting a stronger economy. A key underperformer was the cold storage sector, as 2024 guidance came in below expectations as a result of weakened consumer demand. Another underperformer was the net lease sector, as the rise in the 10-year U.S. Treasury yield negatively impacted the sector due to its reliance on external growth and potential increases in the cost of capital. Towers underperformed, as the leasing environment for the sector was muted in the back half of 2023 and is expected to remain subdued for the duration of 2024. The self-storage sector also underperformed, as the slowdown in the broader housing market given higher mortgage rates has negatively impacted demand.

In the U.S., the Fund's security selection in seniors housing health care and hotels, as well as the sector overweight to data centers, were top contributors to relative performance. Security selection in Canada also benefited the Fund. These contributions were partially offset by the Fund's unfavorable security selection in the industrial and apartment sectors.

In Europe, real estate securities had a weak first quarter, underperforming the broader equity market. This was partially driven by market sentiment and downward revisions to the number of interest rate cuts and the anticipated timing of such cuts following overexuberance at the end of 2023. Although rate cut expectations normalized, commentary from central bank officials remains supportive of several interest rate cuts to take place during the year. Meanwhile, the German 10-year government bond yield saw an approximate 30 basis point[2] increase in the first quarter of 2024, ending the quarter at 2.3%. The retail sector in general and Sweden posted the best returns for the quarter, with the latter propelled by a strong performance in March. In contrast, the self-storage and office sectors were the laggards amid a mixture of valuation and slowing rental growth concerns. The first quarter of the year was also busy with the release of full-year 2023 results. The vast majority of companies reported solid operational performance and provided an upbeat outlook for 2024. A few companies took the opportunity to tap into the debt and equity capital markets to raise funds to finance their growth plans, demonstrating that capital markets are open to real estate companies operating in the stronger sectors.

In Europe, the Fund's security selection in the U.K. and Germany were top relative contributors; this was partially offset by the country overweight to Spain.

In the Asian real estate market, Australia and the Japan developers posted strong gains in the quarter. Hong Kong, Singapore and Japan real estate investment trusts (REITs), however, were weaker. In Australia, the Australian 10-year government bond yield ended the quarter largely unchanged at 3.96%. The Reserve Bank of Australia (RBA) left the cash rate on hold at 4.35%, with the RBA governor stating that the central bank was "on the right track" in its battle against inflation, but stressed the outlook for the cash rate remained uncertain. Goodman Group was a standout performer as it announced strong financial results, gave positive updates about its data center strategy and benefited from its inclusion in the FTSE EPRA Nareit Global Real Estate index series[3] in March. Japan outperformed, predominantly due to strength from the developers. The Bank of Japan (BoJ) exited its negative interest rate and yield curve control policies, marking a shift in monetary policy framework, indicating that stability is in sight with positive wage

1 Source: Morgan Stanley Investment Management Limited. Data as of 31 March 2024
2 One basis point = 0.01%
3 The FTSE EPRA Nareit Global Real Estate index series is designed to represent general trends in listed real estate equities worldwide.

growth from the spring wage negotiations. The BoJ's guidance on future policy remains dovish. The developers are likely to be key beneficiaries of Japan returning to a sustainable and stable inflation environment. Japan REITs, however, underperformed as the BoJ moved out of negative interest rates. In Hong Kong, the 3-month Hong Kong Interbank Offered Rate (HIBOR) fell 44 basis points to 4.72% in the first quarter. The new Hong Kong Budget announced in February featured various measures to stimulate property demand including the removal of numerous stamp duties for all homebuyers. The Hong Kong Monetary Authority also removed interest rate stress testing requirements and eased maximum loan-to-value (LTV) ratios for home buyers in the quarter. Residential transaction volumes in the primary and secondary markets rebounded in March following these easing measures. Hong Kong underperformed, adversely affected by the reporting season which saw several Hong Kong real estate companies announce dividends cuts. Singapore corrected on a weak reporting season and continued dividend cuts. REITs continued to struggle on high LTV ratios and rising interest cost. In the residential sector, private property prices experienced modest gains although transaction volumes have fallen. Singapore developers also underperformed in the quarter.

In Asia, the Fund's security selection in Japan was a substantial contributor to relative performance, while security selection in Australia and the country underweights to Hong Kong and Singapore also contributed. Security selection in Hong Kong modestly detracted.

Strategy and Outlook

The team uses internal proprietary research to invest in public real estate companies that we believe offer the best value relative to their underlying assets and growth prospects. The team combines a bottom-up approach, assessing the intrinsic value, equity multiples and growth prospects of each security, with a top-down view that incorporates fundamental inflection points, macroeconomic considerations, and geopolitical and country risk, and actively selects positions in a limited number of equity securities. By incorporating both an equity market valuation and a more traditional real estate valuation with a top-down overlay, we believe the Fund will be better prepared to identify securities with the best expected total returns.

Given the stabilization in interest rates across the globe and the increasing likelihood of interest rate cuts, forecasted returns for the asset class have improved. Moreover, we believe relative strength in cash flows can be expected given the unique nature of listed real estate. While changing market sentiment and expectations about the magnitude of interest rate cuts may cause volatility in the overall real estate sector returns, the longer-term outlook remains favorable.

Specifically, contracted rental streams with inflation-linked escalations and the necessity-based nature of real estate—the listed real estate market evolves and grows with the broader needs of society and the economy and sits at the epicenter of how people live, work, shop and communicate—coupled with limited new real estate supply additions in the vast majority of sectors, should result in cash flow growth. Additionally, secular themes driving demand for necessity-based real estate, including Technology and Innovation, Aging Demographics, Housing Shortages and Affordability, Global Supply Chain Reorganization and Onshoring, and External Growth Opportunities, are powerful catalysts that we believe can propel growth above expectations for years to come and ultimately reset valuations higher in exposed sectors. Finally, we believe the relative valuation of real estate securities is attractive, specifically when compared to direct property investment and the broader equities market, and is presenting an interesting pricing arbitrage opportunity for investors.

In North America, secular trends will result in winners and losers for real estate.

- In retail, secular headwinds remain; however, the physical store remains an important point of distribution for retailers. We favor the outlook for nondiscretionary, grocery and convenience-oriented retail landlords. Tenant bankruptcy watch lists are stable, and the pipeline of new tenants looking to enter high quality retail centers is surprisingly strong.
- Work-from-home (WFH) policies will likely be a permanent overhang on office demand, and related uncertainty regarding future office absorption is expected to remain an open question for several more years. Utilization rates remain stubbornly low versus 2019 levels, with high levels of vacancy and sublease space available across key markets.
- In lodging, leisure demand is seeing some moderation from record high levels; however, business and group travel is improving and exceeding expectations. New supply remains below historical averages.
- In residential, affordability concerns regarding homeownership, given rising mortgage rates and home price appreciation, will likely lead to increasing rental demand for both traditional multi-family and single-family rentals. However, supply growth in multi-family is above the historical trend, particularly in Sunbelt markets. Lower economic growth expectations will impair rental rate growth.
- In industrial, longer-term trends remain solid, driven by the continued need to modernize logistics distribution and a growing trend towards onshoring, which has resulted in record-low vacancy and double-digit revenue growth for warehouses. However, new supply is significantly above average and currently outpacing demand, despite these favorable secular tailwinds. While new market rent growth is moderating and vacancy is modestly increasing, the embedded growth remains among the highest within commercial real estate and is expected to fuel outsized cash flow growth for several years. Additionally, new supply is forecast to moderate significantly into 2025, at which point fundamentals are anticipated to strongly rebound.
- In self-storage, fundamentals are moderating but are beginning to show very early signs of stabilization. The slowdown in the broader housing market has negatively impacted demand for self-storage, and a turnaround in the housing transaction market will likely fuel increased demand for storage. New market rents are deteriorating; however, existing customer renewals remain positive.

- In health care, the necessity-based nature of seniors housing demand is anticipated to insulate fundamentals from macro headwinds. The aging of the population, as evidenced by the growth in the 80 years and above age cohort, is expected to serve as a significant demand driver for seniors housing through the remainder of the decade, with a compound annual growth rate in that age cohort in excess of 4% through 2030.[4] New supply is below historical averages.
- In data centers, data growth facilitating the digital economy and new technologies, including artificial intelligence (AI), continues to provide a robust backdrop for new demand. New supply is more limited than in the past, given power availability challenges, which has resulted in a favorable environment for landlords to increase rents. These power availability challenges are anticipated to remain a critical issue going forward, and advancements in AI are proving to be an incremental demand driver to the sector.

In Europe, we see many similar trends unfolding.

- In office, the WFH impact on the Continent is expected to be more modest than in the U.S. or U.K. Landlords on the Continent are reporting rising tenant demand, particularly for higher quality stock, supported by improving return-to-office levels. London office tenant demand is increasingly pointing to a bifurcated market, with "green," best-in-class space significantly outperforming.
- In retail, the Continent's traffic and retail sales are not far off pre-pandemic levels, although secular challenges remain. In the U.K., further deterioration in shopping center rents and values is anticipated, but there are signs of stabilization for retail parks. While we favor nondiscretionary and convenience-oriented retail landlords, we are increasingly favorable on discretionary landlords given strong fundamentals stemming from the resilient consumer.
- Industrial demand remains robust, as onshoring, logistics and supply chain remain front of mind and low vacancy continues to drive up rental growth, amid a very low new supply environment.

In Asia:

- In Japan, global capital continues to be attracted to Tokyo office assets. While Grade A office vacancy rates remain among the lowest globally, there will be moderate headwinds for the sector, given a wave of new supply deliveries. In Japan hotels, the reopening of international borders and a weaker yen supporting domestic travel have led to improving sentiment toward the sector, and cash flows are expected to improve significantly. Additionally, Japan residential is expected to benefit from increasing wage growth.
- In Australia office and for-sale residential, fundamentals are challenged; however, the nascent sector of rental housing is performing well. In Australia retail, while secular challenges remain, capital values appear to have bottomed, and cash flows and occupancies are recovering. Central business district retail is likely to be under pressure for some time due to the fall in international travel as well as WFH policies that have led to fewer office workers visiting these retail establishments. Across the real estate spectrum, transaction volumes and pricing in Australia are beginning to stabilize, but a downward bias still exists.
- In China, fundamentals remain below trend. Uncertainty regarding government policies, balance sheet and solvency issues, and geopolitical relationships with Western countries remain front of mind and continue to warrant an elevated level of scrutiny.
- In Hong Kong, geopolitical risks remain a concern. However, pent-up demand for discretionary goods from mainland China is expected to be strong, as travel and mobility increase, and will be supportive for retail demand in the country.

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

Fund Facts

Launch date	15 October 2021
Base currency	U.S. dollars
Benchmark	FTSE EPRA Nareit Developed Extended Net Total Return Index

Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

	YTD	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Class I Shares	-0.05	12.82	-27.24	--	--	--	--	--	--	--	--
FTSE EPRA Nareit Developed Extended Net Total Return Index	-1.67	8.72	-25.28	--	--	--	--	--	--	--	--

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.**

[4] Source: U.S. Census Bureau.

Share Class I Risk and Reward Profile

- The fund may be impacted by movements in the exchange rates between the fund's currency and the currencies of the fund's investments.
- There are additional risks associated with investing in real estate.
- 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.
- There are increased risks of investing in emerging markets as political, legal and operational systems may be less developed than in developed markets.
- 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.
- 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 2024 and subject to change daily.

Applications for shares in the Fund should not be made without first consulting the current Prospectus and the Key Information Document ("KID") or Key Investor Information Document ("KIID"), which are available in English and in the official language of your local jurisdiction at morganstanleyinvestmentfunds.com or free of charge from the Registered Office of Morgan Stanley Investment Funds, European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxemburg B 29 192.

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INDEX INFORMATION

The **FTSE EPRA Nareit Developed Extended Net Total Return Index** is a market capitalization weighted index designed to represent general trends in eligible real estate stocks worldwide. Relevant real estate activities are defined as the ownership, trading and development of income-producing real estate. The FTSE EPRA Nareit Developed Extended Index represents the extension of real estate property sectors (e.g. Infrastructure and Timber) and additional securities beyond what is currently eligible for the FTSE EPRA Nareit Developed Index. The performance of the Index is listed in U.S. dollars and assumes reinvestment of dividends.

The **MSCI World Net Index** is a free float adjusted market capitalization weighted index that is designed to measure the global equity market performance of developed 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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