

Morgan Stanley Investment Funds Global Opportunity Fund

ACTIVE FUNDAMENTAL EQUITY | GLOBAL OPPORTUNITY TEAM | QUARTERLY COMMENTARY | 31 DECEMBER 2018

Performance Review

In the three month period ending 31 December 2018, the Fund's Z shares returned -15.61% (net of fees)¹, while the benchmark returned -12.75%.

The long-term investment horizon and conviction-weighted approach embraced by the Global Opportunity team can result in periods of performance deviation from the benchmark and peers. Over time, this has led to the strong record we have developed over our product set. The Fund underperformed the MSCI All Country ("AC") World Index this period due to unfavourable stock selection and sector allocation.

Our team continues to focus on bottom-up stock selection and the long-term outlook for companies owned in the portfolio; accordingly, we have had very little turnover in the portfolio to date, and we continue to find new ideas for inclusion in the portfolio which meet our strict criteria for quality and long-term value creation.

Global equities declined during the period prompted by macro concerns including trade tensions and the potential effects of rising interest rates. Every sector except utilities posted negative returns with economically sensitive sectors including energy, information technology, industrials and consumer discretionary leading the declines. Bond proxies characterised by high dividend yields including the utilities, real estate, consumer staples and health care sectors outperformed the MSCI AC World Index.

Stock selection in consumer staples was the greatest detractor from the relative performance of the portfolio. A sector overweight position contributed positively. Shares in FeverTree Drinks plc detracted. We believe that the British beverages company's differentiated line of mixers sourced from natural ingredients and its highly scalable outsourced business model have contributed to its strong pricing power and competitive advantage in the upscale beverages market.

Stock selection in communication services was the second greatest detractor as shares in global social networking platform Facebook declined amidst continued data privacy and security concerns. We believe that the global social networking platform can continue to benefit from strong network effects through advertising growth at attractive margins driven by the shift to video advertising and greater expansion, engagement and monetisation of its active user base across Facebook, Instagram and WhatsApp.

Stock selection in industrials was the third greatest detractor as shares in DSV A/S declined. The asset-light Danish transport and logistics company has a dominant share of Scandinavian air and ocean freight forwarding. Based on our fundamental company analysis, we believe DSV can continue to leverage its cost focus advantage to generate attractive returns on invested capital while creating value for its customers.

A sector overweight position in consumer discretionary contributed negatively as shares in Amazon were the greatest individual detractor from relative performance. We believe the online retail and cloud computing leader is unique due to its unparalleled scale and cost advantage. We are attracted to management's focus on long-term value creation through reinvestment in its Amazon Web Services (AWS) cloud computing platform and monetisation of its global presence through advertisement and subscriptions. Weakness in Amazon was partially offset by strength in shares of Chinese math tutor TAL Education Group and specialty coffee retailer Starbucks.

Stock selection in financials was the greatest overall contributor across the portfolio as shares in HDFC Bank Limited were the greatest individual contributor to relative performance. HDFC Bank is India's largest private bank by assets. It has an outstanding liability and deposit franchise, driven by its long operating history, strong brand, extensive branch network and focus on customer service. HDFC Bank also has the largest personal loan and credit card franchise with strong risk management processes. We believe that HDFC Bank's cost leadership advantage coupled with industry-leading digital capabilities can enable it to continue taking loan and deposit market share amid public sector bank weakness.

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

Stock selection in information technology was the second greatest contributor as a new position in shares of a software-as-a-service platform advanced while shares in Mastercard declined. The global payment network continues to benefit from strong network effects and the consumer shift from cash to credit, online and mobile payments driving increased penetration of payments and transaction volume.

The portfolio's sector underweight position in energy and stock selection in materials contributed positively, while a sector underweight position in utilities detracted. Real estate had negligible impact upon relative performance.

Outlook

As a team, we continue to focus on bottom-up stock selection and the long-term outlook for companies owned in the portfolio. We assess company prospects over a three- to five-year time horizon and own a portfolio of what we believe are undervalued, high quality companies with diverse business drivers not tied to any particular market environment.

FUND FACTS

Launch date	Base currency	Index
30 November 2010	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 Opportunity Fund - Z Shares	-6.48	49.84	0.39	19.78	8.38
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



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.

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