Performance Review

In the one month period ending 31 July 2020, the Fund’s I shares returned 10.60% (net of fees)\(^1\), while the benchmark returned 10.95%.

Our portfolio continues to focus on a combination of our high-quality growth names supported by secular trends, which we believe should show resilience in a slower economic growth environment globally, and select recent additions. The portfolio has benefited from our increasing exposure to selected cyclical recovery plays, particularly in energy, and from some new names and/or larger positions in e-commerce, payments and digital banking. We think the latter are benefiting not just from COVID-19-induced behavioral changes, but also disruptions in such segments as traditional banking. Our rigorous and active stock selection within consumer staples, communication services and financials all contributed positively to the outperformance, as did our aggregate overweight among stocks in the information technology (IT) sector. After having been, to a certain extent, upstaged by the mega-cap tech names in North Asia the past few years, Latin America as a region had strong returns in July as investors looked for good quality, innovative companies as well as traditional cyclical recovery plays.

In July, our zero allocation to Colombia and allocation to IT service provider Globant contributed positively to returns. Our ongoing reduction of exposure to Mexico (eliminating several names and increasing the country underweight) contributed positively, but was offset by exposure to airport and infrastructure names which have suffered from the COVID-19-induced slowdown in activity as well as government policy regarding energy investment. Our allocation to Parque Arauco in Chile detracted from returns. We have since sold the name during July as we believe its business model will face headwinds from the lockdown as well as the acceleration in e-commerce penetration. In Mexico, our allocation to Grupo Aeroportuario del Centro Norte (OMA) also detracted during the month. We recently added to our position in OMA after its correction, and believe the company will benefit from the recovery in domestic traffic growth. Our stock selection in Brazil detracted, driven by our zero allocations to Weg, Vale and Banco Bradesco. We own secular growth stories in Brazil that are less dependent on macro reforms, such as Rumo, PagSeguro and MercadoLibre.

Market Review

The MSCI Emerging Markets (EM) Latin America Index returned +10.95% during the month, outperforming both the MSCI Emerging Market Index (+8.94%) and the MSCI World Index (+4.78%). Brazil (+14.23%) was the second best performer across EM during the month, while Argentina (+12.51%) and Chile (+10.66%) also posted strong returns. Mexico (+2.85%), Peru (+3.34%) and Colombia (+5.39%) lagged the Latin America region.

Portfolio Activity

During the month, we initiated a position in Ambipar. The company is engaged in two businesses. One business is waste management: it provides environmentally friendly and regulatory-compliant waste solutions for industrial companies in Brazil. The other business is emergency response to environmental disasters (e.g. chemical spills). It has operations in 15 countries, with half of this business in Brazil. This is a highly fragmented business that the company plans to consolidate. We believe that environmental concerns will provide a tailwind for both businesses, and the company should be able to grow revenues strongly in the medium term. We funded the trade by exiting M. Dias Branco.

We also added Vasta to the portfolio. Vasta provides an educational platform for private K-12 schools in Brazil. The company has strong brand recognition, and schools using their product score above average on the national high school standardized exam. Given the high level of fragmentation in the industry, there is room for market consolidation. There are several growth avenues, including cross-selling new products to current clients and continuing to grow partner schools.

We reduced our position in Grupo Financiero Banorte. Though it remains a strong integrated bank within a concentrated and underpenetrated market, Banorte’s ability to grow its balance sheet and hence its earnings per share will face headwinds from...
the weak macro outlook in Mexico. Mexico entered the pandemic at stall speed growth, and the weaknesses of the AMLO administration have only been highlighted by the unfolding pandemic, both in terms of its public health response and its willingness to craft an effective policy response. This latter recalcitrance coupled with the preexisting deterioration in business sentiment should translate into one the of weakest gross domestic product (GDP) results in Latin America.

We exited Parque Arauco following its rally from the March bottom. We view the integrated mall model as structurally challenged, particularly now with both the short-term effects of the lockdown and the concomitant acceleration in e-commerce penetration. Further, the macro outlook in Chile remains uncertain beyond the immediate effects of the virus.

**Strategy and Outlook**

Over the course of 2020 and into next year, Latin America will likely continue to struggle with the effects of the COVID-19 pandemic and the limitations of its policy response from both a public health and an economic policy perspective. In addition, the political election cycle will be in full swing in several Latin American countries—creating uncertainty. We believe we have constructed a portfolio with a combination of high quality growth names with secular drivers and exposure to early cyclical recovery plays, and less exposure to these macro issues and uncertainty.

**Brazil** has been suffering since early this year from triple threats: the pandemic, an economic contraction and a resumption of political uncertainty. While the virus continues its spread through the country, GDP data in the second quarter ended up beating consensus expectations with less of a contraction than had been forecast. The domestic politics uncertainty has also eased, with many government officials having expressed their commitment to the reform process once the health crisis has peaked. Finally, the external picture improved during the quarter, led by China and which, in turn, helped commodity prices and the Brazilian real appreciate meaningfully from its lows. The real is still among the cheapest currencies in EM, and we believe there will continue to be a material balance of payments adjustment at these currency levels. We remain overweight Brazil, emphasizing stock opportunities within a still difficult (even if better-than-expected) macro environment.

We are underweight **Mexico**. The country’s short-term growth prospects were deteriorating even before the coronavirus hit the country, as the mixed policy signals from the AMLO administration had hit business confidence and were discouraging private investment. While Mexico has not had as strict a lockdown as other countries, its economy has nonetheless been hit hard by the pandemic. Industrial activity fell sharply in the second quarter and services activity has weakened. We believe that in the long term, Mexico will benefit from the reformulated United States-Mexico-Canada Agreement (USMCA), particularly given the relatively weak currency and the reconfiguration of supply chains, and its proven monetary policy framework. We have further reduced our Mexico exposure, refocused our positions in the country and believe the stocks we own should recover as they emerge from the crisis to deliver above-average growth.

We remain overweight **Peru**. While the spread of the coronavirus has overwhelmed the incipient recovery that had been building, we believe that Peru is the country in the region with the highest capacity to react to this economic shock. President Vizcarra has deployed the most aggressive program in the region, equivalent to approximately 12% of Peru’s GDP. The three-phase program (economic support, liquidity injection and economic reactivation) includes several measures that not only address households but also companies, particularly small and medium-sized enterprises. Although Vizcarra’s popularity remains high and the relationship with the interim congress is more constructive, we believe he will spend most of his remaining time in office managing the crisis and reactivating the economy. It is uncertain if he will be able to pass any of the structural reforms he has proposed before the next election in 2021.

**Chile** has been battling the coronavirus and public health lockdowns without having fully recovered from the economic shock from the political protests in October 2019. Though the country is relatively well positioned (with a strong sovereign balance sheet) to implement a rigorous policy response to the pandemic, the continuing spread of the virus is revealing again the depth of the underlying social discontent which surfaced so dramatically last year. We believe this discontent will continue through the referendum on a new constitution in October this year and the election in the fall of 2021. As this longer-term outlook for the social contract—and therefore the economy and the market—remains uncertain, we remain underweight Chile.

We remain zero weight domestic **Argentina**. Our only Argentine holding is Globant, which derives virtually all of its revenue outside of Argentina. The country was already facing an extremely difficult economic outlook before the coronavirus hit and lockdowns were established. We are continuing to monitor the situation in Argentina as it evolves (economic policy and sovereign debt renegotiations), but—at this point—do not see opportunity in the market.

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

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**FUND FACTS**

<table>
<thead>
<tr>
<th>Launch date</th>
<th>Base currency</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>02 August 1994</td>
<td>U.S. dollars</td>
<td>MSCI EM Latin America Index</td>
</tr>
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</table>
12 Month Performance Periods to Latest Month End (%)

<table>
<thead>
<tr>
<th></th>
<th>JULY '19 - JULY '20</th>
<th>JULY '18 - JULY '19</th>
<th>JULY '17 - JULY '18</th>
<th>JULY '16 - JULY '17</th>
<th>JULY '15 - JULY '16</th>
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</thead>
<tbody>
<tr>
<td>MS INVF Latin American Equity Fund - I Shares</td>
<td>-21.17</td>
<td>11.55</td>
<td>-1.83</td>
<td>17.93</td>
<td>4.34</td>
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<tr>
<td>MSCI EM Latin America Index</td>
<td>-25.15</td>
<td>8.58</td>
<td>0.71</td>
<td>18.02</td>
<td>6.42</td>
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</tbody>
</table>

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 I Risk and Reward Profile

<table>
<thead>
<tr>
<th>Lower Risk</th>
<th>Higher Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potentially Lower Rewards</td>
<td>Potentially Higher Rewards</td>
</tr>
</tbody>
</table>

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 shares of companies from emerging markets and the fund’s simulated and/or realised return has experienced very 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.
  - 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 July 2020 and subject to change daily.

INDEX INFORMATION

The MSCI Emerging Markets Latin America Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets within Latin America. The MSCI Emerging Markets Latin America Index consists of the following 5 emerging market country indices: Brazil, Chile, Colombia, Mexico and Peru.

The MSCI Emerging Markets Index (MSCI EM) is a free float-adjusted market capitalization weighted index that is designed to measure equity market performance of emerging markets.

The MSCI World 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.

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