Performance Review

In the one month period ending 31 July 2019, the Fund’s I shares returned 1.51% (net of fees)\(^1\), while the benchmark returned 0.12%.

Our stock selection in Brazil was the largest contributor to returns during the month, led by our overweight allocations to financial company B3, rental car company Localiza Rent a Car and consumer staples company Atacadão. Also contributing during the month was our stock selection in and underweight allocation to Chile, largely through our zero weight to energy company Emprasas. Detracting from returns was our overweight allocation to Peru, primarily through our overweight allocation to mining company Buenaventura.

Market Review

The MSCI EM Latin America Index returned +0.12% for the month, outperforming the MSCI Emerging Markets Index (-1.22%) and underperforming the MSCI World Index (+0.50%). Brazil (+2.55%) was the only country in positive territory for the month. Argentina returned -1.16%, Colombia -1.86%, Mexico -3.83%, Chile -4.98% and Peru -5.84%.

Portfolio Activity

We initiated a position in Telef Brasil (VIVO), which is the leading integrated telecom service operator in Brazil. We think the stock could have improving revenue and cash flow growth going forward, supported by an improving industry structure, management putting through pricing in mobile, digitalization driving cost efficiencies, and a potentially more favorable regulatory environment. We funded this by selling a portion of our position in bank Bradesco.

We added to our position in bank Credicorp in Peru, bringing it to an overweight in the portfolio. We think the secular growth opportunity in the Peruvian banking sector is one of the most attractive in Latin America with low credit to gross domestic product (GDP), concentrated industry structure and structural underpenetration of accounts in a still largely cash economy. As the leader in the sector, we think Credicorp is well positioned to execute against this opportunity and can continue to grow its earnings with internally generated capital.

We reduced our position in Mexican bank Banorte, selling into strength on its strong contribution to the portfolio and as part of our reduction of Mexico exposure, given some policy deterioration under the AMLO (Andres Manuel Lopez Obrador) administration. While the bank has continued to deliver successfully on management’s strategy, we think earnings will likely deteriorate over the next few years from their high base.

Strategy and Outlook

In Mexico, we continue to monitor the policy direction of the administration of President AMLO. The resignation of Finance Minister Carlos Urzua was troubling, though Mexico’s fiscal situation still appears fairly stable. Mexico is poised to be one of the key beneficiaries in a period of deglobalization. As tariff battles undercut trade between the U.S. and China, Mexico’s exports stand to gain, given how competitive its wages and the peso look relative to China. The current account is already in good shape. We are watching political developments closely, particularly the fate of Pemex, and for any signs that AMLO might reverse his predecessor’s plan to open the state oil company to foreign investors. This decision will be seen as a litmus test of AMLO’s stated plans to revert to a state-run economic model, with dramatic implications for growth in the economy. Economic growth this year has slowed, driven by weak public and private investment, slowing manufacturing and services, and a slightly weaker consumer.

The Mexican peso remains cheap and real interest rates are supportive. Banxico is likely to remain on a cautious mode given the probability of domestic and external shocks. Within our portfolio, we maintain secular growth opportunities.


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We are slightly overweight Brazil as we are constructive on the reform path being pursued by the Bolsonaro administration. Pension reform made important progress in July, with Congress passing a first round vote by a wider than expected margin. Investors’ optimism is based on the unprecedented support for pension reform from the general public, congress, municipalities and a relevant portion of the media. In contrast to prior reform attempts, including former President Temer’s in 2017, a number of governors are now supportive as many states face acute fiscal crises driven by pension and health care obligations. Broadly speaking, company earnings revisions are still largely positive, driven by operating leverage and lower interest rates, and market valuation seems reasonable. Successful final pension reform could provide the political and economic momentum to push through tax, trade and other reforms.

Corporates we have met with this year have sent mixed signals on the underlying economy. Most are cautiously optimistic but had yet to see material follow through in real economic activity. Outside of tech, most companies are not yet hiring aggressively in anticipation of a big recovery. Unemployment has come down but is still driven more by the informal sector. Though consumer confidence has improved since the election, real wage growth remains low and unemployment high.

We remain underweight Chile as we expect growth to slow from 4% in 2018 to around 3.5% over the next two years. Real wage growth has improved. However, consumption has declined, against normal expectations. We believe that while Venezuelan and Haitian immigration into the country is fueling an increase in the labor force, much of their income is being sent to their home countries. Meanwhile, the feeling on the ground is that locals are putting more into savings as the migrants are accepting lower wages for the same employment opportunities. We believe growth can recover this year dependent on tax, pension and labor reforms.

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

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<tr>
<th>FUND FACTS</th>
<th>Base currency</th>
<th>Index</th>
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<tbody>
<tr>
<td>Launch date</td>
<td>U.S. dollars</td>
<td>MSCI EM Latin America Index</td>
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</tbody>
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<tr>
<th>12 Month Performance Periods to Latest Month End (%)</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>
<th>JULY '14 - JULY '15</th>
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<tr>
<td>MS INVF Latin American Equity Fund - I Shares</td>
<td>11.55</td>
<td>-1.83</td>
<td>17.93</td>
<td>4.34</td>
<td>-30.80</td>
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<tr>
<td>MSCI EM Latin America Index</td>
<td>8.58</td>
<td>0.71</td>
<td>18.02</td>
<td>6.42</td>
<td>-30.53</td>
</tr>
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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>
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<tr>
<th>Lower Risk</th>
<th>Higher Risk</th>
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<tbody>
<tr>
<td>1 2 3 4 5</td>
<td>6 7</td>
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**Potentially Lower 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 shares of companies from emerging markets, 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.

**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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