Morgan Stanley

INVESTMENT MANAGEMENT

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Morgan Stanley Investment Funds

Latin American Equity Fund

ACTIVE FUNDAMENTAL EQUITY | EMERGING MARKETS TEAM | MONTHLY COMMENTARY | 30 NOVEMBER 2018

Performance Review

In the one month period ending 30 November 2018, the Fund's I shares returned -0.14% (net of fees)[1], while the benchmark returned -2.19%.

The primary contributor to returns was our stock selection in Brazil, primarily through our underweight to materials company Vale. Also contributing to returns during the month was our stock selection in Peru, through industrials company Ferreycorp; our overweight to off-index company Galicia, a bank in Argentina; and our stock selection in Mexico, largely through telecommunications company America Movile. Our sole detractor from returns for the month was our underweight to Chile.

Market Review

MSCI Emerging Markets Latin America Index equities returned -2.19% during the month, underperforming the MSCI Emerging Markets Index (+4.12%) and the MSCI World Index (+1.14%). Chile (+3.33%) was the only country in positive territory. Colombia and Brazil slightly outperformed the regional index, returning -1.80% and -1.97%, respectively. Underperforming the index for the month were Peru (-3.58%) and Mexico (-4.83%).

Portfolio Activity

We added to our position in materials company Compania De Minas Buenaventura in Peru. BVN is one of the lowest-cost gold producers in the world, and we believe it offers diversified upside from metals prices with limited political and balance sheet risk, a long-term management track record and production/free cash flow upside from both new projects and efficiency initiatives. Peru's stable legal framework, taxes and low cost profile continue to attract investments.

We continued to reduce our overweight to financials during the month given a more muted earnings outlook for companies in the sector.

Strategy and Outlook

In **Brazil,** recovery had been expected this year, but it was derailed by the roiling political scandals and by a nationwide truckers strike this spring. Growth forecasts for 2018 have dropped by a full point to just 1.5%. Consumer confidence took a serious hit. Instead of recovering, investment is still deeply depressed at just 16% of gross domestic product (GDP)—currently the lowest among large emerging markets. With President-elect Jair Bolsonaro due to take office in January, it appears the worst is now past. The economy resumed generating net job gains in the middle of last year, and households have cut back their debts, so consumers are poised to start spending again. Investment as a share of GDP is at levels Brazil last saw in 1967 and appears poised to bounce back as well. The market responded positively to the incoming Bolsonaro administration's announcements for the new heads, respectively, of the Central Bank and the state-owned energy company Petrobras.

In **Mexico,** we continue to monitor the policies of new President Andres Manuel Lopez Obrador (known as AMLO) who took office December 1. We remain invested in good quality, growth-oriented companies capable of sustaining or expanding their earnings—and benefiting from healthy domestic demand, resistant to declines in global trade and resilient in the face of higher interest rates driven by the Federal Reserve's tightening regime.

We have consistently become more constructive on **Chile** this year as we believe rising business confidence will likely lead to increased investment and improved growth under the new presidential administration of Sebastian Pinera, who took office in March. Improving confidence about the change in government from the troubled Bachelet administration was helped this year by copper prices.

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

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

FUND FACTS

Launch date	Base currency	Index
02 August 1994	U.S. dollars	MSCI EM Latin America Index

12 Month Performance Periods to Latest Month End (%)

	NOVEMBER '17 - NOVEMBER '18	NOVEMBER '16 - NOVEMBER '17	NOVEMBER '15 - NOVEMBER '16	NOVEMBER '14 - NOVEMBER '15	NOVEMBER '13 - NOVEMBER '14
MS INVF Latin American Equity Fund - I Shares	-5.20	20.90	19.20	-33.97	-5.46
MSCI EM Latin America Index	-1.62	19.51	24.35	-34.54	-5.83

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

Lower Risk **Higher Risk**

1 2 3 4 5 **6** 7

Potentially Lower Rewards **Potentially Higher 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.
- 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 30 November 2018 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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