

## A Sub-Fund of Morgan Stanley Investment Funds Saudi Equity Fund

**EMERGING MARKETS EQUITY TEAM**

### Performance Review

In the three month period ending 31 December 2025, the Fund's Z shares returned -6.68% (net of fees)<sup>1</sup>, while the benchmark returned -9.15%.

### Market Review

The market entered the fourth quarter of 2025 with tempered expectations following a strong September rebound post foreign ownership limits (FOL) news. In the fourth quarter, Tadawul All Share Index (TASI) was down 8.4% (total return) and down almost 10% (total return) in 2025. The annual decline was impacted by the weak oil price environment, fiscal tightening, and persistent local institutional selling and investor disappointment with FOL implementation plans. FOL increasing to possibly 100% from 49% is still on track, in our view, and we associate a high probability of it happening in 2026.

The government's 2025 budget was shaped by lower oil prices and reduced oil production. Revised 2025 government spending estimated at SAR 1,330 billion led to the deficit revised higher to approximately 5.3% of gross domestic product (GDP). Planned government spending of SAR 1,313 billion was slightly below 2025's revised level, while the budget deficit was projected to narrow to approximately 3.3% of GDP. The government targets GDP growth at around 4.6% in 2026, driven primarily by private sector and higher oil production volumes. The Saudi Ministry of Finance also announced cuts to their borrowing plans in 2026 to approximately SAR 200 billion, versus almost SAR 400 billion raised in 2025, a 50% decline. This suggests government project spending rationalization is likely to continue in 2026. Government focus has shifted to artificial intelligence (AI)/technology and other programs that have a relatively near-term and a better-defined returns versus long-term projects such as the urban development project NEOM, which we consider a positive move.

The oil price outlook in 2026 remains weak. Continued supply growth from U.S. shale (more disciplined, capital-efficient growth), Brazil, Guyana, and other offshore producers, including the OPEC+ announced production increase, means supply remains high. Various industry reports suggest Brent crude to trade near \$60 per barrel and perhaps dipping to mid-\$50 per barrel levels. The geopolitical situation both in the region and globally is another factor. A peace deal between Ukraine and Russia could alter the oil supply dynamics while any flare-up in regional tensions may push oil prices higher.

Saudi Arabia's purchasing manager's index (PMI) remained consistently in expansionary territory through 2025, which reflects healthy continued strength in non-oil activity. Consumer spending remained resilient throughout 2025, supported by strong employment trends. This spending trend is increasingly driven by services; that is, the leisure, travel and hospitality sectors. Private sector activity remains a core pillar of growth, and the PMI signals continued expansion, despite a softer oil backdrop, and inflation remains well managed, with a targeted intervention in housing.

Government reform programs continue as suggested by the new real estate regulations, increase in diesel prices and expected change in the FOL limit.

Saudi market (TASI) valuations levels have moderated with price-to-earnings (last 12 months) at 18x versus the last two-year average of approximately 21x (according to Bloomberg data).

### Portfolio Activity

During the quarter, exposure to the materials sector was increased to take advantage of rising product prices and expanding exploration activities. Furthermore, the commercial & professional services sector exposure increase was mainly market driven.

On the other hand, exposure to the real estate sector was reduced due to the recent regulatory changes, which are expected to have a negative impact on the sector in the near term. Additionally, we made a reduction in the consumer services sector to fund an opportunity where we have a positive outlook.

### Strategy and Outlook

Primary market driver for 2026: potential FOL increase, representing a meaningful liquidity event. Earnings growth likely to remain muted near term, but lower prices create selective stock opportunities.

Banks: Loan growth to continue but at a slower pace, easing margin pressure.

Health care: Maintain overweight, while monitoring rising supply risks.

Tourism/Vision 2030: Attractive medium-term value supported by ongoing project execution.

Real Estate: Near-term pressure from regulatory changes. Positive medium- to long-term outlook driven by demand, lower rates and

<sup>1</sup> Source: Morgan Stanley Investment Management Limited. Data as of 31 December 2025.

foreign ownership reforms from 2026.

Chemicals: Cautious stance due to oversupply, with focus on stock-specific opportunities.

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

## Fund Facts

Launch date	24 March 2021
Base currency	U.S. dollars
Benchmark	S&P Saudi Arabia USD Total Return Index

## Calendar Year Returns (%)

**Past performance is not a reliable indicator of future results.**

	YTD	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Class Z Shares	-9.93	-9.93	5.61	30.91	2.89	--	--	--	--	--	--
S&P Saudi Arabia USD Total Return Index	-8.51	-8.51	2.57	15.97	-7.21	--	--	--	--	--	--

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 shares. The sources for all performance and index data is Morgan Stanley Investment Management ('MSIM Ltd'). **Please visit our website [www.morganstanley.com/im](http://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 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 Fund's 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, available at [www.morganstanleyinvestmentfunds.com](http://www.morganstanleyinvestmentfunds.com). All data as of 31.12.2025 and subject to change daily.

Applications for shares in the Sub-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 language of countries authorized for fund distribution and is available online at [Morgan Stanley Investment Funds Webpages](http://Morgan Stanley Investment Funds Webpages) or free of charge from the Registered Office at European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxembourg B 29 192.

The summary of investor rights is available in the aforementioned languages and website location under the General Literature section.

Information in relation to sustainability aspects of the Fund is available from the Prospectus of the Fund.

If the management company of the relevant Fund decides to terminate its arrangement for marketing that Fund in any EEA country where it is registered for sale, it will do so in accordance with the UCITS rules.

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The use of leverage increases risks, such that a relatively small movement in the value of an investment may result in a disproportionately large movement, unfavourable as well as favourable, in the value of that investment and, in turn, the

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Charts and graphs provided herein are for illustrative purposes only and subject to change.

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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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