A Sub-Fund of Morgan Stanley Investment Funds

Sustainable Emerging Markets Equity Fund

EMERGING MARKETS EQUITY TEAM

Performance Review

In the three month period ending 31 December 2025, the Fund's I shares returned 7.80% (net of fees)[1], while the benchmark returned 4.73%.

Portfolio performance for the quarter was led by our stock selection in and the underweight allocation to China, stock selection in Taiwan and Korea, and the zero allocations to Saudi Arabia and other Gulf Cooperation Council (GCC) markets. The overweight to Chile and the overweight to and positioning in Brazil also added to returns. Detractors for the quarter included stock selection in Mexico and Poland and aggregate positioning within materials, especially the below benchmark allocation to metals & mining.

Top contributors to performance for the quarter are outlined below:

Stock selection in and the underweight allocation to China was the top contributor to returns as the equity market pulled back following its DeepSeek-initiated rally earlier in the year. Chinese equities remained under pressure in the fourth quarter amid weak economic data reflecting continued soft domestic and external demand and renewed stress in the property sector. Within the market, our zero allocations to Meituan, PDD and Li Auto added to returns as did our overweight allocations to CATL and BYD.

Stock selections in Taiwan and Korea contributed to returns. Within Taiwan, the portfolio benefited from the overweights to select semiconductor and technology hardware companies including Wiwynn, Unimicron, Delta Electronics and ASE Technology. Wiwynn benefited from strong demand for artificial intelligence (AI) servers, particularly in hyperscale data center deployments, while Unimicron saw resilient growth in printed circuit board (PCB) orders, supported by next-generation computing infrastructure. In Korea, the overweight to Samsung Electronics was the largest stock contributor to returns during the period as the stock benefited from increased demand for memory chips, with optimism around AI server demand and memory pricing driving its sharp rebound.

The zero allocation to Saudi Arabia added to returns as the market faced headwinds from declining crude prices, which weighed on oil revenues and weakened investor sentiment.

The portfolio also benefited from the overweight allocation to Chile, which rallied ahead of the November election and following the result of a newly elected conservative government. Copper miner Antofagasta benefited from the surge in copper prices, based on tight supply conditions and increasing demand from tailwinds such as electrification and AI infrastructure.

Stock selection in and the overweight allocation to Brazil contributed, through the overweights to electric motors manufacturer WEG and pharmaceutical retail chain Raia Drogasil. WEG's stock sharply rebounded in the quarter after facing pressure earlier in the year from tariff-related volatility as a global exporter. The company continues to scale its investments across the energy, electric mobility and industrial automation segments, and we think the company will likely continue to benefit from greater demand in these business segments.

Top detractors from performance during the quarter are outlined below:

Aggregate stock selection in Mexico detracted from relative returns, through the overweight allocations to Banorte and Kimberly-Clark de Mexico. Kimberly-Clark de Mexico underperformed in October following a weaker-than-expected third quarter earnings report, which showed a decline in gross margins impacted by higher raw input prices and unfavorable currency effects.

Stock selection in Poland also detracted, though the overweight allocation to the market contributed positively. Within the market, the overweights to Grupa Kety and e-commerce platform Allegro hampered portfolio performance. Allegro declined as a result of concerns about future GMV (gross merchandise value) growth and increased competition from Chinese platforms weighing on its stock price.

Relative returns were impacted by the stock selection in and underweight allocation to the materials sector as prices for commodities such as gold, copper and lithium rose in the quarter.

Portfolio Activity

During the quarter, we initiated positions in Telefonica Brasil (Vivo) and Sabesp. Vivo is the largest Brazilian wireless operator with high market share in fixed broadband. We believe that in general Brazilian telecom companies should benefit from a favourable competitive environment after the bankruptcy of a competitor, Oi, helping to raise revenue-per-user along with lowering capital expenditure intensity, which we think should continue to support free cash flow. In particular, we think Vivo is well positioned due to lower expected capital expenditure intensity over the next few years and growing enterprise revenues driven by internet of things (IoT), cloud and cyber security solutions. The company continues to pay out almost all its free-cash-flow, with payout ratios at or above 100%.[2]

[1] Source: Morgan Stanley Investment Management Limited. Data as of 31 December 2025.
[2] Source: Bloomberg L.P. Data as of 31 December 2025.

Sabesp is the largest water and sanitation utility in Brazil serving approximately 60% of municipalities in the state of Sao Paulo.[3] The company was privatized in July 2024 with an aim to complete water and sewage universalization, and the company has brought forward the completion from 2033 to 2029. It is undergoing a capital expenditure plan totaling 70 billion real in the next five years that is expected to almost double its regulatory asset base, and the transition to private management should help drive cost savings and lower execution risk on the capital expenditure plan. To fund this trade, we exited the position in Kimberly-Clark De Mexico as the stock has marginally disappointed through topline growth and gross margins.

We added to our existing positions in companies that we believe will likely continue to be AI beneficiaries, including Alibaba, SK Hynix and MediaTek. We believe Alibaba may continue to benefit from AI developments in China as the country continues to focus on self-sufficiency in the technology sector. The company continues to demonstrate steady growth in its ecommerce segment while accelerating progress in its cloud services. We funded these trades by trimming our positions in TSMC, Wiwynn and ASE Technology following their recent share price strength. We maintain an overall positive view on these companies related to AI infrastructure build-out and continued earnings strength in Taiwan's AI supply chain.

Strategy and Outlook

We believe that our integrated top-down and bottom-up analysis remains critical to identify the most attractive macro and stock investments across emerging markets (EM). Both levers continue to be balanced drivers of active returns and risk. In what we expect to be a mixed outlook for growth and ongoing realignment in the global economy, we believe the portfolio is well positioned while providing significant diversification with active positioning at both the country and stock level.[4]

We remain overweight **India** based on our long-term secular, domestic-driven growth thesis. The recent cyclical underperformance has resulted in the market's largest relative underperformance to EM in the last 15 years, and we think the economy and market should begin to show signs of a recovery in the coming quarters. Private consumption has emerged as the key growth engine, supported by goods and service tax (GST) rate cuts, income tax rebates, and easing liquidity, creating a meaningful tailwind for discretionary demand. Inflation remains contained, allowing the Reserve Bank of India flexibility to maintain accommodative monetary policy. We see early signs of a bottoming in corporate earnings and remain constructive on India's manufacturing push, supported by labor reforms and targeted incentives. While the current 50% U.S. tariff on Indian imports may continue to weigh on near-term sentiment, India's low trade dependence and expanding export diversification should help mitigate external risks. We believe that the potential easing of U.S. tariffs could be an additional tailwind for the market. We continue to be invested in structural thematics in India including financialization, accelerating credit growth, rising health care spend, import substitution and increasing linkages to the global supply chain, and digitization. Our exposure in India is diversified and includes what we consider to be well-managed financials, industrials and consumer names, along with select IT, real estate, health care, energy and materials companies.[4]

The portfolio is overweight **Poland**, where structural strengths and multiple tailwinds should drive sustained growth. Poland has shown resilient domestic demand, helped by a tight labor market, manageable inflation along with improved external balances and low debt levels. Private investment is set to accelerate on the disbursal of European Union funds while Germany's fiscal stimulus package should provide additional support in the medium term. Inflation has fallen to 2.5%, within the target range, enabling 150 basis points[5] of rate cuts this year. Overall, we believe the Polish economy is structurally among the strongest in the Central and Eastern European region (particularly given its greater domestic focus), and we remain invested in the largest bank in the country, an infrastructure construction company and an e-commerce platform.

Brazil continues to be a portfolio overweight. While gross domestic product (GDP) growth was expected to slow in 2025 due to high real interest rates and tariff uncertainty, inflation is easing more quickly than expected. Inflation further declined to 4.4% in December, and we think that with lower inflation, interest rates should begin to come down in early 2026, which should be positive for rate-sensitive names owned in the portfolio. We are closely monitoring developments pertaining to the October 2026 presidential elections, where there is the potential for the outcome to result in more market-friendly policies, particularly with regards to fiscal responsibility, which would likely add a further catalyst to the equity market. Other tailwinds for the economy include strong private sector job creation, a higher trade surplus, solid foreign direct investment, and attractive currency and equity valuations.

We are overweight **Mexico**. While we are closely monitoring updates on tariffs, we believe strategic and economic interests will likely prevail and help keep the U.S. and Mexico relationship on track. Structurally the U.S.-Mexico-Canada Agreement (USMCA, up for renegotiation in mid-2026) remains a key focus as currently around 75%-80% of Mexican exports flow through the USMCA.[6] The current administration is also looking to boost domestic value-add through "Plan México," which aims to drive domestic reforms and enhance manufacturing competitiveness. The Bank of Mexico continued its easing cycle with another 25 basis point cut in December, signaling that inflation is on track and near the central bank's target of 3%, with future reductions dependent on continued inflation trends. While GDP has slowed, President Sheinbaum remains focused on economic growth and fiscal responsibility, with initiatives including job creation in specialty manufacturing and strategic sectors, rising real wages and continued investment (led by foreign direct investment and the country's attractive strategic positioning in the global supply chain with more competitive manufacturing wages). We believe many domestically focused companies should continue to benefit from an improving macroeconomic outlook, which would likely translate into solid growth in earnings and dividend yields.

3 Source: Sabesp company data as of 30 September 2025.
4 Diversification neither assures a profit nor guarantees against loss in a declining market.
5 One basis point = 0.01%
6 Source: Liberty Street Economics

We maintain our structural underweight to **China** due to fundamental economic issues. Trade tensions have been an added headwind; however, the meeting between President Trump and President Xi Jinping in late October signaled a temporary easing, with the two countries agreeing to a one-year trade truce and the U.S. reducing tariffs on Chinese imports from 57% to 47%. China also agreed to resume large-scale purchases of U.S. soybeans in addition to suspending rare earth export controls. During the Fourth Plenum, technology, security and people's livelihood were stated as the top priorities for the country's 2026-2030 development strategy, reflecting the long-term pursuit for "high-quality development" and strengthening national security. Recommendations for the country's 15th Five-Year Plan (with the final plan expected to be released in March 2026) focused on "breakthroughs" and innovation, particularly in an industrial and technological context, as well as seeking to grow domestic demand in a more structural rather than cyclical manner. The December Central Economic Work Conference further reinforced this policy direction, with policymakers emphasizing the need to accelerate the development of these key industries and the importance of improving consumption capacity through social safety net reforms and support measures for middle-income households.

There are interesting local themes that we have been focused on in the portfolio. For example, we believe the emergence of DeepSeek marked a turning point in China's broader resurgence in innovation, investment and global competitiveness. China's strengths in consumer technologies and cost efficiency could unlock a more diversified AI opportunity set, one that balances the high-cost, high-performance AI segment with China's more accessible, cost-efficient solution. We are positioned in what we believe are the most sustainable beneficiaries of the AI thematic. We remain selective in our exposure in China and are invested in attractive growth themes, such as electric vehicles and edge AI, and within those themes are focused on companies with competitive advantages, strong corporate governance and solid growth prospects.

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

Fund Facts

Launch date	01 July 1993
Base currency	U.S. dollars
Benchmark	MSCI Emerging Markets Net 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 I Shares	36.17	36.17	7.20	13.96	-25.90	3.40	14.24	18.72	-17.05	35.20	5.83
MSCI Emerging Markets Net Index	33.57	33.57	7.50	9.83	-20.09	-2.54	18.31	18.42	-14.57	37.28	11.19

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 to see the latest performance returns for the fund's other share classes.**

Share Class I 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.
- 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 funds ability to buy or sell securities.
- Investments in China involves a risk of a total loss due to factors such as government action or inaction, market volatility and reliance on primary trading partners.
- 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, available at 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 or free of charge from the Registered Office at European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxemburg B 29 192.

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

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

INDEX INFORMATION

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