Morgan Stanley

INVESTMENT MANAGEMENT

COUNTERPOINT GLOBAL

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Morgan Stanley Investment Funds

US Advantage Fund

MARKETING COMMUNICATION | COUNTERPOINT GLOBAL | COMMENTARY | 31 MARCH 2023

Performance Review

In the three month period ending 31 March 2023, the Fund's I shares returned 17.21% (net of fees)[1], while the benchmark returned 7.50%.

Counterpoint Global seeks high quality companies, which we define primarily as those with sustainable competitive advantages. We manage concentrated portfolios that are highly differentiated from the benchmark, with securities weighted on our assessment of the quality of the company and our conviction. The value added or detracted in any period of time will typically result from stock selection, given our philosophy and process.

The long-term investment horizon and conviction-weighted, highly active investment approach embraced by Counterpoint Global can result in periods of performance deviation from the benchmark and peers. The portfolio outperformed the S&P 500 Index this quarter primarily due to favourable stock selection; sector allocations also contributed.

U.S. large-cap equities, as measured by the S&P 500 Index, advanced over the quarter. Information Technology, Communication Services, and Consumer Discretionary posted the highest return in the S&P 500 Index. Most sectors advanced over the period; however, Energy and Health Care posted negative returns and were the relative underperformers in the index. Against this backdrop, Counterpoint Global continued to focus on stock selection and the long-term outlook for companies owned in the portfolio.

Fear and uncertainty due to concerns about inflation, rising interest rates, geopolitical tensions, and the failure of several U.S. regional banks weighed on market sentiment, contributing to continued volatility. Against this backdrop, we continued to focus on company-specific fundamentals, which across portfolio holdings have largely remained healthy and in line with our expectations. We continue to own high quality companies with attractive end-game potential, strong balance sheets, and multiple competitive advantages. We believe today's market offers an attractive opportunity to buy unique companies with strong fundamentals that can be long-term winners over the next three to five years. While we have opportunistically added to some positions and initiated new ones, overall, we have made few changes as we remain confident in the long-term prospects for the businesses we own.

Consumer Discretionary and Communication Services were the largest and second largest contributors, respectively, across the portfolio due to favourable stock selection and the positive impact of an average overweight position in both sectors. Roblox, a video game platform primarily focused on children, was the greatest contributor in Communication Services and the second greatest across the portfolio. Its shares advanced as the company reported solid quarterly results driven by strong user and engagement growth; the company's fundamentals have recovered substantially post-pandemic in part due to management's decision to accelerate investments in platform infrastructure and various other strategic initiatives. Within Communication Services, the strength in Roblox and a diverse set of other holdings was partly offset by weakness in ZoomInfo Technologies. ZoomInfo Technologies, which operates a database of employment and contact information to augment sales prospecting for third parties, was the largest detractor across the portfolio. Similar to last quarter, concerns about slower business growth, longer sales cycles, and deal delays weighed on investor sentiment.

Industrials was the third largest contributor, due to favourable stock selection. Uber, a leading global ridesharing services platform, was the top contributor in the sector and the third greatest across the portfolio. The company reported strong quarterly results characterised by improved profitability. The company's core mobility and delivery businesses remain resilient, while its other verticals, such as advertising, continue to trend positively.

Stock selection in Financials and Health Care also contributed to relative performance, as did a lack of exposure to Energy, Consumer Staples, Utilities, and Real Estate. Strong overall stock selection in Health Care was partly offset by weakness in Royalty Pharma, which was the third greatest detractor across the portfolio. Royalty Pharma is one of the largest buyers of biopharmaceutical royalties and a leading funder of innovation across academic institutions, non-profits, biotechnology, and pharmaceutical companies. The company reported solid results; however, its shares languished due to investor concerns around clinical trial results for a few of its partners' new therapies.

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[1] Source: Morgan Stanley Investment Management Limited. Data as of 31 March 2023.

Conversely, Information Technology was the largest detractor across the portfolio, as unfavourable stock selection more than offset the positive impact of an average overweight in the sector. A variety of holdings impeded relative performance, including Nvidia and Datadog, which were among the greatest detractors across the portfolio. Nvidia, a leading provider of graphics processing units (GPUs), was the second largest detractor across the portfolio due an average underweight position. Its shares advanced amid renewed investor enthusiasm for its full stack of software and hardware solutions that support data centre, artificial intelligence, and machine learning related technologies. Datadog, a software as a service platform that allows customers to monitor their entire IT stack in real-time from a single user interface, was the fifth greatest detractor across the portfolio. Although the company reported overall healthy results characterised by product suite expansion and strong customer retention, its shares traded down as investors were disappointed by management's conservative outlook. The weak performance of these and a diverse set of other holdings was partly offset by strength in Shopify, ASML, and Cloudflare. Shopify, which operates a cloud-based software and services platform that enables merchants to build an ecommerce presence, was the top contributor across the portfolio. Its outperformance was driven by continued strong business execution in a tougher economic environment and ongoing traction with new product offerings. ASML, the leading supplier of lithography equipment used in the production of semiconductors, was the third greatest contributor in the sector and fourth greatest across the portfolio. Its shares outperformed as customer demand for its products remains strong and the company reported better-than-expected quarterly results. Cloudflare, which offers a global cloud platform that provides security, performance, and reliability services to the applications of its customers, was also a meaningful contributor in across the portfolio. Despite a tougher demand environment and longer sales cycles, the company experienced solid customer uptake across its product suite.

Lastly, stock selection in Materials also weighed on relative performance, albeit to a lesser extent. Sherwin-William, a leading global producer and distributor of paints and coatings, was among the greatest detractors across the portfolio. Its shares languished as the company reported mixed quarterly results and a disappointing financial outlook, owing to higher interest rates and consequently slower growth in the U.S. housing market.

Strategy and Outlook

Counterpoint Global looks to own a portfolio of unique companies with diverse business drivers, strong competitive advantages and positioning, and healthy secular growth prospects whose market value we believe can increase significantly over the long term for underlying fundamental reasons, independent of the macro or market environment. We find these companies through fundamental research. Our emphasis is on secular growth, and as a result short-term market events are not as meaningful in the stock selection process.

Counterpoint Global believes having a market outlook can be an anchor. We focus on assessing company prospects over a five-year investment horizon. Current portfolio positioning reflects what we believe are the best long-term investment opportunities.

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

FUND FACTS

Launch date	Base currency	Index
01 December 2005	U.S. dollars	Custom - Blended Benchmark

Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

	YTD	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Class I Shares	17.21	-54.65	-3.18	76.93	26.49	1.71	32.12	2.28	11.53	8.86	36.26
Blended Benchmark	7.50	-18.11	28.71	18.40	31.49	-4.38	21.83	11.96	1.38	13.69	32.39

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.**

The Fund has no direct exposure to banks domiciled in advanced economies of the U.S. and Europe. As part of our investment process, we seek companies that demonstrate financial strength, generally with high margins, strong cash generation potential, low capital intensity, and low financial leverage. As of 31 March 2023, the Fund held a capital markets exchange as well as payment platforms recently reclassified† as Financials.

† Revisions to the Global Industry Classification Standard (GICS®) structure effective March 2023: https://www.msci.com/documents/1296102/29559863/GICS_Structure_Change_Doc_31_March_2022.pdf/

Share Class I Risk and Reward Profile

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 company shares 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.
- 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.
- 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. All data as of 31 March 2023 and subject to change daily.

Applications for shares in the 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 official language of your local jurisdiction at morganstanleyinvestmentfunds.com or free of charge from the Registered Office of Morgan Stanley Investment Funds, European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxemburg B 29 192.

Information in relation to sustainability aspects of the Fund and the summary of investor rights is available at the aforementioned website.

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 relevant UCITS rules.

INDEX INFORMATION

The Blended Index performance shown is calculated using the **S&P 500 Index** from inception through 31 August 2009, the **Russell 1000 Growth Net 30% Withholding Tax TR Index** to 31 March 2010 and the S&P 500 Index thereafter.

The **Standard & Poor's 500® Index (S&P 500®)** measures the performance of the large cap segment of the U.S. equities market, covering approximately 80% of the U.S. equities market. The Index includes 500 leading companies in leading industries of the U.S. economy.

The **Russell 1000 Growth Net 30% Withholding Tax TR Index** measures the performance of the large-cap growth segment of the U.S. equity universe, net 30% withholding tax TR. It includes those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000® Index is an index of approximately 1,000 of the largest U.S. companies based on a combination of market capitalization and current index membership.

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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 value of the Fund.

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