

Morgan Stanley Investment Funds

US Core Equity Fund

APPLIED EQUITY ADVISORS TEAM

Performance Review

In the three month period ending 31 December 2023, the Fund's I shares returned 12.01% (net of fees)¹, while the benchmark returned 11.69%.

As a core portfolio, US Core attempts to tilt toward the style of stock exposure (growth, value, defensive) that offers the best opportunity within the context of a typically 30- to 35-stock portfolio. With a limited number of stocks, diversification² among positions is a critical component of risk control.

Following are the most significant performance drivers relative to the S&P 500 benchmark for the fourth quarter of 2023:

1. Style Exposures:
 - a. An underweight to the highest beta stocks cost -0.14%, while an underweight to the lowest beta stocks added +0.26%.
 - b. An overweight to high momentum stocks added +0.68% while an underweight to low momentum stocks added +0.39%.
 - c. An underweight to the lowest quality stocks cost -0.30%.
2. Sector exposures:
 - a. An underweight to health care added +0.49%.
 - b. An overweight to financials added +0.20%.
 - c. An underweight to REITs (real estate investment trusts) cost -0.17%.
3. Specific Stocks:
 - a. Microsoft, Lululemon, United Rentals and Costco each rallied close to, or more than, 20% for the quarter, resulting in a combined addition of +2.41% to relative returns for the quarter.
 - b. The only stock down of significance was Chevron, which lost -11% over the quarter. This cost the portfolio -0.53% in relative returns for the quarter.

Past performance is no guarantee of future results. The attribution is presented gross of fees. Had these fees and expenses been deducted, returns would be lower. See the next page for performance.

Strategy and Outlook

There are five reasons we believe the equity rally is not over:

1. Retail fund flows only turned positive in November, a year beyond the 2022 market low. This is consistent with past patterns for fund flows, and is likely fuel for further gains.
2. Since 1940, the S&P 500 has always (17 out of 17 times) gone up the year incumbent presidents run for re-election,³ as is happening in 2024.
3. Since 1974, once the Federal Reserve (Fed) stops hiking rates, the equity rally has lasted longer and gone higher.
4. At the current pace, monthly inflation numbers should continue to point in a downward trajectory, at least for the first half of 2024.
5. Technically, since 1960, broadening of the recent rally (90% of S&P 1500 stocks are above their 50-day moving averages) has had an excellent history of predicting further gains ahead.⁴

We believe this would also point to a better time for stock picking versus indexing.

What worries us:

1. After a year (2023) of very little pain for bullish investors, the next year has frequently challenged a bullish thesis.
2. Monthly inflation numbers will have tougher year-over-year comparisons in the second half of 2024.
3. Once the Fed cuts rates, will the bears scare the market?

¹ Source: Morgan Stanley Investment Management Limited. Data as of 31 December 2023.

² Diversification neither assures a profit nor guarantees against loss in a declining market.

³ Source: Strategas, Bloomberg L.P.

⁴ Source: Sentiment Trader, 20 December 2023 and 26 December 2023.

How our portfolios are positioned:

1. We like a balance between growth (technology and consumer discretionary) and value (financials and industrials).
2. We remain underweight relative to the defensive sectors (health care and consumer staples).

Past performance is no guarantee of future results. The market returns referred to in the commentary are those of representative indices and are not meant to depict the performance of a specific investment.

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

Fund Facts

Launch date	05 July 2016
Base currency	U.S. dollars
Benchmark	S&P 500 Total Return Index

Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

	YTD	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Class I Shares	19.26	19.26	-20.30	36.80	23.37	35.49	-12.18	19.68	--	--	--
S&P 500 Total Return Index	26.29	26.29	-18.11	28.71	18.40	31.49	-4.38	21.83	--	--	--

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

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 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.
- 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 December 2023 and subject to change daily.

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INDEX INFORMATION

The **S&P 500 Total Return Index** is an index that consists of 500 stocks chosen for market size, liquidity and industry group representation. The S&P Index is a market value weighted index with each stock's weight proportionate to its market value. The S&P Index is one of the most widely used benchmarks of U.S. equity performance. The performance of the S&P Index does not account for any management fees, incentive compensation, commissions or other expenses that would be incurred pursuing such strategy. Total return

provides investors with a price-plus-gross cash dividend return. Gross cash dividends are applied on the ex-date of the dividend.

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