

## Morgan Stanley Investment Funds US Focus Property Fund

MARKETING COMMUNICATION | GLOBAL LISTED REAL ASSETS TEAM | QUARTERLY COMMENTARY | 31 MARCH 2022

### Performance

As the Fund is less than a year old we are constrained from commenting on its performance.

U.S. Real Estate Securities (FTSE Nareit All Equity REITs Net Index, -5.5%, the "Index") underperformed the broader equity markets (S&P 500 Index, -4.6%) for the quarter. Geopolitical tensions in Russia and Ukraine, increasing inflation concerns and a shift in monetary policy all contributed to weakness during the quarter and are expected to continue to impact global markets over the coming months.

The Federal Reserve announced its first interest rate hike of 25 basis points<sup>1</sup> in mid-March, and the market is expecting several more increases throughout the year. With decreasing COVID-19 cases, mask-optional mandates continue to be the norm across most public settings, and the Centers for Disease Control and Prevention announced a second booster would be made available for individuals aged 50 and older and those who may be at higher risk of severe outcomes due to COVID-19. Within the Index, market strength has transitioned from secular beneficiaries to cyclical beneficiaries, and companies within the office, health care and hotel sectors outperformed, while regional malls, towers, data centers and residential underperformed.

The Fund's security selection within and the overweight to shopping centers, the overweight to seniors housing health care, zero position to regional malls, and security selection in industrial companies contributed to relative performance. This was partially offset by the zero position in NYC office and hotel companies, and the overweight and security selection within manufactured housing companies.

### Strategy and Outlook

The team uses internal proprietary research to invest in public real estate companies that we believe offer the best value relative to their underlying assets and growth prospects. The team combines a bottom-up approach, assessing the intrinsic value, equity multiples and growth prospects of each security, with a top-down view that incorporates fundamental inflection points, macroeconomic considerations and geopolitical risk, and actively selects positions in a limited number of equity securities. By incorporating both an equity market valuation and a more traditional real estate valuation with a top-down overlay, we believe the Fund will be better prepared to identify securities with the best expected total returns.

Forecasted market strength in the asset class is supported by a number of macro and fundamental factors, including global gross domestic product growth, limited new real estate supply additions and favorable credit conditions. We believe the relative valuation of real estate securities is attractive compared to investable alternatives, including the broader equity market, fixed income and direct property investment. Fundamental recovery and strength, coupled with attractive relative valuations, appear to be supportive of above-trend growth over the next several years. Additionally, we believe continued mergers and acquisitions and privatizations are possible given discounts to private market valuations observed across sectors.

Secular trends that have been unfolding over the past several years and that were accelerated in the face of COVID-19 will result in winners and losers for real estate.

- In retail, while secular headwinds remain given the continued focus on omnichannel distribution, retailers have a renewed appreciation for physical storefronts; tenant bankruptcies are expected to decline versus prior years; and enclosed malls remain more challenged than open-air retail formats.
- Work-from-home policies are anticipated to continue to be an overhang on office demand. However, an increased focus on health, wellness and safety could serve as a partial offset to demand impairment, but will likely lead to a new "green" capex cycle for landlords.
- In lodging, leisure demand is exceeding expectations amid a "return to normalcy" stemming from dropping COVID-19 cases, but business travel will likely be secularly impaired.

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<sup>1</sup> One basis point = 0.01%

- In health care, pent-up demand for seniors housing is manifesting itself in strong occupancy gains, although expense pressures stemming from labor shortages and inflation may continue to compress margins and dampen forward growth.
- In storage, occupancy gains and pricing strength coming out of the COVID-19 pandemic will likely be more permanent than originally anticipated.
- In industrial, inventory restocking and the easing of supply chain disruptions will likely continue to fuel already robust demand stemming from growing e-commerce sales, and occupancies are expected to remain at record highs, resulting in strong rent growth.
- In residential, strong job growth and household formations, limited new supply additions and under-market rents across the portfolios will likely lead to record levels of internal growth for the sector.

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

#### FUND FACTS

##### Launch date

22 October 2021

##### Base currency

U.S. dollars

##### Index

FTSE Nareit All Equity REITs Net Index

### Share Class I Risk and Reward Profile

Lower Risk

Higher Risk



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 property 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:

- 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.
- 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 2022 and subject to change daily.

This is a marketing communication. Applications for shares in the Fund should not be made without first consulting the current Prospectus and the Key Investor Information Document ("KIID"), which are available in English and in the official language of your local jurisdiction at [morganstanleyinvestmentfunds.com](http://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. Luxembourg B 29 192. A summary of investor rights is available in English at the same website.

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#### INDEX INFORMATION

The **FTSE Nareit (National Association of Real Estate Investment Trusts) All Equity REITs Index** is a free float-adjusted market-capitalization-weighted index of tax qualified REITs listed on the New York Stock Exchange, NYSE

Amex and the NASDAQ National Market Systems. 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 **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.

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