

Morgan Stanley Investment Funds

US Insight Fund

ACTIVE FUNDAMENTAL EQUITY | COUNTERPOINT GLOBAL TEAM | QUARTERLY COMMENTARY | 30 JUNE 2020

Performance Review

In the three month period ending 30 June 2020, the Fund's Z shares returned 59.06% (net of fees)¹, while the benchmark returned 27.99%.

The long-term investment horizon and conviction-weighted investment approach embraced by the Counterpoint Global team can result in periods of performance deviation from the benchmark and peers. Over time, this has led to the strong record we have developed over our product set. The Fund outperformed the benchmark this quarter largely due to favourable stock selection; sector allocations also contributed, to a lesser extent.

Growth equities, as measured by the Russell 3000 Growth Index, rebounded strongly over the quarter. Energy, Consumer Discretionary, and Information Technology posted the largest gains in the Russell 3000 Growth Index. All sectors advanced over the period, with the exception of Utilities, which was the relative laggard. Against this backdrop, our team continued to focus on stock selection and the long-term outlook for companies owned in the portfolio.

Information Technology drove the majority of the portfolio's outperformance this quarter, primarily due to favourable stock selection; a sector overweight position also contributed, to a much lesser extent. Shopify, which operates a cloud-based software and services platform that enables merchants to build an e-commerce presence, was the top contributor in the sector and across the portfolio. Shopify shares advanced on solid fundamentals including accelerating revenue growth and higher profit margins. The company has seen strong demand for its services, as a growing number of merchants of all sizes seek to build or expand their e-commerce capabilities at a time when the global health pandemic has resulted in a sharp reduction in consumer traffic to physical stores. Twilio, which provides a proprietary cloud communications platform allowing software developers to build voice and messaging capabilities into their applications, was the second greatest contributor in the portfolio. Its shares recovered strongly over the period due to healthy reported results which surpassed investor expectations. The company was adversely impacted by weakness among some of its larger customers in the travel, hospitality, and transportation industries; however, this was more than offset by the positive impact of new and expanded use cases for Twilio's product in applications addressing contactless delivery, distance learning, telehealth, and mass notifications. Coupa Software, which provides a cloud-based spending management platform to enterprises, was the third greatest contributor. Its shares advanced on solid fundamentals, with reported results including strong billings growth and profit margin expansion that surpassed Street expectations, a healthy pipeline of new deals, and high renewal rates with existing customers. Investor sentiment broadly remains positive across businesses in the software industry that facilitate virtual collaboration, support distributed workforces, and enable enterprises to improve efficiency, enhance agility, and make more informed data-driven business decisions.

Strong stock selection in Consumer Discretionary, Communication Services, Health Care, and Energy also contributed, as did an underweight in Industrials and Materials, and a lack of exposure to Consumer Staples, Financials, Real Estate and Utilities. Leading audio streaming services platform Spotify was the top contributor among these areas and the fourth greatest across the portfolio. Spotify shares had languished over the previous quarter on fears that consumer usage may decline near term in markets where consumers are required to quarantine due to the pandemic. Its shares rebounded strongly this quarter on solid reported results as well as positive investor sentiment around the company's additional investments in unique podcast content, which has the potential to strengthen its streaming audio leadership position, further expand its large global subscriber base, and increase user engagement. Wayfair, a leading online retailer in the home furnishings category, was the top contributor in Consumer Discretionary. Concerns about the company's levels of investment spending and the health of the furniture category, considered an area of discretionary consumer spending in a weak economic environment, had weighed on investor sentiment and Wayfair's share price earlier this year. The stock rebounded sharply this quarter on results that beat

¹ Source: Morgan Stanley Investment Management Limited. Data as of 30 June 2020.

Street expectations and were characterized by a significant acceleration in demand due to the pandemic and related quarantine, as well as gross margin expansion.

Due to the portfolio's strong performance over the quarter, no sectors detracted overall, and no holdings significantly detracted from relative performance over this period.²

Outlook

The investment team looks for unique companies whose market value we believe can increase significantly for underlying fundamental reasons. 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. It is our goal to hold a portfolio of high quality companies we believe are well positioned over the long term, regardless of the market environment.

As a team, we believe having a market outlook can be an anchor. Our focus is on assessing a company over a five-year horizon.

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

FUND FACTS

Launch date

28 November 2014

Base currency

U.S. dollars

Index

Russell 3000® Growth Index

12 Month Performance Periods to Latest Month End (%)

	JUNE '19 - JUNE '20	JUNE '18 - JUNE '19	JUNE '17 - JUNE '18	JUNE '16 - JUNE '17	JUNE '15 - JUNE '16
MS INVF US Insight Fund - Z Shares	49.59	6.64	12.76	31.99	4.32
Russell 3000® Growth Index	17.27	7.34	7.25	16.21	2.43

Past performance is not a reliable indicator of future results. Returns may increase or decrease as a result of currency fluctuations. 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 Z 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 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.

- 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.
- 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 30 June 2020 and subject to change daily.

² Any relative detractors this past quarter had a less than 50 basis point negative impact on relative performance.

INDEX INFORMATION

The **Russell 3000® Growth Index** measures the performance of the broad growth segment of the U.S. equity universe. It includes those Russell 3000® Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 3000® Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market.

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