

Morgan Stanley

INVESTMENT MANAGEMENT

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Morgan Stanley Investment Funds US Property Fund

REAL ASSETS | GLOBAL LISTED REAL ASSETS TEAM | MONTHLY COMMENTARY | 31 JANUARY 2019

Performance Review

In the one month period ending 31 January 2019, the Fund's I shares returned 10.99% (net of fees)¹, while the benchmark returned 11.69%.

The Fund underperformed the benchmark for the month. From a bottom-up perspective, the Fund benefited from stock selection in the primary central business district (CBD) office and industrial sectors. This was offset by stock selection in the hotel, mall and diversified sectors. From a top-down perspective, the Fund benefited from the overweight to the primary CBD office sector and underweight to the data center and storage sectors. This was partially offset by the overweight to the mall sector and underweight to the industrial and health care sectors.

Market Review

Real estate shares rallied 11.7% in the month of January. This followed significant weakness in the month of December when REITs declined 8.4%. This rally in January coincided with a strong rally in the broader equity markets and benefited all the sectors of the REIT market. There was not a strong theme with regard to share price performance in the month. Among the primary sectors, the apartment and retail sectors underperformed and the office sector outperformed the index. The apartment sector modestly lagged the overall index but still gained 10.3% in the month. The office sector outperformed as both the primary CBD and secondary CBD/suburban REITs outperformed the index. The retail sector underperformed as the mall stocks underperformed and shopping center stocks outperformed the index. The health care sector also outperformed in the month. Among the smaller sectors, the industrial, hotel and net lease sectors outperformed and the data center and storage sectors meaningfully underperformed in the month.

Portfolio Activity

We have maintained our core investment philosophy as a real estate value investor. This results in the ownership of stocks whose share prices provide real estate exposure at the best valuation relative to their underlying asset values. We continue to focus on relative implied valuations as a key metric. Our company-specific research leads us to an overweighting in the Fund to a group of companies that are focused in the ownership of NYC office assets, Class A malls and quite a number of stocks in the shopping center, office, hotel and apartment sectors and an underweighting to companies concentrated in the ownership of health care, data center and net lease assets.

Strategy and Outlook

Our outlook for the REIT market is based on two key factors: private market pricing for underlying real estate assets and public market pricing for the securities. Private market asset values for high-quality assets have, on average, been flattish for the past two years, and appear well supported by a record level of capital committed to invest in real estate. The overall REIT market ended the month trading at an approximate 6% premium to net asset values (NAVs), with various segments trading at meaningful discounts. There is a significantly wider than typical disparity in relative valuations among the various REIT sectors. We see the most attractive value in the owners of NYC office assets. We also see attractive value in high-quality retail, office and hotel stocks. We believe these companies provide exposure to high-quality core assets at significant discounted valuations.

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

¹ Source: Morgan Stanley Investment Management Limited. Data as of 31 January 2019.

FUND FACTS

Launch date

09 January 1996

Base currency

U.S. dollars

Index

FTSE Nareit Equity REITs (Net) Index

12 Month Performance Periods to Latest Month End (%)

	JANUARY '18 - JANUARY '19	JANUARY '17 - JANUARY '18	JANUARY '16 - JANUARY '17	JANUARY '15 - JANUARY '16	JANUARY '14 - JANUARY '15
MS INVF US Property Fund - I Shares	5.13	-1.94	10.09	-10.42	34.45
FTSE Nareit Equity REITs (Net) Index	9.42	-0.51	11.19	-7.60	31.83

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 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:

- 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 are additional risks associated with investing in real estate.
- 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 January 2019 and subject to change daily.

INDEX INFORMATION

The **FTSE Nareit (National Association of Real Estate Investment Trusts) 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.

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