Morgan Stanley

INVESTMENT MANAGEMENT

Morgan Stanley Investment Funds

US Property Fund

REAL ASSETS | GLOBAL LISTED REAL ASSETS TEAM | MONTHLY COMMENTARY | 28 FEBRUARY 2018

Performance Review

In the one month period up until 28 February 2018, the Fund's I shares returned -5.76% (net of fees)[1], while the benchmark returned -7.79%.

In February, the REITs market declined 7.8%, as measured by the FTSE NAREIT Equity REITs (Net) Index. The Fund outperformed the index in the month. From a bottom-up perspective, the Fund benefited from stock selection in the primary central business district (CBD) office sector. This was more than offset by stock selection in the data center, hotel and storage sectors. From a top-down perspective, the Fund benefited from the overweight to the primary CBD office and regional malls sectors, and underweight to the data center, health care and hotel sectors. This was only modestly offset by the underweight to the manufactured home sector (a small subset of the residential sector).

Market Review

In February, the REITs market declined 7.8%. The sector appeared to be negatively impacted both by rising interest rates and a sell-off in the broader equity markets. The yield on the 10-year Treasury increased by another 15 bps in the month (46 bps year-to-date), ending the month at 2.87%. Among the three primary sectors, both the retail and office sectors modestly outperformed, while the apartment sector performed roughly in line with the index. The apartment sector performed in line with the index in the month and also year-to-date. The 2018 full year same store net operating income guidance provided on earnings calls in February was basically in line with expectations. In the office sector, the primary CBD stocks outperformed and the secondary CBD/suburban REITs underperformed the index. The retail sector outperformed as both the shopping centers and malls outperformed. However, with January's declines, the shopping center sector is among the weakest performers year-to-date. The health care REITs underperformed the index in the month, and this is the worst performing sector year-to-date. This sector has been hurt for two reasons. First, because it has largely been viewed as a bond proxy in the equity market, it is unsurprising for it to be most vulnerable and to underperform in a higher interest rate environment. Second, 2018 earnings guidance confirmed growing concerns with the perceived defensive nature of the companies' cash flows given supply concerns in the senior living sector and challenges faced by skilled nursing facility operators. Among the smaller sectors, the storage sector had the best performance as investors appeared to be encouraged both by fourth quarter earnings results and better than expected guidance for 2018. The data center and hotel sectors posted the weakest performance in the month. The data center sector was a very strong performer in 2017 and appeared to suffer weakness along with the broader equity market. Investors in hotels appeared disappointed with the companies' 2018 guidance, which generally did not assume a pick-up in corporate travel demand that may have been priced into the stocks. Finally, the industrial sector modestly outperformed and the net lease sector performed in line with the index in the month.

Portfolio Activity

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, apartment and office 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. The REIT sector declined 7.7% in February. With asset values for high quality assets, on average, approximately 20% above 2007 valuations, the overall REIT market ended the month trading at a 10% discount to NAVs, with various segments trading at more meaningful discounts. Indeed, this is the first time in a decade that the sector has witnessed these discounted levels. The stock market appears to be concerned with higher interest rates and its potential adverse impact on real estate values going forward. While there may be downside to NAVs in certain sectors, we believe the significant discounted valuations of certain segments provides a meaningful cushion to the downside risk.

There is a significantly wider than typical disparity in relative valuations among the various REIT sectors. We see the most attractive value in the NYC office and Class A mall sectors, which are trading at greater than 25% discounts to NAVs. These companies provide exposure to high quality core assets at significant discounted valuations and backed by strong balance sheets. Given share price declines we also see attractive value in quite a number of stocks in the shopping center, apartment and office sectors.

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

[1] Source: Morgan Stanley Investment Management Limited. Data as of 28 February 2018.

FUND FACTS

Launch date	Base currency	Index
09 January 1996	U.S. dollars	FTSE NAREIT Equity REITs (Net) Index

12 Month Performance Periods to Latest Month End (%)

	FEBRUARY '17 - FEBRUARY '18	FEBRUARY '16 - FEBRUARY '17	FEBRUARY '15 - FEBRUARY '16	FEBRUARY '14 - FEBRUARY '15	FEBRUARY '13 - FEBRUARY '14
MS INVF US Property Fund - I Shares	(10.56)	11.56	(3.73)	20.56	6.05
FTSE NAREIT Equity REITs (Net) Index	(11.22)	15.47	(4.68)	21.19	5.46

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**

1 2 3 4 **5** 6 7

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 28 February 2018 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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