

# Morgan Stanley Investment Funds

## US Property Fund

REAL ASSETS | GLOBAL LISTED REAL ASSETS TEAM | MONTHLY COMMENTARY | OCTOBER 31, 2017

FOR PROFESSIONAL CLIENTS ONLY.

### PERFORMANCE REVIEW

In the one month period ending 31 October 2017, the fund's I shares returned -2.21% (net of fees) while the benchmark returned -1.01%.

In October, real estate investment trusts (REITs) fell 1.0%, as measured by the FTSE NAREIT Equity REITs (Net) Index. The fund underperformed the index in the month primarily due to the overweight to the mall sector. From a bottom-up perspective, the fund featured favourable stock selection in the data centre, health care and shopping centre sectors. This was offset by stock selection in the office, hotel and storage sectors. From a top-down perspective, the fund featured favourable attribution from the underweight to the health care, net lease and shopping centre sectors. However, this was more than offset by the negative attribution from the overweight to the mall sector as well as the underweight to the data centre and industrial sectors.

### MARKET REVIEW

In October, the REITs fell 1.0%. Among the three primary sectors, the apartment sector outperformed and the retail and office sectors underperformed the index. The apartment sector has been an outperformer year to date as investors appear to have been encouraged that the companies have been able to very modestly increase their full-year same-store (SS) NOI growth guidance, despite high levels of new supply in select markets.

In the retail sector, both the malls and shopping centres underperformed the index. The retail sector was the worst performing sector in October as a result of pervasive negative investor sentiment that has plagued the sector all year. In the office sector, the primary central business district (CBD) stocks performed in-line and secondary CBD/suburban REITs underperformed the index.

The health care REITs underperformed the index in the month as a result of growing concerns with the defensive nature of their cash flows given supply concerns in the senior living sector and tenant concerns in skilled nursing facilities. The sector's performance is now in-line with the index year to date. Among the smaller sectors, the data centre, industrial, and hotel sectors outperformed in the month. The storage sector performed in-line and the net lease sector underperformed the index.

### 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 Class A malls, New York City office assets and a number of out-of-favour companies. The fund is underweight companies concentrated in the ownership of health care, data centre, 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

### FUND FACTS

#### Fund launch

January 1996

#### Investment team

Ted Bigman, Bill Grant

#### Location

New York

#### Base currency

U.S. dollars

#### Benchmark

FTSE NAREIT Equity REITs (Net) Index

declined 1.0% in October. With asset values for high quality assets having fully recovered and now, on average, approximately 20% in excess of peak levels achieved in 2007, the overall REIT market ended the month trading approximately at par to NAVs.

There is a significantly wider than typical disparity in relative valuations among the various REIT sectors. We see the most attractive value in the Class A mall and New York City office sectors, which are trading at greater than 25% discounts to NAVs. These companies provide exposure to high quality core assets at significant discounted valuations.

**For further information, please contact your Morgan Stanley representative.**

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For cash management purposes the Fund may invest in shares in the Liquidity Funds of Morgan Stanley

#### Liquidity Funds.

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