

Morgan Stanley Investment Funds

US Property Fund

REAL ASSETS | GLOBAL LISTED REAL ASSETS TEAM | MONTHLY COMMENTARY | 31 MAY 2018

Performance Review

In the one month period ending 31 May 2018, the Fund's I shares returned 2.23% (net of fees)¹, while the benchmark returned 3.86%.

The Fund underperformed the benchmark for the month. From a bottom-up perspective, the Fund benefited from stock selection in the data center and secondary central business district (CBD)/suburban office sectors, but this was more than offset from stock selection in the health care, retail and mall sectors. From a top-down perspective, the Fund benefited from the underweight to the data center sector, but this was more than offset by the overweight to the primary CBD office and regional malls sectors and underweight to the net lease, hotel and health care sectors.

Market Review

In May, the REITs gained 3.9%, as measured by the FTSE Nareit Equity REITs (Net) Index, marking their best monthly return of the year. The sector appeared to benefit from a decline in the yield on the 10-year Treasury as well as increased merger and acquisition activity. Each of the three primary sectors (apartments, retail and office) underperformed the index. The apartment sector underperformed the index in the month, perhaps due to lesser benefits from the two key themes in the month. The office sector modestly underperformed as the primary CBD stocks underperformed and the secondary CBD/suburban REITs outperformed the index. The retail sector also modestly underperformed as the malls underperformed and the shopping centers outperformed the index. The health care sector meaningfully outperformed the index as it appeared to be a key beneficiary of the decline in Treasury yields as well as improved sentiment toward the nursing home sector. Among the smaller sectors, the hotel sector had the best performance as investors appeared to be encouraged by the all-cash take-private bid for LaSalle Hotels. The net lease sector also outperformed as it was the beneficiary of both key monthly themes with rising yields and the all-cash take private bid for Gramercy Property Trust. The storage sector also outperformed in the month. The industrial and data center sectors 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, apartment and office sectors.

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. With asset values for high-quality assets, on average, approximately 20% above 2007 valuations, the overall REIT market ended the month trading at a 2% discount to NAVs, with various segments trading at more 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 NYC office and Class A mall sectors, which are trading at 20% to 25% discounts to NAVs. 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 31 May 2018.

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 (%)

	MAY '17 - MAY '18	MAY '16 - MAY '17	MAY '15 - MAY '16	MAY '14 - MAY '15	MAY '13 - MAY '14
MS INVF US Property Fund - I Shares	1.51	(1.98)	5.33	10.01	9.20
FTSE Nareit Equity REITs (Net) Index	0.06	1.73	9.36	9.37	8.53

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 May 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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