Morgan Stanley

INVESTMENT MANAGEMENT

Morgan Stanley Investment Funds

Multi-Asset Risk Control Fund

SOLUTIONS & MULTI ASSET | **GLOBAL BALANCED RISK CONTROL TEAM | FUND ANALYSIS | 30 SEPTEMBER 2021**

Commentary

PERFORMANCE REVIEW

- In the one month period ending 30 September 2021, the Fund's Z shares returned -1.41% (net of fees)[1].
- Headwinds gathered in September. Macro indicators showed the global recovery moderating further and supply chain stress worsening. The U.S. Federal Reserve signalled possible tapering in November and sooner-than-expected interest rate hikes, as inflation pressures are persisting longer than expected. Adding to the month's volatility were the potential default of one of China's largest property developers, which fuelled concerns about contagion, and the debt ceiling debate in the U.S. Congress. Allocations to U.S. equities, European equities and global bonds were the top detractors causing the portfolio's negative performance over the month of September. Allocation to Japanese equities added to performance.

MARKET REVIEW

- **U.S.:** The MSCI USA Index returned -4.75% in U.S. dollar terms (USD) and -2.81% in euro terms. U.S. manufacturing conditions remained expansionary despite worsening supply chain lags. The Institute for Supply Management (ISM) Manufacturing PMI rose to 61.1 in September from 59.9 in August. New orders growth was unchanged on the month, while production growth slowed marginally and hiring resumed growth after contracting the previous month. Faster growth in business activity and new orders helped the ISM Services PMI increase slightly to 61.9 in September from 61.7 in August, despite employment growing at a slower rate and ongoing supply bottlenecks. According to the U.S. Bureau of Labor Statistics, inflation remained elevated, with the headline (all items) rate at 5.3% in the 12 months ending August, below July's 5.4% increase. Core inflation, excluding food and energy, rose 4.0% over the year ended August, slowing from 4.3% in July.
- **Europe:** The MSCI Europe Index returned -3.01% in euro terms and -4.95% in USD terms. The IHS Markit Eurozone Manufacturing PMI fell to 58.6 in September from 61.4 in August, with growth in new orders, production and employment slowing due to increasing supply delays. The IHS Markit Eurozone PMI Services Business Activity Index dropped to 56.4 in September from 59.0 in August, as new business growth and the pace of hiring slowed. Eurostat estimates annual consumer price inflation increased 3.4% in September, up from 3.0% in August, for the all-items index. Excluding energy, food, alcohol and tobacco, core inflation rose 1.9% in September, an increase from 1.6% in August. Unemployment continued to trend lower. In a separate report, Eurostat said the jobless rate declined to 7.5% in August from 7.6% in July in the euro area and fell to 6.8% from 6.9% in the European Union.
- **Japan:** The MSCI Japan Index returned 4.35% in yen terms and 4.85% in euro terms. The au Jibun Bank Japan Manufacturing PMI dropped to 51.5 from 52.7 in August, as both output and new orders fell into contraction despite export sales reversing their decline. The September au Jibun Bank Japan Services PMI improved to 47.8, up from 42.9 in August. The Ministry of Economy, Trade and Industry said industrial production is "pausing" after falling -3.2% month-over-month in August. Year-over-year, industrial production grew 9.3%. Consumer price index inflation fell in August. The all-items index declined -0.4% in August 2021 from a year ago, weakening from -0.3% in July. The core-core index, which excludes fresh food and energy, was down -0.5% from a year ago, versus -0.6% in July. Unemployment held steady at 2.8% in both August and July 2021.

PORTFOLIO ACTIVITY

- We have reduced risk over the month in two stages, as we believe there is likely to be limited upside to equities for the remainder of the year. Given high valuations and fragile, risk-off sentiment, we are concerned that there could be a market correction and elevated volatility. At the same time, we are seeking opportunities to take advantage of any excessive weakness. The effective equity exposure at the end of the month was 35.6%.

STRATEGY AND OUTLOOK

- Markets became jittery over September, with the realisation that summer has come to an end and winter is coming. The S&P 500 Index and MSCI Europe Index experienced their first monthly fall since January 2021, moving down -4.7% (USD) and -2.9% (EUR) respectively.[2] In contrast to the other developed markets, the MSCI Japan Index was up over the month at 4.5% (JPY).[2] The best performing sector was energy, with the MSCI All Country World Index Energy Index up 9.1% (USD)[2] on the back of rising energy prices, whilst most other sectors moved down. Energy prices could partly be to blame for the move up in yields, as the closely watched U.S. 10-year Treasury yield moved up to 1.5% at the end of September from 1.3% at the end of August.[3] In turn, the VIX moved up to 23 by month-end, the highest since May's market jitters.[3]
- As we had been expecting, there has been a material slowdown in the rate of change of growth. However, this is from a high level to normal, but still healthy growth. Whilst inflation has been a concern for some time in the wake of global reopening, the August U.S. headline consumer price index rose 5.3% year-over-year and 0.3% over the month,[4] which is less than expected. That said, rising energy prices are not likely to feed into inflation immediately and supply shortages are also not going away, raising the question of whether inflation is in fact transitory. Valuations and positioning suggest caution, with many market indicators continuing to show stretched levels. Moreover, the move up in rates is not positive for U.S. equities, which tend to be high duration. Indeed, this has impacted rate-sensitive sectors, whereas energy stocks have done well. We are keeping an eye on key events on the horizon including the looming U.S. debt ceiling and the upcoming U.S. earnings season.
- We have implemented a modest initial overweight to Chinese internet equities. Whilst China has been hard hit this year, there are some potential pockets of opportunity. Regulatory headwinds to China's internet sector seem to be stabilising, with fundamentals of key companies remaining strong. Since the February 2021 peak, there has been a more than 50% decline in China internet stocks,[5] making valuations fairly attractive in our view. While volatility is likely to remain high in the near term, we believe the disconnect between fundamentals and valuations makes the risk-reward of the trade skew slightly to the upside.

Characteristics as of 30 September 2021

Portfolio Effective Duration	2.85
Fixed Income Duration	6.74

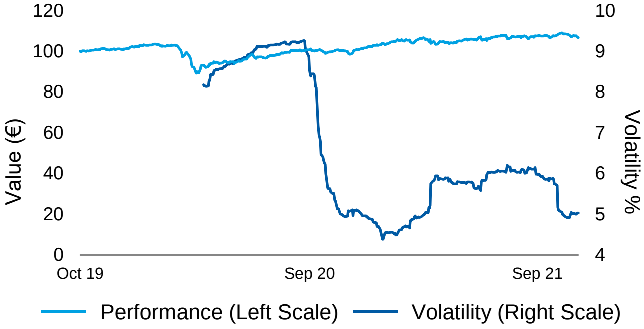
[1] Source: Morgan Stanley Investment Management. Data as of 30 September 2021.
[2] Source: Bloomberg L.P. 1-month performance as of 30 September 2021, shown in U.S. dollar (USD), euro (EUR) and yen (JPY) as noted.
[3] Source: Bloomberg L.P. Data as of 30 September 2021.
[4] Source: U.S. Bureau of Labor Statistics, Economic News Release, Consumer Price Index Summary – August 2021, released 14 September 2021. Year-on-year figure is before seasonal adjustment, August month-on-month figure is on a seasonally adjusted basis.
[5] As measured by the KraneShares CSI China Internet UCITS ETF. From 16 February 2021 to 30 September 2021 there was a drop of -55%.

Asset Allocation	Current Weight %
Equities	**35.6%**
S&P 500 ESG Stock Basket	13.5%
S&P 500 Futures	-2.0%
XTrackers MSCI World Financials	1.2%
MSCI Europe ESG Stock Basket	9.7%
Eurostoxx 50 Futures	-1.8%
Kraneshares CSI China Internet UCITS	0.4%
MSCI Japan ESG Stock Basket	5.0%
MSCI Emerging Markets ESG Stock Basket	3.2%
MSCI Emerging Markets Futures	-0.6%
iShares MSCI China A UCITS ETF	0.5%
MSCI Asia ex-Japan ESG Stock Basket	2.8%
iShares MSCI USA Enhanced Value ETF	0.5%
Russell 1000 Value Futures	0.7%
iShares S&P 500 Energy Sector UCITS ETF	1.6%
iShares Stoxx Europe 600 Oil & Gas ETF	0.8%
Commodities	**0.6%**
WisdomTree Industrial Metals Enhanced	0.6%
Fixed Income	**42.3%**
Euro Government Bonds	4.1%
UK Government Bonds	0.9%
US Government Bonds	10.4%
Japanese Government Bonds	3.6%
iShares J.P. Morgan EM Local Govt Bond UCITS ETF	0.9%
iTraxx US Investment Grade Corporate CDS	5.2%
iTraxx Europe Main 5Y CDS	4.5%
iTraxx Euro X-Over 5Y CDS	1.7%
iTraxx US High Yield CDS	4.7%
iTraxx Emerging Market Sovereign CDS	5.4%
iShares JPM$ EM Corp Bond Ucits ETF	1.0%
Cash	**21.5%**
Physical Cash & Short Maturity Bonds	17.2%
Synthetic Cash	4.4%
Total	**100.0%**

Source: Morgan Stanley Investment Management. As of 30 September 2021.

Performance as of 30 September 2021 (%)

Class Z shares, performance of €100 invested since inception (30 September 2019) and 6-month rolling volatility



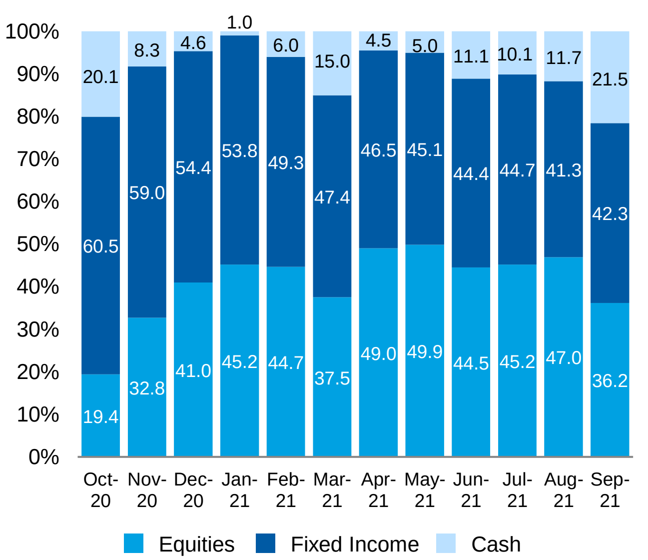
This chart illustrates the performance and volatility of a hypothetical €100 investment in the Fund since inception through to 30 September 2021 and includes the reinvestment of dividends and other distribution. The sources of all performance and volatility data is Morgan Stanley Investment Management.

12 Month Performance Periods to Latest Month End (%)	Sep'21-Sep'20	Sep'20-Sep'19	Sep'19-Sep'18	Sep'18-Sep'17	Sep'17-Sep'16
Class Z Shares (Net) LU2051497597	7.12	-0.52	-	-	-

Calendar Year Returns (%)	2020	2019	2018	2017	2016
Class Z Shares (Net) LU2051497597	1.87	-	-	-	-

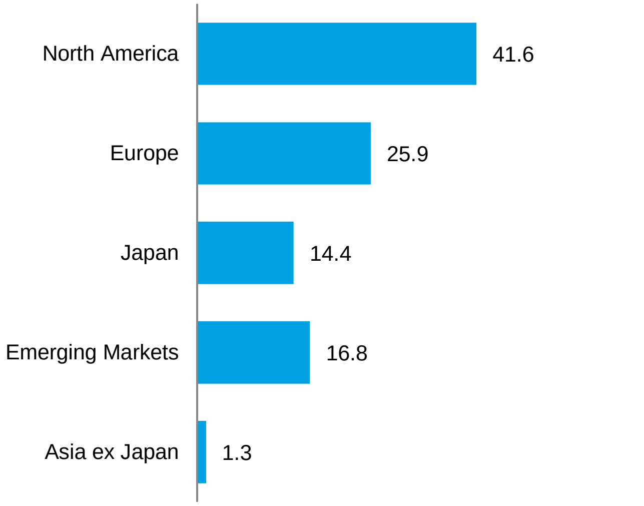
Portfolio inception date: 30 September 2019. **Past performance is not a reliable indicator of future results.** Returns may increase or decrease as a result of currency fluctuations. All performance data is calculated NAV to NAV, net of fees, and does not take account of commissions and costs incurred 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.**

Rolling Asset Class Weights (%) as of 30 September 2021

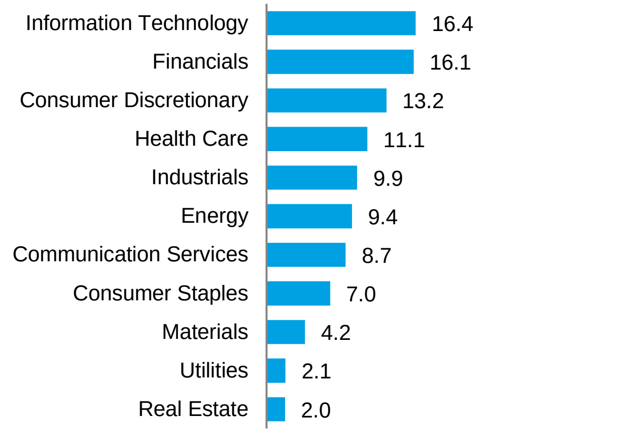


Due to its implementation, the Commodities exposure is included within the Equities asset class weight.

Equity Regional Breakdown [2] [3] as of 30 September 2021 (%)

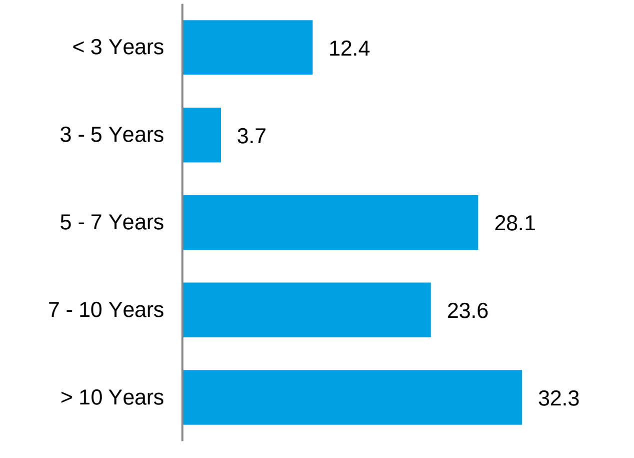


Equity Sectors Breakdown [2] [3] as of 30 September 2021 (%)



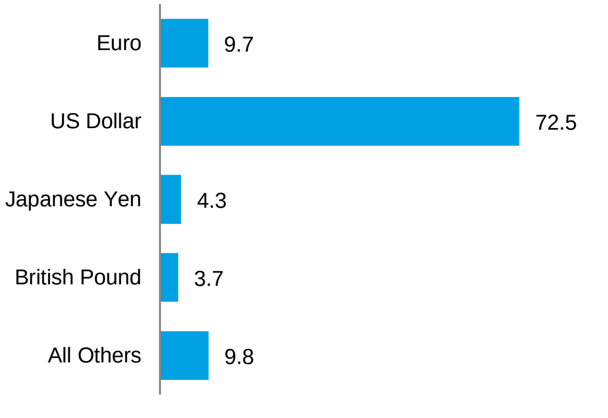
For additional information regarding sector classification/definitions please visit https://www.msci.com/gics. Note the short positions are fully covered on the "Synthetic Cash" portion of the portfolio and may have resulted from a sector mismatch from futures hedging.

Maturity Breakdown [2] [3] as of 30 September 2021 (%)



Rating Breakdown [2] [3] as of 30 September 2021 (%)

Currency Breakdown [2] [3] [4] as of 30 September 2021



2. Aggregate based on a look through basis of the fund holdings information.

3. Information is provided on a delayed basis consistent with sub-funds public disclosure and is calculated utilising top ten holdings or entire holdings conditional on availability.

4. The breakdown is post hedging.

Source: Morgan Stanley Investment Management. Provided for informational purposes only, not to be construed as investment recommendations for securities, sectors or countries listed herein. Holdings data is subject to change on a daily basis.

Credit Rating refers to the rating given by a Nationally Recognized Statistical Rating Organization ("NRSRO") such as Standard & Poor's Ratings Group ("S&P"), Moody's Investors Services, Inc. ("Moody's") or Fitch Ratings ("Fitch") and is the rating firms' subjective opinion concerning the ability and willingness of an issuer to meet its financial obligations in full and on time. Ratings apply only to the underlying holdings of the portfolio and do not remove the Fund's market risk. If two or more NRSROs have assigned a rating, the highest rating is used. Ratings other than S&P ratings are converted into their equivalent S&P rating.

Risk Considerations

- The value of bonds are likely to decrease if interest rates rise and vice versa.
- The value of financial derivative instruments are highly sensitive and may result in losses in excess of the amount invested by the Sub-Fund.
- Issuers may not be able to repay their debts, if this happens the value of your investment will decrease. This risk is higher where the fund invests in a bond with a lower credit rating.
- 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.
- Commodity investments can change significantly and quickly in value as a large variety of factors affect them.
- There are increased risks of investing in emerging markets as political, legal and operational systems may be less developed than in developed markets.
- 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.

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This is a marketing communication. Applications for shares in the Fund should not be made without first consulting the current Prospectus and the Key Investor Information Document ("KIID"), which are available in English and in the official language of your local jurisdiction at morganstanleyinvestmentfunds.com or free of charge from the Registered Office of Morgan Stanley Investment Funds, European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxemburg B 29 192. A summary of investor rights is available in English at the same website.

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The **MSCI USA Index** is designed to measure the performance of the large and mid cap segments of the US market. With 631 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the US.

The **MSCI Europe Index** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe. The term "free float" represents the portion of shares outstanding that are deemed to be available for purchase in the public equity markets by investors. The performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends.

The **MSCI Japan Index** is a free-floated adjusted market capitalization weighted index that is designed to track the equity market performance of Japanese securities listed on the Tokyo Stock Exchange, Osaka Stock Exchange, JASDAQ and Nagoya Stock Exchange. The MSCI Japan Index is constructed based on the MSCI Global Investable Market Indices Methodology, targeting a free-float market capitalization coverage of 85%.

The **Standard & Poor’s 500® Index (S&P 500®)** measures the performance of the large cap segment of the U.S. equities market, covering approximately 80% of the U.S. equities market. The Index includes 500 leading companies in leading industries of the U.S. economy.

The **MSCI All Country World Index (ACWI)** is a free float-adjusted market capitalization weighted index designed to measure the equity market performance of developed and emerging markets. The term "free float" represents the portion of shares outstanding that are deemed to be available for purchase in the public equity markets by investors. The performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends. The index is unmanaged and does not include any expenses, fees or sales charges. It is not possible to invest directly in an index.