

Morgan Stanley

INVESTMENT MANAGEMENT

MORGAN STANLEY INVESTMENT FUNDS (MS INVF)

# Asia Opportunity Fund

ACTIVE FUNDAMENTAL EQUITY  
GLOBAL OPPORTUNITY TEAM  
INVESTMENT IDEA |  
MARCH 2019

## ISIN CODES

Class A	LU1378878430
Class B	LU1378878513
Class I	LU1378878869
Class Z	LU1378878604

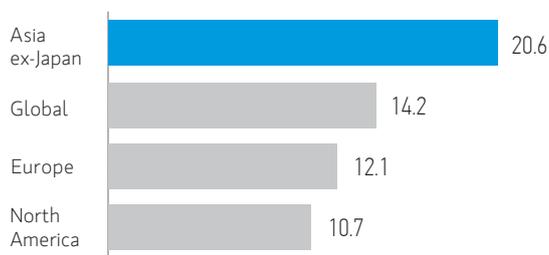
Kristian Heugh, portfolio manager for the MS INVF Asia Opportunity Fund, says the region is rich with companies that meet his team's strict criteria for quality. Asia ex-Japan accounts for nearly 3/5 of the world's population<sup>1</sup> and has benefited from GDP growth outpacing the rest of the world.<sup>2</sup> Consumption growth has been driven by the emerging middle classes across Asia trading up to higher quality consumable products and internet, healthcare and education services. The Hong Kong-based investment team couples regional perspective with a long-term ownership mindset to identify high-quality companies.

## MS INVF Asia Opportunity Fund

- 1 Strong team culture**  
The culture of the Hong Kong-based team, part of MSIM's Counterpoint Global, fosters collaboration, creativity, a willingness to think differently and continued evolution and innovation.
- 2 Warren Buffett principles applied to growing companies<sup>3</sup>**  
The team seeks high-quality companies with sustainable competitive advantages that the team believes can be purchased at a deep discount to intrinsic value.
- 3 High conviction, concentrated approach to investing in Asia**  
The team applies rigorous fundamental research to create a concentrated portfolio of its best ideas,<sup>4</sup> weighted by conviction. Active share is typically 80% or higher and the Fund's top 10 holdings typically account for over 50% of the portfolio.

### Asia ex-Japan is rich with high-quality companies . . .

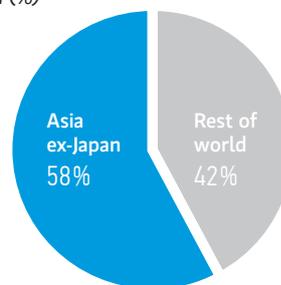
Percentage of stocks > \$1 billion market cap meeting criteria for growth and ROIC



Source: FactSet, MSIM; as of 10 January 2019. Dataset is 5,775 non-financial companies above U.S. \$1 billion market cap.

### . . . and accounts for over half of the world's population

Global population (%)



Source: U.N. Population Division; data as of July 2015.

<sup>1</sup> U.N. Population Division; data as of 1 July 2015.

<sup>2</sup> World Bank. Data as of 31 December 2015.

<sup>3</sup> The team applies what they believe to be investment principles similar to those of Warren Buffett. No representation is being made that the team's investment results will be similar to those produced by investment portfolios managed by Warren Buffett.

<sup>4</sup> There can be no guarantee that a portfolio consisting of the team's "best ideas" will experience positive performance.

## Investment Team

The Fund is managed by portfolio manager Kristian Heugh, co-portfolio manager Krace Zhou and the Global Opportunity Team based in Hong Kong.



**KRISTIAN HEUGH**

Managing Director

Joined Morgan Stanley in 2001 and has 18 years of industry experience



**KRACE ZHOU**

Managing Director

Joined Morgan Stanley in 2008 and has 11 years of industry experience

### Active approach results in high-conviction portfolios

All data is as of 31 March 2019

Top countries (% of total net assets)	FUND	INDEX
China	59.08	37.26
India	15.44	10.36
Taiwan	7.67	12.84
Hong Kong	7.05	12.05
South Korea	3.13	14.73
Philippines	0.96	1.25
United States	-0.07	-
Cash & equivalents	6.74	-
<b>Total</b>	<b>100.00</b>	<b>-</b>

Sector allocation (% of total net assets)	FUND	INDEX
Consumer Discretionary	32.56	13.26
Consumer Staples	23.53	4.89
Financials	19.96	23.83
Communication Services	6.66	12.70
Health Care	5.50	2.83
Information Technology	5.09	16.58
Other	-0.04	-
Cash & equivalents	6.74	-

### RISK CONSIDERATIONS

- 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 fund's ability to buy or sell securities.
- Asia market entails liquidity risk due to the small markets and low trading volume in many countries. In addition, companies in the region tend to be volatile and there is a significant possibility of loss. Furthermore, because the strategy concentrates in a small region of the world, performance may be more volatile than a global strategy.
- 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.

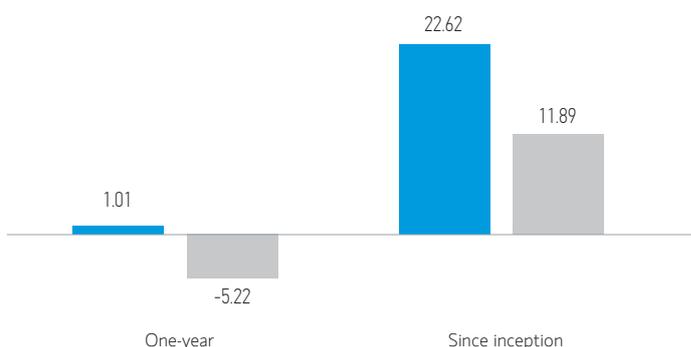
Past performance is not a reliable indicator of future results. Returns may increase or decrease as a result of currency fluctuations. All performance data is calculated NAV to NAV, net of fees, and does not take account of commissions and costs incurred on the issue and redemption of units. The sources for all performance and Index data is Morgan Stanley Investment Management.

Performance returns reflect the average annual rates of return. Performance returns are compared to those of an unmanaged market index and are considered to be a relevant comparison to the portfolio. Comparisons of performance assume the reinvestment of all dividends and income.

### Performance has surpassed the index—Class I (% net of fees) in USD

Returns (%)	1Q19	2018	SINCE INCEPTION
Fund	22.71	-14.73	22.62
MSCI All Country Asia ex Japan Index	11.43	-14.37	11.89

Average annual returns net of fees (%); inception date: 31 March 2016



### INDEX INFORMATION

The **MSCI All Country Asia Ex-Japan Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of Asia, excluding Japan. 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.

### DEFINITIONS

**Active share** is a measure of the percentage of holdings in a portfolio that differs from the benchmark index, based on holdings and their weights. Active share scores range from 0% – 100%. A score of 100% means a portfolio is completely different from the benchmark. Active Share calculation may consolidate holdings with the same economic exposure. **Cash & Equivalents** are defined as the value of assets that can be converted into cash immediately. These include commercial paper, open FX transactions, Treasury bills

and other short-term instruments. Such instruments are considered cash equivalents because they are deemed liquid and not subject to significant risk of changes in values. The **number of holdings** provided is a typical range, not a maximum number. The portfolio may exceed this from time to time due to market conditions and outstanding trades. **Return on capital** is a measure of a company's efficiency at allocating the capital under its control to profitable investments, calculated by dividing net income minus dividends by total capital.

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