

Morgan Stanley European Equity Fund

ACTIVE FUNDAMENTAL EQUITY | EUROPEAN EQUITY TEAM | COMMENTARY | SEPTEMBER 30, 2019

Performance Review

In the quarter period ending September 30, 2019, the Portfolio's I shares returned -1.36% (net of fees)¹, while the benchmark returned -1.80%.

Positive contributors to performance in the period included stock selection in industrials, consumer staples, materials and information technology. The underweight allocations to energy and financials also contributed positively, as did the overweight in health care. Stock selection in health care and consumer discretionary contributed negatively to performance. Another detractor from performance was our zero-weighting in utilities.

Market Review

After a strong first quarter of 2019, and a more muted second quarter, the third quarter was very much a quarter of two halves; a muted July was followed by a weak first half of August and then by a very strong rebound in the latter part of the month, that then continued into September. The rally in September was driven very much by the sectors of the market that have been left behind over the last few years: value stocks, cyclicals and financials being prime examples. Growth stocks and defensive sectors such as consumer staples were the big losers.

Markets continue to be torn between the bearishness of tariffs and further escalations of the trade war between the U.S. and China, as well as increasing signs of a slowdown in the Chinese economy. Central banks' willingness to ensure liquidity and maintain easy policies have been providing support, and even at a corporate level, numbers and sentiment seem to provide some comfort that we are not past the peak of the cycle yet.

Portfolio Activity

During the period we increased our position in Alcon (3.8% of the portfolio) and sold our position in Novartis. We also increased our positions in Novozymes (3.7% of the portfolio), Henkel (3.3% of the portfolio) and Fresenius (3.6% of the portfolio).

Strategy and Outlook

We continue to believe that careful stock selection can be an important source of investment performance. We apply a disciplined and proven investment process to identify individual stocks that we feel are attractively valued relative to their future prospects. Typically, the companies on which we focus are characterised by strong business models, financial strength and management teams of demonstrable competence.

FUND FACTS

Launch date

July 28, 1997

Base currency

U.S. dollars

Index

MSCI Europe Index

¹ Source: Morgan Stanley Investment Management. Data as of September 30, 2019.

Performance (%)

As of date September 30, 2019 (Class I Share at NAV)

	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR	SINCE INCEPTION
MS European Equity Fund - I Shares	0.87	-1.36	16.50	0.22	7.24	1.81	4.61	4.73
MSCI Europe Index	2.72	-1.80	13.72	-0.75	6.57	2.38	4.61	4.89

Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. For the most recent month end performance figures, please visit morganstanley.com/im. Investment returns and principal value will fluctuate and fund shares, when redeemed, may be worth more or less than their original cost.

The gross expense ratio is 1.34% for Class I shares and the net expense ratio is 1.05%. Where the net expense ratio is lower than the gross expense ratio, certain fees have been waived and/or expenses reimbursed. These waivers and/or reimbursements will continue for at least one year from the date of the applicable fund's current prospectus (unless otherwise noted in the applicable prospectus) or until such time as the fund's Board of Directors acts to discontinue all or a portion of such waivers and/or reimbursements. Absent such waivers and/or reimbursements, returns would have been lower. Expenses are based on the fund's current prospectus. The minimum initial investment is \$5,000,000.

Returns are net of fees and assume the reinvestment of all dividends and income. They are compared to an unmanaged market index. Returns for less than one year are cumulative (not annualized). Performance for one year or more is based on average annual total returns. The returns are reported for Class I shares. Performance for other share classes will vary.

RISK CONSIDERATIONS

There is no assurance that a mutual fund will achieve its investment objective. Funds are subject to market risk, which is the possibility that the market values of securities owned by the fund will decline and that the value of fund shares may therefore be less than what you paid for them. Accordingly, you can lose money investing in this fund. Please be aware that this fund may be subject to certain additional risks. In general, **equities securities'** values also fluctuate in response to activities specific to a company. Investments in **foreign markets** entail special risks such as currency, political, economic, market and liquidity risks. The risks of investing in **emerging market** countries are greater than the risks generally associated with investments in foreign developed countries. **Illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk). **Derivative instruments** may disproportionately increase losses and have a significant impact on performance. They also may be subject to counterparty, liquidity, valuation, correlation and market risks. **Concentrated investments** in Europe are more susceptible to such risks affecting European issuers than a fund that holds more geographically diversified investments. **Focused Investing.** To the extent that the Fund invests in a limited number of issuers, the Fund will be more susceptible to negative events affecting those issuers and a decline in the value of a particular instrument may cause the Fund's overall value to decline to a greater degree than if the Fund were invested more widely.

INDEX INFORMATION

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 index is unmanaged and does not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

IMPORTANT INFORMATION

The views and opinions expressed are those of the investment team at the time of writing and are subject to change at any time due to market, economic, or other conditions, and may not necessarily come to pass. These comments are not representative of the opinions and views of the firm as a whole. Holdings and sectors/region weightings are subject to change daily. All information provided is for informational purposes only and should not be deemed as a recommendation to buy or sell securities in the sectors and regions referenced.

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not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

Certain information herein is based on data obtained from third party sources believed to be reliable. However, we have not verified this information, and we make no representations whatsoever as to its accuracy or completeness.

Please consider the investment objectives, risks, charges and expenses of the fund carefully before investing. The

prospectus contains this and other information about the fund. To obtain a prospectus, contact your financial advisor or download one at morganstanley.com/im. Please read the prospectus carefully before investing.

Morgan Stanley Investment Management is the asset management division of Morgan Stanley.

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