A Sub-Fund of Morgan Stanley Investment Funds

Calvert Sustainable Developed Europe Equity Select Fund

Calvert

Performance Review

In the three month period ending 31 December 2024, the Fund's Z shares returned -3.23% (net of fees)[1], while the benchmark returned -2.72%.

The Fund is designed to offer long-term shareholder return through exposure to companies that are leaders in the environmental, social and governance (ESG) landscape, or improvers in addressing environmental and social challenges and managing material ESG risks. Calvert believes that companies that demonstrate leadership and/or improvement in the management of financially material ESG risks and opportunities offer long-term value creation for shareholders. The investment approach identifies ESG leaders and improvers using a proprietary quantitative and qualitative analysis to construct a portfolio that manages active risk relative to the market benchmark, the MSCI Europe Index. The portfolio also aims to maintain a carbon footprint 50% lower than the benchmark and higher levels of board gender diversity compared to the benchmark.

The Fund's performance was dampened over the quarter by stock selection in the industrials and health care sectors, while stock selection in information technology and financials helped boost performance slightly.

In industrials, names in the electrical equipment industry — specifically Vestas Wind Systems and Legrand SA — suffered during the quarter and were a drag on the Fund's relative returns. Shares of Vestas slid in December when the company announced that its CFO would step down. The company also posted a smaller-than-expected core profit for the third quarter and warned that its overall profit margin for the full year would likely be at the lower end of its forecast, due to higher costs and warranty provisions. Legrand's stock suffered after the company missed analyst forecasts for revenue and earnings per share. The Fund's lack of exposure to the aerospace and defense sector, which performed well during the period, also hurt returns. The Fund does not hold any aerospace and defense names because they are either not eligible for investment according to the Calvert Principles for Responsible Investment or they do not meet the Fund's criteria for ESG leadership or improvement.

In health care, pharmaceuticals were the biggest drag on the Fund's relative performance, mainly allocations to Novo Nordisk, Novartis and Sanofi. Shares of Sanofi fell along with other pharmaceutical names after the nomination of Robert F. Kennedy Jr. as Health Secretary for the incoming U.S. government. Novartis shares dropped after the company announced an impairment charge on an acquisition and lower-than-expected sales of its radiopharmaceutical, Pluvicto. Meanwhile, Novo Nordisk shares suffered after it released a study indicating disappointing results from a new obesity drug.

Stock selection in information technology was a bright spot for the Fund, with SAP SE driving positive returns. The company has a growing cloud business and is making strategic business changes to develop business artificial intelligence (AI). Financials also saw positive performance, with Erste Group Bank and Intesa Sanpaolo leading the way. Erste Group had consistent share price and earnings growth throughout 2024, and Intesa Sanpaolo ended the year with the highest market cap among European banks, supported by a higher market-value-to-equity ratio than major European banks. This is all largely driven by organic growth, significant revenues derived from wealth management, and investments in technology and professional development.

At a country level, the biggest detractor from performance was stock selection in France, where the market struggled in the wake of political turmoil. On top of the general market sentiment toward France, L'Oréal, Compagnie Générale des Établissements Michelin (Michelin) and Legrand SA suffered. L'Oréal has been hurt by waning demand in China and in the global beauty market overall as consumer habits shift with the interest rate regime; Michelin's stock plunged after it lowered its full-year earnings forecast due to a third quarter slowdown in the automotive market; and, as previously noted, Legrand shares fell after it missed analyst forecasts for revenue and earnings per share. Meanwhile, Erste Group Bank helped drive positive attribution from Austria.

Market Review

Equity markets were down during the fourth quarter, concluding a positive year overall. Amid political turmoil in Europe's three largest economies — Germany, the United Kingdom, and France — both the MSCI EAFE Index of developed-market nations and the MSCI Europe Index posted negative performance during each month of the fourth quarter and returned -8.11% and -9.74%, respectively, for the quarter as a whole. Once the chief economic engine of Europe, the German economy struggled to overcome high energy prices, competition from China, and the perception that it had fallen behind on industrial innovation.

China has been a drag on global growth for some time, and we have seen the negative impact on important trading partners like Germany and Japan. In both consumer and industrial sectors, the weakness in China was a drag on earnings in 2024. Recently we have noted increasing signs that the Chinese government will take steps to try and stimulate growth and credit expansion in 2025, which will likely be supportive for international equities.

[1] Source: Morgan Stanley Investment Management Limited. Data as of 31 December 2024.

Many European economies remain weak, although this is allowing the European Central Bank greater flexibility to cut interest rates versus the U.S., where many of President-elect Trump's economic plans are viewed as inflationary. Further, in Germany, elections and a government change could allow increased fiscal spending and help fuel some positive sentiment in what has been a very weak economy. Therefore, despite economic challenges, we see economic policy as likely supportive for European equities in 2025.

Portfolio Activity

There was no significant portfolio activity to report during the period.

Strategy and Outlook

As we look ahead with a focus on major factors that are shaping a multidecade transformation of the global economic system relevant to responsible long-term investors, four areas have the potential for the greatest impact from a risk and opportunity perspective: i) Changes to the global energy system — both in terms of the existing fossil fuel system and the development of a distributed, lower-carbon system — are accelerating and revealing challenges for companies globally; ii) Demographic changes, including educational attainment, continue to impact the workforce, as well as the ultimate size of consumer markets globally, with the vast majority of companies yet to fully adapt to these massive changes; iii) Higher costs, including interest rates, wages and raw materials, present unique challenges to every industry and will likely result in greater differentiation between companies that are able to manage their cost structure and improve productivity and those that are less efficient or trapped in a high fixed operating cost model; iv) Finally, various forms of pricing of externalities — either by governments or through market action — are taking effect and will likely act to raise costs and influence corporate and consumer behavior.

With this future state in mind, leadership on issues of sustainability across industries requires a company to evolve its product strategy, refine its corporate strategy and continually strengthen its ability to provide effective oversight and execution of the sustainable transition before us.

MS INVF Calvert Sustainable Developed Europe Equity Select strategy is built on our belief that companies addressing the sustainability challenges presented by this multidecade transformation are better positioned to deliver shareholder return and positive societal outcomes. The Fund seeks to invest in companies that are leaders and improvers at managing this future business state, either through their operations and corporate strategy, or through the products and services that they offer.

Using ESG performance on financially material issues as the primary criteria for stock selection, the Fund uses a combined quantitative and qualitative approach to identify and invest in the best-performing companies in the Calvert Research System from an ESG standpoint. The portfolio is then optimized to manage risk, lower the overall greenhouse gas emissions of the portfolio and increase the board level diversity of the portfolio against the benchmark. The result is an actively managed portfolio of large-cap European stocks designed to provide risk-controlled returns in excess of the MSCI Europe Index, with exceptional performance on environmental and social issues.

For further information, please contact your Morgan Stanley Investment Management representative.

Fund Facts

Launch date	08 April 2022
Base currency	Euro
Benchmark	MSCI Europe Net Index (EUR)

Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

	YTD	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Class Z Shares	10.00	10.00	18.34	--	--	--	--	--	--	--	--
MSCI Europe Net Index (EUR)	8.59	8.59	15.83	--	--	--	--	--	--	--	--

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 shares. The sources for all performance and index data is Morgan Stanley Investment Management ('MSIM Ltd'). **Please visit our website www.morganstanley.com/im to see the latest performance returns for the fund's other share classes.**

Share Class Z Risk and Reward Profile

- 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
- Sustainability factors can pose risks to investments, for example: impact asset values, increased operational costs.
- 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, available at www.morganstanleyinvestmentfunds.com. All data as of 31.12.2024 and subject to change daily.

Applications for shares in the Fund should not be made without first consulting the current Prospectus and the Key Information Document ("KID") or Key Investor Information Document ("KIID"), which are available in English and in the language of countries authorized for fund distribution and is available online at Morgan Stanley Investment Funds Webpages or free of charge from the Registered Office at European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxemburg B 29 192.

The summary of investor rights is available in the aforementioned languages and website location under the General Literature section.

Information in relation to sustainability aspects of the Fund is available in English online at: Sustainable Finance Disclosure Regulation.

If the management company of the relevant Fund decides to terminate its arrangement for marketing that Fund in any EEA country where it is registered for sale, it will do so in accordance with the UCITS rules.

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The use of leverage increases risks, such that a relatively small movement in the value of an investment may result in a disproportionately large movement, unfavourable as well as favourable, in the value of that investment and, in turn, the value of the Fund.

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The **MSCI Europe (Net) Index** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe. As of September 2002, the MSCI Europe Index consisted of the following 16 developed market country indices: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.

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The **MSCI EAFE Index (Europe, Australia, Far East)** is a free float-adjusted market capitalization index that is designed to measure the international equity market performance of developed markets, excluding the US & Canada. 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 MSCI EAFE Index currently consists of 21 developed market country indices. The performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends.

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