A Sub-Fund of Morgan Stanley Investment Funds

Calvert Sustainable Diversity, Equity and Inclusion Fund

Calvert

Performance Review

In the three month period ending 31 December 2024, the Fund's Z shares returned 0.28% (net of fees)[1], while the benchmark returned -0.16%.

The Fund is designed to offer long-term shareholder return by investing in companies that are leaders or improvers in diversity, equity and inclusion (DEI) practices. The portfolio uses a proprietary analysis built on qualitative and quantitative methods to identify leaders and improvers and ensure higher levels of board gender and ethnic diversity than the benchmark, the MSCI World Index.

The Fund underperformed the benchmark on a relative basis over the quarter. The main drivers of underperformance at the sector level were stock selection in communication services and consumer discretionary. In communication services, not holding Meta hurt performance. Meta is not held in the Fund because it is ineligible according to the Calvert Principles for Responsible Investment due to ongoing data privacy and security and governance concerns. The next biggest detractor from performance on a sector basis was stock selection in consumer discretionary, which was driven by not holding Amazon or Tesla, which do not meet the Fund's requirements.

On an individual stock basis, Eli Lilly hurt returns as it missed growth estimates and saw a fall in revenues for its weight loss drug, Zepbound, due to inventory decreases. Not holding JPMorgan Chase, which does not meet the Fund's requirements, also detracted from returns.

On a positive note, stock selection in information technology helped returns, specifically overweight positions in Broadcom and Nvidia, which managed to buck the industry trend as peers were weighed down by investor skepticism around long-term growth and profit of artificial intelligence (AI). Apple and Twilio also drove Fund performance. Both are emerging leaders in human capital management, with strong workforce diversity and targets to increase gender representation.

On an individual stock basis, Netflix was another outperformer. Netflix outperformed analyst estimates, largely driven by its subscriber numbers and continued market dominance. Netflix has a strong human capital management program and its diversity initiatives extend beyond its workforce to its content generation practices.

Stock selection in the materials sector was also beneficial. Not holding any metals and mining names insulated the Fund from poor performance, as did an underweight to the chemicals industry.

On a country level, stock selection in the United States hurt relative returns, predominantly due to not holding Amazon and Tesla. The Fund's overweight allocation to France also hurt returns as the market suffered amid political turmoil. Specific names like L'Oréal, LVMH Moet Hennessy and Pernod Ricard SA were hit especially hard as they also dealt with waning demand for beauty and luxury products.

Meanwhile, the Fund's underweight allocations to Japan and Australia helped performance, as both countries underperformed during the quarter.

Market Review

For U.S. equity investors, the fourth quarter of 2024 marked the culmination of another banner year. The broad-market S&P 500 Index returned more than 20% annually for the second year in a row, and U.S. equities outpaced stocks in most other areas of the world.

But though investors' appetite for risk remained substantial in the fourth quarter — as indicated by the strong performance of bitcoin and the tech-heavy Nasdaq Composite Index — it was also the weakest quarter of the year for the S&P 500. While worldwide excitement about the transformative potential of artificial intelligence (AI) applications remained the major tailwind for the market, stocks were buffeted by two signal events during the quarter: the U.S. presidential election on 5 November, and the year's final U.S. Federal Reserve (Fed) meeting on 17-18 December.

As the quarter opened in October, fresh economic data continued to support an ongoing equity rally. On 4 October, the U.S. Bureau of Labor Statistics delivered a blockbuster September jobs report, announcing employers had added 254,000 jobs during the month, blowing past consensus expectations of a 140,000-job gain.

Barely a week later, the Bureau of Labor Statistics announced that inflation in September, as measured by the consumer price index, had fallen to 2.4% year-over-year — the same rate it had been just before the pandemic. In mid-October, Nvidia, a bellwether stock of the AI rally, announced that its new Blackwell chip was in full production and demand was "insane."

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

But markets hate uncertainty, and as October came to a close, politics began to weigh on stocks. In the final days of the month, equity prices sank on uncertainty about the upcoming U.S. presidential election and how changes in White House policies might affect financial markets. For the month as a whole, most major U.S. and non-U.S. equity indexes finished in negative territory.

Once election results were known, however, equities enjoyed a post-election bump that lasted through mid-December, buoyed by the prospect of deregulation and lower corporate taxes under a new Trump administration — and brushing aside many economists' concerns that Donald Trump's proposed higher tariffs and mass deportations could reignite inflation.

But on 18 December, the Fed brought the nascent rally to a halt. Although the central bank delivered an expected quarter-point interest rate cut at its December meeting, it surprised investors by reducing its projected 2025 rate cuts to two, down from a four-cut forecast just a few months earlier. After inflation rose modestly in October and November, Fed Chair Jerome Powell noted that "For additional cuts, we're going to be looking for further progress on inflation." In response, stock prices largely declined in the final weeks of the quarter, although most U.S. indexes still delivered positive performance for December as a whole, perhaps encouraged by Chair Powell's message that "The U.S. economy is just performing very, very well — substantially better than our global peer group. The outlook is pretty bright for our economy."

Outside the U.S., however, the outlook was not so bright. 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.

Portfolio Activity

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

Strategy and Outlook

MS INVF Calvert Sustainable Diversity, Equity and Inclusion strategy is constructed using a proprietary methodology that leverages diversity and inclusion datasets and information on companies' DEI policies and programs to identify names that are leading or making meaningful improvements in DEI practices. The strategy is built on the Calvert Principles for Responsible Investment, which seek to identify companies that promote diversity and equity across workplaces, marketplaces and communities, with our research showing that these factors are material to company performance.

Higher levels of labor force participation and educational attainment by women and ethnic minorities have led to changes in overall employee makeup and boardroom diversity. However, we have yet to see these gains break through to the higher levels of executive and senior management roles. This is a critical issue affecting employee recruitment, retention, turnover, promotion equity and pay equity.

Companies with more diverse workforces benefit from diversity of thought, which leads to more innovation and an enhanced ability to problem solve and manage risks; benefits that groupthink can cause teams to miss out on. Diverse workforces also give companies a richer understanding of different customers and their unique needs, and impact strength of supplier relationships. Together, these elements lead to companies' long-term value creation. We studied the relationship between the ethnic diversity of corporate boards and equity performance using data from 2012-2020 and found that ethnic diversity factors improve U.S. large-cap equity stock selection.[2] We also found a significant relationship between the degree of corporate board ethnic diversity relative to country demographics and monthly equity performance.[2] We find that diversity is a material factor to companies across all countries and sectors. The stock performance penalty for bottom-quartile performers on diversity persists and can materially erode shareholder value.

MS INVF Calvert Sustainable Diversity, Equity and Inclusion strategy is designed to offer investors exposure to companies that are leading in workforce diversity at the board, senior and executive management levels, and that offer leading policies and programs to create more equitable and inclusive work environments. The strategy also includes companies that are demonstrating meaningful improvements on these factors; the thresholds for which are reviewed annually to ensure the bar for both leadership and improvement are adjusted as we see improvements in overall market practice.

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

Fund Facts

Launch date	08 April 2022
Base currency	U.S. dollars
Benchmark	MSCI World Index Net Index (USD)

[2] Source: Calvert. Data as of September 2021.

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	14.84	14.84	28.08	--	--	--	--	--	--	--	--
MSCI World Index Net Index (USD)	18.67	18.67	23.79	--	--	--	--	--	--	--	--

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 Fund's 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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Charts and graphs provided herein are for illustrative purposes only and subject to change.

INDEX INFORMATION

The **MSCI World Net Index** is a free float adjusted market capitalization weighted index that is designed to measure the global equity market performance of developed 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 index is unmanaged and does not include any expenses, fees or sales charges. It is not possible to directly invest in an index.

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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 **Nasdaq Composite Index** is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market. It is used as an indicator of the performance of stocks of technology companies and growth companies. Since both U.S. and non-U.S. companies are listed on the NASDAQ stock market, the index is not exclusively a U.S. index.

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.

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.

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