Morgan Stanley Investment Funds

Calvert Sustainable US Equity Select Fund

Calvert

Performance Review

In the three month period ending 30 September 2024, the Fund's Z shares returned 5.33% (net of fees)[1], while the benchmark returned 6.08%.

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 Russell 1000 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 strong performance over the quarter was primarily driven by stock selection in financials, machinery industry, and in the communication services sector, specifically interactive media and services. Additional drivers were not holding Amazon and the portfolio's underweight to energy. Amazon was down during the quarter due to economic and competitive headwinds and concerns over the return on investment for artificial intelligence (AI). Amazon is not held in the portfolio as it does not meet the portfolio's criteria for ESG leadership or improvement. The underweight is driven in part by the Calvert Principles for Responsible Investment (Calvert Principles) research framework, which identifies outsize environmental risks among some energy companies that are often not addressed by appropriate management systems or strategies.

In financials, S&P Global, Progressive and MetLife were top contributors to the Fund's relative performance; all three companies are leaders in human capital and labor management within their peer groups.

In interactive media and services, not holding Alphabet was beneficial to the Fund's relative returns as the stock price plunged in July during a tech sell-off, partly fueled by concerns over the promise of AI. The positive effect of not holding Alphabet outweighed the negative effect of not holding Meta, which is not eligible for investment according to the Calvert Principles due to ongoing data privacy concerns. Alphabet is not held in the portfolio because it does not meet the portfolio's criteria for ESG leadership or improvement.

In the machinery industry group, the biggest contributor to performance was an overweight to Parker-Hannifin Corporation, followed by an overweight to Cummins Inc. Shares of Parker-Hannifin jumped during the quarter after the company announced strong second quarter sales and profit results thanks to increased demand in aerospace services. Cummins also outperformed in the quarter thanks to strength in its heavy truck sales. Parker-Hannifin is a leader in driving operational efficiency for its customers via motion control technologies, and two-thirds of its portfolio enables clean technology. Cummins has a growing pipeline of electrolyzers and is well positioned to exploit a burgeoning hydrogen market.

The biggest detractor from the Fund's relative performance over the quarter was stock selection in the health care sector, particularly pharmaceuticals. Overweight positions in Merck & Co and Eli Lilly hurt performance. Merck lowered its full-year earnings forecast in July due to a one-time charge related to the acquisition of EyeBio, which caused the stock price to plunge. Eli Lilly shares suffered as the company experienced supply shortages for one of the main ingredients in its popular weight loss drugs, which gave other market entrants a chance to gain popularity with generic compounds. The shortage has since ended, but the recovery was not reflected by the close of the third quarter.

The second-biggest detractor from the Fund's relative performance was related to an overweight position in Microsoft, which experienced negative returns over the quarter due to multiple factors, including its involvement in the CrowdStrike software update that crashed global IT systems, as well as volatile market sentiment around the promise of AI.

The third-biggest detractor from performance during the quarter was not owning Tesla, which does not meet the portfolio's criteria for ESG leadership or improvement.

Market Review

During the third quarter of 2024, relief finally came to markets in the form of Federal Reserve (Fed) interest rate cuts. The quarter opened with investors worrying that the Fed was waiting too long to lower interest rates and risking a recession. But following a half-point rate cut in September, market commentators were more confident that the Fed would achieve a soft landing. Otherwise, the quarter was tense, with investors holding their breath before each release of an inflation or jobs report, wondering what it would take to move the Fed to begin lowering rates.

1 Source: Morgan Stanley Investment Management Limited. Data as of 30 September 2024.

As the period opened in July, the stock market was relatively calm. The tech-fueled rally from the first half of 2024 continued, with the stock price of chip maker Nvidia, a bellwether of the AI boom, continuing its dizzying upward climb. But around mid-month, stocks began to retreat on investor concerns about the Fed's next move and worries that stock valuations, especially those driven by AI, might have become excessive. Nvidia's share price sank and took the Nasdaq Composite Index down with it.

As July faded into August, several factors combined to turn the market downturn into a rout. The Fed disappointed investors by failing to cut interest rates at its 30-31 July meeting. Just days later, the U.S. Bureau of Labor Statistics reported that job creation in July had been below expectations and unemployment had risen. Investors took this as evidence the Fed was remiss not to cut rates in July, and prepared to blame the central bank for an upcoming recession.

And then, in a quick turnaround, from 8 August through the end of the month, equities — including Nvidia and numerous other AI darlings — generally rallied, encouraged in part by an ongoing slide in the Fed's preferred inflation gauge, the personal consumption expenditures (PCE) price index.

In a speech on 23 August, Fed Chair Jerome Powell added further fuel to the rally when he declared, "The time has come for policy to adjust" — virtually ensuring a rate cut at the Fed's next meeting. And indeed on 18 September, the Fed announced a larger-than-usual half-point rate cut, as if to confirm it was serious about both fighting inflation and the second half of its dual mandate: promoting maximum employment. Chair Powell stated, "I don't see anything in the economy right now that suggests that the likelihood of a recession, sorry, of a downturn, is elevated." In response the stock rally accelerated, with the S&P 500 Index closing at a new all-time high on the last trading day of September.

A strong September jobs report, released just days after the third quarter ended, appeared to validate the Fed's September action and confirm the central bank had gotten it right — defeating inflation while keeping employment strong. The U.S. Bureau of Labor Statistics announced employers had added 254,000 jobs in September, blowing past consensus expectations of a 140,000 job gain. Unemployment had fallen to 4.1%, all while PCE inflation dropped to 2.2% in August, the latest number available.

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 US 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 narrow the investment universe and 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 U.S. stocks designed to provide risk-controlled returns in excess of the Russell 1000 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	U.S. dollars
Benchmark	Russell 1000 Index

Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

	YTD	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Class Z Shares	18.21	23.21	--	--	--	--	--	--	--	--	--
Russell 1000 Index	21.18	26.53	--	--	--	--	--	--	--	--	--

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.**

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. All data as of 30 September 2024 and subject to change daily.

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INDEX INFORMATION

The **Russell 1000® Index** is an index that measures the performance of the 1,000 largest companies in the Russell 3000 Index. The index is unmanaged and does not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

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 **Personal Consumption Expenditures Index (PCE)** is a measure of price changes in consumer goods and services. Personal consumption expenditures consist of the actual and imputed expenditures of households; the measure includes data pertaining to durables, non-durables and services. It is essentially a measure of goods and services targeted toward individuals and consumed by individuals.

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.

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