Morgan Stanley Investment Funds

# Developing Opportunity Fund

**GLOBAL OPPORTUNITY**

## Performance Review

In the three month period ending 30 September 2024, the Fund's I shares returned 16.01% (net of fees)[1], while the benchmark returned 8.72%.

The Global Opportunity team creates a high conviction, concentrated portfolio of undervalued, high quality businesses. The long-term investment horizon and high active share approach can result in periods of performance deviation from the benchmark. The Fund outperformed the MSCI Emerging Markets Index this quarter due to favourable sector allocation despite unfavourable stock selection.

## Market Review

Emerging markets equities advanced in the quarter, led by the consumer discretionary, health care, communication services, real estate and consumer staples sectors. The information technology and energy sectors detracted, underperforming the benchmark. On a country basis, Thailand, China, the Philippines, Malaysia and South Africa were the leading outperformers, while Turkey, Korea, Poland, Mexico and Colombia declined, underperforming the benchmark.

## Portfolio Review

A sector overweight position in consumer discretionary, underweight positions in information technology and energy, and stock selection in the real estate and consumer staples sectors were the greatest overall contributors to the relative performance of the portfolio during the period. Top individual contributors included Latin American ecommerce platform MercadoLibre, Chinese leading consumer services super-app Meituan, Indian fast commerce platform Zomato, travel agency Trip.com and Korean ecommerce platform Coupang.

Conversely, stock selection in financials, consumer discretionary, communication services, and health care and a sector underweight position in health care were the greatest overall detractors from relative performance. Top individual detractors included content creation and consumption platform Webtoon, Chinese vertical integrated knitwear manufacturer Shenzhou, power management integrated circuit fabless integrated design manufacturer Silergy, Chinese social network Tencent and Indian private sector bank Axis Bank.

Shares of top contributor MercadoLibre outperformed after posting stronger-than-expected earnings results driven by accelerating growth in key markets including Brazil and Mexico. MercadoLibre is the largest ecommerce platform in Latin America, with a presence in 18 countries including Brazil, Argentina and Mexico; 56.6 million monthly active buyers on its online marketplaces; and 52 million fintech active users of its Mercado Pago digital payments platform.[2] We believe MercadoLibre can increasingly benefit by monetizing the uniqueness of its platform in Latin America, which has a population of more than 665 million and one of the fastest-growing internet penetration rates in the world.[3]

Top detractor Webtoon Entertainment is a leading global content creation and consumption platform for webcomics and webnovels, with around 24 million content creators, 169 million monthly active users and 55 million titles across more than 150 countries.[4] We believe that Webtoon is unique due to network effects with multiple flywheels – an increase in the quality and quantity of content drives an increase in the number of users and creators. This helps drive a stable supply of creative and evergreen content exclusive to the platform, which Webtoon can monetize through paid subscription, advertising and long-term management rights for intellectual property generated on its platform. An average user spends between 26 and 39 minutes per day on its webcomic content in Japan, Korea and the United States, and less than 1% of its content library has been adapted into films, streaming series or games.[4] We believe Webtoon can continue to benefit from an ongoing consumption shift away from paper comics towards webcomics and webnovels, as well as a rise in demand for high quality user-generated content and the "Korean wave", which could help Webtoon scale and monetize its uniqueness in the long run as its userbase grows and content consumption increases on its platform.

1 Source: Morgan Stanley Investment Management Limited. Data as of 30 September 2024.
2 Source: Company data as of 30 June 2024.
3 Source: United Nations Population Division, December 2023.
4 Source: Initial Public Offering (IPO) Prospectus

## Strategy and Outlook

The Chinese equity market reacted positively to the People's Bank of China policy easing steps to support the economy, including cuts to interest rates and the reserve requirement ratio and lowering the existing mortgage ratio and downpayment ratio. There was also an 800 billion renminbi liquidity injection into the stock market through the setup of a swap facility and re-lending facility. The magnitude is larger than the market expected, and the comprehensive package may improve market confidence to attract more flows in near term.

We continue to believe that careful and selective investments in China can represent an opportunity for investors willing to take a long-term view. Valuations of Chinese equities have disconnected from fundamentals, trading at 50% discount versus global equities,[5] and we are of the view that wide dispersion creates stock picking opportunity.

However, to sustain the recovery, the government still needs to resolve key issues of weak consumption and housing demand, high local government debt burden, and job security. The market is expecting more demand-side easing measures, especially fiscal easing, from policy makers. In the intermediate term, the macro backdrop remains challenging along with geopolitical uncertainties as we head into U.S. elections.

We recognize that it is difficult to predict near-term policy developments from a top-down perspective. As bottom-up investors, we focus on individual portfolio companies on a case-by-case basis. Our quality assessment and price-to-value approach take into account a wide range of potential outcomes over the next five to 10 years, including the policy and regulatory landscape in China. We continually reassess the investment thesis for each portfolio company, and the current weightings of each portfolio reflect our highest conviction ideas across each opportunity set.

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

## Fund Facts

| | |
|---|---|
| Launch date | 20 December 2019 |
| Base currency | U.S. dollars |
| Benchmark | MSCI Emerging Markets Net 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 I Shares | 25.97 | 6.77 | -29.43 | -18.79 | 59.39 | -- | -- | -- | -- | -- | -- |
| MSCI Emerging Markets Net Index | 16.86 | 9.83 | -20.09 | -2.54 | 18.31 | -- | -- | -- | -- | -- | -- |

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 I Risk and Reward Profile

- The fund may be impacted by movements in the exchange rates between the fund's currency and the currencies of the fund's investments.
- 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.
- Sustainability factors can pose risks to investments, for example: impact asset values, increased operational costs.
- There may be an insufficient number of buyers or sellers which may affect the funds ability to buy or sell securities.
- Investments in China involves a risk of a total loss due to factors such as government action or inaction, market volatility and reliance on primary trading partners.
- Investment in China A-Shares via Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connect programs may also entail additional risks, such as risks linked to the ownership of shares.
- 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.

Please refer to the Prospectus for full risk disclosures. All data as of 30 September 2024 and subject to change daily.

[5] Source: FactSet. Data as of 30 September 2024.

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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 relevant UCITS rules.

**INDEX INFORMATION**

The **MSCI Emerging Markets Net Index** is a free float-adjusted market capitalization weighted index that is designed to measure equity market performance of emerging 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 MSCI Emerging Markets Index currently consists of 24 emerging-market country indices. The performance of the index is listed in U.S. dollars and assumes reinvestment of net dividends. The index does not include any expenses, fees or sales charges, which would lower performance.

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