Morgan Stanley Investment Funds

Emerging Leaders Equity Fund

EMERGING MARKETS EQUITY TEAM

Performance Review

In the one month period ending 30 November 2024, the Fund's Z shares returned -2.21% (net of fees)[1], while the benchmark returned -3.59%.

The U.S. market outperformed globally on the U.S. election result, helped by U.S. dollar strength. It wasn't just emerging market (EM) currencies that were weak, as major currencies outside the Japanese yen also weakened. Brazilian real was among the weakest as fiscal measures disappointed, with the real reaching an all-time low against the U.S. dollar. Potential for increased U.S. tariffs was the big concern, with the export-heavy markets of Korea, Taiwan and China all underperforming. China stimulus measures disappointed as a 10 trillion renminbi local government debt swap was announced without further fiscal stimulus measures, leading to a meaningful correction.

The Fund's outperformance was led by the healthy outperformance in India names (KEI, Varun Beverages, HDFC Bank) as well as technology names, led Globant (Latin America based IT services), Coupang (Korea e-commerce) and MercadoLibre (Latin America ecommerce). Avoiding Alibaba, Samsung and PDD also added to the Fund's performance. A zero weight in China also helped amid the continued fall in the index.

Conversely, Localiza weakness continued as expectations for Brazilian interest rates to increase continue, given the country's growing fiscal deficit. NU Holdings' share price also consolidated on worries over slowing growth. We had already been reducing our holding in NU on valuation concerns and the expectation of some cyclical headwinds. Voltronics' share price consolidated as management expects a weak fourth quarter 2024, which tends to be seasonally slow anyway on weaker demand from Europe and South Africa.

Portfolio Activity

In this EM volatility, we continue to focus on opportunities where we believe earnings visibility has improved or valuations have seen a correction, providing better entry prices. In India, we added to Varun Beverages, which has further strengthened its relationship with Pepsico by adding newer geographies as a bottler as well as expanding into Pepsi's foods business. We added further to Titan, as a recent valuation correction provided an opportunity to increase the position.

In Korea, we added to Coupang as the company remains a strong market share gainer in the overall Korean retail space (not just e-commerce), offering the troika of price, assortment and convenience. Similar to other successful platforms globally, we believe margins can expand here in a non-linear fashion. We added to Banorte and Localiza, as we continue to believe the ongoing volatility in Latin America offers these franchises at bargain prices. In Taiwan, we stayed away from chasing artificial intelligence (AI) plays at any valuations, while instead focusing on product companies like E-ink and Voltronic.

Similarly, on selling, we cut positions when we see that 1) the business isn't as strong as what we had thought and hence the thesis is broken, or 2) valuations have built in most of the positives.

We exited Aarti Industries as there have been challenges to the core profitability of the company given that Chinese companies have been more aggressive with pricing. We underestimated the pricing power of the business, resulting in a sustained bout of lower margins amid Chinese companies flooding the market with cheaper products. We also booked profits in NU Holdings, cutting the position by more than half as we believe its recent stock price run-up after its inclusion in the MSCI Brazil Index had baked too much into valuations. We may look to add back to the positions if we believe valuations get saner. We also right-sized our holding in Avenue Supermart, as management undergoes their execution challenges in expanding store counts, despite attractive store economics.

Strategy and Outlook

The Fund continues to focus on bottom-up opportunities while being cognizant of underlying market opportunities/volatilities. For example, while we haven't invested much in Korea over the years, we added to Coupang as we saw an efficient as well a structural market share winner in a large consumer market like Korea.

We continue to have zero weight in China as our view remains that the recent stimulus announcement does little to change the structural challenges that the economy faces (e.g., excess supply amid a trade war, supressed wages, low encouragement for private entrepreneurship, significant government debt hidden in local government financing vehicles, a broken revenue model for local governments, weakening consumer sentiment amid falling property prices and growing unemployment).

India (our largest weight) remains an island of both political and economic stability, in our view. There has been some slowdown in gross domestic product (GDP) growth in the recent quarter, but we expect it to be transient in nature (post-elections slowdown)

[1] Source: Morgan Stanley Investment Management Limited. Data as of 30 November 2024.

rather than structural. Recent election wins in one of the largest states in India suggest political stability. Monetary and fiscal policies remain significantly prudent, which provide meaningful macro stability to the country. This, combined with a powerful institutional framework (judiciary, regulators), remains the bedrock of consistently creating new entrepreneurs (and hence, compounders).

The weakness in Mexico has been well flagged, and while the new U.S. administration will likely move toward a more aggressive stand, we believe the two countries remain intertwined. While macroeconomic indicators have continued to be volatile and may remain so for the next few months, we find valuations are already attractive for some of the high quality businesses in Mexico that have seen substantial correction in peso terms and much more so in U.S. dollar terms. As highlighted earlier, we added to Banorte after the recent fall in its share price.

Brazil is now in a spot where the micro picture is positive while the macro picture remains more challenging. Valuations again have become quite attractive post the recent correction. We continue to find comfort in our holdings in MercadoLibra, Localiza, NU, Raia Drogasil and WEG. We believe all of them are excellent operators of their businesses and consistent market share gainers.

In Taiwan, we remain focused on the technology sector for those companies that we believe can be a beneficiary of ongoing spending, including Unimicron (beneficiary of Blackwell packaging), and TSMC, in addition to our long-time holdings in Voltronics and the new display company E-Ink.

As we get ready for 2025, we continue to focus on finding what we believe are the best names in emerging markets that can compound amid macro adversities and generate a return well above the cost of capital.

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

Fund Facts

Launch date	17 August 2012
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 Z Shares	6.88	12.41	-33.10	2.91	58.88	26.14	-12.78	26.73	2.53	-6.44	-1.22
MSCI Emerging Markets (Net) Index	7.65	9.83	-20.09	-2.54	18.31	18.42	-14.57	37.28	11.19	-14.92	-2.19

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.**

Effective 27 October 2023, the MS INVF Latin American Equity Fund was merged into the MS INVF Emerging Leaders Equity Fund.

Share Class Z 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 November 2024 and subject to change daily.

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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. The index is unmanaged and should not be considered an investment. It is not possible to invest directly in an index.

The **MSCI Brazil Index** is designed to measure the performance of the large and mid cap segments of the Brazilian market. With 68 constituents, the index covers about 85% of the Brazilian equity universe.

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