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Morgan Stanley Investment Funds
Global Endurance Fund

MARKETING COMMUNICATION | COUNTERPOINT GLOBAL | SEMI-ANNUAL LETTER | 31 DECEMBER 2022

Dear Clients,

Total returns for Global Endurance for the full year 2022 were -67.14% (Z shares net of fees) compared to -18.36% for the MSCI All Country World Index. We saw no relief in the second half of the year as the share prices of many of our companies continued to remain depressed.

I take full responsibility for last year's challenging performance. The intensity and the duration of this drawdown is certainly character-testing. While I appreciate and understand that performance this past year has not been ideal for clients, even for those with the highest pain tolerance, I believe there is a silver lining to this current moment. We were able to acquire shares of various businesses at a discount to fair value, reduce our cost basis wherever possible and focus on companies we believe have the highest potential upside.

We apply time-tested, value investing principles to growing businesses and remain steadfast in our investment strategy and process. However, it would be an understatement to say that our style of investing was out of favor as market participants fled to assets they perceived "safe" even though many of those valuations were already quite stretched.

As is the case with previous drawdowns, we once again find ourselves in an environment where the time horizon for most market participants has shrunk considerably. Focus has shifted to short-term metrics or quarterly earnings, as opposed to a company's long-term growth potential. Our investment philosophy is based on fundamentals, independent thinking and a long-term ownership mindset. However, in 2022, we were subject to the phenomena of price driving sentiment. We went from a "nothing can go wrong" to "nothing can go right" perspective within the span of 12 months. Currently, most market participants are skewing to be fearful (versus greedy) and are questioning everything from their assumptions regarding the quality of a company to their investment process and strategy. In most cases this is akin to uprooting saplings to see how the roots are growing! Many are delaying planting seeds – or in other words, are hesitant to put capital to work. Others want their portfolio companies to stop reinvesting and go straight to harvesting cash.

Suffice it to say we have kept our head when it seems like everyone around us has been losing theirs. From the inception of the Fund, we have never shied away from share price volatility as we do not believe it is an accurate representation of risk. In our view, real risk arises when our businesses are outcompeted by an incumbent or a disruptor, experiencing a deterioration of their consumer value proposition, facing the consequences of poor execution, running out of reinvestment runway and, last but not least, mismanaged, which can lead to deteriorating culture, increasing bureaucracy and stifling complacency.

In our portfolio, the businesses that saw the sharpest share price declines were cursed with high expectations going into the year. The management teams and the market expected sales growth to continue to be at a similar clip in 2022 as they saw in 2021. Many ended up over-investing on both the income statement as well as the cash flow statement. While it is easy to place blame on management, I will refrain from doing so as it was hard to predict how the sharpest increase in interest rates since the 1980s would impact budgets that were set in 2021. There is no denying that rising rates along with inflation led to a significant rise in uncertainty. This uncertainty, in turn, led to an elongation of the sales cycle, a pause in consumer purchases and a general decline in consumer and business sentiment. Given this backdrop, our businesses were hit with a triple whammy of decelerating growth, increasing expenses and significant multiple compression.

To make matters worse, many market participants increased exposure to perceived "safe" assets or sectors that had fared well during prior inflationary times. This contributed to the significant underperformance of the sectors we tend to favor. Furthermore, the mark-to-market nature of the public markets coupled with the nearly universal rush for the exit in fear of short-term losses exacerbated an already severe drawdown for investors like us who prefer to stay fully invested and not time the market.

As I review the sectors that outperformed last year, energy, utilities, financials and consumer staples stand out. We did not have a single investment in any one of these sectors, which led us to underperform on a relative basis given the index we compete against had roughly 30% allocated to these sectors combined. Now the natural line of query would be: why were we not diversified enough and did not have any holdings in these sectors? Our general aversion to these sectors stems from a myriad of factors specific to each one of them which I aim to briefly touch upon.

Typically, businesses in the energy and financials sectors are commodity-like in nature. The price of energy is hard to predict with certainty, capital intensity tends to be high, balance sheets typically have large liabilities and consumers tend to buy from the business that offers the product at the lowest price (low switching costs). This leads an investor in these sectors to spend much of their time focusing on uncertain macroeconomic factors such as interest rates, pricing cycles, OPEC actions, geopolitical issues, and the second- and third-order effects of such decisions. We find that most of the time, investors focused on these non-fundamental factors end up placing directional bets that are vastly beyond their control and tough to predict even by the pundits purely focused on it. In many cases, these pundits, with their broad-based opinions and their affinity for endless charts, remind us of astrologists who rely on horoscopes. Spending additional time and research on macroeconomic factors is arguably even worse than acknowledging that the “field” itself may not be worth pursuing. Brandolini’s law – i.e. “the amount of energy needed to refute bulls*** is an order of magnitude bigger than to produce it” – certainly comes to mind when debating macroeconomic topics.

As we look to the consumer staples and utilities sectors, I do believe we can find businesses in these sectors that offer higher quality and predictable earnings. However, we run into two core concerns. First, many of these businesses have quite limited reinvestment opportunities. Second, these businesses are selling for relatively steep valuations and many are already showing signs of deteriorating operating performance given the current currency and inflation headwinds. Furthermore, the share prices of businesses that operate in these sectors should, at least in theory, also be affected by rising rates. Even the “safest” of assets can become an unsafe investment if one overpays for it. Price paid, especially for companies with limited growth runway or low optionality, is the most important factor in the determination of future return predications.

To be clear, I am not excusing our poor performance. I own it. Disappointing long-term clients is painful even when expectations are high. If there is any consolation, I too share in the pain we suffered last year since my own capital is in the strategy. My operating motto tends to be “this too shall pass”, which has served me well during times of crisis, as embedded within it is optimism in the free markets and the human race. We have been able to accomplish much despite the inevitable periods of high inflation, deflation, wars, shortages, pandemics, terror attacks, natural disasters and political turmoil. The topic *du jour* is that high inflation is expected to persist for a long time. This idea is centered on the belief that not only will the invisible hand and free markets fail us, but so too will the internet, which, for all its critics, has been a unifying force, leading to global information dissemination, bringing issues to the forefront and influencing supply and demand in real time.

All is not dreary when it comes to our companies. Our management teams, many of which are owner-operators with sizable ownerships, took the right, albeit painful, steps. These steps ranged from reductions in workforce, cuts to spending, and finding and increasing efficiencies. We believe these necessary steps will allow our companies to survive and, in time, thrive. I am proud of our management teams for once again rising to the challenge so shortly after the pandemic.

Another positive nuance that I’d be remiss to not mention would be the fact that not only have rising rates led to sound money and a strong dollar, but it has also increased the hurdle for funding of competition. Given there is now a real opportunity cost to capital, we assume that even venture capitalists or leveraged buyout funds won’t simply fund a business to go grab market share for the sake of grabbing market share. This, in turn, benefits companies which were able to build brands and products and reach scale in times of easy money.

From a portfolio management perspective, I made sure we concentrated our capital in our best ideas, harvested tax losses where appropriate and remained steady in our journey. Our businesses operate in end-markets which we believe are quite diversified, resilient and in most cases have powerful structural tailwinds behind them. Furthermore, we won’t sell a business simply if it is underperforming if our thesis is intact, and the potential of our operating businesses remains largely unchanged or perhaps gotten even better.

Needless to say, we are seeing an abundance of opportunities. For example, some of our favorite businesses in the software sector are trading at compelling valuations. Software companies tend to have high gross margins (similar to consumer staples) and offer streams of low capital intensity royalties due to their nature of build once and sell over and over again. This ability to produce large dollar volume increases with minor additional capital also makes them particularly attractive. Many of these software companies have maintained high retention rates given their strong value proposition to the end customer. We have also been able to take advantage of the uncertainty in Europe to acquire high quality businesses that we’ve been eyeing for a while.

We continue to believe that equities will likely be the best-performing, long-term asset class because they provide ownership in the creativity, ingenuity and productivity of talented workers. While money can be inflated, talent cannot! It is my belief that owning a portfolio which consists of a select group of companies located throughout the world with durable competitive advantages,

sustainable growth opportunities, valuable business models and strong management teams will lead to exceptional long-term returns. Therefore, the majority of our time has been and will continue to be focused on the operational truths of our underlying businesses.

Just like it is always darkest before dawn, it is my belief that continued patience and not letting emotions get the best of us is indeed the best course forward. If you wait for the perfect conditions, you will be waiting for a long time.

As a reminder, while our companies' share prices can vary significantly in any short time period, it is my belief that over time they reflect the intrinsic value of their underlying businesses. And given that we own a select group of companies – 25 to be exact – a number which is a fraction of the over 2,855 companies held in the index we compete against, the Fund's performance may vary in any given year. At the end of the second half of 2022, our top 10 companies accounted for 62.7% of the portfolio and top 20 companies accounted for 92.9% of the portfolio. From a geographic domicile weighting standpoint, our portfolio was 56.4% in the United States, 16.2% in the United Kingdom, 11.3% in Canada, 5.5% in Israel, 3.2% in the Netherlands, 2.9% in France, 2.2% in Singapore and 1.5% in Sweden.

I am grateful for your trust in Global Endurance.

With best wishes,

Manas Gautam

FUND FACTS

Launch date

30 August 2019

Base currency

U.S. dollars

Index

MSCI All Country World Net Index

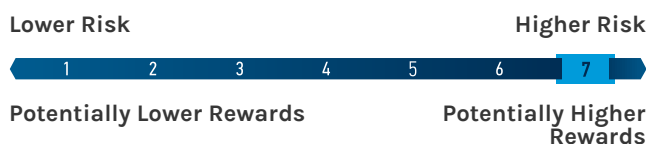
Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

| | YTD | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|----------------------------------|--------|--------|-------|--------|------|------|------|------|------|------|------|
| Class Z Shares | -67.14 | -67.14 | 11.92 | 107.22 | -- | -- | -- | -- | -- | -- | -- |
| MSCI All Country World Net Index | -18.36 | -18.36 | 18.54 | 16.25 | -- | -- | -- | -- | -- | -- | -- |

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 risk and reward category shown is based on historic data.

- Historic figures are only a guide and may not be a reliable indicator of what may happen in the future.
- As such this category may change in the future.
- The higher the category, the greater the potential reward, but also the greater the risk of losing the investment. Category 1 does not indicate a risk free investment.
- The Fund is in this category because it invests in company shares and the fund's simulated and/or realised return has experienced very high rises and falls historically.
- The fund may be impacted by movements in the exchange rates between the fund's currency and the currencies of the fund's investments.

This rating does not take into account other risk factors which should be considered before investing, these include:

- 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 fund's ability to buy or sell securities.
- 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 31 December 2022 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 official language of your local jurisdiction at morganstanleyinvestmentfunds.com or free of charge from the Registered Office of Morgan Stanley Investment Funds, European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxembourg B 29 192.

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