A Sub-Fund of Morgan Stanley Investment Funds

Sustainable Emerging Markets Equity Fund

EMERGING MARKETS EQUITY TEAM

Important Information

- The Fund invests primarily in emerging country equity securities.
- Investment involves risks. Key risks for this fund include Risk of Investment in Equity, Emerging Market Risk, ESG Investing Risk, Exchange Rate Risk and Risk of Exposure to the Euro and Eurozone.
- There is a risk that you may potentially lose your entire investment in this Fund.
- The investment decision is yours but you should not invest unless the intermediary who sells it to you has advised you that it is suitable for you and has explained why, including how buying it would be consistent with your investment objectives. You should not make any investment decision solely based on this document. Please read the relevant offering document carefully for further fund details including risk factors.

Performance Review

In the three month period ending 30 June 2025, the Fund's A shares returned 13.67% (net of fees)[1], while the benchmark returned 11.99%.

During the quarter, stock selection in India contributed strongly, though the overweight allocation to the market detracted slightly. The positioning in Taiwan and the zero allocation to Saudi Arabia added to returns. Other contributors included the position in health care company Medicover, stock selection in Poland and the overweight allocation to Mexico. The zero allocation to Thailand also contributed. Detractors for the quarter included stock selection in and the underweight to Korea, the zero allocation to Greece and stock selection in China.

Top contributors to performance during the quarter are outlined below:

Stock selection in India contributed, driven by the allocations to Hitachi Energy, IDFC First Bank and HDFC Asset Management. Hitachi Energy rallied after reporting first quarter 2025 results of a 62% increase in net profit year-over-year.[2] Indian financials rallied after the Reserve Bank of India (RBI) announced a 100 basis point cut in the cash reserve ratio to 3%, which exceeded market expectations of a 50 basis point cut. The RBI also lowered interest rates for the third time this year in June amid falling inflation and lower growth. The RBI changed its stance from "accommodative" to "neutral" as it continues to carefully monitor the inflation and growth outlooks. Our overweight allocation to India partially offset gains as India underperformed emerging markets (EM) during the quarter, though the market has been steadily recovering from its February lows.

Stock selection in and the overweight allocation to Taiwan contributed. Artificial intelligence (AI)-related optimism continued in June, particularly after Nvidia posted strong earnings at the end of May and the share price hit an all-time high in June, which helped lift semiconductor- and AI-related stocks in Taiwan. Our overweights to select tech/semiconductor companies, including Wiwynn, Delta Electronics, Alchip, Unimicron and Hon Hai, added to returns.

Saudi Arabia was the only EM to post a negative return for the quarter, and the portfolio benefited from the zero allocation to the market as oil price volatility weighed on market performance.

The position in Medicover was among the largest security contributor to returns. Medicover reported strong organic growth across both health care and diagnostic services and strong operational leverage, which translated into margins and profits. The company's first quarter earnings were released during the quarter and the company already exceeded its full-year 2025 financial targets while expanding margins and maintaining strong cash generation. The overweight to and stock selection in Poland also contributed, through the allocation to Allegro and Grupa Kety.

Mexican equities continued to outperform, ending the quarter as one of the best performing EM markets, and our overweight allocation to the country contributed. Within the market, our allocations to Walmex and Grupo Financiero Banorte added to returns, though the allocation to Gruma offset some of the gains. We believe Walmex continues to be a leader in the retail space, and in April the company announced a $6 billion investment to further expand its operations in Mexico, reaffirming both the retailer's confidence in the consumer market and its commitment to expansion plans (via physical stores and digital footprint).

Thailand was among the worst performing EM markets as equities were impacted by political volatility, most recently with the prime minister being suspended and facing calls of resignation relating to an ethics probe, and our zero allocation to the market added to returns. The underweight allocations to China and Saudi Arabia also contributed as both markets underperformed EM during the quarter, with oil price volatility weighing on Saudi market sentiment.

Top detractors from performance during the quarter are outlined below:

Our underweight allocation to and stock selection in Korea detracted as the market rallied nearly 33% during the quarter, particularly following the presidential election and victory for the Democratic Party leader Lee Jae-Myung. The Democratic Party

[1] Source: Morgan Stanley Investment Management Limited. Data as of 30 June 2025.
[2] Source: Hitachi Energy company results 31 March 2025, reported 14 May 2025.

now controls both the legislative and executive branches in Korea, which could allow Lee's legislative agenda, including capital market reforms, to pass without conservative support. On the other end, our overweight allocations to KB Financial and NAVER contributed, the latter as Korean internet stocks rallied on President Lee's support for various crypto/digital asset initiatives and the push for won-based stablecoins. The portfolio is invested in secular themes in Korea such as technology/semiconductors, media and electric vehicles, and in areas that we believe should benefit from government policy measures to improve corporate governance, including select banks.

The zero allocation to Greece detracted as the market was the second-best performing EM during the quarter.

The gain from our underweight allocation to China as the market underperformed in the second quarter was mostly offset by aggregate stock selection in the market, negatively impacted by Yum China, BYD and Trip.com. BYD fell from its May highs as electric vehicle (EV) makers in China have been undergoing a price war amid concerns of potential slowing demand growth in the second half of 2025. The travel/online travel agency industry (including Trip.com) saw a decline after JD.com announced its expansion into the travel sector with the launch of a "lifestyle and travel" section in its app and a three-year, zero-commission hotel membership program.

Portfolio Activity

During the quarter, we added to the Central and Eastern Europe (CEE) region by initiating positions in Polish construction and engineering company Budimex and Komercni Bank in the Czech Republic. Budimex is the largest Polish construction and engineering company, engaged in building roads, rail and other general industrial/residential construction projects. We believe earnings growth drivers for the company include: 1) revenue acceleration as backlogged new business wins (namely road construction projects) convert to project execution and 2) an acceleration in infrastructure spending in Poland, following the new administration and increase in flow of European Union funds. Further, we believe margins should have lower volatility in the future given indexation clauses, helping to reduce downside risk. With regards to Komercni Bank, the Czech economy is expected to accelerate and loan growth could inflect back up, driven by strong retail loans and a gradual recovery in corporate loans. Elsewhere, we reduced the allocation to insurer PZU in Poland as the company is undergoing a corporate restructuring which could have a dilutive impact on earnings in the medium term.

Within China, we initiated a position in China International Capital Corp (CICC), a full-service investment bank with a diversified client base, which we believe can benefit from strong initial public offering (IPO) activities in the Hong Kong market and trading volume growth. We exited our position in Advantech in Taiwan. The stock has outperformed Taiwan and EM (in U.S. dollar terms) year-to-date on improving year-over-year growth, driven by a recovery in the PC/automation theme in the U.S. and EU markets. While we remain positive on Advantech as a proxy for the global capital expenditure cycle, we believe the stock's current valuation has priced in the outlook. Elsewhere in Taiwan, we exited Fubon Financial.

Given the increased uncertainty around reform execution with the pressures facing the Government of National Unity, which could hurt business confidence and prospects for fixed investment growth, we exited Standard Bank.

We initiated a position 360ONE, one of India's leading wealth management providers; its recent stock correction provided a good entry opportunity. We exited Star Health & Allied Insurance as the company has struggled with rising medical inflation and the ability to organically grow the top-line.

Within Brazil, we added to our existing positions in Rede D'Or and MercadoLibre. Our investment thesis for Rede D'Or continues to be driven by 1) market share gains in both the private hospital and insurance (SulAmerica) segments and organic growth in health care EBITDA (earnings before interest, taxes, depreciation and amortization) as the company plans to significantly expand bed capacity over the next five years and 2) improvement to SulAmerica's medical loss ratios. Elsewhere in Brazil, we exited our position in NuBank.

In Mexico, we added Prologis, an industrial real estate investment trust (REIT) company which has a strong track record in six local markets in Mexico. Its existing rents are approximately 50% below market and those rents continue to rise as they mark-to-market when the leases come up for renewal, which we believe implies a significant rent increase over the next few years. In addition, the company recently acquired Terrafina, which we think gives the company an opportunity to sell non-core assets and increase its ability to deploy into future industrial assets in its core markets without needing to raise money via an equity offering. Elsewhere in Mexico, we reduced our position in Gruma and sold vehicle insurance company Qualitas.

Strategy and Outlook

The philosophy underlying the investment process is that an integrated top-down and bottom-up analysis remains critical to identify the most attractive macro and stock investments across EM. Both levers continue to be balanced drivers of active returns and risk. In what we expect to be a mixed outlook for growth and ongoing realignment in the global economy, we believe the portfolio is well positioned and provides significant diversification with active positioning at both the country and stock level.[3]

We remain overweight **India** where our long-term secular, domestic-driven growth thesis remains unchanged. We are closely watching for impacts from external factors such as developments in U.S. economic growth and tariff announcements, though India is relatively more insulated from tariffs versus other countries given its domestic-driven growth drivers. The RBI remains focused on

3 Diversification neither assures a profit nor guarantees against loss in a declining market.

financial stability, and we believe corporates are well positioned as returns on equity and profitability of listed companies are generally strong and earnings visibility remains high. Shifts in growth should coincide with changes in liquidity conditions, monetary policy, government spending and the flow of credit. Our exposure in India includes what we consider to be well-managed financials, industrials and consumer names, along with select IT, health care, energy and materials companies.

We are overweight **Poland**. We believe the Polish economy is well positioned for sustained growth, benefiting from rising gross domestic product (GDP) growth, manageable inflation, a tight labor market, improved external balances and low debt. Private investment should be a key driver of growth, led by disbursal of European Union funds (over 2% of GDP per year), and Germany's fiscal stimulus package should provide additional support in the medium term. Gross fixed capital formation was +9% in the first quarter 2025 after a contraction in the second half of 2024.[4] Following the recent election outcome and looser fiscal policy, central bank governor Glapinski is likely to skew hawkish, keeping rates higher for longer. The banking system has deleveraged, with low loan-to-deposit ratios, and we believe should be well prepared for an investment cycle. Even after strong year-to-date performance, equity valuations remain close to Poland's historic average (and are cheaper than that of EM). We believe the Poland economy is structurally among the strongest in the CEE region (particularly given its greater domestic focus) and remain invested in the largest bank in the country, an infrastructure construction company, a leading insurer, an e-commerce platform and a producer of flexible packaging solutions and aluminium systems.

We are overweight **Brazil**. GDP growth of 3% for the last three years[5] has outperformed market expectations, largely due to positive structural reforms implemented by the prior administration, including labor, pension and tax reforms, central bank independence and state-owned enterprise privatizations. Further, the labor market is tight with multi-year low unemployment rates and high real wage growth is leading to solid domestic demand. Additional positives include rising tax-to-GDP ratios, strong job creation, higher trade surplus, solid foreign direct investment and rising investment-led growth. We continue to monitor fiscal concerns (high government spending and debt sustainability) and interest rate changes in the country and are focused on companies with quality management and solid earnings growth.

We maintain our overweight allocation to **Mexico**. While we are closely monitoring the tariff news and impacts to trade and growth, we believe strategic and economic interests will likely prevail and help keep the relationship between the U.S. and Mexico on track. Structurally, Mexico's GDP growth has remained strong with no major imbalances, growing real wages and continued investment (led by foreign direct investment and the country's attractive strategic positioning in the global supply chain with more affordable manufacturing wages). We believe many domestically focused companies trade at attractive valuations and should continue to benefit from a solid macro outlook, which would likely translate into solid earnings growth and yields.

We maintain our structural underweight to **China** as the fundamental issues in the economy (excess unproductive investment, overcapacity and the need to shift to a consumption-led growth model) will take time to fully address. While we believe the policy stimulus announcements by the People's Bank of China and government in recent months are steps in the right direction, we believe more time and actions would be required to turn around the economy. Volatility around the tariff hikes on Chinese imports by the U.S. and EU is an additional headwind, and with higher tariffs and a global trade slowdown, external drivers are not likely to be the main driver of growth in the near term. We believe the emergence of low-cost AI model DeepSeek marks a turning point in China's broader resurgence in innovation, investment and global competitiveness, at a time of renewed nationalism in the country. China's strengths in consumer technologies and cost efficiency could unlock a more diversified AI opportunity set, one that balances the high-cost, high-performance AI segment with China's more accessible, cost-efficient solution. We remain selective in our exposure in China and are invested in attractive growth themes, such as EVs and edge AI, and within those themes are focused on companies with competitive advantages, strong corporate governance and solid growth prospects.

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

Fund Facts

Launch date	01 July 1993
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	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Class A Shares	14.41	6.22	13.32	-26.30	2.83	13.61	18.08	-17.52	34.45	5.23	-11.17
MSCI Emerging Markets Net Index	15.27	7.50	9.83	-20.09	-2.54	18.31	18.42	-14.57	37.28	11.19	-14.92

Investment involves risks. All performance data is calculated NAV to NAV, net of fees, and assume the reinvestment of all dividends and income. The sources for all performance and index data is Morgan Stanley Investment Management ('MSIM Ltd'). Please refer to the relevant offering documents for fund details, including risk factors.

[4] Source: Haver Analytics. Data as of 31 March 2025.
[5] Source: Bloomberg L.P.

Effective 1st November 2021 the Morgan Stanley Investment Funds Emerging Markets Equity Fund was renamed to Sustainable Emerging Markets Equity Fund.

Applications for shares in the Sub-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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Charts and graphs provided herein are for illustrative purposes only and subject to change.

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 is unmanaged and does not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

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