A Sub-Fund of Morgan Stanley Investment Funds

Emerging Leaders Equity Fund

EMERGING MARKETS EQUITY TEAM

Investors should note that, relative to the expectations of the Autorité des Marchés Financiers, this UCITS presents disproportionate communication on the consideration of extra-financial criteria in its management.

Performance Review

In the one month period ending 30 June 2025, the Fund's Z shares returned 3.84% (net of fees)[1], while the benchmark returned 6.01%.

The Fund meaningfully underperformed the benchmark index for the month. The Fund has larger exposure to India and Brazil, both of which recently underperformed versus other emerging markets (EM) due to U.S. tariff-related noise. On the other hand, Korea and China — where we are underweight — continued to see strong returns. Meaningful passive flows into EMs and strong local investor activity in China and Korea drive strong performance divergence for a bottom-up stock portfolio like the Fund. That said, we believe India remains the best structural growth market within EM while Brazil is the most attractive on existing valuations. Macroeconomic narratives have turned more positive and driven strong performance of certain EMs where fiscal frameworks remain broken.

Brazil was the largest drag on performance as the market reacted adversely to higher tariffs from the U.S. and the recovering popularity of President Lula. While the market is reacting quite negatively, Brazil's economy has fairly low exposure to exports to the U.S. (accounts for only 12% of overall exports, and exports are only 18% of Brazil's gross domestic product [GDP] according to the Office of the U.S. Trade Representative as of 2023), and tariffs are likely to have a non-material impact on GDP growth given the exemptions already provided by the U.S. Overall market valuation multiples have already corrected to single-digit price-to-earnings ratios for healthy double-digit return on equity and high-single-digit growth in earnings. Many stocks are currently providing high-single-digit dividend yields. The Fund's top four detractors in July all came from Brazil: Localiza, XP, MercadoLibre and Raia Drogasil. These four companies are focused on local consumption and none are exporters to the U.S. We believe Localiza and XP are likely to benefit from the interest rate cycle as Brazil's real interest rates remain one of the highest in EM.

India also underperformed amid its still slow earnings recovery and it being at the receiving end of the Trump administration's tariff noise. Our high allocation to India continued to be a drag on performance versus the benchmark, although the portfolio materially outperformed the MSCI India Index. At the stock level, Varun Beverages delivered strong second quarter earnings, with double-digit volume growth and margin expansion. Eternal rallied on the back of a decline in competitive intensity in the quick commerce segment and increasing market share across its food delivery and quick commerce business. Laurus reported strong active pharmaceutical ingredient (API) sales and a recovery in the contract development and management organisation (CDMO) pipeline. Regulatory clarity on key filings in the U.S. also helped to lift sentiment. Global Health continued its expansion in Tier 2 cities, and operational leverage from existing hospitals drove an earnings surprise. We also avoided the credit cost blow-ups in lower quality financials, as our holdings have largely been focused in ICICI and HDFC Bank, which delivered healthy profits and industry-leading return on asset ratios.

Mexico, which had been a strong performer previously, also detracted this month on weak consumer confidence and retail data while financials stocks consolidated.

China, where the Fund has zero exposure, rallied on stimulus expectations and easing measures and consistent southbound flow into a select group of Hong Kong-listed stocks. Underweight selections in Korea and Taiwan hurt performance as the two tech-focused markets rallied on the artificial intelligence (AI)-driven semiconductors theme, strong earnings from chipmakers and hardware firms, and improved sentiment.

Portfolio Activity

During the month, we added to our position in Nu Holdings. We had previously trimmed our holding in NU on account of the company's slowdown in credit growth as it was recalibrating its risk cohorts. Recent data suggests the company is re-accelerating its credit growth as overall macro conditions remain healthy and it has further finetuned its risk models.

We added to our position in Laurus Labs. Indian CDMO companies are witnessing strong demand from global innovators as they look to diversify their supply chains. The success of a CDMO business is hinged on strong chemistry research and development capabilities, high quality manufacturing assets, and the ability to build trust-based relationships with global innovators (given intellectual property [IP] and exclusive dependencies on supplies). Laurus has successfully built these over the last few years, and we believe the company's earnings may experience a J-curve.

[1] Source: Morgan Stanley Investment Management Limited. Data as of 30 June 2025.

We added to our position in Varun Beverages. The stock had significant investor pessimism built around its earnings given a bad summer season and competitive threat from Campa Cola (promoted by Reliance Industries). We believe these concerns were overblown and the stock had turned quite cheap. We further added to our position in the name.

We re-initiated a position in Meituan, a leading domestic lifestyle services platform in China. We believe that the company continues to be among the best executors in local commerce (primarily food delivery) with strong tech-led competitive advantages. Recent competition-related developments are expected to be transitory. The stock has seen a meaningful correction, and we have started to evaluate the name more deeply. We continue to evaluate Meituan's capital allocation concerns beyond China and the nature of Alibaba's investments within quick commerce before building bigger position on the name.

We initiated a position in eMemory, a global leader of embedded non-volatile memory IP, which is used to protect data stored inside semiconductor chips during design/production. eMemory has over 1,260 patents issued, according to the company in its latest quarter, and has had a long-standing partnership with TSMC. It has very deep moats, such as its IP business, with strong profitability as evidenced by 100% gross profit margin and 50% net profit margin according to company data from the latest reported quarter.

We trimmed our position in Voltronic Power. Recent macro uncertainty and tariff concerns have led to increasing fundamental uncertainties for Voltronic. We see limited upside given slowing in the uninterruptable power supply (UPS) outsourcing trend and increasing competition in its inverter business.

We exited our position in WEG. We believe the business is closer to its peak margin cycle and is entering into a phase of uncertainty on its margins. Hence, we chose to deploy capital to better ideas. We think business is unlikely to get hit by higher tariffs as WEG already has facilities in the U.S. and Mexico supplying the U.S. market. However, our concern has been on slowing capital investments within U.S. as well, which may lead to an overall downcycle for capital goods companies globally.

We exited our position in TVS Motor. The stock has been a winner for the Fund, delivering consistent market share gains in India's two-wheeler space along with sustained expansion in EBITDA (earnings before interest, taxes, depreciation and amortization) margins. That said, valuations started to look stretched and we chose to take profits to find opportunities with better risk-reward profiles.

We exited our position in Americana Restaurants. Persistent Middle East tension continues to worsen the sentiment for American quick-service restaurant chains. The revival of Americana's same store growth rate continues to be postponed as a result. We deployed capital to what we believe are better ideas.

We also trimmed our positions in India consumption names like Titan and Astral where valuations have remained expensive while earnings growth has been somewhat soft.

Strategy and Outlook

We believe emerging markets continue to be well positioned to benefit as investors look for the next areas of growth and as the valuations and currencies look compelling. The strategy's largest exposures — to countries such as India and Brazil — are more domestic-focused rather than export-reliant and are relatively better sheltered from the ongoing tariff friction compared to the rest of the emerging markets. India, Brazil and Mexico could also see more manufacturing investments as a result of supply chain diversification from China, thus strengthening their overall economies. The recent U.S. dollar weakness has also been a notable theme, and we expect EM to remain a beneficiary of that trend.

While India has experienced some cyclical slowdown in the recent months, we expect it to be transient in nature rather than structural. Monetary and fiscal policies remain significantly prudent, which provide meaningful macro stability to the country. India continues to offer attractive opportunities, and our research shows that India consistently tops the list of having the largest number of compounders across any emerging market. The strategy's positions in India are well diversified across sectors (financials, consumer, industrials, telecoms, real estate, materials) and between domestic-oriented and external-facing opportunities.[2]

We believe many of China's macro challenges (high debt-to-gross domestic product ratio, low capital productivity, higher reliance on exports and low consumption share of GDP) will need a longer-term approach, and the current policy measures may not offer structural fixes to those issues. We expect some of the China outperformance to further unwind during the remainder of 2025 as the market realizes the ongoing fiscal announcements may not address the structural issues that the Chinese economy faces. Tariffs by the U.S. will create further challenges for an export-driven economy.

Competition within Chinese companies remains intense, and this leads them to be in continuous investment mode, at times creating overcapacity that constrains value creation for investors. Our view is that China will likely remain volatile, guided by government intervention and the ongoing tariff noise. As we are long-term investors who favour visibility of earnings and growth in the companies/markets that we invest in, we find it challenging to dedicate significant exposure to China. That said, given that China is home to some world-class technology entrepreneurs and a sizable consumption base, we continue to search for those hidden structural opportunities.

[2] Diversification neither assures a profit nor guarantees against loss in a declining market.

We continue to focus on finding what we consider to be great quality businesses across emerging markets at fair valuations while avoiding tail risks such as regulatory, key man and capital misallocation. In these days of exceptional volatility, valuations can get dislocated on both sides in very short time periods, providing good opportunities to both buy and sell stocks.

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	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Class Z Shares	7.58	2.96	12.41	-33.10	2.91	58.88	26.14	-12.78	26.73	2.53	-6.44
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

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 shares. The sources for all performance and index data is Morgan Stanley Investment Management ('MSIM Ltd'). **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 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, available at www.morganstanleyinvestmentfunds.com. All data as of 30.06.2025 and subject to change daily.

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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The use of leverage increases risks, such that a relatively small movement in the value of an investment may result in a disproportionately large movement, unfavourable as well as favourable, in the value of that investment and, in turn, the value of the Fund.

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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 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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The **MSCI India Index** is designed to measure the performance of the large and mid cap segments of the Indian market.

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