A Sub-Fund of Morgan Stanley Investment Funds

NextGen Emerging Markets Fund

EMERGING MARKETS EQUITY TEAM

Performance Review

In the one month period ending 30 April 2025, the Fund's I shares returned -4.48% (net of fees)[1], while the benchmark returned -4.17%.

Within Brazil, our allocation to MercadoLibre was the top security contributor to returns. We believe MercadoLibre remains a clear leader within the Latin American e-commerce space. The company continues to focus on future opportunities for growth by taking shares from physical stores, making further investment in logistics and technology, and expanding its reach across Latin America. The company recently reported first quarter 2025 results that exceeded investor expectations. Its revenue in the e-commerce space increased by nearly 40% year-over-year (driven by an increase in active buyers and a rise in gross merchandise value) and total payment volume for the company's fintech (Mercado Pago) operations rose 43%, with the latter growing to a record 64 million monthly active users.[2]

Gulf Cooperation Council (GCC) and Egyptian equity markets were bolstered in April by the pause in U.S. tariffs, and the portfolio benefited from the allocations to Fawry (digital payments company in Egypt) and Emaar Properties in the U.A.E. Emaar Properties recently reported first quarter 2025 results showing a 42% increase in property sales versus the first quarter of 2024 and a 50% increase in revenue growth compared to that same period.[3] In line with the company's updated dividend policy at the end of last year, Emaar recently paid a record $2.4 billion in dividends to shareholders.[3] Part of our investment thesis for the company includes a continuation of strong growth due to U.A.E. macroeconomic reforms and the ability of the business to strengthen despite global uncertainties. Emaar is also a strong proxy for the Dubai economy, which we believe is poised for a leading position in real estate and brand equity. The company maintains an impressive portfolio of malls, hospitality, entertainment and commercial leasing properties, in our view.

Stock selection in Pakistan contributed to returns, led by our allocation to Meezan Bank. Our allocation to Hermina Hospitals in Indonesia also contributed strongly.

The overweight allocation to Vietnam detracted from returns as the market underperformed, largely impacted by tariff volatility as the U.S. imposed some of the steepest levies on the country. Our aggregate stock selection in the market also detracted, driven by the allocations to FPT Corp., Phu Nhuan Jewelry and Vietcombank. FPT fell on uncertainties around the future of its telecom business (FPT Telecom) after the Vietnam Ministry of Public Security announced plans to acquire a large stake in the telecom business to strengthen national data protection and cybersecurity. Elsewhere in Vietnam, the zero allocations to Vingroup and Vinhomes also hampered returns.

Stock selection in the Philippines contributed to returns through our allocations to Century Pacific Foods and Bank of the Philippine Islands, but our underweight allocation to the market detracted. Headline inflation slowed to a multi-year low in April and the Philippine central bank cut interest rates by 25 basis points, leaving room for further monetary easing as inflation continues to fall. We believe consumer stocks, such as Century Pacific, could continue to benefit from an improving consumer backdrop and easing inflation. Century Pacific continues to focus on affordable nutritional goods and has been able to strategically navigate global tariff uncertainties. The company's management maintained their revenue and profit targets for the year, noting exposure to U.S. tariffs are limited.

Positioning in Slovenia, through our allocation to Nova Ljubljanska Banka, detracted from returns. The overweight allocation to Bangladesh and zero allocations to Colombia, Romania and Croatia also detracted.

With a global macro backdrop characterized by heightened uncertainties and volatility, we continue to believe there are idiosyncratic economies in frontier and small emerging markets countries that provide diversification and optionality.[4] We are focused on countries that appear "insulated" and/or less sensitive to geopolitical and trade volatility, and many of these markets are trading at attractive valuations and have historically delivered strong earnings growth. We continue to be invested in and look for additional quality growth opportunities that we believe can benefit from positive macro tailwinds.

Portfolio Activity

During the month, we initiated a position in Lion Finance Group, a bank with operations (through its subsidiaries) in Georgia and Armenia, and added to our existing high conviction position in Square Pharmaceuticals in Bangladesh. Lion Finance has a wide range of customers, including small and medium-sized enterprises (SMEs), large corporations and 2.4 million monthly active retail users,[5] and leverages artificial intelligence (AI) to deliver user-friendly banking and digital payment systems.

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[1] Source: Morgan Stanley Investment Management Limited. Data as of 30 April 2025.
[2] Source: MercadoLibre 1Q2025 results as reported in May 2025.
[3] Source: Emaar Properties, 31 March 2025.
[4] Diversification neither assures a profit nor guarantees against loss in a declining market.
[5] Source: Lion Finance, May 2025.

We exited our position in Turkish enterprise software-as-a-service (SaaS) company Logo. While the company continues to have a solid business model, the macro risk in Turkey has created significant uncertainty for the equity market.

Strategy and Outlook

With increasing volatility in the U.S. and globally, we continue to believe that many frontier and small emerging markets (EM) can remain resilient and emerge as uncorrelated relative safe havens. We remain invested in markets that we believe are set for accelerating gross domestic product (GDP) growth, driven by recently adopted reforms and robust domestic demand.

While global investors remain focused on the U.S., and in mega-cap tech and AI, we believe frontier and small emerging market equities offer a compelling alternative: large countries that are home to the fastest-growing consumer bloc in the world, attracting significant capital from global superpowers as they expand their infrastructure—ranging from hospitals to high speed trains and digital payment systems—offering global investors much-needed diversification at historically low valuations.[4] Below we outline a few key themes for the asset class in 2025:

Reform, Recovery, Resurgence

In the current volatile global landscape, many frontier and small emerging markets have faced economic distress over the past year or two. Yet these crises have prompted significant reforms in countries like Argentina, Egypt, Nigeria and Pakistan, leading them on a path from reform to recovery. When combined with other high growth economies, such as Vietnam and Bangladesh, we believe this sets the stage for a strong resurgence in economic growth for the asset class.

MSCI frontier market countries are projected to grow faster than MSCI emerging markets and developed markets in the coming years. The International Monetary Fund (IMF) estimates that frontier countries will maintain 2024 growth of 3.5% in 2025 and then accelerate to 3.8% in 2026, versus developed markets estimated growth of 1.6% in 2025, consistent with 2024.[6]

While major economies have largely tamed inflation, frontier economies will likely see a deceleration in consumer price index (CPI) inflation (3.7% in 2024 versus 3.5% in 2025 estimated), consistent with EM (2.5% in 2024 versus 2.4% in 2025), and an expected 0.5% deceleration in developed markets to 2.1%.[6] Frontier's CPI deceleration is attributable to reform progress as frontier economies adopt more orthodox monetary policies. Notably, across all 19 countries we actively track, 89% now have positive real policy rates, up from 5% in mid-2022.[6]

Expectations are that progress on inflation and growth in ex U.S. markets may be at risk by way of Washington's protectionist trade policies, which could strengthen the dollar. Yet, we believe the unique characteristics of frontier markets may help buffer them from the worst of U.S. trade risks.

Further, aside from Vietnam, frontier economies tend to rely more on domestic demand and represent a small piece of the overall global trading system, accounting for just 8.6% of global exports compared to China's 15.6%.[7] As such, these markets are generally less interconnected globally and consequently less sensitive to international trade policies. For example, trade only accounts for a third of GDP in countries such as Egypt, Kenya and Pakistan.[7]

Markets have recognized that frontier economies are less vulnerable to tariffs. Across frontier markets, equity and currency performance was muted in the aftermath of the U.S. election, demonstrating favorable correlation characteristics in a time of increasing trade uncertainty.

Empowered "Middle" Powers

Large middle powers remain overlooked amid the global focus on the U.S.-China trade war. We think countries such as Indonesia, Egypt, Pakistan and Nigeria are poised to step into the spotlight. These nations have large, domestic demand-driven economies and play crucial roles in regional geopolitics, making them increasingly relevant on the global stage. While middle powers may not be wealthy by traditional measures, they are home to large and rapidly growing middle classes that are beginning to assert themselves on the global stage.

Given the geopolitical backdrop, many middle powers will likely become magnets for geostrategic aid and investment from the U.S., China and the Gulf states, enabling them to build critical infrastructure and stimulate future private investment.

Fastest-Growing Consumer Bloc in the World

As financial capital investments surge, many frontier and small EMs should benefit from an influx of human capital. Countries like Vietnam, Indonesia, the Philippines, Pakistan, Bangladesh, Egypt and Nigeria (each with populations exceeding 100 million) collectively represent over 1.2 billion people.[8] Over the next decade, they will add approximately 132 million people to their labor force, essentially adding the equivalent of another Mexico.[9]

This demographic expansion stands in stark contrast to the global trend, where many regions face slower growth or decline in their working-age populations. Over the same period, China is expected to lose nearly 60 million workers and the European Union will lose over 20 million, while the U.S. will see a modest increase of 3 million.[9] Strong growth in the working-age population fuels economic growth, driving demand for consumer goods such as staples, fashion, appliances and automobiles, which should translate into strong revenue and earnings growth for publicly traded stocks in these markets.

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[4] Diversification neither assures a profit nor guarantees against loss in a declining market.
[6] Source: International Monetary Fund estimates as of September 2024.
[7] Source: Haver Analytics. Data as of 30 September 2024.
[8] Source: World Bank December 2023.
[9] Source: Haver Analytics, United Nations Population Database. Data as of 31 December 2024.

Further, despite global volatility, we think select consumer themes should persist. For example, Indonesia will continue to need more hospitals, and we continue to believe that Vietnam will shift from wet markets—where the majority of grocery spending currently occurs—to formal retail, regardless of geopolitical tensions.

Local Brands Taking Share from Global Players

We are witnessing a shift towards local brands in everyday consumer product sectors and as frontier populations increase their spending on these products, we expect local brands to continue capturing market share from global brands across certain categories.

The strong dollar has made imported global branded products, often priced in U.S. currency, significantly more expensive. In response, many of the companies in which we invest are offering high-quality alternatives that resonate with local consumers seeking better value. We have seen this change across multiple markets, from dairy and pet food in Southeast Asia to cosmetics in Egypt. Rising nationalism and a backlash against global brands are also prompting consumers to re-think their choices, particularly in categories such as quick-service restaurants.

Further, the internet has leveled the playing field. E-commerce and food delivery platforms have commoditized trust, creating an opening for local brands to directly compete without needing to incur steep upfront costs in marketing or distribution, given unlimited website shelf space. Local brands can be showcased alongside global brands—e.g., private label cosmetics from a local South Asian cosmetics company next to a European cosmetics behemoth on an e-commerce website. We expect the competitive advantage for local brands to surge, given many products are half the cost price versus global products, with similar ratings.

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

Fund Facts

Launch date	16 October 2000
Base currency	Euro
Benchmark	Custom- Blended Benchmark
	Primary- MSCI Frontier 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 I Shares	-14.08	18.71	5.14	-33.08	34.33	-5.56	24.26	-14.85	15.66	11.35	6.34
Blended Benchmark	-1.93	13.36	8.05	-23.06	26.97	-14.60	17.64	-11.81	9.40	23.53	-10.93
MSCI Frontier Emerging Markets Net Index	-1.93	13.36	8.05	-12.81	12.21	-10.70	16.19	-10.29	11.37	8.14	-8.99

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 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.
- 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. Due to the nature of the markets in which the fund invests, there might be circumstances where the safekeeping and custody arrangements of the fund are not as secure as those of more 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 30.04.2025 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.

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The **Blended Index** performance shown is calculated using the **MSCI EM Europe, Middle East Gross Index** from inception through 31 December 2000, the **MSCI EM Europe Middle East Net Index** through 16 April 2008, the **MSCI Emerging Europe, Middle East and Africa Net Index** through 15 May 2022 and the **MSCI Frontier Emerging Markets Net Index** thereafter.

The **MSCI EM Europe, Middle East Index** captures large and mid-cap representation across 8 Emerging Markets (EM) countries in Europe and Middle East.

The **MSCI Emerging Markets Europe, Middle East and Africa Net Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of Europe, the Middle East & Africa.

The **MSCI Frontier Emerging Markets Net Index** is a free float adjusted market capitalization index designed to serve as a benchmark covering all countries from the MSCI Frontier Markets Index and the lower size spectrum of the MSCI Emerging Markets Index.

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

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A blended benchmark has been used because there has been a change in benchmark during the reporting period shown.

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