Morgan Stanley Investment Funds

NextGen Emerging Markets Fund

EMERGING MARKETS EQUITY TEAM

Important information

- The Fund invests primarily in equity securities of issuers in emerging market countries, including frontier market countries, and upcoming developing markets.
- Investment involves risks. Key risks for this fund include Risk of Investment in Equity, Emerging Market Risk, Exchange Rate Risk and Risk of Exposure tothe 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 hasexplained why, including how buying it would be consistent with your investment objectives. You should not make any investment decision solely based onthis document. Please read the relevant offering document carefully for further fund details including risk factors.

Performance Review

In the one month period ending 31 October 2024, the Fund's A shares returned 1.78% (net of fees)[1], while the benchmark returned 0.78%.

Our underweight to and stock selection in the Philippines was the largest contributor to returns during the month, led by our allocation to fast-moving consumer goods company Century Pacific Food and the zero allocations to Ayala Land Inc. and SM Prime Holdings. Century Pacific benefited from strong remittance inflows that boosted consumer spending and corporate earnings.

Our positioning in Vietnam also added to returns through our allocation to Binh Minh Plastics, one of the country's leading players in the construction plastics industry, benefiting from increased infrastructure and property construction. The company continued to outperform in October driven by stronger-than-expected sales growth from the gradual recovery of the southern Vietnam real estate market.

Our overweights to and stock selection in Pakistan and Kazakhstan contributed to returns. Within Pakistan, IT services company Systems Limited outperformed on the back of strong third quarter results, where the company recorded a strong top line, gross profit and operating profit, with 28% year-over-year growth in U.S. dollar revenue.[2] The company has seen a significant rise in large client contracts. Meanwhile, Kazatomprom recovered in October after the company reported a 17% increase in production during the third quarter and maintained its production and revenue targets for the year.[3]

Within Argentina, our allocation to Despegar added to returns. The company announced a partnership with digital banking platform Nubank, allowing both companies to capitalize on their strengths and offer an improved user experience. The integration of a new payment option on Despegar's platform, combined with access to Nubank's large customer base in Brazil (over 95 million customers), should provide users with greater purchasing power and a variety of payment options, streamlining the payment process. This could help boost Despegar's conversion rates while offering greater convenience to its user base.

Within Turkey, enterprise software-as-a-service company Logo outperformed after reported net income for the third quarter came in above estimates. Our zero allocations to Morocco and Romania also added to returns.

Within Indonesia, our allocation to MAP Aktif Adiperkasa, a retailer of global sportswear brands focused on upper-middle-class consumers in Southeast Asia, was one of the largest stock contributors to returns. However, aggregate gains were offset as Hermina Hospitals and Champ Resto underperformed.

Mining stocks were impacted during the month as the economic measures announced in China fell short of investor expectations, and the allocation to Grupa Kety in Poland was the largest stock detractor from returns. Elsewhere in Poland, the allocation to software firm Text hampered returns. We exited the position during the month.

Within Egypt, Commercial International Bank (CIB) detracted from returns. We continue to believe CIB is a high quality bank and that earnings growth over the next two years will likely be supported by solid non-interest income from loan fees/commissions and strong investment income from government securities. Pan-African telecom company Airtel underperformed after the company's earnings were impacted by the significant depreciation in the Nigerian naira.

The zero allocations to Iceland and Sri Lanka also detracted from returns.

[1] Source: Morgan Stanley Investment Management Limited. Data as of 31 October 2024.
[2] Source: Systems Limited company data, third quarter 2024.
[3] Source: Kazatomprom company data, third quarter 2024.

Portfolio Activity

We initiated a position in Perseus Mining, an Africa-focused gold-mining company with operations in Ghana and Cote d'Ivoire and development projects in Tanzania, Guinea and Sudan. The company is a high quality miner that trades at an attractive valuation, particularly relative to peers in the mining industry. Perseus has little to no debt on the balance sheet and has been a strong free cash flow generator. Further, we believe the exposure to gold should help add diversification to the portfolio amid the number of global inflationary trends.[4]

We have been closely following the macro situation in Egypt, and with the return to more orthodox economic policies, we increased our allocation to the country by initiating a position in fintech company Fawry, which has over 52 million active customers in a country of over 100 million people.[5] The company has successfully been able to transition away from its legacy business of alternative digital payments, and we believe Fawry can grow its top line at a strong compound annual growth rate for the next five years and continue to generate strong free cash flow (with low capital needs) given low financial penetration levels and cross-selling opportunities (in particular, credit cards and "buy now, pay later"). Fawry has high returns on invested capital (30% average over the last five years),[6] which we think can be sustained due to its strong network effect. Further, we believe the Egyptian pound will likely see stability over the next two to three years given the amount of U.S. dollars that have flowed into the economy to help the country meet external funding requirements.

Within Peru, we initiated positions in Credicorp and Southern Copper Corporation. We believe Credicorp is among the strongest banking franchises in Peru, with a rapidly growing digital offering (Yappe) that is trading at a 1.5x price-to-book ratio, as well as a 5%-6% dividend yield in a fairly stable currency.[6] We think the asset quality cycle in Peru is turning around and that gross domestic product growth will likely accelerate next year, which should result in higher loan growth (the company is expecting mid-to-high single digits).[6] Southern Copper has the highest copper reserves of any publicly listed company, and our investment thesis is underpinned by a combination of strong organic growth, low production costs (the company sits on the low end of the cost curve), an experienced management team, and a strong dividend policy with a clean balance sheet (net debt-to-EBITDA ratio of approximately 1x).[6] We believe price dynamics are favorable as copper is among the most supply-constrained commodities, and we think prices will likely be supported around $4 per pound, leading to strong free cash flow generation for Southern Copper, given net cash production costs of $1.25 per pound.[7] Further, the company has a high return on equity, averaging 32% over the last five years.[6]

We also initiated a position in International Container Terminal Services, Inc. (ICTSI) in the Philippines. The company has a large global footprint, and unlike other publicly listed port operators, ICTSI has a smaller ports strategy (located mostly in emerging markets countries), with higher growth potential and higher margins versus many of the larger, advanced economies. We think volumes can grow attractively over the coming two to three years, and we expect the company to improve yields via a mix of efficiencies (lower costs and higher pricing) to generate top-line growth. To fund this trade, we reduced our overweight allocation to Indonesia, taking profits on recent outperformer Cimory and reducing our allocation to Hermina Hospitals.

We added to our existing position in Guaranty Trust Holding, a high quality bank in Nigeria. Officials have pursued banking reforms to improve the capitalization of the country's banks and are also pursuing fiscal reforms. We believe the bank's net interest margins should expand due to higher interest rates in the country from more orthodox monetary policy.

We exited Coca-Cola Icecek during the month. While we continue to believe the company is a great business run by a strong management team, part of our investment thesis was predicated on the company's roadmap for volume growth in underpenetrated markets such as Pakistan, Kazakhstan and Uzbekistan, which is not playing out, as the consumer in these markets remains weak.

We also exited our position in Polish software company Text, as there is uncertainty around how the introduction of generative artificial intelligence will impact customer service business models.

Strategy and Outlook

We remain focused on investing in the next generation of global investment opportunities unfolding in large, overlooked frontier and small emerging markets. Our investment universe, including Vietnam, Bangladesh, Indonesia and Nigeria, is comprised of countries with sizable, fast-growing consumer populations that are in the early stages of development. We think many of these markets are "hidden gems" and have largely been ignored by most investors. Many of these countries represent a small fraction of mainstream emerging markets and global equity indexes but provide less correlated returns at attractive valuations.

Our most recent research trip was to Egypt, a country that has been undergoing an economic adjustment and making much-needed reforms that are leading to interesting investment opportunities in a market trading at attractive valuations.

Egypt had been plagued by poor policy choices with a pegged currency and economic mismanagement, further exacerbated by a number of global shocks, including COVID, Ukraine, Gaza, high global interest rates and issues in the Suez Canal. This led to large fiscal and current account deficits, balance of payments issues, high inflation (food inflation reached a high of 70% last year),[8] negative real interest rates, and a massive spread between the official and parallel currency rates. The country has begun to take steps in the right direction with more orthodox monetary, fiscal and currency policies, including devaluing the currency over 50%

4 Diversification neither assures a profit nor guarantees against loss in a declining market.
5 Source: Fawry company data.
6 Source: Bloomberg L.P. Data as of 30 September 2024.
7 Source: Southern Copper Corporation company data third quarter 2024.
8 Source: International Monetary Fund. Data as of 31 December 2023.

and allowing it to float freely. The central bank has hiked rates by 600 basis points to 27.25%, and inflation continues to fall, down from 40% a year ago to 27% now as the economy slows and adjusts to higher rates.[9]

The country has also received significant support in the form of over $60 billion in capital from the UAE (through the Ras El-Hekma land development project) and from international organizations including the International Monetary Fund, European Union and World Bank, allowing Egypt to build reserves, float the currency and service its debt. Tourism, an important source of revenue for the country, has been recovering after taking a hit from COVID and the conflict in Gaza. While on the ground, we saw firsthand how the tourism economy is booming; tourist arrivals in Egypt are back to their 2008 peak.

While there continue to be some risks around the current account deficit, currency intervention, underinvestment in energy and the military's role in the economy, we welcome Egypt's return to orthodox foreign exchange policy and believe that recent moves, coupled with the massive inflow of money from partners, will likely help the country meet all its funding needs for the next three to five years, leading to currency stability. Within the portfolio we are invested in a high quality bank (which has continued to deliver on earnings across different macro environments) and a fintech company, and we continue to look for opportunities in top-tier businesses with strong management teams where we think earnings growth is undervalued and which we believe can benefit from an improving economic outlook.

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

Fund Facts

Launch date	16 October 2000
Base currency	Euro
Benchmark	Blended- Blended Benchmark
	Primary- MSCI Frontier 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 A Shares	11.52	4.57	-33.45	33.60	-6.08	23.58	-15.33	15.03	10.71	5.73	-7.59
Blended Benchmark	11.70	8.05	-23.06	26.97	-14.60	17.64	-11.81	9.40	23.53	-10.93	-3.41
MSCI Frontier Emerging Markets Net Index	11.70	8.05	-12.81	12.21	-10.70	16.19	-10.29	11.37	8.14	-8.99	22.07

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. Please refer to the relevant offering documents for fund details, including risk factors.

INDEX INFORMATION

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.

DISTRIBUTION

[9] Source: Egypt Central Data Catalog (CAPMAS) September 2024.

IMPORTANT INFORMATION

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