

Morgan Stanley Investment Funds

Parametric Commodity Fund



Performance Review

As the Fund is less than a year old, we are constrained from commenting on its performance.

The Fund primarily relies on three actions in pursuing its investment objectives: reweighting versus the performance benchmark, the Bloomberg Commodity Index Total Return (the "performance Index");¹ rebalancing; and commodity curve positioning.²

The Fund's reweighting decisions contributed to relative returns during the third quarter. The Fund's underweight position in crude oil was a main contributor to performance. The Fund's inclusion of robusta coffee and cocoa also contributed to results relative to the performance Index.

The Fund's emphasis on rebalancing back to target weights detracted from performance due to the absence of reversion among commodities in the performance Index during the quarter. Reversion describes the situation where recent relative outperformers become relative underperformers and vice versa. Rebalancing requires selling a portion of the outperforming asset and is beneficial during times of reversion.

Curve positioning contributed to the Fund's performance relative to the performance Index during the quarter, primarily due to positioning in natural gas.

Market Review

The commodity market, as measured by the Bloomberg Commodity Index Total Return, rose +0.68% in the third quarter of 2024. Gains in soft commodities and precious metals lifted the broader index, while weakness in the energy sector was the primary drag on index results.

The energy sector broadly experienced price declines in the third quarter. Crude oil dipped -11.8% and -12.1% for the West Texas Intermediate and Brent crude varieties, respectively, primarily driven by plans by the Organization of the Petroleum Exporting Countries and its allies to boost output by 180,000 barrels per day starting in October. This action would represent a partial unwind of its existing 2.2 million barrels per day cut. Losses in petroleum distillates were on a par with that of the crude market, as unleaded gasoline, heating oil and gasoil each fell by double digits. Finally, natural gas prices dropped -10% as weak demand for U.S. liquefied natural gas outweighed supply disruptions caused by Hurricane Helene as it made landfall in Florida.

Industrial metals performance was modestly positive during the period. Tentative signs of a rebound in Chinese demand helped to steady market sentiment and lift the sector. Copper (+4.0%) and aluminum (+3.1%) both ended the month on a strong note after China announced stimulus measures expected to shore up demand in the world's largest consumer of base metals. In precious metals, gold and silver delivered another strong quarter of performance. The Federal Reserve's pivot to interest rate cuts, and the prospect of further monetary easing, tend to benefit the non-interest-bearing precious metals.

Within the agriculture group, soft commodities were significant outperformers in the third quarter. Coffee prices, both arabica (+21.7%) and robusta (+43.3%), soared during the period. In particular, prices of the relatively lower quality robusta beans typically used in instant coffee increased considerably due to the negative impact of volatile weather on crops in Vietnam, the world's largest robusta producer. In addition, cocoa jumped again, continuing the recent bout of price volatility. On the other hand, grains such as wheat (-1.1%) and soybeans (-1.3%) dipped modestly due to strong harvests in the U.S. Finally, in livestock, hog prices rose to a three-month high during the quarter, driven by robust consumer demand for pork.

¹ Source: Morgan Stanley Investment Management Limited. Data as of 30 September 2024. MS INVF Parametric Commodity Fund's objective is to provide a return equivalent to the performance of the Barclays Commodity Index 1754, excluding fees, by investing in swaps that provide a synthetic exposure to the Barclays Commodity Index 1754 (with an expected tracking error of less than 1.5% in normal market conditions). For performance discussion purposes in this commentary, the Fund's performance is compared to the Bloomberg Commodity Index Total Return, which is a widely recognized, broad-based measure of commodity market performance, representing 22 commodities that are weighted to account for economic significance and market liquidity. The Fund's portfolio management team believes the comparison to the Bloomberg Commodity Index Total Return can provide a more comprehensive view of the Fund's performance, which is driven by active exposures in commodities, in relation to the broader commodity market.

² When seeking commodity exposures through futures, an investor has a choice of contracts with a variety of expiration dates. That is, if one is seeking exposure to crude oil, one can purchase a future with delivery next month, the month after that, etc., and each expiration has a distinct price. This is graphically presented as a curve (similar to the yield curve in fixed income). An index generally chooses the futures contract closest to expiration. To attempt to gain outperformance by selecting futures with expiration dates that differ from the index, i.e., to gain exposure through a different position on the curve, is referred to as curve positioning.

Strategy and Outlook

Commentators express a wide range of opinions regarding the commodity asset class. Regardless of the near-term forecast, the secular trend of increasing demand for raw materials from emerging markets is believed by many to be a permanent feature in the global economy. While commodities may continue to demonstrate remarkable volatility, they may do so against a background of increasing prices.

How does one invest in this space with so much short-term uncertainty? We seek to manage risk through broad diversification,³ avoiding concentrations and by rebalancing — all key factors to consider when making investment decisions. Parametric's commodity investment strategy relies on a rules-based approach in combination with a rebalancing discipline to avoid concentration, and aims to seek total return.

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

Fund Facts

Launch date	27 February 2024
Base currency	U.S. dollars
Benchmark	Barclays Commodity Index 1754

Share Class A Risk and Reward Profile

- The value of financial derivative instruments are highly sensitive and may result in losses in excess of the amount invested by the Sub-Fund.
- 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.
- The prices of commodities can experience greater volatility than other asset classes (such as equities and fixed income) in certain market conditions. Investments in commodities can therefore be riskier than other types of investment.
- 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 30 September 2024 and subject to change daily.

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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 relevant UCITS rules.

INDEX INFORMATION

The **Barclays Commodity Index 1754** is a rules-based, formulaic index that aims to provide exposure to a diversified set of commodities. The index comprises a basket of futures contracts (each a "Futures Contract") for 32 commodities (each a "Commodity").

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

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