

A Sub-Fund of Morgan Stanley Investment Funds

Parametric Commodity Fund

PARAMETRIC NON-TRADITIONAL ALPHA 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

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 quarter. The Fund's overweight positions in unleaded gasoline and diesel were top contributors to performance. The Fund's inclusion of cocoa also contributed positively 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 also detracted from 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, fell -0.45% in the fourth quarter of 2024. Weakness in the metals and grains sectors weighed on the index, while gains in energy and soft commodities helped offset some of the losses.

The energy sector rebounded to end the year, with all commodities in the sector finishing higher over the quarter. Topping the list was crude oil, with West Texas Intermediate rising +8.3% and Brent crude up +6.4%. The commodity was supported by reports that China will adopt a looser monetary policy in 2025 to boost economic growth, as well as an increase in geopolitical risk following the collapse of the Assad regime in Syria. Oil gains extended to the petroleum distillates, where unleaded gasoline, heating oil and gas oil all rose between 6%-7%. Finally, natural gas prices increased +1.2% over the quarter, in part due to colder-than-average weather across much of the U.S.

Industrial metals performance was significantly negative during the period. Although some signs that China will support domestic growth in 2025 put a floor under aluminum (-2.6%) and zinc (-3.1%), selling pressure engulfed the rest of the sector. This was partially due to a significant rally in the U.S. dollar. Copper was hit particularly hard, dropping over -11%, due to a glut of current global supply as well as concerns that President-elect Trump's threatened tariffs could hurt demand. In precious metals, gold (-0.5%) and silver (-7.3%) were both lower, though silver was a notable underperformer. Headwinds for the sector included a rally in the U.S. dollar and a more hawkish policy stance from the U.S. Federal Reserve, with Federal Open Market Committee members dialing back the number of rate cuts they anticipate for 2025 at their December meeting.

Within the agriculture group, coffee was the best performer over the quarter, rising +19.9% on what's been a very challenging production year in Brazil due to extreme weather. Cocoa producers have suffered a similar fate, with ongoing supply challenges in the Ivory Coast boosting prices to a record high in December. In grains, corn rallied +6.1% following a downward revision to the expected current season ending stock, indicating stronger-than-expected demand for the commodity. Other grains didn't fare as well,

¹ Source: Morgan Stanley Investment Management Limited. Data as of 31 December 2024. MS INVF Parametric Commodity Fund's objective is to provide a return equivalent to the performance of the Barclays Commodity Index Series, excluding fees, by investing in swaps that provide a synthetic exposure to the Barclays Commodity Index Series (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.

with wheat (-7.1%) and soybeans (-5.5%) declining over the quarter. Finally, in livestock, both hog and cattle prices finished the year on a high note, gaining +6.8% and +3.9%, respectively.

Strategy and Outlook

Commentators demonstrate 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 economies 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 Series

Share Class Z 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, available at www.morganstanleyinvestmentfunds.com. All data as of 31.12.2024 and subject to change daily.

Applications for shares in the 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.

Investment in the Fund concerns the acquisition of units or shares in a fund, and not in a given underlying asset such as building or shares of a company, as these are only the underlying assets owned.

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

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INDEX INFORMATION

The **Barclays Commodity Index Series** 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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