

# Morgan Stanley Investment Funds

## US Advantage Fund

31 August 2010

### RETURNS VS. INDEX

Period	Fund (net of fees) %					
	I	(USD) A	B	Index <sup>1</sup>	(EUR) AH	Index <sup>2</sup>
One month	(1.23)	(1.31)	(1.38)	(4.51)	(1.37)	(4.78)
Last three months	0.78	0.57	0.36	(3.17)	0.31	(4.07)
YTD	(0.40)	(0.87)	(1.49)	(5.41)	(1.22)	(6.87)
One year	14.38	13.56	12.51	6.27	13.05	4.80
Three years (annualised)	(2.27)	(3.02)	(3.97)	(8.27)	(4.28)	(9.72)
Since inception (annualised)	1.79	n/a	n/a	(1.53)	n/a	n/a
<b>12 months to:</b>						
August 2010	14.38	13.56	12.51	6.27	13.05	4.80
August 2009	(11.17)	(11.84)	(12.75)	(18.25)	(15.54)	(21.65)
August 2008	(8.13)	(8.88)	(9.78)	(11.14)	(8.13)	(10.40)
August 2007	6.23	5.45	4.42	15.13	-	-

Past performance is no indication of current or future performance. These performance data do not take account of commissions and costs incurred on the issue and redemption of units.

### CLASS I SHARES VS. S&P 500 INDEX<sup>4</sup>

Performance of 100 US dollars invested since inception



### Facts and figures

Launch date	December 2005
Fund manager	Dennis Lynch David Cohen Sam Chainani Alexander Norton Jason Yeung Armistead Nash
Location	New York
Base currency	US dollars
TER Class I <sup>5</sup>	1.08%
TER Class A <sup>5</sup>	1.79%
Total assets	\$ 342.1 million
NAV Class I \$	27.20

### Statistics<sup>6</sup>

	Fund	Index
Alpha	6.00	-
Beta	0.83	-
R squared	0.84	-
Information ratio	0.70	-
Tracking error	8.54	-
Standard deviation	19.45	21.37
ISIN Class I	LU0225741247	
ISIN Class A	LU0225737302	
ISIN Class B	LU0225744001	
ISIN Class C	LU0362496845	
ISIN Class Z	LU0360484686	
ISIN Class AH	LU0266117927	
ISIN Class BH	LU0341469269	

Publication date: 15 September 2010.

The name of the American Franchise Fund changed to the US Advantage Fund on January 31, 2010.

<sup>1</sup> Launch date of Class I, Class A & Class B shares was December 2005. The benchmark for the Fund is a blend of the S&P 500 Index to 31 August 2009, the Russell 1000 Growth Net 30% Withholding Tax TR Index to 31 March 2010 and the S&P 500 Index thereafter. The benchmark is calculated by geometrically chain-linking the monthly returns.

<sup>2</sup> Launch date of euro hedged share classe AH was October 2006. The benchmark for the Fund is a blend of the S&P 500 Index Euro Hedged to 31 August 2009, the Russell 1000 Growth Euro Hedged TR Index to 31 March 2010 and the S&P 500 Index Euro Hedged thereafter. The benchmark is calculated by geometrically chain-linking the monthly returns.

<sup>3</sup> The ratio is calculated by dividing the Price (P) by the Free Cash Flow (FCF). P equals the sum of the portfolio-weighted market values of the companies in the portfolio. FCF is calculated by subtracting the sum of the portfolio-weighted capital expenditure from the sum of the portfolio-weighted operating cash flow of the companies in the portfolio.

<sup>4</sup> Calculations are NAV to NAV. Performance of the Morgan Stanley Investment Funds is calculated net of fees.

<sup>5</sup> Total expenses charged to share class open as at 30 June 2010, calculated net of any fee waivers and expressed as a percentage of average net assets for the six month period (or since inception if fund launched within this period).

<sup>6</sup> Based on monthly observations over last 3 years.

Dennis Lynch, David Cohen, Sam Chainani, Alexander Norton, Jason Yeung and Armistead Nash started to manage the American Franchise Fund on 15 June 2009.

Please note variances between fund and index performance figures may occur due to the price differences between the time the NAV is calculated and the time of the index close.

Please refer to back cover for important information and risk warnings.

### Portfolio valuations

	Fund	Index
P/CF	10.68	6.48
P/BV	2.88	1.91
P/E	16.75	14.51
Yield	1.59	2.18
Number of holdings	36	500

### Top 10 holdings

	%
APPLE INC	5.17
SCHINDLER HOLDING LTD	5.07
MEAD JOHNSON NUTRITION CO.	4.72
AMAZON.COM INC	4.52
EBAY INC	4.18
GOOGLE INC CL A	4.05
BROOKFIELD ASSET MANAGEMENT	3.80
PHILIP MORRIS INC	3.46
NESTLE S.A.	3.38
BERKSHIRE HATHAWAY	3.36
<b>Total</b>	<b>41.71</b>

### Sector distribution

	%
Consumer Staples	30.63
Information Technology	18.96
Consumer Discretionary	17.10
Financials	13.61
Industrials	6.17
Health Care	5.09
Materials	4.10
Energy	4.01
Cash & equivalents	0.33
<b>Total</b>	<b>100.00</b>

### INVESTMENT OBJECTIVE

Seeks long-term capital appreciation, measured in US dollars, through investment primarily in equity securities of companies domiciled or exercising the predominant part of their economic activity in the US.

### INVESTMENT PROCESS

- Disciplined, value-oriented, bottom-up approach to stock selection focusing on absolute return produces a highly concentrated portfolio of great franchise businesses located in the US.
- In-depth fundamental research aims to identify companies with difficult to replicate intangible assets, high free cash flow, repeat businesses, sustainable high ROCE and strong management.
- Risk management helps to reduce absolute risk by focusing on business and valuation risks.

[www.morganstanleyinvestmentfunds.com](http://www.morganstanleyinvestmentfunds.com)

## Important information

This document contains information relating to the sub-funds ('Funds') of Morgan Stanley Investment Funds, a Luxembourg Société d'Investissement à Capital Variable.

Applications for shares in Morgan Stanley Investment Funds should not be made without first consulting the current Prospectus, Annual Report and Semi-Annual Report ('Offering Documents'), which are available free of charge at the address below.

Registered Office: European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxembourg B 29 192.

Swiss investors are advised that the Simplified Prospectus, the Prospectus, the Articles of Incorporation of the Company, the audited Annual Reports and the unaudited Semi-Annual Reports may be obtained free of charge from the Representative Agent in normal business hours. Bank Morgan Stanley AG, Bahnhofstrasse 92, 8021 Zurich, is the representative and paying agent (the "Representative Agent") of the Company in Switzerland. The Morgan Stanley Investment Funds Fund is domiciled in Luxembourg.

Morgan Stanley Investment Funds is an Undertaking for Collective Investment in Transferable Securities ('UCITS') for the purpose of the Council Directive EEC/85/611, as amended by Directive 2001/107/EC and by Directive 2001/108/EC of the European Parliament and of the Council of 21 January 2002 ('UCITS Directive'). Morgan Stanley Investment Funds is an umbrella Société d'Investissement à Capital Variable authorised under Part 1 of the Law of 20 December 2002. The company is a self managed SICAV in accordance with article 27 of the law of 20 December 2002. Morgan Stanley Investment Management Limited will act as Distributor of the shares of each fund. Morgan Stanley Investment Management Limited is a Sub-Adviser to advise on such of the Funds as are agreed from time to time. Morgan Stanley Investment Management does not provide investment advice.

The Funds have been authorised for sale pursuant to the aforementioned Directive in Austria, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Sweden, Spain (CNMV No149) and the UK. In addition, the Funds have been authorised for sale in Chile, Hong Kong, Norway, Peru, Singapore, Switzerland and Taiwan. In France, Morgan Stanley Investment Funds was granted 'recognised' status by the Autorité des marchés financiers (formerly the Commission des Opérations de Bourse) 29 December 1995. In Sweden, Morgan Stanley Investment Funds is registered with the Swedish Financial Supervisory Authority. In giving such authorisation, no regulatory authority in any of the above jurisdictions takes responsibility for the financial soundness of the Funds or for the correctness of any statements made or opinions expressed in this regard.

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The sources for all performance and index data are Morningstar and Morgan Stanley Investment Management Limited. Calculations are NAV to NAV. Performance is quoted net of investment management fees and with income reinvested. All Fund performance is shown since first full month after inception of Fund.

## Risk warnings

Past performance is not necessarily a guide to future performance and the value of the Shares and income from them may fall as well as rise. On redemption of Shares, an investor may receive back an amount less than the original amount of his investment. The assets of the funds will be in a variety of currencies and therefore movements in the value of currencies may also affect the value of an investor's holdings. Furthermore, the value of Shares may be adversely affected by fluctuations in exchange rates between the investor's reference currencies and the base currencies of the Funds. There are special risk considerations associated with investing in:

- 1) Emerging country securities; including (1) restrictions on foreign investment and on repatriation of capital (2) currency fluctuations, (3) potential price volatility and lesser liquidity of shares, (4) political and economic risks, including the risk of nationalisation or expropriation of assets and the risk of war (5) settlement systems may be less well organised and less developed and (6) debt may not be rated by any internationally recognised credit rating organisation.

There are also varying levels of government supervision and regulation of exchanges, financial institutions and issuers in various countries. In addition, accounting, auditing, financial and other reporting standards are not equivalent to those of more developed countries, and therefore less information may be available than in more developed countries.

- 2) High yield securities; investment in higher yielding securities is speculative as it generally entails increased credit and market risks. Such securities are subject to the risk of an issuer's inability to meet principal and interest payments on the obligations (credit risk) and may be subject to price volatility due to such factors as interest rate sensitivity, market perception of the credit worthiness of the issuer and general market liquidity.

- 3) Securities of small capitalisation companies; these securities involve greater risk than large capitalisation companies and the markets for such securities may be more volatile and less liquid.

- 4) Securities of companies engaged in the real estate industry; including the cyclical nature of real estate values, risks related to general and local economic conditions, overbuilding and increased competition, increases in property taxes and operating expenses, demographic trends and variations in rental income, changes in zonal laws, casualty or condemnation losses, environmental risks, regulatory limitations on rents, changes in neighbourhood values, related party risks, changes in the appeal of properties to tenants, increases in interest rates and other real estate capital market influences. Generally, increases in interest rates will increase the costs of obtaining financing, which could directly and indirectly decrease the value of the relevant Fund.

- 5) Investments in derivative instruments carries certain inherent risks such as the risk of counterparty default. Before investing you should ensure you fully understand these risks. Use of leverage may also magnify losses as well as gains to the extent that leverage is employed.

- 6) Securities of companies engaged in the infrastructure industry are subject to a variety of factors that may adversely affect their business or operations; including high interest costs in connection with capital construction programs, costs associated with compliance and with changes in environmental and other regulations, difficulty in raising capital in adequate amounts on reasonable terms in periods of high inflation and unsettled capital markets, the effects of surplus capacity, increased competition from other providers of services in a developing deregulatory environment, uncertainties concerning the availability of fuel at reasonable prices, the effects of energy conservation policies and other factors.

Please refer to the Prospectus for full disclosure of the individual Fund Investment Objectives.

Morgan Stanley Investment Funds (the "Company") has appointed Bank Morgan Stanley AG in Zurich as representative and paying agent (the "Representative Agent") of the Company in Switzerland. The Federal Banking Commission has authorised Bank Morgan Stanley AG for the professional offer and distribution of Shares in each Fund available for issue in Switzerland. Representative Agent: Bank Morgan Stanley AG, Bahnhofstrasse 92, Zurich.

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