

## Morgan Stanley Investment Funds

# Asian Property Fund

**GLOBAL LISTED REAL ASSETS TEAM**

### Performance Review

In the one month period ending 31 August 2023, the Fund's I shares returned -3.24% (net of fees)<sup>1</sup>, while the benchmark returned -3.96%.

The Fund outperformed the FTSE EPRA/Nareit Asian Real Estate Net Total Return Index in August. Our overweight to Japan and underweight to Singapore contributed positively to performance.

### Market Review

In Australia, the Reserve Bank of Australia held cash rates unchanged at 4.10%, as the central bank buys time to assess the impact of previous hikes, while warning of further hikes in the future. This decision to hold rates steady comes as inflation in Australia slowed, with headline inflation falling to 6% in June from 7% in March, driven by an easing in price pressures across discretionary consumer goods like clothes and appliances. The Australian REITs underperformed in the month. However, Goodman Group was the clear outperformer, as the market digested its enhanced push into data centers, adopting higher sustained development volumes and margins.

In Japan, the real estate developers continued to rally on the back of strong second quarter gross domestic product growth and earlier-than-expected stabilization of office vacancy in central Tokyo. Although J-REITs underperformed real estate developers in the month, the sector outperformed the Asian index. There was notable outperformance from the large-cap office and hotel J-REITs.

In Hong Kong, despite the ongoing recovery in retail sales and tourism arrivals post reopening, retail-focused stocks sold off. Office and residential names were also generally weaker.

In Singapore, S-REITs and S-REOCs underperformed in the month. Fundraising risks for the S-REITs may be fading, but rising cost pressure continues to be a headwind for earnings. Developers underperformed due to earnings misses.

### Strategy and Outlook

The team uses internal proprietary research to invest in public real estate companies that we believe offer the best value relative to their underlying assets and growth prospects. The team combines a bottom-up approach, assessing the intrinsic value, equity multiples and growth prospects of each security, with a top-down view that incorporates fundamental inflection points, macroeconomic considerations, and geopolitical and country risk. By incorporating both an equity market valuation and a more traditional real estate valuation with a top-down overlay, we believe the Fund will be better prepared to identify securities with the best expected total returns.

Forecasted market strength in the asset class is supported by a number of macro and fundamental factors, including global gross domestic product growth, limited new real estate supply additions and favorable credit conditions. We believe the relative valuation of real estate securities is attractive compared to investable alternatives, including the broader equity market, fixed income and direct property investment. Fundamental recovery and strength, coupled with attractive relative valuations, appear to be supportive of above-trend growth over the next several years. Additionally, we believe continued mergers and acquisitions and privatizations are possible given discounts to private market valuations observed across sectors.

Within Asia:

In Japan, global capital continues to favor Tokyo office assets. Grade A office vacancy rates remain among the lowest globally. In Japan hotels, operating fundamentals have recovered with the reopening of borders to inbound visitors.

In Australia office, capital values began to adjust with transaction activity and office leasing activity stabilized. In Australia retail, while secular challenges remain, capital values have bottomed, with large transactions at pricing better than feared, and retail sales continue to recover on post-lockdown spending. The recovery in central business district (CBD) retail has lagged because corporate employees have been slow to return to office, but we believe it ought to benefit as inbound tourism improves.

In China, property fundamentals remain below trend; however, supportive property policies have aided stabilization, specifically with residential sales in higher tier cities. The exit from zero-COVID policies and focus on economic recovery as well as employment growth set the framework for broader economic recovery in the next two years.

In Hong Kong, the reopening of borders with China and resumption of international business travels remain critical to the recovery of economic activity in the city. Business confidence turned more cautious recently due to economic weakness and property market distress in China, negatively impacting office demand.

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

<sup>1</sup> Source: Morgan Stanley Investment Management Limited. Data as of 31 August 2023.

## Fund Facts

Launch date	01 September 1997
Base currency	U.S. dollars
Benchmark	Custom- Blended Benchmark

## Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

	YTD	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Class I Shares	-8.36	-14.64	1.18	-7.69	13.95	-1.65	15.46	3.32	-6.72	-1.53	3.25
Blended Benchmark	-5.43	-11.43	3.86	-9.46	16.59	-1.92	15.56	5.61	-7.60	0.08	4.32

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 units. The sources for all performance and Index data is Morgan Stanley Investment Management. **Please visit our website [www.morganstanley.com/im](http://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 risk and reward category shown is based on historic data.

- Historic figures are only a guide and may not be a reliable indicator of what may happen in the future.
- As such this category may change in the future.
- The higher the category, the greater the potential reward, but also the greater the risk of losing the investment. Category 1 does not indicate a risk free investment.
- The fund is in this category because it invests in property company shares and the fund's simulated and/or realised return has experienced high rises and falls historically.
- The fund may be impacted by movements in the exchange rates between the fund's currency and the currencies of the fund's investments.

This rating does not take into account other risk factors which should be considered before investing, these include:

- 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 Stock Connect program 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.
- 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 31 August 2023 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 official language of your local jurisdiction at [morganstanleyinvestmentfunds.com](http://morganstanleyinvestmentfunds.com) or free of charge from the Registered Office of Morgan Stanley Investment Funds, European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxembourg B 29 192.

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## INDEX INFORMATION

The Blended Index performance shown is calculated using the **GPR Far East Net Return Index** from inception through 31 January 2009 and the **FTSE EPRA/NAREIT Asian Real Estate Net Total Return Index** thereafter.

The **GPR Far East Net Return Index** is a sub-index of the GPR General Index and is composed of listed real estate securities

in the Asian real estate markets.

**FTSE EPRA/NAREIT Asian Real Estate Net Total Return Index** is a free float-adjusted market capitalization weighted index composed of listed real estate securities in the Asia Pacific real estate market, designed to represent general trends in eligible real estate equities in the Asia Pacific region. The Index is unmanaged and does not include any expenses, fees or sales charges. It is not possible to invest directly in an Index.

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