

A Sub-Fund of Morgan Stanley Investment Funds

Japanese Equity Fund

JAPANESE EQUITY TEAM

Performance Review

In the one month period ending 31 January 2026, the Fund's Z shares returned 5.64% (net of fees)¹, while the benchmark returned 4.90%.

In January, the performance of the overall Japanese stock market was higher than the previous month. In the first half of the month, the market trended upward, supported by growth expectations for artificial intelligence (AI) and semiconductor-related sectors, as well as gains in global equity markets. Toward the end of the month, however, sentiment turned more cautious due to heightened concerns over domestic political developments and international affairs. Furthermore, the yen's appreciation against the U.S. dollar weighed on market sentiment, leading to a more subdued market performance.

By sector, the portfolio benefited from an overweight position in energy, while it was negatively impacted by an underweight position in information technology. At the stock level, positive contributions came from EBARA, a manufacturer and marketer of industrial and environmental machinery, and Resona Holdings, a Japanese banking group positioned just below the megabanks in scale. On the other hand, negative contributions came from SONY GROUP, a comprehensive electronics and entertainment company, and Fujitsu, an IT service company.

Market Review

In January 2026, the purchasing managers' index (PMI) showed resilient economic sentiment, with the overall index rising to 52.8—the highest level since August 2024, according to S&P Global data. The S&P Global Manufacturing PMI also improved to 51.5, surpassing the threshold between improvement and deterioration for the first time in seven months. Notably, the new export orders index in manufacturing rose sharply from 47.7 in December to 52.2 in January, indicating strong external demand. In addition, the services sector maintained a high level of sentiment despite rising tensions in Japan-China relations, and the impact of declining Chinese tourist arrivals appears to be limited at this stage. Meanwhile, on the political front, Prime Minister Takaichi announced on 19 January that the Lower House would be dissolved at the start of the ordinary Diet session to strengthen policy execution. The unexpected dissolution boosted expectations for expansionary fiscal policy, causing the Nikkei 225 stock average to surge sharply and surpass the 54,000-yen level for the first time. Historically, Japanese stocks have tended to perform well following decisive victories by the ruling Liberal Democratic Party (LDP), suggesting that the election results may significantly influence the near-term direction of Japanese stocks. On the other hand, ahead of the general election, both the ruling and opposition parties have included consumption tax cuts in their campaign pledges. This has fueled concerns over fiscal deterioration and inflation, contributing to a further weakening of the yen and rising interest rates. However, the U.S. conducting "rate checks" (a precursor to foreign exchange intervention) and comments from Prime Minister Takaichi that "the Japanese government will take necessary action against speculative moves" led to speculation about coordinated Japan-U.S. efforts to stem yen depreciation, triggering a rapid appreciation of the yen. As a result, foreign exchange markets continue to show heightened volatility.

Portfolio Activity

During the month, we initiated a position in Mizuho Financial Group, one of Japan's major financial groups. On the other hand, we completely sold our shares in Mitsubishi Corporation, a general trading company (known as sogo shosha).

Among individual names, our top holdings include Hitachi, in which we expect stable business growth and shareholder returns as the company has enhanced its corporate structure through its business portfolio restructuring; SONY GROUP, which is expected to grow its movies, music and gaming businesses; and Mitsubishi Estate Company, for which valuation improvements are anticipated on the back of its strong commitment to enhancing return on equity.

Strategy and Outlook

While we still need to carefully monitor the financial market trends associated with monetary policy and politics, we expect Japanese domestic companies' earnings to expand driven by growing purchasing power on the back of a continued rise in wages in Japan and companies placing more emphasis on profitability. With that in mind, we will focus on the valuation of stocks and seek investment opportunities especially in those companies whose undervaluation gap seems likely to close based on profitability improvement.

From a medium- to long-term perspective, we are paying attention to Japanese companies' growing efforts to enhance corporate value. In April 2022, the Tokyo Stock Exchange (TSE) was reorganized in order to clarify the market segmentation and increase the corporate value of listed companies. In March 2023, TSE requested that Japanese-listed companies take responsive measures with

¹ Source: Morgan Stanley Investment Management. Data as of 31 January 2026.

consideration given to capital costs and stock prices. In January 2024, TSE published a list of companies disclosing such information, increasing pressure to improve capital efficiency. Furthermore, from March 2026 onwards, the grace period for companies that have been given time to meet TSE's listing criteria will start to expire in line with each company's fiscal year-end. If a company fails to meet the criteria when its grace period ends, its shares are expected to be delisted. This encourages companies to aim for further corporate governance enhancements and higher capital efficiency. We believe that this move will likely contribute to a steady increase in Japanese companies' corporate value, along with their constructive dialogue with investors, and that these will be factors to support the Japanese stock market in the medium to long term.

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

Fund Facts

Launch date	14 June 2010
Base currency	Japanese yen
Benchmark	MSCI Japan Index

Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

	YTD	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Class Z Shares	5.64	26.84	30.99	34.69	5.89	15.78	0.81	16.25	-20.72	20.43	-1.56
MSCI Japan Index	4.90	24.27	20.74	28.56	-4.49	13.44	8.76	18.48	-15.15	19.75	-0.74

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 shares. The sources for all performance and index data is Morgan Stanley Investment Management ('MSIM Ltd'). **Please visit our website www.morganstanley.com/im to see the latest performance returns for the fund's other share classes.**

Share Class Z Risk and Reward Profile

- The fund may be impacted by movements in the exchange rates between the fund's currency and the currencies of the fund's investments.
- 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 fund's ability to buy or sell securities.

- 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 31.01.2026 and subject to change daily.

Applications for shares in the Sub-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. Luxembourg 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 from the Prospectus of the Fund.

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.

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INDEX INFORMATION

The **MSCI Japan Index** is a free-floated adjusted market capitalization weighted index that is designed to track the equity market performance of Japanese securities listed on the Tokyo Stock Exchange, Osaka Stock Exchange, JASDAQ and

Nagoya Stock Exchange. The MSCI Japan Index is constructed based on the MSCI Global Investable Market Indices Methodology, targeting a free-float market capitalization coverage of 85%.

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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