

Morgan Stanley Investment Funds

Asian Property Fund

GLOBAL LISTED REAL ASSETS TEAM

Important Information

- The Fund invests primarily in the equity securities of companies in the Asian real estate industry.
- Investment involves risks. Key risks for this fund include Risk of Investment in the Real Estate Industry and REITs, Risk of Investment in Equity, Emerging Market Risk, Exchange Rate Risk and Risk of Exposure to the Euro and Eurozone.
- There is a risk that you may potentially lose your entire investment in this Fund.
- The investment decision is yours but you should not invest unless the intermediary who sells it to you has advised you that it is suitable for you and has explained why, including how buying it would be consistent with your investment objectives. You should not make any investment decision solely based on this document. Please read the relevant offering document carefully for further fund details including risk factors.

Performance Review

In the one month period ending 31 March 2024, the Fund's A shares returned 6.54% (net of fees)¹, while the benchmark returned 6.17%.

The Fund outperformed the FTSE EPRA Nareit Asian Real Estate Net Total Return Index in March. The overweight positions to Japan real estate operating companies (REOCs) and Australia, and underweight positions to Hong Kong and Singapore contributed positively.

Market Review

In Australia, real estate investment trusts (REITs) outperformed. The Australian 10-year government bond yield fell 18 basis points to 3.96%. The Reserve Bank of Australia (RBA) left the cash rate on hold at 4.35%, with the RBA governor stating that the central bank was "on the right track" in its battle against inflation but stressed the outlook for the cash rate remained uncertain. Goodman Group was a key outperformer following its FTSE EPRA NAREIT Global Real Estate index series² inclusion in the month. Corporate merger and acquisition (M&A) activity picked up, with Charter Hall Group and Charter Hall Retail REIT jointly acquiring a 14.8% strategic stake in Hotel Property Investments, and BWP Trust progressing its acquisition of Newmark Property REIT.

Japan outperformed the Asian benchmark, predominantly due to strength from the REOCs. In the month, the Bank of Japan (BoJ) exited its negative interest rate and yield curve control policies, marking a shift in monetary policy framework. The BoJ's judgement is that price stability is in sight, and there was positive wage growth from the spring wage negotiations. The BoJ's guidance on future monetary policy remains dovish. The REOCs are likely to be key beneficiaries of Japan returning to a sustainable and stable inflation environment. Regulators continue to push companies toward boosting their shareholder returns. The REITs, however, underperformed.

In Hong Kong, the 3-month Hong Kong Interbank Offered Rate (HIBOR) rose 3 basis points to 4.72%. During the month, Hong Kong's legislature unanimously passed a new national security law to punish secession, subversion, terrorist activities and collusion with a foreign country or external forces that endanger national security. Following numerous stamp duty removals and easing of loan-to-value ratios for homebuyers at the end of February, residential transaction volumes in the primary and secondary markets rebounded in March. Stock market sentiment, however, was adversely affected as reporting season saw several companies announce dividends cuts, resulting in REOCs and REITs underperforming.

Following a weaker-than-expected reporting season, Singapore REITs and REOCs continued their underperformance under the weight of higher interest expense and operating costs.

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.

¹ Source: Morgan Stanley Investment Management Limited. Data as of 31 March 2024.

² The FTSE EPRA Nareit Global Real Estate index series is designed to represent general trends in listed real estate equities worldwide.

Given the stabilization in interest rates across the globe and the increasing likelihood of interest rate cuts, forecasted returns for the asset class have improved. Moreover, we believe relative strength in cash flows can be expected given the unique nature of listed real estate. Specifically, the contracted rental streams with inflation-linked escalations and the necessity-based nature of real estate — the listed real estate market evolves and grows with the broader needs of society and the economy and sits at the epicenter of how people live, work, shop and communicate — coupled with limited new real estate supply additions in the vast majority of sectors should result in cash flow growth. Additionally, secular themes driving demand for necessity-based real estate, including Technology and Innovation, Aging Demographics, Housing Shortages and Affordability, Global Supply Chain Reorganization and Onshoring, and External Growth Opportunities, are powerful catalysts that can propel growth above expectations for years to come and ultimately reset valuations higher in exposed sectors. Finally, we believe the relative valuation of real estate securities is attractive, specifically when compared to direct property investment and the broader equities market, and is presenting an interesting pricing arbitrage opportunity for investors.

- In Japan, global capital continues to be attracted to Tokyo office assets. While Grade A office vacancy rates remain among the lowest globally, there will be moderate headwinds for the sector given a wave of new supply deliveries. In Japan hotels, the reopening of international borders and a weaker yen supporting domestic travel have led to improving sentiment toward the sector, and cash flows are expected to improve significantly. Additionally, Japan residential is expected to benefit from increasing wage growth.
- In Australia office and for-sale residential, fundamentals are challenged; however, the nascent sector of rental housing is performing well. Central business district retail is likely to be under pressure for some time due to the fall in international travel as well as work-from-home policies that have led to fewer office workers visiting these retail establishments. Across the real estate spectrum, transaction volumes and pricing in Australia are beginning to stabilize, but a downward bias still exists.
- In China, fundamentals remain below trend. Uncertainty regarding government policies, balance sheet and solvency issues, and geopolitical relationships with Western countries remain front of mind and continue to warrant an elevated level of scrutiny.
- In Hong Kong, geopolitical risks remain a concern. However, pent-up demand for discretionary goods from mainland China is expected to be strong as travel and mobility increase, and will be supportive for retail demand in the country.

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

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	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Class A Shares	2.29	-4.11	-15.23	0.43	-8.35	13.18	-2.33	14.64	2.63	-7.36	-2.33
Blended Benchmark	-0.15	-1.15	-11.43	3.86	-9.46	16.59	-1.92	15.56	5.61	-7.60	0.08

Investment involves risks. All performance data is calculated NAV to NAV, net of fees, and assume the reinvestment of all dividends and income. The sources for all performance and Index data is Morgan Stanley Investment Management. Please refer to the relevant offering documents for fund details, including risk factors.

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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