

### Morgan Stanley Investment Funds

# Asian Property Fund

MARKETING COMMUNICATION | GLOBAL LISTED REAL ASSETS TEAM | MONTHLY COMMENTARY | 30 JUNE 2022

#### 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 30 June 2022, the Fund's A shares returned -5.68% (net of fees)<sup>1</sup>, while the benchmark returned -5.36%.

The Asian Property Fund underperformed the FTSE EPRA/NAREIT Asian Real Estate Net Total Return Index in the month of June.

The Fund's overweight to Hong Kong and J-REOCs (Japan real estate operating companies), and underweight to Australia contributed positively to performance. This was more than offset by the overweight to Hong Kong REITs, underweight to Singapore REOCs and overweight to Singapore data centre REITs.

#### Market Review

On the macro front, Australia's 10-year government bond yield rose to a high of 4.2% before reversing to close at 3.66%, a 31 basis point increase on the month. Further hikes are expected from the Reserve Bank of Australia as the central bank tries to reel in inflation. In Japan, the yen depreciated more than 6% in the month of June as the Bank of Japan remains committed to its easy monetary and yield curve control policies. The government announced that the Upper House elections would be held on 10 July. Hong Kong slowed its relaxation of social-distancing rules due to an uptick of local COVID-19 cases. Chinese President Xi reassured the Hong Kong people that there is no reason to change Hong Kong's "one country, two systems" framework of governance. In Singapore, inbound tourism continued to recover as the pace of reopening picked up in June.

In Australia, A-REITs underperformed Asian property stocks and the broader Australian equity index in the month of June. Rising and volatile bond yields are a clear headwind for the sector and until some form of stabilization of the long bond occurs, preferably in combination with lower future cash rate expectations, investor confidence in valuing commercial real estate and REITs will be impaired.

In Japan, the real estate sector continued to be viewed as an inflation hedge and outperformed in the month of June with outperformance by the J-REOCs despite the weakness in the yen. J-REITs generally underperformed in U.S. dollar terms.

Hong Kong REOCs outperformed Hong Kong REITs in the month of June, led by a rebound in office and retail stocks. Link REIT underperformed as rising global bond yields weighed on its share price.

In Singapore, REOCs and REITs experienced some weakness, although they still outperformed the overall Asian index on the month.

#### 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.

<sup>1</sup> Source: Morgan Stanley Investment Management Limited. Data as of 30 June 2022.

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 be attracted to Tokyo office assets. Grade A office vacancy rates remain among the lowest globally. In Japan hotels, expectations of a reopening have led to improving sentiment toward the sector; however, leisure hotels are expected to perform better than purely business-oriented hotels.

In Australia office, capital values are holding firm as evidenced by continued activity in the transaction market, and office leasing activity is beginning to slowly recover. In Australia retail, while secular challenges remain, capital values appear to have bottomed, with several large transactions being announced at pricing better than feared, although central business district retail is likely to be under pressure for some time due to the decreased amount of international travel.

In China, fundamentals remain below trend; however, supportive property policies have aided stabilisation, specifically with residential sales in higher tier cities. Renewed COVID-19 fears, continued concerns of contagion from U.S. dollar bond defaults and related solvency issues warrant an elevated level of scrutiny.

In Hong Kong, sentiment improved after the easing of social mobility and international travel restrictions as the domestic pandemic situation recovered. Coincident indicators are pointing toward a stabilisation in the office market. Within retail, sales are expected to improve when borders with mainland China reopen in 2022. Geopolitical risks remain front of mind.

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

#### FUND FACTS

##### Launch date

01 September 1997

##### Base currency

U.S. dollars

##### Index

Blended Benchmark

#### Calendar Year Returns (%)

**Past performance is not a reliable indicator of future results.**

	YTD	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Class A Shares	-13.56	0.43	-8.35	13.18	-2.33	14.64	2.63	-7.36	-2.33	2.49	46.73
Blended Benchmark	-10.32	3.86	-9.46	16.59	-1.92	15.56	5.61	-7.60	0.08	4.32	45.45

**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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