

A Sub-Fund of Morgan Stanley Investment Funds

Asia Equity Fund

EMERGING MARKETS EQUITY TEAM

Performance Review

In the one month period ending 31 December 2025, the Fund's I shares returned 2.52% (net of fees)¹, while the benchmark returned 2.72%.

Our stock selection in Taiwan was the largest contributor to returns. While our underweight allocation to Korea detracted, our positive stock selection contributed to returns. Our underweight allocation to China added to performance along with stock selection in Indonesia. Conversely, our stock selection in Hong Kong and Singapore detracted. At the sector level, our stock selection in the information technology sector was the largest contributor, supported by strong gains in artificial intelligence (AI)-related hardware and semiconductors. Stock selection in and underweight allocation to the consumer discretionary and consumer staples sectors also had a positive impact. Our overweight allocation and stock selection in the financials sector benefited performance. However, stock selection in the industrials and communication services sectors along with stock selection in and underweight allocation to the materials sector detracted.

At the stock level, our overweight selection to Samsung Electronics was the top contributor as optimism around AI server demand and memory pricing drove a sharp rebound. Overweight selections to ASE Technologies, Wiwynn and Unimicron Technology contributed to returns while our underweight allocation to TSMC detracted. Wiwynn benefited from strong demand for AI servers, particularly in hyperscale data center deployments while Unimicron saw resilient growth in printed circuit board orders, supported by next-generation computing infrastructure. TSMC continued its strong performance due to its leadership in advanced packaging and high-performance semiconductor manufacturing for AI applications while ASE gained from momentum in advanced packaging and backend services tied to AI and data center expansion. Our zero-weight selection to PDD Holdings contributed as the stock fell on cautious revenue guidance, rising competitive pressures in China's e-commerce sector, and investor concerns over regulatory scrutiny and margin compression. Overweight selection to IDFC First Bank and Shriram Finance contributed to returns on resilient credit growth and a positive margin outlook.

Overweight selection to Alibaba detracted as the share price fell on cautious guidance and regulatory concerns while our underweight selection to SK Hynix also weighed on relative performance as the stock rallied on strong AI-related memory demand and positive earnings revisions. Our overweight selection to Jiangsu Hengrui Pharmaceutical was another drag on performance due to pricing pressures from centralized procurement and slower recovery in domestic demand. Our overweight selection to Tencent detracted on weak advertising revenue growth and investor concerns over slower monetization of new initiatives.

Market Review

Asian markets ended the year on a positive note, supported by strong returns in Korea, which returned +27.3% in the fourth quarter and +99.9% in 2025 led by technology stocks surging on robust AI-related demand and memory pricing optimism, along with a contribution from the autos sector; and Taiwan (4Q: +10.4%, 2025: +39.1%) on strong semiconductor and financials performance, supported by strong export orders and resilient AI server demand.² Despite weak macro data, minimal policy support and ongoing property sector issues leading to underperformance in December and the fourth quarter, China returned a strong year-to-date performance of +31.2%, driven by the "DeepSeek Moment" early in the year and out-licensing deals for China biotech. Hong Kong underperformed, ending the quarter up +2.2% amid property concerns and Vanke default fears. India underperformed on foreign outflows, rupee weakness and lack of AI-related trades. Southeast Asian markets saw lower returns compared to their North Asian counterparts, largely due to limited AI exposure and subdued domestic demand.

China ended the quarter down -7.4% on weak macro data, limited new policy support and persistent property sector stress. November activity data broadly missed market expectations, especially for retail sales. Industrial production growth edged down in year-on-year terms despite the notable improvement in export growth, with slower output growth in the automobile and utilities industries more than offsetting faster output growth in the special equipment and pharmaceuticals industries. Fixed asset investment maintained its double-digit year-on-year contraction in November on a single-month basis.³ Retail sales growth dropped meaningfully in November despite a low base, reflecting slowing auto sales growth and the negative distortion from an earlier-than-usual start of the "Double 11" Online Shopping Festival (which had pulled forward some demand from November to October).

Inflation trends in China were mixed. The consumer price index (CPI) rose 0.7% year-on-year in November driven by higher food prices, winter clothing and gold jewelry, while transportation costs fell. Producer price index (PPI) deflation widened to -2.2%, led by deeper price declines in raw materials and durable goods manufacturing.⁴

¹ Source: Morgan Stanley Investment Management. Data as of 31 December 2025.

² Regional and country returns are represented by their respective MSCI regional/country indexes, which are broad measures of the region/country's stock market performance. Data as of 31 December 2025.

³ Source for industrial production, retail sales, fixed asset investment and GDP data: National Bureau of Statistics of China, 19 January 2026.

⁴ Source for all inflation data: National Bureau of Statistics of China, 9 January 2026.

China's manufacturing purchasing manager's indexes (PMIs) and official non-manufacturing PMI increased in December. The official National Bureau of Statistics (NBS) Manufacturing PMI edged up to 50.1 in December, from 49.2 in November, while the NBS Non-Manufacturing PMI rose to 50.2 in December, from 49.5 in November, driven by improvements in both the services and construction sectors. The private-sector RatingDog Manufacturing PMI edged up to 50.1 from 49.9 in November. Both the NBS and RatingDog manufacturing PMIs increased to above 50 in December (the first time since March), signaling an acceleration in manufacturing activity.⁵

Hong Kong (+2.2%) softened during the quarter amid property concerns despite improving fundamentals. November retail sales rose 6.5% year-over-year to 33.7 billion Hong Kong dollars,⁶ and provisional visitor arrivals reached 4.2 million, up 17% year-over-year, with year-to-date arrivals surpassing 45 million (+12% year-over-year), including 34.5 million from mainland China (+11%).⁷ Hong Kong's initial public offering (IPO) and equity placement proceeds totaled 286 billion Hong Kong dollars and 325 billion Hong Kong dollars, respectively, in 2025, a record since 2021.⁸

Taiwan gained +10.4% during the quarter as technology and semiconductor stocks rallied on strong AI server demand and robust export orders. Foreign investors net sold \$2.2 billion in December.⁹ The manufacturing PMI improved to 48.8, signaling a smaller contraction, while export orders surged 39.5% year-over-year, led by tech and telecom products.¹⁰ CPI inflation moderated to 1.2% year-over-year, and industrial production rose 16.4% year-over-year driven by AI-related tech such as servers and graphics processing units.¹⁰ The central bank kept policy rates unchanged at the fourth quarter monetary policy meeting, citing constructive growth and a benign inflation outlook.

Korea was the best-performing market in December (+16.7%), the quarter (+27.3%) and 2025 (+99.9%), supported by strong gains in the technology and autos sectors. The rally was fueled by optimism around AI-related memory demand and robotics. Foreign investors continued buying, resulting in net inflows in the second half of 2025.¹¹ Exports rose +13.4% year-over-year in December, led by semiconductors and mobile devices, while November industrial production rebounded +0.6% month-over-month after a steep drop in October.¹²

India declined +4.8% during the quarter, underperforming regional peers as foreign selling resumed in December, though macro fundamentals remained resilient. Foreign institutional investors (FIIs) sold \$2.6 billion in equities, while domestic institutional investors (DIIs) continued strong inflows of \$8.8 billion while systematic investment plan (SIP) flows remained stable at \$3.3 billion. On an annual basis, FIIs recorded their highest annual outflows of \$18.8 billion, while DIIs saw record inflows of \$90.3 billion.¹³ The Reserve Bank of India (RBI) cut the repo rate by 25 basis points to 5.25% while maintaining its neutral stance.

In Southeast Asia, Malaysia (+8.2%) and Thailand (+4.9%) gained on commodity strength and supportive domestic liquidity, while Indonesia (-0.6%) declined amid currency volatility and weak consumer sentiment. Malaysia benefited from higher energy and palm oil prices alongside resilient banking sector performance while Thailand saw modest gains despite soft factory output and political uncertainty. Bank Indonesia (BI) maintained its policy rate at 4.75% to stabilize the rupiah. BI increased its 2026 gross domestic product (GDP) growth target to 4.9%–5.7% amid stronger domestic consumption and investment, while reiterating the need for further policy easing due to slow lending growth and weak foreign inflows.

Portfolio Activity

During the quarter, we initiated a position in Sea Ltd. The company has demonstrated solid growth in e-commerce, gaming and fintech. Previously, gaming was viewed as the main source of cash flow. Currently, all three segments are expanding independently. Shopee leads Southeast Asian e-commerce, particularly in Indonesia, benefiting from market consolidation and higher ad yields. Expansion into new regions is expected to boost gross merchandise value growth with its ongoing reinvestment plans. While Amazon's entry in Brazil has affected its share price, Shopee remains focused on areas not directly overlapping with Amazon. In gaming, new collaborations (e.g., Naruto, Squid Game) have expanded the user base, especially in Africa, and we expect gaming bookings to grow attractively. Fintech growth is measured, with an approximately \$7 billion credit portfolio split between on- and off-Shopee businesses, highlighting platform credibility.¹⁴

We added to our existing positions in Tencent and Alibaba. We have continued to add to these two positions as AI beneficiaries in China. We believe both companies will likely be among the major beneficiaries to capture and monetize on the "DeepSeek-like" developments in China. We think China's self-sufficiency in the technology sector is a secular trend for investment. Tencent is a dominant ecosystem in gaming and social media, with resilient cash flows and ability to monetize AI-driven services.¹⁵ Alibaba continues to demonstrate steady growth in its ecommerce sector while accelerating progress in its cloud services. We anticipate

⁵ Source for all PMI data: National Bureau of Statistics of China, 31 December 2025, and S&P Global, 31 December 2025.

⁶ Source for all Hong Kong retail sales data: Census and Statistics Department Hong Kong. Data as of 2 January 2026.

⁷ Source: Hong Kong Tourism Board. Data as of 15 December 2025.

⁸ Source: J.P. Morgan. Global Markets Strategy. China/Hong Kong Monthly Wrap. Published 1 January 2026.

⁹ Source: J.P. Morgan. Taiwan Equity Strategy. Published 2 January 2026.

¹⁰ Source for all Taiwan industrial production and export orders data: Ministry of Economic Affairs Taiwan.

¹¹ Source: J.P. Morgan. Korea Monthly Wrap. Published 4 January 2026.

¹² Source for Korea industrial production: Ministry of Data and Statistics. Source for Korea exports: Ministry of Trade, Industry and Resources.

¹³ Source for all India flows data: National Securities Depository Limited and Association of Mutual Funds in India. Data as of December 2025.

¹⁴ Source: Bloomberg L.P. Data as of 30 June 2025.

¹⁵ Source: Tencent company web site, 13 August 2025.

that food delivery losses will soon peak, alongside potential synergies arising between its core ecommerce operations and quick commerce/food delivery services.

We funded the trades by trimming our positions in ASE Technology and Wiwynn. While we maintain an overall positive view on AI infrastructure buildout and continued earnings strength in Taiwan's AI supply chain, we booked some profits on ASE and Wiwynn post recent share price strength. We continue to like ASE Tech as a leading outsourced semiconductor assembly and test (OSAT) player with advanced packaging (CoWoS, 3D) critical for AI chips; strong research and development and strategic ties with TSMC and Nvidia, which drives growth amid AI-driven semiconductor demand. Wiwynn remains the key hyperscale server original design manufacturer (ODM) and we believe is well positioned to benefit from robust AI server demand from cloud giants.

We also added to our existing positions in SK Hynix and KB Financial. Our thesis on the global AI supply chain remains intact, and memory players remain likely to be one of the key beneficiaries. Our channel checks on Hynix's latest HBM4 price negotiation result was better than market expectations. The strength of traditional chips is extending beyond commodity DRAM to NAND, and we expect memory players' 2026 (estimated) earnings to be supported by both AI and traditional chips. We expect KB's payout ratio to continue to strongly increase in the next few quarters — the highest among its local peers — and is the best proxy to the Korea "value-up" thematic.

In India, we trimmed our positions and took profit from Reliance Industries, ICICI Bank and HDFC Bank to reallocate capital to our existing position in HDFC Asset Management. We like the domestic asset managers in India that are benefiting from stable (e.g. SIP) retail flows driven by the financialization of savings. Structurally, we maintain a preference for asset managers in India over traditional banks, given their more resilient business models, diversified revenue streams and lower sensitivity to interest rate cycles. We continue to believe that HDFC Asset Management can maintain its leading market position on the back of increasing financialization in India, growing retail participation and SIP inflows.

Strategy and Outlook

We continue to believe that our integrated top-down and bottom-up analysis is critical to identifying the most attractive macro and stock investments across Asia. This flexibility to reflect changes in the market dynamics and sentiment have allowed us to deliver strong risk-adjusted returns. We maintain both structural and tactical views on the markets, which we believe is essential given the elevated market volatility on the back of increased global trade uncertainties and geopolitical concerns.

Our long-term structural underweight view on China remains unchanged as fundamental issues in the economy will take time to fix. Tariff uncertainty on exports to the U.S. and European Union remain headwinds for the time being. With higher tariffs and a global trade slowdown, external drivers will not likely to be the main driver of growth in the near term. Longer term, China's strengths in consumer technologies and cost efficiency could unlock a more diversified AI opportunity set given China's more accessible, cost-efficient solution. China also agreed to resume large-scale purchases of U.S. soybeans in addition to suspending rare earth export controls. At the Fourth Plenum, technology, security and people's livelihood were designated as top priorities for the 2026-2030 development strategy, highlighting the focus on "high-quality growth" and "high-level security". The 15th Five-Year Plan recommendations target innovation and industrial breakthroughs, along with boosting domestic demand structurally. The December Central Economic Work Conference echoed this direction, calling for faster industry development and improved consumption through social safety net reforms and middle-income support. We remain selective in our exposure in China and are invested in attractive growth themes, such as electric vehicles, edge AI and innovative drugs, and within those themes are focused on companies with competitive advantages, strong corporate governance and solid growth prospects.

We remain overweight to India where our long-term secular, domestic-driven growth thesis remains unchanged. The recent cyclical underperformance has led the market to its largest relative underperformance to EM in the last 30 years, and we think the economy and market should begin to show signs of a recovery in the coming quarters. Private consumption has emerged as the key growth engine, supported by goods and services tax (GST) rate cuts, income tax rebates, and easing liquidity, which should provide a meaningful tailwind for discretionary demand. Inflation remains contained, allowing the RBI flexibility to maintain accommodative liquidity conditions. We also see early signs of a bottoming in corporate earnings and remain constructive on India's manufacturing push. While the 50% U.S. tariff on imports may weigh on near-term sentiment, India's low trade dependence and expanding export diversification should help mitigate external risks. We continue to invest in structural themes including financialization, credit growth, rising health care spend, import substitution and digitization. Our exposure is diversified and includes what we consider to be well-managed financials, industrials and consumer names, with select in IT, real estate, health care, energy and materials companies.¹⁶

As a global semiconductor powerhouse holding more than 90% of the world's leading-edge chip manufacturing capacity, Taiwan is well positioned as the leader for AI investments.¹⁷ We maintain a favorable outlook on Taiwan's technology sector given its leading role in the global AI hardware supply chain, which continues to be a key driver of the nation's GDP growth through robust export momentum. Despite the export boom, domestic consumption remains muted. Retail sales and consumer sentiment have lagged, and non-tech earnings growth remains uneven.

We maintain neutral weight in Korea with an overweight allocation to technology companies, particularly those in the semiconductor and memory sectors. Korea holds over 80% of global market share in high-bandwidth memory (HBM).¹⁸ These

¹⁶ Diversification neither assures a profit nor guarantees against loss in a declining market.

¹⁷ Source: Morgan Stanley. China's Emerging Frontiers - Navigating the Path to Industry Upgrades. Published 6 April 2025.

¹⁸ Source: J.P. Morgan. TrendForce. SK Hynix: AI-driven credit story. 2024 data. Published 2 October 2025.

companies benefit from secular tailwinds in AI and data infrastructure — areas with high barriers to entry and strategic relevance. Korea has also seen significant rerating having narrowed the Korea discount through the Value Up plan.

Over the course of the year, we had reduced our overall exposure to Indonesia and currently hold a neutral allocation. Investor sentiment remains cautious due to geopolitical and fiscal uncertainties and President Prabowo's policy moves (including the Danantara sovereign wealth fund). We continue to be selective in our positioning within health care, retail, select financials and specific consumer sector exposures.

At the end of the quarter, we maintain overweight allocations to India and Hong Kong while maintaining underweight allocations to China, Taiwan and Singapore. At the sector level, we have overweight exposures to the financials and information technology sectors while maintaining underweight exposures to the materials, utilities, industrials, consumer staples and energy sectors.

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

Fund Facts

Launch date	01 October 1991
Base currency	U.S. dollars
Benchmark	MSCI All Country Asia Ex Japan Net 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 I Shares	26.85	26.85	15.55	10.24	-20.91	5.79	26.24	18.53	-18.25	37.05	1.74
Blended Benchmark	32.26	32.26	11.96	5.98	-19.67	-4.72	25.02	18.17	-14.37	41.72	6.11

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 I 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.
- Investments in China involves a risk of a total loss due to factors such as government action or inaction, market volatility and reliance on primary trading partners.
- Investment in China A-Shares via Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connect programs 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, available at www.morganstanleyinvestmentfunds.com. All data as of 31.12.2025 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.

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Returns) thereafter.

The **MSCI AC Far East ex Japan Index**: captures large and mid cap representation across 2 Developed Markets countries (excluding Japan) and 7 Emerging Markets countries in the Far East*. With 553 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The **MSCI AC Asia ex Japan Index**: captures large and mid cap representation across 2 of 3 Developed Markets (DM) countries* (excluding Japan) and 9 Emerging Markets (EM) countries* in Asia. With 637 constituents, the index covers approximately 85% of the free float adjusted market capitalization in each country.

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A blended benchmark has been used because there has been a change in benchmark during the reporting period shown.

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the Securities Market Law) pursuant to a private placement, according to article 5 of the Securities Market Law, the interests in the Fund will not be registered in the Securities Market Public Registry maintained by the **SMV**, and the offering of the Fund interests in Peru to institutional investors nor the Fund will be subject to the supervision of the SMV, and any transfers of the Fund interests shall be subject to the limitations

contained in the Securities Market Law and the regulations issued thereunder mentioned before, under which the Fund interests may only be transferred between institutional investors.