

## Morgan Stanley Investment Funds

# Asian Property Fund

REAL ASSETS | GLOBAL LISTED REAL ASSETS TEAM | MONTHLY COMMENTARY | 31 JANUARY 2019

### Performance Review

In the one month period ending 31 January 2019, the Fund's I shares returned 9.62% (net of fees)<sup>1</sup>, while the benchmark returned 9.39%.

The Fund outperformed the EPRA NAREIT Asian Index in January. Our overweights to Hong Kong and China contributed positively to performance.

### Market Review

Asian real estate securities rallied on hopes of the trade deal between the U.S. and China and the U.S. Federal Reserve moving away from its bias toward tightening. Asian currencies strengthened relative to the U.S. dollar.

The direct real estate market across Asia continues to perform strongly. Leasing and transactional activities remained slow going into the Chinese New Year (CNY) holiday and given overhanging concerns from the U.S.-Sino trade war. In Hong Kong, fundamentals in the grade A office market remain solid with vacancy at below 2% (except Kowloon East) and rents are still rising, albeit at a slower pace compared to 2018. Likewise, in Central Tokyo, grade A office vacancy remains extremely tight at 2% but rents are growing more modestly. In Singapore, grade A office vacancy and rents have continued to recover. In Australia, grade A office vacancy in Sydney and Melbourne is at historically low levels of around 4%.

In the residential sector, Hong Kong developers reported mixed response to new launches as buyers were distracted by the sale of discounted public housing units by the government. Home prices appeared to have bottomed and recovered modestly in January. In China, overall primary volumes declined going into the CNY holiday, but the listed developers continued to gain market share. In Singapore, property developers offered incentives to drive home sales. Projects located near transportation nodes have been well-received. In Australia, home prices continued to moderate in the capital cities. Sentiment remained weak despite the easing of mortgage lending rules. The government is expected to roll out more measures to stabilise demand.

### Portfolio Activity

Our portfolio was relatively unchanged. We trimmed our exposure to Hong Kong and China on share price gains.

### Strategy and Outlook

We have maintained our core investment philosophy as a real estate value investor. This results in owning stocks whose share prices provide real estate exposure at the best valuation relative to their underlying asset values.

We continue to favour companies that trade at a discount to their net asset value and stocks that showed prospects for net asset value enhancement. We ensure that companies in the Fund have well-positioned balance sheets, as well as a capital plan that is appropriately conservative due to the uneven economic recovery and financing conditions across Asia. We generally avoid companies that have been unable (or unwilling) to take the appropriate actions to improve their strained balance sheets. We focus on companies with assets that could benefit from a recovery in real estate market fundamentals.

We have maintained our strategy of overweighting real estate operating companies in Hong Kong. We believed that these companies continued to offer attractive relative valuation opportunities on strong real estate market fundamentals and attractive private real estate values for prime assets. We have remained largely underweight to the Asian REITs on relative valuation grounds.

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

<sup>1</sup> Source: Morgan Stanley Investment Management Limited. Data as of 31 January 2019.

## FUND FACTS

### Launch date

01 September 1997

### Base currency

U.S. dollars

### Index

FTSE EPRA/NAREIT Asian Real Estate Net Total Return Index

## 12 Month Performance Periods to Latest Month End (%)

	JANUARY '18 - JANUARY '19	JANUARY '17 - JANUARY '18	JANUARY '16 - JANUARY '17	JANUARY '15 - JANUARY '16	JANUARY '14 - JANUARY '15
MS INVF Asian Property Fund - I Shares	1.11	19.16	14.29	-14.29	7.67
FTSE EPRA/NAREIT Asian Real Estate Net Total Return Index	1.00	18.53	15.45	-13.82	7.72

**Past performance is not a reliable indicator of future results.** Returns may increase or decrease as a result of currency fluctuations. 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.**

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

## Share Class I Risk and Reward Profile

Lower Risk

Higher Risk



Potentially Lower Rewards

Potentially Higher Rewards

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.

- There are additional risks associated with investing in real estate.
- There may be an insufficient number of buyers or sellers which may affect the funds ability to buy or sell securities.
- 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 January 2019 and subject to change daily.

## INDEX INFORMATION

The **GPR General Quoted Asia Net 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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