

Morgan Stanley Investment Funds

Asian Property Fund

REAL ASSETS | GLOBAL LISTED REAL ASSETS TEAM | MONTHLY COMMENTARY | OCTOBER 31, 2017

FOR PROFESSIONAL CLIENTS ONLY.

PERFORMANCE REVIEW

In the one month period ending 31 October 2017, the fund's I shares returned 0.97% (net of fees) while the benchmark returned 1.17%.

The fund modestly underperformed the EPRA NAREIT Asian Index in October. Our underweight position in Singapore and in the mid-cap Japanese REOCs detracted from performance.

MARKET REVIEW

Asian real estate securities continued to be driven by macroeconomic factors in October. Asian currencies generally traded weaker relative to the U.S. dollar.

In the office sector, leasing activity in Hong Kong Central grade A office was slow as People's Republic of China tenants deferred leasing decisions during the National Party Congress. In Tokyo's central five wards, asking rents for grade A office have remained relatively stable. New supply is growing and continued to attract tenants from the weaker assets. In Singapore, Central Business District grade A rents have bottomed. In Australia, the market for grade A office in the Sydney Central Business District continued to grow despite rents being at record levels.

In the residential sector, transactions volume generally fell in Hong Kong, China and Singapore due to fewer new launches and diminishing inventory levels. The listed developers have broadly achieved their annual sales targets and are less motivated to put up new projects for sale. Home prices continued to edge higher on healthy demand and improving buyer sentiment. In Australia, home prices in the capital cities were unchanged in October. Sydney home prices declined 0.5% month-over-month (MoM) in October due to macro-prudential policies and rising monthly mortgage payments. Home prices in Melbourne gained 0.5% MoM in October.

PORTFOLIO ACTIVITY

The fund remained largely unchanged during the month.

STRATEGY AND OUTLOOK

We have maintained our core investment philosophy as a real estate value investor. We believe 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 show prospects for net asset value enhancement. We seek to 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 seek to avoid companies that have been unable (or unwilling) to take the appropriate actions to improve their strained balance sheets. We

FUND FACTS

Fund launch

September 1997

Investment team

Ted Bigman, Angeline Ho, Desmond Foong

Location

New York/Singapore

Base currency

U.S. dollars

Benchmark

FTSE EPRA/NAREIT Asian Real Estate Net Total Return Index

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 representative.

IMPORTANT INFORMATION

FOR PROFESSIONAL CLIENTS ONLY.

Past performance is not a reliable indicator of future results. Returns may increase or decrease as a result of currency fluctuations. The value of the investments and the income from them can go down as well as up and an investor may not get back the amount invested. There are additional risks involved with this type of investment. Please refer to the Prospectus and relevant Key Investor Information for full risk disclosure.

This communication has been issued and approved in the UK by Morgan Stanley Investment Management Limited, 25 Cabot Square, Canary Wharf, London E14 4QA, authorised and regulated by the Financial Conduct Authority.

This document contains information relating to the sub-funds ('Funds') of Morgan Stanley Investment Funds, a Luxembourg domiciled Société d'Investissement à Capital Variable. Morgan Stanley Investment Funds (the "Company") is registered in the Grand Duchy of Luxembourg as an undertaking for collective investment pursuant to Part 1 of the Law of 17th December 2010, as amended. The Company is an Undertaking for Collective Investment in Transferable Securities ("UCITS").

The purpose of this document is to provide a commentary on the performance and management of the Fund. Any discussion of individual stocks is included solely for that purpose and concerns the way in which the Company has sought to use that stock, in combination with others, in seeking to pursue the Fund strategy as a whole. Any comments should therefore not be taken out of context and should not be treated as advice on or a recommendation as to whether to transact in that stock.

The views and opinions are those of the Investment team as of the date of publication and are subject to change at any time and may not necessarily come to pass. The views expressed do not reflect the opinions of all Investment teams at Morgan Stanley Investment Management (MSIM) or the views of the firm as a whole, and may not be reflected in all the strategies and products that the Firm offers. This communication is not a product of Morgan Stanley's Research Department and should not be regarded as a research recommendation. The information contained herein has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This communication is only intended for and will only be distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations. In particular, the Shares are not for distribution in the United States or to US persons.

Applications for shares in Morgan Stanley Investment Funds should not be made without first consulting the current Prospectus, Key Investor Information Document (KIID), Annual Report and Semi-Annual Report ('Offering Documents'), or other documents available in your local jurisdiction, which are available free of charge from the Registered Office: European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxembourg B 29 192. In addition, all Italian investors should refer to the 'Extended Application Form', and all Hong Kong investors should refer to the 'Additional Information for Hong Kong Investors' section, outlined within the Prospectus.

Copies of the Prospectus, Key Investor Information Document, the Articles of Incorporation and the annual and semi-annual reports, in German, and further information can be obtained free of charge from the representative in Switzerland. The representative in Switzerland is Carnegie Fund Services S.A., 11, rue du Général-Dufour, 1204 Geneva. The paying agent in Switzerland is Banque Cantonale de Genève, 17, quai de l'Île, 1204 Geneva.

The source for all performance and index data is Morgan Stanley Investment Management Limited. Calculations are NAV to NAV. Performance is quoted net of fees and with income reinvested. The indices do not include any expenses, fees or sales charges, which would lower performance. The indexes are unmanaged and should not be considered an investment. It is not possible to invest directly in an index.

For cash management purposes the Fund may invest in shares in the Liquidity Funds of Morgan Stanley Liquidity Funds.

This document has been issued by Morgan Stanley Asia Limited for use in Hong Kong and shall only be made available to "professional investors" as defined under the Securities and Futures Ordinance of Hong Kong (Cap 571). The contents of this document have not been reviewed nor approved by any regulatory authority including the Securities and Futures Commission in Hong Kong. Accordingly, save where an exemption is available under the relevant law, this document shall not be issued, circulated, distributed, directed at, or made available to, the public in Hong Kong.

This document should not be considered to be the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor under section 304 of the Securities and Futures Act, Chapter 289 of Singapore ("SFA"), (ii) to a "relevant person" (which includes an accredited investor) pursuant to section 305 of the SFA, and such distribution is in accordance with the conditions specified in section 305 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. In particular, for investment funds that are not authorized or recognized by the MAS, units in such funds are not allowed to be offered to the retail public; any written material issued to persons as aforementioned in connection with an offer is not a prospectus as defined in the SFA and, accordingly, statutory liability under the SFA in relation to the content of prospectuses does not apply, and investors should consider carefully whether the investment is suitable for them.

This document may be translated into other languages. Where such a translation is made this English version remains definitive. If there are any discrepancies between the English version and any version of this document in another language, the English version shall prevail.