

# Morgan Stanley

## INVESTMENT MANAGEMENT

### Morgan Stanley Investment Funds

# Asian Property Fund

REAL ASSETS | GLOBAL LISTED REAL ASSETS TEAM | MONTHLY COMMENTARY | 28 FEBRUARY 2018

#### Performance Review

In the one month period up until 28 February 2018, the Fund's I shares returned -5.27% (net of fees)<sup>1</sup>, while the benchmark returned -5.04%. The Fund underperformed the EPRA NAREIT Asian Index in February. Our underweight to real estate operating companies detracted from performance.

#### Market Review

Asian real estate securities continued to be driven by macroeconomic factors during the month. The market remained cautious about rising interest rates, albeit on the back of improving U.S. economic data, and generally saw quiet trading due to the Chinese New Year holiday.

In the office sector, corporate leasing activity remained moderated prior to the Chinese New Year holiday in February. Hong Kong continued to experience strong demand from PRC tenants in Central as well as the decentralisation trend to more cost-effective office locations. In Central Tokyo, grade A office vacancy remains low. Landlords are confident about leasing up new supply but are still offering large leasing incentives. In Singapore, CBD grade A rents have bottomed as new supply is gradually being absorbed. In Australia, grade A office in the Sydney CBD continued to benefit from tight supply and rising rents.

In the residential sector, transaction volumes have remained soft in Hong Kong, China and Singapore due to the Chinese New Year holiday. Home prices are buoyed by positive sentiment.

In Australia, home prices fell for a fifth straight month in February as tighter rules on investment lending cooled investment demand in Sydney. Sydney home prices declined modestly in February. Melbourne home prices also saw slower growth but remained positive for the year.

#### Portfolio Activity

Very few changes were made to the Fund's portfolio in February.

#### 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.**

#### FUND FACTS

**Launch date**

01 September 1997

**Base currency**

U.S. dollars

**Index**

FTSE EPRA/NAREIT Asian Real Estate Net Total Return Index

<sup>1</sup> Source: Morgan Stanley Investment Management Limited. Data as of 28 February 2018.

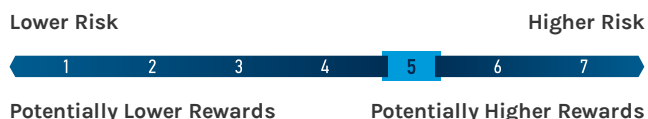
## 12 Month Performance Periods to Latest Month End (%)

	FEBRUARY '17 - FEBRUARY '18	FEBRUARY '16 - FEBRUARY '17	FEBRUARY '15 - FEBRUARY '16	FEBRUARY '14 - FEBRUARY '15	FEBRUARY '13 - FEBRUARY '14
MS INV F Asian Property Fund - I Shares	9.72	15.10	(14.76)	8.97	(7.36)
FTSE EPRA/NAREIT Asian Real Estate Net Total Return Index	9.67	13.94	(12.25)	9.55	(6.23)

**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



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 28 February 2018 and subject to change daily.

### INDEX INFORMATION

The **GPR General Quoted Europe Net Index**: is a sub-index of the GPR General Index and is composed of listed real estate securities in the European 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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