A Sub-Fund of Morgan Stanley Investment Funds

China A-shares Fund

EMERGING MARKETS EQUITY TEAM

Performance Review

In the one month period ending 31 May 2025, the Fund's Z shares returned 2.84% (net of fees)[1], while the benchmark returned 2.73%.

In the month of May, our overweight allocation and stock selection in the financials sector was the largest contributor to returns, led by our banks and insurance holdings. Our stock selection within the information technology sector detracted but was positively offset by our underweight allocation to sector. Conversely, our stock selection within the consumer staples and industrials sectors detracted. Our underweight allocation to the health care sector detracted as the sector was the top performing sector thanks to a research and development breakthrough for innovative drugs domestically. Multiple projects also received approvals from both domestic and foreign regulators.

Our overweight selection to financials holdings People's Insurance Co. of China, Bank of Ningbo, Bank of Jiangsu and China Merchants Bank contributed to returns as investors continued to buy bank stocks for their dividend yields. Our zero-weight allocation to Cambricon Technologies also contributed to returns as the stock was impacted by concerns of U.S. curbs on Chinese-made chip exports.

Our overweight selection to Proya Cosmetics detracted after the company announced leadership changes with the departure of Deputy General Manager, CFO and Board Secretary Wang Li. Our overweight selections to wafer fabrication equipment (WFE) equipment providers Advanced Micro Fabrication and NAURA Technology detracted as investors took profit on semiconductor companies.

Market Review

China A share equities posted positive returns during the month on the People's Bank of China (PBOC) cutting the policy rate and reserve requirement ratio and easing in China-U.S. geopolitical tension. The MSCI China A Onshore Index returned +2.73% in U.S. dollar (USD) terms during the month, underperforming the MSCI All Country Asia ex-Japan Index, which returned +5.26%.

China's activity data[2] weakened sequentially in April, reflecting both the negative impact of increased U.S. tariffs and persistent soft domestic demand. Industrial production (IP) growth declined to +6.1% year-over-year in April from +7.7% in March, as export growth slowed on increased U.S. tariffs, though above market consensus growth of +5.7% on significant trade re-routing. Fixed asset investment growth fell to +3.6% year-over-year in April from +4.3% in March, weighed down by a slowdown in infrastructure and property investment. Retail sales growth slowed to +5.1% year-over-year in April from +5.9% in March, mainly driven by weaker automobile sales even with the ongoing consumer goods trade-in program.

Despite the tariff reduction after the U.S.-China trade talks in Geneva, the headline Caixin Manufacturing Purchasing Manager's Index (PMI) fell notably to 48.3 in May from 50.4 in April, contrary to market expectations of an uptick, while the NBS manufacturing PMI increased to 49.5 in May from 49.0 in April.[3] As the Caixin PMI surveys are typically conducted earlier in the month than NBS PMIs, the effect of lower tariffs after 12 May might have not been felt by Caixin PMI respondents at the time of the survey. China's exports[4] exceeded expectations in April despite the Liberation Day tariffs. Exports grew by 8.1% year-over-year in April, beating the expectations of 2% growth, while imports fell by 0.2% year-over-year in April, which is better than the expected 6% decline. The data breakdown suggests that export re-routing more than offset the plunge in direct shipments to the U.S. While exports to the U.S. plunged 21% year-over-year, exports to the rest of the world rose by 13% year-over-year in April.

The PBOC governor rolled out 10 measures at a press conference, with the focus on a 10 basis point (bps) policy rate cut, a 50 bps reserve requirement ratio cut and a 1.1 trillion expansion of relending quota. Going forward, the policy quota on capital market support (swap facility and buyback relending) will be combined, which currently stands at 800 billion. The PBOC also maintained an easing bias in its first quarter monetary policy report. The central bank sounded less dovish than in the first quarter Monetary Policy Committee meeting minutes and emphasized the need to balance supporting the real economy with maintaining banking system health. It focused on quantity-based tools and targeted easing, while calling for broader policy coordination to foster reflation.

A U.S. trade court blocked President Trump's tariffs from going into effect in a sweeping ruling that the President overstepped his authority by imposing across-the-board duties on imports from nations that sell more to the U.S. than they buy. The Trump administration immediately filed a notice of appeal and the tariffs were temporarily reinstated by the U.S. Court of Appeals the next day.

[1] Source: Morgan Stanley Investment Management Limited. Data as of 31 May 2025.
[2] Source for industrial production, retail sales, fixed asset investment data: National Bureau of Statistics of China, 19 May 2025.
[3] Source: National Bureau of Statistics of China, 3 June 2025, and S&P Global, 5 June 2025.
[4] Source: Customs General Administration PRC as of 9 June 2025.

Portfolio Activity

During the month, we continued to right-size existing positions and trimmed financials weights and increased our exposure to the technology sector.

We initiated a position in ENN Natural Gas. We trimmed our position in Yangtze Power and reallocated the capital to ENN Natural Gas to diversify our utilities holdings and dividend yield basket.[5] For ENN Natural Gas, we like the business as an investment in the gas utilities sector. We think demand growth remains relatively steady and the natural gas sector is less exposed to tariff pressures. We also see room for liquefied natural gas prices to come down, which could reduce costs for ENN Natural Gas. Lastly, we expect some additional growth drivers from its "value-add" service that helps households install smart energy management systems.

We added to our existing position in CATL, the leading battery manufacturer with leading technology. We believe CATL is one of the best positioned companies for the electrification trend in the auto industry and energy storage demand in renewable energy. CATL has been successful in maintaining market share, technology leadership and profitability through cycles.

We initiated a position in Tsingtao Brewery on improving retail sales in the first quarter of 2025, solid base market positioning and a new management team with balanced focus on market share and profitability. We believe there is room for upside from the potential consumption policy support.

We fully exited our position in Postal Savings Bank of China on rising asset quality pressure and large equity financing dilution. We continued to cut our position in other banks such as Bank of Ningbo and rotated the capital into brokerage companies such as CITIC Securities. We added to our position in CITIC Securities, one of China's leading investment banks, which has been benefiting from elevated stock trading volumes year-to-date. We increased our exposure to brokerages on the potential rise in capital market activities as we think the Chinese government will likely introduce market stabilization measures for capital markets. We think nurturing world-class securities firms is a strategic vision for the Chinese financial regulators.

We also right-sized and trimmed our position in Gree Electric Appliances and exited Hisense Visual Technology. We trimmed our exposure to beneficiaries of the appliances trade-in policy as we think part of the thesis has already been priced in. We prefer other home appliances companies such as our existing holdings in Midea.

We also trimmed our position in China Shenghua Energy over concerns that the falling coal prices might negatively impact its profitability.

Strategy and Outlook

While China's earlier economic stimulus package lent support to the economy, the latest escalation in trade tensions and ongoing tariff changes by the U.S. administration introduced significant uncertainties to the global economic outlook and brought downside risks to China's exports and broader economic growth. Corporate investment could be scaled back in light of much greater macro uncertainty on a global basis. Additionally, domestic deflationary pressure could intensify further if external demand slows significantly and more Chinese production needs to look for outlets inwards. These, in turn, would lead to downward pressure on corporate earnings. Meanwhile, the Chinese government could introduce additional stimulus measures to offset the tariff impact. We will continue to monitor the geopolitical situation and China's policy implementation in the coming months. The market needs to watch for details of the follow-up fiscal policies, which are key to boosting demand and growth.

We believe we have a balanced sector allocation for the portfolio, with a relatively defensive tilt given the challenging macro backdrop facing the Chinese economy. We believe the Fund can potentially outperform the market under the current environment as we position in high quality companies with a stable fundamental outlook and undemanding valuation.

Our China A portfolio has always been focused on long-term fundamentals, and we continue to seek structural growth opportunities in China. Meanwhile, we have also added quality companies with steady growth and attractive valuations amid the soft economic backdrop. In the near term, we are positioned with a defensive tilt in view of the macro headwinds.

Despite the near-term macro challenges, over the long term, we remain constructive that Chinese innovation and technology will catch up quickly. Therefore, growth in domestic demand is a clear long-term trend as people get wealthier. We believe China remains an attractive market that offers wide breadth of listed companies that can deliver attractive returns over the longer term.

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

Fund Facts

Launch date	29 December 2017
Base currency	U.S. dollars
Benchmark	MSCI China A Onshore Index

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

Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

	YTD	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Class Z Shares	1.69	10.36	-11.91	-23.34	-2.19	13.82	19.42	-16.60	--	--	--
MSCI China A Onshore Index	-0.67	11.59	-11.65	-27.23	4.03	40.04	37.48	-32.99	--	--	--

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 Z 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 funds 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 31.05.2025 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. Luxemburg B 29 192.

The summary of investor rights is available in the aforementioned languages and website location under the General Literature section.

Information in relation to sustainability aspects of the Fund is available in English online at: Sustainable Finance Disclosure Regulation.

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The **MSCI All Country Asia Ex-Japan Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of Asia, excluding Japan. The performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends. The index is unmanaged and does not include any expenses, fees or sales charges. It is not possible to directly invest in an index.

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