A Sub-Fund of Morgan Stanley Investment Funds

China A-shares Fund

EMERGING MARKETS EQUITY TEAM

Investors should note that, relative to the expectations of the Autorité des Marchés Financiers, this UCITS presents disproportionate communication on the consideration of extra-financial criteria in its management.

Performance Review

In the one month period ending 28 February 2025, the Fund's Z shares returned -0.25% (net of fees)[1], while the benchmark returned 2.00%.

In the month of February, our stock selection in the industrials sector was the largest contributor to returns. Our stock selection within the health care sector also contributed. Conversely, our underweight allocation and stock selection in the information technology sector detracted. Our stock selection in the consumer discretionary sector also detracted, along with our stock selection and overweight allocation to the financials sector.

At the stock level, our overweight selections to China Merchants Expressway and Guangdong Provincial Expressway contributed to returns. Our overweight allocations to Hangcha Group, Yizumi and Jiangsu Hengli Hydraulic also contributed to returns. The broader factory automation/robotics industry, rallied on positive comments from the CEO of robotics startup Unitree.

On the other hand, our overweight allocation to Bank of Jiangsu detracted. Our overweight allocations to China Yangtze Power and China Shenhua Energy detracted. China Shenhua Energy reported January year-on-year coal sales that were down -21.6%. Our overweights to Gree Electric and China Merchants Port also detracted.

Market Review

China A share equities rebounded during the month led by Chinese tech stocks extending their rally into February on artificial intelligence (AI) and robotics-related optimism. The MSCI China A Onshore Index returned +2.00% in U.S. dollar (USD) terms during the month, outperforming the MSCI All Country Asia ex-Japan Index, which returned +1.03%.

China's January consumer price index (CPI) inflation increased by 0.5% year-over-year (vs. 0.1% in December).[2] The improvement came on the back of the Lunar New Year holiday, which lifted both food and services prices. Excluding food and energy, core CPI inflation was up 0.6% year-over-year (vs. 0.4% previously).[2] Meanwhile, produce price index (PPI) deflation remained at -2.3% year-over-year, slightly trailing consensus expectations.[2] While the Lunar New Year holiday boosted consumer prices, it was a drag for industrial prices as factories entered off-peak season.

China's National Bureau of Statistics (NBS) manufacturing PMI rose to 50.2 in February from 49.1 in January.[3] Among the major sub-indexes, the output sub-index increased the most, followed by the new orders sub-index. The NBS non-manufacturing PMI increased to 50.4 in February from 50.2 in January, entirely driven by improvement in the construction sector in February.[3]

The People's Bank of China (PBOC) maintained an easing bias in its fourth quarter monetary policy report. The central bank pledged to intensify monetary policy easing when appropriate: the pace and intensity of policy easing would depend on domestic/external economic conditions and the development of financial markets.

President Xi Jinping met with a group of prominent Chinese private businesses leaders, mostly in the technology sector, at a rare symposium on 17 February. Jack Ma, co-founder of e-commerce giant Alibaba and one of the best-known faces in China, sat in the front row of the meeting along with Pony Ma of Tencent and Chuanfu Wang of BYD. Compared to the 2018 symposium during the U.S.-China trade war in President Trump's first term, the 2025 meeting showed a high concentration of technology business leaders. At the meeting, Xi called for the entrepreneurs to "contribute to the promotion of technological innovation, the nurturing of new productive forces, and the construction of a modern industrial system", highlighting the urgency of boosting business confidence and spurring technology breakthroughs as the U.S.-China technology rivalry intensifies.

Effective 4 February, President Trump's executive order directed a 10% tariff on energy products from Canada — plus a 10% duty on China. The tariffs were imposed under the International Emergency Economic Powers Act (IEEPA) "because of the major threat of illegal aliens and deadly drugs killing our Citizens, including fentanyl". The tariffs also included a retaliation clause that will increase penalties if the trading partners strike back at the U.S. with tariffs. President Trump also signed a memorandum on 21 February that directed the Committee on Foreign Investment in the U.S. to restrict Chinese investments in U.S. technology, critical infrastructure, health care, agriculture, energy, raw materials and other industries. The U.S. will establish new rules "to curb the exploitation of its capital, technology and knowledge by foreign adversaries such as China to ensure that only those investments that serve American interests are allowed". The Trump administration will consider new or expanded restrictions on U.S. outbound investment to China in sensitive technologies, including semiconductors, artificial intelligence, quantum, biotechnology, aerospace and more.

[1] Source: Morgan Stanley Investment Management Limited. Data as of 28 February 2025.
[2] Source: National Bureau of Statistics of China, 10 February 2025.
[3] Source: National Bureau of Statistics of China, 2 March 2025.

Portfolio Activity

During the month, we initiated a position in Spring Airlines, China's leading low-cost carrier, on a resilient growth outlook and attractive valuation.

We added to our existing position in Gree Electric on the recent share weakness and continued policy support via the home appliance subsidy.

We added to our existing position in PetroChina on improving natural gas business and high yield.

We also added to our existing position in CATL on a stronger-than-expected first quarter 2025 production plan and higher utilization.

We continued to trim our position in Jiangsu Hengli Hydraulic and Hangcha Group and took profits on the robotics theme rally.

We also took profits and trimmed our positions in Wuxi Apptec and Shenzhen Mindray as Chinese health care stocks rose on Ping An Health's plans to integrate DeepSeek into its AI models.

Strategy and Outlook

The sustainability of the current market rebound depends on the implementation and effectiveness of policies to turn around the economy and corporate fundamentals. We believe it is unlikely the policy stimulus announcements made so far will lead to a marked improvement in the economy's underlying fundamentals given the level of debt in the system. Recent announcements are a positive step, but only cover a portion of the estimated total local government debt. Given the prolonged adjustment in China's property market, we believe it may take more effort and time to turn around the economy. We will continue to closely monitor the policy implementation and economic development in the coming months to gauge the pace of economic recovery. The market needs to watch for details of other follow-up fiscal policies, which are key to boosting demand and growth, especially given the backdrop of the new U.S. administration and tariff risks.

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 or dividend yields 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 think China is still in a very good place to invest in good companies that can deliver attractive returns over the long term, despite the medium-term macro challenges. After the market derating, we see good quality stocks with strong secular growth trends at more attractive valuations. These cheap quality growth stocks typically have weaker near-term earnings momentum, which in turn weighs on near-term valuations. Nevertheless, we think these stocks are compelling positions to own for 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

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	-1.65	10.36	-11.91	-23.34	-2.19	13.82	19.42	-16.60	--	--	--
MSCI China A Onshore Index	-0.18	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 28.02.2025 and subject to change daily.

Applications for shares in the 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.

If the management company of the relevant Fund decides to terminate its arrangement for marketing that Fund in any EEA country where it is registered for sale, it will do so in accordance with the UCITS rules..

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