

A Sub-Fund of Morgan Stanley Investment Funds Japanese Equity Fund

JAPANESE EQUITY TEAM

Performance Review

In the one month period ending 31 December 2025, the Fund's Z shares returned -1.94% (net of fees)¹, while the benchmark returned 0.99%.

In December, the performance of the overall Japanese stock market was higher than the previous month. Although the rise in Japanese domestic long-term interest rates exerted some pressure on the market, the Japanese stock market remained firm. This resilience was supported by factors such as gains in U.S. stocks, driven by expectations of interest rate cuts, and the depreciation of the yen in the foreign exchange market following the Bank of Japan's (BOJ) decision to raise its policy rate.

By sector, the portfolio benefited from an overweight position in materials, while it was negatively impacted by an underweight position in financials. At the stock level, positive contributions came from Mitsubishi Estate, a developer and operator of office buildings and commercial facilities, and Fujitsu, an IT service company. On the other hand, negative contributions came from MODEC, which is engaged in the offshore oil and gas development industry, and SONY GROUP, a comprehensive electronics and entertainment company.

Market Review

The BOJ's December Tankan survey showed resilience, with the business conditions diffusion index for large manufacturers (current) improving slightly for the third consecutive quarter. The easing of uncertainty over U.S. tariffs and the continued depreciation of the yen appear to have supported sentiment among export-oriented companies. On the other hand, due to worsening Japan-China relations, the outlook for large non-manufacturing companies has declined, particularly in retail trade and accommodation and food services. In addition, concerns over declining housing demand due to rising loan interest rates also led to deterioration in construction and real estate sectors.

Overall, corporate sentiment remains relatively firm, and Japan's domestic economy is expected to maintain a moderate recovery trend in 2026, driven primarily by domestic demand. The government has released the outline of the 2026 tax reform, reflecting agreements such as raising the income threshold. By some estimates, expanding income tax exemptions will allow roughly 80% of taxpayers to benefit from tax cuts, and measures are expected to drive active capital investment and research and development (R&D) by companies. The economic impact of these tax reforms, which form the core of the Takaichi administration's policy package, is expected to start showing effects in the first quarter of 2026. Although caution is warranted regarding the risk of yen depreciation pushing up import prices, inflation in items such as food is expected to moderate. In addition, improvement in real wages is expected to lead to a recovery in household sentiment and private consumption.

Portfolio Activity

During the month, we initiated a position in Kurita Water Industries, a company specializing in water treatment equipment and chemicals.

Among individual names, our top holdings include SONY GROUP, which is expected to grow its movies, music and gaming businesses; Hitachi, in which we expect stable business growth and shareholder returns as the company has enhanced its corporate structure through its business portfolio restructuring; and Fujitsu, which is expected to achieve medium- to long-term growth driven by improving profit margins amid expanding demand for digital transformation (DX).

Strategy and Outlook

While we still need to carefully monitor the financial market trends associated with monetary policy and politics, we expect Japanese domestic companies' earnings to expand driven by growing purchasing power on the back of a continued rise in wages in Japan and companies placing more emphasis on profitability. With that in mind, we will focus on the valuation of stocks and seek investment opportunities especially in those companies whose undervaluation gap seems likely to close based on profitability improvement.

From a medium- to long-term perspective, we are paying attention to Japanese companies' growing efforts to enhance corporate value. In April 2022, the Tokyo Stock Exchange (TSE) was reorganized in order to clarify the market segmentation and increase the corporate value of listed companies. In March 2023, TSE requested that Japanese-listed companies take responsive measures with consideration given to capital costs and stock prices. In January 2024, TSE published a list of companies disclosing such information, increasing pressure to improve capital efficiency. This encourages companies to aim for further corporate governance enhancements and higher capital efficiency. We believe that this move will likely contribute to a steady increase in Japanese companies' corporate

¹ Source: Morgan Stanley Investment Management. Data as of 31 December 2025.

value, along with their constructive dialogue with investors, and that these will be factors to support the Japanese stock market in the medium to long term.

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

Fund Facts

Launch date	14 June 2010
Base currency	Japanese yen
Benchmark	MSCI Japan Index

Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

	YTD	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Class Z Shares	26.84	26.84	30.99	34.69	5.89	15.78	0.81	16.25	-20.72	2043	-1.56
MSCI Japan Index	24.27	24.27	20.74	28.56	-4.49	13.44	8.76	18.48	-15.15	19.75	-0.74

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.

- 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 31.12.2025 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. Luxembourg 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 from the Prospectus of the Fund.

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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The use of leverage increases risks, such that a relatively small movement in the value of an investment may result in a disproportionately large movement, unfavourable as well as

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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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