Performance Review

In the one month period ending 30 September 2019, the Fund’s Z shares returned 5.40% (net of fees), while the benchmark returned 5.93%.

The market rose in the first half of the month as excessive concerns regarding a potential global economic slowdown faded thanks to, amongst other factors, the announcement that U.S.-China trade talks will resume in October and the European Central Bank’s announcement of further monetary easing. The market also favoured the fact that the yen’s depreciation against the U.S. dollar reduced a negative impact on the earnings of Japanese companies.

In the second half of the month, the market fluctuated in the context of another rate cut by the Federal Reserve and the fact that its accommodative stance remained unchanged, whereas concern about U.S. political turmoil arose. The Japanese market ended September above the previous month’s close.

By sector, the portfolio was positively contributed to by our underweight position in health care, whilst negatively affected by our overweight position in communication services.

At a stock level, the portfolio was positively contributed to by IHI, a general heavy industries manufacturer, and other positions, whilst negatively affected by Nojima, a mass merchandiser of home electronics, amongst others.

Market Review

The Japanese market overall moved upward in September as excessive concerns regarding a potential global economic slowdown faded.

On 1 October 2019, the Consumption Tax Rate was raised by 2% to 10% from 8%. Whilst the front-loaded demand was smaller in scale than in previous tax hikes, people have persistent fears of a negative backlash. The government has formulated a reduction mitigation package exceeding 6.0 trillion yen in total to offset the household burden from the 2% tax increase of about 5.7 trillion yen per year and is ready to take an additional stimulus measures if there is a sign of an economic downturn. Therefore, we expect consumption will recover after a temporary weakening during the October-December 2019 period.

Portfolio Activity

During the month, we newly purchased shares in Asahi Kasei, a leading manufacturer of general chemical products and materials whose valuation we believe is becoming more attractive, whilst we completely sold our shares in Shin-Etsu Chemical, whose valuation was no longer attractive although the share price remained robust. We also sold our holdings in Macromill, whose earnings forecast was downgraded due to a larger-than-expected cost increase.

Amongst individual names, our top holdings include Toray, which expects further sales from separator films for lithium-ion batteries amid the expansion of the electric vehicle market; Nippon Telegraph and Telephone Corporation, which expects steady earnings per share growth due to a cost reduction effect from continuous share repurchases and a large number of retirees; and Hitachi, which expects business growth through aggressive investment, including mergers and acquisitions, in the information technology area.

Strategy and Outlook

A U.S.-China ministerial-level trade negotiation meeting is scheduled to be held on 10 and 11 October, and we are focused on whether the meeting can pave a way for a better relationship between the two countries. Specifically, we are focused on whether China can get agreement to concessions from the U.S. on (1) a punitive tariff hike on Chinese goods of $250 billion to be executed on 15 October and (2) another punitive tariff on Chinese cell phones and other goods scheduled for 15 December.

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This document constitutes a commentary and does not constitute investment advice nor a recommendation to invest. The value of investments may rise as well as fall. Independent advice should be sought before any decision to invest.
Dependent on the progress of the negotiation, we believe manufacturers may be able to recover through restarting capital investment and the improvement of consumer sentiment.

Increasing numbers of Japanese companies have been seeking to improve their corporate value by increasing capital efficiency, aiming to win market confidence. We believe this will drive the share prices of Japanese stocks in the long term.

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

### FUND FACTS

<table>
<thead>
<tr>
<th>Launch date</th>
<th>Base currency</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>14 June 2010</td>
<td>Japanese yen</td>
<td>MSCI Japan Index</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>SEPTEMBER '18</th>
<th>SEPTEMBER '17</th>
<th>SEPTEMBER '16</th>
<th>SEPTEMBER '15</th>
<th>SEPTEMBER '14</th>
</tr>
</thead>
<tbody>
<tr>
<td>MS INVF Japanese Equity Fund - Z Shares</td>
<td>-14.51</td>
<td>7.24</td>
<td>32.74</td>
<td>-11.91</td>
<td>4.04</td>
</tr>
<tr>
<td>MSCI Japan Index</td>
<td>-9.32</td>
<td>11.20</td>
<td>26.83</td>
<td>-5.19</td>
<td>6.76</td>
</tr>
</tbody>
</table>

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 to see the latest performance returns for the fund’s other share classes.

### Share Class Z Risk and Reward Profile

- **Lower Risk**
  - Category 1 does not indicate a risk free investment.
  - As such this category may change in the future.
  - The fund is in this category because it invests in 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.

- **Higher Risk**
  - 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 may be an insufficient number of buyers or sellers which may affect the fund’s 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.

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 may be an insufficient number of buyers or sellers which may affect the fund’s 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.

Please refer to the Prospectus for full risk disclosures. All data as of 30 September 2019 and subject to change daily.

### INDEX INFORMATION

The **MSCI Japan Index** is a free-floated adjusted market capitalization weighted index that is designed to track the equity market performance of Japanese securities listed on the Tokyo Stock Exchange, Osaka Stock Exchange, JASDAQ and Nagoya Stock Exchange. The MSCI Japan Index is constructed based on the MSCI Global Investable Market Indices Methodology, targeting a free-float market capitalization coverage of 85%.

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