

Morgan Stanley Investment Funds

Japanese Equity Fund

JAPANESE EQUITY TEAM

Performance Review

In the one month period ending 31 October 2023, the Fund's Z shares returned -1.82% (net of fees)¹, while the benchmark returned -3.08%.

In October, the Japanese stock market fell mainly due to the increasing tensions in the Middle East and rising interest rates in Japan and the U.S.

In the first half of the month, the market fell in response to concern about the escalating conflict in the Middle East. In the second half of the month, the Japanese stock market continued to fall, tracking the U.S. stock market that declined due to a rise in U.S. long-term interest rates amid increased concern about prolonged monetary tightening. In addition, the Japanese market was also negatively affected by a heightened concern that the Bank of Japan could revise its monetary easing policy at a Policy Board meeting, which caused a rise in Japanese domestic long-term interest rates.

By sector, the portfolio was positively contributed to by our overweight position in materials, while it was negatively affected by our overweight position in industrials. At a stock level, the portfolio was positively contributed to by Osaka Soda, a chemical company, and Hitachi, a general electric appliances manufacturer. On the other hand, it was negatively affected by Ibiden, whose mainstay product is integrated circuit packages, and Renesas Electronics, a semiconductor manufacturer.

Market Review

In September, industrial production slightly increased by 0.2% month-on-month. The industrial production forecast survey for October was positive, while it turned negative in November compared to the previous month. In addition, in the Economy Watchers Survey for September, the diffusion index (DI) for current economic conditions was 49.9 (53.6 in August), below the neutral indicator of 50 for the first time in eight months, and the DI for future economic conditions was 49.5 (51.3 in August), also below 50 for the first time in eight months. Persistent inflation, including higher gasoline prices, may have led to a decline in real purchasing power and a slowdown in consumption. While inbound demand is growing, the pace of economic recovery has slowed down, and there are risks that the economy may deteriorate toward the end of this year. Under these circumstances, the Kishida administration announced on 26 October that the government is considering economic measures, which includes a tax cut of ¥40,000 per person.

Portfolio Activity

During the month, we completely sold our shares in Rorze, a semiconductor manufacturing equipment manufacturer. Among individual names, our top holdings include Hitachi, where we expect stable business growth and shareholder return as the company has enhanced corporate structure through its business portfolio restructuring; Toyota Motor, which raised its electric vehicle (EV) sales target to 3.5 million units for 2030 and started working on improving capital efficiency; and Daiichi Sankyo, on expectation of sales growth of its cancer therapeutic drug based on antibody drug conjugates.

Strategy and Outlook

While we need to consider the negative impact of prolonged monetary tightening in the U.S. and Europe, the domestic companies are obviously placing more emphasis on profitability by raising prices, which we expect will enhance their earnings considering the normalization of domestic economic activity and inbound demand. With that in mind, we apply a stock selection approach with a focus on attractive valuations, including the forward price-to-earnings ratio, taking into consideration the business performance.

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 was reorganized in order to clarify the market segmentation and increase the corporate value of listed companies. In March 2023, the Tokyo Stock Exchange requested Japanese listed companies to take responsive measures with consideration given to capital costs and stock prices, putting pressure on them to increase their corporate value. 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 value, along with their constructive dialogue with investors, and that these will be factors that help support the Japanese stock market in the medium to long term.

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

¹ Source: Morgan Stanley Investment Management Limited. Data as of 31 October 2023.

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	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Class Z Shares	31.39	5.89	15.78	0.81	16.25	-20.72	20.43	-1.56	8.88	3.43	52.45
MSCI Japan Index	21.90	-4.49	13.44	8.76	18.48	-15.15	19.75	-0.74	9.93	9.48	54.58

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

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 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.
- 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. All data as of 31 October 2023 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 official language of your local jurisdiction at morganstanleyinvestmentfunds.com or free of charge from the Registered Office of Morgan Stanley Investment Funds, European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxembourg B 29 192.

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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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