

Morgan Stanley Investment Funds Japanese Small Cap Equity Fund

MARKETING COMMUNICATION | MITSUBISHI UFJ ASSET MANAGEMENT (UK) LTD TEAM | MONTHLY COMMENTARY | 31 JULY 2022

Performance Review

As the Fund is less than a year old we are constrained from commenting on its performance.

Market Review

The Japanese small-cap equity market, which remained weak, has been gaining stability thanks to receding concerns about a rise in U.S. long-term interest rates.

Regarding the announcement of financial results for the first quarter of the fiscal year ending March 2023, which is getting into full swing from the end of July 2022, some companies' profits were affected by soaring raw material prices, material shortages, and rising costs such as labor costs, despite the fact sales are firm. However, we see from the corporate announcements that companies are making efforts to respond to this external environment, and there are companies whose financial results were good regardless. Therefore, we do not expect corporate performance to deteriorate significantly in the future, although there is a disparity in the corporate performance of small-cap stocks. In addition, although the impact of the reemergence of COVID-19 in Japan on our businesses' results will likely be limited at this time, we continue to pay attention to it.

Portfolio Activity

During the month, we increased shares in Visional, which provides cloud-based career change services and human resource management, and Sansan, which offers corporate cloud business card management solutions. Conversely, we reduced shares in Japan Medical Dynamic Marketing, a medical equipment provider of products such as artificial joints and materials for osteosynthesis, and TRE Holdings, which engages in waste treatment.

Among individual names, our top holdings include: Topcon, which manufactures various surveying instruments and medical instruments for ophthalmology; Shoeni, which makes helmets and has been increasing its presence in the motorcycle market; and Nextage, a major used car seller.

Strategy and Outlook

We expect that the valuation of small-cap stocks, which fell due to declines in stock prices so far, will become more attractive on a relative basis. Based on the announcement of financial results for the first quarter of the fiscal year ending March 2023, we will continue to keep an eye on the earnings trends of our holdings' companies, while continuing to discover stocks for new purchase.

We see that there are still many growth companies that are not well recognized by investors in the inefficient Japanese small-cap equity market and that there are abundant opportunities for investment. We will reaffirm the viewpoints of our stock selection, including external conditions, internal resources (competitiveness), corporate strategy, management and business-related risks, etc., and continue seeking growth companies for better portfolio performance.

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

FUND FACTS

Launch date
07 April 2022

Base currency
Japanese yen

Index
MSCI Japan Small Cap Net Return Index (JPY)

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 July 2022 and subject to change daily.

Applications for shares in the Fund should not be made without first consulting the current Prospectus and the 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. Luxemburg B 29 192. A summary of investor rights is available in English at the same website.

Information in relation to sustainability aspects of the Fund and the summary of investor rights is available at the aforementioned website.

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 relevant UCITS rules.

INDEX INFORMATION

The **MSCI Japan Small Cap Index (JPY)** is a free-floated adjusted market capitalization weighted index that is designed to track the equity market performance of the small cap segment of the Japanese market. The MSCI Japan Small Cap Index (JPY) is constructed based on the MSCI Global Investable Market Indices Methodology, targeting a free-float market capitalization coverage of approximately 14%.

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