

A Sub-Fund of Morgan Stanley Investment Funds

Japanese Small Mid Cap Equity Fund

JAPANESE EQUITY TEAM

Performance Review

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

In October, the performance of the overall Japanese stock market was higher than the previous month on expectations for aggressive fiscal policies under the new Takaichi administration. The Japanese small-cap market also advanced.

Although mid-month saw a temporary period of sluggish performance due to uncertainty surrounding the administration's management, the market reached a new year-to-date high toward the end of the month. This was supported by the formal launch of the coalition government and growing expectations for effective policy implementation.

By sector, the portfolio benefited from an overweight position in information technology, while it was negatively impacted by an overweight position in consumer discretionary. At the stock level, positive contributions came from Mitsui Mining & Smelting (formerly known as Mitsui Kinzoku), a non-ferrous metals company with notable strengths in copper foil and related engineered materials, and DAIHEN, a manufacturer of transformers, welding machines and power supplies for semiconductor manufacturing equipment. On the other hand, negative contributions came from KATITAS, a real estate company specializing in the acquisition, renovation and resale of pre-owned detached houses, and Sansan, a sales-focused DX (digital transformation) service provider for the corporate sector.

Market Review

Japanese business sentiment remains resilient. In October, the S&P Global Purchasing Managers' Index (PMI) stood at 50.9, down from 51.3 in September, but staying above the neutral threshold of 50—the dividing line between expansion and contraction—for the seventh consecutive month.² The manufacturing PMI declined for the second consecutive month to 48.3, though there is no clear evidence of significant production cuts linked to U.S. tariffs at this stage.² Service-sector sentiment, which is already elevated, is expected to improve further.

On 21 October, Takaichi assumed office as Japan's first female prime minister, forming a new coalition government between the Liberal Democratic Party (LDP) and the Japan Innovation Party (Nippon Ishin no Kai). The administration's pledge of "responsible aggressive fiscal policy" has already resulted in the decision to abolish the provisional gasoline tax rate by year-end. If additional measures to curb rising prices are implemented promptly, the resulting moderation in persistently high inflation could improve real wages and consumer confidence, potentially supporting a rebound in consumption.

Meanwhile, Prime Minister Takaichi has maintained a cautious stance toward raising policy rates, and expectations for further Bank of Japan (BOJ) rate hikes have receded since her appointment as LDP president. At the October monetary policy meeting, policy rates were left unchanged amid insufficient coordination between the BOJ and the new administration. Support for rate hikes did not increase beyond the two members from the previous meeting, and Governor Ueda reiterated a cautious stance in his press conference. For the time being, markets are likely to focus on coordination with the new pro-easing administration and the BOJ's assessment of the sustainability of corporate wage increases.

Portfolio Activity

During the month, we initiated a position in PENTA-OCEAN CONSTRUCTION, a general contractor engaged in civil engineering and building construction, with particular strengths in marine works, port construction and tunnel engineering, and NHK SPRING, a manufacturer of automotive components, including suspension springs and seats, as well as precision parts such as suspension assemblies for hard disk drives (HDDs). On the other hand, we completely sold our shares in COVER, an entertainment company that operates Virtual YouTuber (VTuber) groups, and Money Forward, a fintech company offering software-as-a-service-based solutions for corporate back-office operations, including accounting, payroll, expense management and business administration.

Among individual names, our top holdings include Chugoku Marine Paints, a manufacturer specializing in marine coatings and related products; Meiko Electronics, which engages in the design, manufacturing and sales of printed circuit boards; and EBARA, a comprehensive manufacturer of pumps and fluid machinery, with diversified capabilities that include advanced semiconductor polishing equipment.

Strategy and Outlook

Although we believe the U.S. economy generally remains strong, we continue to monitor the economic outlook and trends in monetary policy. On the other hand, we expect the Japanese stock market to remain strong, driven by growing expectations for policy of the new administration and progress in corporate governance.

From the perspective of small- and mid-cap growth stocks, which have significantly lagged in recent years, we are paying attention

² Source: Bloomberg L.P.

to the potential for companies with unique growth drivers that are relatively unaffected by the external environment to be re-evaluated.

We will continue to focus on growth potential, an advantage of small- and mid-cap stocks, using a bottom-up approach. Considering external factors, such as Japan overcoming the deflationary environment and the Tokyo Stock Exchange's request to increase corporate value, we are also conducting further extensive research among companies that have not previously been considered growth companies in the past but now have potential for growth through a business portfolio transformation.

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

Fund Facts

Launch date	27 August 2025
Base currency	Japanese yen
Benchmark	MSCI Japan Small Cap Net Return Index (JPY)

Share Class A 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 31.10.2025 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. 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](#).

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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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