

Morgan Stanley Investment Funds

Japanese Equity Fund

JAPANESE EQUITY TEAM

Performance Review

In the one month period ending 31 May 2024, the Fund's Z shares returned 3.60% (net of fees)¹, while the benchmark returned 1.20%.

In May, Japanese stocks closed higher than the previous month. Japan's long-term interest rates rose in response to the Bank of Japan's announcement that it decreased the amount of government bond purchases. This caused investors to favor more financial stocks, including bank stocks, which contributed to a rise in the Japanese stock market. In addition, the stable financial results of domestic companies for the January-March 2024 period and expanded shareholder returns were positive factors driving the market.

By sector, the portfolio was positively contributed to by our underweight position in consumer discretionary, while it was negatively affected by our overweight position in materials. At a stock level, the portfolio was positively contributed to by Kawasaki Heavy Industries, a machinery manufacturer, and SWCC Corporation, a major cable manufacturer. On the other hand, it was negatively affected by Mitsubishi Corporation, a general trading company, and Taiyo Yuden, an electronics parts company.

Market Review

Real gross domestic product (GDP) for the January-March quarter of 2024 was down 2.0% year-on-year (according to the government's first preliminary report), the first time in two quarters, due to sluggish domestic demand, mainly in personal consumption. By category, in private demand, growth rates decreased by -1.5 percentage points for personal consumption, -0.5 percentage points for capital investment, and -0.4 percentage points for housing. Public demand growth increased by +0.9 percentage points. The contribution of net exports was negative. Industrial production decreased by 0.1% in April from the previous month (March: +4.4%) for the first time in two months according to the Ministry of Economy, Trade and Industry. Within industrial production, transportation equipment (excluding automobiles) decreased by 13.4% year-on-year. According to the manufacturing production forecast survey, production is expected to increase in May, and a future recovery in production is expected to boost GDP growth in the April-June quarter. While Japan's April-June GDP growth rate is expected to turn positive in anticipation of a recovery in automobile production, there is a possibility that consumption may continue to decline against the backdrop of persistently high inflation and the continued depreciation of the yen.

Portfolio Activity

During the month, we newly purchased shares in Amada, a manufacturer of metal processing equipment, and completely sold our shares in Taiyo Yuden, an electronics parts company. 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 sales target to 3.5 million units for 2030, and started working on improving capital efficiency; and Mitsubishi Corporation, where we expect higher shareholder returns on the back of its strong cash generation capabilities.

Strategy and Outlook

Although the future financial climate associated with a change in the Bank of Japan's monetary policy needs to be watched carefully, we expect 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 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 May 2024.

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	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Class Z Shares	26.48	34.69	5.89	15.78	0.81	16.25	-20.72	20.43	-1.56	8.88	3.43
MSCI Japan Index	19.30	28.56	-4.49	13.44	8.76	18.48	-15.15	19.75	-0.74	9.93	9.48

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 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 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.

Please refer to the Prospectus for full risk disclosures. All data as of 31 May 2024 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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