

A Sub-Fund of Morgan Stanley Investment Funds

Japanese Equity Fund

JAPANESE EQUITY TEAM

Performance Review

In the one month period ending 31 January 2025, the Fund's Z shares returned 1.16% (net of fees)¹, while the benchmark returned 0.07%.

In January, the performance of the overall Japanese stock market remained almost flat in the one-month period. Early in the month, rising long-term interest rates in both the U.S. and Japan, driven by robust U.S. economic data and expectations of a Bank of Japan interest rate hike, initially weighed on equities. However, a rebound was seen in the latter half of the month, fueled by expectations for policies introduced by U.S. President Donald Trump.

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 Rakuten, which operates e-commerce and internet-related services, and Toray Industries, a global chemical company. On the other hand, it was negatively affected by Tokio Marine Holdings, a multinational insurance holding company, and Ibiden, whose mainstay product is integrated circuit (IC) packages.

Market Review

Nominal wages in November showed a significant year-on-year increase of 3.9%, up from 2.2% in the previous month, as reported by the Ministry of Health, Labour and Welfare. Real wages also showed positive year-on-year growth of 0.5%. The labor union (Rengo) plans to demand substantial wage increases in the 2025 spring labor negotiations (known as Shunto).

In December 2024, the core consumer price index (excluding fresh food) increased by 3.0% year-on-year, up from 2.7% in the previous month, according to government data. This rise was driven by higher energy and food prices. The Economy Watchers Survey for December showed that the diffusion index (DI) for current economic conditions rose by 0.5 points from the previous month to 49.9, as published by the Cabinet Office. However, the DI for future economic conditions fell by 0.6 points to 48.8, indicating a weak outlook. Separately, the Cabinet Office reported the consumer confidence index for January 2025 was 35.2, down from 36.2 in December 2024, indicating that the recovery in consumer confidence has leveled off. The focus will be on whether the sustained positive growth in real wages will translate into a consumer spending increase.

Portfolio Activity

During the month, we newly purchased shares in Kajima Corporation, one of the largest construction companies in Japan, and completely sold our shares in Nomura Real Estate Holdings, a real estate development 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; Mitsubishi UFJ Financial Group, which is expected to continue to actively implement measures to improve shareholder return; and Tokio Marine Holdings, in anticipation of accelerating sales of cross-shareholdings.

Strategy and Outlook

While we need to carefully monitor the financial market trends associated with political trends and monetary policy changes in major countries, we expect Japanese 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 that Japanese-listed companies take responsive measures with consideration given to capital costs and stock prices. In January 2024, a list of companies that have disclosed information in accordance with the Tokyo Stock Exchange's request was published, 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 to 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 January 2025.

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	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Class Z Shares	1.16	30.99	34.69	5.89	15.78	0.81	16.25	-20.72	20.43	-1.56	8.88
MSCI Japan Index	0.07	20.74	28.56	-4.49	13.44	8.76	18.48	-15.15	19.75	-0.74	9.93

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 shares. The sources for all performance and index data is Morgan Stanley Investment Management ('MSIM Ltd'). **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 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 31.01.2025 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 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](#).

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 UCITS rules.

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The use of leverage increases risks, such that a relatively small movement in the value of an investment may result in a disproportionately large movement, unfavourable as well as favourable, in the value of that investment and, in turn, the value of the Fund.

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