A Sub-Fund of Morgan Stanley Investment Funds

Sustainable Asia Equity Fund

EMERGING MARKETS EQUITY TEAM

Performance Review

In the one month period ending 28 February 2025, the Fund's I shares returned -0.79% (net of fees)[1], while the benchmark returned 1.03%.

China's market led regional performance (+11.8%)[2] as Chinese tech stocks extended their rally into February on artificial intelligence (AI) and robotics-related optimism. In contrast, Taiwan was dragged by tech sector outflows due to uncertainty around geopolitical risk and the potential impact of lower-cost AI models on semiconductors. Indonesia was the worst performer (-15.9%)[2] over concerns of a macro slowdown and policy uncertainty over fiscal easing and setup of its new sovereign wealth fund.

Our positive stock selection in Thailand and Hong Kong to contributed to returns. While the underweight allocation to China detracted, positive stock selection offset a large part of the drag. Our overweight allocations to India and Indonesia were the largest drags on performance, with India now having fallen for five straight months. India's government now seems focused on easing market liquidity with the Reserve Bank of India (RBI) injecting nearly $22 billion into the market. Our stock selection in the technology-heavy markets Taiwan and Korea also detracted. At the sector level, our stock selection in the industrials sector contributed to returns along with our underweight allocations to the consumer staples and materials sectors. Our zero-weight allocation to the utilities sector also contributed. Stock selection within the information technology and financials sectors detracted.

At the stock level, our overweight selections to select AI-related tech stocks in China (Alibaba, Tencent and Shenzhen Inovance) along with BYD were the largest contributors to returns while our underweight allocation to Xiaomi detracted. BYD rallied on enthusiasm around continued sales momentum and integration of autonomous driving into most of its models. Alibaba reported strong fourth quarter 2024 sales that beat estimates, driven by its core e-commerce and cloud business. Tencent announced the testing of DeepSeek in its Weixin super app. Shenzhen Inovance, along with the broader factory automation/robotics industry, rallied on positive comments from the CEO of robotics startup Unitree. Our overweight selection to HK Exchanges & Clearing also contributed on the recent pick-up in initial public offering (IPO) activity.

Our overweight selection to Mahindra & Mahindra and State Bank of India detracted. Mahindra & Mahindra's stock was impacted following a shift in government policy to ease the import restrictions of foreign electric vehicles (EVs) into India. India is undergoing a temporary cyclical slowdown, in our opinion, as the market digests fiscal consolidation, tight liquidity and a strengthening U.S. dollar, all of which are pressuring short-term growth. The overweight to Trip.com detracted as its margin guidance for 2025 came in lower than expected.

Market Review

China equities ended the month as the top performing market, led by the information technology sector. China's January consumer price index (CPI) inflation increased by 0.5% year-over-year (vs. 0.1% in December).[3] The improvement came on the back of the Lunar New Year holiday, which lifted both food and services prices. Excluding food and energy, core CPI inflation was up 0.6% year-over-year (vs. 0.4% previously).[3] Meanwhile, producer price index (PPI) deflation remained at -2.3% year-over-year, slightly trailing consensus expectations.[3] While the Lunar New Year holiday boosted consumer prices, it was a drag for industrial prices as factories entered off-peak season.

China's National Bureau of Statistics (NBS) manufacturing PMI rose to 50.2 in February from 49.1 in January.[4] Among the major sub-indexes, the output sub-index increased the most, followed by the new orders sub-index. The NBS non-manufacturing PMI increased to 50.4 in February from 50.2 in January, entirely driven by improvement in the construction sector in February.[4] The People's Bank of China (PBOC) maintained an easing bias in its fourth quarter monetary policy report.

President Xi Jinping met with a group of prominent Chinese private businesses leaders, mostly in the technology sector, at a rare symposium on 17 February. Jack Ma, co-founder of e-commerce giant Alibaba and one of the best-known faces in China, sat in the front row of the meeting along with Pony Ma of Tencent and Chuanfu Wang of BYD. Compared to the 2018 symposium during the U.S.-China trade war in President Trump's first term, the 2025 meeting showed a high concentration of technology business leaders. At the meeting, Xi called for the entrepreneurs to "contribute to the promotion of technological innovation, the nurturing of new productive forces, and the construction of a modern industrial system", highlighting the urgency of boosting business confidence and spurring technology breakthroughs as the U.S.-China technology rivalry intensifies.

1 Source: Morgan Stanley Investment Management Limited. Data as of 28 February 2025.
2 Regional and country returns are represented by their respective MSCI regional/country indexes, which are broad measures of the region/country's stock market performance. Data as of 28 February 2025.
3 Source: National Bureau of Statistics of China, 10 February 2025.
4 Source: National Bureau of Statistics of China, 2 March 2025.

In Hong Kong, January monthly retail sales[5] declined by 3.2% year-over-year, marking the 11th consecutive month of decline. Among major categories, the value of sales of jewelry, watches and clocks, and valuable gifts decreased by 17.9%. The decline was a result of weaker spending by shoppers and fewer visitors from mainland China staying over. Local residents were also taking advantage of the Hong Kong dollar's strength by spending more across the border. Hong Kong's latest budget includes a range of measures to promote wealth management, family offices, new share listings and yuan-denominated business, which would strengthen the city's role as an international financial center and yuan trading hub.

In Taiwan, foreign institutional investors net sold $4.5 billion of equities within the tech sector.[6] Taiwan's January industrial production activity moderated while its January export orders[7] fell by 2.7% month-over-month (seasonally adjusted) following a slight rise in December, likely impacted by the Lunar New Year holiday effect. Tech orders fell by 5.7% month-over-month (seasonally adjusted) in January following a rise of 1.8% in December. Non-tech orders increased by 0.9% month-over-month (seasonally adjusted) while machinery orders fell by 5.3% in January.

Korean equities ended the month flat (+0.32%)[2] with foreign investors net selling for the seventh consecutive month by $2.8 billion, bringing the seven-month net sales to $19.8 billion.[8] The Bank of Korea cut its base policy rate by 25 basis points (bps) to 2.75%, driven by the downwards revision of 2025 gross domestic product (GDP) forecast from 1.9% to 1.5%.

Indian equities ended the month down -8.02%[2] amid persistent foreign selling ($8.2 billion),[9] disappointing earnings and tariffs concerns. All sectors ended the month in the red with the real estate and industrials sectors as the top laggards. Domestic institutional investors remained buyers for the 19th consecutive month with inflows of $7.4 billion. India's third quarter fiscal year 2025 GDP came in slightly above expectations at 6.2% from one year ago, driven by strong agricultural growth.[10] For the first time in nearly five years, the RBI cut its repo rate by 25 bps to 6.25%.

Indonesia announced the launch of its new sovereign wealth fund, Danantara, with an initial budget of $20 billion but targeting assets under management of $900 billion in the medium term. Bank Indonesia held its policy rate at 5.75% on currency weakness concerns and potential tariff threats.

Portfolio Activity

We initiated a position in Grab, a leading Southeast Asian super app that offers transportation, delivery and reservations, among other services. The Grab stock retraced recently on "in-line" guidance and worries of a weak first quarter 2025 on the back of the Chinese New Year and Lebaran holidays falling in the same quarter. Grab has been in merger talks to buy Indonesia's GoTo, which would make it the dominant player in Southeast Asia. With competitor Uber out of the market and Uber's former CEO on the board of Grab, we believe that it could be significantly value accretive if the deal with GoTo comes to fruition.

We initiated a position in Xiaomi as we believe it can benefit from the increased proliferation of Edge AI given its vast user base and ecosystem, providing a significant advantage for the company in model training. As lower-cost small AI models roll out, we believe the Edge AI adoption rate would likely be expedited. Other key growth drivers include the company's EV offering launching in 2025 and 2026 (benefiting from brand equity) and the company's offerings in smartphones (which could expand into the higher-end segment as well as overseas markets) and appliances, especially air conditioners.

We re-initiated a position in Silergy given the rising AI opportunities for both China and global communication service providers (CSPs). Silergy has been working closely with hyperscalers such as Amazon Web Services and Google. With the application-specific integrated circuit (ASIC) proliferation on low-cost large language models, we think there could be more revenue upside for Silergy. We believe Silergy could also benefit from China's domestic AI server demand opportunity, driven by rising local AI demand. We previously exited Silergy in 2023 as we had expected the overall semiconductors market, particularly non-AI and China, to enter a downcycle driven by inventory digestion. We are now seeing the inventory bottoming out and believe that new drivers, such as AI server, edge AI and EV, could support another wave of growth.

In India, we initiated a position in Indian financials Shriram Finance. With easing liquidity conditions in India, we see Shriram Finance as a potential beneficiary given that its diversified lending book is likely to benefit the company's margins as liability costs come down.

In Indonesia, we exited our position in Bank Central Asia and trimmed positions in both Bank Rakyat and Bank Mandiri given concerns of worsening Indonesian macro conditions and the possibility for further rate cuts by the Indonesian central bank. Bank Central Asia has become one of the most expensive banks in Asia following the recent derating of other banks in the region. We also trimmed our positions in Bank Rakyat and Bank Mandiri as stresses within the micro finance business in Indonesia, including interest margin pressures and a tight liquidity situation, have been more persistent than anticipated.

Strategy and Outlook

We continue to believe that our integrated top-down and bottom-up analysis is important to identify the most attractive macro and stock investments across Asia. This integrated view has driven the reduction in the large underweight allocation in China since the

2 Regional and country returns are represented by their respective MSCI regional/country indexes, which are broad measures of the region/country's stock market performance. Data as of 28 February 2025.
5 Source for all Hong Kong retail sales data: Census and Statistics Department Hong Kong. Data as of February 2025.
6 Source: J.P. Morgan. Taiwan Equity Strategy. Published 5 March 2025.
7 Source for all Taiwan export orders data: Ministry of Economic Affairs Taiwan.
8 Source: Korea Stock Exchange. Data as of 28 February 2025.
9 Source: National Securities Depository Limited and Association of Mutual Funds in India. Data as of February 2025.
10 Source: J.P. Morgan. India Equity Strategy. Published 2 March 2025.

fourth quarter of 2023. This flexibility to reflect changes in the market dynamics and sentiment have allowed us to deliver historically strong risk-adjusted returns. We maintain both structural and tactical views on the markets, which we believe is essential given the elevated market volatility on the back of increased geopolitical concerns and elevated interest rates.

Our long-term structural underweight view on China remains unchanged as fundamental issues in the economy (excess unproductive investment, overcapacity, and the need to shift to consumption) will take a long time to fix. While we believe the recent policy stimulus announcements by the PBOC and government are positive steps in the right direction, we believe more time and effort may be required to turn around the economy. Tariff hikes on Chinese imports by the European Union and U.S. are additional headwinds. We continue to closely monitor policy implementation and economic development in the coming months to gauge the pace of economic recovery. With market expectations already quite low, we had been reducing our China underweight prior to the September 2024 rally and it currently stands at approximately 3%, mainly in those industries where we believe the growth outlook remains muted. We remain selective in our exposure in China and are invested in attractive growth themes, such as EVs and Edge AI, and within them companies that we believe have competitive advantages, strong corporate governance and solid medium-term growth prospects.

We maintain our overweight allocation to India where our long-term, secular, domestic-driven growth thesis remains unchanged. We believe the recent valuation derating has reset growth expectations. The RBI remains focused on financial stability, though the targets to lower the fiscal deficit and debt-to-GDP ratio could marginally impact growth in the near term. While the cyclical slowdown is leading to pockets of earnings consolidation and short-term market corrections, we continue to believe in the fundamental and structural growth story for India. While we feel monetary conditions will be on an easing trend in the near term, we are closely watching for impacts from external factors such as developments in U.S. economic growth and tariff announcements. Our exposure in India includes well-managed financials, industrials and consumer names, along with select IT, health care, energy and materials companies.

While we continue to maintain our overweight to Indonesia, we have also been reducing our overall allocation to Indonesia. Recent actions taken by the Prabowo administration have spooked the markets. The structuring of Danantara as a sovereign fund that takes control of all state-owned enterprises (SOEs) in Indonesia has reduced investor confidence in aspects of institutional governance. Potential changes in the cabinet of ministers, senior management and directors of SOEs, and Bank Indonesia could help sentiment in our view. We continue to be selective in our positioning within financials, health care, retail and food names in the consumer space.

We continue to maintain our overweight allocation to Malaysia given the stabilizing macro situation, with rising GDP growth, improving earnings per share (EPS) expectations, a reasonably tight labor market, low inflation, improving industrial sector data and decent external balances. Digital investment is on the rise, particularly investment in data centers. With the government's support, incremental reform on power networks and grid access should attract more data centers and investments in the country. Our overweight exposure includes select financials and industrials names.

At the end of the month, India, Malaysia and Indonesia remain the largest overweight allocations at the country level, while Korea, China, Singapore, the Philippines and Thailand remain underweight allocations. At the sector level, we have overweight exposures to the financials, consumer discretionary, industrials, information technology and real estate sectors while maintaining underweight exposures to the communication services, materials, consumer staples, utilities and health care sectors.

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

Fund Facts

Launch date	01 October 1991
Base currency	U.S. dollars
Benchmark	Custom- Blended Benchmark

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 I Shares	-0.61	15.55	10.24	-20.91	5.79	26.24	18.53	-18.25	37.05	1.74	-6.96
Blended Benchmark	1.79	11.96	5.98	-19.67	-4.72	25.02	18.17	-14.37	41.72	6.11	-9.51

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.**

Effective 31st December 2020 the Morgan Stanley Investment Funds Asian Equity Fund was renamed to Morgan Stanley Investment Funds Sustainable Asia Equity Fund. This name change reflects the October 2020 Prospectus' revised investment policy. Any historical performance information shown reflects, for the period prior to the funds change in investment strategy and approach, the historical performance of the Morgan Stanley Investment Funds Asian Equity Fund. The Morgan Stanley Investment Funds Sustainable Asia Equity Fund may perform differently due to the change in investment strategy and approach. Past performance is not a guide to future performance.

Share Class I 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.
- Investments in China involves a risk of a total loss due to factors such as government action or inaction, market volatility and reliance on primary trading partners.
- Investment in China A-Shares via Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connect programs may also entail additional risks, such as risks linked to the ownership of shares.
- There are increased risks of investing in emerging markets as political, legal and operational systems may be less developed than in developed markets.
- 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 28.02.2025 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 **MSCI AC Far East ex Japan Index:** captures large and mid cap representation across 2 Developed Markets countries (excluding Japan) and 7 Emerging Markets countries in the Far East*. With 553 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The **MSCI AC Asia ex Japan Index:** captures large and mid cap representation across 2 of 3 Developed Markets (DM) countries* (excludingJapan) and 9 Emerging Markets (EM) countries* in Asia. With 637 constituents, the index covers approximately 85% of the free float adjusted market capitalization in each country.

The index is unmanaged and does not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

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A blended benchmark has been used because there has been a change in benchmark during the reporting period shown.

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