A Sub-Fund of Morgan Stanley Investment Funds

China A-shares Fund

EMERGING MARKETS EQUITY TEAM

Investors should note that, relative to the expectations of the Autorité des Marchés Financiers, this UCITS presents disproportionate communication on the consideration of extra-financial criteria in its management.

Performance Review

In the one month period ending 31 December 2025, the Fund's Z shares returned 5.01% (net of fees)[1], while the benchmark returned 4.89%.

In December, the Fund's relative outperformance was primarily driven by sector allocation and stock selection in the consumer staples sector, along with our stock selection in the financials sector. Stock selection in and overweight allocation to the information technology sector also contributed. While our stock selection in the materials sector contributed, the gains were offset by our underweight allocation as the sector rose sharply on favorable supply-demand conditions amid low inventories of non-ferrous metals and increased demand from new energy and artificial intelligence (AI)-related sectors. Our overweight allocation to the health care sector detracted given business development uncertainties in the global market.

At the stock level, our overweight selection to Zhejiang Sanhua Intelligent was the largest contributor driven by strong demand for HVAC (heating, ventilation and air conditioning) components and energy-efficient solutions, alongside sector-wide enthusiasm for industrial automation following Tesla's announcement promoting its humanoid robot Optimus. This news boosted sentiment toward automation and robotics, lifting related industrial technology names. Our overweight selection to Zijin Mining also contributed on higher metal prices and strong production volumes. Our overweight selection to Zhongji Innolight contributed on strong optical module sales driven by data center demand. Our overweight selection to Huatai Securities contributed to returns aided by improved brokerage activity, while our overweight selection to Ningbo Tuopu was supported by increased orders for automotive components.

Our overweight selection to BeOne Medicines was the largest detractor due to weaker-than-expected drug pricing and regulatory uncertainty. Our overweight selection to Bank of Jiangsu also detracted. Our overweight selection to Fuyao Glass Industry detracted amid margin concerns despite steady demand. Our zero-weight selection to China Spaceseat detracted as the stock hit an all-time high driven by strong investor enthusiasm for China's aerospace and satellite technology sector following policy signals at the Central Economic Work Conference emphasizing innovation and strategic industries, as well as expectations of increased defense and commercial satellite applications. Our overweight selection to China Yangtze Power detracted on disappointing third quarter earnings and market expectations of subdued hydropower generation.

Market Review

China A shares posted strong gains in December, supported by improving liquidity and selective sector strength. The MSCI China A Onshore Index returned +4.89% in U.S. dollar (USD) terms during the month, outperforming the MSCI All Country Asia ex-Japan Index, which returned +2.72%.

November activity data broadly missed market expectations, especially for retail sales. Industrial production growth edged down in year-on-year terms despite the notable improvement in export growth, with slower output growth in automobile and utilities industries more than offsetting faster output growth in the special equipment and pharmaceuticals industries. Fixed asset investment maintained its double-digit year-on-year contraction in November on a single-month basis. Retail sales growth dropped meaningfully in November despite a low base, reflecting slowing auto sales growth and the negative distortion from an earlier-than-usual start of the "Double 11" Online Shopping Festival (which had pulled forward some demand from November to October).[2]

Inflation trends were mixed. The consumer price index (CPI) rose 0.7% year-on-year in November driven by higher food prices, winter clothing and gold jewelry, while transportation costs fell. Producer price index (PPI) deflation widened to -2.2%, led by deeper price declines in raw materials and durable goods manufacturing.[3]

Manufacturing purchasing manager's indexes (PMIs) and the official non-manufacturing PMI increased in December. The official National Bureau of Statistics (NBS) manufacturing PMI edged up to 50.1 in December from 49.2 in November while the NBS non-manufacturing PMI rose to 50.2 in December from 49.5 in November, driven by improvements in both the services and construction sectors.[4] The private-sector RatingDog manufacturing PMI edged up to 50.1 from 49.9 in November.[4] Both the NBS and RatingDog manufacturing PMIs increased to above 50 in December (the first time since March), signaling an acceleration in manufacturing activity.

1 Source: Morgan Stanley Investment Management. Data as of 31 December 2025.
2 Source for industrial production, retail sales, fixed asset investment and GDP data: National Bureau of Statistics of China, 15 December 2025.
3 Source for all inflation data: National Bureau of Statistics of China, 10 December 2025.
4 Source for all PMI data: National Bureau of Statistics of China, 31 December 2025, and S&P Global, 31 December 2025.

Policy remained supportive but cautious. The People's Bank of China left the benchmark loan prime rates unchanged for the seventh consecutive month and reiterated a measured easing stance at its fourth quarter meeting, aligning with the tone set at the Central Economic Work Conference, which emphasized expanding domestic demand and optimizing fiscal and monetary policy. Authorities also pledged city-specific measures to address housing oversupply and introduced initiatives to boost consumption, including trade-in subsidies for consumer goods and autos.

China confirmed the rollback of select tariff and non-tariff measures from 10 November, including the suspension of 24% reciprocal tariffs on the U.S. for one year and the removal of export controls on certain U.S. entities. The U.S. Department of Defense proposed adding Alibaba, Baidu and BYD to a list of companies that the U.S. government believes have ties to the Chinese military. Although inclusion on the list does not result in immediate sanctions, it may subject these companies to heightened scrutiny and could eventually lead to restrictions on U.S. investment.

Portfolio Activity

During the month, we initiated a position in Yunnan Aluminium. The industry outlook indicates increasingly tight aluminium supply, driven by capacity caps in China that constrain production growth. At the same time, we see potential for rising demand supported by electricity consumption trends, which could further strengthen aluminium's role in the energy transition. Against this backdrop, we believe Yunnan Aluminium stands out as a high-quality aluminium producer within the A-share market, offering exposure to favorable supply-demand dynamics and a well-positioned franchise in the sector.

We also trimmed our position in Zhongji Innolight, taking some profits and reallocating the capital to Eoptolink given some lingering U.S. sanction risks on Innolight. We favor Eoptolink on strong optical transceiver demand and an expected spec upgrade next year.

Strategy and Outlook

While China's earlier economic stimulus package lent support to the economy, the escalation in trade tensions and tariff changes by the U.S. administration introduced significant uncertainties to the global economic outlook and brought downside risks to China's exports and broader economic growth. Corporate investment could be scaled back in light of much greater macro uncertainty on a global basis. Additionally, domestic deflationary pressure could intensify further if external demand slows significantly and more Chinese production needs to look for outlets internally. These, in turn, would lead to downward pressure on corporate earnings. Meanwhile, the Chinese government could introduce additional stimulus measures to offset the tariff impact. At the Fourth Plenum, technology, security and people's livelihoods were designated as top priorities for the 2026-2030 development strategy, highlighting the focus on "high-quality growth" and "high-level security". The 15th Five-Year Plan recommendations target innovation and industrial breakthroughs, along with boosting domestic demand structurally. The December Central Economic Work Conference echoed this direction, calling for faster industry development and improved consumption through social safety net reforms and middle-income support. We will continue to monitor the geopolitical situation and China's policy implementation in the coming months.

We think the A share market will likely remain in a barbell structure as market/insurance fund flows could still hold on to some traditional high-dividend-yield stocks but will likely also continue to favor sectors with growth tailwinds. We believe the Fund can potentially outperform the market under the current environment as we position in what we consider high quality companies with a stable fundamental outlook and undemanding valuation.

Our China A portfolio has always been focused on long-term fundamentals, and we continue to seek structural growth opportunities in China. Despite the near-term macro challenges, over the long term, we remain constructive that Chinese innovation and technology will catch up quickly. We believe the "DeepSeek Moment" marked a turning point in China's broader resurgence in innovation, investment and global competitiveness, at a time of renewed nationalism in the country. We remain invested in attractive growth themes (electric vehicles, edge AI and high-end manufacturing, among others) and within those themes focusing on those companies with competitive advantages, strong corporate governance and solid growth prospects. We believe China remains an attractive market that offers a wide breadth of listed companies that can deliver attractive returns over the longer term.

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

Fund Facts

Launch date	29 December 2017
Base currency	U.S. dollars
Benchmark	MSCI China A Onshore Index

Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

	YTD	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Class Z Shares	27.83	27.83	10.36	-11.91	-23.34	-2.19	13.82	19.42	-16.60	--	--
MSCI China A Onshore Index	29.93	29.93	11.59	-11.65	-27.23	4.03	40.04	37.48	-32.99	--	--

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.
- 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 31.12.2025 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 from the Prospectus of the Fund.

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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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The **MSCI All Country Asia Ex-Japan** Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of Asia, excluding Japan. The performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends.

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