Morgan Stanley Investment Funds

China A-shares Fund

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.

EMERGING MARKETS EQUITY TEAM

Performance Review

In the one month period ending 31 October 2024, the Fund's Z shares returned -6.69% (net of fees)[1], while the benchmark returned -2.77%.

In the month of October, our underweight allocation and stock selection within the information technology sector was the largest detractor during the month. Our stock selection within the industrials sector also detracted. Our stock selection and overweight allocation within the consumer staples sector also detracted. Our zero-weight allocation to the materials sector contributed to returns.

At the stock level, our overweight allocation to Bank of Jiangsu contributed to returns. Our zero-weight allocations to Wuliangye Yibin, Wanhua Chemical, Jiangsu Hengrui Pharmaceuticals and Zijin Mining Group contributed as the stocks gave back some of the previous month's gains over a lack of clarity around the supportive policies. On the other hand, our overweights to other consumer names Kweichow Moutai, Proya Cosmetics and Gree Electric Appliances detracted. Our overweight allocation to Hangcha Group also detracted after the stock corrected on announcements of a controlling shareholder and its company secretary reducing holdings in the company's shares. Our overweight to Yangtze Power also detracted.

Market Review

China A shares pulled back in October on concerns about the lack of stimulus policy clarity and tariff hikes. The MSCI China A Onshore Index returned -2.77% in U.S. dollar (USD) terms during the month, outperforming the MSCI All Country Asia ex-Japan Index, which returned -4.60%. All sectors, barring the information technology sector, ended the month in the red.

China's September activity data[2] broadly beat low expectations, as real gross domestic product (GDP) growth edged down to +4.6% year-over-year in the third quarter from +4.7% year-over-year in the second quarter mainly due to a high base, while in sequential terms it rose to +0.9% quarter-over-quarter (seasonally adjusted non-annualized) in the third quarter from a downwardly revised +0.5% in the second quarter. Industrial production growth rose meaningfully to +5.4% year-over-year in September from +4.5% year-over-year in August, despite weaker-than-expected exports, which were partly suppressed by Typhoon Bebinca. Fixed asset investment growth increased modestly to +3.4% year-over-year in September from +2.1% year-over-year in August on a single-month basis, on the back of faster government bond issuance in recent months, although the prolonged property downturn remains a drag. Retail sales growth also improved notably to +3.2% year-over-year in September from +2.1% year-over-year in August, thanks to the ongoing consumer goods trade-in program.

China's National Bureau of Statistics (NBS) manufacturing PMI rose to 50.1 in October from 49.8 in September.[3] Among the major sub-indexes, the output sub-index increased the most, followed by the employment sub-index. NBS commented that the output and new orders sub-indexes of the general equipment, auto and electric machinery sectors were above 54 in October. However, the new orders and output sub-indexes of furniture, chemical raw materials and non-ferrous mineral products were below 50 in October. The NBS non-manufacturing PMI edged up to 50.2 in October from 50.0 in September, entirely driven by improvement of activity in the services sector in October. NBS commented that the civil engineering PMI rose above 55, indicating the construction progress of infrastructure projects accelerated in October. The headline Caixin manufacturing PMI rose to 50.3 in October from 49.3 in September.[4] The new order output sub-index rose the most, followed by the output sub-index. Both NBS and Caixin manufacturing PMIs rose above 50 in October, suggesting improved activity in manufacturing sector.

China will continue to issue its ultra-long special treasury bond in 2025. The National Development and Reform Commission (NDRC) has readied two batches of advanced project investment lists, 100 billion renminbi on strategically important and security-related fields (total 880 billion renminbi), and another 100 billion renminbi backed by central fiscal budget (total 930 billion renminbi).

In its press conference, the NDRC reiterated the Politburo's pledge to accelerate the implementation of a package of incremental policy measures, focus more on household living conditions and consumption, and improve policy coordination among different government bodies. In addition, the NDRC vowed to prevent misconduct in the collection of fees and fines, pre-approve some investment projects for 2025 by end-October, and study expanding the use of local government special bonds (LGSB) as equity capital for investment projects. NDRC required local governments to fulfil their full-year local government special bond quota by end-October (290 billion renminbi to be further issued) and pledged to study expanding the use of LGSB as equity capital for investment projects.

[1] Source: Morgan Stanley Investment Management Limited. Data as of 31 October 2024.
[2] Source: National Bureau of Statistics of China, 18 October 2024.
[3] Source: National Bureau of Statistics of China, 1 November 2024.
[4] Source: Caixin China General Manufacturing PMI, 1 November 2024.

The People's Bank of China also started the $71 billion liquidity tool for the stock market. The central bank will accept applications from eligible securities firms, funds and insurers starting to obtain highly liquid assets such as government bonds and central bank bills if they provide certain collateral.

Portfolio Activity

During the month, we initiated a position in Guangdong Provincial Expressway on stable toll revenue and solid dividend yield.

We trimmed our position in Weichai on declining liquefied natural gas heavy duty truck sales and added to SDIC Power on solid third quarter hydro generation. We bought SDIC Power based on its independent power producers installation growth and high contribution from hydro power, which has benefited from recovering rainfall in 2024.

We added to Fuyao Glass, one of the world's largest auto glass makers, which is benefiting from vehicle electrification and digitalization trends for higher glass content value and a higher profit margin.

We added to our existing position in China Merchants Expressway on recent share price weakness.

We exited our position in Zoomlion on its sales and profit margin miss for first-half 2024 results.

We trimmed and took profit on positions in Bank of Ningbo and China State Construction Engineering.

Strategy and Outlook

The sustainability of the current market rebound depends on the implementation and effectiveness of the policies in turning around the economy and corporate fundamentals. Given the prolonged adjustment in China's property market, we believe it may take more effort and time to turn around the economy. We will continue to closely monitor the policy implementation and economic development in the coming months to gauge the pace of economic recovery. The market needs to watch out for details of other follow-up fiscal policies which are key to boosting demand and growth, especially given the backdrop of the incoming new U.S. administration.

We believe we have a balanced sector allocation for the portfolio, with a relatively defensive tilt given the challenging macro backdrop facing the Chinese economy. We believe the Fund can potentially outperform the market under the current environment as we position in 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. Meanwhile, we have also added quality companies with steady growth and attractive valuations or dividend yields amid the soft economic backdrop. In the near term, we are positioned with a defensive tilt in view of the macro headwinds.

We are also identifying attractive investment themes in China that offer structural growth potential, including consumption upgrade, high-end manufacturing and renewable energy development. Against the macro backdrop of slower growth and lower interest rates in China, we believe high quality companies with resilient growth and sustainable total capital returns are likely to outperform. As such, we believe bottom-up stock selection is important to generate alpha. We look for companies with structural growth, competitive advantages, strong corporate governance and financial strength.

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	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Class Z Shares	7.96	-11.91	-23.34	-2.19	13.82	19.42	-16.60	--	--	--	--
MSCI China A Onshore Index	14.26	-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 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 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. All data as of 31 October 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. Luxemburg B 29 192.

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INDEX INFORMATION

The **MSCI China A Onshore Index** is a free float-adjusted market capitalization index that captures large and mid-cap representation across China securities listed on the Shanghai and Shenzhen exchanges.

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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