

A Sub-Fund of Morgan Stanley Investment Funds Japanese Equity Fund

JAPANESE 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 30 November 2025, the Fund's Z shares returned 5.20% (net of fees)¹, while the benchmark returned 0.59%.

In November, the performance of the overall Japanese stock market was higher than the previous month. In mid-month, U.S. stocks declined as expectations for interest rate cuts receded, which triggered a sharp drop in Japanese domestic stocks, particularly in sectors related to artificial intelligence (AI) and semiconductors. However, toward the end of the month, U.S. stocks rebounded, and Japanese domestic stocks also shifted to an upward trend.

By sector, the portfolio benefited from an underweight position in information technology, while it was negatively impacted by an underweight position in financials. At the stock level, positive contributions came from SWCC, a manufacturer of wire and cable products, and Sumitomo Pharma, a pharmaceutical company. On the other hand, negative contributions came from Hitachi, a general electric appliances manufacturer, and Fujikura, a manufacturer specializing in electrical equipment, telecommunications and electronic components.

Market Review

Japan's real gross domestic product contracted at an annualized rate of -1.8% in the July-September quarter of 2025 (quarter-on-quarter -0.4%), the first contraction in six quarters, according to government data. The decline was largely due to transitory factors: (1) a payback after a surge in exports to the U.S. ahead of the implementation of U.S. tariffs, and (2) a reaction following a rush in private housing starts before the April 2025 revisions to the Building Standards Act. In short, growth was temporarily depressed, and the likelihood that this will translate into sustained domestic weakness appears low. Private consumption and capital expenditure, while lacking strong momentum, remain positive and are expected to stay resilient. Large-scale fiscal stimulus by the government and an improvement in real wages as inflation slows should support consumption. In addition, capital investment aimed at addressing labor shortages is likely to continue a moderate expansion.

However, a new source of risk warrants attention: the deterioration in Japan-China relations. Tensions have risen following Prime Minister Takaichi's parliamentary remarks regarding a contingency involving Taiwan. In response, the Chinese government has advised its citizens to refrain from traveling to Japan. Chinese visitors currently account for around 20% of total inbound tourists—a share that has been rising since the pandemic—and inbound-related equities have come under pressure, posing a near-term downside risk to the domestic economy. There is also the possibility that China could adopt export restrictions on rare earths, underscoring the importance of an easing in bilateral tensions.

Portfolio Activity

During the month, we initiated a position in SoftBank Group, a technology conglomerate which operates a diversified business centered on investment activities. On the other hand, we completely sold our shares in TOYOTA MOTOR, an automobile manufacturer.

Among individual names, our top holdings include SONY GROUP, which is expected to grow its movies, music and gaming businesses; Hitachi, in which we expect stable business growth and shareholder returns as the company has enhanced its corporate structure through its business portfolio restructuring; and Fujitsu, which is expected to achieve medium- to long-term growth driven by improving profit margins amid expanding demand for digital transformation (DX).

Strategy and Outlook

While we still need to carefully monitor the financial market trends associated with monetary policy, 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

¹ Source: Morgan Stanley Investment Management. Data as of 30 November 2025.

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.

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	29.35	30.99	34.69	5.89	15.78	0.81	16.25	-20.72	20.43	-1.56	8.88
MSCI Japan Index	23.06	20.74	28.56	-4.49	13.44	8.76	1848	-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 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, available at www.morganstanleyinvestmentfunds.com. All data as of 30.11.2025 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](http://www.morganstanleyinvestmentfunds.com) or free of charge from the Registered Office at European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxembourg 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](http://www.morganstanleyinvestmentfunds.com).

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

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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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