

Morgan Stanley Investment Funds

# Japanese Equity 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.

**JAPANESE EQUITY TEAM**

## Performance Review

In the one month period ending 31 October 2024, the Fund's Z shares returned -2.23% (net of fees)<sup>1</sup>, while the benchmark returned 2.34%.

In October, the overall Japanese stock market closed higher than the previous month. Early in the month, the market rose mainly on the back of the announcement of strong U.S. economic indicators and the depreciation of the yen against the U.S. dollar. In the middle of the month, the market declined mainly because of disappointing financial results of overseas semiconductor-related companies, which triggered the selling of related sectors. Later in the month, the market temporarily declined amid uncertain political trends, but rose after the House of Representatives election, as well as on the back of the depreciation of the yen against the U.S. dollar.

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 Ibiden, whose mainstay product is integrated circuit (IC) packages, and Ajinomoto, a leading seasoning products company. On the other hand, it was negatively affected by Capcom, a game software developer, and SWCC Corporation, a major manufacturer of cables and wires.

## Market Review

Japan's industrial production rose 1.4% month-on-month in September, swinging from a 3.3% decline in August, according to the Ministry of Economy, Trade and Industry (METI). According to METI's Survey of Production Forecast in Manufacturing, production is expected to increase in October, then decrease in November. The government's DI (diffusion index) for current economic conditions in September (seasonally adjusted) fell by 1.2 points from the previous month to 47.8. The DI for future economic conditions in September (seasonally adjusted) also declined, dropping by 0.6 points from the previous month to 49.7. The Core Consumer Price Index (CPI), which excludes the volatile fresh foods prices, in the 23 wards ("ku") area of Tokyo rose 1.8% year-on-year in October 2024, slowing from the previous month (+2.0%). Nominal wages, or the average total cash earnings per worker, grew 3.0% year-on-year in August, slowing from a 3.4% growth in the previous month. The inflation-adjusted real wage index in August fell 0.6% year-on-year, down for the first time in three months. As inflation remains high, there is a possibility that consumption may decline if wages fail to keep up with price increases.

## Portfolio Activity

During the month, we completely sold our shares in Eisai, a pharmaceutical 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; Tokio Marine Holdings, in anticipation of accelerating sales of cross-shareholdings; and Toyota Motor, which is expected to expand sales of competitive hybrid electric vehicles and has started to improve capital efficiency.

## Strategy and Outlook

Although we need to carefully monitor the financial market trends associated with a change in major countries' monetary policy, we expect 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.**

<sup>1</sup> Source: Morgan Stanley Investment Management Limited. Data as of 31 October 2024.

## 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	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Class Z Shares	23.60	34.69	5.89	15.78	0.81	16.25	-20.72	20.43	-1.56	8.88	3.43
MSCI Japan Index	16.66	28.56	-4.49	13.44	8.76	18.48	-15.15	19.75	-0.74	9.93	9.48

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](http://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. All data as of 31 October 2024 and subject to change daily.

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### INDEX INFORMATION

The **MSCI Japan Index** is a free-floated adjusted market capitalization weighted index that is designed to track the equity market performance of Japanese securities listed on the Tokyo Stock Exchange, Osaka Stock Exchange, JASDAQ and Nagoya Stock Exchange. The MSCI Japan Index is constructed based on the MSCI Global Investable Market Indices Methodology, targeting a free-float market capitalization coverage of 85%.

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