

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 30 September 2025, the Fund's Z shares returned 7.29% (net of fees)<sup>1</sup>, while the benchmark returned 4.36%.

In September, our stock selection in the information technology sector was the largest contributor to returns. Our stock selection in the consumer discretionary and health care sectors also contributed. Our stock selection in and overweight allocation to the utilities sector detracted. While our stock selection in the financials sector contributed, our overweight allocation to the sector detracted.

Our stock selection in the materials sector contributed, but our underweight allocation offset the majority of the gains. At the stock level, our overweight selections to Advanced Micro Fabrication, Hua Hong Semiconductor and Montage Technology contributed to returns. Chinese chipmakers rallied after China imposed a ban on the imports of Nvidia chips. Montage rose along with other Asian memory chip stocks following Micron's rally ahead of its earnings. Within the industrials sector, our overweight selections to industrials Zhejiang Sanhua Intelligent and CATL contributed to returns while our underweight selection to Sungrow Power detracted. We initiated a position in Sungrow Power during the month. The electric equipment industry benefited from the national policy support on large-scale construction of new energy storage capacity by 2027.

Our overweight selections to PICC, Bank of Jiangsu, CITIC Securities and China International Capital Corp detracted. The financials sector was the worst performing sector as banks suffered from a style rotation from high yielding stocks to growth stocks. Profit-taking also negatively impacted non-bank financials.

### Market Review

China A share equities extended their recent gains led by the industrials, real estate and information technology sectors. The MSCI China A Onshore Index returned +4.36% in U.S. dollar (USD) terms during the month, underperforming the MSCI All Country Asia ex-Japan Index, which returned +6.82%.

China's activity data broadly weakened and missed market expectations in August. Industrial production growth declined on the back of weaker-than-expected exports. Fixed asset investment growth fell further and registered a new low since March 2020, with infrastructure, property and manufacturing investment growth all declining. Year-on-year retail sales growth moderated, mainly reflecting falling online goods sales growth. The services industry output growth fared better and only edged down in August.<sup>2</sup>

China's headline consumer price index (CPI) fell to -0.4% year-over-year in August from 0.0% in July, as food deflation deepened. Core CPI inflation edged up as non-food goods prices (such as household items) and services prices picked up. Headline producer price index (PPI) inflation rose to -2.9% year-over-year in August from -3.6% in July, as year-over-year price declines in the upstream sectors lessened.<sup>3</sup> On the manufacturing front, the National Bureau of Statistics (NBS) manufacturing purchasing manager's index (PMI) increased to 49.8 in September, up from 49.4 in August. The RatingDog manufacturing PMI showed a more substantial increase, registering 51.2 in September (vs. 50.5 in August).<sup>4</sup> The NBS non-manufacturing PMI slipped to 50.0 in September from 50.3 in August, driven by a deceleration in the service sectors. Overall, both PMIs suggested increased output amid better weather conditions.<sup>4</sup>

Consistent with the second quarter Monetary Policy Committee (MPC) meeting, the People's Bank of China (PBOC) third quarter MPC meeting maintained an easing bias and emphasized the effective implementation of existing measures. The PBOC appeared to downgrade its economic assessment – replacing "showing positive momentum, with sustained recovery in sentiment" with "making strides while maintaining stability", a phrase last used in the first quarter MPC meeting. The softer PBOC language in the growth outlook helps explain rising expectations for incremental easing in the fourth quarter, particularly around the late-October Politburo meeting.

President Xi secured an agreement from partner countries to set up a new development bank, realizing a longtime ambition in a display of Beijing's growing influence. The agreement marked a win for Beijing, which had sought to create such a bank since 2010, and is expected to give a strong boost to infrastructure development and socioeconomic development in Shanghai Cooperation Organization (SCO) countries.

<sup>1</sup> Source: Morgan Stanley Investment Management Limited. Data as of 30 September 2025.

<sup>2</sup> Source for industrial production, retail sales, fixed asset investment and GDP data: National Bureau of Statistics of China, 15 September 2025.

<sup>3</sup> Source for all inflation data: National Bureau of Statistics of China, 10 September 2025.

<sup>4</sup> Source for all PMI data: National Bureau of Statistics of China, 30 September 2025, and S&P Global, 1 October 2025.

## Portfolio Activity

Overall, we continued to fine-tune our portfolio by trimming traditional consumer- or macro-driven sectors (Kweichow Moutai, PICC, Nari Technology, China State Construction and Guangdong Provincial Expressway) and added to growth-tilted sectors including technology and biotechnology (Sungrow Power, Cambricon Technologies, Victory Giant, Eoptolink and Wuxi Apptech).

We also fully exited our positions in Proya Cosmetics and Gree Electric. We remain cautious on China's overall consumer spending given the current weak macro environment. For Gree Electric, we believe that the government subsidy strength may have peaked.

We initiated a position in Sungrow Power. We see the company as a dual growth story: leadership in renewable energy and strategic entry into artificial intelligence (AI) data center infrastructure. Leveraging over 20 years of power conversion expertise, Sungrow has established a dedicated AI data center (AIDC) unit and is developing high voltage direct current (HVDC), solid-state transformers, and power supply unit/battery backup unit (PSU/BBU) systems, targeting a 200 billion renminbi market by 2030 with product launches expected by 2026. Its renewable solutions also align with hyperscaler ESG (environmental, social and governance) mandates, strengthening competitiveness. At the current valuations, we think the share price could see further upside if earnings growth could be driven by both renewable energy and local AI data center-related demand.

We added to our existing positions in Cambricon and Hygon. We believe both companies are well positioned to benefit from the China domestic AI accelerator and CPU/XPU demand growth. While U.S. players such as Nvidia are equipped with better products and chips, we think China will likely continue to support its local suppliers and will urge domestic customers to use local products whenever possible. We have seen this happening in the semiconductor capital equipment space, and we think this trend will likely continue for AI-related sectors.

We also initiated a position in Tongfu, a top Chinese outsourced semiconductor assembly and test (OSAT) provider known for advanced packaging. Recent results showed strong revenue and improved margins due to higher utilization. Its partnership with AMD secures leadership in CPU/GPU packaging, while diversification with Texas Instruments, STMicroelectronics, NXP Semiconductors and MediaTek supports China's localization strategy. Tongfu's advances in large flip chip ball grid array (FCBGA) and early co-packaged optics (CPO) progress expand its portfolio into high-performance computing and AI infrastructure. We anticipate a seasonal upturn for OSAT providers in the latter half of the year, with utilization nearing full capacity and possible expansion. Tongfu's investments in Penang and Suzhou further strengthen growth prospects in AI, automotive and power semiconductors. The main risk is client concentration with AMD, but we believe rising local demand in China may help offset this.

## Strategy and Outlook

While China's earlier economic stimulus package lent support to the economy, the latest escalation in trade tensions and ongoing 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. We will continue to monitor the geopolitical situation and China's policy implementation in the coming months. The market needs to watch for details of the follow-up fiscal policies, which are key to boosting demand and growth.

We think the A share market will 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 emergence of DeepSeek 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	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Class Z Shares	24.73	10.36	-11.91	-23.34	-2.19	13.82	19.42	-16.60	--	--	--
MSCI China A Onshore Index	27.05	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](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 fund's 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](http://www.morganstanleyinvestmentfunds.com). All data as of 30.09.2025 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://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. 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://Sustainable Finance Disclosure Regulation).

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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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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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