

A Sub-Fund of Morgan Stanley Investment Funds

Japanese Equity Fund

JAPANESE EQUITY TEAM

Performance Review

In the one month period ending 30 September 2025, the Fund's Z shares returned 1.91% (net of fees)¹, while the benchmark returned 3.04%.

In September, the performance of the overall Japanese stock market was higher than the previous month. Amid political developments in the Liberal Democratic Party's presidential election in response to Prime Minister Ishiba's resignation announcement, expectations for expansionary fiscal policies under the next administration have grown. Additionally, U.S. equities rose in response to growing anticipation of interest rate cuts after the Federal Open Market Committee's (FOMC) decision to lower rates by 0.25%, which served as a supportive factor for the Japanese stock market.

By sector, the portfolio benefited from an underweight position in health care, while it was negatively impacted by an underweight position in information technology. At the stock level, positive contributions came from SONY GROUP, a comprehensive electronics and entertainment company, and EBARA, a manufacturer and marketer of industrial and environmental machinery. On the other hand, negative contributions came from Fujitsu, an IT service company, and LIFEDRINK COMPANY, a beverage manufacturer that supplies private label and proprietary branded products to retailers.

Market Review

The September Tankan survey released by the Bank of Japan (BOJ) on 1 October indicated the resilience of the domestic economy. Among large companies, the business conditions diffusion index (DI) for manufacturers saw excessive caution recede after the U.S.-Japan tariff negotiation agreement, with the automobile industry remaining strong and electrical machinery improving due to growing demand for generative artificial intelligence (AI). Non-manufacturers also maintained high levels, supported by improving consumer sentiment and robust inbound consumption. In fact, the real gross domestic product (GDP) growth rate for the April to June quarter (in the government's second preliminary report) was revised upward to an annualized +2.2% from the previous quarter, with personal consumption contributing +0.9%, showing resilience despite prolonged high prices. While the current inflation rate appears to have peaked, consumption is expected to stabilize going forward as real wages recover.

With a strong domestic economy, expectations have been rising for an additional interest rate hike by the BOJ within the year. At the September monetary policy meeting, although the policy rate was left unchanged, two policy board members advocated for a rate hike. Furthermore, the minutes of the July meeting released in September also highlighted positive opinions toward a rate hike. At the September meeting, the BOJ decided to sell its holdings of exchange-traded funds (ETFs), reaffirming its stance toward normalizing monetary policy.

Portfolio Activity

During the month, we initiated a position in FUJIFILM Holdings, which is a diversified conglomerate with a strong presence across multiple sectors including health care, materials, electronics and other related fields. On the other hand, we completely sold our shares in Ajinomoto, a comprehensive food manufacturer which operates a wide range of businesses from seasonings and processed foods to the bio and health care sectors.

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 KAJIMA, which appears to be operating under favourable conditions for appropriate cost pass-through, supported by strong domestic demand, supply constraints due to labour shortages, and changes in client relationships following a reduction in cross-shareholdings.

Strategy and Outlook

While we still need to carefully monitor the financial market trends associated with monetary policy and domestic politics, a certain direction has emerged regarding U.S. tariff policy, and 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

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

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.

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	16.59	30.99	34.69	5.89	15.78	0.81	16.25	-20.72	20.43	-1.56	8.88
MSCI Japan Index	13.42	20.74	28.56	-4.49	13.44	8.76	18.48	-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 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, available at 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 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 in English online at: Sustainable Finance Disclosure Regulation.

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 accordance with the UCITS rules.

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including advice as to tax consequences, before making any investment decision.

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.

Investment in the Fund concerns the acquisition of units or shares in a fund, and not in a given underlying asset such as building or shares of a company, as these are only the underlying assets owned.

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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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