A Sub-Fund of Morgan Stanley Investment Funds

Global Brands Fund

INTERNATIONAL EQUITY TEAM

Performance Review

In the one month period ending 28 February 2025, the Fund's I shares returned -1.08% (net of fees)[1], while the benchmark returned -0.72%.

Year-to-date the Fund has outperformed the index, returning +4.04% versus +2.78% for the index.

For the month, the largest contributor to absolute performance was fundamentals, with the top-performing companies all reporting decent results. The top contributor was **Aon** (+41 basis points [bps]), which delivered a strong set of fourth quarter results, with revenues up +23% and better-than-expected organic growth of +6%.[2] The company is gaining momentum, helped by the acquisition of NFP and further positive tailwinds from the restructuring programme. **Visa** (+39 bps) also performed well after a good set of first quarter results, which saw the company raise full-year guidance, driven by strong payment growth and increasing breadth of product and service offerings. **Coca-Cola** (+35 bps) reported solid full-year 2024 results, with full-year EPS (earnings per share) and sales up +8% and +7%, respectively, as the company continues to demonstrate its "value over volume" strategy despite the strong dollar.[2] We believe the company's positive 2025 outlook is helped further by efforts to streamline the bottling businesses.

The largest absolute detractor was **Alphabet** (-48 bps), which was weak following mixed full-year 2024 results; Search and YouTube came in slightly above expectations (fourth quarter revenue growth was up 13% and 14% year-over-year, respectively)[2] but were not sufficient to compensate for decelerating cloud growth and higher capital expenditure, which both dampened investor sentiment. **UnitedHealth** (-41 bps) also detracted following media reports that the U.S. Department of Justice was launching a new investigation into the company's billing practices, which UnitedHealth denies. **Accenture** (-40 bps) was weak on the month as peers guided for weak results, hitting hopes for the 2025 revival.

In terms of the portfolio's relative performance in February, outperformance in financials and consumer discretionary was due to gains within stock selection, whilst health care, information technology and communication services were relatively weaker. Regarding sector allocation, the portfolio was boosted by the consumer staples overweight as well as the consumer discretionary and communication services underweights.

Market Review

After a strong start to 2025, global equity markets gave back some of the gains in February, with the MSCI World Net Index returning -0.7% in U.S. dollars (USD) and -1.0% in local currency, in a month marred by policy uncertainty as President Trump completed the first trading month of his return to office. February saw the initial exuberance that followed the election result give way to growing uncertainty, with on-off tariffs and growing fears of an all-out trade war sparking volatility in the market. In terms of sectors, tariffs plus stock-specific disappointments saw the expensive sectors underperform. Consumer discretionary (-7%) saw the largest fall, driven by Tesla's poor results. Communication services (-5%) and information technology (-2%) also saw weakness. All other sectors were ahead of the index, with the defensive consumer staples (+5%) the month's top performer as investors sought relative safety.

Turning to geography, the U.S. underperformed Europe for the second month in a row. Europe and the U.K. had healthy positive gains, with Spain (+10% USD, +10% local), Italy (+6%, +6%), Germany (+4%, +4%), France (+2%, +2%) and the U.K. (+4%, +2%) all finishing ahead of the index, while the U.S. (-2%) lagged. Performance in Asia was mixed; Hong Kong returned a respectable +7% (in USD and local) benefiting from DeepSeek-driven excitement surrounding Asian tech, while Japan (-1% USD, -4% local) was the outlier for Asia, as the yen appreciated against the dollar.

Portfolio Activity

Portfolio activity is reported at quarter-end.

Strategy and Outlook

The MSCI World Index saw a lacklustre return of -1% in February, hampered by a slight derating of those sectors trading at a premium to the market – most acutely, consumer discretionary and communication services. Notwithstanding this mild compression, we believe market multiples remain elevated, with the MSCI World Index multiple still at a 19x next 12-month price-to-earnings (PE) ratio and margins hovering around record highs.[3]

Optimists might argue that high market expectations are backed by a relatively healthy U.S. economy, where forecasted gross domestic product (GDP) growth of 2%-plus for 2025 appears achievable through Trump's pro-growth agenda. The opposing

1 Source: Morgan Stanley Investment Management Limited. Data as of 28 February 2025.
2 Source: SAP, 28 January 2025.
3 Source: Abbott Laboratories, 22 January 2025.

argument is that inflationary risks tied to tariffs and immigration policies hit consumer sentiment and result in slower growth. The sharp deterioration in U.S. consumer confidence in February, attributed to "the current administration and its policies",[4] might suggest that some of these concerns are already beginning to play out.

Market earnings expectations for 2025 are also optimistic. The MSCI World Index is expected to deliver 12% annual earnings per share (EPS) growth over the next two years. This seems a tall order, given revenue growth is forecast to be only 5%, leaving a 7% delta to be made up through further margin improvement from already near-peak levels. While artificial intelligence (AI) might squeeze out further efficiencies in time, few corporates are talking about revenue and efficiency gains from GenAI (generative AI) in 2025.

As bottom-up, fundamental investors, we do not claim to have particular macroeconomic insights; however, we do believe caution is warranted. Outside the U.S., geopolitical tensions threaten an already meagre growth outlook in Europe, while looser fiscal and monetary policy measures in China reflect an attempt to prop up growth in the face of escalating headwinds. With a wealth of economic data set for publication in the coming month, including U.S. nonfarm payrolls, worldwide purchasing managers index (PMI) surveys and European Central Bank interest rates, the next few months might be a bumpy ride.

Where we can provide greater perspective, however, is the portfolio, which we believe looks well placed in both a relative and absolute sense. Consensus puts the portfolio's EPS growth at 11% per year over the next two years. We believe this looks achievable, based on the estimated 7% annual revenue growth, with some modest help from operational leverage, acquisitions and buybacks making up the other 4% of EPS growth. We believe this seems much more credible than the margin-driven 12% annual EPS growth expected for the index. With markets at lofty levels, we believe that a strategy that seeks to deliver steady compounding through decent top-line growth and resilient earnings, which is trading virtually in line with the index in free cash flow terms, serves as a core allocation in clients' portfolios.

For further information, please contact your Morgan Stanley Investment Management representative.

Fund Facts

Launch date	30 October 2000
Base currency	U.S. dollars
Benchmark	MSCI World Net 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 I Shares	4.04	9.04	16.44	-17.38	22.30	12.70	29.26	-2.04	26.00	5.11	5.72
MSCI World Net Index	2.78	18.67	23.79	-18.14	21.82	15.90	27.67	-8.71	22.40	7.51	-0.87

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 I 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.
- 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.
- 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 28.02.2025 and subject to change daily.

[4] Source: Microsoft company reports and earnings call, 29 January 2025.

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 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.

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INDEX INFORMATION

The **MSCI World Net Index** is a free float adjusted market capitalization weighted index that is designed to measure the global equity market performance of developed markets. The term "free float" represents the portion of shares outstanding that are deemed to be available for purchase in the public equity markets by investors. The performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends.

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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