A Sub-Fund of Morgan Stanley Investment Funds

Global Quality Fund

INTERNATIONAL EQUITY TEAM

Performance Review

In the one month period ending 31 January 2025, the Fund's Z shares returned 4.91% (net of fees)[1], while the benchmark returned 3.53%.

We seek to deliver attractive long-term absolute returns.

In January, the portfolio's outperformance relative to the benchmark was mainly due to stock selection, with information technology (IT) a standout positive contributor against a relatively weak sector. Stock selection in health care and industrials was also positive and outweighed any negative impact from financials and consumer staples. In terms of sector allocation, the communication services underweight was the only significant detractor, partly mitigated by the benefit of the overweight in health care.

For the month, the largest contributors to absolute performance were reassuringly driven by stock specifics, as companies reported strong results in the month. The top contributor was **SAP** (+74 basis points [bps]), which delivered a good set of fourth quarter and full year 2024 results, with revenues up 10% and margins lifting operating profit +26%.[2] The company continues to benefit from growth in its cloud business, which is likely to experience further positive tailwinds from artificial intelligence (AI) demand. **Visa** (+39 bps) also performed well after the company reported robust first quarter results and raised full year guidance, driven by strong payment and cross-border volumes over the festive period. **Thermo Fisher** (+36 bps) was the third largest contributor, reporting solid fourth quarter and full year 2024 results where full year EPS (earnings per share) surpassed expectations, driven by +90 bps of operating margin expansion.[3]

The largest absolute detractor was **Constellation Brands** (-38 bps), driven by fears of the impact of impending U.S. tariffs on Mexico, coupled with slowing volumes detracting from results. **Booking Holdings** (-10 bps) was also weak on the month, after a period of strong performance, caught up in the concerns around the impact of AI on online travel agents, as was **AIA** (-8 bps), as the market worries about the China business.

Market Review

The MSCI World Index had a reasonable start to the year, returning +3.5% in both U.S. dollars (USD) and local currency, despite a sudden end-of-month tech sell-off. January saw the return of President Trump to the White House with his policy agenda of "America First" and although not officially announced before month-end, new tariffs on both Canada and Mexico (25%) and against China (10%) were promised. However, the last week of the month was somewhat of a rollercoaster for the U.S. market as the emergence of Chinese AI start-up DeepSeek sent ripples through the U.S. technology sector, leading investors to question the impact of greater competition and the sustainability of margins and profits for the large incumbent AI-related stocks. The sell-off saw Nvidia's market value fall 17%, resulting in a market cap loss of nearly $600 billion, the largest fall for any company in a single day in U.S. history.[4] As a result, information technology (-1%) was the only negative sector in the month. Communication services (+9%) was the month's top performing sector, thanks in part to some of the contributions made by two of the Magnificent Seven,[5] which managed to avoid the worst of the rout with Meta gaining 18% and Alphabet 16% in the month. Financials followed second (+7%), whereas the portfolio's key defensive sectors straddled the index, with health care +6% and consumer staples +2%, while all other sectors were within 200 bps of the index.

In terms of geography, Europe outpaced all other major markets in January as investors fled U.S. technology stocks and rotated into eurozone stocks, with Germany the best performing country (+9% USD), followed by Switzerland, France, Spain and Italy, all up +8% in USD. The U.K. (+5% USD) and the U.S. (+3%) straddled the index whilst Hong Kong (-2% USD) was in the red.

Portfolio Activity

Portfolio activity is reported at quarter-end.

Strategy and Outlook

The tech takeover: Why technology is everyone's business

We are witnessing a rapid technological revolution. Just 14 months after the launch of ChatGPT, generative AI has moved mainstream, while enthusiasm surrounding agentic AI – systems capable of independent decision-making – and robotics continues

1 Source: Morgan Stanley Investment Management Limited. Data as of 31 January 2025.
2 Source: SAP, 28 January 2025.
3 Source: Thermo Fisher, 30 January 2025.
4 Source: Bloomberg News, "Nvidia's $589 Billion DeepSeek Rout Is Largest in Market History", 27 January 2025.
5 "Magnificent Seven" is comprised of: Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, Tesla.

to build. As our largest sector weight, information technology serves as a cornerstone of our global portfolios, led by the software industry and other select high quality compounders.

These well established, highly profitable companies consistently deliver high returns on operating capital, fortified by sticky recurring revenues, robust pricing power and strong free cash flows. We believe they represent the best of both worlds – resilient franchises with solid growth prospects. At the heart of our holdings lie long-held, deeply embedded, market-leading firms like **Microsoft**, **SAP** and **Accenture**, driving transformative change for themselves and their clients.

But the story doesn't stop with the tech sector itself. In today's fast-evolving global economy, technology transcends boundaries and sector classifications; it's everyone's business. Across every industry, from financial services to luxury goods, technological innovation is re-shaping growth trajectories and redefining operational excellence. Companies such as **Intercontinental Exchange (ICE)**, **Visa** and **LVMH** showcase how digital integration, AI and cloud computing are now essential engines of competitive advantage. The future belongs to those who embrace this transformation – and we believe our global portfolios hold many of the companies that are leading the way.

From exchange pits to electronic bits

ICE was originally founded to digitise energy markets. Today, its technology underpins global financial infrastructure, enabling real-time data analytics and seamless transactions. Its latest initiative? Automating the real estate lifecycle to create seamless experiences for homeowners, lenders and servicers.[6]

Elsewhere, **Visa** uses AI-driven fraud detection systems to showcase the intersection of innovation and security. By using machine learning to analyse billions of transactions, Visa not only protects its network but fosters trust, driving transaction volumes and customer loyalty.[6]

In the luxury sector, **LVMH** bridges tradition with innovation. By deploying AI and data analytics, LVMH delivers hyper-personalised customer experiences, from curated marketing campaigns to optimised inventory. This seamless blend of heritage and technology helps ensure its brands remain aspirational and relevant.[6]

Consumer health provider **Haleon** has collaborated with Microsoft to improve the accessibility of its health products for those who have blindness or impaired vision. By integrating AI with the Microsoft Seeing AI application, users can scan barcodes of over 1,500 products to receive narrated information about the product including name, ingredients and usage directions.[6]

The dual role of technology: growth and efficiency

Technology's power lies in its dual ability to drive growth while optimising operations. It enables businesses to capture new markets, improve profitability and sustain relevance in an evolving landscape.

Take **Jack Henry**, for example. By delivering cloud-based solutions to community banks and credit unions, the company modernises operations, enhances scalability and integrates seamlessly with third-party fintech solutions. Its unified platform helps accelerate decision-making, reduce costs and elevate service quality, demonstrating how technology can empower even smaller players to compete at scale.[6]

SAP uses AI in predictive maintenance on its SAP HANA platform. Using deep learning algorithms to analyse key performance indicators, SAP HANA can proactively identify potential system anomalies before they lead to failures. Using predictive insights rather than reactive responses reduces downtime and helps optimise operational efficiency.[6]

Digital reach and operational excellence

Companies like **L'Oréal** exemplify the opportunities digital reach provides. By leveraging social media, augmented reality and data analytics, L'Oréal develops trend-responsive products and hyper-targeted marketing. Its Makeup Genius app allows users to try on products virtually. By scanning the user's face, the app analyses over 60 facial features, enabling the simulation of various makeup looks in real time. Skin Genius and SkinConsult AI provide personalised skincare recommendations, and the company's collaboration with ModiFace extends the virtual "try-on" across the product range including skincare, makeup and hair colour.[6]

Operational efficiency is also transforming industries. In health care, **Thermo Fisher** Scientific integrates digital tools to streamline global research collaboration.[6] Elsewhere, leading consulting firm **Accenture** uses AI and automation to optimise client operations, freeing resources for higher-value tasks.[6]

Lessons from legacy: technology's evolutionary impact

History underscores the transformative power of technology. **Procter & Gamble** (P&G), for example, revolutionised marketing with its brand management system in the early 20th century, streamlined supply chains with electronic data interchange in the 1980s, and now uses AI and robotics to optimise manufacturing and inventory.[6]

But not every success story has been smooth. Even today's tech giants have faced missteps. **Microsoft** was initially slow to embrace the internet revolution, ceding early ground in web browsers, search engines and e-commerce to rivals like Netscape, Google and Amazon.[7] The company also stumbled in mobile operating systems, where a late and unfocused entry left Apple and Android to claim the market. Chairman and CEO Satya Nadella revitalised Microsoft, prioritising cloud computing with Azure, pivoting to subscription-based software, establishing a leadership position in AI, building out gaming and enterprise services, and driving

6 Individual company narratives are sourced from the respective company's reporting.
7 Source: Microsoft company reporting and International Equity Team analysis.

innovation across business units. The leadership's effective capital allocation through key investments and acquisitions has helped fuel sustained growth and market expansion.

AI is everywhere; looking beyond Nvidia

AI innovation is proceeding at a very rapid clip – as seen by the remarkable progress recently announced by Chinese AI company DeepSeek, which released an AI model with performance metrics on a par with OpenAI's o1, though critically built on a comparatively shoestring hardware budget. This reinforces our belief that in the long term, the implications of AI on the real economy are likely to be profound, as the reduced cost of AI technology services allows the development of more use cases. Clearly much of the market's focus on AI to date has been on a handful of hardware providers (the so-called "picks and shovels"), most notably Nvidia. DeepSeek's progress was a reminder that there is a wide range of potential outcomes in terms of longer-term AI chip demand. This uncertainty, together with the risk of competition (including from its own hyperscaler customers), high cyclicality and rich valuation, is the reason we don't own Nvidia.

We see significant AI-related opportunities for the tech companies we do own. We also own a significant number of data-centred companies (e.g. credit bureaus, information service providers, exchanges). These businesses hold significant levels of proprietary data which, together with their strong pricing power, we believe allows them to be AI beneficiaries since they are able to offer AI additional services and apply technology more efficiently.

The cost of technological complacency

The benefits of embracing technology are undeniable – but the risks of ignoring it are equally stark. Companies that fail to harness technological advancements risk losing market share, falling behind more agile competitors, and tarnishing their reputations. History is replete with cautionary tales. Take **Intel**, for example – a once-dominant innovator that struggled to adapt to shifts in the semiconductor market, from delays in advancing its manufacturing processes to missing the boat on key trends like mobile and GPUs (graphics processing units). Its missteps underscore how even market leaders can falter when they fail to prioritise technological progress.

Being actively selective

At a time when markets are mesmerised by a clutch of U.S. "big tech" names it's useful to look beyond them to the digital transformation taking hold across industries. Whether we're evaluating a leading technology company, or a leader in any other sector, our approach is grounded in identifying the high quality fundamentals that drive long-term compounding. Once we believe the quality foundations are in place, we dive deeper – assessing the strength of the franchise and the ability of the management team. How effectively are they building competitive advantages, particularly through the development and strategic application of technology? This focus on technology also forms a key pillar of our risk assessment. Is a company's technological adoption merely reactive or is it proactively setting the stage to gain market share, improve scalability and achieve superior returns? By staying selective and engaged, we look to ensure we're investing in high quality businesses that are not simply keeping up with the times but leading the way.

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

Fund Facts

Launch date	01 August 2013
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 Z Shares	4.91	10.64	19.45	-19.11	18.97	14.31	29.24	-2.17	23.00	3.64	5.39
MSCI World Net Index	3.53	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 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.
- 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 31.01.2025 and subject to change daily.

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.

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