

A Sub-Fund of Morgan Stanley Funds (UK)

Global Brands Equity Income Fund

INTERNATIONAL EQUITY TEAM

Performance Review

In the one month period ending 31 May 2025, the Fund's I ACC shares returned 2.62% (net of fees)¹, while the benchmark returned 4.91%.

This relatively unremarkable headline return masks the high levels of intramonth market volatility witnessed in April. Following the "Liberation Day" tariff announcement at the start of the month, markets sold off aggressively, during which time the portfolio proved resilient, delivering over 400 basis points (bps) of relative outperformance.² After news of a 90-day pause on "non-reciprocal" tariffs, markets rallied strongly to make back all the losses from earlier in the month in U.S. dollar (USD) terms, during which time the portfolio failed to keep pace with the rising index.

Nonetheless, the portfolio has outperformed the MSCI World year-to-date, returning -4.43% versus the index's -7.10%.

As of 31 March 2025, the Fund had produced a distributed yield of 4.04% over the previous four quarters.

The largest contributor to **absolute performance** during the month was **L'Oréal** (+67 bps), which returned an impressive +19% in USD on the back of better-than-expected first quarter 2025 results, with organic growth bolstered by strong demand in Europe and a modestly improving China market. The company also affirmed its strong position in the face of U.S. tariffs, which it expects to be able to manage by virtue of its local production facilities and healthy gross margins. Other key contributors in the month were: **SAP** (+47 bps), following healthy first quarter results backed by impressive cloud revenue growth (+26% in the quarter) and sharply improving margins;³ and **Booking Holdings** (+29 bps), which, despite initially falling on tariff news, rallied to return double digits in the month, helped by its strong international presence and a solid set of results.

The largest absolute detractor in the month was **UnitedHealth** (-66 bps) as the stock fell over 20% on the back of its first quarter results. Despite just a 1%-2% miss on revenue and earnings per share (EPS) relative to consensus – the company's first quarterly earnings miss since 2008 – the decline was largely driven by an unprecedented 12% downgrade to full-year EPS guidance, which took investors by surprise.⁴ We are monitoring the situation closely. Insurance broker **Aon** (-64 bps) was also weak in the month. The stock had rallied strongly during the first quarter on the back of good results and gave back some of these gains in April as investors took profits. The share price pullback for Aon was further aggravated by its first quarter results, reported in April, which fell modestly short of expectations. **Thermo Fisher** (-47 bps) was down double digits as management cut full-year guidance, citing negative tariff impacts and changes to U.S. federal spending.

In terms of the **relative performance** picture, sector allocation was positive in the month, mainly due to the portfolio's avoidance of energy as the sector fell double digits. In terms of stock selection, outperformance in consumer staples was notable; however, this was outweighed by underperformance in health care and financials, given the stock-specific idiosyncrasies explained above.

The overwrite (sales of index calls) detracted -6 bps from performance for the month.

Market Review

Despite falling more than 10% during the first few days of the month, the MSCI World Net Index rallied strongly to deliver a slightly positive +0.9% in USD in April – albeit a marginally negative -0.4% in local currency (-2.5% in GBP) as the dollar weakened – taking the index's year-to-date return to -1% USD (-3% local and -7.1% in GBP). Extreme macroeconomic and political uncertainty, characterised by President Trump's on-again/off-again tariffs, defined market sentiment in the month. Looking at sectors, energy (-11%) considerably underperformed in April as oil prices plummeted on the back of a supply surge and an uncertain global growth outlook. All other sectors were within 300 bps of the MSCI World Index, with health care (-2%) the only other sector in the red. The defensive utilities and consumer staples sectors (both +4%) were at the top of the leaderboard as investors sought relative safety in predictable, low-volatility stocks. These sectors have delivered an impressive +11% and +10%, respectively, for 2025 so far and are roughly 20 percentage points ahead of information technology and consumer discretionary, which, in a reversal from 2024's performance pattern, have lagged the index considerably on a year-to-date view (-10% and -9%, respectively). Sector performance is shown in USD unless otherwise noted.

Turning to geographies, local currency returns were lower in the major currencies, which strengthened against the dollar, although

¹ Source: Morgan Stanley Investment Management Limited. Data as of 31 May 2025.

² From 3 April to 8 April 2025.

³ Source: SAP first quarter earnings call.

⁴ Source: UnitedHealth first quarter earnings call.

the performance dispersion for both USD and local currency was similar, with all major markets within a very narrow, approximately 250 bps radius of the overall index. Concerns that the tariffs announced by the U.S. administration, even if partly withdrawn, are likely to be a headwind for growth and earnings saw the U.S. (-1%) deliver negative returns in the month – the only major market to do so in USD. The generally good performance of ex U.S. markets may surprise some, given the potential tariff impact; nonetheless Germany (+8% USD, +2% local), Spain (+7%, +2%) and, to a lesser extent, Japan (+5%, 0%) were comfortably ahead of the index. Switzerland (+5% USD, -3% local) was the other notable outlier, with its local currency returns hurt by the stark appreciation of the Swiss franc against the dollar.

Portfolio Activity

Portfolio activity is reported at quarter-end.

Strategy and Outlook

Extreme geopolitical and U.S. policy uncertainty drove considerable equity market volatility in April; since the start of the century, the VIX index has only ever been higher during the Global Financial Crisis in 2008-09 and at the onset of COVID-19 in 2020. Interestingly, the round trip of markets, which fell double digits in the immediate aftermath of the "Liberation Day" tariff announcement only to recover following news of a 90-day pause, looks to be largely sentiment driven, given that by month-end, multiples were still in line with March levels, while earnings expectations had edged a fraction higher.

While we are not macroeconomic experts, our view is that the announced tariffs,⁵ notwithstanding the 90-day pause for countries outside of China, may pose a major headwind to global growth. Within the U.S. we are seeing falling consumer and business confidence coming through in data, with U.S. consumer confidence slumping to a near five-year low in April. These impacts to the U.S. economy may come on top of other potential U.S. growth headwinds from restricting immigration (and thus labour force growth) and pressures on government spending.

Internationally, major exporters to the U.S. also face significant challenges, and questions remain over companies' ability to pass on tariff impacts via pricing. There is also the potential for further pressure by the U.S. on the EU and Asia to separate from China on trade, which could mean major disruptions to many supply chains, given the importance of China in manufacturing.

Despite heightened elevated levels of uncertainty, markets still look far from cheap by historical standards, with the MSCI World Index on over 18x forward earnings and the S&P 500 still above 20x.⁶ These multiples are on expected double-digit earnings growth for the next two years⁶ – a level we worried about even before the tariff announcement. Against this backdrop, we would advocate that it makes more sense than ever to own a portfolio of companies with pricing power, recurring revenues and resilient earnings, which: 1) should be well positioned to withstand the direct impact from tariffs, given the portfolio's high quality characteristics and skew to services; 2) demonstrates stronger top-line growth expectations than the market for 2025; and 3) is currently trading at a negligible premium to the index in free cash flow terms.⁶

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

Fund Facts

Launch date	30 August 2016
Base currency	Sterling
Benchmark	MSCI World Net Index

12 Month Performance Periods to Latest Month End (%)

Past performance is not a reliable indicator of future results.

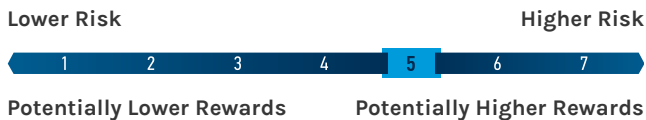
	MAY '24 - MAY '25	MAY '23 - MAY '24	MAY '22 - MAY '23	MAY '21 - MAY '22	MAY '20 - MAY '21
OEIC Global Brands Equity Income Fund - I ACC Shares	8.31	2.01	2.47	9.75	7.14
MSCI World Net Index	7.36	21.60	3.79	7.36	22.30

Returns may increase or decrease as a result of currency fluctuations. 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.**

⁵ At the time of writing, 10% baseline tariffs globally, alongside 100%+ China and upcoming sectoral tariffs.

⁶ Source: FactSet. Data as of 30 April 2025.

Share Class I ACC Risk and Reward Profile



The risk and reward category shown is based on simulated historic performance data.

- Historic figures are only a guide and may not be a reliable indicator of what may happen in the future.
- As such this category may change in the future.
- The higher the category, the greater the potential reward, but also the greater the risk of losing the investment. Category 1 does not indicate a risk-free investment.
- The Fund is in this category because it invests in company shares and the Fund's simulated and/or realised return has experienced high rises and falls historically.
- The Fund may be impacted by movements in the exchange rates between the Fund's currency and the currencies of the Fund's investments.

This rating does not take into account other risk factors which should be considered before investing, these include:

- The value of financial derivative instruments can be complex and volatile, and may result in losses in excess of the amount invested by the Fund.
- 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 and 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.
- Investment in China A-Shares via Shanghai-Hong Kong Stock Connect program may also entail additional risks, such as risks linked to the ownership of shares.
- The derivative strategy aims to increase the income paid to investors, but there is potential for the fund to suffer losses.
- 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 31.05.2025 and subject to change daily.

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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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Charts and graphs provided herein are for illustrative purposes only and subject to change.

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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The **Standard & Poor's 500® Index (S&P 500®)** measures the performance of the large cap segment of the U.S. equities market, covering approximately 80% of the U.S. equities market. The Index includes 500 leading companies in leading

industries of the U.S. economy.

The **Volatility Index (VIX)** is the ticker symbol for the Chicago Board Options Exchange Market Volatility Index, a popular measure of the implied volatility of S&P 500 index options. It represents one measure of the market's expectation of stock market volatility over the next 30-day period. The VIX is quoted in percentage points and translates, roughly, to the expected movement in the S&P 500 index over the next 30-day period, which is then annualized.

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