A Sub-Fund of Morgan Stanley Investment Funds

# Global Brands Fund

**INTERNATIONAL EQUITY TEAM**

## Important Information

- The Fund invests primarily in equity securities of companies in the world's developed countries.
- Investment involves risks. Key risks for this fund include Risk of Investment in Equity, Exchange Rate Risk, Emerging Market Risk and Risk of Exposure to the Euro and Eurozone.
- There is a risk that you may potentially lose your entire investment in this Fund.
- The investment decision is yours but you should not invest unless the intermediary who sells it to you has advised you that it is suitable for you and has explained why, including how buying it would be consistent with your investment objectives. You should not make any investment decision solely based on this document. Please read the relevant offering document carefully for further fund details including risk factors.

## Performance Review

In the one month period up until 30 September 2025, the Fund's A shares returned -2.32% (net of fees)[1], while the benchmark returned 3.21%.

The portfolio returned -3.12% for the third quarter versus +7.27% for the index, while for the year-to-date, the portfolio has delivered +2.75% versus the MSCI World's +17.43%.

The current environment has been challenging for our quality investing philosophy. It is important to remember that Global Brands is focused on owning the world's most resilient companies and has historically offered lower volatility of earnings growth than the index over the long term. This resilient profile is currently at variance with a market led by artificial intelligence (AI) conviction, high expectations generally and seemingly little concern for absolute risk. We have high conviction in the quality of the earnings streams of the companies we own and their resilience should the market regime change.

Among the **largest contributors to absolute performance** during the third quarter were the cloud hyperscalers, **Alphabet** (+113 basis points [bps]) and **Microsoft** (+44 bps), which have benefited from accelerating enterprise demand for AI infrastructure and significant increases in cloud-related revenue, solid earnings from their cash-generative dominant platforms, and in the case of Alphabet, improving advertising trends supporting strong revenue growth in its search and YouTube segments plus the favourable resolution of a key anti-monopoly regulatory case in the U.S. Elsewhere, **Thermo Fisher** (+48 bps) rallied double digits after a challenged first half, as investor sentiment refocused on encouraging indications for its pipeline following management's adjustment to near-term organic growth targets. **AutoZone** (+22 bps) also rerated following strong fourth quarter results which saw resilient top-line growth and an expanding domestic and international footprint, while **LVMH** (+10 bps) contributed positively ahead of its sale from the portfolio in July.

The third quarter was strong for the index overall; however, the market's nervousness about generative AI (GenAI) disruption in the latter half applied a broad-brush concern to a wide range of data-rich businesses, without regard to important distinctions in industries and their underlying companies. This was demonstrated in software where there are concerns that GenAI tools, notably cheap coding and agents, could weaken companies' moats, as well as data-rich pockets of financials (e.g., exchanges and data providers) and industrials (e.g., professional services) due to fears that GenAI may be able to replicate companies' proprietary data. These concerns impacted the share price of a range of differentiated models with multi-layered defences against disruption, specifically **SAP** (-93 bps), **FactSet** (-48 bps), **Roper Technologies** (-41 bps) and **RELX** (-39 bps), which were among **the largest absolute detractors**. Our view is that the portfolio's software companies, such as SAP and Roper, are so much more than ***just*** coding. Both are deeply entrenched in customer workflows, are backed by the technical complexity of their multi-year buildout and stand to gain from GenAI through enhancing their existing services: SAP through embedding GenAI in its core cloud and enterprise products, with GenAI helping accelerate the lucrative transition to the cloud, and Roper by adding GenAI into its vertical software platforms. Similarly, we think GenAI should benefit RELX, which is already monetising AI within its legal business. As such, we remain confident in these companies' compounding ability. The other notable detractor in the third quarter was **Accenture** (-64 bps). The shares have been challenged this year due to cyclical headwinds and GenAI uncertainty. Fourth quarter results announced late in September were decent, with better-than-expected organic growth and a meaningful uptick in AI bookings; however, 2026 guidance remained below historical norms. Encouragingly, management offered some reassurance on the pricing impact of GenAI, which they expect to be "expansionary" rather than "deflationary", although this is something we continue to monitor. Given the uncertainty, we have reduced the Accenture position.

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

In terms of **relative performance**, the impact of GenAI disruption fears is apparent when looking at stock selection and subsector performance. In information technology, our preferred software and services subsector was up just +2% (in U.S dollar [USD] terms in the index) in the third quarter while semiconductors delivered a massive +17% and hardware an even higher +22%. In financials, the payments industry fell 5% and the exchanges and data providers dropped 7%, while banks (not held in the portfolio) returned double digits. In industrials, we are skewed to professional services (-7%), which significantly lagged capital goods (+7%). Sector allocation was also negative, primarily due to the overweight to consumer staples as the sector lagged the index amid the market's strong rally.

The impact of the portfolio's subsector exposure is also evident in the year-to-date performance. Since the mid-April lows, the market has been led by cyclical industries within sectors which the portfolio has either minimal or no exposure to, such as semiconductors, banks and capital goods, while those areas we do favour, described above, have significantly lagged the market. Although we would expect to trail the index to some extent in a strong up market given our defensive return profile, the portfolio's sector mix, coupled with some stock-specific mistakes most notably within health care, have impacted the degree of the relative underperformance. We have been decisive about taking action where our investment thesis has been challenged and we have high conviction in the ability of the current portfolio to potentially compound at double digits over time through the combination of high-single-digit earnings per share growth and dividends, backed by strong top-line growth.

## Market Review

Global equity markets posted another quarter of solid gains in the third quarter, with investor confidence helped by more-resilient-than-expected U.S. economic data and ongoing optimism around AI. The MSCI World Net Index returned +3.2% in U.S. dollars (USD) in September and +7.3% in the third quarter, with very similar local currency returns (+3.2% in the month and +7.5% in the quarter). Looking at the performance pattern by sector: information technology was the clear leader in both the month (+7%) and quarter (+12%), although the mix of strong demand for AI infrastructure and the GenAI fears described above meant gains were skewed to the growthy semiconductors (+17%) and hardware (+22%) subsectors rather than software and services (+2%). Communication services also outpaced the market on both the month (+5%) and quarter (+11%) view, largely thanks to Alphabet, which returned nearly 40% as the company avoided a forced break-up ruling in U.S. federal court. For the third quarter overall, there were pockets of strength outside the AI-skewed leaders: consumer discretionary had a better quarter (+8%), propped up by strong demand for autos (+28%), while industrials saw gains of +5%, helped by the capital goods area (+7%), despite professional services (-7%) being distinctly weak. Similarly, within financials (+5% overall), banks (+11%) were far stronger than payments (-5%) and the exchanges and data providers (-7%), again due to GenAI fears. More generally, investor preference for growthier segments over companies with modest and predictable cash flows hurt consumer staples (-2%) in particular, while health care (+3%) was slightly stronger, if still lagging the MSCI World. (Sector performance is shown in USD.)

Looking at geographies, the U.S. outperformed the MSCI World Index in the month (+4%) and quarter (+8%), though it still lags year-to-date. Asia had a weaker September but strong overall third quarter, with Hong Kong and Singapore both up around 10%. Japan was also ahead in USD for the third quarter, its dollar returns propped up by yen weakness and corporate reform momentum. Meanwhile, with the exception of Italy (+8% USD and local), European markets – France, Germany, the U.K. and Switzerland – lagged the index during the quarter.

## Portfolio Activity

During the third quarter, we took advantage of the indiscriminate sell-off of data-rich businesses and resultant opportunities to add new high quality names to the portfolio within segments with attractive growth tailwinds and add to existing names where we retain conviction and believe selling was overdone. Where conviction was reduced or uncertainty remained, we reduced, and in some cases exited, positions.

We initiated three new positions in the quarter, **Synopsys**, **MSCI** and **Uber,** and made four final sales: **CDW, Jack Henry, Oracle** and **LVMH**.

We initiated a position in **MSCI,** a high quality compounder that delivers mission-critical investment products, data and analytics to global financial institutions. MSCI is known for its high retention rates (above 95%), strong recurring revenue (75%), and robust cash generation.[2] The share price pullback early in the quarter offered an attractive entry point for a company we believe can offer steady margin expansion and earnings growth, fuelled by ongoing revenue increases and operating leverage.

We added **Synopsys** to the portfolio, a market leader in electronic design automation software (EDA) holding 35% market share, with revenues linked to semiconductor research and development budgets that tend to be more resilient than the broader semiconductor cycle. We took advantage of the recent share price weakness, which had corrected by 30%, to build a position. The share price fall was due to issues in its relatively small intellectual property segment (20% of revenues) linked to U.S. export restrictions and Intel. We believe the company's long-term outlook remains supported by structural demand, robust momentum in EDA (50% of revenues) and integration benefits from the Ansys acquisition (30% of revenues).[3]

We also initiated a position in **Uber**, recognising its multi-year transformation into a profitable, capital-light business with robust network effects, strong financial performance and expanding margins. Uber's most recent results saw bookings, revenues, adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) and free cash flow all increasing. With a return on operating

**2** Source: MSCI company reports; International Equity Team analysis.
**3** Source for all Synopsys data: Synopsys company reports; International Equity Team analysis.

capital employed exceeding 100% and expanding margins, we believe Uber is well positioned for sustainable value creation.[4] Recent weakness provided an attractive entry point to invest in a scalable, cash-generative franchise with growing returns on capital.

Turning to the sells, early in the quarter we exited our position in **LVMH.** While LVMH retains a unique brand portfolio, the outlook remains unclear due to limited visibility regarding the recovery in luxury spending and the uncertainty surrounding the leadership transition. We also exited **Jack Henry** and **CDW** due to increased uncertainty surrounding their medium-term outlooks on account of evolving competitive environments, taking the valuation opportunity to upgrade to higher quality ideas.

Finally on the sells, we exited our position in **Oracle** during the quarter following an impressive 40% plus return since purchase. Our initial investment was based on optimism around Oracle Cloud Infrastructure (OCI) establishing a profitable niche among the hyperscalers. The quarter saw accelerating revenue estimates on its GenAI infrastructure business, most notably with the $300 billion GenAI infrastructure deal with OpenAI. This sharp shift in business model, and resultant collapse in free cash flow given the required investment, made us nervous, along with the increasingly stretched valuation, so we remained disciplined and sold the position.

As usual, the additions and reductions during the third quarter were mainly driven by valuation and stock moves. We trimmed a number of strong performers where we felt there was valuation risk, including **L'Oréal, Alphabet** and **Booking Holdings.** We also reduced **Microsoft** and **Visa** to optimise position sizes**.** We recycled this capital into names where we saw valuation opportunity, such as **Procter & Gamble** and **Abbott Laboratories,** along with the new purchases. We switched some of our **Aon** holdings into **AJ Gallagher**, given relative price moves, while also mildly reducing our exposure to the industry. During September, we also added selectively to names where we felt the market's indiscriminate selling was overdone, such as **ADP, SAP** and **RELX**, while reducing exposure to names where uncertainty on their medium-term outlook has increased, such as **Accenture**.

## Strategy and Outlook

### The Tug of War

We spoke last quarter about the sharp reversal in market direction and leadership following the market trough post the "Liberation Day" tariff announcements in early-April. The third quarter saw a continuation of that upward trajectory, with global equity markets returning +7%, taking year-to-date MSCI World Index performance to an impressive +17%, despite numerous remaining uncertainties in terms of policy and geopolitics. The MSCI World Index is now on over 20x forward earnings, with the S&P 500 Index at 23x.[5] These extended multiples are on forward earnings that are meant to grow by double-digits for the next two years on the back of margins improving even further from record highs. Indeed, when we consider what is priced into today's historically high market valuations, the market is betting on a continuation of the vigorous AI boom and a macro backdrop strong enough to deliver the double-digit earnings growth, with confidence that easing policy and AI-linked productivity will keep margins elevated. In short, expectations are high. Yet, the record gold price reminds us that uncertainties linger.

This six-month growth-tilted cyclical rally leaves us with unprecedented underperformance of quality against the broader index, as demonstrated by the performance of the S&P 500 Quality Index vs. S&P 500 Index. We have only ever seen quality underperform to this degree in the run up to the tech-media-telecom bubble burst. In the past, periods in which quality has significantly underperformed have frequently been followed by a prolonged period of meaningful outperformance of quality vs. the broader market.

We see a tug of war within markets, between the bull argument that AI will be visibly transformational to corporate profitability in the near term and/or the U.S. economy sharply accelerates, and the bear argument where these high expectations are not met. The bear scenario may come from the scaled enterprise adoption of GenAI taking longer than expected, raising anxieties about the return on the hyperscalers' massive investments or the macro environment not being strong enough to justify the double-digit earnings growth expectations. Our long-tenured team is also acutely aware of how painful it can be when elevated expectations reset downwards.

Taking data from the last 150 years, the market appears to be in its fourth "New Tech" era, with the associated extreme valuation, and the S&P 500 CAPE[6] over two standard deviations above trend. Comparisons to the three previous episodes of extreme valuation, in the 1900s, the 1920s and most recently the dot-com bubble, highlight the risk of significant overall market drawdowns when market sentiment shifts (anything from a 15% to 50% drawdown). The most exposed areas suffer more heavily on the way down, while underappreciated segments get their turn in the sun; consumer staples in the dot-com crash, and potentially the supposed "AI victims" this time, be they in software or in data-rich financials and industrials.

While there are similarities to the over-exuberance seen during the internet "New Tech" era, we do see notable differences today: the companies at the centre of the boom are earning real money and their earnings momentum remains strong, while their current price-to-earnings ratios, though high, are not remotely extreme compared with 1999. Another critical difference is that today's massive hyperscaler capital expenditure is largely being self-funded from operational cash flow, allowing for continued and even expanded investment with limited dependence on external funding.

However, uncertainty remains. There is a paradox currently at the core of the GenAI boom. It has garnered an unprecedented mindshare among C-suites for a new technology and the potential is clear to anyone who has used it, but the scale adoption and value realisation among corporates has been very limited. This could drive a classic Gartner Hype Cycle, with a shift from the period

---

**4** Source: Uber company reports; International Equity Team analysis.
**5** Source for data cited in the Outlook commentary, unless otherwise stated: MSIM, FactSet, as of 30 September 2025.
**6** CAPE: cyclically adjusted price-to-earnings ratio, a stock valuation measure usually applied to the S&P 500 Index.

of "Inflated Expectations" to the "Trough of Disillusionment" as implementation proves hard and drawn out, even if it is eventually successful and transformative. In addition, the macroeconomic position is unclear given the high levels of policy uncertainty, not least around the eventual effect of tariffs, and worldwide geopolitical risks. It is worth remembering that while growth is positive, the macroeconomic outlook remains modest, with U.S. growth expected around 1.5%-2% for both 2025 and 2026 and EAFE markets closer to 1%.

During the quarter, markets became increasingly preoccupied with the question of whether AI will disrupt, in particular, data-centred businesses. The initial reaction has been quite broad-based, with investors indiscriminately punishing nearly all companies perceived to have exposure to data regardless of differences in business models, competitive positioning or adaptability. We believe this blanket approach by the market is wrong as it ignores important differences between the industries and companies involved. We carefully examine both the potential vulnerability to AI disruption and the revenue and cost opportunities on a case-by-case basis.

There are some general principles behind our company-specific analysis. In our view, those data-rich businesses that avoid disruption are likely to control proprietary datasets that cannot be imitated by GenAI bots scraping the internet, or are likely to be deeply embedded into clients' workflows or even core to whole ecosystems. On the positive side, they should have the financial and technical capacity to integrate AI into their offerings in a way that enhances client value and also utilise the technology to remove significant costs, be it in client relations or coding. In the case of RELX, held in our portfolios, we are already seeing GenAI technology combined with its proprietary data sets accelerating revenue growth in its legal division. SAP, another holding, is buffered from disruption by being deeply embedded into mission-critical operations and by its well-established domain and industry expertise. Its Joule copilots and agents are potential sources of extra revenue, while GenAI innovation could speed clients' lucrative transition to S/4 Hana, its next-generation enterprise resource planning system. It is precisely these sort of high quality, data-rich businesses we seek to own in our portfolio.

As the debate matures and the market develops a clearer view of which companies are truly vulnerable to disruption and which can harness AI as a competitive advantage, we expect to see much greater dispersion in returns across the sector. In the meantime, we see the broad-brush approach applied by the market as an opportunity to selectively upgrade some of our holdings in which some uncertainty exists on the impact of AI – where compounding babies have been chucked out with the disrupted bathwater.

In a market where investor "certainty" meets a very uncertain reality and valuations are stretched, we remain focused on companies we believe offer credible earnings per share growth, driven by strong revenue growth, which we consider a more reliable source of long-term compounding than supposed margin improvement. Our portfolio is set to deliver resilient top-line growth close to twice that of the index and is available at a free cash flow discount to the market not seen over the last decade, a very attractive proposition, particularly in relative terms.

**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 A Shares | 2.06 | 8.06 | 15.40 | -18.07 | 21.45 | 11.91 | 28.36 | -2.72 | 25.12 | 4.36 | 4.96 |
| MSCI World Net Index | 17.43 | 18.67 | 23.79 | -18.14 | 21.82 | 15.90 | 27.67 | -8.71 | 22.40 | 7.51 | -0.87 |

**Investment involves risks. All performance data is calculated NAV to NAV, net of fees, and assume the reinvestment of all dividends and income. The sources for all performance and index data is Morgan Stanley Investment Management ('MSIM Ltd'). Please refer to the relevant offering documents for fund details, including risk factors.**

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.

## IMPORTANT INFORMATION

This material has been prepared solely for informational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. Investors should be aware that a diversified strategy does not protect against a loss in a particular market.

All investments involve risks, including the possible loss of principal. The material contained herein has not been based on a consideration of any individual client circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, 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.

Morgan Stanley Investment Management 'MSIM', the asset management division of Morgan Stanley (NYSE: MS), has not authorised financial intermediaries to use and to distribute this material, unless such use and distribution is made in accordance with applicable law and regulation. MSIM shall not be liable for, and accepts no liability for, the use or misuse of this material by any such financial intermediary.

The whole or any part of this material may not be directly or indirectly reproduced, copied, modified, used to create a derivative work, performed, displayed, published, posted, licensed, framed, distributed or transmitted or any of its contents disclosed to third parties without the Firm's express written consent. This material may not be linked to unless such hyperlink is for personal and non-commercial use. All information contained herein is proprietary and is protected under copyright and other applicable law.

This material may be translated into other languages. Where such a translation is made, this English version remains definitive; any discrepancies with another language, the English version prevails.

This material has been prepared on the basis of publicly available information, internally developed data and other third-party sources believed to be reliable. However, no assurances are provided regarding the reliability of such information and MSIM, the Firm has not sought to independently verify information taken from public and third-party sources.

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.

Any index referred to herein is the intellectual property (including registered trademarks) of the applicable licensor. Any product based on an index is in no way sponsored, endorsed, sold or promoted by the applicable licensor and it shall not have any liability with respect thereto. The Sub-Fund is actively managed, and the management of the fund is not constrained by the composition of the Benchmark.

The **S&P 500 Quality Index** measures the performance of high quality stocks in the S&P 500, based on a quality score calculated from return on equity, accruals ratio and financial leverage ratio.

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.

## DISTRIBUTION

**This material is only intended for and will be only distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations. It is the responsibility of any person in possession of this material and any persons wishing to make an application for Shares in pursuant to the Prospectus to inform themselves and observe all applicable laws and regulations of any relevant jurisdictions.**

**MSIM and its affiliates have arrangements in place to market each other's products and services. Each MSIM affiliate is regulated as appropriate in the jurisdiction it operates. MSIM's affiliates are: Eaton Vance Advisers International Ltd, Calvert Research and Management, Eaton Vance Management, Parametric Portfolio Associates LLC, Atlanta Capital Management LLC and Parametric SAS.**

**Hong Kong:** This material has been issued by Morgan Stanley Asia Limited for use in Hong Kong. The contents of this document have not been reviewed by the Securities & Futures Commission of Hong Kong. For investment returns denominated in foreign currency: "The investment returns are denominated in foreign currency. US/HK dollar-based investors are therefore exposed to fluctuations in the US/HK dollar vs foreign currency exchange rate."