

A Sub-Fund of Morgan Stanley Investment Funds American Resilience Fund

INTERNATIONAL EQUITY TEAM

Performance Review

In the one month period ending 31 July 2025, the Fund's Z shares returned -0.30% (net of fees)¹, while the benchmark returned 2.24%.

The portfolio has returned +2.59% for the year-to-date, while the S&P 500 Index has delivered +8.59%.

The largest contributors to **absolute performance** during the month were companies with positive earnings results. The shares of artificial intelligence (AI) enablers **Microsoft** (+66 basis points [bps]), **Alphabet** (+44 bps) and **Oracle** (+27 bps) surged in July, the trio propelled by accelerating enterprise demand for AI infrastructure and significant increases in cloud-related revenue. **Alphabet** was also helped by continued strength in core search and YouTube advertising revenues which grew double digits,² exceeding analyst expectations. Elsewhere, after a challenging second quarter **Thermo Fisher** (+44 bps) rallied +15% (U.S. dollars [USD]) in the month, helped by indications of a steadily improving pipeline and a sensible adjustment to near-term organic growth targets, while **S&P Global** (+16 bps) outperformed the overall financials sector, helped by the announcement of a strategic spin-off and management raising full-year growth guidance.

The largest **absolute detractor** in July was **Texas Instruments** (-58 bps). While the company reported second quarter results in line with expectations, the shares were weak on results day due to management's cautious guidance. **Otis** (-46 bps) also fell sharply following a disappointing set of second quarter results, held back by softer maintenance trends and weakness in its new equipment business, while **Accenture** (-42 bps) continued to derate in July following third quarter fiscal year 2025 results announced in June. Although revenue growth was positive and management marginally raised full-year guidance, shares were weak due to a second consecutive quarter of declining year-on-year bookings and investor concern regarding the potential impact of government spending cuts. Our view is that the current weakness is cyclical rather than structural and Accenture remains a leading information technology (IT) consulting firm operating in a structurally growing industry. Also on the list was **AJ Gallagher** (-29 bps), as the stock derated following an industry slowdown in the second quarter and mixed quarterly results announced at the end of July, and **Zoetis** (-24 bps), as analysts downgraded price targets due to limited visibility into new growth drivers.

In terms of **relative performance**, the drag to sector allocation came from the portfolio's overweights to financials and consumer staples and underweight to information technology. Meanwhile for stock selection, strength in communication services and health care was outweighed by underperformance most notably in information technology, industrials and financials. An element of the negative stock selection is down to the industry mix within sectors, e.g., the portfolio being underweight semiconductors (and particularly Nvidia) in information technology, the preference for payments and insurance brokers which lagged banks within financials, and the skew to professional services which lagged capital goods within industrials.

Market Review

The S&P 500 Index continued its upward climb in July, seemingly unfazed by the Trump administration's impending August tariff deadline, gaining +2.2% in USD in the month, taking the index's year-to-date return to +8%. Looking at sectors, information technology (+5%) led the index, bolstered by another quarter of robust earnings for major tech players and continued investor enthusiasm around AI. Utilities (+5%) and industrials (+3%) were also ahead of the overall index and remain standout year-to-date performers (both circa +15%). Both sectors have been buoyed by resilient infrastructure investment and AI-driven demand, although surging defence spending has been an additional tailwind for industrials. At the other end of the spectrum were the traditional defensive sectors, which lagged the rising market. Tariff and U.S. consumption concerns weighed on consumer staples (-2%), while drug price pressures, concerns over the U.S. administration's funding cuts, and underwhelming earnings for several large-cap pharmaceutical companies hurt health care (-3%).

Portfolio Activity

Portfolio activity is reported at quarter-end.

Strategy and Outlook

There appears to be a growing disconnect between financial markets and the underlying economic realities. The full economic impact of the first round of tariffs may be yet to come through, and in July we saw further tariffs announced, adding to the uncertainty. The macroeconomic outlook remains modest, with U.S. growth expected around 1.5% and EAFE (Europe, Australasia, Far East) markets closer to 1%. Nevertheless, equity valuations look stretched compared to historical norms, as the MSCI World Index hovers near 20x forward earnings and the S&P 500 Index exceeds 22x, both appearing even more expensive relative to U.S. Treasury yields.³

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

² Source: Alphabet Announces Second Quarter 2025 Results, 23 July 2025.

³ Source: FactSet. Data as of 31 July 2025.

These high multiples rest on earnings that are assumed to rise more than 20% over the next two years.³ Interestingly, EAFE markets have outperformed the U.S. by nine percentage points year-to-date, largely due to a weaker dollar in the first quarter, reversing the U.S. rally seen in late 2024.³ Although some of this outperformance has been given back over recent months, EAFE equities still trade at a significant discount despite stronger earnings this year. While the longstanding narrative of U.S. exceptionalism has been underpinned by robust earnings growth, factors such as immigration and fiscal stimulus may now be losing steam or even reversing.

Against this backdrop, we believe global portfolios with a balanced emphasis on quality and valuation are positioned to deliver resilient earnings at reasonable relative prices. These portfolios tend to favour service-oriented businesses, where high gross margins, pricing power and recurring revenues may buffer the effects of tariffs and any related economic slowdowns. The attraction of such a portfolio is further strengthened by it offering more credible earnings per share growth than that of the market, in our view, given that it is driven more by revenue growth than by margin improvement, at just a slight premium to the index in free cash flow terms.

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

Fund Facts

Launch date	15 December 2022
Base currency	U.S. dollars
Benchmark	S&P 500 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	2.59	10.59	19.11	--	--	--	--	--	--	--	--
S&P 500 Index	8.59	25.02	26.29	--	--	--	--	--	--	--	--

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 units. The sources for all performance and Index data is Morgan Stanley Investment Management. **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 fund's 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 31.07.2025 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. Luxembourg 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

³ Source: FactSet. Data as of 31 July 2025.

country where it is registered for sale, it will do so in accordance with the UCITS rules.

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INDEX INFORMATION

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