A Sub-Fund of Morgan Stanley Investment Funds

Global Quality Select Fund

INTERNATIONAL EQUITY TEAM

Investors should note that, relative to the expectations of the Autorité des Marchés Financiers, this UCITS presents disproportionate communication on the consideration of extra-financial criteria in its management.

Performance Review

In the one month period ending 30 June 2025, the Fund's Z shares returned 0.45% (net of fees)[1], while the benchmark returned 4.32%.

The portfolio has returned +5.11% for the year-to-date, while the MSCI World Index has delivered +10.88%.

The largest contributors to **absolute performance** during the month were companies with positive earnings results. The shares of artificial intelligence (AI) enablers **Microsoft** (+48 basis points [bps]), **Alphabet** (+31 bps), **TSMC** (+21 bps) and **Oracle** (+18 bps) surged in July, propelled by accelerating enterprise demand for AI infrastructure and, with the exception of TSMC, 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. After a challenging second quarter, health care name **Thermo Fisher** (+40 bps) also did particularly well in the month, with the stock returning +15% (U.S. dollars [USD]), helped by indications of a steadily improving pipeline and a sensible adjustment to near-term organic growth targets.

Four of the five **largest detractors** were information technology (IT) names. Following a very strong first half 2025, **SAP** (-31 bps) was the top detractor in July as the stock came off recent highs. The impact to the portfolio was partly a function of position size as the shares were only modestly negative (-5% USD) after management held off increasing full-year targets, despite higher quarterly sales and profitability announced during its second quarter results, citing uncertainty given the tariff environment. Semiconductor names **Texas Instruments** (-30 bps) and **ASML** (-28 bps) both reported second quarter results in line with expectations in July; however, their managements' cautious guidance hurt the share prices. Meanwhile, **Accenture** (-29 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 IT consulting firm operating in a structurally growing industry. The other notable detractor was **AJ Gallagher** (-27 bps), as the stock derated following an industry slowdown in the second quarter and mixed quarterly results announced at the end of July.

In terms of **relative performance**, sector allocation was neutral while stock selection was negative, with the outperformance in communication services and health care outweighed by weakness in information technology, financials, industrials and, to an extent, consumer discretionary. 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 IT, 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

Equity markets continued their upward climb in July, seemingly unfazed by the Trump administration's impending August tariff deadline, with the MSCI World Net Index gaining +1.3% in USD in the month and +2.0% in local currency. The index is up an impressive +11% year-to-date in USD (+9% in local currency). Looking at sectors, information technology (+4%) led the index in the month, bolstered by another quarter of robust earnings for major tech players and continued investor enthusiasm around AI. Industrials and utilities were also ahead of the overall index (both +2%) and remain standout year-to-date performers (both circa +20%). Both sectors have been buoyed by resilient global 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 (-3%), 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%). Sector performance is shown in USD.

Turning to geographies, the U.S. was roughly in line with the index in the month (+2%). Asia did particularly well: Hong Kong was the strongest performing major market (+5% USD and local), backed by strong gross domestic product (GDP) growth in the second quarter and improved investor sentiment. Singapore (+2% USD, +3% local) also outperformed the wider index, as did Japan (-1%, +3%) in local currency terms – although its USD performance was impacted by a depreciating yen over the course of July. The picture in Europe was more mixed. Key euro markets (France, Germany) were a touch behind the index in both currencies, while the U.K. (+1% USD, +4% local) was distinctly stronger in sterling. Switzerland (-2% USD, -1% local), however, was weak, as the country faces increased economic uncertainty on the back of the surprise nearly 40% U.S. tariff rate announced on the last day of July.

[1] Source: Morgan Stanley Investment Management Limited. Data as of 30 June 2025.
[2] Source: Alphabet Announces Second Quarter 2025 Results, 23 July 2025.

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]

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	29 June 2018
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	5.89	12.60	21.90	-21.02	19.32	15.79	29.73	--	--	--	--
MSCI World Net Index	9.47	18.67	23.79	-18.14	21.82	15.90	27.67	--	--	--	--

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 30.06.2025 and subject to change daily.

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

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..

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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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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.

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