Morgan Stanley
INVESTMENT MANAGEMENT

MONTHLY COMMENTARY
28 February 2026

25 GLOBAL BRANDS

A Sub-Fund of Morgan Stanley Funds (UK)

Global Brands Fund

INTERNATIONAL EQUITY TEAM

Performance Review

In the one month period ending 28 February 2026, the Fund's I ACC shares returned -0.65% (net of fees)[1], while the benchmark returned 2.82%.

Year-to-date, the portfolio has returned -6.31% and the index has returned +3.03%.

In February, the largest **contributors** to absolute performance were composed of recent additions to the portfolio, including new buy **Netflix** (+50 basis points [bps]) and fourth quarter 2025 buy **Ferrari** (+39 bps), along with long-term holdings **Coca-Cola** (+54 bps) and **Procter & Gamble** (+47 bps).

Netflix was the largest contributor as investors rewarded its strategic, value-accretive decision to withdraw from the US$82 billion bidding war for Warner Bros. Discovery. The company secured a US$2.8 billion breakup fee while avoiding an overleveraged transaction that investors feared would dilute returns and distract from execution. **Ferrari** was also amongst the top contributors, after reporting record revenues and a 5% EBIT[2] beat, achieving its 2026 financial targets one year early despite modest currency headwinds, with a robust order book providing multi-year earnings visibility. **Coca-Cola** and **Procter & Gamble** benefited from a rotation into traditionally defensive names amidst investor concerns around macroeconomic, policy and artificial intelligence (AI)-related uncertainty. Coca-Cola also reported solid results, with growth across North America, Latin America and EMEA (Europe, Middle East and Africa) and a continued expansion of its brand portfolio. Finally, **CME Group** (+38 bps) was also a top contributor, benefiting from heightened market volatility during the period, as deeper retail participation and rapid adoption of new products such as event-based contracts increased trading activity.

Turning to the largest absolute **detractors**, the early February launch of new AI productivity tools by Anthropic and OpenAI drove further derating of perceived "AI victims". The initial sell-off was centred on software, data-focused and information services stocks before disruption concerns broadened out across a wide range of industries, impacting everything from logistics to real estate, with headlines and blog posts materially moving share prices. For the portfolio, data-exposed businesses across industrials and financials were worst affected, while software too continued to suffer, despite many names continuing to deliver robust earnings. For this reason, **S&P Global** (-55 bps), **ADP** (-35 bps) and **Booking Holdings** (-32 bps) were all amongst the top detractors. Finally, despite strong results, **Alphabet** (-36 bps) and **Microsoft** (-41 bps) were also amongst the top detractors due to investor concern around the impact of higher-than-expected 2026 capital expenditure forecasts, particularly in light of the limited visibility around near-term AI monetisation pathways and payback timelines.

In terms of relative performance, sector allocation was modestly positive, benefiting from the overweight to consumer staples and the underweight to information technology (IT), which outweighed the drag from not owning materials, energy and utilities, the best performing sectors in the month. In terms of stock selection, positive selection in communication services was not sufficient to counter the negative stock selection in industrials, financials and, to a lesser extent, IT from the derating of the software, data and information services sub-sectors. Within industrials, there was a continuation of the influence of sub-industry exposure on relative returns as the capital goods industry, where we have limited exposure, rose 8%, while professional services, where we are meaningfully overweight, fell 7%. Similarly, software (-9%) was significantly weaker than the overall IT sector (-4%), while within financials (-1% overall), the payments, exchanges & data, and insurance broker sub-sectors were all down 3%-4%.

Market Review

Global equity markets posted modest gains in February, with the MSCI World Net Index up +0.7% in U.S. dollars (USD). But this muted headline number masks the rising stock-level volatility, as demonstrated by the S&P 500 Index intra-day volatility, which increased sharply during February, breaching 25%, the stress level.[3] In the last 25 years, stock-level volatility has only risen above 25% during the COVID period, the Global Financial Crisis and the dot-com era. The best performing sectors during the month represented more tangible than intangible assets, be they cyclical or defensive, with materials (+11%) and energy (+9%) both top performers, supported by rising commodity prices and optimism around global industrial activity, while utilities (+9%) and consumer staples (+8%) also posted strong gains as investors turned to traditional defensive sectors amidst rising volatility. Conversely, the communication services, information technology (both -4%) and consumer discretionary (-3%) sectors all suffered from a mix of AI disruption and return of hyperscaler capital expenditure fears.

In terms of geographies, the U.S. was modestly negative (-0.9%) in the month, while most international markets were in positive territory as we saw a rotation away from U.S. growth leadership towards more cyclical and commodities-exposed markets trading

[1] Source: Morgan Stanley Investment Management. Data as of 28 February 2026.
[2] Earnings before interest and taxes
[3] Differences in the trading hours between the U.S. and Asia may affect correlation calculations for modern portfolio theory (MPT) volatility, especially if calculated using a daily frequency. For this reason, the S&P 500 Index has been used as a reference. Source for data: FactSet.

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on lower multiples, with MSCI Europe Index up +3.3% in USD (+4.3% local). In Asia, Japan (+8.6% USD, +9.9% local) stood out, outperforming in dollar and local currency terms, helped by the Liberal Democratic Party election victory which boosted domestic equity flows. Elsewhere in Asia, Hong Kong (+2.6% USD, +2.8% local) and Singapore (+0.8% USD, +0.5% local) delivered more modest but still positive performance.

Portfolio Activity

Given the extraordinary market environment that has seen quality stocks significantly lag a boisterous AI-led market coupled with the market overly punishing software and data-related companies — the combination of which has been a significant headwind to the portfolio's performance — we feel it appropriate to provide clients with enhanced stock-level transparency and accordingly are currently sharing portfolio movements on a monthly basis; this time covering the year-to-date period to the end of February.

In the first two months of 2026 we made three new purchases and two final sales.

In January, we initiated a position in **Netflix**, a high quality global entertainment franchise with durable pricing power and expanding monetisation levers. The company benefits from a powerful flywheel, with subscription growth supporting greater content investment, low monthly churn of 2% and an emerging advertising tier that is already contributing meaningfully to incremental growth.[4] AI-enabled production efficiencies may help moderate content costs over time. Recent share price weakness linked to noise around the Warner Bros. Discovery bid provided an attractive entry point, with the shares trading broadly in line with historical multiples despite strong long-term compounding potential.

Also in January, we initiated a position in **Amazon**, anchored on two structural growth engines: AWS (Amazon web services) cloud computing and global e-commerce. In our view, AWS remains well positioned for the next phase of AI-driven compute demand, while retail economics have inflected positively following prior overinvestment, with operating leverage and advertising monetisation driving improved margins and returns.[5] We believe that management will likely be more prudent in adding capacity going forward, and Amazon's unmatched customer value proposition is reflected in its dominant position in the U.S. Despite continued earnings compounding, valuation compression over recent years created a more compelling entry point into a franchise with significant consumer advantage and long-term scale benefits.

In February, we initiated a position in Taiwan Semiconductor Manufacturing Corp (**TSMC**), which functions as a core "bottleneck" in advanced semiconductor production. Robust demand for advanced nodes, expanding gross margins and elevated capital spending guidance[6] underscore its structural edge in leading-edge manufacturing, particularly for hyperscaler customers. With dominant global foundry share, strong long-term visibility and capable management, we view TSMC as one of the more insulated ways to gain exposure to durable AI infrastructure growth. In our view, its pivotal role producing a huge range of chips upon which very large parts of the world economy depend, strengthened pricing power and returns, and the longer cycle of its end markets support a position in Global Brands.

In February, we exited our position in **ADP** following a reassessment of its relative quality profile amid the accelerating AI narrative. While payroll processing remains durable, elements of the broader human capital management stack face rising automation and workflow orchestration risk, introducing greater uncertainty around long-term pricing power. With its valuation still reflecting high durability assumptions, we viewed the risk-reward as less favourable and redeployed capital into areas with clearer long-term defensibility.

We also sold our position in **Roper Technologies** after a modest organic growth miss and slightly softer forward guidance highlighted limited room for execution missteps at a premium valuation. Although the embedded, domain-specific nature of its assets remain attractive, sustained organic growth is critical to supporting its multiple. In the context of broader market sensitivity to AI disruption risk, we elected to reallocate capital toward opportunities with more compelling relative risk-reward.

On our continued analysis of potential AI threats to data-related businesses, we reduced our **SAP** position. While AI could act as an incremental monetisation layer for the system of record segments of SAP's business, as layering is easier and less costly than replacing, there is the risk that AI agents built by competitors could displace SAP at the orchestration layer, threatening SAP's moat and pricing power. While near-term earnings visibility remains solid due to the cloud migration runway, visibility beyond that point is more limited given the range of AI-related competitive dynamics, thus we reduced the position size. We also reduced our exposure to **RELX**. While we believe the company should be able to benefit from AI in the longer term, with deep integration as a trusted partner and a value-based (rather than seat-based) pricing model, we reduced our position given the range of potential medium-term outcomes around data moats and AI-enabled workflow have widened. We also trimmed our position in **Microsoft** following share price strength, reallocating capital towards Amazon to diversify our hyperscaler exposure and manage our software positioning.[7] Reductions to **Thermo Fisher** and **Visa** were primarily valuation-driven, reflecting the premium multiple in Thermo Fisher's case and limited scope for further upside and regulatory considerations in the case of Visa.

We added to our positions in **Experian** and **S&P Global** following share price weakness driven by AI disruption concerns, where underlying fundamentals remain resilient and we believe their long-term competitive advantages are intact. Additions to **Steris**, **Ferrari**, **Synopsys** and **Uber** reflected attractive valuation opportunities following stock-specific dislocations or industry sentiment shifts, where we believe structural quality and earnings resilience remain underappreciated.

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[4] Source: Netflix company reports; International Equity Team analysis
[5] Source: Amazon company reports; International Equity Team analysis
[6] Source: TSMC company reports; International Equity Team analysis
[7] Diversification neither assures a profit nor guarantees against a loss in a declining market.

Strategy and Outlook

In the first few months of 2026 we have seen a sharp rise in stock-level volatility. Investors continue to differentiate perceived AI "winners" from "losers", while growing more cautious about the scale of capital expenditure required for AI infrastructure, even when earnings remain robust. Heightened geopolitical risk has added to the backdrop. Most recently, escalating tensions between the U.S. and Iran, culminating in conflict, have pushed energy prices higher and have led investors to seek out relative safe-haven assets. Looking forward we would expect this heightened volatility to continue.

As new AI models have come to market, concerns have increased beyond the software, data-focused and information services stocks, which were hit in the second half of 2025, and have also spread more broadly across markets to a far wider range of businesses. This year's stock moves have often been driven more by sentiment, triggered by the latest popular blog or Substack article, than by fundamental analysis of business models. This dynamic has been reinforced by the reduced liquidity driven by passive investing, shorter investment time horizons and increased retail participation. Over 60% of S&P 500 options activity now consists of zero-day-to-expiry trades, 60% of which is driven by retail investors.[8]

AI is clearly transformative, evolving rapidly, and will drive major disruption across industries. Despite this, we believe the sell-off in data-centric and software businesses has been indiscriminate and, in many cases, overdone. In this environment we believe it is more important than ever to assess holdings individually, assimilate new information as it becomes available and engage with management teams. Elevated dispersion in stock returns does also create opportunities to add to oversold names and initiate new positions.

While we are mindful that stocks perceived to be at risk from AI disruption may continue to derate before the valuation opportunity drives buyers, we also believe that rationality can prevail over the long run. What might calm the "SaaSpocalypse"?[9] In our view, the answer is the perceived AI victims delivering clear evidence of AI monetisation, whether through cost savings, stronger pricing power or reinforced competitive moats. In a recent interview, Nvidia's CEO Jensen Huang argued that "the market has got it wrong" and that it's likely that "agents won't replace the [software] tools but agents will use tools".[10] His view is that frontier AI labs such as OpenAI and Anthropic are unlikely to disintermediate SaaS or information services providers, suggesting partnership, or at worst coopetition, is the more probable long-term model. In our view, the significant partnerships announced by both Anthropic and OpenAI towards the end of February could represent critical milestones.

We also continue to hold companies with what we believe are durable earnings where AI is not central to the investment case. These include defensive compounders in consumer and health care businesses, areas the market is increasingly rewarding, and luxury companies where pricing power is maintained through scarcity management. In our view, dominant "economic tollbooths" such as exchanges and payments businesses offer attractive opportunities from here. The turbulent current environment also creates potential opportunities for idea generation. While no cycle is identical, our team has navigated previous periods of structural transformation and has been flexible from the outset around where we find the high quality characteristics we prize.

Recent underperformance reflects extreme market conditions that have challenged the longer-term known attractions of quality investing. True quality businesses are structurally scarce. Today, the portfolio's return on operating capital employed is significantly above that of MSCI World, gross margins are almost double the market's, and expected two-year consensus top-line growth is materially higher than that of the index.[11] Despite this, the portfolio is trading at a rare discount to the market in free cash flow terms.[11] Looking ahead, periods of elevated dispersion in earnings and stock returns often signal a renewed focus on company fundamentals, an environment in which quality businesses have historically thrived.

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

Fund Facts

Launch date	03 February 2003
Base currency	Sterling
Benchmark	MSCI World Net Index

12 Month Performance Periods to Latest Month End (%)

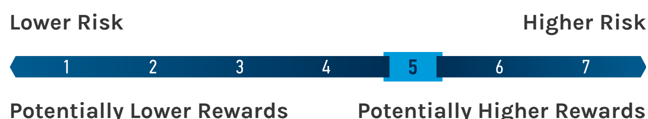
Past performance is not a reliable indicator of future results.

	FEBRUARY '25 - FEBRUARY '26	FEBRUARY '24 - FEBRUARY '25	FEBRUARY '23 - FEBRUARY '24	FEBRUARY '22 - FEBRUARY '23	FEBRUARY '21 - FEBRUARY '22
OEIC Global Brands Fund - I ACC Shares	-15.29	8.54	15.56	1.34	17.57
MSCI World Net Index	13.64	16.16	19.59	2.70	15.40

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.**

8 Source: Cboe, Marketwatch, October 2025
9 The recent sharp sell-off in software-as-a-service (SaaS) stocks on AI disruption fears, as coined by Jefferies Group.
10 Source: CNBC Squawk Box "Nvidia CEO Jensen Huang: 'The markets got it wrong' on AI threat to software companies", 26 February 2026.
11 Source: MSIM, FactSet, as of 28 February 2026.

Share Class I ACC Risk and Reward Profile



The risk and reward category shown is based on historic 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 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 Funds 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.
- 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 28.02.2026 and subject to change daily.

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INDEX INFORMATION

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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 **MSCI Europe Index** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe. 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.

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