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 29 February 2024, the Fund's A shares returned 1.60% (net of fees)[1], while the benchmark returned 4.24%.

The portfolio has underperformed for the year-to-date (YTD), returning +4.73% versus +5.49% for the index.

The February underperformance was largely driven by stock selection, underpinned by weakness in consumer staples and information technology. Sector allocation was negative as the consumer staples overweight and consumer discretionary underweight hurt performance.

The largest contributors to absolute performance during the month were SAP (+44 basis points [bps]), Intercontinental Exchange (+36 bps) and Microsoft (+35 bps). The largest absolute detractors were Reckitt Benckiser (-56 bps), Heineken (-23 bps) and a new stock purchase (-9 bps).

Market Review

February saw the MSCI World Index return 4.2% in U.S. dollars (USD) and 4.6% in local currency. By and large, the more cyclical sectors were stronger, with consumer discretionary (+8%), information technology (+6%), industrials (+6%) and communication services (+5%) all finishing ahead of the index. Meanwhile, financials was in line (+4%), and at the other end of the spectrum, the defensive health care (+2%) and consumer staples (+0%) sectors lagged in this cyclical surge, along with utilities (-1%) – the only sector to finish in the red.

Looking at geographies, the U.S. was ahead of the MSCI Word Index in the month (+5%). Italy (+6% USD, +6% local) was the top performer among the major markets and was ahead of Europe as a whole; Germany (+4%, +5%) was roughly in line, whilst France (+3% USD and local) the U.K. (+0%, +1%), Switzerland (-2%, +0%) and Spain (-1% USD and local) all underperformed the index. In Asia, Hong Kong (+5% USD and local) was ahead of the index, while Japan (+3% USD, +5% local) and Singapore (+1% USD and local) trailed the index.

Portfolio Activity

Portfolio activity is reported at quarter-end.

Strategy and Outlook

Quality is worth the wait: 10 lessons learned from 30 years of investing

Author: William Lock

Milestones and anniversaries offer the chance for reflection. My deeply held belief, shaped by some of the world's great investors, is that managing active equities with a focus on high quality remains critical to compounding capital over the long term for clients.

1. Pick great businesses and get out of the way of the long-term compounding: I believe our understanding of what constitutes a high quality company and our determination to maintain a high quality bar for our portfolios is what sets us apart, combined with our long-term perspective. We seek well-managed companies which can grow at long-term sustainably high returns on operating capital with low volatility of operating profits, pricing power and limited leverage. Identifying companies with these characteristics is very important, but just as important is giving these natural long-term compounders time to compound. We don't rent businesses, we own them for the long term.

[1] Source: Morgan Stanley Investment Management Limited. Data as of 29 February 2024.

2. You win twice with high quality equities: Avoiding the permanent destruction of capital is arguably just as important for investors as the chance to make money. I like to say you win twice by investing in our high quality equity approach: you win by sticking with winning businesses that compound in a superior way over the long term and you win again by losing less in sustained market downturns. Winning twice drives good long-term absolute returns.

3. Think absolute, not relative: A focus on risk is important, but I would argue that the industry is too focused on relative risk. We focus on absolute risk – the chance of losing money on an investment – not risks relative to a benchmark. We concentrate on seeking to understand any financially material franchise, regulatory, management, ESG (environmental, social and governance), and valuation risks associated with our businesses. We believe that thinking in absolute terms means we are more likely to pick long-term winners and, just as importantly, avoid the losers.

4. What you don't own is just as important as what you do own: Certain sectors or industries don't make the grade for our high quality portfolios, for example, banks, utilities, real estate and energy. For nearly three decades, our skew to higher quality stocks in higher quality industries has provided clients with attractive long-term returns and resilience through the cycle.

5. Valuation matters: We're not just fussy on quality, we're also fussy on price – call this being double fussy – which has driven our long-term returns and the shape of those returns. As the late Charlie Munger pointed out, there is no great company that cannot become a lousy investment if you pay too much for it. We seek to buy and own companies at or below a conservative estimate of their long-term intrinsic value. Valuation discipline matters, and we focus on free cash flows rather than earnings, because cash is real. Even if something is too expensive now, experience has taught me that most things you want to own come your way eventually. Be patient.

6. Engage and trust your instincts with management: We engage with management to understand if they share our same long-term perspective in how they run the company, and if they allocate cash accordingly. We want to know if they grow or milk long-term intangibles such as research and development and branding/digital marketing. Are they able to innovate and grow sustainably? How well do they allocate capital? Many pay plans incentivise short-term outcomes which get management paid but could have damaging outcomes for long-term compounding. We aim to be aware of what behaviour is incentivised and whether management will act on these incentives, and we try to encourage change in pay plans we don't like.

7. High quality asymmetric portfolios serve investors well as a core allocation: Investment strategies which can compound over time with a high quality asymmetric profile can reap stronger and steadier rewards over time; for example, it is better to capture 80% of the upside and only lose 50% on the way down than to achieve 100% on the way up and lose everything (and possibly more!) on the way down. Whilst steady compounding may be less exciting than the latest trend, I believe this steadiness through thick and thin makes for an attractive core allocation for investors' portfolios. You also get to sleep better compared to some of the wilder alternative rides in the market.

8. Remain curious: Markets have provided an ever more interesting environment in which to seek to compound our clients' capital. I believe the secret to longevity in this business is to remain curious, to keep learning and to continue to ask the right questions. I've learned to encourage my team to question everything and everyone, including me(!), and foster a culture that rewards curiosity. We are lucky enough to work in one of the most interesting industries out there. If markets bore you, then it's probably your problem rather than that of the market! Seek always to kindle this curiosity by surrounding yourself with clever, interesting people who also love what they do.

9. Stay relevant: It was Gertrude Stein who said, "Money is always there but the pockets change; it is not in the same pockets after a change." What we look for has never changed over 30 years – we buy businesses which can grow at sustainably high long-term returns on unlevered operating capital and at low volatility of unlevered operating profit. However, just as the world constantly changes, so where we find such businesses has changed over the years. Sometimes rivers cease to flow under historic toll bridges, instead diverting to other bridges. Be aware of this and recognise the need to stay relevant without giving up your basic principles and discipline.

10. Quality is worth the wait: I agree with Charlie Munger that "the big money is not in the buying or the selling, but in the waiting." Our investment approach focuses on identifying high quality companies that can compound. The art, as we have learned, is being patient enough to allow them the time to do so. Be the tenacious tortoise in a drove of hype-driven hares.[2]

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

[2] Aesop's Fable: a race between a tortoise and a hare. The hare is so confident of winning it stops during the race and falls asleep. The tortoise continues to move slowly and ends up winning the race.

Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

	YTD	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Class A Shares	4.73	15.40	-18.07	21.45	11.91	28.36	-2.72	25.12	4.36	4.96	4.63
MSCI World Net Index	5.49	23.79	-18.14	21.82	15.90	27.67	-8.71	22.40	7.51	-0.87	4.94

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. Please refer to the relevant offering documents for fund details, including risk factors.

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.

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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