A Sub-Fund of Morgan Stanley Investment Funds

Global Stars

INTERNATIONAL EQUITY TEAM

Performance Review

As the Fund is less than a year old, we are constrained from commenting on its performance.

Portfolio Activity

Global Stars bought two new names in the quarter, Alibaba and NAURA, while exiting Shenzhen Mindray, Automatic Data Processing, Dingli Machinery, Constellation Software, Aon, Experian, Verisign and Ryan Specialty Holdings.

Alibaba is China's leading e-commerce and cloud computing platform, anchored by the Taobao and Tmall marketplaces and the country's largest enterprise cloud business. The company features several compelling growth opportunities, driven by AliCloud's leadership in artificial intelligence (AI) cloud and the potential for strong revenue growth as enterprise AI adoption scales. The company is backed by a strong balance sheet, durable free cash flow generation and leading market positions that we believe benefit from scale and data advantages. A refreshed management team has sharpened strategy and execution, reintegrating the ecosystem and embedding AI across commerce and cloud. As heavy investment in quick commerce normalises and higher-margin AI cloud revenues expand, we believe earnings can inflect from a depressed base.

NAURA is a leading Chinese supplier of semiconductor capital equipment, with strong positions in deposition and dry etch tools that are critical to advanced chip manufacturing. We bought the stock for its high quality competitive positioning, as NAURA is one of a small number of domestic players with the scale, breadth of products and technical depth to serve China's most advanced logic and memory fabs. The company benefits from powerful structural growth tailwinds as Chinese chipmakers accelerate capacity expansion and increasingly localise equipment sourcing in response to export controls. We believe NAURA also offers attractive long-term growth, with revenue expected to compound strongly, driven by multi-year buildouts in advanced logic and a memory upcycle, supported by rising tool intensity. We think NAURA's strong market position, exposure to China's AI ecosystem and expanding addressable market reinforce the stock's quality-driven growth profile.

The sells in the quarter were largely due to weaker growth prospects relative to the rest of the portfolio, where proceeds were used to fund the initiation of new names and higher conviction ideas. In the cases of Constellation Software and Automatic Data Processing, the AI disruption risk added to the decision to exit.

Strategy and Outlook

"We have to live with the world as it is, not as we wish it should be."

Lee Kuan Yew

At the outset of Global Stars, we sought to target double-digit absolute performance each year. We fell short of that in 2025, in what was admittedly a challenging investing backdrop. The underperformance of quality as a factor and the narrowness of market leadership have been widely noted by market participants, with quality representing an estimated 500–1,000 basis points headwind, depending on how it is measured. At the same time, market structure has continued to evolve, with a growing share of trading activity driven by retail participation, short-dated options and high-frequency trading.

These dynamics have underscored the importance of the flexibility that is already embedded in the Global Stars approach. Performance this year has encouraged us to sharpen our execution and act more swiftly in the face of shifting valuation and market signals. As demonstrated in our fourth quarter activity, portfolio turnover may be higher in the Fund at times, reflecting our ability to act nimbly and pragmatically as conditions evolve, while remaining firmly anchored to our core investment discipline.

In terms of outlook, the past year has been dominated by expectations for and advances in artificial intelligence. AI is certainly real and is going to have a significant impact on how work gets done, even if the ultimate economic outcomes remain uncertain. When hundreds of billions, and soon trillions, of dollars are deployed into a new technology, disruption is inevitable. New entrants emerge, corporate behaviour changes – perhaps software gets pulled in-house – and long-standing economic models get tested, with seat-based pricing in software likely to be a casualty of innovation, a shift that could prove disruptive for incumbents and investors.

While investment clearly needs to lead demand, "build it and they will come" has limits. AI capital expenditure is proceeding at vast scale and running ahead of AI adoption. There isn't much room for error, and if the gap between spending growth and real-world usage growth widens much, capital destruction will become unavoidable – some of today's investment will go to zero. That is not a failure of AI, but a feature of every major technology cycle.

Software, IT services, professional services, capital markets and interactive media face the strongest economic incentives to adopt AI because labour is both expensive and theoretically addressable. However, exposure is not the same as realisation. Turning task-level exposure into sustained productivity gains requires workflow redesign, organisational change and often pricing model disruption. Real world implementation is going to make demand growth for AI bumpier than markets would like.

Meanwhile, several bottlenecks are emerging. Power is probably the most important, and likely the most persistent. Constraints on power availability are already shaping the entire AI value chain, from silicon chip strategy to large language model (LLM) design and where data centres can be built. Over the medium term, the ability to generate or efficiently use power may matter more than incremental improvements in AI model reasoning. Data centres coming online this year secured power in 2022 and 2023, before the scale of the AI buildout was fully understood and priced in. From here, the real extent of the power bottleneck is going to become far more visible.

Financing adds another layer of risk. AI capital expenditure and private credit are in what looks like an unholy marriage, feeding off each other. Debt has quietly entered the funding mix for AI capital expenditure, but unlike prior cycles it is flowing through largely unregulated private credit markets. The proliferation, in general, of private credit means credit spreads may not provide their usual early warning signal across the economy, so this cycle may end with very little advance notice.

Meanwhile, the macro backdrop is increasingly defined by a disconnect between financial markets and the real economy. Asset prices continue to be supported by expectations for strong earnings and optimism around productivity, even as labour market pressures, elevated real wage growth and rising cost bases point to a more constrained underlying environment. Beneath the surface, growth appears increasingly uneven, with strength concentrated in large-cap technology and investment-led sectors, while labour market conditions are softening elsewhere and key historical warning signals suggest the economy is closer to a downturn than headline indicators imply. Geopolitical risks add another layer of fragility, particularly through energy and supply security, as highlighted by recent developments involving Venezuela and Iran as well as heightened rhetoric around Taiwan, underscoring that geopolitical stress could quickly transmit into macro outcomes despite benign surface conditions. Consensus is for 2026 to be a year of two halves, with generally favourable tailwinds in the first half, from the World Cup bump to OBBBA[2] fiscal stimulus flowing in the lead-up to the U.S. midterms, while the second half will likely have some significant initial public offerings, which need to succeed for continuing market performance. As it stands, consensus appears to capture the most visible path today, but understates the widening range of alternative outcomes.

As ever we remain grateful for your support.

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

Fund Facts

Launch date	29 August 2025
Base currency	U.S. dollars
Benchmark	MSCI All Country World Net Index

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.
- Investments in China involves a risk of a total loss due to factors such as government action or inaction, market volatility and reliance on primary trading partners.
- 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.
- There are increased risks of investing emerging markets as political, legal and operational systems may be less developed than in developed markets.
- 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 31.12.2025 and subject to change daily.

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The summary of investor rights is available in the aforementioned languages and website location under the General Literature section.

[2] One Big Beautiful Bill Act

Information in relation to sustainability aspects of the Fund is available from the Prospectus of the Fund.

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