

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.

Strategy and Outlook

Notes from the Road: San Francisco

By Alex Gabriele, Lead Portfolio Manager for Global Stars

San Francisco remains the epicentre of the artificial intelligence (AI) boom, buzzing with enthusiasm and ambition. Real progress continues to attract capital, talent and customers, while those continuing to spout theories without accompanying actions risk being left behind. Following my most recent trip to San Francisco where I attended Goldman Sachs' flagship TMT (technology, media and telecommunications) conference, a few themes stand out that are worth highlighting.

AI leadership and constraints

The top AI firms are developing tools for their own workflows before commercializing them, but explosive growth remains limited by access to compute. OpenAI's CFO Sarah Friar emphasized this, while Nvidia's Colette Kress noted that shortages in data infrastructure, networking and talent are equally constraining. Talent, in particular, has become the scarcest commodity. As Salesforce CEO Marc Benioff put it, "Everyone wants AI, but few know how to get from A to B." The shortage of experienced engineers is slowing implementation across industries.

Execution, infrastructure and opportunity

Companies that mishandled their cloud migrations now face bigger problems. Poor integration and over-engineered security have left many ill-prepared for AI. As ServiceNow's CEO Bill McDermott noted, 85% of firms failed to earn a positive return on investment on digital transformation due to poor execution. Clean, unified data systems are now essential for speed and accuracy.

Meanwhile, "vibe coding," or natural language queries that create functioning code, is rapidly expanding software's total addressable market. By lowering the barrier to creation, it's unlocking entirely new categories of applications and growth for AI leaders.

The challenge of chips

AI's physical infrastructure remains the battleground. Smaller chips fail more often, forcing system-level engineering across data centres and networks. Networking, in particular, is emerging as a bigger competitive moat than raw compute power, as communication speed determines performance at scale. Tier 2 data centre providers are also quietly driving capacity growth, a trend not yet reflected in consensus estimates.

Macro and demand

On the macroeconomic front, at the time of writing, the U.S. economy is showing weaker jobs against moderate growth, raising the possibility of interest rate cuts – a potential floor for asset prices. While Uber's CEO sees no evidence of downtrading yet, Goldman Sachs' chief economist Jan Hatzius reminded us that disruption is not linear and that downturns can accelerate adoption, creating reasons to replace people with technology. Over the longer term, AI is expected to add materially to productivity growth, with chip designers emerging as key beneficiaries as demand evolves from today's software-driven AI toward "physical AI" applications like robotics and autonomous systems, and ultimately "science AI" that advances research and discovery.

Final thoughts

The divide between dreamers and doers is widening. Talent, infrastructure and integrated system design will define the winners. Beneath the hype lies a once-in-a-generation productivity shift, while our job remains the same: identify the genuine winners positioned to turn theory into durable earnings power.

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 AC 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.
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- There may be an insufficient number of buyers or sellers which may affect the fund's ability to buy or sell securities.
- Investments in China involve a risk of a total loss due to factors such as government action or inaction, market volatility and reliance on primary trading partners.
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- 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.
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