

**A Sub-Fund of Morgan Stanley Investment Funds**  
**International Resilience Fund**

**INTERNATIONAL EQUITY TEAM**

**Performance Review**

In the one month period ending 31 December 2025, the Fund's Z shares returned 1.86% (net of fees)<sup>1</sup>, while the benchmark returned 3.00%.

The portfolio lagged in the fourth quarter, with a return of +0.45% compared with +5.05%. For the full year 2025, the portfolio delivered a strong absolute return of +13.24% but did not keep pace with the index's exceptional +32.39% gain, which represented the MSCI All Country World (ACWI) ex-U.S. Index's best performance since 2009 following the Global Financial Crisis.

The fourth quarter underperformance was driven by negative stock selection, mainly due to weakness in information technology and industrials. Sector allocation contributed modestly, benefiting from the portfolio's overweight to information technology.

Two of the largest absolute contributors to performance in the fourth quarter were semiconductors **TSMC** (+72 basis points [bps]) and **ASML** (+48 bps), which delivered double-digit gains: TSMC reported close to 40% year-over-year earnings growth and upgraded full-year guidance on the back of strong artificial intelligence (AI) demand,<sup>2</sup> while ASML reported solid bookings and improved its 2026/27 outlook, supported by ongoing artificial intelligence (AI) infrastructure buildout and a broader, longer-tail customer base. Amongst the other meaningful contributors to performance were two of the portfolio's health care names: **Haleon** (+56 bps) and **AstraZeneca** (+59 bps), thanks to better-than-expected earnings and guidance, positive late-stage pipeline progress and reduced regulatory and pricing risk after U.S. policy agreements. The other top absolute contributor was **DSV** (+68 bps), driven primarily by optimism around the DB Schenker acquisition and synergies, supported by solid operating performance reflected in its third quarter earnings.

Among the largest detractors, the fourth quarter saw a continuation of the indiscriminate punishing of a diverse range of data-rich and software-enabled business models that has been underway since August, driven by heightened concerns around advanced AI (generative AI [GenAI] and agentic AI) disruption. This resulted in a derating across several differentiated, high quality holdings including **RELX** (-79 bps) and **SAP** (-51 bps). As discussed in prior commentaries, these businesses are already integrating AI into their proprietary datasets and deeply embedded workflows and as such, we believe they are far more likely to benefit from the technology than be displaced by it. For example, RELX's third quarter results highlighted growing uptake of AI-enabled platforms, such as Lexis+ AI, which is supporting revenue growth across its analytics franchise, while SAP's recent results showed strong cloud and enterprise resource planning adoption, which management emphasised is expanding the addressable base for AI-led upsell and embedded AI functionality. The other largest absolute detractors from performance in the fourth quarter were **BayCurrent** (-69 bps), which was weak despite guidance-consistent growth, mainly due to valuation-driven market scepticism and leadership change uncertainty rather than any deterioration in fundamentals; **Rightmove** (-69 bps), due to its reset of medium-term guidance due to higher AI investments and lower growth in adjacencies, concerns around potential litigation, and a broader derating of the online classifieds sector amid GenAI disruption fears; and **Legrand** (-33 bps), as third quarter organic growth fell short of expectations.

For the year, relative underperformance was driven primarily by negative stock selection, reflecting weakness in information technology, financials and industrials. Sector allocation moderately detracted, as the portfolio was hurt by its underweight to financials.

Two of the main drivers of relative underperformance were the portfolio's zero-weight to banks and hardware, which each performed exceptionally well, and investor concerns around GenAI that impacted several of our holdings. International Resilience Fund has not invested in banks due to their high leverage and cyclical nature, nor in hardware companies, which operate in a capital-intensive and generally cyclical industry that does not meet the portfolio's strict quality criteria. As both industries rose more than 50% over the year, the portfolio's zero exposure was a notable detractor, most significantly the lack of banks, which reduced relative performance by over 250 bps. Investor anxiety about potential GenAI disruption in the latter half of 2025 led to broad selloffs across a wide swath of differentiated data-rich industries, particularly in software, financials and industrials. The initial market reaction was quite broad-based, with investors indiscriminately punishing nearly all companies perceived to have exposure to data or intellectual property regardless of differences in business models, competitive positioning or adaptability. We believe this blanket approach by the market is wrong as it ignores important differences between the industries and companies involved. We have conducted a stock-by-stock review and remain confident in holdings such as SAP, RELX and London Stock Exchange Group, where we view GenAI as an enabler that will likely eventually strengthen their competitive positions rather than weaken them.

The two largest absolute contributors to performance were semiconductor names benefiting from GenAI-driven demand for advanced chips and manufacturing capacity: **ASML** (+171 bps), via strong demand for its EUV (extreme ultraviolet) lithography machines essential to making those chips; and **TSMC** (+164 bps), through surging orders for cutting-edge AI processors. Investors priced in sustained, AI-led growth across the entire semiconductor value chain, which benefited each of these names. Amongst the top contributors were two of the portfolio's high quality industrials holdings: **Safran** (+160 bps), thanks to strong, steady demand

<sup>1</sup> Source: Morgan Stanley Investment Management. Data as of 31 December 2025.

<sup>2</sup> Source: TMSC 3Q25 Earnings Release, 16 October 2025.

for aircraft engines and defence systems, combined with innovation in next-generation propulsion and long-term airline contracts, which convinced investors of durable, long-term growth; and **Legrand** (+134 bps), following surging demand in its data centre segment while reporting strong financial results and upward guidance. The fifth top contributor in the year was another information technology name, **Halma** (+132 bps), which reported better-than-expected financial performance throughout the year with strong growth in key technological areas such as photonics.

The largest absolute detractors in 2025 were **IMCD** (-56 bps), driven by slowing growth expectations and margin pressure combined with a broader sell-off in the chemicals industry amid macro uncertainty; **BayCurrent** (-55 bps), as discussed above; **RELX** (-53 bps), as concerns grew about how GenAI and market shifts might affect demand for its traditional information and analytics services and as the stock's valuation multiple compressed from earlier in the year; **London Stock Exchange Group** (-50 bps), as advanced AI fears hit multiples; and **Constellation Software** (-45 bps), after second and third quarter earnings missed earnings per share (EPS) and revenue expectations, with sharply lower year-over-year net income in the second quarter and another EPS miss in the third quarter raising concerns about profitability and growth momentum.

## Market Review

In the final quarter of 2025, the MSCI ACWI ex-U.S. Index delivered solid gains of +5.1% in U.S. dollars (USD) and +6.0% in local currency, capping off a remarkable year. These fourth quarter results propelled the index to an impressive full-year return of +32.4% in USD and +24.4% in local currency, marking its strongest annual performance since 2009 in the aftermath of the Global Financial Crisis. The MSCI ACWI ex-U.S. meaningfully outperformed the U.S. in the year, which itself was up nearly 20% (returning +17%).

For the year, materials (+46%) finished as the top-performing sector as improving demand from China and energy-transition tailwinds, combined with constrained supply and supportive currency dynamics, drove earnings and valuation upside. Financials (+44%) performed well, helped by the strength of the banks industry, which climbed +51% amidst a more pragmatic regulatory environment, a stable, non-recessionary interest-rate outlook, and exceptionally strong asset quality. The year's AI enthusiasm lifted information technology (+41%), with semiconductors benefiting from rising demand for advanced chips and expanded manufacturing capacity, driving the industry to a 57% gain for the year. Utilities (+37%) performed well as AI-driven data centre power demand supported long-term contracts and incremental grid investment, while industrials (+35%) benefited from a sharp rally in defence, which rose +77% amidst elevated geopolitical tensions. Consumer discretionary, while still posting a double-digit return, was the weakest-performing sector in the year, gaining +16% as a combination of subdued growth, cautious consumers and China-related headwinds offset company-specific fundamentals. Excluding utilities, defensive sectors generally lagged the year's momentum-driven rally, leaving health care (+16%) and consumer staples (+17%) at the bottom of the performance rankings. Elsewhere, communication services (+32%) performed in line with the index and the remaining cyclical sectors posted solid absolute returns but still trailed the sharply rising index, including energy (+23%) and real estate (+18%).

Looking at geographies, Korea was the standout performer for the year, rising nearly 100%, supported by its significant exposure to memory and logic semiconductors amidst accelerating AI-related demand. Among other major Asian emerging markets, Taiwan (+39% USD) also benefited from strength in semiconductors, while China (+31% USD) delivered solid gains but modestly lagged the index in USD terms as macro and policy uncertainties persisted. In Asia's major developed markets, Hong Kong (+35% USD, +35% local) and Singapore (+32%, +26%) managed to beat the index, while Japan (+25%, +24%) lagged in USD terms due to yen weakness. In Europe, Spain was the leading performer in the year, finishing up +82% in USD and +61% in local currency. Both Spain and Italy (+56% USD, +37% local) benefited from large financials weightings amidst the sector's surging performance. Elsewhere in Europe, Germany (+36% USD, +20% local), U.K. (+35%, +26%) and Switzerland (+33%, +17%) all finished ahead of the index in USD while France (+28%, +13%) modestly lagged.

## Portfolio Activity

In the quarter, we added two new positions to the portfolio, Ferrari (consumer discretionary) and Deutsche Boerse (financials), and exited three information technology names: Capgemini, Constellation Software and Dassault Systems.

We built a position in **Ferrari**, a high quality luxury auto franchise with consistent earnings growth, pricing power and exceptional returns on capital (approximately 60% return on operating capital employed).<sup>3</sup> Despite operating in a cyclical and capital-intensive industry, Ferrari benefits from a resilient business model, underpinned by recurring demand from a wealthy client base, a two-year order book and industry-leading gross margins of around 50%. The shares derated sharply on what seems to be excessively modest medium-term growth guidance at their capital markets day during the quarter, which offered an attractive entry point into a franchise that has compounded earnings at around 20% per annum since its initial public offering, with strong revenue visibility and, unlike many of its luxury peers, limited China exposure.

We also re-initiated a position in **Deutsche Boerse**, the share price having fallen by more than a quarter since we exited earlier in 2025 giving a compelling entry valuation for a high quality business with sound fundamentals. Deutsche Boerse is a leading exchange group, operating Eurex, a leading derivatives exchange; Clearstream, one of two ICSDs (International Central Securities Depository); as well as other listing, trading, clearing and data businesses. Deutsche Boerse's shares weakened meaningfully from spring highs, partly a justified derating on an expensive multiple, although moderated trading activity after heightened market volatility at the start of 2025 and falling interest rates hitting treasury income also weighed on the shares. There has also been pressure on the sector over AI disruption concerns, but we think the actual risk for Deutsche Boerse appears modest, given that 70% of its operations are tied to market infrastructure which is not at risk from AI.<sup>4</sup>

<sup>3</sup> Source for all Ferrari data: Ferrari company reports; International Equity Team analysis.

<sup>4</sup> Source: Deutsche Boerse company reports; International Equity analysis.

We exited our positions in **Capgemini**, **Constellation Software** and **Dassault Systems**, all three on reduced quality conviction. Although Capgemini is expected to play a key role in integrating GenAI solutions for its corporate clients, the near-term operational performance is likely to be impacted by the deflationary effect of cost savings generated by GenAI. Given this and its relative valuation, we took the opportunity to exit the position. For Constellation Software, despite decent recent results, the growing reliance on larger-than-usual acquisitions increases uncertainty around the durability of returns on capital and the consistency of the historic playbook. Our assessment of the company's exposure to AI disruption suggests 20%–30% of its portfolio to be at risk directly or indirectly, which matters more when underlying organic growth is only around 2%. In the case of Dassault, visibility on business fundamentals has deteriorated since the position was initiated. The transition to the cloud, originally expected to be gradual, has accelerated and management estimates have not been reliable, while our conviction in management's ability to execute the cloud transition has weakened.

Looking across the year as a whole, the most pronounced sector move was the net additions to industrials, driven by the purchases of Baycurrent, Atlas Copco, IMCD and Diploma, and adds to RELX, Keyence and Safran, moderated somewhat by the sales of Infineon and Epiroc and trims of Hexagon and Legrand. The largest decrease comes from consumer staples, with the exits from the spirits positions (Campari and Pernod Ricard). Information technology exposure was also reduced given the sales in the fourth quarter, alongside reductions to SAP and Halma earlier in the year. Taken together, we believe the activities in the year have strengthened the overall quality, resilience and long-term compounding potential of the portfolio, leaving it well positioned for an environment in which earnings durability, pricing power and valuation discipline once again matter.

## Strategy and Outlook

The MSCI ACWI ex-U.S. Index delivered a 32% return in USD, its strongest annual return since 2009 following the Global Financial Crisis and a potential turning point after a prolonged period of underperformance relative to U.S. equities. This shift reflected a broader reset in investor sentiment towards international markets, supported by a rotation toward diversification and cyclical exposure. At the start of the year, valuations outside the U.S. appeared more attractive as equity leadership within the U.S. became increasingly concentrated, helping to drive renewed interest in international equities. Following its strong performance this year, MSCI ACWI ex-U.S. trades at roughly 14.9x forward earnings—about 13% above its 20-year average—yet still at a more than 30% discount to the very pricey U.S. market, where the S&P 500 Index trades near 22x.<sup>5</sup>

Investor confidence improved on the back of earnings growth in Europe and Japan, while a weaker U.S. dollar enhanced USD-based returns and reinforced positive non-U.S. sentiment. Improving demand from China boosted materials, which finished as the top performing sector, while accelerating AI-related demand helped boost semiconductors particularly in emerging markets. Financials and industrials benefited from reflationary expectations, higher interest rates and improving corporate governance (particularly in Japan). Banks were a top-performing industry group, supported by expanding net interest margins, stronger capital positions and more favourable regulatory dynamics, while expectations for increased defence spending across Europe and parts of Asia helped drive strength in capital goods. These cyclical tailwinds played a central role in the Europe, Australasia and Far East (EAFE) region's strong performance, resulting in a rerating on top of the earnings growth.

At the opposite end of the performance spectrum were industries perceived as potential losers from advanced AI (GenAI and Agentic AI). Commercial & professional services and software & services were among the weakest-performing industry groups, where the market indiscriminately punished these distinct and differentiated businesses as vulnerable to AI-driven disruption. Along with the perceived losers from advanced AI, most defensive sectors also lagged the momentum-driven rally, with both the health care and consumer staples sectors underperforming the index by more than 1,500 basis points. The exception was utilities, which performed strongly due to the potential AI-driven power demand from data centres.

While cyclical industries drove ACWI ex-U.S.'s record performance, several factors suggest this leadership may be difficult to sustain into 2026. Much of the outperformance reflected valuation rerating and optimism rather than durable earnings improvement, and as growth normalises, dispersion across companies is likely to increase, refocusing investor attention on fundamentals. We believe the quality companies held in International Resilience are well suited for this potential shift, combining exposure to more defensive consumer staples and health care with high quality, less cyclical information technology companies trading at reasonable valuations. This includes attractive AI-driven growth from first-order beneficiaries such as TSMC and ASML, complemented by software and industrial technology businesses with durable growth and second-order AI exposure. We have also identified high-quality niches—such as exchanges within financials and professional services within industrials—that offer capital-light business models, low cyclical and reasonable growth potential, currently available at particularly compelling valuations.

Although ACWI ex-U.S. remains attractively valued relative to the U.S., its absolute valuation has moved into premium territory versus its history. And this rich valuation rests on the assumption of robust double-digit earnings growth for MSCI ACWI ex-U.S. over the next two years. This requires further margin expansion from already elevated levels given the top-line is limited by circa 1% real gross domestic product growth in EAFE countries. While the index was able to manage double-digit USD earnings growth in 2025, it was boosted by the dollar tailwind which will require another bout of weakness to continue beyond the first quarter 2026. Amidst this backdrop, we remain focused on companies we believe offer credible earnings per share growth, driven by strong revenue growth well ahead of that of the index, which is a more reliable source of long-term compounding than the supposed margin improvement needed to get the bulk of the index's expected earnings growth. Our portfolio is particularly tilted toward high quality compounders given the cyclical rerating and is expected to deliver resilient top-line growth at nearly twice the rate of the index, while trading at only an approximate 12% premium to the ACWI ex-U.S. Index on a price-to-free cash flow basis.

<sup>5</sup> Source for data cited in the Outlook commentary, unless otherwise stated: MSIM, FactSet, as of 31 December 2025.

Looking ahead to 2026, after a banner year of cyclically led ACWI ex-U.S. outperformance, durable earnings, balance sheet strength, pricing power and the ability to generate consistent free cash flows are likely to become increasingly important as earnings growth normalises. In this environment, we believe stock selection and quality-oriented investing should be better rewarded, creating a more supportive backdrop for active managers focused on sustainable earnings and strong returns on operating capital.

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

## Fund Facts

Launch date	18 November 2014
Base currency	U.S. dollars
Benchmark	Blended- Blended Index

## Calendar Year Returns (%)

**Past performance is not a reliable indicator of future results.**

	YTD	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Class Z Shares	13.24	13.24	3.84	17.27	-13.52	4.11	11.54	20.31	-14.24	25.03	-2.51
Blended Index	32.39	32.39	5.53	17.65	-14.45	11.26	7.82	22.01	-13.79	25.03	1.00
MSCI AC World ex-US Net Index	32.39	32.39	5.53	15.62	-16.00	7.82	10.65	21.51	-14.20	27.19	4.50
MSCI EAFE Index	31.22	31.22	3.82	18.24	-14.45	11.26	7.82	22.01	-13.79	25.03	1.00

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](http://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 fund's 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.
- There are increased risks of investing in 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](http://www.morganstanleyinvestmentfunds.com). All data as of 31.12.2025 and subject to change daily.

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](http://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. Luxembourg B 29 192.

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

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## INDEX INFORMATION

The **Blended Index** performance shown is calculated using the MSCI EAFE Index from inception through 29 September 2023 and then the MSCI All Country World Ex-U.S. Index thereafter.

The **MSCI All Country World Ex-U.S. Index** is a free float-adjusted market capitalization weighted index designed to measure the equity market performance of developed and emerging markets, excluding the U.S. 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 **MSCI EAFE Index (Europe, Australia, Far East)** is a free float-adjusted market capitalization index that is designed to measure the international equity market performance of developed markets, excluding the US & Canada. 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 MSCI EAFE Index currently consists of 21 developed market country indices. The performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends.

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A blended benchmark has been used because there has been a change in benchmark during the reporting period shown.

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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in the Fund will not be registered in the Securities Market Public Registry maintained by the **SMV**, and the offering of the Fund interests in Peru to institutional investors nor the Fund will be subject to the supervision of the SMV, and any transfers of the Fund interests shall be subject to the limitations contained in the Securities Market Law and the regulations

issued thereunder mentioned before, under which the Fund interests may only be transferred between institutional investors.