Morgan Stanley Investment Funds

# International Resilience Fund

**INTERNATIONAL EQUITY TEAM**

## Performance Review

In the one month period ending 30 November 2024, the Fund's Z shares returned -1.32% (net of fees)[1], while the benchmark returned -0.91%.

The portfolio has underperformed for the year-to-date, returning +3.81% versus +7.63% for the index.

In November, both stock selection and sector allocation were roughly neutral. For stock selection, strength in information technology and financials was neutralised by weakness in industrials and consumer staples. Meanwhile, sector allocation was hurt by the underweight to financials and overweight to health care, which offset the benefit from the zero weight in materials.

The top contributors to absolute performance during the month were **Constellation Software** (+30 basis points [bps]), following strong third quarter results; **Visa** (+30 bps), which benefited from the cyclical rally in financial shares following the Republican victory in the U.S. election; and **Halma** (+28 bps), following strong first half 2024 results driven by growth in its photonics segment.

The largest absolute detractors were **Legrand** (-34 bps), which suffered following its mild downgrade to margin guidance; **L'Oréal** (-25 bps), which sold off due to fears of the potential impact of U.S. tariffs on the business; and **Hexagon** (-24 bps), following the surprise announcement that the company's CEO was stepping down.

## Market Review

The MSCI All Country World (ACWI) ex-U.S. Index was weak in November, returning -0.9% in U.S. dollars (USD) and +0.1% in local currency, as investors priced in potential tariffs and trade tensions following the results of the U.S. election. The index remains up year-to-date, having returned +8% in USD and +12% in local, though well behind the U.S., which has risen 28%. Materials (-5%) continued its year-to-date weakness and finished as the worst performer in the month, alongside health care (-4%). Financials (+3%), communication services (+2%) and industrials (0%) were the only sectors outperforming the index during the month. All other sectors finished in the red and within 200 bps of the index. Turning to geographies, major European markets were generally weak. Italy (-5% USD, -2% local), France (-4%, -2%), Spain (-4%, -1%) and Switzerland (-2%, 0%) all trailed the index, while the U.K. (+1%, +3%) and Germany (0%, +3%) held up better. Meanwhile, there was greater performance variation among Asia's major developed markets. Singapore finished up an impressive +8% in USD (+9% local), Japan (+1% USD, -1% local) finished slightly ahead in USD and Hong Kong (-4% USD and local) lagged. In Asia's emerging markets, Korea (-2% USD and local) was weak while China (0% USD and local) and Taiwan (0% USD, -1% local) were flat. The U.S. (+6%) comfortably outperformed ACWI ex-U.S. in the month.

## Portfolio Activity

Portfolio activity is reported at quarter-end.

## Strategy and Outlook

"Events, dear boy, events" … so said Harold MacMillan, former Prime Minister of the United Kingdom, when asked by a young journalist what politicians feared most.

We're in a charged and unpredictable landscape. East-West tensions simmer, the Middle East remains a powder keg, and the Russia-Ukraine war looks set to enter another harsh winter as tensions escalate. Meanwhile, former President Donald Trump is to return to the White House, backed by an emboldened Republican party holding both the House and Senate. All eyes are on the potential economic and societal shifts this new administration may bring.

We saw the U.S. market swiftly respond to Trump's victory with a "risk-on" rally and a stronger dollar, driven by expectations for deregulation, corporate tax cuts and an "America First" agenda. International markets, meanwhile, were notably more subdued, with the EURO STOXX down 1.5% (EUR) and China A shares off 1.1% (USD) post election in November,[2] as markets focused on the potential impact of tariffs and protectionist policies – despite the fact it is not yet clear how these may be implemented under the new government. Even in the U.S., while there may well be positives from the "Trump agenda", there are also many potential negatives, not least the inflationary risks inherent in many of his proposed policies.

*The potential impact on international markets*

In terms of the potential implications of the incoming Republican administration, the most prominent area of focus for commentary on international markets has been tariffs. In the run-up to the election, campaign promises suggested universal international tariffs of 10%-20% and up to 60% for China. Should these come into effect, we believe such tariffs would be challenging for international markets in aggregate, impacting companies' profit margins, supply chains and growth prospects. For the majority of our international

[1] Source: Morgan Stanley Investment Management Limited. Data as of 30 November 2024.
[2] Source: FactSet. Data as of 29 November 2024. The performance of China A shares is represented by the MSCI China A Share Index.

portfolio companies that sell goods into the U.S. rather than services, local manufacturing is typically used to optimise supply chain efficiency and mitigate transaction risk, softening the impact on companies' bottom line. For those sectors and industries potentially more exposed, e.g., luxury goods, our companies possess strong pricing power, which we believe should mean they are better positioned to weather the storm by offsetting increased costs through raising prices.

Other areas have captured headlines. For pharmaceutical companies, there was an immediate negative market reaction following Trump's endorsement of anti-vaccine activist Robert F. Kennedy, Jr. to lead the U.S. Department of Health and Human Services. While there are still many unknowns, our assessment is that the steady compounding potential of the European pharmaceutical companies we own should remain supported by their high barriers to entry, diversified asset bases and often non-discretionary, life-sustaining drugs. We believe these characteristics should underpin resilient earnings at high returns, even in a tighter pricing environment. Longer term, we remain favourable on the outlook for the health care sector and believe that powerful demographic trends along with advances in innovation and drug discovery should drive long-term growth.

Turning to valuations, the new administration's agenda has the potential to pose inflationary risks in the U.S., which may well compel the U.S. Federal Reserve to keep interest rates higher for longer. Higher rates are likely to be particularly problematic for a market as overextended as the U.S. – and by extension global equity markets given their high weighting to U.S.-listed companies. The S&P 500 trades at 22x next 12-month (NTM) earnings – a near 20-year high – and the MSCI World (a proxy for global markets) at 19x.[3] These premiums are significant – not just compared with their own long-run averages but also with other markets. Currently, the MSCI ACWI ex-U.S. Index remains reasonably valued by historical standards, hovering near its long-term average of 13.06x NTM earnings, a record discount to the U.S.[3] Where valuation can provide a margin of relative safety, international markets remain an attractive proposition in relative terms. With the portfolio offering a 1.5x higher return on capital and 85% higher gross margins, the portfolio's high quality bias may add a further element of relative safety.[3]

Since the launch of our flagship strategy Global Franchise in 1996, we have remained committed to our disciplined investment philosophy focusing on the relentless pursuit of quality and a commitment to avoid overpaying. In these unusual times, our focus remains on what drives strong long-term performance – the compounding of high quality company fundamentals.

**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 | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Class Z Shares | 3.81 | 17.27 | -13.52 | 4.11 | 11.54 | 20.31 | -14.24 | 25.03 | -2.51 | 0.41 | -- |
| Blended Index | 7.63 | 17.65 | -14.45 | 11.26 | 7.82 | 22.01 | -13.79 | 25.03 | 1.00 | -0.81 | -- |
| MSCI AC World ex-US Net Index | 7.63 | 15.62 | -16.00 | 7.82 | 10.65 | 21.51 | -14.20 | 27.19 | 4.50 | -5.66 | -- |
| MSCI EAFE Index | 6.24 | 18.24 | -14.45 | 11.26 | 7.82 | 22.01 | -13.79 | 25.03 | 1.00 | -0.81 | -- |

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 units. The sources for all performance and Index data is Morgan Stanley Investment Management. **Please visit our website www.morganstanley.com/im to see the latest performance returns for the fund's other share classes.**

3 Source: FactSet. Data as of 29 November 2024.

## 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.
- 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. All data as of 30 November 2024 and subject to change daily.

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If the management company of the relevant Fund decides to terminate its arrangement for marketing that Fund in any EEA country where it is registered for sale, it will do so in accordance with the relevant UCITS rules.

**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.

The index is unmanaged and does not include any expenses, fees or sales charges. It is not possible to invest directly in an index. Any index referred to herein is the intellectual property (including registered trademarks) of the applicable licensor.

The **MSCI China A Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance of the China A share market. The performance of the Index is listed in US dollars and assumes reinvestment of net dividends.

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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