Morgan Stanley

INVESTMENT MANAGEMENT

MARKETING COMMUNICATION
INVESTMENT IDEA | 1H 2024

Why Invest in High Quality Equities

Equity-Style Upside and Bond-Style Downside Participation

Avoiding the permanent destruction of capital can be just as important for investors as the chance to earn outsized investment returns. The classic risk-return trade-off typically means that equities are for return, and bonds for stability[1]—yet inflation may erode a portfolio's real value, giving pause for thought when looking at asset allocation.

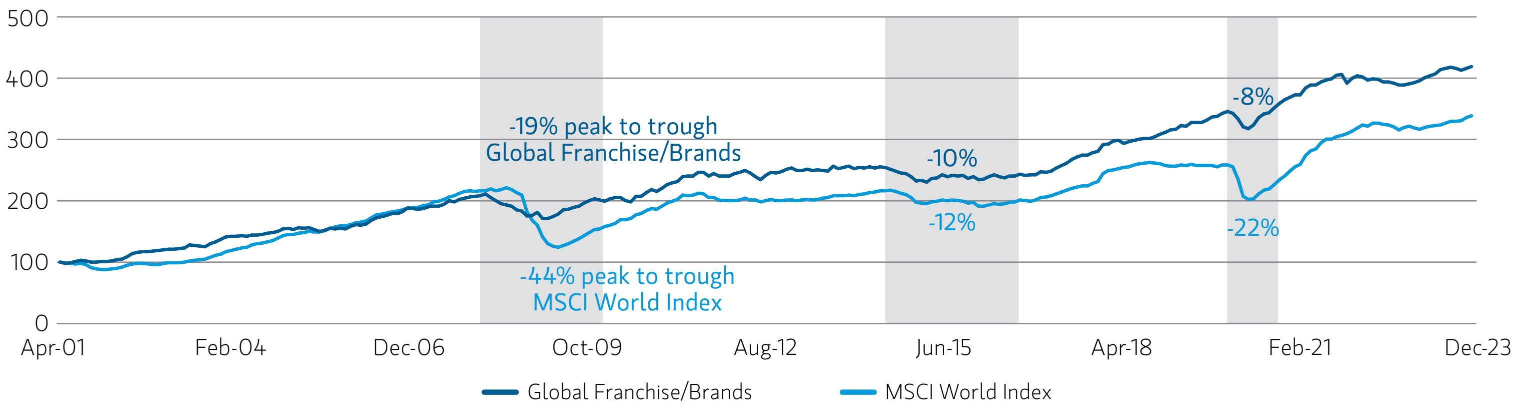
We believe long-term investors can benefit from looking beyond broad-based equity and bond indices. That's because actively managed high quality equities[2] have stood the test of time, offering equity-style upside alongside bond-style downside participation…even after inflation.

The Case for High Quality

1 SUPERIOR EARNINGS RESILIENCE

High quality equities' recurring revenue and pricing power can protect earnings during times of demand destruction

Earnings per share (NTM, Indexed to 2001)



Source: FactSet. Data as of December 31, 2023 for the Global Franchise Representative account. Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass. MSCI World Net Index shown for comparative purposes only. Inception date of the Global Franchise Representative Account is October 29, 2000. Start date used shows the earliest data available. NTM = next twelve months.

What are high quality equities and why do they offer resilience?

- Well-managed companies with sustainably high, long-term returns on operating capital employed, low volatility of unlevered operating profit and long-term growth potential.
- Characterised by powerful intangible assets—notably brands and networks—strong balance sheets and high gross margins, their pricing power and recurring revenues mean they should retain their customers and margins through the market cycle.
- Historically, high quality equities have demonstrated resilient earnings in market downturns.

[1] MSCI World has outperformed ICE BofA Global Government Bond Index 61% of periods (vs 39% for bonds) but lost money nearly twice as often (20% for equities vs 12% for bonds)—5-year nominal quarterly rolling gross return, unhedged USD from January 1997 to December 2023. Source: FactSet, MSCI and ICE BofA.

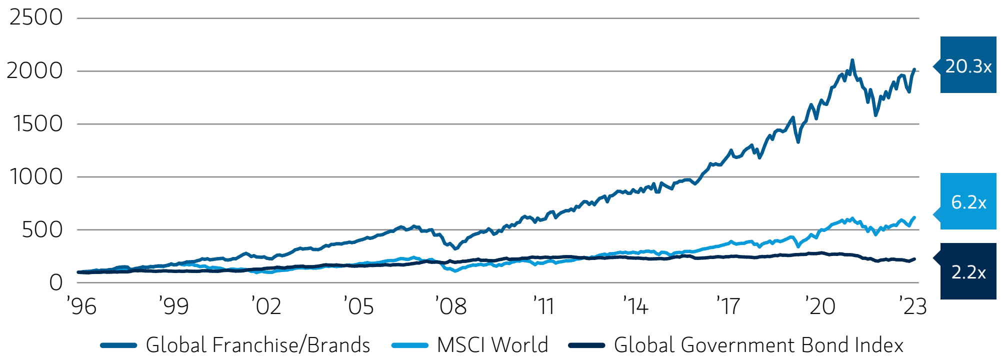
[2] Throughout, we use Global Franchise/Brands as a representative for a high quality equity portfolio.

2 LONG-TERM CAPITAL APPRECIATION

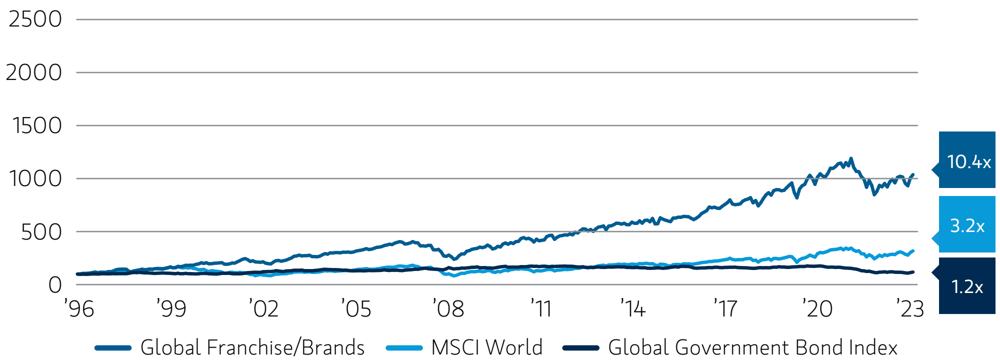
Superior earnings resilience has helped high quality equities to compound at a higher rate than both global government bonds and broad global equities over the past quarter century.

Long-term, Powerful Compounding Relative to MSCI World and Global Government Bond Indices

Growth of $100 in Nominal Terms



Growth of $100 in Real Terms



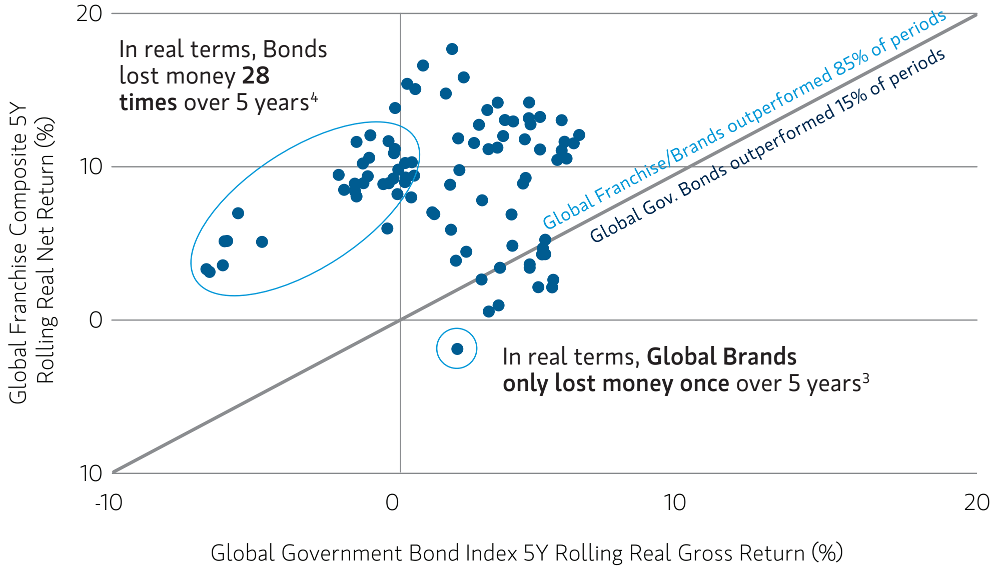
Source: MSIM, FactSet, MSCI and ICE BofA. The charts show the total return in USD of the ICE BofA Global Government Bond Index (gross), Global Franchise Commingled Composite (net) and MSCI World Index (gross) from January 1997 to December 2023. Returns are inflation adjusted using US CPI sourced from the US Bureau of Labor Statistics. Returns may increase or decrease as a result of currency fluctuations. The value of the investments and the income from them can go down as well as up and an investor may not get back the amount invested. There are additional risks involved with this type of investment. The composite returns are shown in NET of investment advisory fees and does not take account of commissions and costs incurred on the issue and redemption of units and include the reinvestment of dividends and income.

3 PRESERVATION OF VALUE IN REAL TERMS

When looking at rolling five year returns over the past 25 years, the capital preservation advantage of global bonds disappears after inflation — in contrast to high quality equities.

In Real Terms, High Quality Equities Have Preserved Value Over Most 5-Year Periods — Unlike Bonds

Global Government Bond Index vs. Global Brands — Real Returns



INFLATION ADJUSTED 1997 - 2023 (USD)	ICE BofA	MSCI WORLD	GLOBAL FRANCHISE/BRANDS
Annualised Return	0.5%	4.9%	9.1%
Annualised Volatility	7.9%	17.6%	13.8%
Sharpe Ratio	0.12x	0.30x	0.69x

[3] 5 years to March-09.

[4] Over Rolling 5Y Quarters 1997-2023 (USD).

Source: FactSet, MSCI, and ICE BofA. The scatter plot shows the 5-year quarterly rolling inflation adjusted return of the ICE BofA Global Government Bond Index (gross) and the Global Franchise Commingled Composite (net), both in unhedged USD from January 1997 to December 2023. The first table shows the annualised return, volatility, and Sharpe ratio from January 1997 to December 2023. Returns are inflation adjusted using US CPI sourced from the US Bureau of Labor Statistics. The Sharpe ratio is calculated using the inflation adjusted constant maturity 3-month US Treasury Bill. The second table shows quarterly rolling 5-year return summary statistics. Returns may increase or decrease as a result of currency fluctuations. The value of the investments and the income from them can go down as well as up and an investor may not get back the amount invested. There are additional risks involved with this type of investment. The composite returns are shown in NET of investment advisory fees and does not take account of commissions and costs incurred on the issue and redemption of units and include the reinvestment of dividends and income.

A Range of Strategies Designed to Work for You

The International Equity team has a 25+ year history in high quality investing with a distinctive rigorous approach to managing both earnings and valuation risk. All these strategies are concentrated and are designed for long-term investors seeking to grow their capital steadily.

"I like to say you win twice by investing in our high quality 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 market downturns. Winning twice drives good long-term absolute returns."

—William Lock, *Head of MSIM International Equity Team*

	GLOBAL BRANDS	GLOBAL QUALITY	GLOBAL SUSTAIN	AMERICAN RESILIENCE	INTERNATIONAL RESILIENCE
Key features	Flagship, defensive	Slightly more flexibility	Selective and low-carbon	U.S. exposure	International exposure
Stock range	20-40	35-55	25-50	20-50	20-50
Description	Our most concentrated, flagship global equity fund Designed for investors who seek capital growth, earnings resilience and reduced downside participation	Designed for investors who seek exposure to a slightly broader range of high quality stocks Flexibility for slightly higher cyclicality of earnings than for Global Brands	In additional to seeking attractive long-term capital appreciation, seeks a greenhouse gas emissions intensity significantly lower than MSCI AC World Designed for carbon-conscious investors who want to avoid sectors such as fossil fuels, alcohol, tobacco and weapons	Designed to offer clients who allocate to the US access to the team's well-established high quality investment process	Designed to offer clients who allocate outside the U.S. access to the team's well-established high quality investment process
Benchmark	MSCI World Net Index	MSCI World Net Index	MSCI World Net Index	S&P 500 Index	MSCI AC World ex-US Net Index
Strategy Inception	31 March 1996	30 June 2013	30 April 2018	31 May 2022	31 May 2022
MS INVF Inception	10 June 2008	01 August 2013	29 June 2019	15 December 2022	29 September 2023[5]
ISIN	LU030482987	LU0955011258	LU1842711688	LU2562895800	LU1121079674

Quality is worth the wait

[5] MS INVF International Equity was renamed MS INVF International Resilience effective 29 September 2023. The investment policy was amended to reflect a change from investing in a combination of high quality compounders and value opportunities to investing only in high quality compounders and the benchmark changed from MSCI EAFE to MSCI ACWI ex US.

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