

Morgan Stanley

INVESTMENT MANAGEMENT

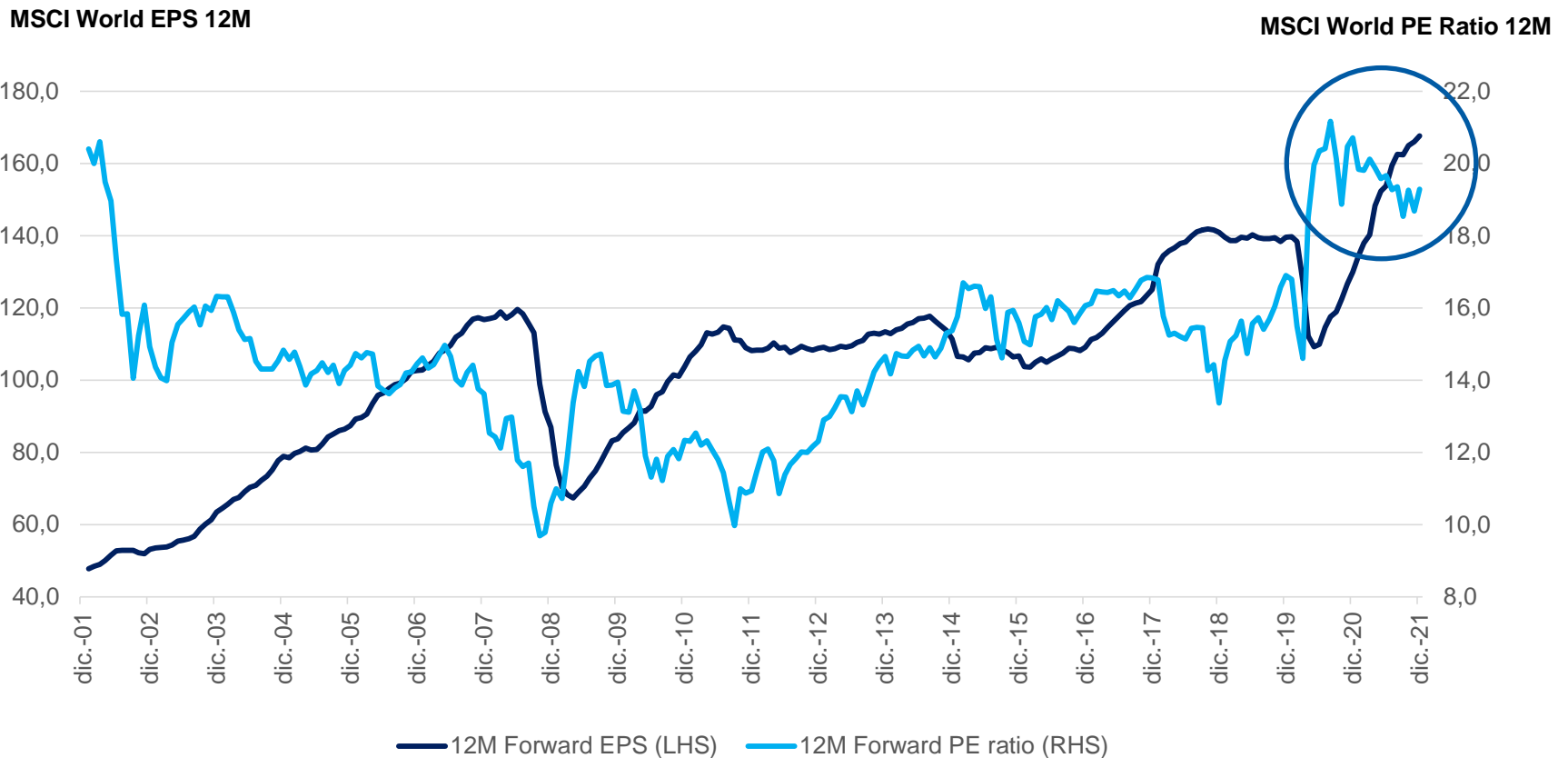
Time for Quality now?

February, 2022



The World Is at Peak Multiples on Earnings that have Bounced Back

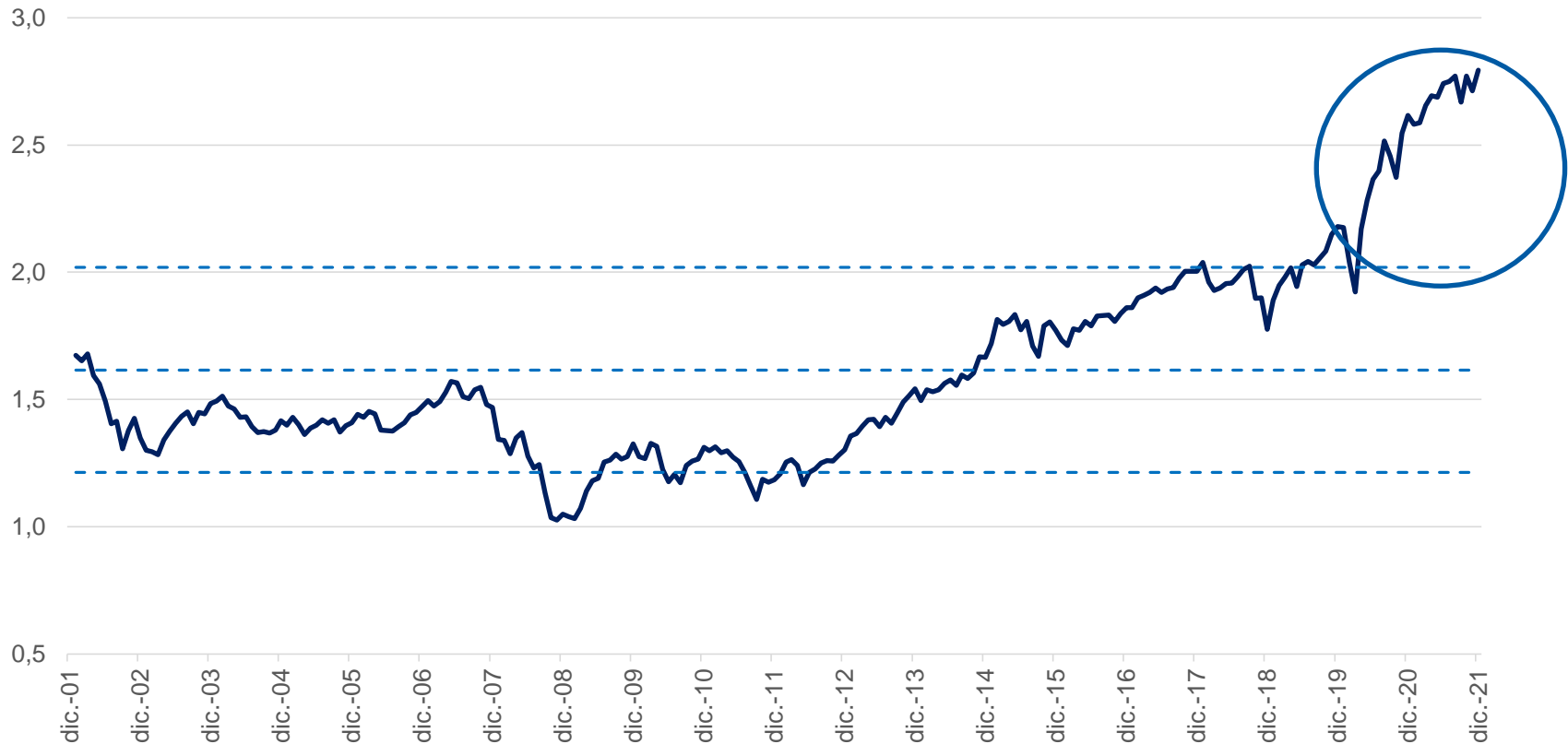
MSCI World EPS expectations 12m forward and PE 12m forward



Source: FactSet. Data as of December 31, 2021.

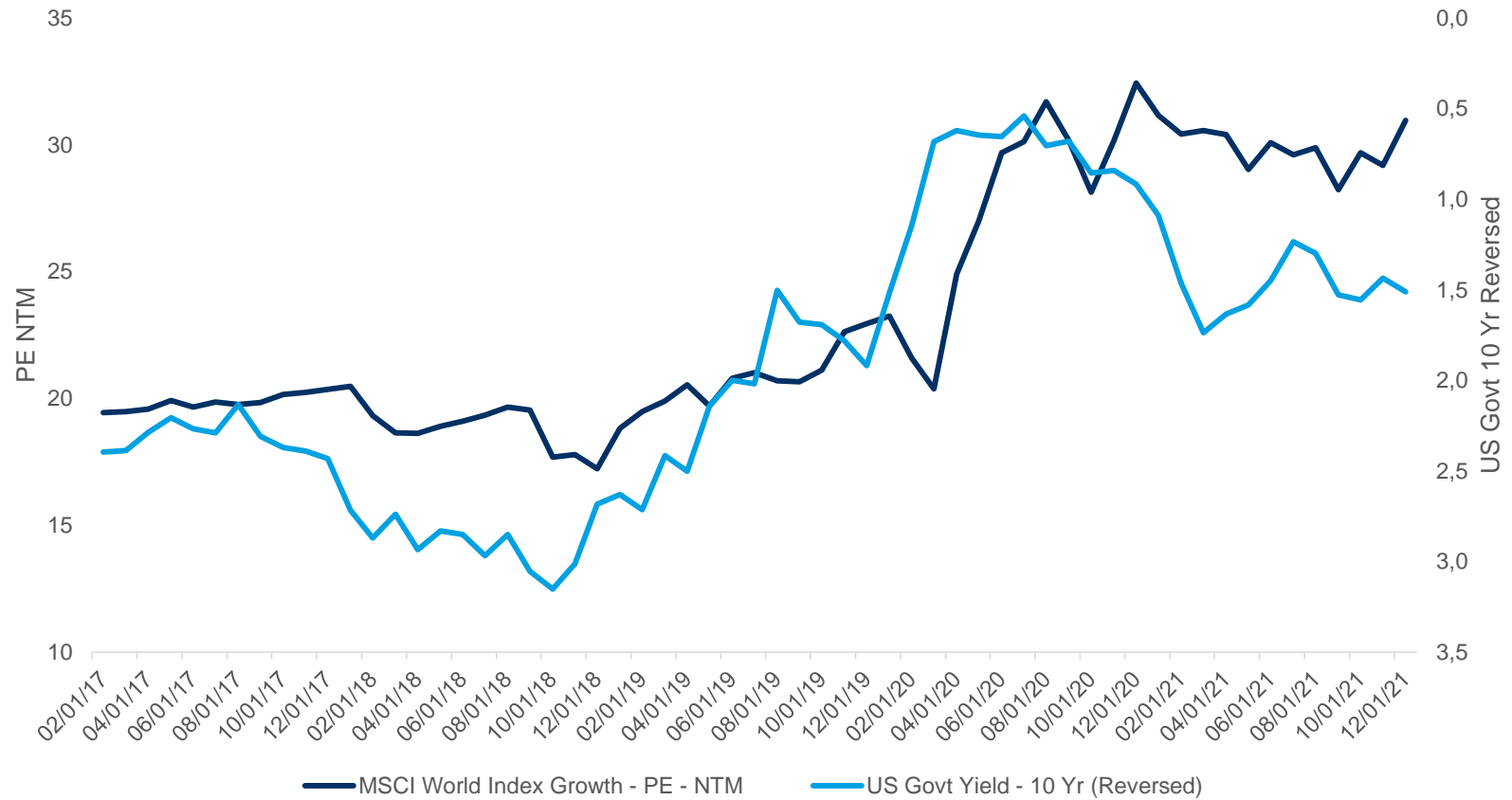
On EV to Sales, Valuations Are at Truly Unprecedented Levels...

MSCI World EV to 12m forward Price to Sales (Broker Estimates)



Source: FactSet. Data as of December 31, 2021.

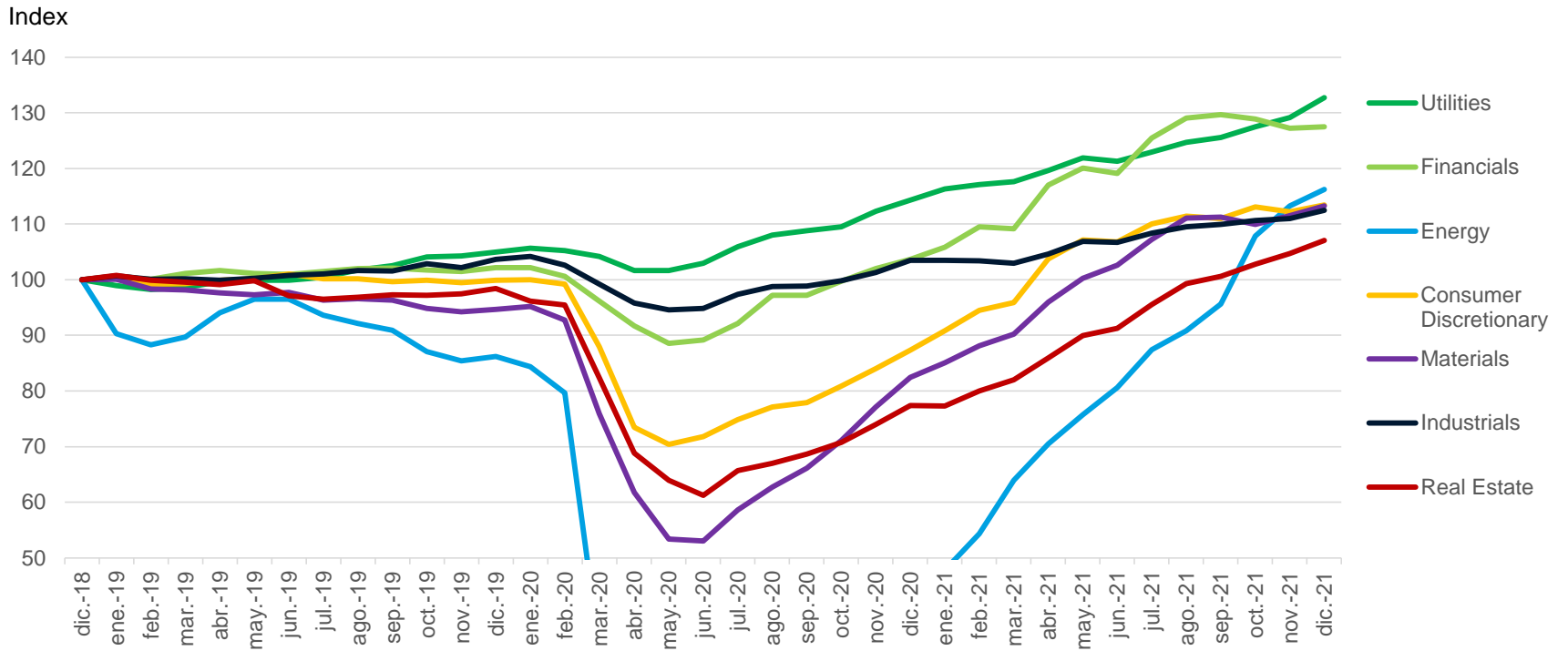
Easing Rates Helped Boost Growth Names in 2020



Source: FactSet, data as of December 2021

Strong Demand Drove up Value's Earnings Through 2021 ...

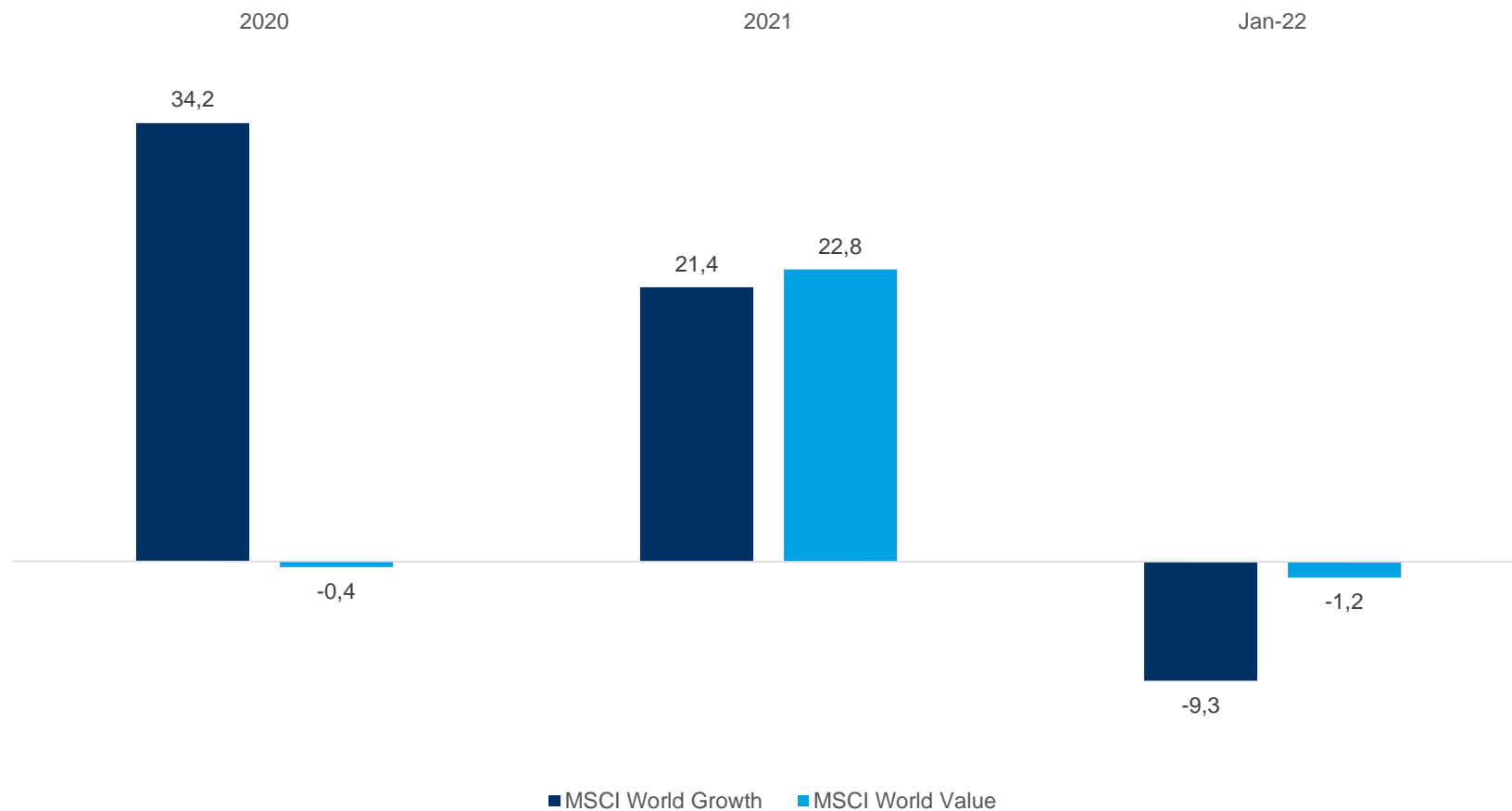
MSCI World NTM EPS



Source: FactSet, data as of December 2021

... and Helped Propel Value's Relative Performance

Annual Performance USD %



Source: FactSet, data as of December 2021

Where Are we Now? The Case for Quality

Markets are
extremely
stretched

Cost pressures
and demand
destruction weighs
on Cyclicals

Extreme leverage
heightens Market
Risk

Quality
Compounders are
within historic
price range

Quality looks to still be the best game in town

Source: MSIM. The views and opinions are those of the Investment team and are subject to change at any time due to market or economic conditions and may not necessarily come to pass. The views expressed do not reflect the opinions of all Investment teams at MSIM or the views of the firm as a whole, and may not be reflected in the strategies and products that the Firm offers.

Looking for Compounders

- Few companies can consistently compound shareholder wealth at attractive rates of return over the long term
- **Sustainability of returns drives long-term compounding**



Source: Morgan Stanley Investment Management

The views and opinions expressed herein are those of the portfolio management team.

ROOCE (Return on Operating Capital Employed) = EBITA (Earnings Before Interest, Taxes and Amortization) / PPE (Property, Plant, Equipment) + Trade Working Capital (excludes goodwill). Ex-Financials. Free Cash Flow = Operating Cash Flow minus Capex.

Categories and Stocks with Resilience and Pricing Power



Consumer Staples

- **Global, diversified,** but agile and **decentralised**
- Invested in **digital**
- Categories **less vulnerable to digital disruption:**
Spirits, (next generation)
Tobacco
- .. And where **brands really matter** e.g. Beauty
- **Emerging market consumer** exposure
- **Avoid food retail** and increasingly, **food manufacturing**



Software & IT Services

- Business models that are robust in the new **cloud** environment
- Sticky and **recurring subscription revenues** with **high switching costs**
- **Network effects** driven by convenience and trust
- Experts in **digital transformation** and **digital marketing**
- **Avoid hardware**



Health Care

- **Predictable businesses** driven by consumables
- **Avoid excessive exposure to patent expiries,** single product risk and cyclical capital equipment



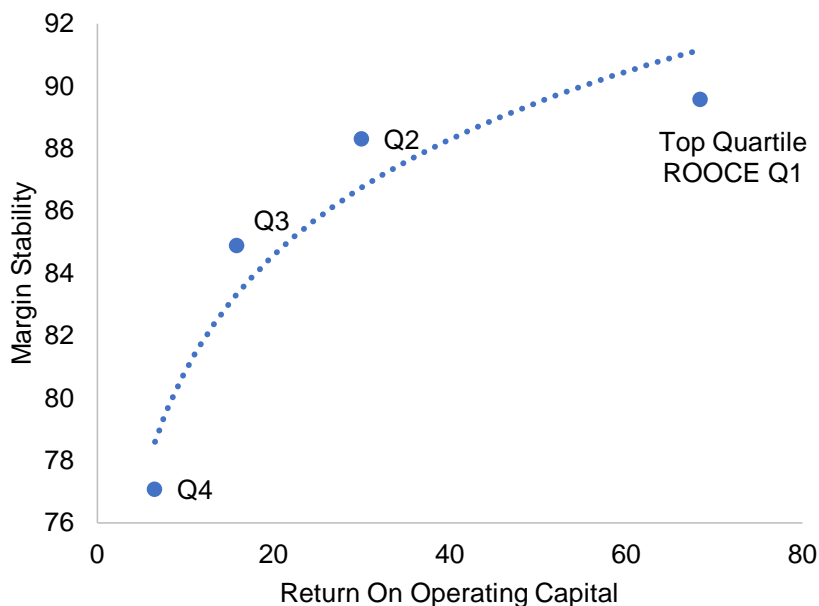
Other Niches

- **Proprietary information providers**
 - Credit scorers
 - Credit raters
 - Digital content & data sets
- **Media:** Must-have branded content
- Technology driven, innovative **premium branded** sports apparel

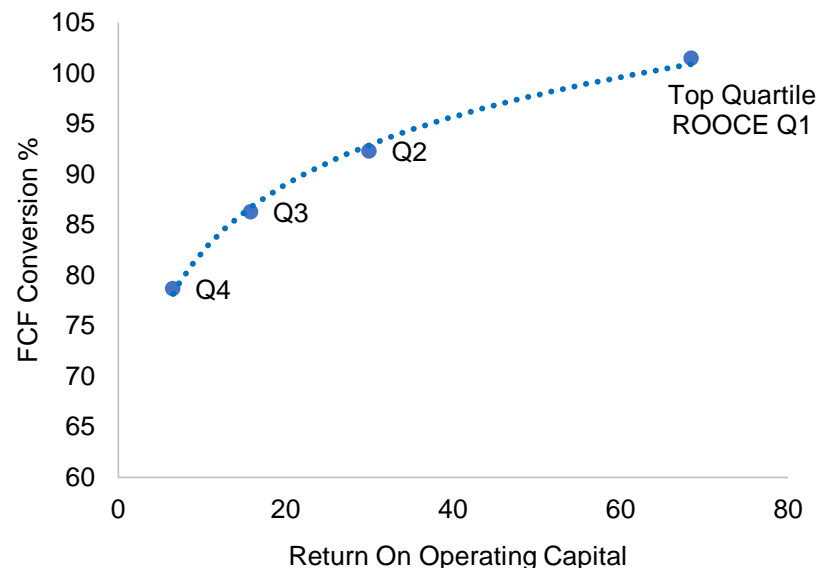
The views and opinions are those of the Investment team and are subject to change at any time due to market or economic conditions and may not necessarily come to pass. The views expressed do not reflect the opinions of all Investment teams at MSIM or the views of the firm as a whole, and may not be reflected in the strategies and products that the Firm offers. Diversification does not eliminate the risk of future loss.

High Return Companies Generally Have More Stable Profits and are Better at Turning Them into Cash

TOP QUARTILE RETURNS = MOST STABLE PROFITS



TOP QUARTILE RETURNS = HIGHEST FCF CONVERSION



MSCI World Index. Quartile buckets of median Return on operating capital for companies that have a return on operating capital. (excludes most financials for example).

Median Free cash conversion based on NTM Estimate of FCF / NTM estimate of earnings

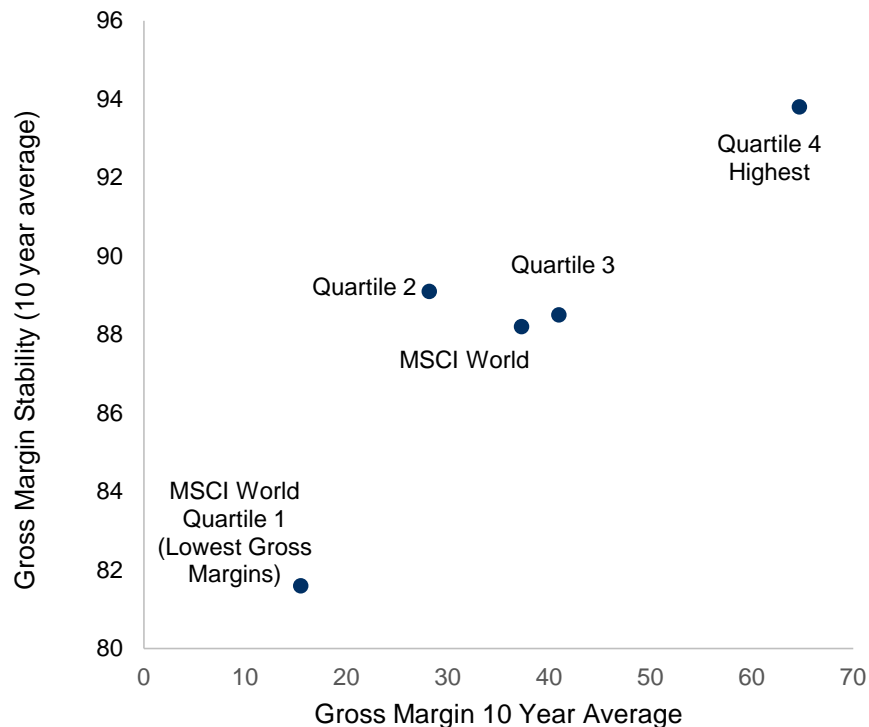
Median ROOCE (Ebit / (Net Property, plant & equipment + net working capital)

Median Operating margin stability ((1-(standard deviation of operating margin / average operating margin)*100) – 5 year history.

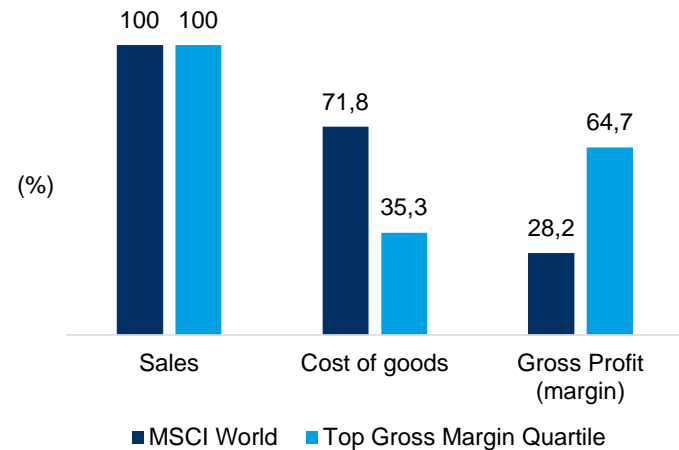
Source: Factset. Data as of December 31, 2022.

High Gross Margins Can Help Offset Inflationary Pressure

High gross margin companies typically have stable gross margins



Input cost inflation affects the cost of goods. The larger the cost of goods, the greater the impact on gross profits.



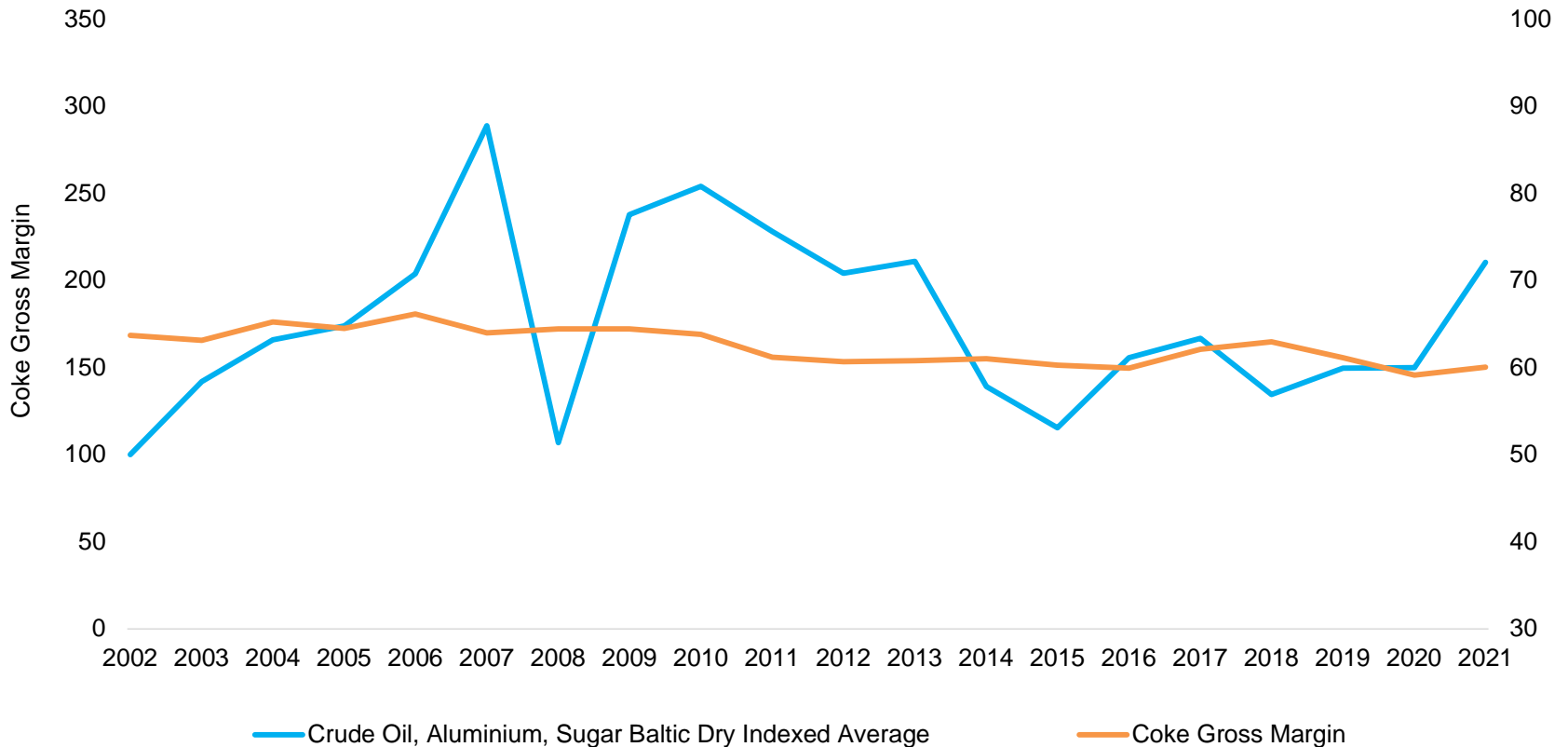
If you are unable to pass on input cost inflation to the customer, meaning you have to absorb the increase in costs, then your gross margin will not be stable.

Therefore, an indicator of pricing power is the stability of the gross margin.

Source: Morgan Stanley Investment Management. FactSet
 Shown for illustrative purposes only. The views and opinions expressed herein are those of the portfolio management team, are not representative of the Firm as a whole, and are subject to change at any time due to market or economic conditions. There is no assurance that a portfolio will achieve its investment objective or an investment strategy will work under all market conditions. Data as of December 31, 2021.

Pricing Power

Example: Coca-Cola's historic ability to sustain gross margins despite input cost volatility



Source: Factset. Data as of December 31, 2022..

The Key to Compounding Wealth

RULE 1: DON'T LOSE MONEY
RULE 2: DON'T FORGET RULE 1

– Benjamin Graham



Think in
Absolute
Rather Than
Relative Terms



Strive to
Avoid the
Permanent
Destruction
of Capital

Disclosures & Important Information

DISTRIBUTION

This marketing communication has been issued by MSIM Fund Management (Ireland) Limited. MSIM Fund Management (Ireland) Limited is regulated by the Central Bank of Ireland. MSIM Fund Management (Ireland) Limited is incorporated in Ireland as a private company limited by shares with company registration number 616661 and has its registered address at The Observatory, 7-11 Sir John Rogerson's Quay, Dublin 2, D02 VC42, Ireland. This document contains information relating to the sub-fund ("Fund") of Morgan Stanley Investment Funds, a Luxembourg domiciled Société d'Investissement à Capital Variable. Morgan Stanley Investment Funds (the "Company") is registered in the Grand Duchy of Luxembourg as an undertaking for collective investment pursuant to Part 1 of the Law of 17th December 2010, as amended. The Company is an Undertaking for Collective Investment in Transferable Securities ("UCITS").

EMEA: This marketing communication has been issued by MSIM Fund Management (Ireland) Limited. MSIM Fund Management (Ireland) Limited is regulated by the Central Bank of Ireland. MSIM Fund Management (Ireland) Limited is incorporated in Ireland as a private company limited by shares with company registration number 616661 and has its registered address at The Observatory, 7-11 Sir John Rogerson's Quay, Dublin 2, D02 VC42, Ireland.

Applications for shares in the Fund should not be made without also consulting the Annual Report and Semi-Annual Report ("Offering Documents"), or other documents available in your local jurisdiction and available free of charge from the Registered Office: European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxembourg B 29 192. In addition, all Italian investors should refer to the 'Extended Application Form', and all Hong Kong investors should refer to the 'Additional Information for Hong Kong Investors' section, outlined within the Prospectus. Copies of the Prospectus, KIID, the Articles of Incorporation and the annual and semi-annual reports, in German, and further information can be obtained free of charge from the representative in Switzerland. The representative in Switzerland is Carnegie Fund Services S.A., 11, rue du Général- Dufour, 1204 Geneva. The paying agent in Switzerland is Banque Cantonale de Genève, 17, quai de l'Île, 1204 Geneva. The document has been prepared solely for informational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy.

Any index referred to herein is the intellectual property (including registered trademarks) of the applicable licensor. Any product based on an index is in no way sponsored, endorsed, sold or promoted by the applicable licensor and it shall not have any liability with respect thereto. The Fund is actively managed, and the management of the fund is not constrained by or compared to a benchmark. Therefore, the management of the Fund is not constrained by the composition of the Benchmark.

All investments involve risks, including the possible loss of principal. The material contained herein has not been based on a consideration of any individual client circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

The use of leverage increases risks, such that a relatively small movement in the value of an investment may result in a disproportionately large movement, unfavourable as well as favourable, in the value of that investment and, in turn, the value of the Fund.

Investment in the Fund concerns the acquisition of units or shares in a fund, and not in a given underlying asset such as building or shares of a company, as these are only the underlying assets owned.

Important Information Continued

The information contained in this communication is not a research recommendation or 'investment research' and is classified as a 'Marketing Communication' in accordance with the applicable European regulation or Swiss regulation. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

MSIM has not authorised financial intermediaries to use and to distribute this document, unless such use and distribution is made in accordance with applicable law and regulation. MSIM shall not be liable for, and accepts no liability for, the use or misuse of this document by any such financial intermediary. If you are a distributor of the Morgan Stanley Investment Funds, some or all of the funds or shares in individual funds may be available for distribution. Please refer to your sub distribution agreement for these details before forwarding fund information to your clients.

The whole or any part of this work may not be directly or indirectly reproduced, copied, modified, used to create a derivative work, performed, displayed, published, posted, licensed, framed, distributed, or transmitted or any of its contents disclosed to third parties without MSIM's express written consent.

All information contained herein is proprietary and is protected under copyright law.

This document may be translated into other languages. Where such a translation is made this English version remains definitive. If there are any discrepancies between the English version and any version of this document in another language, the English version shall prevail.