A Sub-Fund of Morgan Stanley Investment Funds

European Fixed Income Opportunities Fund

BROAD MARKETS FIXED INCOME TEAM

Performance Review

In the one month period up until 31 August 2025, the Fund's Z shares returned 0.30% (net of fees)[1].

Performance was primarily driven by macro decisions, notably a dovish shift in Federal Reserve (Fed) communication and softer macroeconomic data, which led to a repricing of interest rate cut expectations and a broad-based rally across the yield curve.

Macro Strategies:

- **Euro Area Duration:** Contributed positively, on the back of yield curve steepening as front-end eurozone rates fell based on soft inflation prints and growing European Central Bank (ECB) rate cut expectations. Year-to-date, our high conviction euro area curve steepener trade contributed 96 basis points to performance.
- **U.S. Duration**: Contributed, primarily driven by the U.S. yield curve position, as front-end yields fell on shifting rate expectations after a weak job market report, while the long-end yields remained anchored by fiscal concerns, resulting in favourable steepening.
- **New Zealand Duration**: Contributed positively, as duration also rallied in the region.
- **Euro Area Spreads:** Small positive impact, driven by the allocation to French spreads.
- **Emerging Market (EM) Hard Currency Debt**: Continued to add to performance amid supportive risk sentiment.
- **Currency Positioning:** The Fund's short U.S. dollar position contributed to positive performance, as the dollar weakened in August.

Spread Sector Exposures:

- **Credit Spreads:** Long positions in both investment grade and high yield corporate bonds detracted from performance in August.
- **Securitized Debt:** Long positions in securitized debt, predominantly non-agency residential mortgage-backed securities (RMBS), contributed to performance, supported by resilient risk appetite.

Market Review

The fixed income market was as "summer-y" as it gets this past month. Volatility in yields remained remarkably muted, and spreads continued to compress in a benign fashion—despite a brief spike following the early-month U.S. jobs data. This calm seemed out of sync with developments that, under normal circumstances, might have triggered more pronounced market reactions. Beneath the surface, however, pressures are building that could spill into more significant moves as we head into fall.

Our theme this month echoes T.S. Eliot's sentiment: summer ends "not with a bang, but a whimper." Yet, perhaps a more fitting metaphor comes from naturalist Joseph Wood Krutch, who wrote, "August creates as she slumbers, replete and satisfied." The seeds of potential volatility have been sown—and while markets may appear quiet, they are quietly preparing for what's next.

Rates Rally on Weak Jobs Data and Dovish Signals

Developed market yield curves steepened in August as soft U.S. payrolls and dovish Fed commentary fuelled expectations for interest rate cuts. Political instability in France and concerns over Fed independence added pressure to the long end of yield curves. The U.S. dollar weakened broadly, supporting high-carry currencies.

Emerging Markets Debt Gains Amid Dollar Weakness and Policy Easing

EM debt posted solid returns, supported by continued inflows and monetary easing from Turkey and Mexico. Trade tensions persisted, but a U.S.-China truce helped stabilise sentiment. EM currencies benefited from dollar softness and attractive real yields.

Credit Markets Mixed as Issuance Picks Up

Investment grade credit saw modest spread widening, led by French assets, while high yield credit and convertible securities rallied on strong risk appetite and falling yields. Primary issuance was active across segments, with refinancing dominating supply. Fundamentals remain solid, but spreads are tight.

Securitized Credit Stable with Strong Technicals

Agency mortgage-backed securities (MBS) spreads tightened but remain wide historically. Asset-backed securities (ABS), commercial mortgage-backed securities (CMBS) and RMBS issuance was well absorbed despite a seasonal slowdown. Performance was solid, though shorter duration assets saw limited upside versus other sectors.

1 Source: Morgan Stanley Investment Management Limited. Data as of 31 August 2025.

Portfolio Activity

Overall, the Fund's duration was increased by 0.15 years to 3.20 years.

The Fund initiated a long position to Danish duration, driven by low volatility, in line with the strategy's preference for relatively stable sovereign debt.

The Fund closed a short duration position to Japan as yields were expected to decline or flatten, making longer-duration assets more attractive.

The Fund trimmed the long to euro area duration.

The Fund marginally increased its short position in U.S. dollar vs. a diversified basket of EM and developed market currencies, maintaining a strategic stance against the dollar.

The Fund increased the overweight to investment grade corporates and covered bonds.

Strategy and Outlook

The bond market remains in a fragile equilibrium—caught between persistent growth concerns, as reflected in U.S. employment data, and stubborn inflation pressures both in the U.S. and abroad, particularly in Japan. At the same time, supply concerns in government bond markets are intensifying, driven by expanding deficits and politically challenging paths to fiscal tightening in countries such as France, the U.K. and the U.S.

These dynamics point to rising term premia, a theme we continue to favour and express through steepener positions in government bond curves. Markets have repriced real yields to levels last seen in the early 2000s, signalling a clear departure from the era of monetary repression that followed the Global Financial Crisis. This shift has occurred despite still-elevated central bank balance sheets, which continue to unwind. The key question now is whether real yields need to rise further—particularly at the long end—as balance sheets shrink and pension demand for duration appears increasingly met.

Against the backdrop of large deficits and structurally constrained fiscal dynamics—driven by political gridlock and demographic pressures—we continue to assess whether we are witnessing implicit crowding out. Corporate and household balance sheets remain strong relative to incomes and profits, and especially when measured against household net worth and equity valuations. Are spreads historically tight not only because private sector fundamentals are sound, but also because sovereign debt trajectories are not?

We maintain a neutral stance on duration across developed markets, with selective positioning favouring Canadian and New Zealand government bonds over U.S. Treasurys. Curve steepening exposures in U.S. Treasurys and German bunds reflect our view that rising deficits and term premia will likely pressure long-end yields. In Japan, we remain long inflation breakevens while tactically reducing short duration exposure. In currencies, we continue to favour short U.S. dollar positions against a diversified currency basket.

In emerging markets, fundamentals remain supportive amid ongoing reform momentum and resilient growth expectations. EM currencies are undervalued, and real yield differentials remain attractive. Continued dollar weakness should support local assets, though we believe trade policy uncertainty warrants a bottom-up, country-specific approach.

We remain cautiously constructive on credit. In investment grade, solid corporate fundamentals and favourable technicals support carry-driven returns, though tight spreads and trade policy risks call for selectivity. We favour issuers with strong balance sheets and low cyclicality—particularly financials. In high yield, while recession risk remains low, compressed spreads and evolving trade dynamics suggest potential volatility ahead. We prefer issuers with resilient fundamentals and prudent capital structures.

In securitized credit, agency MBS spreads are expected to tighten further, supported by attractive relative valuations and potential Fed rate cuts. Residential mortgage credit remains our preferred sector, alongside targeted exposure to commercial ABS and CMBS backed by hospitality assets and select single-asset trophy office properties.

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

Fund Facts

Launch date	30 September 2014
Base currency	Euro

Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

	YTD	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Class Z Shares	3.30	5.46	6.19	-7.86	-0.89	3.15	5.09	-3.64	4.62	2.06	0.48

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 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 value of bonds are likely to decrease if interest rates rise and vice versa.
- The value of financial derivative instruments are highly sensitive and may result in losses in excess of the amount invested by the Sub-Fund.
- Issuers may not be able to repay their debts, if this happens the value of your investment will decrease. This risk is higher where the fund invests in a bond with a lower credit rating.
- 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 Fixed Income Securities via the China Interbank Bond Market may also entail additional risks, such as counterparty and liquidity risk.
- 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. All data as of 31.08.2025 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 or free of charge from the Registered Office at European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxemburg B 29 192.

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

Information in relation to sustainability aspects of the Fund is available in English online at: Sustainable Finance Disclosure Regulation.

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 UCITS rules.

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