Morgan Stanley Investment Funds

Global Credit Fund

BROAD MARKETS FIXED INCOME TEAM

Performance Review

In the one month period ending 31 May 2024, the Fund's Z shares returned 1.85% (net of fees)[1], while the benchmark returned 1.86%.

The performance can be attributed to the following factors.

The portfolio's overall investment grade credit positioning had a positive impact on performance as spreads tightened in May.

The portfolio is positioned to be overweight financials and underweight industrials when measured in duration times spread terms.

Positions within investment grade financials were drivers of positive performance, driven by the overweight to banking and insurance.

Investment grade industrials had a negligible impact on performance.

Security selection within investment grade utility (electric) had a small positive impact on performance.

The overweight in high yield corporate bond positions had a positive impact on performance.

The overweight in government-related debt positions had a small positive impact on performance.

The overweight in convertible positions had a negligible impact on performance during the period.

Overall, duration positioning had a small positive impact on performance.

There were no material detractors from relative performance in the month.

Market Review

May was a month of two halves in the developed markets rates markets. Bond markets rallied in the first half of the month as the Federal Reserve (Fed) leaned dovish at its May meeting, continuing to signal an intention to cut interest rates. Economic data, such as U.S. retail sales, also came in weaker than expected while the April U.S. consumer price index (CPI) print ended a string of upside inflation surprises, with services inflation in particular moderating. Later in the month, however, policymakers turned less dovish and data came in stronger. Various Fed speakers also began to explicitly reference further policy tightening, though they were quick to stress rate hikes were not in their base case, while minutes from the May meeting revealed that a few policymakers doubted just how restrictive current policy is. Inflation in other markets – most notably, Australia, the U.K. and the eurozone – was also higher than expected and showed signs of price pressures reaccelerating.

In May, investment grade credit spreads continued to grind tighter, with euro spreads outperforming the U.S., and credit volatility remained low. Market sentiment was dominated by several factors: Firstly, inflation and growth data surprised to the upside in Europe but was in line with expectations in the U.S. Secondly, central bank policy continues to diverge as the European Central Bank (ECB) is expected to cut rates in June while the Fed remains hawkish. Thirdly, first quarter corporate reporting was positive for credit with the confirmation that corporates were seeing limited stress in their businesses with the majority running low risk strategies. Merger and acquisition (M&A) activity continues to be conservatively funded from a bondholder perspective. Finally, the technical remains strong as higher-than-expected supply is met with strong demand.

Portfolio Activity

No significant changes to note.

Strategy and Outlook

Strategy

In the portfolio, we continue our overweight position to credit risk, as we remain constructive on credit from a fundamentals perspective. We therefore prefer to take this position through default risk (duration times spread) rather than general market beta (spread duration).

We remain biased towards financials over non-financials. Financials continue to present strong fundamentals and attractive valuations relative to non-financial credits. We remain underweight industrials on concerns over continued downward ratings migration into BBBs, increased merger and acquisition risk, shareholder-interest focused activity (dividends and buybacks), technological disruption and increasing idiosyncratic news. We thematically prefer regulated business models over unregulated (i.e., utilities) to hedge these risks. We also remain selective in off-benchmark holdings of high yield and government-related bonds.

[1] Source: Morgan Stanley Investment Management Limited. Data as of 31 May 2024.

In terms of interest rate risk, we are broadly neutral in duration terms versus the benchmark. We also continue to look for new issues to take advantage of new opportunities in the primary market.

Outlook

While several developed markets central banks are widely expected to cut rates in the coming months, the depth of the cutting cycle is more important for fixed income markets than the timing of the first cut. Recent data and policy communications suggest central banks will likely adopt a cautious approach. We have stayed short duration as momentum is bearish, carry is negative and valuations in longer maturities are unattractive, in our view. Cross-market, we prefer to be short Australian vs. U.S. rates due to evidence of still-sticky inflation and the Reserve Bank of Australia turning more hawkish. We also remain underweight duration in Japan, where communication has turned less dovish amid concern about the weak yen, and confidence has grown that positive wage-price dynamics will likely lead to sustainably higher inflation.

Looking forward, our base case remains constructive for credit given expectations of a “no/soft landing”, strong corporate fundamentals supported by low-risk corporate strategies, accommodative fiscal policy and robust demand for the “all-in” yield creating a supportive technical dynamic. When looking at credit spreads, we view the market as fairly priced and therefore view carry as an attractive return opportunity. But given the uncertain medium-term fundamental backdrop, we have less confidence in further spread tightening.

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

Fund Facts

Launch date	14 November 2012
Base currency	U.S. dollars
Benchmark	Bloomberg Global Aggregate Corporate 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	-0.73	9.39	-17.14	-2.93	11.08	13.93	-5.15	10.05	3.70	-3.64	3.74
Bloomberg Global Aggregate Corporate Index	-1.22	9.61	-16.72	-2.89	10.37	11.51	-3.57	9.09	4.27	-3.56	3.15

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.**

Effective 17th November 2022 the Morgan Stanley Investment Funds Sustainable Global Credit Fund was renamed to Global Credit Fund.

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. All data as of 31 May 2024 and subject to change daily.

Applications for shares in the 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 official language of your local jurisdiction at morganstanleyinvestmentfunds.com or free of charge from the Registered Office of Morgan Stanley Investment Funds, European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxemburg B 29 192.

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INDEX INFORMATION

The **Bloomberg Global Aggregate Corporate Index** is the corporate component of the Bloomberg Global Aggregate index, which provides a broad-based measure of the global investment-grade fixed income markets.

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Inflation measured by the **consumer price index** (CPI) is defined as the change in the prices of a basket of goods and services that are typically purchased by specific groups of households with the G7 countries.

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