Morgan Stanley Investment Funds

Global High Yield Bond Fund

HIGH YIELD TEAM

Performance Review

In the one month period ending 31 May 2024, the Fund's Z shares returned 1.04% (net of fees)[1], while the benchmark returned 1.11%.

Broadcasting and telecommunications were two of the top-performing sectors in the Fund relative to the ICE BofA Developed Markets High Yield Excluding Subordinated Financial Index (USD Hedged) (the Index) during the month. The top relative contributor in the broadcasting sector was a lack of exposure to a U.S. mass media company that serves radio, television and digital platforms. In early May the company guided to an approximate 20% decline in second quarter earnings, versus prior expectations for positive low double-digit growth. Outperformance in telecommunications was driven by positive security selection.

Health care and containers were two of the worst-performing sectors in the Fund relative to the Index during the month. The former was driven by a zero weighting to a U.S. pharmaceutical company, which saw bonds rise by more than 10% as it works through a restructuring. In containers, a lack of exposure to a packaging company was the primary individual detriment. The company's bonds have modestly improved but remain distressed following pronounced operating weakness.

The Fund benefited from positive credit selection across all ratings segments.

From a geographical perspective, credit selection in the U.S. and the U.K. contributed to relative performance in May. However, credit selection in Sweden hindered relative performance, driven by underweight positions in some rebounding companies in the homebuilders & real estate sector.

Market Review

May was a strong month for global high yield markets. It was characterized by volatile — though ultimately lower — U.S. Treasury yields, modestly rising European government bond yields, strong investor demand for high yield, and the highest volume of primary issuance in nearly three years. On average, the earnings of high yield issuers released in May were strong, and the balance of macroeconomic data was generally interpreted as supportive of risk assets. Ultimately, the average spread ended the month only slightly lower, with the average yield also modestly lower.

The Index returned 1.11% in May. The yield-to-worst fell 0.25% to 7.65%, while the spread-to-worst fell by 7 basis points (bps) to end the month at 340 bps. Health care and chemicals were two of the best-performing sectors during the month, while broadcasting was the worst. Performance was balanced across ratings segments during the month, with BB-rated bonds the best performers.[2]

The technical conditions in high yield strengthened in May. Retail demand was notably stronger, while gross issuance increased and net issuance remained light, with capital markets squarely focused on refinancing. In the U.S., gross issuance increased 27% month-over-month to $33.6 billion in May, contributing to year-to-date gross issuance of $147.6 billion. By use of proceeds, refinancing accounted for 83% of May issuance. In Europe, we saw more than €15 billion of primary issuance, bringing year-to-date gross issuance to €54 billion (a near 100% increase on the same period from 2023). According to preliminary Lipper estimates, U.S. high yield retail funds recorded a net inflow of $4.9 billion in May, bringing the total year-to-date flow to $4.2 billion. In Europe, there was just over €0.5 billion of net inflows, bringing year-to-date flow to €5.6 billion.[3]

Traditional default activity among high yield bond issuers was low in May. According to J.P. Morgan, the U.S. high yield trailing 12-month par-weighted default rate ended the month 30 bps lower at 1.25%. Including distressed exchanges, the default rate decreased 34 bps from 2.36% to 2.02% in May, marking a 14-month low. The loan trailing 12-month par-weighted default including distressed exchanges increased 36 bps to close the month at 3.28%. In Europe, the default rate is above 2%. However, the volume of distressed exchanges and potential liability management exercises on the horizon remains elevated.[3]

Strategy and Outlook

Our outlook for the high yield market is somewhat cautious as we progress through the second quarter. The market is contending with several elements of uncertainty and potential sources of volatility, including the forward path of monetary policy, U.S. fiscal and regulatory policy, the labor market and consumer health, and, ultimately, economic growth and the health of the corporate fundamentals of high yield issuers. High yield faces this uncertainty with the unique combination of historically attractive yields and an average spread that ranks near cycle lows.[3] Further inspection of valuations reveals a market with ample dispersion, significant bifurcation and continued opportunity at the sector and security level.

We begin June with a relatively tight range of valuations across most rating segments, but with a widening spread differential between CCC-rated bonds and the remainder of the market. There exists a healthier range across sectors and individual issuers in

[1] Source: Morgan Stanley Investment Management Limited. Data as of 31 May 2024.
[2] Source: ICE Data Indices, Morgan Stanley Investment Management. Data as of 31 May 2024.
[3] Source: J.P. Morgan. Data as of 31 May 2024.

high yield. This range implies opportunity as well as caution. The average yield in our market ended May ranked in the widest quintile relative to the preceding 10-year period, and we expect the yield will likely prove sufficient to drive competitive relative returns in coming quarters, shielding investors from wider peak credit spreads. The average spread in high yield ended May marginally lower, in close proximity to the 10-year lows.[2]

Our Fund remains slightly under-risked relative to the Index, based on a duration-times-spread ratio that continued to trend modestly below 1. We are not becoming more defensive at this time; we are cognizant of the many supportive attributes of our market and are actively waiting for opportunities to add risk when idiosyncratic opportunities arise or market levels appropriately adjust. Wider peak spreads feel likely; however, expectations for peak spread levels are tempered, as the BB share of the Index remains close to 50%.[3] Sector overweights included some defensive and cyclical sectors, trading with what we assess to be attractive long-term value, and underweight positions in cyclical sectors with asymmetric risk/return characteristics as well as several defensive sectors suffering from deep fundamental deterioration. We expect to continue to find many attractive idiosyncratic opportunities amid elevated dispersion that will benefit from healthy cash generation in non-cyclical and counter-cyclical sectors.

Despite a desire and intent to smartly add risk in select opportunities, and at appropriate levels, we continue to evaluate the horizon and see multiple sources of potential volatility for risk markets. Of most immediate concern are large, over-levered capital structures that are beginning to crack on both sides of the Atlantic. We will continue to spend our time concentrating on what we do best — focusing on bottom-up fundamental credit analysis with a discerning eye on relative value, as we seek to generate positive risk-adjusted alpha for our clients.

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

Fund Facts

Launch date	27 April 2017
Base currency	U.S. dollars
Benchmark	ICE BofA Developed Markets High Yield Excluding Subordinated Financial Index USD-Hedged

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	2.34	12.96	-9.07	5.39	4.44	14.45	-1.63	--	--	--	--
ICE BofA Developed Markets High Yield Excluding Subordinated Financial Index USD-Hedged	1.96	13.77	-10.58	5.05	5.61	14.29	-1.90	--	--	--	--

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.**

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 is 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.
- 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.

[2] Source: ICE Data Indices, Morgan Stanley Investment Management. Data as of 31 May 2024.
[3] Source: J.P. Morgan. Data as of 31 May 2024.

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INDEX INFORMATION

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