A Sub-Fund of Morgan Stanley Investment Funds

US Dollar Short Duration High Yield Bond Fund

HIGH YIELD TEAM

Performance Review

In the one month period ending 31 May 2025, the Fund's Z shares returned 1.68% (net of fees)[1], while the benchmark returned 1.60%.

Midstream and cable & satellite were the Fund's top-performing sectors relative to the benchmark in May. Relative outperformance in the midstream sector was driven by favorable credit selection and was led by a lack of exposure to a distressed hydrocarbon exploration company. Despite using proceeds from an asset sale to pay down debt in May, the company remains under scrutiny as it needs to find ways to raise liquidity and pay down additional debt. Relative outperformance in cable & satellite was driven by an underweight position in the sector. The primary individual contributor was a lack of exposure to a wireless spectrum business. The company's claim to some of its spectrum licenses is being reviewed, and at the end of the month the company announced it would forgo paying interest on a bond secured against the spectrum.

Consumer cyclical services and technology were the Fund's worst-performing sectors relative to the benchmark during the month, both driven by challenging credit selection. An overweight position in a provider of interior design and finish solutions was the primary detractor in consumer cyclical services. The company has been contending with installation declines, a business mix shift toward less profitable business lines, and increasing leverage. First quarter earnings came in below expectations, and in May the company announced the current CEO's departure. In technology, a lack of exposure to a network infrastructure provider was the primary individual detriment. The company saw its bonds rally at the end of the month after reports that it was exploring the sale of one of its business units. The company is contending with a heavy debt load and any potential sales would help the company pay down debt.

From a credit quality perspective, favorable credit selection in BB-rated and B-rated bonds was additive to relative performance during the month. An overweight position in bonds rated CCC or below also contributed positively to relative returns, as the lower quality segments of the U.S. high yield market generally outperformed in May. Conversely, adverse credit selection in bonds rated CCC or below detracted from relative returns. A modest cash position also hurt relative performance in a strong month for the U.S. high yield market.

Market Review

U.S. and global high yield markets recorded competitive returns in May. Credit markets contended with volatile — and ultimately higher — Treasury yields, amid mounting U.S. fiscal concerns, an unsurprising U.S. downgrade, and simmering trade tensions, particularly between the U.S. and China. The yield on the 5-year Treasury ended the month approximately 25 basis points (bps) higher. Strong demand for leveraged credit and healthy volumes of rising stars (bonds upgraded from high yield to investment grade) dampened the net supply surplus in May and contributed to substantial spread tightening that more than offset the jump in Treasury yields. Distressed exchange and liability management exercise (LME) volume dissipated, while the volume of missed coupon payments increased. In aggregate, the backdrop was sufficiently supportive to fuel the strongest monthly return for the U.S. high yield market in nearly a year.[2]

The Bloomberg U.S. Corporate High Yield Index returned 1.68% in May. The yield-to-worst finished the month 44 bps lower at 7.46%. The spread-to-worst closed the period 71 bps lower at 346 bps.[2]

The top-performing sectors for the month were transportation, energy, and technology, with respective returns of 2.93%, 2.45%, and 2.19%. The natural gas utility, banking, and other industrial sectors were the worst-performing sectors in May, with respective returns of -0.26%, 0.55%, and 0.83%.[2]

The lower quality segments of the high yield market generally outperformed in May, driven by a partial rebound in some of April's largest underperformers. The CCC-rated segment returned 2.43% for the month. Meanwhile, the single-B and BB segments posted respective one-month returns of 1.66% and 1.53%.[2]

Technical conditions were supportive in May, on the back of a rebound in demand and limited net new issuance. Total gross issuance increased sharply month-over-month from $8.6 billion in April to $32.0 billion in May. By use of proceeds, refinancing accounted for nearly 70% of monthly issuance and acquisition financing accounted for 19.5%. Over 56% of May issuance was rated BB or higher. U.S. high yield retail funds recorded a net inflow of approximately $5.6 billion in May, bringing the quarter-to-date net outflow down to -$5.3 billion and the year-to-date net inflow up to $1.9 billion. Despite the inflows, the high yield market experienced a net supply surplus in May of approximately $4.8 billion. Year-to-date, the high yield market remains in contraction.[3]

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1 Source: Morgan Stanley Investment Management Limited. Data as of 31 May 2025.
2 Source: ICE Data Indices, Bloomberg L.P., Morgan Stanley Investment Management. Data as of 30 May 2025.
3 Source: J.P. Morgan. Data as of 2 June 2025.

Distressed exchange activity in leveraged credit moderated in May, while traditional defaults increased in high yield. According to J.P. Morgan, the high yield trailing 12-month par-weighted default rate including distressed exchanges increased by 8 bps, ending May at 1.33%. Excluding distressed exchanges, the rate ended May 12 bps higher at 0.43%. For loans, the trailing 12-month par-weighted default rate including distressed exchanges decreased 36 bps to close the month at 3.62%. Excluding distressed exchanges, the rate increased to 1.42%.[3]

Strategy and Outlook

We continue to be cautious on the high yield market as we begin June. This outlook includes the dynamic and uncertain evolution of trade, immigration and tax policy, the expectation for stickier inflation, slowing economic growth with a still-elevated probability of recession, and elevated volatility. Yields remain historically attractive and the average spread in the high yield market ended May nearly 75 bps off of the January-low.[2] From our vantage point, valuations remain susceptible to widening. We come to this conclusion after a thorough analysis of factors including the effects of trade policy, evolving monetary policy of global central banks, U.S. and global economic growth, consumer health, the fundamentals of high yield issuers, technical conditions, and valuations. Ultimately, we believe that caution is warranted and expect more comprehensive price realization, particularly in the lower-rated and more challenged segments of leveraged credit.

We begin June with an average spread that is approximately 70 bps lower month-over-month, and an average yield that remains well above the 10-year average but at a similar level to where it began the year.[2] The notable year-to-date decompression in the incremental spread relationship between the CCC and single-B segments eased in May, with the delta approximately 550 bps by May-end, relative to a low of 409 bps in January.[2] We expect that as the ultimate landscape of trade policy and tariffs matures, sectors mostly impacted by new trade policy, as well as higher-risk credits most negatively exposed to an up-in-quality trade, have room to widen. While we believe valuations across several segments of the high yield market will likely reach wider peak spreads in coming months, we believe there remains opportunity. We continue to identify idiosyncratic situations to capture spread compression in segments experiencing secular growth, where issuers are able to decrease leverage through a combination of earnings growth and prudent capital allocation. Additionally, we have recently found select opportunities in challenged segments where neatly structured covenants, adequate loan-to-value, and appropriate risk compensation form to represent compelling investment opportunities.

In May, our strategy took advantage of opportunities in several defensive segments and traditionally durable cash-generative businesses that are either experiencing above-trend secular growth or are positioned to benefit from deregulation and increased strategic consolidation. Media, telecommunications, and cable & satellite TV are not areas with attractive long-term growth prospects; however, we continued to add to select opportunities in each that we believe are likely to benefit from a change in Federal Communications Commission ownership rules, in the case of select companies in media, or likely to benefit from strategic consolidation in telecommunications and cable. We have also taken advantage of opportunities in traditionally cyclical sectors where select companies with less cyclical business lines have traded lower in sympathy with the sector. In the chemicals sector, we have found opportunities in water treatment and specialty chemicals producers, while staying away from the more cyclical parts of the sector, such as producers of titanium dioxide.

We maintained underweight positions or reduced exposure to segments most impacted by anticipated tariffs. In energy, we maintained our underweight due to historically low risk premium, which is adding value, as the sector has gone from trading with an average spread more than 50 bps inside the ICE BofA U.S. High Yield Index in January, to more than 30 bps wide of the index average by May-end.[2] Meanwhile, we continue to find attractive opportunity in health care due to a combination of its defensive characteristics and the presence of several idiosyncratic opportunities where we are receiving attractive compensation for situations where leverage is elevated, but management teams are executing operational turnarounds and consistently reducing leverage through a combination of EBITDA[4] growth and use of free cash flow to address outstanding bonds.

In conclusion, we remain in an uncertain environment. Fundamentals remain supportive but appear to be softening, and corporate guidance is generally cautious. Technical conditions have exhibited volatility and we expect that to continue. Valuations are broadly more compelling than earlier in the year, but the luster faded somewhat in May as spreads compressed. Valuations leave plenty of room to widen should the U.S. economy enter a meaningful recession. The elephant in the room, of course, is evolving trade policy, and the tremendous follow-on effects. Amid a volatile and uncertain backdrop, 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	04 December 2014
Base currency	U.S. dollars
Benchmark	Bloomberg US High Yield 1-5 Year Cash Pay 2% Issuer Capped Index

2 Source: ICE Data Indices, Bloomberg L.P., Morgan Stanley Investment Management. Data as of 30 May 2025.
3 Source: J.P. Morgan. Data as of 2 June 2025.
4 Earnings before interest, taxes, depreciation and amortization.

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	2.17	9.49	11.04	-8.96	6.10	4.35	10.65	1.06	7.24	13.27	-0.68
Bloomberg US High Yield 1-5 Year Cash Pay 2% Issuer Capped Index	2.43	8.64	12.20	-5.90	6.07	4.49	9.88	0.12	6.38	16.19	-5.08

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.
- 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 31.05.2025 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.

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Bloomberg US High Yield 1-5 Year Cash Pay 2% Issuer Capped Index: is an issuer-constrained version of the Bloomberg US Corporate High-Yield Index that measures the market of USD denominated, noninvestment-grade, fixed-rate, taxable corporate bonds. The index follows the same rules as the uncapped index but only includes issues with a 1-5 year maturity and limits the exposure of each issuer to 2% of the total market value and redistributes any excess market value index-wide on a pro-rata basis.

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The **Bloomberg U.S. Corporate High Yield Index** measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The Index excludes emerging market debt.

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