

## Morgan Stanley Investment Funds

# Global Fixed Income Opportunities Fund

MARKETING COMMUNICATION | BROAD MARKETS FIXED INCOME TEAM | MONTHLY FUND ANALYSIS | 30 JUNE 2024

### Commentary

#### PERFORMANCE REVIEW

Macro decisions (long duration) contributed to performance while sector spreads (long credit risk) detracted this month. The portfolio's duration positioning in developed markets rates (euro, U.S. dollar) was positive for performance as yields fell. The contribution from emerging markets (EM) local rates was positive for performance overall. The allocation to investment grade (preference for euro over U.S. dollar credit, with a bias to financials, focused on significantly important institutions) negatively contributed to performance given wider spreads in Europe after the French election announcements. Within securitized assets, the allocation to asset-backed securities (ABS) and non-agency residential mortgage-backed securities (RMBS) was positive for performance, while commercial mortgage-backed securities (CMBS) was negative. Overall, our securitized allocation contributed to performance. Positioning in currencies was broadly negative, specifically EM currencies (long Mexican peso and Hungarian forint).

#### MARKET REVIEW

June was a mixed month for fixed income. Government bond yields fell in most developed markets but rose in France and other peripheral eurozone countries due to French election concerns. Lower U.S. yields were supported by weaker-than-expected inflation and growth data and increased market expectations of further rate cuts in 2024. Japanese bond yields were relatively unchanged while EM local yields generally rose as idiosyncratic issues came to the fore, particularly in Mexico and Brazil. Mexican election results were particularly painful to investors as Mexican assets had been one of the darlings of the investor community. The U.S. dollar continued to be strong on the back of global political turbulence, with only the South African rand bucking the trend. Weaker U.S. economic data and lower yields pushed investment grade credit spreads marginally wider, with eurozone companies underperforming after the French elections announcement. U.S. high yield credit significantly outperformed European high yield, and securitized credit spreads followed their corporate counterparts by modestly widening. Higher rates volatility and lower U.S. Treasury yields pushed agency mortgage-backed securities (MBS) spreads wider, in line with investment grade credit.

#### MAIN STRATEGY CHANGES

Overall, the duration of the portfolio was reduced by 0.18 years, closing at 2.90 years. Within developed markets rates positioning, we initiated a short duration position in Japan. We believe Japan seems the most at risk of higher yields as rates normalize and recent commentary from the Bank of Japan is consistently leaning hawkish despite not delivering on tapering. We also closed our long duration position in Canada. We reduced our allocation to EM local rates. Within credit positioning, we maintain a long position in investment grade, predominantly through financials and utilities.

### Overall Asset Allocation

| Fund / Sector                 | % NAV Portfolio | Spread Duration Contribution to Portfolio |
|-------------------------------|-----------------|---|
| <b>Total Assets</b>           | <b>100.00</b>   | <b>3.04</b>                               |
| <b>Credit</b>                 | <b>40.55</b>    | <b>1.48</b>                               |
| Investment Grade Corporates   | 27.87           | 1.09                                      |
| High Yield Corporates         | 10.15           | 0.32                                      |
| Convertibles                  | 0.37            | 0.00                                      |
| ETFs                          | 2.16            | 0.06                                      |
| <b>Securitized</b>            | <b>39.93</b>    | <b>1.37</b>                               |
| Agency RMBS                   | 5.19            | 0.23                                      |
| Non-Agency RMBS               | 17.81           | 0.60                                      |
| ABS                           | 9.88            | 0.34                                      |
| Agency CMBS                   | 0.01            | 0.00                                      |
| CMBS                          | 7.04            | 0.20                                      |
| <b>Government</b>             | <b>8.98</b>     | <b>0.19</b>                               |
| Futures                       | 0.00            | -0.05                                     |
| Treasuries                    | 6.08            | 0.09                                      |
| Sovereign                     | 1.37            | 0.07                                      |
| Government Related            | 1.52            | 0.07                                      |
| <b>Cash &amp; Equivalents</b> | <b>10.55</b>    | <b>0.00</b>                               |

#### PORTFOLIO SPREAD DURATION : 3.04 years.

Focus on emerging market local rates, non-agency RMBS, high yield credit, convertible bonds and Lower Tier 2 Financials of systemically important institutions. A low growth, low inflationary environment has historically been supportive of spread assets.

Government bonds positions are concentrated at the longer-ends of yield curves. Duration position can be viewed as counterweight to spread sector positioning.

### Geographical Allocation

| Fund / Sector            | % NAV of Portfolio |
|--------------------------|--------------------|
| <b>Total</b>             | <b>100.00</b>      |
| Dollar Bloc              | 50.05              |
| EU Bloc                  | 24.86              |
| Other European Countries | 10.42              |
| Asia Bloc                | 0.71               |
| Latin America Bloc       | 5.65               |
| Middle East Bloc         | 0.57               |
| Africa Bloc              | 1.68               |
| Supranational            | 0.32               |
| Other                    | 0.13               |
| Cash & FX                | 5.61               |

### Risk Summary

| Fund / Sector          | Portfolio |
|------------------------|-----------|
| Average Credit Quality | BBB+      |
| Duration               | 2.90      |
| Spread Duration        | 3.04      |
| Yield to Maturity      | 7.63      |
| Option Adjusted Spread | 243       |

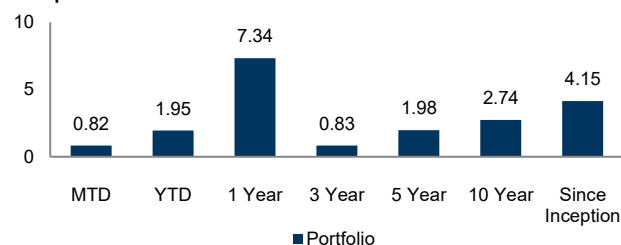
Source: Morgan Stanley Investment Management. As of 30<sup>th</sup> June 2024.

Quality distribution data for securities is sourced from Fitch, Moody's and S&P. Where the credit ratings for individual securities differ between the three ratings agencies, the 'highest' rating is applied.

Source: Morgan Stanley Investment Management. As of 30<sup>th</sup> June 2024. Provided for informational purposes only, not to be construed as investment recommendations for securities, sectors or countries listed herein. Holdings data is subject to change on a daily basis.

## Investment Performance (% net of fees) in USD - Z Class Shares

Past performance is not a reliable indicator of future results.



## Absolute Currency Exposure (larger positions)

|              | % NAV of Portfolio | Duration Contribution to Portfolio |
|--------------|--------------------|------------------------------------|
| <b>Total</b> | <b>100.00</b>      | <b>2.90</b>                        |
| USD          | 97.76              | 1.98                               |
| AUD          | 1.98               | 0.00                               |
| TRY          | 0.96               | 0.00                               |
| UYU          | 0.73               | 0.04                               |
| DOP          | 0.72               | 0.04                               |
| EGP          | 0.44               | 0.00                               |
| GBP          | 0.04               | 0.01                               |
| KRW          | 0.02               | 0.00                               |
| JPY          | 0.01               | -0.25                              |
| COP          | 0.00               | 0.04                               |
| HUF          | 0.00               | 0.03                               |
| SEK          | -0.01              | 0.00                               |
| NZD          | -0.03              | 0.00                               |
| PEN          | -0.06              | 0.09                               |
| BRL          | -0.07              | 0.00                               |
| EUR          | -0.57              | 0.89                               |
| CAD          | -1.92              | 0.00                               |

## Investment Approach

- Maximise the benefits of our global approach across all sectors of Fixed Income to ensure "best ideas" are represented
- Target attractive yield and total return over a market cycle (three- to five-year horizon)
- Focus on absolute and risk-adjusted returns (versus Tracking Error relative to an Index)
- Invest across global fixed income sectors, interest rate markets, and currency markets
- Include exposures to sectors such as emerging markets, high yield and investment grade credit, securitized (RMBS/CMBS/ABS), global government bonds, and convertibles
- Incorporate risk management into entire portfolio construction process

Source: Morgan Stanley Investment Management. As of 30<sup>th</sup> June 2024.

## Risk Considerations

- 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 fund's 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.

## Calendar Year Performance (%)

Past performance is not a reliable indicator of future results.

|                      | 2023 | 2022  | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015  | 2014 |
|----------------------|------|-------|------|------|------|------|------|------|-------|------|
| Class Z Shares (Net) | 8.55 | -7.29 | 0.10 | 4.65 | 9.98 | 0.23 | 7.73 | 5.04 | -0.70 | 5.58 |

Portfolio inception date: 7th November 2011. 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](http://www.morganstanley.com/im) to see the latest performance returns for the fund's other share classes.**

The value of the investments and the income from them can go down as well as up and an investor may not get back the amount invested.

## Fund Characteristics Summary

|   |   |
|---|---|
| <b>Investment Universe (Alpha Source)</b> | <ul style="list-style-type: none"> <li>• Credit: Investment Grade, High Yield, Emerging Market, Convertibles</li> <li>• Securitized (RMBS/CMBS/ABS)</li> <li>• Government bonds: Developed and Emerging Market</li> </ul> |
| <b>Currency Risk (Alpha Source)</b>       | <ul style="list-style-type: none"> <li>• Active currency management allowed</li> </ul>  |
| <b>Duration</b>                           | <ul style="list-style-type: none"> <li>• In the range of 0-6 years</li> </ul>   |
| <b>Derivatives</b>                        | <ul style="list-style-type: none"> <li>• Can use derivatives (futures / swaps) consistent with investment guidelines / UCITS</li> </ul>   |
| <b>Target Return</b>                      | <ul style="list-style-type: none"> <li>• In the range of 5%</li> </ul>  |
| <b>Principal Portfolio Managers*</b>      | <ul style="list-style-type: none"> <li>• Michael Kushma, Richard Ford, Utkarsh Sharma, Leon Grenyer, Vishal Khanduja</li> </ul>   |

\*Team members may be subject to change at any time without notice.

1 December 2023, Vishal Khanduja was added as Portfolio Manager on the Fund, and Chris Roth is no longer serving as Portfolio Manager.

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#### Definitions

**Cash & Equivalents** are assets that are cash or can be readily converted into cash. **Duration** is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices. **Option Adjusted Spread** is a measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is adjusted to take into account an embedded option. Typically, an analyst would use the Treasury securities yield for the risk-free rate. The spread is added to the fixed-income security price to make the risk-free bond price the same as the bond. **Spread Duration** is a measurement of the spread of a fixed-income security rate and the risk-free rate of return. **Securitized assets** are instruments whose income payments and value are derived from a specified pool of underlying collateral. **Yield to maturity (YTM)** measures the annual return on interest-bearing securities. In this it is assumed that they will be held to maturity. This metric includes both the coupon payments received during the term of the security and the repayment of the capital on maturity.

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