A Sub-Fund of Morgan Stanley Funds (UK)

MS Calvert Fixed Income Opportunities Fund

BROAD MARKETS FIXED INCOME TEAM

Performance Review

In the one month period up until 31 December 2025, the Fund's I ACC shares returned 0.24% (net of fees)[1].

The Fund had positive absolute performance in December.

December's performance was anchored by spread sectors, where corporate credit delivered robust gains amid resilient fundamentals and favourable technicals. Limited issuance and persistent demand for high-quality collateral supported structured products, while corporate spreads held near multi-year tights, reinforcing carry and selection benefits. Conversely, macro positioning detracted modestly as global rates repriced higher following the Federal Reserve's (Fed) December interest rate cut and shifting expectations for 2026 easing, with emerging markets (EM) local curves under pressure from global yield volatility and cautious policy signals.

Euro area duration positioning detracted as global curves repriced higher and local dynamics offered little offset. Persistent core inflation and resilient wage growth kept near-term easing expectations muted, while the European Central Bank (ECB) maintained its deposit rate at 2.00% and reiterated that policy remains "in a good place". This steady stance, combined with broader upward pressure on yields, limited performance from euro area duration.

Exposure to U.S. rates detracted as the market repriced higher yields despite the Fed's 25 basis point rate cut on 10 December, which lowered the target range to 3.50%-3.75%. While the cut initially reinforced expectations for 2026 easing, subsequent data, resilient growth indicators and sticky labour conditions tempered dovish sentiment. This drove a bear steepening of the curve, with 10-year yields rising roughly 12 basis points as the long end absorbed term premium adjustments and heavier supply. The Fund's curve steepener bias helped offset some losses, but higher long-end yields left U.S. duration exposure as a modest detractor overall.

Danish rates detracted as yields tracked the broader upward move in European curves, driven by global term premium adjustments and year-end supply pressures. With domestic policy anchored to the ECB and no material local catalysts, Danish bonds offered limited insulation from the global repricing, leaving duration exposure as a modest drag on returns.

Australia duration detracted as yields rose sharply during December; the 10-year bond yield climbed nearly basis points to around 4.76%, reversing earlier declines as markets responded to persistent inflation signals and firm labour data. The Reserve Bank of Australia held its cash rate steady and reiterated that policy would remain restrictive until inflation returns sustainably to target.

The "risk-free" rates + foreign exchange (FX) carry strategy continued to provide steady incremental gains, as elevated base rates across developed and emerging markets sustained attractive carry in an environment of moderating volatility and improving global risk sentiment. These conditions supported high-quality exposures and helped offset some of the drag from directional duration positions.

Both external spreads and quasi spreads moderately contributed to performance.

Credit spreads added to performance, driven by the Fund's exposure to high yield corporates, benefiting from strong carry and modest spread tightening as risk sentiment improved and default expectations remained contained. Robust demand for higher-yielding paper, coupled with limited new issuance, reinforced technical strength and supported performance across selective positions. Investment grade credit added gains more modestly, as spreads hovered near multi-year tights and liquidity conditions stayed favourable, allowing carry to dominate despite valuations offering little room for compression.

Market Review

Fixed income markets closed the year with a broad repricing of rate expectations, as central bank actions and communication reinforced a more cautious policy outlook. Across developed markets, yields moved higher and curves steepened as investors pushed out expectations for future rate cuts and assigned greater weight to rising term premia.

In the U.S., the Federal Reserve delivered a 25 basis point rate cut, but guidance emphasised data dependence, anchoring front-end yields while higher global yields pushed longer maturities higher. In Europe, the ECB held rates steady but struck a more hawkish tone, driving a nearly 20 basis point sell-off in 10-year bunds,[2] while policy divergence remained evident elsewhere, including a rate hike by the Bank of Japan and a hawkishly interpreted cut by the Bank of England. In foreign exchange, the U.S. dollar weakened modestly on the month, with the Swedish krona and Canadian dollar outperforming and the Japanese yen lagging.

Despite higher government bond yields, credit markets ended the year on a constructive note. Investment grade spreads tightened modestly, supported by strong year-end inflows, limited primary issuance and continued demand for carry, with European credit outperforming the U.S. High yield posted its strongest month of the fourth quarter, benefiting from improving risk appetite,

1 Source: Morgan Stanley Investment Management. Data as of 31 December 2025.
2 Source: Bloomberg L.P. Data as of 31 December 2025.

supportive technicals and a benign default backdrop, while convertible bonds underperformed amid renewed volatility in crypto-linked equities despite robust primary issuance.

Securitised markets were among the strongest performers in December. Agency mortgage-backed securities (MBS) spreads tightened meaningfully as the yield curve steepened and valuations remained attractive relative to other core fixed income sectors. Demand from money managers remained strong, and early signs of stabilisation emerged in bank balance sheet participation as the Fed's balance sheet runoff continued at a measured pace. Issuance across asset-backed securities (ABS), non-agency residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS) was steady, capping a solid year of supply and reinforcing the sector's role as a high-carry, shorter-duration alternative within fixed income portfolios.

Portfolio Activity

Portfolio duration was reduced by 0.23 years to 4.09 years, reflecting a more cautious stance after November's rally. The reduction was driven by closing the Australia duration position, recognising that resilient domestic growth and sticky inflation kept the central bank on a higher-for-longer path, limiting near-term rally potential. The Fund also trimmed the long U.K. duration position and reduced the euro area 5s30s steepener as curve dynamics and a restrictive ECB tone limited upside.

The Fund marginally reduced its short U.S. dollar exposure to approximately 4.4% versus a diversified basket of EM currencies, maintaining a constructive view on EM FX.[3] Within the basket, the Fund removed Hungarian forint and added Polish zloty.

Strategy and Outlook

The global macro environment entering 2026 reflects a world adjusting to structurally higher real yields, reduced fiscal flexibility and diverging monetary policy paths—the U.S. and the U.K. easing; Japan, Australia and New Zealand tightening; and others likely on hold. Real rates globally have reset after nearly 15 years of post-Global Financial Crisis monetary repression and now reflect the impact of persistent fiscal expansion funded less by central banks and more by private-sector investors.

Geopolitical risk and trade policy pressures could influence macroeconomic outcomes more directly than in past cycles. China continues to expand its manufacturing and export footprint, even as domestic demand remains weak, policymakers avoid aggressive easing, and U.S. trade policy becomes more restrictive. Across economies, the central question shifts from "who cuts fastest?" to "who can sustainably operate within the constraints of higher real rates, fiscal limits imposed by growing government indebtedness, and geopolitical uncertainty?" We believe this regime rewards selective duration, real-yield exposure, inflation hedges and sovereign differentiation.

Markets navigated a landscape shaped by disruptive and often conflicting forces. Tariffs fuelled uncertainty across supply chains, growth and inflation just as the Fed settled into its rate-cutting mode. Political gridlock in the U.S. culminated in a historic 43-day government shutdown—the longest on record. Yet, through these headwinds, fixed income demonstrated remarkable resilience, even amid stubbornly tight spreads.

The Bloomberg Global Aggregate Index USD Hedged returned 8.87% in 2025—its strongest performance since 2020 (and second-best since 2008)—marking a sharp rebound from the losses during the Fed's rate-hiking cycle in 2022.[2]

The theme of higher starting yields and tighter index-level spreads remains intact, but we anticipate greater dispersion across both macro and credit positions. While headlines emphasise tight corporate spreads, we believe structural factors will likely help sustain these levels—yet active credit selection will likely be the key driver of outperformance in the coming year.

Our outlook calls for global growth to moderate yet remain positive, with the potential to reaccelerate in the second half. Corporate fundamentals appear solid, supported by rising profits, while the promise of artificial intelligence-driven productivity gains looms large.

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

Fund Facts

Launch date	11 December 2020
Base currency	Sterling

2 Source: Bloomberg L.P. Data as of 31 December 2025.
3 Diversification neither assures a profit nor guarantees against loss in a declining market.

12 Month Performance Periods to Latest Month End (%)

Past performance is not a reliable indicator of future results.

	DECEMBER '24 - DECEMBER '25	DECEMBER '23 - DECEMBER '24	DECEMBER '22 - DECEMBER '23	DECEMBER '21 - DECEMBER '22	DECEMBER '20 - DECEMBER '21
OEIC MS Calvert Fixed Income Opportunities Fund - I ACC Shares	7.02	4.78	6.47	-8.19	-0.82

Returns may increase or decrease as a result of currency fluctuations. 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 I ACC Risk and Reward Profile

Lower Risk **Higher Risk**

1 2 **3** 4 5 6 7

Potentially Lower Rewards **Potentially Higher Rewards**

The risk and reward category shown is based on historic data.

- Historic figures are only a guide and may not be a reliable indicator of what may happen in the future.
- As such this category may change in the future.
- The higher the category, the greater the potential reward, but also the greater the risk of losing the investment. Category 1 does not indicate a risk-free investment.
- The Fund is in this category because it invests in fixed interest securities. and the Fund's simulated and/or realised return has experienced medium rises and falls historically.
- The Fund may be impacted by movements in the exchange rates between the Fund's currency and the currencies of the Fund's investments.

This rating does not take into account other risk factors which should be considered before investing, these include:

- The value of bonds are likely to decrease if interest rates rise and vice versa.
- The value of financial derivative instruments can be complex and volatile, and may result in losses in excess of the amount invested by the 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 and 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.

Please refer to the Prospectus for full risk disclosures. All data as of 31.12.2025 and subject to change daily.

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The use of leverage increases risks, such that a relatively small movement in the value of an investment may result in a disproportionately large movement, unfavourable as well as favourable, in the value of that investment and, in turn, the value of the Fund.

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Charts and graphs provided herein are for illustrative purposes only and subject to change.

INDEX INFORMATION

The **Bloomberg Global Aggregate Index**: provides a broad-based measure of the global investment grade fixed-rate debt markets. Total Returns shown is unhedged USD.The index is unmanaged and does not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

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