

Morgan Stanley Investment Funds

# Emerging Markets Debt Fund

**EMERGING MARKETS DEBT TEAM**

## Performance Review

In the one month period ending 31 July 2023, the Fund's I shares returned 2.33% (net of fees)<sup>1</sup>, while the benchmark returned 1.91%.

### Contributors to Relative Performance

- An overweight to Ghana sovereign credit. The government reached an agreement to restructure its domestic debt.
- An overweight to Romanian, Brazilian and Benin sovereign credit.

### Detractors from Relative Performance

- An underweight to South African sovereign credit. A troubled fundamental backdrop (poor policy, corruption, trouble at a state-owned energy company) has kept the position underweight.

## Market Review

Emerging markets debt markets continued with positive performance across all segments of the asset class for the month. The U.S. Federal Reserve (Fed) hiked rates 25 basis points, which was in line with expectations. The Fed indicated that growth still needs to slow and inflation needs to weaken, so another hike in September could be on the table, but the Fed is inching toward the end of its hiking cycle. On the other hand, emerging markets (EM) central banks continued to cut interest rates, with Chile announcing a larger-than-expected rate cut. Many other EM central banks are setting the expectation that they will start cutting as well. The grain deal struck between Ukraine and Russia last year expired this month. Russia pulled out of the deal and, since the expiration, has launched attacks on Ukrainian ports. The International Monetary Fund (IMF) approved a staff-level agreement for Pakistan, which will be critical since the country is on the brink of default. Flows moderated and were flat for the month. Local currency flows turned to outflows, -\$0.5 billion, after three consecutive months of inflows, while hard currency funds that have consistently been in outflows year-to-date saw inflows of \$0.5 billion.

The main emerging markets debt indexes produced positive performance during the month. The local segment, the J.P. Morgan Government Bond Index-Emerging Markets Global Diversified, was the strongest, up 2.88%. The U.S. dollar-denominated sovereign index, the J.P. Morgan EMBI Global Diversified Index, was up 1.91%. Finally, the corporate segment, the J.P. Morgan CEMBI Broad Diversified Index, was up 0.98%. Both sovereign and corporate spreads compressed month-over-month.

## Portfolio Activity

During the month, we added to Uruguay and Oman, while reducing our exposure to Mexico and Argentina.

## Strategy and Outlook

We continue to be cautiously optimistic about the asset class heading into the second half of the year. Many EM central banks are preparing to cut rates, and some notable markets have already started to cut. However, the divergence between EM and developed market rates may not persist, and EM rates will likely need to be accompanied by declines in developed market rates. Many important elections are coming up across emerging markets, including in Argentina, Ecuador and Pakistan, and the results of many of these elections could be crucial for EM investors. Growth, inflation and policy continue to be diverse across the asset class, so differentiation between countries and credits remains important in order to uncover value.

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

## Fund Facts

Launch date	01 April 1995
Base currency	U.S. dollars
Benchmark	Custom- Blended Benchmark

<sup>1</sup> Source: Morgan Stanley Investment Management Limited. Data as of 31 July 2023.

## Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

	YTD	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Class I Shares	7.14	-18.53	-2.09	6.92	14.65	-6.83	10.07	10.44	-2.16	2.80	-8.93
Blended Benchmark	6.08	-17.78	-1.80	6.45	14.42	-4.61	9.32	10.19	1.23	5.53	-6.58

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.**

### Share Class I Risk and Reward Profile

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 income securities from emerging markets and the fund's simulated and/or realised return has experienced high 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 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 July 2023 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](http://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.

Information in relation to sustainability aspects of the Fund and the summary of investor rights is available at the aforementioned website.

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### INDEX INFORMATION

**Blended Benchmark** refers to performance of Fund's benchmark since inception - April 1st, 1995 to June 8th, 2020 –

J.P. Morgan Emerging Markets Bond Index Global; June 8th, 2020 and beyond – J.P. Morgan Emerging Markets Bond Index Global Diversified.

**J.P. Morgan Emerging Markets Bond Index Global Diversified** – tracks total returns for traded external debt instruments in the emerging markets, and is an expanded version of the EMBI+. As with the EMBI+, the EMBI Global includes US dollar-denominated Brady bonds, loans, and Eurobonds with an outstanding face value of at least \$500 million.

The **JP Morgan CEMBI Broad Diversified Index** is a global, liquid corporate emerging-markets benchmark that tracks U.S.-denominated corporate bonds issued by emerging-markets entities.

**JP Morgan GBI-EM Global Diversified Index** a comprehensive global local emerging markets index that consists of regularly traded, liquid fixed-rate, domestic currency government bonds and includes only the countries which give access to their capital market to foreign investors (excludes China, India). The index is market capitalization weighted, with a cap of 10% to any one country.

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*Legislativo 862* and under *Decreto Legislativo 861 referenced above*, nor they will be subject to a public offering directed to institutional investors under the *Reglamento 1*, and will be offered to institutional investors only (as defined in article 8 of the Securities Market Law) pursuant to a private placement, according to article 5 of the Securities Market Law, the interests in the Fund will not be registered in the Securities Market Public Registry maintained by the *SMV*, and the offering of the Fund interests in Peru to institutional investors nor the Fund will be subject to the supervision of the SMV, and any transfers of the Fund interests shall be subject to the limitations contained in the Securities Market Law and the regulations issued thereunder mentioned before, under which the Fund interests may only be transferred between institutional investors. Applications for Fund interests in the sub-fund mentioned herein should not be made without first consulting the current Prospectus, Key Information Document ("KID") or Key Investor Information Document ("KIID"), Annual Report and Semi-Annual Report ("Offering Documents"), or other documents available in your local jurisdiction which is available free of charge from the Registered Office European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxembourg B 29 192.

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