A Sub-Fund of Morgan Stanley Investment Funds

Emerging Markets Debt Fund

EMERGING MARKETS DEBT TEAM

Investors should note that, relative to the expectations of the Autorité des Marchés Financiers, this UCITS presents disproportionate communication on the consideration of extra-financial criteria in its management.

Performance Review

In the one month period ending 31 December 2024, the Fund's Z shares returned -0.30% (net of fees)[1], while the benchmark returned -1.40%.

Contributors to Relative Performance

- An overweight to Ecuador sovereign credit and an underweight to Panama sovereign credit boosted performance.
- Overweights to Brazilian corporate bonds Samarco Mineracao and Ohi Group contributed to performance.

Detractors from Relative Performance

- An underweight to Argentine sovereign credit detracted from performance, as President Milei has reduced government spending and continues to work toward reviving the economy.
- Underweights to Chile and Qatar detracted from performance.

Market Review

Performance was disappointing for emerging markets debt (EMD) markets, as emerging markets (EM) currencies broadly sold off and sovereign and corporate credit were negatively impacted by the rise in U.S. Treasury yields during the month. The U.S. presidential election was top of mind for global investors during the fourth quarter. Following the Federal Reserve's (Fed) first interest rate cut of this cycle in September, October was marked with uncertainty in anticipation of the election, and U.S. Treasury yields increased and the dollar strengthened. The market responded to Trump's victory with increased volatility. Although the Fed cut rates at its December meeting, the less dovish tone grabbed investors' attention and Treasury yields continued to rise along with the dollar. In the Middle East, geopolitical uncertainty increased following the fall of the Assad regime in Syria after four decades of rule. The regime's collapse was partially a consequence of a weaker Iran. This turn of events, in combination with the ongoing war in the region, opens up greater potential for alliances and centers of power in the region to shift. In South Korea, President Yoon Suk Yeol briefly imposed martial law, purportedly to "protect the country from anti-state forces," but more likely as a result of the president's political troubles and lack of influence after the opposition party won last year's general election. Both Yoon and acting president Han Duck-soo were impeached by Parliament, creating political ambiguity, but the country's Constitutional Court is yet to determine if the impeachment is legal. Outflows continued with approximately -$15.8 billion net going out of dedicated EMD funds globally during the fourth quarter, including -$11.6 billion from hard currency funds and -$4.2 billion from local currency funds.[2]

Performance for the major segments of EMD was negative. The EM corporate index — the J.P. Morgan CEMBI Broad Diversified Index — was down the least, -0.54%, as spreads compressed, but the rise in U.S. Treasury yields dominated performance. The U.S. dollar-denominated sovereign index, the J.P. Morgan EMBI Global Diversified Index, was down -1.40% and also saw spreads compress, though to a lesser degree than corporates, with Treasury yields a similar drag on performance. Finally, the local segment of the asset class, represented by the J.P. Morgan Government Bond Index-Emerging Markets Global Diversified, suffered most and was down -1.93%, as currencies sold off and local rates rose, albeit less so than Treasury yields.

Portfolio Activity

During the month we added exposure to Nigeria and Argentina. We reduced exposure to Egypt and Jordan.

Strategy and Outlook

The Fed's rate cut at its December meeting was largely expected; however, the shift in tone and outlook for future cuts in 2025 turned more restrictive than just a few months earlier. EM central banks will continue to watch the Fed's actions as they navigate future rate cuts. Real yields differentials widened between emerging and developed markets as the number of rate cuts moderated across emerging markets but developed markets continued with their cutting cycles. Emerging markets inflation continued to come down, although at a slower pace, and the market remains cautious in anticipation of global policies that could trigger an uptick in inflation. While U.S. politics are often not directly related to emerging markets, policies can have spillover effects. As the next administration comes into office, foreign policy and trade policy will begin to take shape; we will monitor how this could impact countries at an individual level. Geopolitical tensions increased during the quarter. The fall of the Assad regime, along with the Middle East conflict that has expanded beyond Israel and Hamas, may create the potential for shifts in alliances and the centers

[1] Source: Morgan Stanley Investment Management Limited. Data as of 31 December 2024.
[2] Source: J.P. Morgan. Data as of 31 December 2024.

of influence in the region. Given the uncertain macro backdrop, we continue to place an emphasis on differentiation among countries and credits 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	Primary- J.P. Morgan Emerging Markets Bond Index Global Diversified

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	12.07	12.07	13.56	-18.46	-2.03	6.96	14.68	-6.79	10.11	10.49	-2.13
Blended Benchmark	6.54	6.54	11.09	-17.78	-1.80	6.45	14.42	-4.61	9.32	10.19	1.23

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.
- 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, available at www.morganstanleyinvestmentfunds.com. All data as of 31.12.2024 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 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.

If the management company of the relevant Fund decides to terminate its arrangement for marketing that Fund in any EEA country where it is registered for sale, it will do so in accordance with the UCITS rules..

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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.

Investment in the Fund concerns the acquisition of units or shares in a fund, and not in a given underlying asset such as building or shares of a company, as these are only the underlying assets owned.

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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.

A blended benchmark has been used because there has been a change in benchmark during the reporting period shown.

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.

The **J.P. Morgan EMBI Global Diversified Index** tracks liquid, U.S. dollar emerging market fixed and floating-rate debt instruments issued by sovereign and quasi-sovereign entities.

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