Morgan Stanley Investment Funds

Euro Bond Fund

BROAD MARKETS FIXED INCOME TEAM

Performance Review

In the one month period ending 31 October 2023, the Fund's I shares returned 0.38% (net of fees)[1], while the benchmark returned 0.37%.

The portfolio's positioning in developed markets rates had a small positive impact on performance as yields rose during the month.

Positioning in European sovereign bonds (Belgium in particular) had a small negative impact on performance on tighter spreads.

The long position in emerging markets (EM) external debt (high quality, euro-denominated) was negative.

The overweight positioning in credit (investment grade) had a small negative impact on performance, predominantly financial institutions.

The allocation to government-related bonds had a negative impact on performance.

Portfolio Activity

The Fund has 6.59 years versus the index's 6.52 years of interest rate duration.

Within developed market rates, we slightly increased the underweight exposure to France.

We marginally reduced credit risk (taking advantage of technically tight sale opportunities) as activity was light given the limited new issue opportunities, the low secondary market liquidity and the lack of clarity in the European economic backdrop.

Market Review and Outlook

October was another challenging month for global fixed income assets as yields continued to rise, yield curves bear steepened and spreads widened. As war broke out in the Middle East, economic data remained resilient in the U.S. and inflation remained sticky across the globe, it was evident that rates were to remain higher for longer. Yields in the eurozone were more mixed, with parts of the curve shifting lower as data came in softer than expected. The European Central Bank (ECB) also opted to stay on hold with the market interpreting the commentary as marginally dovish.

A key theme again in October was "steeper curves", as the back end came under pressure while the front end remained largely locked. While attributed to many things, the still resilient economy, the shift in central bank guidance and an increase in term premium are likely sources. Given the uncertainty, it is difficult to concretely express an outright view on interest rates; however, we continue to find steepeners attractive at certain parts of the curve. We remain more neutral on the U.S. dollar, preferring to focus on other attractive opportunities.

Euro investment grade spreads marginally outperformed U.S. investment grade spreads this month as October saw credit market spreads widen, with single-name volatility increasing where third quarter results missed expectations. Market tone in the month was driven by several factors including the geopolitical escalations and resilient U.S. data. Third quarter reporting on aggregate was ahead of expectations but saw weakness in energy and chemicals relative to expectations. Finally, the macro environment led the market to demand increased risk premium, driving credit spreads wider. The U.S. and global high yield markets recorded a weak month in October due to a combination of this macro environment and generally disappointing high yield earnings.

Our base case remains unchanged with credit expected to trade around current levels, making carry an attractive return opportunity. We expect supply to rebound in November but disappoint relative to expectations in aggregate for the fourth quarter. Although we do see risks of pre-financing 2024 supply needs given the inverted yield curve. Finally, there are several factors we are closely watching that could shift the narrative: remaining third quarter reporting, the potential for economic policy support in China and higher energy prices. The high yield market ended October with a historically attractive yield; however, our outlook and positioning remain somewhat cautious.

Securitized credit spreads remained largely unchanged in October despite an uptick in supply. European securitized market activity slowed in October as new issuance remains historically light.

Securitized yields remain at historically wide levels, and we believe these wider spreads offer more than sufficient compensation for current market risks. We continue to most favour shorter-maturity securitized credit: residential mortgage-backed securities (RMBS), asset-backed securities (ABS), selected commercial mortgage-backed securities (CMBS). That said, the outlook has modestly deteriorated as household balance sheets come under more pressure and excess savings run down.

Emerging markets debt produced negative returns across all segments of the asset class for the month. Spreads widened for both sovereign and corporate credit, and most EM currencies weakened.

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1 Source: Morgan Stanley Investment Management Limited. Data as of 31 October 2023.

Selective EM bond markets look attractive as recent U.S. economic data released in November suggest the tightening in financial conditions in the third quarter is working to slow the economy. Stable, lower yields and a weaker dollar are good for EM in general.

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

Fund Facts

Launch date	01 December 1998
Base currency	Euro
Benchmark	Custom- Blended Benchmark

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	0.44	-16.79	-3.27	4.04	6.27	-0.45	0.96	4.01	0.12	10.52	1.86
Blended Benchmark	0.35	-17.50	-3.21	3.57	4.88	0.64	0.18	3.50	0.31	11.10	2.17

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 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 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 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. All data as of 31 October 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 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.

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INDEX INFORMATION

The Blended Index performance shown is calculated using the **MSCI Euro Debt Index** from inception through 30 April 2007, the **Euro-Aggregate Index** to 31 December 2014 and the **Bloomberg Euro-Aggregate A- or Better Index** thereafter.

The **Bloomberg Euro Aggregate Bond index** is a broad-based flagship benchmark that measures the investment grade, euro-denominated, fixed-rate bond market, including treasuries, government-related, corporate and securitized issues. Inclusion is based on currency denomination of a bond and not a country of risk of the issuer. The Euro Aggregate is a component of other flagship indices, such as the multi-currency Global Aggregate index and Pan-European Aggregate Index.

The **MSCI Euro Debt Index** is a broad-based benchmark for the sovereign and credit bond markets. It includes fixed rate debt denominated in the euro, or the various European Economic and Monetary Union (EMU) currencies, and rates as investment grade.

The **Bloomberg Euro Aggregate A- or Better Index** is a benchmark that measures the investment grade, euro-denominated, fixed-rate bond market, including treasuries, government-related, corporate and securitized issues. Inclusion is based on currency denomination of a bond and not country of risk of the issuer. Only bonds with a credit rating of A- or better are included.

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