A Sub-Fund of Morgan Stanley Investment Funds

European Fixed Income Opportunities Fund

BROAD MARKETS FIXED INCOME 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 up until 30 November 2025, the Fund's Z shares returned 0.10% (net of fees)[1].

November's performance was primarily driven by macro positioning. Spread-sector positioning had little overall impact.

Euro area duration detracted as the European Central Bank (ECB) held its deposit rate at 2.0% and reiterated that policy remains "in a good place". Persistent service inflation and resilient wage dynamics kept near-term policy easing expectations muted, anchoring yields and limiting returns in eurozone duration. This underperformance was partially offset by U.S. duration, which benefited from a modest Treasury rally as softer inflation data and rising unemployment signalled further cooling in labour markets. These developments drove yields lower, while uncertainty around the timing and scale of policy easing continued to shape front-end pricing. The Fund's curve steepening bias added to gains.

Japanese duration contributed positively, supported by a rally in local rates and improving breakeven performance. Exposure to South African duration also added value amid a constructive macro backdrop and policy recalibration, with the central bank cutting its repo rate and reinforcing credibility through the adoption of a lower inflation target. Long-dated yields compressed to multi-year lows on contained inflation and a stronger rand, driving gains in duration exposures.

Euro area sovereign spreads had a small negative impact, while quasi-sovereign spreads marginally detracted. Risk-free and foreign exchange (FX) carry strategies continued to deliver steady incremental gains, supported by elevated base rates across developed and emerging markets in an environment of moderating volatility and improving global risk sentiment. FX positioning also contributed modestly.

Within credit, investment grade and high yield corporate bonds detracted as spreads widened. This was offset by securitised exposures, led by non-agency residential mortgage-backed securities (RMBS). Performance was underpinned by resilient collateral fundamentals and strong consumer credit profiles that supported spread stability. Limited new issuance and steady demand reinforced technical strength, while security selection in non-agency segments remained a key driver of excess returns.

Market Review

November appeared uneventful on the surface, but beneath the calm, global government bond markets were quietly recalibrating. Across the G7, yields moved sideways as investors absorbed familiar late-cycle signals, incremental data and routine political noise. Yet one market consistently set itself apart: U.S. Treasurys, which managed to finish the month modestly lower in yield even as bunds, gilts and Japanese government bonds (JGBs) drifted slightly higher. The true narrative, however, centred on the evolution of expectations around the Federal Reserve (Fed)—where conviction, hesitation and ultimately clarity unfolded in rapid succession.

Outside the U.S., markets behaved like they were catching their breath. Most developed market curves nudged higher in yield, reflecting localised supply dynamics and steady central bank communication rather than any major macro shock. In contrast, Treasurys quietly reclaimed the leadership position within G7 rates, supported by a month that began with confidence in a December Fed cut, detoured into doubt as data went dark, and ended with a decisive turn once the backlog of indicators finally arrived.

The path of Fed expectations shaped the entire month. Early November opened with a mildly dovish tone, and markets priced a December cut with confidence as softer labour trends and steady disinflation kept the late-cycle narrative intact. But the U.S. government shutdown abruptly halted the release of more than a dozen key indicators—from consumer price index and payrolls to retail sales and personal consumption expenditures—creating a rare data vacuum. In the absence of hard evidence confirming further cooling, investors grew increasingly cautious; rate cut probabilities dropped below 30%, and Treasury yields hovered near local highs.[2]

Everything shifted once the shutdown ended. As agencies released clusters of delayed data, the macro picture snapped back into focus. Across labour, consumption, activity, housing and prices, the message was consistent: the economy was cooling in an orderly manner and inflation continued to soften. No single release turned the tide, but the cumulative weight of the information restored conviction. Within days, December rate cut odds surged back into the 80s, forward rate expectations eased, and the 10-year Treasury rallied toward 4.00%.[2]

[1] Source: Morgan Stanley Investment Management. Data as of 30 November 2025.
[2] Source: Bloomberg L.P. Data as of 30 November 2025.

In retrospect, November was defined less by large market moves than by the transition it marked. After weeks of trading on partial information, investors finally received the confirmation needed to lean into a more accommodative policy path. By month-end, the market was prepared not just for a December rate cut, but for the broader easing cycle expected to carry into 2026.

Corporate Credit: Corporate credit delivered a varied month—investment grade spreads widened on elevated supply and softer sentiment, high yield retraced early volatility supported by net negative supply, and convertible securities underperformed as thematic risk-off tone weighed on equity-linked structures even as issuance remained strong.

Securitised Products: Agency mortgage-backed securities (MBS) spreads held steady at historically wide levels, while securitised credit modestly outperformed on stronger carry and steady fundamentals across RMBS, asset-backed securities (ABS) and higher-quality commercial mortgage-backed securities (CMBS).

Portfolio Activity

The Fund increased its overall duration by 0.33 years to 2.35 years, reflecting a constructive stance on global rates.

Long positions were initiated in the U.K., South Africa, Peru and Mexico, driven by a tactical response to global disinflation trends, dovish policy signals and attractive carry opportunities supported by improving fundamentals in these markets.

In FX positioning, the Fund marginally increased its short U.S. dollar exposure while initiating a long Brazilian real position, marking a shift from a broad weak-dollar view to a more constructive outlook on emerging market currencies.

Within credit, the allocation to investment grade bonds was increased, reinforcing the Fund's focus on quality assets amid stable fundamentals, while technicals were mixed given heavy issuance and wider swap spreads.

Strategy and Outlook

With global central banks progressing further into the easing cycle, fixed income markets are entering a more nuanced phase. Policy signals have become less uniform, and while inflation continues to trend lower, growth momentum is moderating unevenly across regions. This backdrop reinforces the importance of maintaining flexibility and emphasising high quality income as markets adjust to shifting supply-demand dynamics and recalibrating term premia.

Across developed markets, we hold a neutral duration stance while expressing selective yield curve and cross-market views. In the U.S., we continue to favour steepening structures as long-end valuations remain sensitive to evolving fiscal and supply factors. Regional divergences present opportunity: we remain underweight Canada relative to the U.S. as its easing cycle matures, we're constructive on gilts following improved fiscal signals, and we see relative value in Australia versus New Zealand. Japan remains the key outlier, where rising term premia and evolving policy expectations support short duration positions and constructive breakeven positioning.

Credit markets enter year-end with solid fundamental footing but limited valuation cushion. In investment grade, we believe carry remains compelling, supported by conservative balance sheets and muted downgrade risk, though heavy issuance and heightened merger and acquisition activity argue for selectivity. High yield spreads remain near post-crisis lows, and while earnings resilience provides support, softer labour trends and pressure on lower-income consumers call for disciplined issuer selection. Convertible bonds continue to offer attractive convexity, though elevated deltas underscore the need to emphasise balanced structures with firm bond floors.

Securitised products remain well positioned, particularly agency MBS and residential mortgage credit securities, where we believe valuations and fundamentals are constructive and technicals continue to improve. We expect agency spreads to tighten gradually as demand from banks and relative-value buyers strengthens, though full normalisation may await the later stages of the Fed's easing cycle. By contrast, we remain cautious in areas tied to consumer stress and in CMBS subsectors facing structural challenges, even as operating performance in higher quality segments remains resilient.

Overall, we expect carry and income to remain the dominant contributors to returns as markets navigate the transition into 2026. With valuations tight in many spread sectors and policy visibility limited, disciplined security selection, diversification and a renewed focus on quality remain essential.[3]

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

Fund Facts

Launch date	30 September 2014
Base currency	Euro

3 Diversification neither assures a profit nor guarantees against loss in a declining market.

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	4.28	5.46	6.19	-7.86	-0.89	3.15	5.09	-3.64	4.62	2.06	0.48

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 30.11.2025 and subject to change daily.

Applications for shares in the Sub-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.

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