A Sub-Fund of Morgan Stanley Investment Funds

Global Balanced Defensive Fund

PORTFOLIO SOLUTIONS GROUP

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 28 February 2025, the Fund's Z shares returned -0.21% (net of fees)[1], while the benchmark returned 0.01%.

In February, U.S. growth concerns and geopolitical tensions intensified as the Trump administration continued to roll out its agenda and other countries/regions initiated responses. Increased policy uncertainty drove market volatility higher during the month. U.S. equities, Treasury yields, and the U.S. dollar declined (although the dollar rebounded at month-end) while non-U.S. equities advanced. Gold's rally moderated and natural gas prices surged, keeping commodities in positive territory for the month.

Our allocations to European equities, European government bonds and European corporate bonds were the top contributors to performance, while our allocations to U.S. equities and Japanese equities were the top detractors over the month of February.

Market Review

United States

The MSCI USA Index returned -1.61% in U.S. dollar (USD) terms and -1.39% in euro terms in February. The U.S. manufacturing sector's return to expansion lost momentum in February. The Institute for Supply Management (ISM) Manufacturing PMI declined to 50.3%, from 50.9% in January, as new orders and employment both fell back into contraction and output grew at a slower rate. The service sector expansion, however, gained traction. Although business activity grew at a slightly softer pace, new orders and employment growth accelerated. The ISM Services PMI rose to 53.5% in February, from 52.8% in January.

The U.S. headline consumer price index (CPI) was up 3.0% in the year ended January 2025, increasing from 2.9% in December 2024, according to the U.S. Bureau of Labor Statistics (BLS). Excluding food and energy, core CPI grew 3.3% in the year to January 2025, an uptick from 3.2% in December 2024. In a separate BLS report, the unemployment rate ticked higher to 4.1% in February 2025, from 4.0% in January 2025, and 151,000 jobs were added in the month. Wages grew 4.0% in the 12 months ended February 2025.

Eurozone

The MSCI Europe Index returned 3.63% in euro terms and 3.40% in USD terms in February. The contraction in the eurozone manufacturing sector eased further in February, helped by softer declines in production and new orders. However, job losses accelerated. The HCOB Eurozone Manufacturing PMI came in at 47.6, up from 46.6 in January. Service sector activity grew at a slower rate. The HCOB Eurozone Services PMI fell to 50.6 in February, from 51.3 in January, due to a renewed contraction in new business and weaker growth in job creation.

Annual headline inflation grew 2.4% in February 2025, down from 2.5% in January, according to Eurostat's flash estimate. Annual core inflation (excluding energy, food, alcohol, and tobacco) rose 2.6% in February, falling from 2.7% in January. In a separate Eurostat report, the unemployment rate in January 2025 was estimated to be 6.2% in the euro area and 5.8% in the European Union, both stable versus December 2024.

Japan

The MSCI Japan Index returned -4.00% in yen terms and -1.36% in USD terms in February. Japan's manufacturing sector posted a more moderate contraction versus the prior month. The au Jibun Bank Japan Manufacturing PMI rose to 49.0 in February, from 48.7 in January, on the back of slower declines in new orders and output and stagnation in employment. The service sector, in contrast, reported a stronger expansion in activity, helped by new business growth and increased (although slower) hiring. The au Jibun Bank Japan Services PMI increased to 53.7 in February, from 53.0 in January. The Ministry of Economy, Trade and Industry reported industrial production increased 2.6% year-over-year in January 2025.

Headline inflation rose 4.0% over the year ended January 2025, faster than 3.6% in December 2024, as reported by the government's statistics office. Japan's unemployment rate was 2.5% in January 2025, an uptick from 2.4% in December 2024. Household spending grew 0.8% (in real terms) in the year ended January 2025.

[1] Source: Morgan Stanley Investment Management Limited. Data as of 28 February 2025.

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Portfolio Activity

There have been shifts within macro data trends that have led us to reassess our views in the past month. In early February, we closed our underweight positioning in Europe and moved to neutral position. We achieved this by reducing our exposure in U.S. equities and reinvesting the proceeds in European equities, given Europe's improving data trends, low market expectations, a positive inflection in manufacturing, and benefits from a potential resolution of conflict in Ukraine. Within the Europe exposure, we maintained our positioning in European banks and added exposure to materials and construction (STOXX Europe 600 Construction & Materials basket), which was funded by reducing our fixed income exposure via government and investment grade bonds. We believe the materials and construction exposure is likely to benefit from reconstruction efforts in Ukraine. The portfolio's effective equity exposure at the end of the month was 27.8%.

Strategy and Outlook

February performance reflected three key themes: (1) a further breakdown in market confidence around the artificial intelligence (AI) trade, initially triggered in January by the focus on DeepSeek's latest AI model; (2) a soft patch in U.S. economic data, which contrasted with an improving ex-U.S. data trend; and (3) concerns around potential U.S. trade policy implementation. These manifested in weak equity markets, lower interest rates, wider credit spreads, technology and cyclical sector underperformance, and U.S. equity underperformance relative to ex-U.S. equities.

The AI trade seems to have stalled with the market questioning expectations for AI infrastructure-related upside while lacking conviction in its next leg. Since early 2023, the AI trade has been dominated by the companies providing AI chips and building out AI data centers. While most experts caution against over-extrapolating from DeepSeek's purported success in a compute-constrained context, the event still served to highlight fragility in the AI infrastructure trade. Market confidence in AI's transformative potential remains high, but it is far less clear who will win or lose as focus shifts from companies driving the infrastructure buildout to uptake and implementation.

The second key driver of February market performance was a soft patch in U.S. economic data, primarily relating to January consumer data. A weak January retail sales report was followed by weakness in January personal spending data, consumer sentiment readings and services PMIs. While the confluence of these data points deserves attention, we suspect that there is more noise than signal. The reversion in data from a strong end to 2024, issues with seasonal adjustments, cold weather, and fires in California likely all served to temporarily depress January data. There were some bright points in year-to-date macro data; most notably stronger ex-U.S. data trends and a positive inflection in manufacturing data after a long period of weakness.

The third driver of February market weakness is policy uncertainty. The risk to markets is two-fold, including both the potential that some of the more extreme rhetoric becomes permanent policy and the risk that policy uncertainty itself is sufficient to meaningfully dampen demand. The challenge will be to avoid overreacting to any short-term noise, while remaining vigilant in recognizing any sustained shifts in policy direction relative to expectations.

Policy uncertainty is a feature of the current administration and will likely persist at some level, though time should help clarify the divide between rhetoric and implemented policy. Our view entering this year has been that the totality of this administration's policy agenda will be supportive of growth, executed though the pillars of deregulation, fiscal and trade policy. Within this trifecta of policy vectors, trade policy has represented the greatest source of risk and uncertainty. Our base case remains that the worst-case tariff scenarios will ultimately be avoided, but we continue to assess news flow with open eyes.

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

Fund Facts

Launch date	23 August 2016
Base currency	Euro

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	0.77	7.95	4.91	-8.74	4.33	-0.38	5.59	-2.26	0.63	--	--

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.
- Commodity investments can change significantly and quickly in value as a large variety of factors affect them.
- 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 28.02.2025 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 **MSCI Europe Index** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe. The term "free float" represents the portion of shares outstanding that are deemedto be available for purchase in the public equity markets by investors. The performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends.

The **MSCI Japan Index** is a free-floated adjusted market capitalization weighted index that is designed to track the equity market performance of Japanese securities listed on the Tokyo Stock Exchange, Osaka Stock Exchange, JASDAQ and Nagoya Stock Exchange. The MSCI Japan Index is constructed based on the MSCI Global Investable Market Indices Methodology, targeting a free-float market capitalization coverage of 85%.

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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