A Sub-Fund of Morgan Stanley Investment Funds

Global Balanced Risk Control Fund of Funds

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 31 December 2024, the Fund's Z shares returned -0.87% (net of fees)[1], while the benchmark returned -0.68%.

Global markets were weaker in December as hawkish comments from the U.S. Federal Reserve (Fed), rising interest rates and political uncertainty drove equity and bond prices lower. Sticky inflation readings and mixed macro data, along with uncertainty over how aggressively the new U.S. administration will implement policy and how the rest of the world might respond, led to increased market volatility in the month. The U.S. dollar strengthened further, and commodities were led by positive performance in the energy complex that offset declines in gold and industrial metals.

Our allocations to Invesco S&P 500 UCITS ETF, MS INVF Europe Opportunity Fund and MS INVF Sustainable Emerging Markets Equity Fund were the top contributors to performance, and our allocations to MS INVF U.S. Value Fund, iShares USD Treasury Bond 7-10yr UCITS ETF (EUR Hedged) and Vontobel U.S. Equity Fund were the top detractors over the month of December.

Market Review

United States

The MSCI USA Index returned -2.58% in U.S. dollar (USD) terms and -0.52% in euro terms in December. The U.S. manufacturing and service sectors both posted improvements in December. The Institute for Supply Management (ISM) Manufacturing PMI moved closer to stabilisation, at 49.3% in December, from 48.4% in November. New orders growth accelerated while production expanded after contracting the prior month. However, employment shrank at a faster rate. The ISM Services PMI rose to 54.1% in December, from 52.1% in November, boosted by faster growth in business activity and new orders. Although staffing levels continued to expand, the pace was little changed month-over-month.

The U.S. headline consumer price index (CPI) was up 2.7% in the year ended November 2024, rising from 2.6% in October 2024, according to the U.S. Bureau of Labor Statistics (BLS). Excluding food and energy, core CPI grew 3.3% in the 12 months to November 2024, unchanged from October. Separately, the BLS reported the unemployment rate at 4.1% in December 2024, down slightly from 4.2% in November, with 256,000 jobs added in the month. Wages grew 3.9% in the 12 months ended December 2024.

Eurozone

The MSCI Europe Index returned -0.49% in euro terms and -2.56% in USD terms in December. The HCOB Eurozone Manufacturing PMI was down marginally to 45.1 in December, from 45.2 in November. The downturns in production and new orders increased, while headcounts contracted at a softer rate. The HCOB Eurozone Services PMI resumed expansion in December, registering 51.6, up from 49.5 in November. New business grew only modestly while hiring continued to expand, albeit at a slower rate.

Annual headline inflation grew 2.4% in December, accelerating from 2.2% in November, according to Eurostat estimates. Annual core inflation (excluding energy, food, alcohol and tobacco) rose 2.7% in December 2024, holding steady from November. In a separate Eurostat report, unemployment was estimated at 6.3% in the euro area and 5.9% in the European Union in November 2024; both figures were unchanged from October.

Japan

The MSCI Japan Index returned 4.28% in yen terms and -0.34% in USD terms in December. Japan's private sector economy marked a marginal improvement at year-end. The au Jibun Bank Japan Manufacturing PMI came in at 49.6 in December, up from 49.0 in November, as both new orders and output moved closer to stabilisation. Employment returned to a modest growth level after declining in November. The service sector's modest expansion gained more traction amid greater new business inflows and increasing hiring. The au Jibun Bank Japan Services PMI rose to 50.9 in December, from 50.5 in November. The Ministry of Economy, Trade and Industry reported industrial production declined -2.8% year-over-year in November 2024.

Headline inflation increased 2.9% in the year ended November 2024, picking up from 2.3% in the year ended October 2024, as reported by the government's statistics office. Japan's unemployment rate was 2.5% in November 2024, matching the rate in October 2024. Household spending declined -0.4% in the year to November 2024.

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

Portfolio Activity

In early December we adjusted our U.S. exposure, such that the overweight is now expressed through the S&P MidCap 400 Index. We believe mid-cap stocks have more reasonable valuations than the S&P 500 Index and greater prospects for earnings upside as we move through the business cycle. We further added Goldman Sachs Global Core Equity Fund into our portfolio, which was funded by selling regional active managers (Vontobel U.S. Equity Fund and Wellington Strategic European Equity Fund). Also, we reduced Schroders EM Asia Fund due to its small position and muted alpha. The portfolio's effective equity exposure at the end of the month was 51.5%.

Strategy and Outlook

For over a year, the core market narrative has been one of soft landing, representing stable or slightly decelerating growth, with inflation trending toward central bank targets. There have been risks on both sides of this narrative, with too strong growth risking sticky inflation and hawkish policy shifts, and too weak growth carrying recession risk. The April 2024 selloff represented concerns around sticky inflation, while the August selloff reflected concerns around weaker growth and recession risk. The combination of an improving trend in economic data from August into November, together with election implications suggesting firmer growth, have shifted the pendulum again, with growth concerns fading to the periphery of the market's focus while inflation and monetary policy risks have come back into focus. This likely explains most of December's weakness, magnified by perceptions of extended valuation.

While the Fed meeting may have triggered the market's focus on the inflation and policy risk scenario, we do not believe this meeting represented a change in the forward view. The shift in the Fed's interest rate projections reflects a stronger growth environment rather than any concerning shift in the inflation data. The Fed signalled that it intends to slow the pace of cuts in 2025, as expected. The updated dot plot showed 50 basis points (bps) of cuts rather than the previous 100 bps, but this was consistent with market pricing heading into the event. The distribution of the dots for 2025 shows only one participant expecting no further cuts, and no participants expecting a rate hike. We believe the Fed remains more worried about the labour market than inflation, so it will likely tolerate an inflation trend slightly above target to reduce the risk of further labour market weakness.

The trend in economic data proved mixed through December, representing a slight shift in what had been an improving data trend. Consumer sentiment generally seems to have been improving, though the Conference Board Consumer Confidence Index moved lower in December, partially reversing steps higher in the preceding two months. Manufacturing data have been mixed, with the U.S. ISM Manufacturing Index moving higher, but durable goods missing expectations, and the Global Manufacturing PMI stepping lower. Sources of the Global Manufacturing PMI decline included Europe and China. Europe has been a weak point globally with the Eurozone Manufacturing PMI hovering below 47 for most of 2024 and European gross domestic product growth forecasts seeing negative revisions into year-end, even as the U.S. was revised higher. Europe faces weakness in trade demand from China and increased tariff uncertainty in the wake of the U.S. election.

Our base-case soft-landing view remains supported by resilient U.S. growth, inflation data that continues to trend towards target, and the start of the rate-cutting cycle. This view held through 2024, and our confidence in this view heading into 2025 has been reinforced by the policy implications of the U.S. election. We view this as a supportive backdrop for financial markets, but we are also managing portfolios with an understanding that valuations across financial markets are full, though not irrational, and positioning needs to remain opportunistic.

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

Fund Facts

Launch date	02 November 2011
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	15.23	15.23	8.08	-13.64	4.28	7.21	8.80	-4.51	6.68	5.81	5.30

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.
- 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.

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The **MSCI USA Index** is designed to measure the performance of the large and mid cap segments of the US market. With 631 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the US.

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 **S&P MidCap 400** is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment.

The **Standard & Poor's 500® Index (S&P 500®)** measures the performance of the large cap segment of the U.S. equities market, covering approximately 80% of the U.S. equities market. The Index includes 500 leading companies in leading industries of the U.S. economy.

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