

Morgan Stanley Investment Funds

Global Convertible Bond Fund

HIGH YIELD TEAM

Performance Review

In the one month period ending 30 April 2024, the Fund's I shares returned -1.50% (net of fees)¹, while the benchmark returned -2.40%.

Favorable security selection in the information technology sector was the primary driver of relative outperformance during the month. The primary individual contributor to relative outperformance in the sector was a lack of exposure to a U.S.-based provider of business intelligence, mobile software and cloud-based services. The company reported earnings during the month that saw revenue and profit fall short of expectations. Sound security selection in the consumer discretionary and financials sectors also helped relative performance in April. However, this was partially offset by challenging security selection in the health care sector. Relative underperformance in health care was led by a lack of exposure a U.S.-based biotechnology company that reported stronger-than-expected quarterly earnings in April. An allocation to Euro Stoxx 50 Index options and positioning in the materials sector also hurt relative returns in April.

Market Review

The global convertible bond market sold off with other risk markets in April on the back of inflation readings that came in higher than expected and comments from Federal Reserve officials that reflected stalled progress on reducing inflation and a willingness to hold interest rates at current multidecade highs. Geopolitical tensions in the Middle East also affected the performance of risk assets during the month. Global convertible bonds outperformed global equities during April, but modestly underperformed global bonds. The Refinitiv Convertible Global Focus (USD Hedged) Index fell -2.40% during the month, while the MSCI All Country World Index and the Bloomberg Global Aggregate Credit Index fell -3.30% and -2.24%, respectively. The corporate earnings period and poor equity performance set a difficult backdrop for the primary market. In total, \$3.7 billion priced during the month, with more than half coming from Japan, which is rare for the global convertible bond primary market.²

Strategy and Outlook

We remain constructive on the global convertible bond market as we progress through the second quarter. Technicals are strong, as convertible bonds have maintained a balanced profile, interest rates are relatively high, equity valuations continue to increase, and corporations have financing needs. New convertible bond issuance is off to a strong start in 2024. We expect continued strong issuance as corporations look to refinance existing convertible bonds as well as traditional debt in the convertible bond market, given the relatively high interest rate environment and improving equity valuation. A more traditional asymmetric return profile, coupled with an expected increase in new supply, continues to give us optimism for global convertible bonds in 2024.

Global equities performed well in the first quarter, but the strong returns were once again driven by a small cohort of large-cap technology names that typically do not issue convertible bonds. This phenomenon caused equal-weighted indexes to significantly lag the market value-weighted indexes that are dominated by these large technology companies. We continue to believe that this presents a good opportunity for the equities of other companies to appreciate over time, which likely will ultimately benefit convertible bonds.

Volatility remained low in the first quarter. However, we expect volatility to increase as we proceed through 2024. We see risk in the form of: a deteriorating lower-end U.S. consumer, strained supply-and-demand dynamics in commercial real estate; political dysfunction in the U.S., coupled with an approaching presidential election; and wars on multiple continents, accompanied by the threat of escalation. These are some of the known factors that could contribute to a pickup in volatility. Convertible bonds will benefit from an increase in volatility as the option component of the security becomes more valuable.

Finally, global convertible bond supply had a strong first quarter, particularly in the latter half of February and first half of March. New issuance in the global convertible bond market ended the quarter at \$25.2 billion, an approximately 28% increase over the same time period in 2023.³ We believe that new issuance strength will continue throughout the year due to the relatively high interest rate environment. Given the perceived higher-for-longer rate environment, this would equate to a meaningful cash savings for corporate issuers. Additionally, companies will likely be more willing to offer company stock via a convertible bond after the equity market's strong start to the year. An increase in the global convertible bond supply will provide new, attractive investment opportunities going forward.

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

¹ Source: Morgan Stanley Investment Management Limited. Data as of 30 April 2024.

² Source: Bank of America. Data as of 30 April 2024.

³ Source: Bank of America. Data as of 31 March 2024.

Fund Facts

Launch date	17 July 2002
Base currency	U.S. dollars
Benchmark	Custom- Blended Benchmark

Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

	YTD	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Class I Shares	-0.01	12.47	-12.54	3.83	22.24	14.75	-3.69	6.01	1.73	0.47	3.64
Blended Benchmark	-1.30	9.84	-16.00	-1.11	22.84	13.10	-3.01	6.00	1.59	3.83	4.73

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 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. All data as of 30 April 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 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. Luxembourg B 29 192.

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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 relevant UCITS rules.

INDEX INFORMATION

The Blended Benchmark performance shown is calculated using the **ICE BofAML G300 Global Convertible Index Local Currency** to 31 October 2005, the **ICE BofAML G300 Global Convertible Index USD Hedged** to 30 April 2011 and the **Refinitiv Convertible Global Focus (USD Hedged) Index**

thereafter. Effective 21 February 2020, the **Thomson Reuters Convertible Global Focus (USD Hedged) Index** was renamed to **Refinitiv Convertible Global Focus (USD Hedged) Index**.

The **Refinitiv Convertible Global Focus USD Hedged Index** is a market weighted index with a minimum size for inclusion of \$500 million (US), 200 million (Europe), 22 billion Yen, and \$275 million (Other) of Convertible Bonds with an Equity Link.

ICE BofAML G300 Global Convertible Index - Local Currency is a global convertible index composed of companies representative of the market structure of countries in North America, Europe and the Asia/Pacific region. It is composed of securities denominated in their respective local currencies.

ICE BofAML G300 Global Convertible Index USD Hedged is a global convertible index composed of companies representative of the market structure of countries in North America, Europe and the Asia/Pacific region. It is hedged to the U.S. dollar.

The **MSCI All Country World Index (ACWI)** is a free float-adjusted market capitalization weighted index designed to measure the equity market performance of developed and emerging markets. The term "free float" represents the portion of shares outstanding that are deemed to 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 **Bloomberg Global Aggregate Credit Total Return Index** measures the global investment grade local currency corporate and government-related bond markets. This multi-currency benchmark includes fixed-rate bonds from both developed and emerging markets issuers. It is a component of the Bloomberg Global Aggregate Index.

The **Euro Stoxx 50 Index** is a market capitalization-weighted stock index of 50 large, blue-chip European companies operating within Eurozone nations. The universe for selection is found within the 18 Dow Jones EURO STOXX Supersector indexes, from which members are ranked by size and placed on a selection list.

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