Morgan Stanley Investment Funds

Global Credit Opportunities Fund

BROAD MARKETS FIXED INCOME TEAM

Performance Review

In the one month period ending 31 March 2024, the Fund's Z shares returned 1.47% (net of fees)[1], while the benchmark returned 1.26%.

The performance can be attributed to the following factors.

The portfolio's overall investment grade credit positioning had a positive impact on performance. The portfolio is positioned to be overweight financials and underweight industrials when measured in duration times spread terms.

Positions within investment grade financials were drivers of positive performance because of the overweight to insurance and banking. Similarly, the underweight to investment grade utility had a positive impact on performance due to the overweight to natural gas. On the other hand, positions within investment grade industrials were drivers of negative performance, specifically the underweight to consumer non-cyclical and transportation.

Elsewhere, the overweights in high yield and government-related positions had positive impacts on performance.

The underweight in duration positioning had a positive impact on performance due to the underweight to euro rates, which fell during the period.

Market Review

Developed market interest rates fell in March, and yield curves bull flattened. Longer-maturity bonds rallied, aided by a compression in term premia and more dovish communication from central banks. Shorter-maturity yields were supported by growing confidence that central banks would cut rates this year. In the eurozone, a growing number of European Central Bank Governing Council members are beginning to indicate a cut in June is likely, even though economic activity continues to be robust and inflation prints year-to-date have been slightly stronger than the market was expecting. In the U.S., the Federal Reserve's (Fed) Summary of Economic Projections revealed that most members continue to expect three 25 basis point rate cuts in 2024, despite sticky price inflation prints. Moreover, only one cut was removed from 2025 while projections of the long-run policy rate are little-changed. The Bank of Japan abandoned its yield curve control policy and increased its policy rate out of negative territory for the first time in almost 17 years.

In March, euro investment grade spreads outperformed U.S. investment grade spreads, as credit market spreads broadly tightened, supported by a continuation of February's themes of strong demand for fixed income and a continued belief that the "Goldilocks soft landing" was the economic backdrop companies would most likely be operating against. Market sentiment in the month was driven by several factors: Firstly, equity markets rallied, supported by economic data that exceeded expectations and positive assumptions over the potential impact of artificial intelligence (AI) on both growth and productivity. Secondly, there was no further escalation in geopolitical concerns, with news in the Middle East/Red Sea being viewed as a regional and a non-systemic event. Thirdly, fourth quarter corporate reporting was positive for credit markets, as it confirmed that corporates were seeing limited stress in their business with the majority running low-risk strategies. Merger and acquisition (M&A) activity was concentrated in sectors that benefited from the pandemic and supply-side disruption, including energy, pharmaceuticals, health care and technology. In most cases, the deal structures do not significantly increase leverage, which is a positive sign for bondholders. Finally, corporate idiosyncratic risk increased in Europe, creating name-specific volatility, but this had little impact on overall market sentiment.

Portfolio Activity

In March, activity focused on new issue supply to rotate positions that had reached our fair value, looking to add marginal value from the new issue premium.

Strategy and Outlook

Strategy

In the portfolio, we continue our overweight position to credit risk, as we remain constructive on credit from a fundamentals perspective. We therefore prefer to take this position through default risk (duration times spread) rather than general market beta (spread duration).

We remain biased towards financials over non-financials. Financials continue to present strong fundamentals and attractive valuations relative to non-financial credits. We remain underweight industrials on concerns over continued downward ratings migration into BBBs, increased merger and acquisition risk, shareholder-interest focused activity (dividends and buybacks), technological disruption and increasing idiosyncratic news. We thematically prefer regulated business models over unregulated (i.e., utilities) to hedge these risks.

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

In terms of interest rate risk, we are underweight in duration terms versus the benchmark. We also continue to look for new issues to take advantage of new opportunities in the primary market.

Outlook

While central banks have suggested that rate cuts will begin this year, the exact timing of the first cut is less important than the pace and magnitude of the entire cutting cycle. Signs of still-sticky price pressures and an economy in good health suggest the cutting cycle may be shallow. Yet, central banks have recently shown a bias towards easier monetary policy, at the Fed in particular, where focus has turned to the dual mandate and the two-sidedness of risks.

Looking forward, our base case remains constructive for credit, supported by expectations of an economic soft landing, low-risk corporate strategies, accommodative fiscal policy and positive momentum. Considering current credit spreads valuation, we see a market that is fairly priced, and hence we see carry as an attractive return opportunity. But, given the uncertain medium-term fundamental backdrop, we have less confidence in expected spread tightening.

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

Fund Facts

Launch date	28 February 2023
Base currency	U.S. dollars
Benchmark	Bloomberg Global Aggregate Corporates - USD-Hedged

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 Z Shares	0.88	--	--	--	--	--	--	--	--	--	--
Bloomberg Global Aggregate Corporates - USD-Hedged	0.10	--	--	--	--	--	--	--	--	--	--

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 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.
- 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 March 2024 and subject to change daily.

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INDEX INFORMATION

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