A Sub-Fund of Morgan Stanley Investment Funds

Global Fixed Income Opportunities Fund

BROAD MARKETS FIXED INCOME TEAM

Performance Review

In the one month period ending 31 December 2025, the Fund's A shares returned 0.28% net of fees (ex EC)[1].

December's performance was anchored by spread sectors, where securitised and corporate credit delivered robust gains amid resilient fundamentals and favourable technicals. Limited issuance and persistent demand for high quality collateral supported structured products, while corporate spreads held near multi-year tights, reinforcing carry and selection benefits. Conversely, macro positioning detracted modestly as global interest rates repriced higher following the Federal Reserve's (Fed) December rate cut and shifting expectations for 2026 easing, with emerging markets (EM) local yield curves under pressure from global yield volatility and cautious policy signals.

Macro Positioning

- **U.S. Duration:** Exposure to U.S. rates detracted as the market repriced higher yields despite the Fed's 25 basis point rate cut on 10 December, which lowered the target range to 3.50%–3.75%. While the cut initially reinforced expectations for 2026 easing, subsequent data, resilient growth indicators and sticky labour conditions tempered dovish sentiment. This drove a bear-steepening of the yield curve, with 10-year yields rising roughly 12 basis points (bps) as the long end absorbed term premium adjustments and heavier supply. The Fund's curve steepener bias helped offset some losses, but higher long-end yields left U.S. duration exposure as a modest detractor overall.
- **Euro Area Duration:** Detracted as global yield curves repriced higher and local dynamics offered little offset. Persistent core inflation and resilient wage growth kept near-term easing expectations muted, while the European Central Bank (ECB) maintained its deposit rate at 2.00% and reiterated that policy remains "in a good place". This steady stance, combined with broader upward pressure on yields, limited performance from euro area duration.
- **Denmark Duration:** Danish rates detracted as yields tracked the broader upward move in European yield curves, driven by global term premium adjustments and year-end supply pressures. With domestic policy anchored to the ECB and no material local catalysts, Danish bonds offered limited insulation from the global repricing, leaving duration exposure as a modest drag on returns.
- **Australia Duration:** Detracted as yields rose sharply during December, as the 10-year bond climbed nearly 35 bps to around 4.76%, reversing earlier declines as markets responded to persistent inflation signals and firm labour data.[2] The Reserve Bank of Australia (RBA) held its cash rate steady and reiterated that policy would remain restrictive until inflation returns sustainably to target.
- **Brazil Duration:** Local yield curves repriced higher through December as the Selic rate held at 15% amid uneven inflation progress and lingering fiscal uncertainty. These factors reinforced expectations for restrictive policy well into early 2026 and, combined with global term premium adjustments, pushed long-end yields higher and weighed on performance.
- **South Africa Duration:** Contributed positively, as local yields declined through December following a 25 bp repo rate cut to 6.75% by the South African Reserve Bank. The move, alongside the formal adoption of a lower 3% inflation target, reinforced policy credibility and improved investor sentiment. Contained inflation and a stronger rand supported demand for long-dated bonds, driving yields toward multi-year lows and adding modest gains to performance.
- **"Risk-Free" Rates + Foreign Exchange (FX) Carry:** Continued to provide steady incremental gains, as elevated base rates across developed and emerging markets sustained attractive carry in an environment of moderating volatility and improving global risk sentiment. These conditions supported high quality exposures and helped offset some of the drag from directional duration positions.
- **FX Positioning:** Marginal contributor, with gains primarily driven by EM currencies. The Fund's short U.S. dollar stance versus a diversified basket of currencies benefited from appreciation in Mexican peso and South African rand, supported by high carry and improving risk sentiment. These positives were partially offset by weakness in Brazilian real late in the month.

Spread Sector Exposures

[1] Source: Morgan Stanley Investment Management. Data as of 31 December 2025.
[2] Source: Bloomberg L.P. Data as of 31 December 2025.

- **Credit Spreads:** Added to performance, driven by the Fund's exposure to high yield corporates, benefiting from strong carry and modest spread tightening as risk sentiment improved and default expectations remained contained. Robust demand for higher-yielding paper, coupled with limited new issuance, reinforced technical strength, and supported performance across selective positions. Investment grade credit added gains more modestly, as spreads hovered near multi-year tights and liquidity conditions stayed favourable, allowing carry to dominate despite valuations offering little room for compression.
- **Securitised:** Contributed positively, with gains led by agency residential mortgage-backed securities (RMBS) and non-agency RMBS, while non-agency commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS) added incremental performance. Agency RMBS benefited from stable prepayment dynamics and strong demand for high quality collateral, while non-agency segments were supported by resilient credit fundamentals and limited issuance. Technical strength remained a key tailwind, and security selection across RMBS and CMBS continued to drive excess returns.

Market Review

Fixed income markets closed the year with a broad repricing of rate expectations, as central bank actions and communication reinforced a more cautious policy outlook. Across developed markets, yields moved higher and curves steepened as investors pushed out expectations for future rate cuts and assigned greater weight to rising term premia.

In the U.S., the Federal Reserve delivered a 25 bp rate cut, but guidance emphasised data dependence, anchoring front-end yields while higher global yields pushed longer maturities higher. In Europe, the ECB held rates steady but struck a more hawkish tone, driving a nearly 20 bp sell-off in 10-year bunds,[2] while policy divergence remained evident elsewhere, including a rate hike by the Bank of Japan and a hawkishly interpreted cut by the Bank of England. In foreign exchange, the U.S. dollar weakened modestly on the month, with the Swedish krona and Canadian dollar outperforming and the Japanese yen lagging.

Despite higher government bond yields, credit markets ended the year on a constructive note. Investment grade spreads tightened modestly, supported by strong year-end inflows, limited primary issuance and continued demand for carry, with European credit outperforming the U.S. High yield posted its strongest month of the fourth quarter, benefiting from improving risk appetite, supportive technicals and a benign default backdrop, while convertible bonds underperformed amid renewed volatility in crypto-linked equities despite robust primary issuance.

Securitised markets were among the strongest performers in December. Agency MBS spreads tightened meaningfully as the yield curve steepened and valuations remained attractive relative to other core fixed income sectors. Demand from money managers remained strong, and early signs of stabilisation emerged in bank balance sheet participation as the Fed's balance sheet runoff continued at a measured pace. Issuance across ABS, non-agency RMBS and CMBS was steady, capping a solid year of supply and reinforcing the sector's role as a high-carry, shorter-duration alternative within fixed income portfolios.

Portfolio Activity

In December, the Fund maintained its disciplined risk posture, taking profits on select rate trades and reducing curve risk. We trimmed exposure in South Korean won duration and euro curve steepener, while reallocating from lower-conviction covered bonds to core rate positions. These adjustments reflect our proactive approach to preserving flexibility amid shifting macro conditions. We remain constructive on global fixed income markets.

The backdrop is compelling: a resilient global economy, still robust corporate and consumer fundamentals, and attractive real yields across the asset class continue to drive flows. These dynamics continue to support our conviction in the Fund's ability to deliver compelling risk-adjusted returns going forward and we remain confident with the Fund's positioning. Given valuations, we believe bottom-up security selection to identify these higher-yielding names is fundamental to generate alpha moving forward as we do not expect spreads to tighten significantly from here.

Duration Management:

- Portfolio duration was reduced by 0.30 years to 4.53 years, reflecting a more cautious stance after November's rally. The reduction was driven by closing the Australia duration position, recognising that resilient domestic growth and sticky inflation kept the RBA on a higher-for-longer path, limiting near-term rally potential. The Fund also trimmed South Korea duration, closed the Canada/U.S. Treasury relative value trade, and reduced the euro area 5s-30s steepener as curve dynamics and a restrictive ECB tone limited upside.

FX Positioning:

- The Fund marginally increased its short U.S. dollar exposure to approximately 9.7% versus a diversified basket of EM currencies, maintaining a constructive view on EM FX. Within the basket, the Fund trimmed Hungarian forint and Indian rupee positions and added Polish zloty.

Spread Sector Adjustments

- The most notable adjustment was trimming Danish covered bonds due to relatively rich valuations, freeing risk budget toward higher-conviction spread opportunities.
- Broader allocations to investment grade credit, high yield credit and securitised sectors were maintained, with paydowns in securitised credit reinvested selectively to preserve exposure.

[2] Source: Bloomberg L.P. Data as of 31 December 2025.

Strategy and Outlook

The global macro environment entering 2026 reflects a world adjusting to structurally higher real yields, reduced fiscal flexibility and diverging monetary policy paths—the U.S. and the U.K. easing; Japan, Australia and New Zealand tightening; and others likely on hold. Real rates globally have reset after nearly 15 years of post-Global Financial Crisis monetary repression and now reflect the impact of persistent fiscal expansion funded less by central banks and more by private-sector investors.

Geopolitical risk and trade policy pressures could influence macroeconomic outcomes more directly than in past cycles. China continues to expand its manufacturing and export footprint, even as domestic demand remains weak, policymakers avoid aggressive easing, and U.S. trade policy becomes more restrictive. Across economies, the central question shifts from ***"who cuts fastest?"*** to ***"who can sustainably operate within the constraints of higher real rates, fiscal limits imposed by growing government indebtedness, and geopolitical uncertainty?"*** We believe this regime rewards selective duration, real-yield exposure, inflation hedges and sovereign differentiation.

Markets navigated a landscape shaped by disruptive and often conflicting forces. Tariffs fuelled uncertainty across supply chains, growth and inflation just as the Fed settled into its rate-cutting mode. Political gridlock in the U.S. culminated in a historic 43-day government shutdown—the longest on record. Yet, through these headwinds, fixed income demonstrated remarkable resilience, even amid stubbornly tight spreads.

The Bloomberg Global Aggregate Index USD Hedged returned 8.87% in 2025—its strongest performance since 2020 (and second-best since 2008)—marking a sharp rebound from the losses during the Fed's rate-hiking cycle in 2022.[2]

The theme of higher starting yields and tighter index-level spreads remains intact, but we anticipate greater dispersion across both macro and credit positions. While headlines emphasise tight corporate spreads, we believe structural factors will likely help sustain these levels—yet active credit selection will likely be the key driver of outperformance in the coming year.

Our outlook calls for global growth to moderate yet remain positive, with the potential to reaccelerate in the second half. Corporate fundamentals appear solid, supported by rising profits, while the promise of artificial intelligence-driven productivity gains looms large.

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

Fund Facts

Launch date	07 November 2011
Base currency	U.S. dollars

Investment Performance % of net fees (ex EC) in USD†

	Cumulative (%)				Annualised (% p.a.)			
	1 M	3 M	YTD	1 YR	3 YR	5 YR	10 YR	INCEPTION
Class A	0.28	1.50	7.48	7.48	6.63	2.12	3.45	3.83

12 Month Performance Periods To Latest Month End (%)

	DEC'24 -DEC'25	DEC'23 -DEC'24	DEC'22 -DEC'23	DEC'21 -DEC'22	DEC'20 -DEC'21	DEC'19 -DEC'20	DEC'18 -DEC'19	DEC'17 -DEC'18	DEC'16 -DEC'17	DEC'15 -DEC'16
Class A (ex EC)	7.48	4.63	7.81	-7.90	-0.55	3.99	9.29	-0.44	7.05	4.35
Class A (in EC)	--	--	--	--	--	--	--	--	--	0.18

All performance data is calculated NAV to NAV. The sources for all performance and index data is Morgan Stanley Investment Management ('MSIM Ltd').

% Net of fees figure shown assumes reinvestment of all distributions and deduction of fund level costs (which include: the deduction of the Management, trustee/custodian and administration charges) plus the deduction of the maximum entry charge applicable at investor level that may be taken out of your subscription money before it is invested.

Please see the Fund's current prospectus and the share class' Key Investor Information Document for complete details on fees and sales charges.

† Example: If, an investor wishes to purchase USD 100 worth of shares, the maximum entry charge of 5.75% would be applied. Therefore, the investor has to expend USD 106.10 in total at subscription to obtain USD 100 worth of shares.

Excluding Entry Charge ('ex EC') figure shown assumes reinvestment of all distributions and deduction of fund level costs, but does not reflect the deduction of any entry charge applicable at investor level.

Including Entry Charge ('in EC') figure assumes reinvestment of all distributions and deduction of fund level costs, plus the deduction of any entry charge applicable at investor level.

2 Source: Bloomberg L.P. Data as of 31 December 2025.

Share Class A 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 31.12.2025 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 from the Prospectus of the Fund.

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