A Sub-Fund of Morgan Stanley Investment Funds

Short Maturity Euro Bond Fund

BROAD MARKETS FIXED INCOME TEAM

Performance Review

In the one month period ending 31 December 2025, the Fund's I shares returned 0.13% (net of fees)[1], while the benchmark returned 0.04%.

December was dominated by a heavy central bank calendar and a hawkish repricing in Europe, with markets increasingly having to consider the possibility of hikes further out the curve. Against this backdrop, the Fund delivered positive active performance versus the benchmark by maintaining a bias towards high-quality spread carry and security selection, while keeping outright rates exposure tightly controlled.

Performance was driven by sector spread exposure, led by investment grade corporates, with covered bonds also contributing. Within macro buckets, gains were supported by quasi-sovereigns and euro-denominated emerging market external spreads, partly offset by a modest detractor from core sovereign positioning (France and Germany).

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 basis point rate cut, but guidance emphasised data dependence, anchoring front-end yields while higher global yields pushed longer maturities higher. In Europe, the European Central Bank held rates steady but struck a more hawkish tone, driving a nearly 20 basis point 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 mortgage-backed securities (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 asset-backed securities (ABS), non-agency residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (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

Positioning remains conservative on rates, with overall interest rate risk kept close to the benchmark. Active risk is concentrated in spread sectors, led by investment grade credit and covered bonds, alongside selective exposure to quasi-sovereigns and euro-denominated emerging markets external debt, funded in part by an underweight to core sovereign spread exposure, including France and Germany. We maintain a 2s5s bull steepener position.

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.

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

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	01 August 1994
Base currency	Euro
Benchmark	Custom- Blended Benchmark

Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

	YTD	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Class I Shares	3.02	3.02	4.03	4.15	-3.77	0.32	-0.31	1.04	-1.39	0.54	0.45
Blended Benchmark	2.29	2.29	3.15	3.48	-4.82	-0.70	0.02	0.28	-0.09	-0.34	0.38

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 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.
- 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.

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

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

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.

Investment in the Fund concerns the acquisition of units or shares in a fund, and not in a given underlying asset such as building or shares of a company, as these are only the underlying assets owned.

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Charts and graphs provided herein are for illustrative purposes only and subject to change.

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The **Blended Index** performance shown is calculated using the **MSCI EMU Sovereign Debt 1-3 Yrs Index** from inception through 30 April 2007 and the **Bloomberg Euro-Aggregate: Treasury 1-3 Yrs Index** thereafter.

The **Bloomberg Euro Aggregate Treasury 1-3 Years Index** is a benchmark that measures the 1-3 year maturity Treasury euro-denominated issues. Inclusion is based on currency denomination of a bond and not country of risk of the issuer.

MSCI EMU Sovereign Debt 1-3 Yrs Index is a benchmark for sovereign fixed rate debt denominated in the euro, or the various Economic and Monetary Union (EMU) currencies, are rated investment grade and have a maturity of 1-3 years.

The indexes are unmanaged and do not include any expenses, fees, or sales charges. It is not possible to invest directly in an index.

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A blended benchmark has been used because there has been a change in benchmark during the reporting period shown.

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