Morgan Stanley

INVESTMENT MANAGEMENT

NOT FOR DISTRIBUTION OR USE WITH HONG KONG GENERAL PUBLIC

Morgan Stanley Investment Funds

Short Maturity Euro Bond Fund

MARKETING COMMUNICATION | BROAD MARKETS FIXED INCOME TEAM | MONTHLY COMMENTARY | 30 APRIL 2023

Performance Review

In the one month period ending 30 April 2023, the Fund's I shares returned 0.23% (net of fees)[1], while the benchmark returned 0.12%.

Within credit, spreads tightened, with financials performing in line with industrials and outperforming utilities. Most of the outperformance in April came from the portfolio's overweight to investment grade credit, with most of the gains stemming from the exposure to financials (banking).

The long position in government-related securities contributed to the outperformance, particularly in developed markets.

The allocation to covered bonds was also positive.

There were no material detractors from relative performance in the month.

Portfolio Activity

The Fund has 1.82 years versus the index's 1.99 years of interest rate duration.

During the month, the portfolio's underweight duration was reduced by 0.14 years to close at -0.16 years.[2]

Most of the change was implemented through government bonds, where we added duration in Germany, while increasing the underweight to France.

Market Review and Outlook

Developed market rates were mixed in April, with yields largely moving sideways in most economies and U.S. yields falling slightly. As volatility declined slightly following March's banking sector stress, the market shifted to interpreting new economic data and predicting the prospect and significance of a credit crunch. In the U.S., while the labour market data, employment cost index (ECI) and personal consumption expenditures (PCE) inflation data came in stronger than expected, Institute for Supply Management manufacturing data and Job Openings and Labor Turnover Survey data came in weaker than expected. Elsewhere, in New Zealand, yields fell as consumer price index (CPI) data came in softer than expected, while in contrast, yields in the U.K. rose on the back of stronger inflation data. In terms of central bank meetings, the Reserve Bank of New Zealand surprised markets when it hiked by 50 basis points (bps) versus the 25 bps expected. The Reserve Bank of Australia and Bank of Canada kept rates the same, in line with expectations. The Riksbank raised rates by 50 bps, as anticipated. Finally, the Bank of Japan, in Ueda's first meeting as governor, kept the policy the same, including the yield curve control policy.

While the acute stress from the banking sector issues has lessened, the problems have not fully gone away and will continue to impact the economy. Despite the lack of clarity regarding the magnitude of the economic impact, credit conditions are likely to tighten even further. Therefore, we continue to monitor the situation and will be closely watching the upcoming quarterly Senior Loan Officer Opinion Survey (SLOOS) data in the U.S. The market is pricing scenarios where the Federal Reserve (Fed) goes much higher (i.e., taking rates to 5.75%-6%), as well as pricing in a greater likelihood of a recession. Unfortunately for the Fed, while the banking issues will likely be disinflationary, CPI, ECI and PCE data again confirmed that inflation and wages are still elevated and sticky. Given the uncertainty, it is difficult to concretely express an outright view on interest rates, and it may be wise to be patient for now, awaiting further clarification while taking advantage of more relative dislocations. In terms of foreign exchange, coming into this situation, we thought the U.S. dollar could weaken, which it has continued to do. We still believe that dollar weakness could continue.

European investment grade spreads outperformed U.S. investment grade spreads this month amid elevated credit market volatility driven by several aforementioned factors. Main themes included U.S. bank volatility and weaker U.S. economic data. European data remained more robust, reflecting the reduced impact of supply chain disruption and the continued support of fiscal programmes like

[1] Source: Morgan Stanley Investment Management Limited. Data as of 30 April 2023.
[2] Due to rounding, figures may not sum exactly.

the European Recovery Fund. Similarly, global labour markets remain strong, supporting consumption and labour price inflation and leading to continued rate hike expectations/tighter monetary policy. First quarter reporting mostly outperformed expectations, with financials benefiting from higher net interest margins, while non-financials highlighted continued pricing power, the benefits of reopening (airlines) and the impact of prior cost-cutting (cyclicals).

Volatility in the U.S. and global high yield markets receded in April, and the demand for credit risk generally improved amid lacklustre secondary trading volume and renewed capital markets activity. Investors took advantage of still historically attractive yields, and the higher-beta segments of the high yield market generally outperformed.

Our base case view remains that we are compensated to own credit, as we view corporate fundamentals to be resilient and the macro backdrop to likely improve as monetary policy tightening pauses and China reopens. We view companies as having built liquidity in recent quarters and implemented cost-efficiencies under the COVID era. We expect profit margins to be pressured by increased costs (although first quarter reporting suggests companies are protecting margins in the short term) and top-line revenue to be challenging, but given the starting point we believe corporates will be able to manage a slowdown without significant downgrades or defaults (base case: low default and low growth). Supportive for the investment grade credit market is demand for high quality fixed income assets at absolute yields not seen for a number of years.

We remain cautious on the high yield market as we progress through the second quarter of 2023. Episodic weakness accompanied by volatile spread movement seems to be the most likely path forward due to several factors, starting with clear evidence of existing cracks in the U.S. economy and what we view as the increasing likelihood of a hard economic landing.

After the volatility and spread widening in March, the securitised markets stabilised in April, although spreads remain materially wider over the past two months. We continue to believe that the fundamental credit conditions of residential housing loan markets remain sound, but we also believe that higher risk premiums are warranted across all credit assets given projected economic weakness. We remain concerned about global economic conditions, and we expect employment rates to decline and households to experience greater stress. We expect home prices to fall another 5%-10% for the remainder of 2023. U.S. residential credit remains our favourite sector, and we remain more cautious of commercial real estate, especially office, which continues to be negatively impacted in the post-pandemic world.

Emerging markets debt delivered positive returns for the month. Many emerging markets currencies strengthened during the month. Spreads tightened in emerging markets corporates and were flat in hard currency sovereign, but the rally in U.S. Treasury yields contributed to performance.

The volatility stemming from banking stresses in developed markets has put a damper on the macro picture to some degree. That said, we remain constructive on the emerging markets asset class. Growth, inflation and policy are quite differentiated among countries and credits within the emerging markets universe, so bottom-up analysis is critical to uncover value.

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

FUND FACTS

Launch date	Base currency	Index
01 August 1994	Euro	Custom - Blended Benchmark

Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

	YTD	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Class I Shares	0.89	-3.77	0.32	-0.31	1.04	-1.39	0.54	0.45	0.27	1.05	1.53
Blended Benchmark	0.87	-4.82	-0.70	0.02	0.28	-0.09	-0.34	0.38	0.68	1.68	1.83

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 risk and reward category shown is based on historic data.

- Historic figures are only a guide and may not be a reliable indicator of what may happen in the future.
- As such this category may change in the future.
- The higher the category, the greater the potential reward, but also the greater the risk of losing the investment. Category 1 does not indicate a risk free investment.
- The fund is in this category because it invests in fixed income securities and the fund's simulated and/or realised return has experienced low rises and falls historically.
- The fund may be impacted by movements in the exchange rates between the fund's currency and the currencies of the fund's investments.

This rating does not take into account other risk factors which should be considered before investing, these include:

- 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. All data as of 30 April 2023 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. Luxemburg B 29 192.

Information in relation to sustainability aspects of the Fund and the summary of investor rights is available at the aforementioned website.

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 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.

“Bloomberg®” and the Bloomberg Index/Indices used are service marks of Bloomberg Finance L.P. and its affiliates, and have been licensed for use for certain purposes by Morgan Stanley Investment Management (MSIM). Bloomberg is not affiliated with MSIM, does not approve, endorse, review, or recommend any product, and. does not guarantee the timeliness, accurateness, or completeness of any data or information relating to any product.

DISTRIBUTION

This material is only intended for and will be only distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations. It is the responsibility of any person in possession of this material and any persons wishing to make an application for Shares in pursuant to the Prospectus to inform themselves and observe all applicable laws and regulations of any relevant jurisdictions.

MSIM, the asset management division of Morgan Stanley (NYSE: MS), and its affiliates have arrangements in place to market each other’s products and services. Each MSIM affiliate is regulated as appropriate in the jurisdiction it operates. MSIM’s affiliates are: Eaton Vance Management (International) Limited, Eaton Vance Advisers International Ltd, Calvert Research and Management, Eaton Vance Management, Parametric Portfolio Associates LLC, and Atlanta Capital Management LLC.

In the EU, MSIM materials are issued by MSIM Fund Management (Ireland) Limited (“FMIL”). FMIL is regulated by the Central Bank of Ireland and is incorporated in Ireland as a private company limited by shares with company registration number 616661 and has its registered address at The Observatory, 7-11 Sir John Rogerson's Quay, Dublin 2, D02 VC42, Ireland.

Outside the EU, MSIM materials are issued by Morgan Stanley Investment Management Limited (MSIM Ltd) is authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No. 1981121. Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA.

Switzerland: MSIM materials are issued by Morgan Stanley & Co. International plc, London (Zurich Branch) Authorised and regulated by the Eidgenössische Finanzmarktaufsicht ("FINMA"). Registered Office: Beethovenstrasse 33, 8002 Zurich, Switzerland.

Italy: MSIM FMIL (Milan Branch), (Sede Secondaria di Milano)

Palazzo Serbelloni Corso Venezia, 16 20121 Milano, Italy. **The Netherlands:** MSIM FMIL (Amsterdam Branch), Rembrandt Tower, 11th Floor Amstelplein 1 1096HA, Netherlands. **France:** MSIM FMIL (Paris Branch), 61 rue de Monceau 75008 Paris, France. **Spain**: MSIM FMIL (Madrid Branch), Calle Serrano 55, 28006, Madrid, Spain. **Germany:** MSIM FMIL Frankfurt Branch, Grosse Gallusstrasse 18, 60312 Frankfurt am Main, Germany (type: branch office (FDI) pursuant to Section 53b KWG).

Dubai: MSIM Ltd (Representative Office, Unit Precinct 3-7th Floor-Unit 701 and 702, Level 7, Gate Precinct Building 3, Dubai International Financial Centre, Dubai, 506501, United Arab Emirates. Telephone: +97 (0)14 709 7158).

This document is distributed in the Dubai International Financial Centre by Morgan Stanley Investment Management Limited (Representative Office), an entity regulated by the Dubai Financial Services Authority ("DFSA"). It is intended for use by professional clients and market counterparties only. This document is not intended for distribution to retail clients, and retail clients should not act upon the information contained in this document.

This document relates to a financial product which is not subject to any form of regulation or approval by the DFSA. The DFSA has no responsibility for reviewing or verifying any documents in connection with this financial product. Accordingly, the DFSA has not approved this document or any other associated documents nor taken any steps to verify the information set out in this document, and has no responsibility for it. The financial product to which this document relates may be illiquid and/or subject to restrictions on its resale or transfer. Prospective purchasers should conduct their own due diligence on the financial product. If you do not understand the contents of this document, you should consult an authorized financial adviser.

Hong Kong: This material is disseminated by Morgan Stanley Asia Limited for use in Hong Kong and shall only be made available to "professional investors" as defined under the Securities and Futures Ordinance of Hong Kong (Cap 571). The contents of this material have not been reviewed nor approved by any regulatory authority including the Securities and Futures Commission in Hong Kong. Accordingly, save where an exemption is available under the relevant law, this material shall not be issued, circulated, distributed, directed at, or made available to, the public in Hong Kong. **Singapore:** This material is disseminated by Morgan Stanley Investment Management Company and should not be considered to be the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor under section 304 of the Securities and Futures Act, Chapter 289 of Singapore ("SFA"); (ii) to a "relevant person" (which includes an accredited investor) pursuant to section 305 of the SFA, and such distribution is in accordance with the conditions specified in section 305 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. In particular, for investment funds that are not authorized or recognized by the MAS, units in such funds are not allowed to be offered to the retail public; any written material issued to persons as aforementioned in connection with an offer is not a prospectus as defined in the SFA and, accordingly, statutory liability under the SFA in relation to the content of prospectuses does not apply, and investors should consider carefully whether the investment is suitable for them. This publication has not been reviewed by the Monetary Authority of Singapore. **Australia:** This material is provided by Morgan Stanley Investment Management (Australia) Pty Ltd ABN 22122040037, AFSL No. 314182 and its affiliates and does not constitute an offer of interests. Morgan Stanley Investment Management (Australia) Pty Limited arranges for MSIM affiliates to provide financial services to Australian wholesale clients. Interests will only be offered in circumstances under which no disclosure is required under the Corporations Act 2001 (Cth) (the "Corporations Act"). Any offer of interests will not purport to be an offer of interests in circumstances under which disclosure is required under the Corporations Act and will only be made to persons who qualify as a "wholesale client" (as defined in the Corporations Act). This material will not be lodged with the Australian Securities and Investments Commission.

IMPORTANT INFORMATION

EMEA: This marketing communication has been issued by MSIM Fund Management (Ireland) Limited ("FMIL"). MSIM FMIL is regulated by the Central Bank of Ireland and is incorporated in Ireland as a private company limited by shares with company registration number 616661 and has its registered address at The Observatory, 7-11 Sir John Rogerson's Quay, Dublin 2, D02 VC42, Ireland.

This material contains information relating to the sub-funds of Morgan Stanley Investment Funds, a Luxembourg domiciled Société d'Investissement à Capital Variable. Morgan Stanley Investment Funds (the "Company") is registered in the Grand Duchy of Luxembourg as an undertaking for collective investment pursuant to Part 1 of the Law of 17th December 2010, as amended. The Company is an Undertaking for Collective Investment in Transferable Securities ("UCITS").

Applications for shares in the sub-fund should not be made without first consulting the current Prospectus, Key Information Document ("KID") or Key Investor Information Document ("KIID"), Annual Report and Semi-Annual Report ("Offering Documents"), or other documents available in your local jurisdiction which is available free of charge from the Registered Office: European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxemburg B 29 192. In addition, all Italian investors should refer to the 'Extended Application Form', and all Hong Kong investors should refer to the 'Additional Information for Hong Kong Investors' section, outlined within the Prospectus. Copies of the Prospectus, KID or KIID, the Articles of Incorporation and the annual and semi- annual reports, in German, and further information can be obtained free of charge from the representative in Switzerland. The representative in Switzerland is Carnegie Fund Services S.A., 11, rue du Général-Dufour, 1204 Geneva. The paying agent in Switzerland is Banque Cantonale de Genève, 17, quai de l'Ile, 1204 Geneva. The material has been prepared solely for informational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy.

The views and opinions and/or analysis expressed are those of the the investment team as of the date of preparation of this material and are subject to change at any time without notice due to market or economic conditions and may not necessarily come to pass. Furthermore, the views will not be updated or otherwise revised to reflect information that subsequently becomes available or circumstances existing, or changes occurring, after the date of publication. The views expressed do not reflect the opinions of all investment personnel at Morgan Stanley Investment Management (MSIM) and its subsidiaries and affiliates (collectively "the Firm"), and may not be reflected in all the strategies and products that the Firm offers.

Any index referred to herein is the intellectual property (including registered trademarks) of the applicable licensor. Any product based on an index is in no way sponsored, endorsed, sold or promoted by the applicable licensor and it shall not have any liability with respect thereto. The Fund is actively managed, and the management of the fund is not constrained by the composition of the Benchmark.

All investments involve risks, including the possible loss of principal. The material contained herein has not been based on a consideration of any individual client circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

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.

The information contained in this communication is not a research recommendation or 'investment research' and is classified as a 'Marketing Communication' in accordance with the applicable European or Swiss regulation. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

MSIM has not authorised financial intermediaries to use and to distribute this material, unless such use and distribution is made in accordance with applicable law and regulation. MSIM shall not be liable for, and accepts no liability for, the use or misuse of this material by any such financial intermediary. If you are a distributor of the Morgan Stanley Investment Funds, some or all of the funds or shares in individual funds may be available for distribution. Please refer to your sub-distribution agreement for these details before forwarding fund information to your clients.

The whole or any part of this material may not be directly or indirectly reproduced, copied, modified, used to create a derivative work, performed, displayed, published, posted, licensed, framed, distributed or transmitted or any of its contents disclosed to third parties without the Firm's express written consent. This material may not be linked to unless such hyperlink is for personal and non-commercial use. All information contained herein is proprietary and is protected under copyright and other applicable law.

This material may be translated into other languages. Where such a translation is made this English version remains definitive. If there are any discrepancies between the English version and any version of this material in another language, the English version shall prevail.