Morgan Stanley

INVESTMENT MANAGEMENT

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Morgan Stanley Investment Funds

Sustainable Global Credit Fund

MARKETING COMMUNICATION | GLOBAL FIXED INCOME TEAM | MONTHLY COMMENTARY | 30 APRIL 2022

Performance Review

In the one month period ending 30 April 2022, the Fund's Z shares returned -5.83% (net of fees)[1], while the benchmark returned -5.84%.

The main positive contributors to performance were the underweight to interest rate duration and the underweight to the consumer and capital goods sectors. This was offset by the Fund's overweight to subordinated financials and exposure to high yield corporates.

Market Review

Credit spreads widened in April, with general market volatility elevated once again amid heightened macro uncertainty. Government bond yields continued to rise globally, with 10-year U.S. Treasuries and German government bonds finishing 60 basis points (bps) and 39 bps higher, respectively. Volatility rose over the month, with the VIX up 62% to finish at 33. The Bloomberg U.S. Corporate Index closed 19 bps wider to end the month at 135 bps. The Bloomberg European Aggregate Corporate Index was 21 bps wider month-over-month, at 151 bps. Financials generally underperformed non-financials, with recessionary fears influencing valuations.

News in the month continued to be dominated by the Russia-Ukraine conflict, where no progress was made towards a resolution. Meanwhile, concerns loomed as increased COVID-19 cases in China led to shutdowns and expectations of weaker economic growth. Central bank commentary signalled tighter financial conditions, which were necessary to reduce inflationary expectations, increasing the risk of a policy error, as 50 basis point hikes in the U.S. were openly discussed. In European politics, the re-election of Macron as French President removed one overhanging uncertainty. Finally, credit markets saw weak technicals, with demand limited by the negative price action in fixed income as risk-free yields rose.

Sector/corporate news in the month was dominated by first quarter reporting, where results to date are showing the majority of corporates beating expectations, while giving forward guidance that margin pressure from cost-price inflation was a significant headwind. Markets ignored the results and focused on the forward guidance, with the heightened risk of a recession cited as a key driver of wider credit spreads.

Portfolio Activity

In April, the portfolio's overall risk positioning was broadly unchanged. The portfolio used cash to marginally add exposures in banking, capital goods and energy.

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. We also remain selective in off-benchmark holdings of high yield and convertible bonds.

In terms of interest rate risk, we remain marginally underweight in duration terms (but have reduced this underweight over time). We also continue to look for new issues to take advantage of new opportunities in the primary market.

[1] Source: Morgan Stanley Investment Management Limited. Data as of 30 April 2022.

Outlook:

Looking forward, we see spreads likely to be range-bound, with markets supported by more attractive valuations and strong corporate results but constrained by the macro uncertainties (Russia-Ukraine conflict, China slowdown on COVID-19, high inflation raising the risk of a policy error/recession) and weak technical given the lack of demand while market volatility remains high.

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

FUND FACTS

Launch date	Base currency	Index
14 November 2012	U.S. dollars	Bloomberg Global Aggregate Corporate Index

Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

	YTD	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Class Z Shares	-12.78	-2.93	11.08	13.93	-5.15	10.05	3.70	-3.64	3.74	4.05	--
Bloomberg Global Aggregate Corporate Index	-12.85	-2.89	10.37	11.51	-3.57	9.09	4.27	-3.56	3.15	0.35	--

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.**

Effective 1st November 2021 the Morgan Stanley Investment Funds Global Credit Fund was renamed to Sustainable Global Credit Fund.

Share Class Z Risk and Reward Profile

Lower Risk **Higher Risk**

1 2 3 **4** 5 6 7

Potentially Lower Rewards **Potentially Higher Rewards**

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 medium 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.
- 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. All data as of 30 April 2022 and subject to change daily.

This is a marketing communication. Applications for shares in the Fund should not be made without first consulting the current Prospectus and the 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. A summary of investor rights is available in English at the same website.

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INDEX INFORMATION

The **Bloomberg Global Aggregate Corporate Index** is the corporate component of the Bloomberg Global Aggregate index, which provides a broad-based measure of the global investment-grade fixed income markets.

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The **Volatility Index (VIX)** is the ticker symbol for the Chicago Board Options Exchange Market Volatility Index, a popular measure of the implied volatility of S&P 500 index options. It represents one measure of the market's expectation of stock market volatility over the next 30-day period. The VIX is quoted in percentage points and translates, roughly, to the expected movement in the S&P 500 index over the next 30-day period, which is then annualized.

The **Bloomberg Euro-Aggregate: Corporates bond index** is a rules based benchmark measuring investment grade, EUR denominated, fixed rate, and corporate only. Only bonds with a maturity of 1 year and above are eligible.

The **Bloomberg U.S. Corporate Index** is a broad-based benchmark that measures the investment grade, fixed-rate, taxable, corporate bond market.

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