Morgan Stanley

INVESTMENT MANAGEMENT

NOT FOR DISTRIBUTION OR USE WITH HONG KONG GENERAL PUBLIC

Morgan Stanley Investment Funds

Sustainable US High Yield Bond Fund

MARKETING COMMUNICATION | HIGH YIELD TEAM | MONTHLY COMMENTARY | 30 APRIL 2023

Performance Review

In the one month period ending 30 April 2023, the Fund's I shares returned 1.05% (net of fees)[1], while the benchmark returned 0.97%.

An underweight position and favorable credit selection in the cable & satellite sector was the primary contributor to relative returns during the period. Positive credit selection in the sector was led by a lack of exposure to a satellite TV provider that is experiencing consistent customer attrition and ongoing cybersecurity issues, and whose business has questionable terminal value. This position in the ICE BofA U.S. High Yield Index (the Index) was down nearly 7% in April. Positive credit selection in the diversified media sector as well as credit selection and an underweight position in the leisure sector were also tailwinds for relative returns. However, this was partially offset by challenging credit selection in the health care sector. Relative underperformance in the sector was driven by a lack of exposure to a volatile specialty pharmaceutical manufacturer that recently spun off its most valuable asset and is facing patent exclusivity headwinds and longer-term solvency risk. This position in the Index partially recovered during the month, though remains distressed. Adverse credit selection in the paper sector as well as credit selection and an underweight position in the diversified financial services sector also hurt relative performance.

From a ratings perspective, credit selection in the B-rated segment contributed positively to relative returns. However, this was partially offset by adverse credit selection in BB-rated bonds. A modest allocation to cash also hurt relative performance during a positive month for the U.S. high yield market.

From a duration perspective, positive credit selection in bonds with durations between three and five years and an underweight to bonds with durations greater than 10 years helped relative performance during the month. However, adverse credit selection in bonds with durations between five and seven years was a headwind.

Market Review

Volatility in the U.S. and global high yield markets receded in April, and the demand for credit risk generally improved amid lackluster secondary trading volume and renewed capital markets activity. Over a four-week period, the high yield retail market recouped nearly half of the year-to-date outflow, as fear surrounding weakness in regional banks lessened, the initial batch of first quarter earnings releases was generally better than feared, and economic data, in aggregate, was neither too hot nor too cold. Investors took advantage of still historically attractive yields, and the higher-beta segments of the high yield market generally outperformed.

The ICE BofA U.S. High Yield Index returned 0.97% in April. The yield-to-worst ultimately finished the month only 8 basis points (bps) lower at 8.42%. The spread-to-worst closed the period 1 basis point lower at 473 bps, after briefly breaking above 500 bps earlier in the month.[2]

The top performing sectors for the month were railroad, publishing & printing, and entertainment & film with respective returns of 3.95%, 3.86% and 2.69%. The cable & satellite TV, paper, and air transportation sectors were the worst performing sectors in April, with respective returns of -1.25%, -0.97% and -0.02%.[2]

The lower quality segments of the market generally outperformed in April, after lagging in March. CCC-rated bonds were the best performing segment, with a one-month return of 1.98%. B and BB-rated bonds posted respective one-month returns of 1.02% and 0.70%.[2]

The technical conditions in high yield rebounded in April. Monthly issuance jumped from $5.6 billion in March to $18.8 billion in April, contributing to total year-to-date issuance of $59.3 billion. By use of proceeds, refinancing accounted for 46% of April issuance, acquisition financing accounted for 31%, and 23% was used for general corporate purposes. According to preliminary Lipper

1 Source: Morgan Stanley Investment Management Limited. Data as of 30 April 2023.
2 Source: ICE Data Indices. Data as of 30 April 2023.

estimates, U.S. high yield retail funds experienced a net inflow of $6.2 billion in April, after experiencing a first quarter outflow of approximately -$16 billion.[3]

Default activity among high yield bond and loan issuers resumed the climb higher in April. According to J.P. Morgan, the trailing 12-month par-weighted default rate increased month-over-month to 1.42%. Including distressed exchanges, the default rate increased to 2.18% in April.[3]

Portfolio Activity

We continued to favor defensive sectors and higher quality credits, particularly where we believe long-term value is present, and we remain inclined to reduce exposure to cyclicals and segments exhibiting asymmetric risk/return characteristics.

Strategy and Outlook

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. Slowing economic growth across most of the developed market, still elevated inflation and the expectation for further tightening in monetary policy, reduced liquidity, and the declining health of corporate fundamentals are clear headwinds for the U.S. and global high yield markets. Finally, geopolitical risk is not only lurking in the background, but has grown more pronounced.

Historically, the Federal Reserve (Fed) raises interest rates until something breaks. Acute weakness among regional banks appears to be the first evidence of cracks in the U.S. economy. We are concerned about the lagged effects of the aggressive tightening of monetary policy and expect more problematic effects will manifest themselves. Global economic activity has already slowed, and the current pace of deceleration in 2023 is unknown.

Going forward, we see a much more balanced inflation picture on the back of lower import prices and negative money supply growth; however, current inflation readings remain well above the Fed's target rate and the labor market remains stubbornly strong, and we expect this combination means monetary policy will remain a headwind over the near term. Future rate increases, coupled with continued quantitative tightening, will exacerbate an already challenging liquidity backdrop.

The average corporate fundamentals of high yield issuers are softening, but are starting from a point of strength. According to J.P. Morgan, fourth quarter earnings released in the first quarter indicate the average year-over-year revenue and EBITDA growth of high yield issuers have declined to 8.9% and 11.5%, respectively.[4] The average leverage of high yield issuers increased modestly, after nearly two years of sequential quarterly improvement. While average interest coverage climbed to yet another record high, interest expense increased more than 8% quarter-over-quarter.[3] Approximately 50% of the market is still rated BB — near the all-time high.[2] Increasing default risk is not sector specific, though parts of health care and technology appear at risk. The trailing 12-month par-weighted default rate is trending upward, and we anticipate it will likely breach the long-term average of 3.2% by year-end.[3] The silver lining is that much of the cohort at elevated risk of default is already trading at distressed levels, likely mitigating return degradation on a go-forward basis, in our view.

Average spreads breaking into the mid-500s in March and the low-500s again in April began to approach levels that are clearly compelling from a longer-term perspective.[2] We favor defensive sectors and higher quality credits, particularly where long-term value is present, and we remain inclined to reduce exposure to cyclicals and segments exhibiting asymmetric risk/return characteristics. The health care sector ended April trading in the bottom quintile relative to the preceding 10 years.[2] The health care services sector is looking more appealing, where labor cost pressure is beginning to abate and balanced billing legislation is trending toward a final solution that appears more amicable for service providers relative to managed care providers. Meanwhile, healthy fundamentals in the energy sector appear fully reflected, with an average spread in the sector that remained near historic tights at the end of April.[2]

As episodic volatility persists, we expect a gradual move toward more defensive positioning to be of benefit. Capitalizing on pricing inefficiencies and avoiding credit mistakes will be critical in driving outperformance. Geopolitical risk remains elevated, and risk markets have historically done a poor job pricing this risk. Wider peak spreads seem likely in coming quarters, and we expect entry points to soon emerge where disciplined long-term investors will likely be rewarded for incrementally adding exposure to the asset class.

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

FUND FACTS

Launch date	Base currency	Index
29 August 2002	U.S. dollars	ICE BofA U.S. High Yield Index

2 Source: ICE Data Indices. Data as of 30 April 2023.
3 Source: J.P. Morgan. Data as of 30 April 2023.
4 Source: J.P. Morgan. Data as of 30 April 2023. EBITDA = Earnings before interest, taxes, depreciation and amortization.

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	4.18	-10.86	5.50	4.60	13.74	-2.55	6.03	13.12	-2.02	3.03	6.25
ICE BofA U.S. High Yield Index	4.72	-11.22	5.36	6.17	14.41	-2.26	7.48	17.49	-4.64	2.50	7.42

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 medium rises and falls historically.

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

- The value of bonds is 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

ICE® BofA® U.S. High Yield Index is an unmanaged index of below-investment grade U.S. corporate bonds. ICE® BofA® indices are not for redistribution or other uses; provided "as is", without warranties, and with no liability.

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.