

A Sub-Fund of Morgan Stanley Investment Funds US High Yield Bond Fund

HIGH YIELD TEAM

Investors should note that, relative to the expectations of the Autorité des Marchés Financiers, this UCITS presents disproportionate communication on the consideration of extra-financial criteria in its management.

Performance Review

In the one month period ending 30 November 2025, the Fund's Z shares returned 0.59% (net of fees)¹, while the benchmark returned 0.50%.

Cable & satellite TV and chemicals were the Fund's top-performing sectors relative to the benchmark in November. Relative outperformance in both sectors was driven by favorable credit selection and underweight positions. The primary individual contributor in cable & satellite TV was a lack of exposure to a U.S. cable provider. The company paid down one of its loan facilities during the month, which could potentially allow it to take on additional debt that would negatively impact current lenders. In chemicals, the primary individual contributor was a lack of exposure to a manufacturer of specialty fibers that continues to struggle operationally after recently replacing its chief executive officer.

Automotive & auto parts and broadcasting were the Fund's worst-performing sectors relative to the benchmark during the month. Relative underperformance in automotive & auto parts was driven by challenging credit selection and an underweight position. The primary individual detractor in automotive was an overweight position in an aftermarket parts supplier that specializes in pickup trucks. The company's third quarter earnings released in November showed improvement; however, it continues to contend with tariff-driven volume pressure, elevated costs and high leverage, and the company has not issued forward guidance. Furthermore, the company received a ratings downgrade toward the end of November. In broadcasting, relative underperformance was driven by an underweight position in the sector, which modestly outperformed during the month.

In terms of performance by ratings segment, favorable credit selection in BB-rated bonds contributed positively to relative performance in November. Sound credit selection and an underweight position in bonds rated CCC or below also helped relative returns. Conversely, an underweight position in BB-rated bonds modestly detracted from relative performance.

The Fund's overall duration positioning had a negligible impact on relative performance during the month. Credit selection in bonds with durations between two and five years aided relative returns. Sound credit selection in bonds with durations under two years also contributed positively. A modest allocation to cash detracted slightly from relative returns in a positive month for the U.S. high yield market.

Market Review

Performance in the U.S. and global high yield markets ultimately improved in November, after early spread widening eventually corrected. The high yield market contended with elevated volatility in the first two weeks of the month as investors questioned inflated valuations and risk assets came under pressure. By mid-month, the average spread in the U.S. high yield market reached nearly 340 basis points (bps). In the final two weeks, investors' appetite for risk improved, as volatility normalized, Treasury yields declined on growing expectations for a December interest rate cut from the Federal Reserve, and the average spread ultimately tightened sufficiently to finish below where it began the month. Technical conditions remained supportive amid healthy gross issuance and limited demand from retail investors, due to more than \$33 billion in calls, maturities and coupon payments, and rising star volume (bonds upgraded from high yield to investment grade) outweighed fallen angels (bonds downgraded from investment grade to high yield).²

The ICE BofA U.S. High Yield Index returned 0.50% in November. The yield-to-worst finished the month 11 bps lower at 6.71%. The spread-to-worst closed the period 3 bps lower at 307 bps.²

Performance across high yield sectors was mostly positive for the one-month period. The top-performing sectors for the month were broadcasting, transportation ex-air & rail, and entertainment & film, with respective returns of 1.32%, 1.15%, and 1.13%. The paper, building materials, and cable & satellite TV sectors were the worst-performing sectors in November, with respective returns of -2.66%, -0.92%, and -0.71%.²

The lowest quality segments of the high yield market generally underperformed again in November amid moderate volatility. The B-rated segment led performance with a return of 0.71% for the one-month period. Meanwhile, the BB and CCC segments posted respective one-month returns of 0.64% and -0.93%.²

¹ Source: Morgan Stanley Investment Management. Data as of 30 November 2025.

² Source: ICE Data Indices, Bloomberg L.P., Morgan Stanley Investment Management. Data as of 1 December 2025.

Total gross issuance increased from \$18.7 billion in October to \$24.9 billion in November. By use of proceeds, refinancing increased to 56.3% of monthly issuance, acquisition-related financing increased to 23.0%, and general corporate purposes accounted for approximately 20.7%. Lower-rated issuance was non-existent, and accounts for only 4.1% of issuance year-to-date. U.S. high yield retail funds recorded a net outflow of approximately \$500 million in November, bringing the year-to-date net inflow to \$17.0 billion. The high yield market experienced a net supply shortfall of approximately \$12.3 billion across October and November, contributing to a year-to-date shortfall of \$1.1 billion.³

Default volume in leveraged credit increased to a year-to-date high in November, due to the large size of the two payment defaults and one of the liability management exercises (LMEs) that occurred during the month. According to J.P. Morgan, the high yield trailing 12-month par-weighted default rate including distressed exchanges increased 42 bps, ending November at 1.82%. Excluding distressed exchanges, the rate increased to 0.79%, a 14-month high. For loans, the trailing 12-month par-weighted default rate including distressed exchanges decreased by 17 bps, closing the month of November at 3.16%. Excluding distressed exchanges, the rate decreased to 1.31%.³

Strategy and Outlook

Our outlook remains cautious as we enter the final month of the year. Peak risk and volatility emanating from evolving trade policy are likely behind us, U.S. economic growth, while slowing, remains supportive, inflation is generally in line with consensus expectations, and corporate earnings have been largely resilient. However, softer labor market data in the U.S., growing concern over the health of lower-end consumers, a mixed bag of industry and consumer surveys, and record valuations triggered by lofty hopes for an artificial intelligence transformation are among reasons for continued caution. Ultimately, moving forward we expect a backdrop of much slower but positive growth coupled with sticky inflation, from a starting point where the average spread in high yield is only about 30 bps above post-Global Financial Crisis (GFC) lows, but where a historically attractive yield should continue to attract capital.⁴ We come to this conclusion after a thorough analysis of factors including U.S. and global economic growth, the evolving monetary policy of global central banks, consumer health, the fundamentals of high yield issuers, technical conditions, and valuations. On balance, conditions appear largely similar to where we closed the third quarter, but the question ultimately is how much of the recent good news is reflected in current valuations.

We begin December with an average spread that is approximately 11 bps lower month-over-month and only approximately 30 bps above post-GFC lows, reached in January, and an average yield that is roughly 21 bps lower month-over-month and approximately in line with the 10-year historical average.⁴ The notable decompression in the incremental spread relationship between the CCC and single-B segments that we witnessed in October continued in November as lower-rated credit underperformed. This relationship widened from 545 bps at the beginning of the month to 578 bps at November-end.⁴ We believe valuations across several segments of the high yield market are compressed below fair value in light of the many risks facing our market, and we expect to reach modestly wider peak spreads in coming months. However, we believe there remains opportunity. We continue to identify idiosyncratic situations to capture spread compression, even in segments where we believe valuations, at the sector level, will likely widen moving forward. We are also evaluating new opportunities in more cyclical segments that appear to be at, or near, cyclical troughs. Finally, there remains opportunity in challenged segments where neatly structured covenants, adequate loan-to-value ratios, and appropriate risk compensation form to represent compelling investment opportunities.

Our strategy has taken advantage of volatility to add exposure to high conviction positions facing what we assess to be abating headwinds, and to trim exposure amid market strength in broad areas as well as in specific issuers where we have a less favorable view. In energy, we assess sector-level valuations to be relatively full; however, we took advantage of a longer-duration opportunity in an independent fuel distributor with compelling relative value. In the gaming sector, we continue to find opportunity in the less-cyclical regional gaming segment, and we helped finance the development of a regional gaming property in the Midwest with a gaming operator we have invested alongside for decades. We also have several high conviction positions in building products, in a segment offering attractive value and that we expect will likely experience improving cyclical dynamics over the near term. Meanwhile, we have reduced exposure in broadcasting, services, and environmental. In broadcasting, the consolidation theme has broadly lifted valuations, and in some cases beyond fair value. In services and environmental, we have moved on from a couple of long-term holdings following upgrades to investment grade.

In conclusion, we remain in an uncertain environment, but one where we assess the risk of recession over the near term to be low. Fundamentals and technical conditions remain largely supportive and, on average, yield compensation is broadly appropriate; however, historically tight average spreads have resulted in valuations that are more exposed to future bouts of volatility. We expect the balance of the fourth quarter will likely be a competitive period for high yield, and our base case calls for relatively range-bound spreads, but with risk skewed toward higher spreads. Geopolitical tensions remain heightened, particularly between NATO-member countries and Russia, and the chances of a near-term resolution in the Russia-Ukraine war appear slim. Meanwhile, the prolonged U.S. federal government shutdown muddled inflation and labor readings, and legislative dysfunction over differing fiscal priorities has stymied the passage of long-term government funding bills not just in the U.S., but also in several European countries. Amid an uncertain and potentially volatile backdrop, we will continue to spend our time concentrating on what we do

³ Source: J.P. Morgan. Data as of 1 December 2025.

⁴ Source: ICE BofA U.S. High Yield Index, Morgan Stanley Investment Management. Data as of 30 November 2025.

best — focusing on bottom-up fundamental credit analysis with a discerning eye on relative value, as we seek to generate positive risk-adjusted alpha for our clients.

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

Fund Facts

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

Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

	YTD	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Class Z Shares	8.22	7.31	11.85	-10.81	5.70	4.76	13.94	-2.43	6.06	13.32	-1.88
ICE BofA U.S. High Yield Index	7.80	8.20	13.46	-11.22	5.36	6.17	14.41	-2.26	7.48	17.49	-4.64

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 Z Risk and Reward Profile

- 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, available at www.morganstanleyinvestmentfunds.com. All data as of 30.11.2025 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 in English online at: Sustainable Finance Disclosure Regulation.

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