A Sub-Fund of Morgan Stanley Investment Funds

US High Yield Middle Market Bond Fund

HIGH YIELD TEAM

Performance Review

In the one month period ending 31 July 2026, the Fund's Z shares returned -0.22% (net of fees)[1], while the benchmark returned -0.25%.

Gaming and media & entertainment were the Fund's top-performing sectors relative to the benchmark in July. Relative outperformance in both sectors was driven by sound credit selection. In gaming, an overweight position in an operator of casinos and entertainment properties in Toronto was the top relative contributor. The primary individual contributor in media & entertainment was positioning within the capital structure of a global visual content creator and marketplace. The company terminated a previously announced merger, and the Fund's position in the bonds that were issued as part of the proposed merger were redeemed at par. The company's bonds that were outstanding prior to the announcement of the transaction, which the Fund did not hold, traded down after the announcement.

Consumer cyclical services and technology were the Fund's worst-performing sectors relative to the benchmark during the month. Relative underperformance in both sectors was driven by adverse credit selection. In consumer cyclical services, an off-benchmark position in a distressed provider of interior design services was again the top detractor. The company's bonds fell again in July as the increase in interest rates during the month dampened hopes of a potential near-term recovery in the housing sector. An overweight position in a Canadian provider of software, primarily to the legal sector, was again the top detractor in technology. The bonds fell further in July after it was reported that a co-op group of bondholders retained a financial adviser as the company's fundamentals continue to deteriorate.

In terms of performance by ratings segment, credit selection and an underweight position in BB-rated bonds contributed positively to relative performance during the month. An overweight position in B-rated bonds also helped relative returns. Conversely, credit selection and an overweight position in CCC-rated bonds detracted from relative returns in July.

Market Review

The high yield market softened again in July amid modestly wider spreads and a further backup in 5- and 10-year Treasury yields, with the yield on the 5-year ending the month more than 20 basis points (bps) higher than where it began the month. Positive news from early second quarter earnings releases was offset by multiple factors. The high yield market was first impacted by the reignition of the Iran conflict and the subsequent closure of the Strait of Hormuz, which resulted in a more than $15 increase in the price of crude oil. Renewed concerns about inflation and the expectation of approaching interest rate hikes quickly followed. Additionally, concern over return on investment to finance the continued build-out of data centers and artificial intelligence (AI)-related capital spending programs sapped investor enthusiasm. Finally, the Federal Reserve's (Fed) meeting at the end of the month was an additional source of volatility after three members were in favor of increasing interest rates and Fed Chairman Warsh's press conference left more questions than answers about the forward policy path. Higher quality longer-duration bonds encountered headwinds from the jump in underlying Treasury yields, while lower-rated credits suffered from weak fundamentals and an increasingly difficult road to access capital markets to address approaching maturities at acceptable levels.[2]

Total gross issuance decreased from $35.0 billion in June to only $18.0 billion in July, contributing to total year-to-date issuance of approximately $204.9 billion. By use of proceeds, refinancing volume decreased to 57.5% of monthly issuance, acquisition-related sank to 8.5%, and general corporate purposes activity decreased to approximately 22.8% though remained elevated. Dividend financing increased to 11.2%. From a credit quality perspective, single-B issuance increased, while BB-rated issuance moderated and lower-rated issuance remained paltry. U.S. high yield retail funds recorded a net inflow of approximately $150 million in July, following an inflow of $2.3 billion in June, and bringing the year-to-date net inflow to approximately $440 million. The high yield market experienced a sizable net supply shortfall of $12.5 billion in July due in large part to nearly $19 billion in calls, bringing the year-to-date net supply balance to a shortfall of $9.1 billion.[3]

Default activity in high yield decreased in July on the back of one relatively large issuer that defaulted on its high yield bond and loan, with no distressed exchanges. This continues the trend we have been seeing where traditional default activity remains present, while distressed exchanges become less prevalent. According to J.P. Morgan, the high yield trailing 12-month par-weighted default rate including distressed exchanges increased 10 bps, ending July at 2.77%. Excluding distressed exchanges, the rate climbed to 1.97%. For loans, the trailing 12-month par-weighted default rate including distressed exchanges reportedly decreased by 3 bps, closing the month at 2.32%, just above last month's three-year low. Excluding distressed exchanges, the rate inched higher to 1.33%.[3]

1 Source: Morgan Stanley Investment Management. Data as of 31 July 2026.
2 Source: ICE Data Indices, Bloomberg L.P., Morgan Stanley Investment Management. Data as of 31 July 2026.
3 Source: J.P. Morgan. Data as of 3 August 2026.

The Bloomberg U.S. Corporate High Yield Index returned -0.25% in July. The yield-to-worst finished the month 25 bps higher at 7.41%. The spread-to-worst closed the period 8 bps higher at 305 bps.[2]

Performance across high yield sectors was mixed for the one-month period. The top-performing sectors for the month were refining, paper, and property & casualty insurance, with respective returns of 1.84%, 1.32%, and 0.97%. Natural gas utilities, wirelines, and cable & satellite were the worst-performing sectors in July, with respective returns of -3.04%, -1.67%, and -1.41%. The technology sector underperformed the benchmark in July amid increased investor caution in data center financing.[2]

The single-B portion of the market outperformed in July amid weakness in longer-duration BB-rated bonds and lower-quality CCCs. The BB and single-B segments posted returns of -0.37% and 0.02%, respectively, for the one-month period. Meanwhile, the CCC-rated segment posted a one-month return of -0.52%.[2]

Strategy and Outlook

As we enter the final stretch of the summer, we recognize a meaningful range of potential outcomes and an environment that remains susceptible to volatility. Our outlook for the U.S. and global economy continues to be somewhat cautious. The phase of combat operations in the war with Iran remains stuck in a seemingly perpetual on-again, off-again cycle, with dim prospects for a lasting peace at terms acceptable to the decision-makers involved. Even in the event of enduring peace, we expect some measure of energy inflation to persist over the near term, propping up inflation and, at least on the margin, weighing on consumer sentiment and injecting additional uncertainty into monetary policy. Select pockets of the U.S. economy — most notably manufacturing, labor, capital investment and risk assets — are exhibiting strong resilience, while other indicators reinforce a case for slower growth, firmer prices and a more challenging path for risk assets over the balance of the year. As a result, we continue to approach markets with caution, balancing generally supportive corporate fundamentals against a backdrop where risks remain elevated and valuations, broadly, leave little room for error. To assess the current state of the high yield market and its prospects going forward, we will examine economic growth, monetary policy, consumer health and the evolving fundamentals of high yield issuers.

In conclusion, we remain in a precarious position with respect to the conflict with Iran, where even in the event of another ceasefire, the pace with which oil and gas supply returns to pre-war levels and ultimately eases the global energy supply shortfall is still in question, along with the durability of peace in the Middle East more broadly. With numerous potential outcomes, each with unique follow-on effects, we continue to find ourselves in an environment highly susceptible to volatility. At the same time, we remain encouraged by the resiliency of economic growth, the labor market, consumer health and corporate balance sheets. Of course, this is from a starting point where risk assets, in many cases, are trading with near-record valuations. With these factors in mind, we will continue to spend our time concentrating on what we do 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	02 December 2014
Base currency	U.S. dollars
Benchmark	Bloomberg US Corporate High Yield Index

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 Z Shares	0.87	8.26	8.83	13.34	-11.97	5.30	5.24	15.60	-2.53	8.15	16.30
Bloomberg US Corporate High Yield Index	1.71	8.62	8.19	13.44	-11.19	5.28	7.11	14.32	-2.08	7.50	17.13

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.**

[2] Source: ICE Data Indices, Bloomberg L.P., Morgan Stanley Investment Management. Data as of 31 July 2026.

Share Class Z 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 31.07.2026 and subject to change daily.

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

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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.

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INDEX INFORMATION

The **Bloomberg U.S. Corporate High Yield Index:** measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The Index excludes emerging market debt.

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