

Morgan Stanley Investment Funds Global Balanced Fund

MARKETING COMMUNICATION | CUSTOMISED SOLUTIONS | PORTFOLIO SOLUTIONS GROUP | FUND ANALYSIS | 31
OCTOBER 2023

Commentary

PERFORMANCE REVIEW

Past performance is not a reliable indicator of future results

- In the one month period ending 31 October 2023, the Fund's Z shares returned -3.02% (net of fees)¹.
- Global equities and bonds both headed lower again in October. The "higher for longer" interest rates narrative remained a headwind while U.S. economic growth surprised to the upside and eurozone and U.K. economic data showed further weakening. This, along with sticky inflation readings and concerns about the U.S. fiscal deficit, drove government bond yields toward multi-year highs during the month. Geopolitical conflict in the Middle East also weighed on market sentiment, triggering a flight to the U.S. dollar and gold.
- Our allocations to European ESG (environmental, social and governance) corporate bonds and European high yield bonds were the top contributor to the Fund's performance over the month of October. Our allocations to U.S. equities, European equities and Japanese equities detracted from the Fund's performance.

MARKET REVIEW

- US:** The MSCI USA Index returned -2.33% in U.S. dollar terms (USD) and -2.30% in euro terms in October. The government's initial estimate showed U.S. gross domestic product (GDP) grew an annual rate of 4.9% in the third quarter, increasing from 2.1% in the second quarter. At the start of the fourth quarter, the U.S. manufacturing sector saw its contraction intensifying. The Institute for Supply Management (ISM) Manufacturing PMI dropped to 46.7%, from 49.0% in September. New orders declined at a faster pace, production remained expansionary but lost momentum, and employment resumed contraction after growing the prior month. The service sector was more resilient and continued to grow, albeit with less vigour. An acceleration in new orders growth was offset by slower expansions in business activity and hiring. As a result, the ISM Services PMI fell to 51.8% in October, from 53.6% in September. The headline all-items consumer price index (CPI) rose 3.7% in the year ended September 2023, unchanged from August 2023, according to the U.S. Bureau of Labor Statistics (BLS). Core CPI, which excludes food and energy, was up 4.1% in the 12 months ended September 2023, slowing from 4.3% in August 2023. The BLS separately reported the unemployment rate rising slightly to 3.9% in October 2023, from 3.8% the prior month, and a slower monthly jobs gain of 150,000.
- Europe:** The MSCI Europe Index returned -3.57% in euro terms and -3.60% in USD terms in October. Eurostat's flash GDP estimate for the third quarter of 2023 showed the euro area economy contracting -0.1% quarter-over-quarter and the European Union economy growing 0.1% quarter-over-quarter. By comparison, in the second quarter euro area GDP grew 0.2% and EU GDP was stable. Manufacturing activity in the eurozone remained on a downtrend, with the HCOB Eurozone Manufacturing PMI falling further to 43.1 in October, from 43.4 in September. New orders, production and headcounts fell sharply. The service sector's health also continued to deteriorate. The HCOB Eurozone Services PMI fell to 47.8 in October, from 48.7 in September, reflecting a faster decline in new business as demand weakened. Service firms continued to hire at a modest rate, but it was slower than in September. Inflation in the eurozone declined markedly in October. Eurostat estimates annual headline inflation rose 2.9% in October, down from 4.3% in September. Annual core inflation (excluding energy, food, alcohol and tobacco) was up 4.2% in October, slowing from 4.5% in September. In a separate report, Eurostat said the euro area unemployment rate increased to 6.5% in September, from 6.4% in August, and the European Union jobless rate registered 6.0% in September, which was stable versus August.

- Japan:** The MSCI Japan Index returned -3.08% in yen terms and -4.48% in euro terms in October. Japan's manufacturing sector continued to see deteriorating conditions. The au Jibun Bank Japan Manufacturing PMI was nearly unchanged at 48.7 in October, versus 48.5 in September, amid ongoing declines in new orders and production and the first bout of job losses since 2021. The service sector, however, continued to grow although momentum was subdued. The au Jibun Bank Japan Services PMI slipped to 51.6 in October, from 53.8 in September, as new business grew at the slowest pace in nine months and employment resumed growth. Industrial production, as tracked by the Ministry of Economy, Trade and Industry, declined -4.6% year-over-year in September 2023. Japan's headline consumer price index rose 3.0% in the year ended September 2023, easing from 3.2% in August 2023, according to government data. The unemployment rate was 2.6% in September, down slightly from 2.7% in August 2023. Household spending fell -2.8% in the year ended September 2023.

PORTFOLIO ACTIVITY

- We started to add back to portfolio duration in early October as 10-year U.S. Treasury bond yields moved close to 5%. In addition, we moderately reduced allocation to equities, given increased volatility, to ensure the portfolio remains aligned to its volatility target. The effective equity exposure at the end of the month was 62.8%.

STRATEGY AND OUTLOOK

- Unsurprisingly, the Federal Open Market Committee (FOMC) left rates unchanged in its 1 November meeting. That said, we believe the market is still underpricing the risk of another rate hike in December. Pricing reflects a scenario where the Federal Reserve (Fed) holds rates until mid-2024 and then cuts. However, markets have got it wrong before and if, as we suspect, there is a hike in December, valuations will need to adjust.
- Why do we believe we are in store for one more rate hike? The issue is in the stronger-than-expected data in recent weeks – and the Fed may be losing patience. The Fed indicated back in September that they would be patient, allowing time for prior rate hikes to filter into the economy.
- However, the U.S. economy grew faster than expected, with GDP coming in at 4.9% in the third quarter (versus an expected 4.5%), driven by robust consumer spending. This is despite rising interest rates, persistent inflationary pressures, geopolitical tensions and a host of other domestic and international headwinds. The GDP increase marked the biggest gain since the fourth quarter of 2021. The U.S. labour market remains strong, with September's nonfarm payroll vastly outstripping expectations and the U.S. CPI for September was also higher than expected. With all this in mind, we believe that the chances of another rate hike in December should be higher, perhaps closer to 50/50, as the current situation stands, higher than reflected in current valuations.
- The bear steepening of the yield curve pressured risk asset valuations, resulting in a sell-off in equities. We reduced our U.S. small caps underweight, reallocating to U.S. equities. As bond yields moved close to 5% for the 10-year U.S. Treasury, we think this is a good opportunity to reduce the duration underweight. We did this by moving from neutral to overweight U.S. Treasuries. We also removed the underweight to German bunds and French OATs. We moved from overweight to neutral emerging markets local currency sovereign debt, given differentials in developed market versus emerging market (EM) policy movements. EM 10-year rates have come down sharply relative to developed markets and the "spread" between them is very tight by historical standards.

Characteristics as of 31 October 2023

Portfolio Effective Duration	1.96
Fixed Income + Cash Duration	5.27

¹ Source : Morgan Stanley Investment Management. Data as of 31 October 2023.

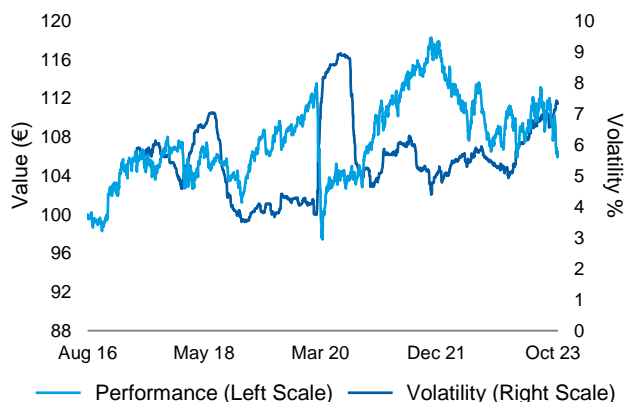
Asset Allocation	Current Weight %
Equities	62.8
S&P 500 ESG Stock Basket	24.7
S&P 500 Futures	4.1
Russell 2000 Futures	1.8
MSCI Europe ESG Stock Basket	13.0
Eurostoxx 50 Futures	-2.3
Stoxx 600 Oil and Gas Future	2.0
MSCI Japan ESG Stock Basket	9.4
Nikkei Futures	2.6
MSCI Emerging Markets ESG Stock Basket	5.3
MSCI Emerging Markets Futures	-2.6
MSCI China Future	-1.5
MSCI Asia ex-Japan ESG Stock Basket	6.4
Fixed Income	32.8
Euro Government Bonds	1.7
UK Government Bonds	0.7
US Government Bonds	6.5
Japanese Government Bonds	1.8
Short Maturity LatAm Bonds	1.0
Euro Corporate Bonds ESG Basket	4.5
Markit Euro X-Over 5Y CDS	2.1
Markit US Investment Grade CDS	2.0
Markit US High Yield CDS	2.5
iTraxx Emerging Market Sovereign CDS	2.0
EM Corporate Debt Fund N	1.0
GR BENCHMARK 10 YEAR DS GOVT. INDEX	1.6
MS INVF Global Asset Backed Securities NH	4.2
MS INVF Emerging Markets Domestic Debt Fund N EUR	1.1
Cash	4.4
Physical Cash	8.4
Synthetic Cash	-4.0
Total	100.0

Source: Morgan Stanley Investment Management. As of 31 October 2023.

Performance as of 31 October 2023 (%)

Class Z shares, performance of €100 invested since inception (16 August 2016) and 6-month rolling volatility.

Past performance is not a reliable indicator of future results.



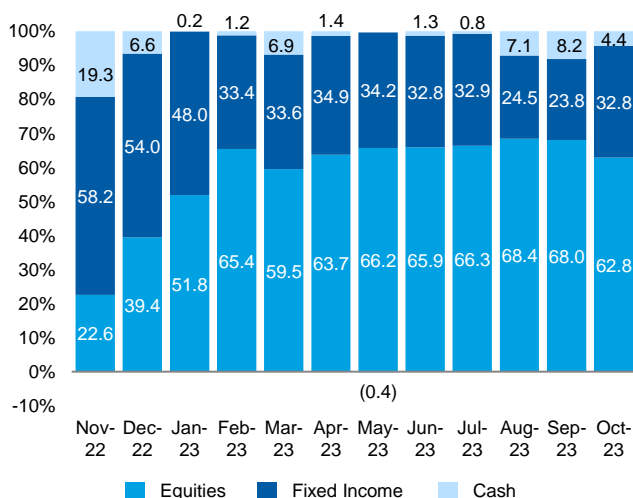
This chart illustrates the performance and volatility of a hypothetical €100 investment in the Fund since inception through to 31 October 2023 and includes the reinvestment of dividends and other distribution. The sources of all performance and volatility data is Morgan Stanley Investment Management.

Calendar Year Performance (%)

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Class Z Shares (Net)	-9.04	8.79	-2.57	8.59	-4.43	4.63	-	-	-	-

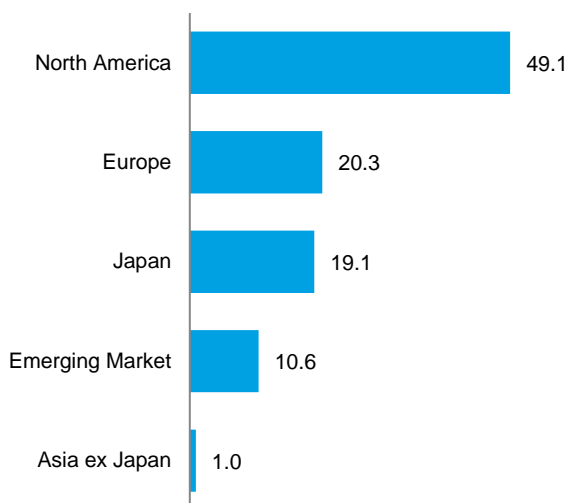
Portfolio inception date: 16 August 2016. All performance data is calculated NAV to NAV, net of fees, and does not take account of commissions and costs incurred on the issue and redemption of units. The sources for all performance and Index data is Morgan Stanley Investment Management. **Please visit our website www.morganstanley.com/im to see the latest performance returns for the fund's other share classes.** The value of the investments and the income from them can go down as well as up and an investor may not get back the amount invested.

Rolling Asset Class Weights (%) as of 31 October 2023

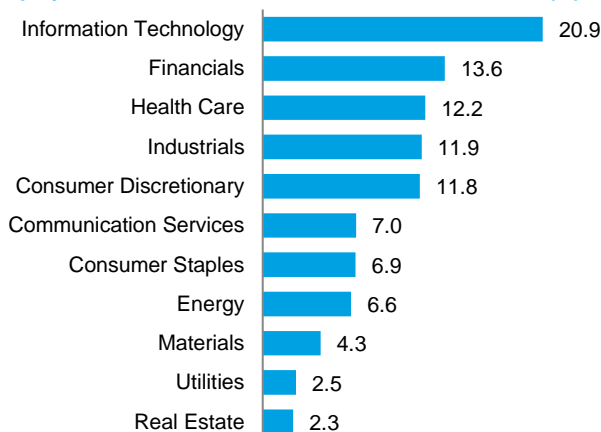


Due to their implementation, the commodities exposure is included within equities.

Equity Regional Breakdown ^{(2) (3)} as of 31 October 2023 (%)

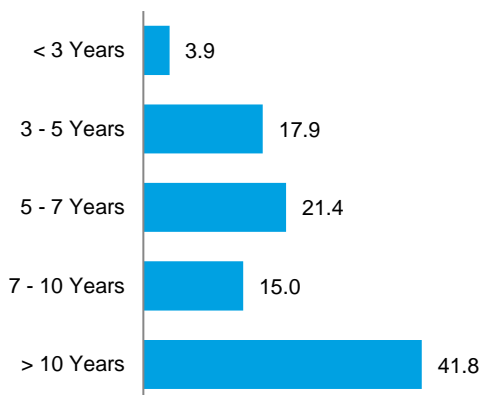


Equity Sectors Breakdown ^{(2) (3)} as of 31 October 2023 (%)

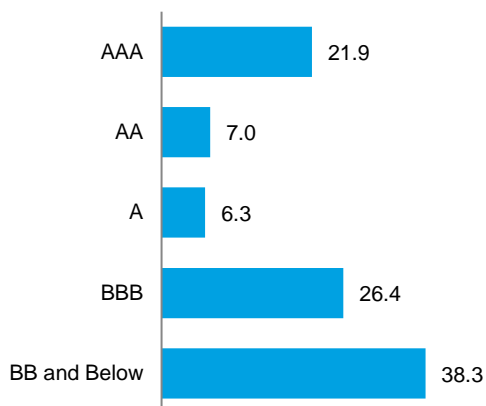


For additional information regarding sector classification/definitions please visit <https://www.msci.com/gics>. Note the short positions are fully covered on the "Synthetic Cash" portion of the portfolio and may have resulted from a sector mismatch from futures hedging.

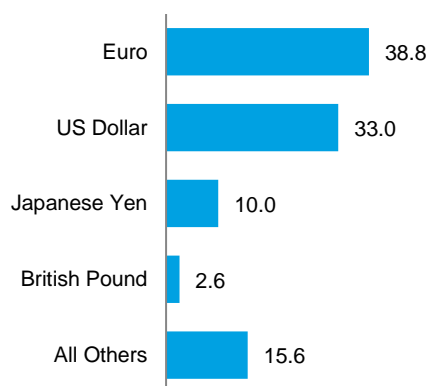
Maturity Breakdown ^{(2) (3)} as of 31 October 2023 (%)



Rating Breakdown ^{(2) (3)} as of 31 October 2023 (%)



Currency Breakdown ^{(2) (3) (4)} as of 31 October 2023



² Aggregate based on a look through basis of the fund holdings information.

³ Information is provided on a delayed basis consistent with sub-funds public disclosure and is calculated utilising top ten holdings or entire holdings conditional on availability.

⁴ The breakdown is post hedging.

Source: Morgan Stanley Investment Management. Provided for informational purposes only, not to be construed as investment recommendations for securities, sectors or countries listed herein. Holdings data is subject to change on a daily basis.

Credit Rating refers to the rating given by a Nationally Recognized Statistical Rating Organization ("NRSRO") such as Standard & Poor's Ratings Group ("S&P"), Moody's Investors Services, Inc. ("Moody's") or Fitch Ratings ("Fitch") and is the rating firms' subjective opinion concerning the ability and willingness of an issuer to meet its financial obligations in full and on time. Ratings apply only to the underlying holdings of the portfolio and do not remove the Fund's market risk. If two or more NRSROs have assigned a rating, the highest rating is used. Ratings other than S&P ratings are converted into their equivalent S&P rating.

Risk Considerations

- 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.
- Commodity investments can change significantly and quickly in value as a large variety of factors affect them.
- 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.

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Definitions

Cash & Equivalents are defined as the value of assets that can be converted into cash immediately. These include commercial paper, open FX transactions, Treasury bills and other short-term instruments. Such instruments are considered cash equivalents because they are deemed liquid and not subject to significant risk of changes in values. **Duration** is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices. **NAV** is the Net Asset Value per share of the Fund (NAV), which represents the value of the assets of a fund less its liabilities. (the value of principal) of a fixed-income investment to a change in interest rates. **Volatility (Standard deviation)** measures how widely individual performance returns, within a performance series, are dispersed from the average or mean value.

Index Definitions

The **MSCI USA Index** is designed to measure the performance of the large and mid cap segments of the US market. With 631 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the US.

The **MSCI Europe Index** is a free float-adjusted market capitalization index

that is designed to measure developed market equity performance in Europe. The term "free float" represents the portion of shares outstanding that are deemed to be available for purchase in the public equity markets by investors. The performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends.

The **MSCI Japan Index** is a free-floated adjusted market capitalization weighted index that is designed to track the equity market performance of Japanese securities listed on the Tokyo Stock Exchange, Osaka Stock Exchange, JASDAQ and Nagoya Stock Exchange. The MSCI Japan Index is constructed based on the MSCI Global Investable Market Indices Methodology, targeting a free-float market capitalization coverage of 85%.

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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

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