Morgan Stanley

INVESTMENT MANAGEMENT

A Sub-Fund of Morgan Stanley Investment Funds

Global Balanced Income Fund

MARKETING COMMUNICATION | CUSTOMISED SOLUTIONS | PORTFOLIO SOLUTIONS GROUP | FUND ANALYSIS | 30 APRIL 2025

Commentary

PERFORMANCE REVIEW

Past performance is not a reliable indicator of future results

- In the one month period ending 30 April 2025, the Fund's Z shares returned -3.15% (net of fees)[1].
- In April, markets were whipsawed by tariff-related news and increased economic uncertainty. The sweeping U.S. tariff announcement on 2 April was larger than expected, driving significant volatility across financial markets, but a temporary pause declared on 9 April brought a relief rally. Global equities ended the month marginally higher while global yields fell. In commodity markets, gold gained on rising demand for relative safe-haven assets but energy fell due to global growth concerns.
- Our allocation to MS INVF Global Asset Backed Securities Fund was the top contributor to performance, while our allocations to U.S. equities, global corporate bonds and emerging markets equities were the top detractors over the month of April.

MARKET REVIEW

- **US:** The MSCI USA Index returned -0.54% in U.S. dollar (USD) terms and -5.30% in euro terms in April. U.S. gross domestic product (GDP) contracted 0.3% (annualised rate) in the first quarter of 2025, as reported by the government's advance estimate, primarily due to an increase in imports ahead of tariffs. The Institute for Supply Management (ISM) Manufacturing PMI signalled contracting activity for the second consecutive month in April, falling to 48.7% from 49% in March. Although new orders and employment shrank at slower rates, production declines accelerated. The ISM Services PMI increased to 51.6% in April, from 50.8% in March. New orders growth gained momentum, while business activity growth softened and job shedding moved closer to stabilisation.
- The headline consumer price index (CPI) was up 2.4% in the year ended March 2025, slowing from 2.8% in February, according to the U.S. Bureau of Labor Statistics (BLS). Core CPI, which excludes food and energy, rose 2.8% in the year ended March 2025, down from 3.1% in February. Separately, the BLS reported the unemployment rate at 4.2% in April, unchanged from March, and estimated 177,000 jobs were added during the month. Wages grew 3.8% in the 12 months ended April 2025.
- **Eurozone:** The MSCI Europe Index returned -0.82% in euro terms and 4.17% in USD terms in April. Eurozone GDP rose 0.4% in the euro area and 0.3% in the European Union in the first quarter of 2025, compared with the previous quarter, according to Eurostat's flash estimate. Manufacturing conditions were approaching stabilisation at the start of the second quarter. The HCOB Eurozone Manufacturing PMI rose to 49.0 in April, from 48.6 in March. Although new business and employment continued to decline, both fell at a slower pace, while output posted faster growth. Activity in the service sector neared stall speed with the HCOB Eurozone Services PMI dropping to 50.1 in April, from 51.0 in March. New orders fell for the third month in a row while jobs grew modestly.
- Annual headline inflation grew 2.2% in April 2025, stable compared to March, according to Eurostat's flash estimate. Annual core inflation (excluding energy, food, alcohol and tobacco) rose 2.7% in April, accelerating from 2.4% in March. In a separate Eurostat report, the unemployment rate in March 2025 was estimated to be 6.2% in the euro area and 5.8% in the European Union; both rates were unchanged from February levels.
- **Japan:** The MSCI Japan Index returned 0.37% in yen terms and 5.23% in USD terms in April. Weakness in Japan's manufacturing sector was offset by a stronger performing service sector. The au Jibun Bank Japan Manufacturing PMI posted a small increase to 48.7 in April, from 48.4 in March. New orders fell at a faster rate while production declines eased and headcounts grew modestly. The au Jibun Bank Japan Services PMI improved to 52.4 in April, from the stagnation level of 50.0 in March. The increase in business activity was supported by accelerating new orders and greater hiring. The Ministry of Economy, Trade and Industry reported industrial production declined -0.3% year-over-year in March 2025.
- Headline inflation rose 3.6% over the year ended March 2025, easing from 3.7% in February, as reported by the government's statistics office. Japan's unemployment rate was 2.5% in March 2025, compared to 2.4% in February. Household spending grew 2.1% (in real terms) in the year ended March 2025.

PORTFOLIO ACTIVITY

- While the portfolio was not positioned with an expectation for the announcement that came on 2 April, risk levels were contained at moderate levels with recognition of potential downside surprise. The 90-day delay in most reciprocal tariffs and other indications of de-escalation improved the distribution of risks relative to 2 April, but tariffs continue to present a substantial headwind to growth, even assuming reasonable further de-escalatory progress. Given this backdrop, we made several adjustments to positioning through April:
  - We reduced equity exposure opportunistically in April, driven by both our tactical view and our quantitative volatility monitoring process.
  - Reductions came primarily from U.S. and China equities with our preference skewing toward Europe. Within Europe, we added to German equities through MDAX exposure. We believe MDAX can benefit from incoming German government policies aimed at re-industrialisation.
  - We increased India equities exposure. We believe India is beneficial as a portfolio diversifier amid trade uncertainty, with relatively low sensitivity to U.S. tariffs and longer-term tailwinds as production moves out of China.[2]
  - We closed our U.S. materials position. Gold exposure and high-quality large index weights helped performance, but the sector's primary exposure to industrial production is a risk amid tariff headwinds.
  - We took advantage of an opportunity to increase duration exposure as the current 10-year U.S. Treasury yield approached the mid-point of our intermediate-term range intramonth.
- The portfolio's effective equity exposure at the end of the month was 45.5%.

STRATEGY AND OUTLOOK

- The level of tariffs announced on 2 April was significantly greater in magnitude than markets had been expecting, despite those expectations having moved higher in the weeks preceding the announcement. Expectations for the implied average effective tariff, as a percentage of imports, hovered around 10% in March, where estimates following the initial 2 April announcement skewed toward 25% and moved higher, with escalatory hikes between the U.S. and China in the days that followed. Concern spiked in the aftermath of the announcement with the S&P 500 Index finding a trough down 12% from month's start, as the consensus view moved increasingly to recession.
- Relief came when the Trump administration announced a 90-day delay to most reciprocal tariffs, excluding China. This reprieve was impactful both in that it pulled the consensus view back from recession as a base case and defined a pain threshold where policy safety valves might be triggered. The combination brought a considerable measure of relief, but still left market participants grappling with substantial growth headwinds and a high level of uncertainty.
- As things stand now, bulls argue that peak tariff uncertainty registered in the immediate aftermath of the 2 April announcement, marking the bottom for markets, as tariff de-escalation improves visibility going forward. Bears argue that we have yet to realise peak growth uncertainty, risking renewed recession concerns as data shows deceleration. Recent news flow has favoured bulls, with headlines focusing on de-escalatory messaging from both the U.S. and China, alongside continued indications from the White House that trade deals are coming. Meanwhile, the key negative in the macro data trend has been in the form of sentiment and business surveys, while more hard data has seen relative strength, supported by pre-tariff pull forward. This does not refute forward growth concerns, but for now growth weakness remains a forecast.
- The key consumer experience so far has been uncertainty, but the next stage will be the direct experience with higher prices. Demand will likely weaken as consumers face this implicit tax and businesses reduce investment amid uncertainty. Demand weakness risks a weaker labour market and renewed recession concerns. Tariff de-escalation has made worst case scenarios less likely, but expected growth deceleration, against now higher equity markets, suggests a negative skew of risk going forward.

Characteristics as of 30 April 2025

Portfolio Effective Duration	2.83
Fixed Income + Cash Duration	5.10

[1] Source: Morgan Stanley Investment Management. Data as of 30 April 2025.

[2] Diversification neither assures a profit nor guarantees against loss in a declining market.

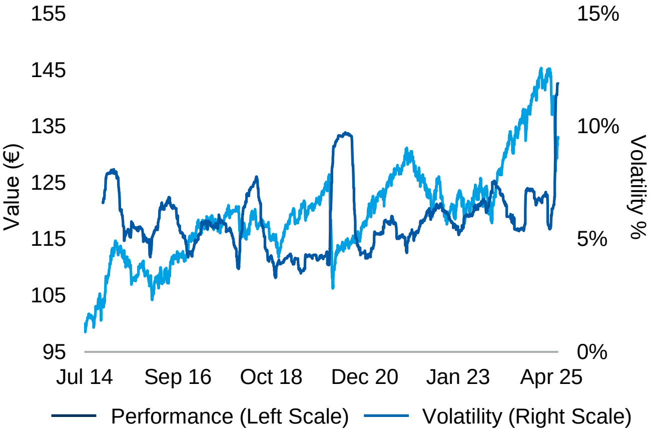
Asset Allocation	Current Weight %
Equities	**44.6**
S&P 500 Stock Basket	30.9
S&P 500 Futures	-4.7
S&P 500 Emini Put Options	2.1
SPDR S&P 400 US Mid Cap ETF	0.6
Stoxx Europe 600 Construction & Materials Stock Basket	0.7
Germany Stock Basket	0.8
MSCI Europe Stock Basket	7.0
Euro Stoxx 50 Futures	-0.8
Eurostoxx 50 Put Options	0.9
Stoxx Europe 600 Banks Basket	1.0
MSCI Japan Stock Basket	1.8
Nikkei 225 Futures	-0.2
Nikkei 225 Put Options	0.1
MSCI EM Stock Basket	3.7
Amundi MSCI INDIA II UCITS ETF EUR ACC	0.7
Fixed Income	**47.4**
US Government Bonds	4.0
Global Government Bonds	15.2
Global Corporate Bonds	11.8
iTraxx Euro X-Over 5Y CDS	2.0
iTraxx US HY CDS	2.6
iTraxx EM Sovereign CDS	4.0
EM Corporate Debt Fund NH	0.4
MS INVF EM Mkts Local INC FD N USD ACC	1.0
MS INVF Global Asset Backed Securities NH	6.5
Cash	**8.0**
Physical Cash & Short Maturity Bonds	5.4
Synthetic Cash	2.6
Total	**100.0**

Source: Morgan Stanley Investment Management. As of 30 April 2025.

Performance as of 30 April 2025 (%)

Class Z shares, performance of €100 invested since inception (31 July 2014) 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 30 April 2025 and includes the reinvestment of dividends and other distribution. The sources of all performance and volatility data is Morgan Stanley Investment Management.

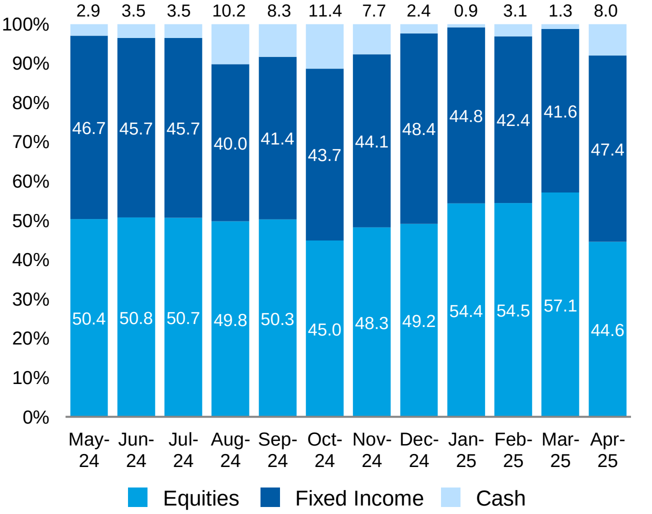
Calendar Year Performance (%)

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Class Z Shares (Net)	12.05	7.53	-8.91	9.53	-3.32	9.21	-6.23	4.75	4.83	5.08

Portfolio inception date: 31 July 2014. 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.**

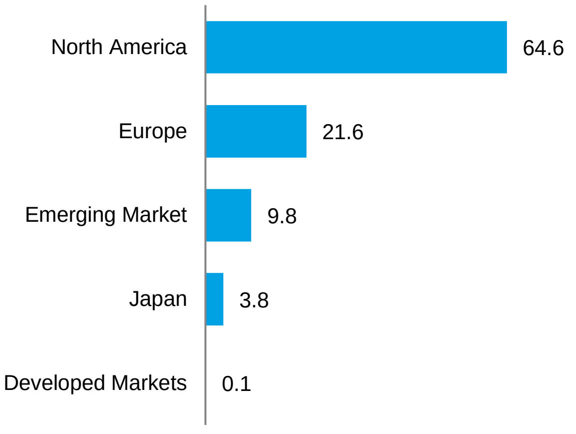
The value of the investments and the income from them can go down as well as up and an investor may not get back the amount invested.

Rolling Asset Class Weights (%) as of 30 April 2025

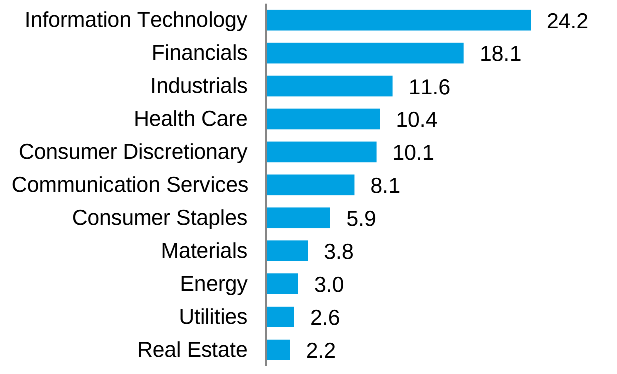


Due to their implementation, the commodities exposure is included within equities.

Equity Regional Breakdown [3] [4] [5] as of 30 April 2025 (%)

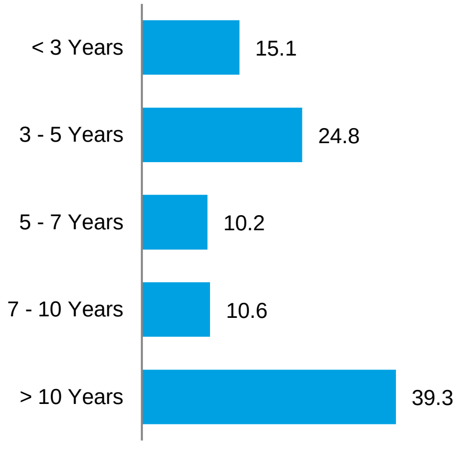


Equity Sectors Breakdown [3] [4] as of 30 April 2025 (%)

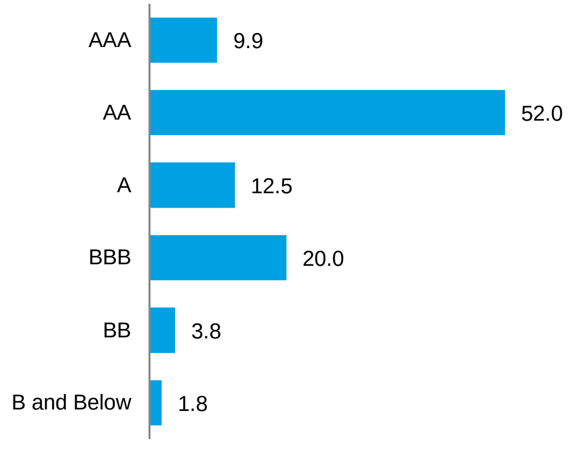


For additional information regarding sector classification/definitions please visit https://www.msci.com/gics. Note the short positions are fully covered on the "Synthetic Cash" portion of the portfolio and may have resulted from a sector mismatch from futures hedging.

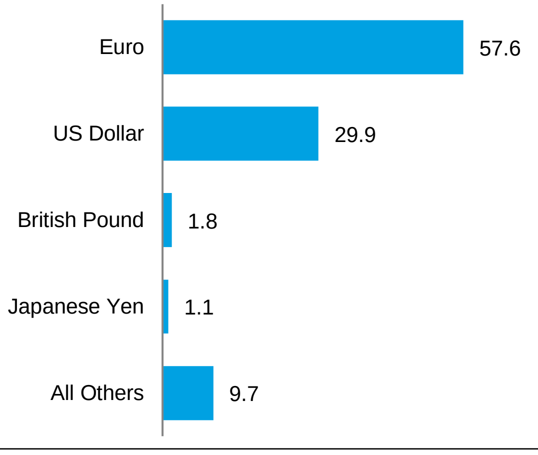
Maturity Breakdown [3] [4] as of 30 April 2025 (%)



Rating Breakdown [3] [4] as of 30 April 2025 (%)



Currency Breakdown [3] [4] [6] as of 30 April 2025



[3] Aggregate based on a look through basis of the fund holdings information.

[4] 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.

[5] Developed Markets includes Australia, Canada, Hong Kong, Israel, New Zealand and Singapore.

[6] 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 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.
- There are increased risks of investing in emerging markets as political, legal and operational systems may be less developed than in developed markets.
- The derivative strategy aims to increase the income paid to investors, but there is potential for the fund to suffer losses.
- 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 30.04.2025 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.

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 UCITS rules.

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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.

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.

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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 Sub-Fund (NAV), which represents the value of the assets of a fund less its liabilities. 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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