Morgan Stanley

INVESTMENT MANAGEMENT

Morgan Stanley Investment Funds

# Global Balanced Risk Control Fund of Funds

**MARKETING COMMUNICATION | CUSTOMISED SOLUTIONS | PORTFOLIO SOLUTIONS GROUP | FUND ANALYSIS | 30 APRIL 2024**

## Commentary

### PERFORMANCE REVIEW

Past performance is not a reliable indicator of future results

- In the one month period ending 30 April 2024, the Fund's Z shares returned -1.65% (net of fees)[1].
- During April, elevated interest rates and inflation levels continued as government borrowing costs for developed economies saw their greatest increase in months. Sticky inflation remained the primary inhibitor to quantitative easing by major central banks. Accordingly, both equity and bond markets sold off.
- Our allocations to Asia ex Japan equities and emerging market equities were the top contributors, and U.S. equities, global aggregate bonds and Japanese equities were the top detractors from the Fund's performance over the month of April. Alpha from the underlying funds detracted.

### MARKET REVIEW

- **U.S.:** First quarter gross domestic product (GDP) growth was weaker than expected in the U.S., slowing to 1.6% (annualised) from 3.4% in the fourth quarter of 2023, according to the Bureau of Economic Analysis first estimate. The underlying composition of GDP growth was stronger than the headline with inventories and trade accounting for most of the deceleration while consumer spending came in at a still healthy 2.5% annualised pace. After resuming expansion in March (50.3%), the Institute for Supply Management (ISM) Manufacturing PMI fell back into contraction in April, registering 49.2%. New orders shrank, reversing the growth trend in the prior month, while production grew at a slower rate. Employment continued to decline, albeit at a softer pace. The service sector's 15-month expansion ended in April with the ISM Services PMI falling to 49.4%, from 51.4% in March. Business activity growth slowed sharply, new orders growth lost momentum, and job losses accelerated.
- U.S. headline consumer price index (CPI) inflation increased 3.5% in year ended March 2024, accelerating from 3.2% in February, as reported by the Bureau of Labor Statistics (BLS). Excluding food and energy, core CPI rose 3.8% in the 12 months ended March 2024, unchanged from February. Separately, the BLS payrolls report showed unemployment slightly higher at 3.9% in April, up from 3.8% in March, with 175,000 jobs added in the month. Wages grew 3.9% over the 12-month period.
- **Europe:** Eurostat's flash estimated showed GDP growth rising 0.3% in both the euro area and European Union in the first quarter of 2024 compared to the previous quarter. By comparison, in the fourth quarter of 2023, euro area GDP fell -0.1% and was unchanged in the EU. At the start of the second quarter, the manufacturing sector contraction worsened on the back of a faster drop in new orders, although factories noted a softer decline in production and employment. The HCOB Eurozone Manufacturing PMI fell to 45.7 in April, from 46.1 in March. The service sector, however, posted stronger growth. The HCOB Eurozone Services PMI rose to 53.3 in April, from 51.5 in March, supported by faster growth in new business and hiring.
- Euro area annual inflation was estimated at 2.4% in April 2024, unchanged from March, according to Eurostat. Excluding energy, food, alcohol and tobacco, annual core inflation was estimated at 2.7% in April, easing from 2.9% in March. In a separate report, Eurostat estimated euro area unemployment at 6.5% in March 2024, which was stable compared with February, and European Union unemployment ticking lower to 6.0% in March, from 6.1% in February.
- **Japan:** Japan's manufacturing sector activity remained subdued but was approaching stabilisation. The au Jibun Bank Japan Manufacturing PMI increased to 49.6 in April, from 48.2 in March, helped by downturns in output and new orders that were only marginal and an increase in headcounts. Stronger demand propelled another improvement in the au Jibun Bank Japan Services PMI to 54.3 in April, up from 54.1 in March. Total new work accelerated for the sixth consecutive month, and hiring increased although the rate was unchanged month-over-month. The Ministry of Economy, Trade and Industry reported that industrial production fell -6.7% in March 2024 from the previous year.
- Headline inflation rose 2.7% in the year ended March 2024, cooling from 2.8% in February 2024, as reported by the government's statistics office. Japan's unemployment rate held steady at 2.6% in March 2024, the same rate as February.

### PORTFOLIO ACTIVITY

- Broad asset allocation remained largely unchanged. However, we rebalanced the fixed income assets towards the new proxy targets.
- We may be at the beginning of a long-form correction in which markets fall into a range, both in terms of equity prices and bond yields. We do not have evidence that this is the start of a bear market, and as a result, look to market dips to find value and earn carry. While the recent rise in yields offers an opportunity to add duration to portfolios, we still see risks to owning high duration in fixed income exposures in the face of a potentially slow and shallow Federal Reserve rate cut cycle. Within credit, high yield spreads appear to be fully pricing good news and investment grade spreads are offering more duration exposure than carry.
- We did not change any of our tactical views over April. However, we continue to look for investable opportunities as we head deeper into the year. The effective equity exposure at the end of the month was 56.6%.

### STRATEGY AND OUTLOOK

- Growth momentum from 2023 carried into the first quarter of 2024 with data tending to surprise to the upside and 2024 GDP growth estimates moving higher. Making comparisons to 2023, the market synthesis of positive data surprise tended to align with the three-month period extending from May 2023 through July 2023, where good news was considered good news — and risk assets moved higher even as rates moved higher. Unfortunately, April seems to be more comparable to the three-month period from August 2023 through October 2023, where stronger growth prompted concerns about a more hawkish path of policy, leading risk assets lower. A third consecutive U.S. core CPI print[2] ahead of expectations proved too much for markets to ignore. With the most recent CPI upside surprise, both the three-month and six-month average of core inflation stand higher than at the end of 2023, forcing markets to question the disinflation narrative.
- U.S. growth exceptionalism has thus far extended to inflation as well, with other developed markets not seeing the same degree of upside inflation surprise. These regional growth and inflation divergences have contributed to dollar strength. Currency moves have proven an important driver of regional relative equity performance.
- Inflation has not been the sole driver of volatility in April, with Iran-Israel tensions adding to risk-off dynamics. While most immediate risks of further escalation seem to have been avoided, the flare-up serves to remind markets that the current period remains one of elevated geopolitical uncertainty. Analysts debate whether current oil prices still reflect any meaningful geopolitical risk premium but agree that stronger-than-expected global growth has helped to lift oil and the commodities complex broadly.

| Characteristics as of 30 April 2024 | |
|---|---|
| Portfolio Effective Duration | 2.43 |
| Fixed Income + Cash Duration | 5.60 |

[1] Source: Morgan Stanley Investment Management. Data as of 30 April 2024.

[2] Source: Consumer price index news release, 10 April 2024, U.S. Bureau of Labor Statistics.

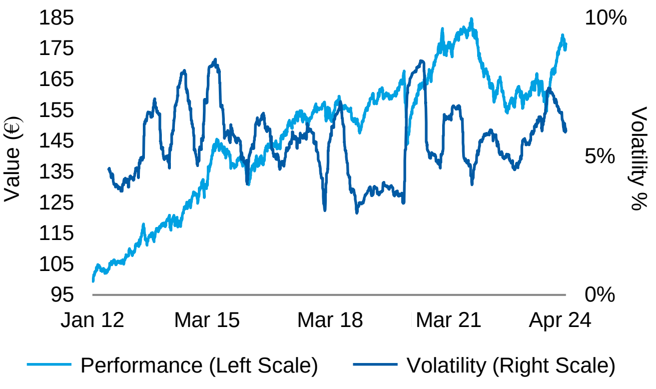
| Asset Allocation | Current Weight % | 1 Month Change % |
|---|---|---|
| **Equities** | **56.6%** | **0.9%** |
| MSIF US VALUE FUND NH EUR | 2.6% | 0.1% |
| MSIF US VALUE FUND N | 3.7% | 0.2% |
| US Growth Fund NH | 2.9% | -0.2% |
| US Growth N | 1.1% | 0.0% |
| Source S&P 500 ETF | 10.8% | -2.0% |
| S&P 500 Futures | 7.4% | 0.0% |
| Vontobel US Equity Fund | 6.5% | 0.2% |
| Wellington Strategic European Equity Fund | 3.6% | 0.2% |
| MS Europe Opportunity Fund N | 4.2% | -0.3% |
| GS Japan Equity Partners Portfolio I Acc | 2.4% | 0.5% |
| Nikkei Futures | 1.9% | -0.1% |
| MS EM Leaders Fund N | 1.5% | -0.5% |
| MS INVF SUSTAINABLE EM MKTS EQTY N USD | 2.6% | 0.1% |
| MSCI China Future | 0.0% | 1.0% |
| Schroders ISF Emerging Asia Fund | 2.1% | -0.6% |
| Asia Opportunity Fund N | 0.5% | -0.3% |
| Global Opportunity N | 2.6% | 2.6% |
| **Fixed Income** | **43.0%** | **4.2%** |
| Global Bond Fund NH1 | 18.1% | 4.9% |
| iShares Global Agg EURH ETF | 3.0% | 3.0% |
| Global Fixed Income Opportunities Fund N | 0.0% | -0.1% |
| Short Maturity Euro Bond Fund N | 0.0% | -0.5% |
| Euro Bond Fund N | 0.0% | -1.6% |
| Euro Strategic Bond Fund N | 0.0% | -1.1% |
| Global Fixed Income Opportunities Fund-EUR HSC | 2.5% | 0.1% |
| iShares 7-10Y Treasury EURH | 3.0% | 3.0% |
| US Dollar Corporate Bond Fund NH | 3.5% | 2.4% |
| Euro Corporate Bond Fund N | 2.7% | 0.1% |
| MSIF Global High Yield Bond Fund NH1 (EUR) | 4.1% | 0.1% |
| European High Yield Bond Fund N | 0.0% | -1.7% |
| MS INVF Emerging Markets Debt Fund N EUR | 2.6% | 0.1% |
| MS INVF Emerging Markets Domestic Debt Fund N EUR | 0.0% | -1.6% |
| EM Corporate Debt Fund N | 0.0% | -2.1% |
| MS INVF GL Asset Backed Securities NH1 EUR | 3.5% | -0.6% |
| **Cash** | **0.4%** | **-5.1%** |
| Physical Cash & Short Maturity Bonds | 9.7% | -4.1% |
| Synthetic Cash | -9.3% | -0.9% |
| **Total** | **100.0%** | **0.0%** |

**Source:** Morgan Stanley Investment Management. As of 30 April 2024.

## Performance as of 30 April 2024 (%)

Class Z shares, performance of €100 invested since share class inception (24 January 2012) 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 2024 and includes the reinvestment of dividends and other distribution. The sources of all performance and volatility data is Morgan Stanley Investment Management.

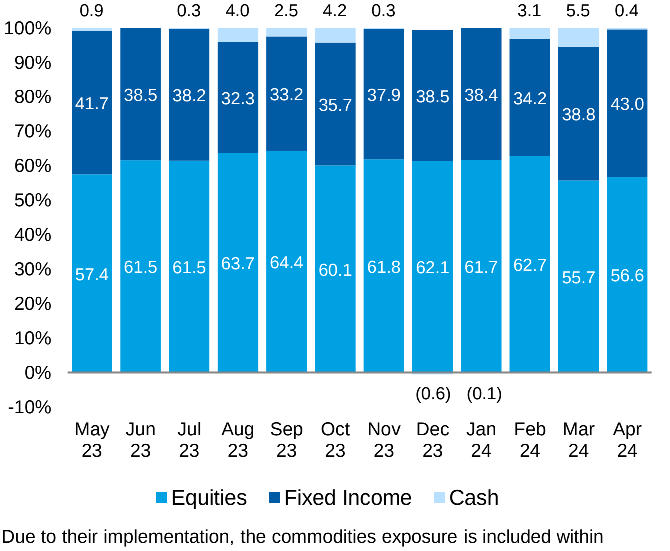
## Calendar Year Performance (%)

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| Class Z Shares (Net) | 8.08 | -13.64 | 4.28 | 7.21 | 8.80 | -4.51 | 6.68 | 5.81 | 5.30 | 9.30 |

Share class inception date: 24 January 2012. 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.**

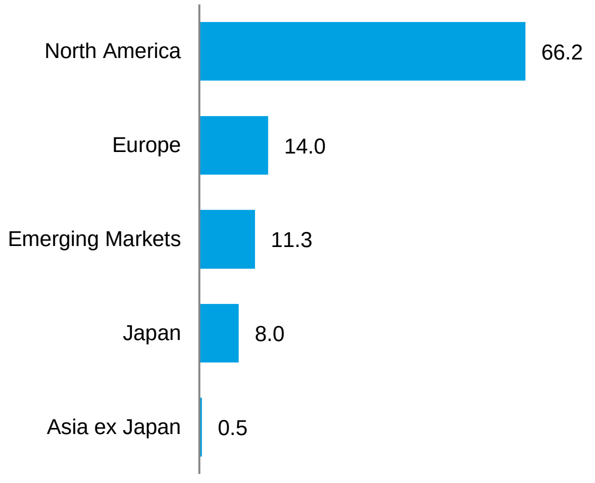
The value of the investments and the income from them can go down as well as up and an investor may not get back the amount invested.

## Rolling Asset Class Weights (%) as of 30 April 2024

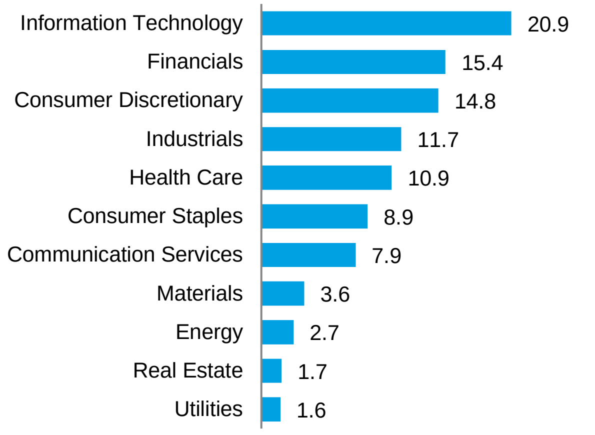



Due to their implementation, the commodities exposure is included within equities.

### Regional Breakdown [3] [4] as of 30 April 2024 (%)

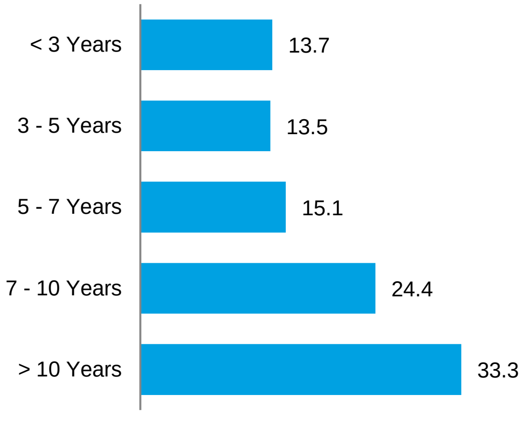



### Equity Sectors Breakdown [3] [4] as of 30 April 2024 (%)

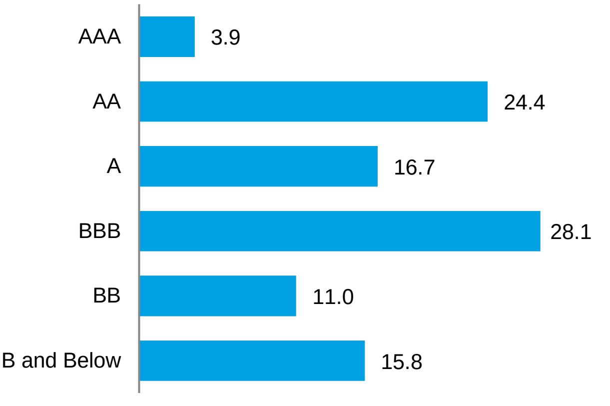



For additional information regarding sector classification/definitions please visit https://www.msci.com/gics. Note the short positions are fully covered on the "Synthetic Cash" portion of the portfolio and may have resulted from a sector mismatch from futures hedging.

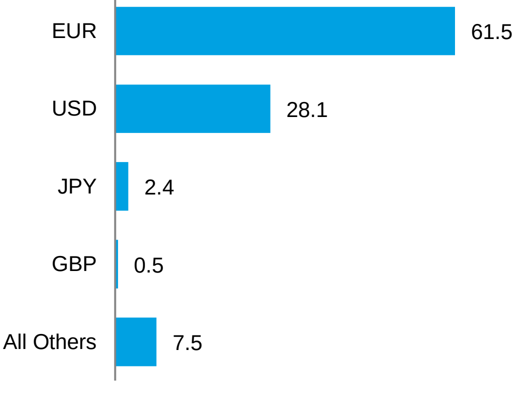
### Maturity Breakdown [3] [4] as of 30 April 2024 (%)




### Rating Breakdown [3] [4] as of 30 April 2024 (%)




### Currency Breakdown [3] [4] [5] as of 30 April 2024 (%)




[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] 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.

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## 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.
- 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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