

INVESTMENT MANAGEMENT

Morgan Stanley Investment Funds

Global Fixed Income Opportunities Fund

FIXED INCOME | GLOBAL FIXED INCOME TEAM | MONTHLY FUND ANALYSIS | 31 January 2021

Commentary

PERFORMANCE REVIEW

Macro decisions had a negative impact on performance over the period. Spread sector decisions were the largest contributor, primarily within securitized debt, namely asset-backed securities (ABS), non-agency commercial mortgage-backed securities (CMBS) and non-agency residential mortgage-backed securities (RMBS). High yield corporates positioning was also additive to returns. Within macro spreads, emerging markets (EM) external and quasi-sovereign spreads positioning contributed. U.S. rates positioning was the largest detractor over the period, followed by EM currency positioning (Brazilian real and South African rand).

MARKET REVIEW

January ushered in a pause in the global melt-up in asset prices. Government bond yields rose in most countries with the sell-off in U.S. Treasuries among the worst. Only Australian and Canadian government yields rose more than the U.S. yields while emerging market countries generally saw their yields rise even more. Returns were muted in credit markets as a deluge of supply in the high yield market counteracted good macro fundamentals. Securitized credit bucked the trend and delivered solid, if not stellar, returns (in some sectors).

MAIN STRATEGY CHANGES

During the month, we closed out of the agency RMBS position and added ABS and non-agency RMBS exposure. We added investment grade corporates (consumer cyclicals) and participated in the new issue calendar. We increased EM corporates exposure. Within EM external, we added a Mexico new issue, reduced Paraguay to flat and took profits on Serbia. Within EM domestic debt, we added duration in China and Egypt, while reducing duration in Indonesia, Mexico and Brazil. In terms of currencies, we reduced the U.S. dollar short position and Japanese yen long position; reduced the New Zealand dollar underweight vs. Canadian dollar, covered the euro and Brazilian real long positions, added a Swedish krona and Poland zloty short position; added to the British pound and Norwegian krone long positions.

Source: Morgan Stanley Investment Management. As of 31st January 2021.

12 Month

Performance Periods Jan '21- Jan '20 Jan '20- Jan '19 Jan '19- Jan '18 Jan '18- Jan '17 Jan '17- Jan '16 (%)^{1,2,*}

Class Z Gross (without deduction of max sales charge)¹ 4.65 9.98 0.23 7.73 5.04

Class Z Net (with the deduction of max sales charge)² 3.61 8.88 -0.78 6.65 3.98

Portfolio inception date: 7th November 2011. Past performance is not a reliable indicator of future results. Returns may increase or decrease as a result of currency fluctuations. 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.

¹ Figure shown assumes reinvestment of all distributions and deduction of fund level costs, but does not reflect the deduction of any sales charge applicable at investor level.

² Figure shown assumes reinvestment of all distributions and deduction of fund level costs, and includes the deduction of the maximum sales charge applicable at investor level that may be taken out of your money before it is invested.

*Example: An investor wishes to purchase shares of USD 100. At the maximum sales charge of 5.75% the investor has to expend USD 106.10. The sales charge is only incurred upon subscription.

Views expressed herein are the opinions of the Team and are subject to change based on market and economic conditions. These views are not necessarily representative of Morgan Stanley Investment Management (MSIM) or the firm as a whole.

Source: Morgan Stanley Investment Management. As of 31st January 2021.

Overall Asset Allocation

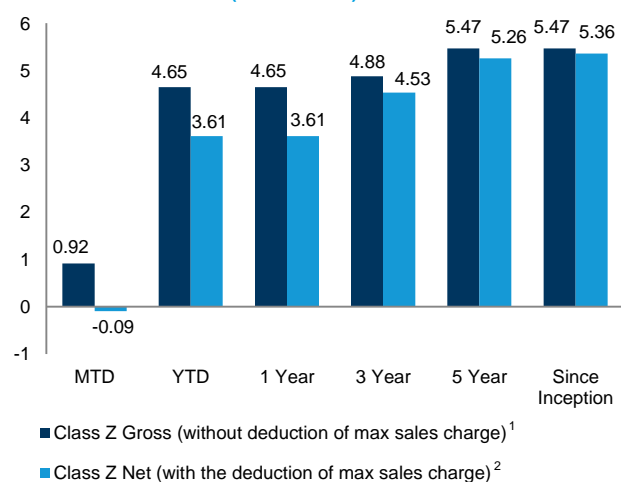
Fund / Sector	% NAV Portfolio	Spread Duration Contribution to Portfolio ^A
Total Assets	100.00%	3.61
Credit	41.30%	1.81
Investment Grade Corporates	25.17%	1.36
High Yield Corporates	11.78%	0.28
Convertibles	1.49%	0.02
ETFs	2.86%	0.15
Securitized	27.15%	0.90
Agency RMBS	0.02%	0.00
Non-Agency RMBS	14.41%	0.49
ABS	6.50%	0.18
CMBS	6.22%	0.23
Government	20.98%	0.90
Treasuries	12.57%	0.18
Sovereign	4.68%	0.49
Government Related	3.73%	0.24
Cash & Equivalents	10.58%	0.00

PORTFOLIO SPREAD DURATION: 3.61 years.

Focus on emerging market local rates, non-agency RMBS, high yield credit, convertible bonds and Lower Tier 2 Financials of systemically important institutions. A low growth, low inflationary environment has historically been supportive of spread assets.

Government bonds positions are concentrated at the longer-ends of yield curves. Duration position can be viewed as counterweight to spread sector positioning.

Investment Performance (% net of fees) in USD - Z Class Shares



Geographical Allocation

Fund / Sector	% NAV of Portfolio
Total	100.00
Dollar Bloc	48.16
EU Bloc	16.16
Other European Countries	9.99
Cash & FX	8.09
Latin America Bloc	5.85
Asia Bloc	5.27
Middle East Bloc	3.00
Africa Bloc	2.99
Supranational	0.34
Oceania Bloc	0.00

Risk Summary

Fund / Sector	Portfolio
Average Credit Quality	BBB+
Duration	4.00
Spread Duration [^]	3.61
Yield to Maturity	3.34
Option Adjusted Spread	200

[^]Portfolio spread duration is understated by 0.13 due to a swap spread widener position intended as a portfolio hedge.

Quality distribution data for securities is sourced from Fitch, Moody's and S&P. Where the credit ratings for individual securities differ between the three ratings agencies, the 'highest' rating is applied

Source: Morgan Stanley Investment Management. As of 31st January 2021.

Absolute Currency Exposure (larger positions) as of 31 January 2021

	% NAV of Portfolio	Duration Contribution to Portfolio
Total	100.00%	4.00
USD	94.80%	2.71
MXN	1.52%	0.10
ZAR	1.09%	0.10
GBP	1.07%	0.05
CNY	1.02%	0.04
NOK	1.01%	0.00
JPY	0.50%	0.00
IDR	0.43%	0.10
EUR	0.01%	0.77
AUD	-0.04%	0.10
NZD	-0.50%	0.03
SEK	-0.50%	0.00
PLN	-0.51%	0.00

Investment Approach

- Maximise the benefits of our global approach across all sectors of Fixed Income to ensure "best ideas" are represented
- Target attractive yield and total return over a market cycle (three- to five-year horizon)
- Focus on absolute and risk-adjusted returns (versus Tracking Error relative to an Index)
- Invest across global fixed income sectors, interest rate markets, and currency markets
- Include exposures to sectors such as emerging markets, high yield and investment grade credit, securitized (RMBS/CMBS/ABS), global government bonds, and convertibles
- Incorporate risk management into entire portfolio construction process

Fund Characteristics Summary

Investment Universe (Alpha Source)	<ul style="list-style-type: none"> • Credit: Investment Grade, High Yield, Emerging Market, Convertibles • Securitized (RMBS/CMBS/ABS) • Government bonds: Developed and Emerging Market
Currency Risk (Alpha Source)	<ul style="list-style-type: none"> • Active currency management allowed
Duration	<ul style="list-style-type: none"> • In the range of 0-6 years
Derivatives	<ul style="list-style-type: none"> • Can use derivatives (futures / swaps) consistent with investment guidelines / UCITS
Target Return	<ul style="list-style-type: none"> • In the range of 5%
Principal Portfolio Managers*	<ul style="list-style-type: none"> • Christian Roth, Michael Kushma, Jim Caron, Richard Ford

*Managers may change from time to time without notice.

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.
- 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.

Definitions

Alpha is the excess return or value added (positive or negative) of the portfolio's return relative to the return of the benchmark. **Cash & Equivalents** are assets that are cash or can be readily converted into cash. **Duration** is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices. **Option Adjusted Spread** is a measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is adjusted to take into account an embedded option. Typically, an analyst would use the Treasury securities yield for the risk-free rate. The spread is added to the fixed-income security price to make the risk-free bond price the same as the bond. **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. **Spread Duration** is a measurement of the spread of a fixed-income security rate and the risk-free rate of return. **Securitized assets** are instruments whose income payments and value are derived from a specified pool of underlying collateral. **Tracking error** is the standard deviation of the difference between the returns of an investment and its benchmark. **Yield to maturity (YTM)** measures the annual return on interest-bearing securities. In this it is assumed that they will be held to maturity. This metric includes both the coupon payments received during the term of the security and the repayment of the capital on maturity.

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