

A Sub-Fund of Morgan Stanley Investment Funds

Global Fixed Income Opportunities Fund

MARKETING COMMUNICATION | BROAD MARKETS FIXED INCOME TEAM | MONTHLY FUND ANALYSIS | 31 DECEMBER 2025

Commentary

PERFORMANCE REVIEW

December's performance was anchored by spread sectors, where securitised and corporate credit delivered robust gains amid resilient fundamentals and favourable technicals. Limited issuance and persistent demand for high quality collateral supported structured products, while corporate spreads held near multi-year tight, reinforcing carry and selection benefits. Conversely, macro positioning detracted modestly as global interest rates repriced higher following the Federal Reserve's (Fed) December rate cut and shifting expectations for 2026 easing, with emerging markets (EM) local yield curves under pressure from global yield volatility and cautious policy signals.

Macro Positioning

- U.S. Duration:** Exposure to U.S. rates detracted as the market repriced higher yields despite the Fed's 25 basis point rate cut on 10 December, which lowered the target range to 3.50%–3.75%. While the cut initially reinforced expectations for 2026 easing, subsequent data, resilient growth indicators and sticky labour conditions tempered dovish sentiment. This drove a bear-steepening of the yield curve, with 10-year yields rising roughly 12 basis points (bps) as the long end absorbed term premium adjustments and heavier supply. The Fund's curve steepener bias helped offset some losses, but higher long-end yields left U.S. duration exposure as a modest detractor overall.
- Euro Area Duration:** Detracted as global yield curves repriced higher and local dynamics offered little offset. Persistent core inflation and resilient wage growth kept near-term easing expectations muted, while the European Central Bank (ECB) maintained its deposit rate at 2.00% and reiterated that policy remains "in a good place". This steady stance, combined with broader upward pressure on yields, limited performance from euro area duration.
- Denmark Duration:** Danish rates detracted as yields tracked the broader upward move in European yield curves, driven by global term premium adjustments and year-end supply pressures. With domestic policy anchored to the ECB and no material local catalysts, Danish bonds offered limited insulation from the global repricing, leaving duration exposure as a modest drag on returns.
- Australia Duration:** Detracted as yields rose sharply during December, as the 10-year bond climbed nearly 35 bps to around 4.76%, reversing earlier declines as markets responded to persistent inflation signals and firm labour data.¹ The Reserve Bank of Australia (RBA) held its cash rate steady and reiterated that policy would remain restrictive until inflation returns sustainably to target.
- Brazil Duration:** Local yield curves repriced higher through December as the Selic rate held at 15% amid uneven inflation progress and lingering fiscal uncertainty. These factors reinforced expectations for restrictive policy well into early 2026 and, combined with global term premium adjustments, pushed long-end yields higher and weighed on performance.
- South Africa Duration:** Contributed positively, as local yields declined through December following a 25 bp repo rate cut to 6.75% by the South African Reserve Bank. The move, alongside the formal adoption of a lower 3% inflation target, reinforced policy credibility and improved investor sentiment. Contained inflation and a stronger rand supported demand for long-dated bonds, driving yields toward multi-year lows and adding modest gains to performance.
- "Risk-Free" Rates + Foreign Exchange (FX) Carry:** Continued to provide steady incremental gains, as elevated base rates across developed and emerging markets sustained attractive carry in an environment of moderating volatility and improving global risk sentiment. These conditions supported high quality exposures and helped offset some of the drag from directional duration positions.
- FX Positioning:** Marginal contributor, with gains primarily driven by EM currencies. The Fund's short U.S. dollar stance versus a diversified basket of currencies benefited from appreciation in Mexican peso and South African rand, supported by high carry and improving risk sentiment. These positives were partially offset by weakness in Brazilian real late in the month.

Spread Sector Exposures

- Credit Spreads:** Added to performance, driven by the Fund's exposure to high yield corporates, benefiting from strong carry and modest spread tightening as risk sentiment improved and default expectations remained contained. Robust demand for higher-yielding paper, coupled with limited new issuance, reinforced technical strength, and supported performance across selective positions. Investment grade credit added gains more modestly, as spreads hovered near multi-year tight and liquidity conditions stayed favourable, allowing carry to dominate despite valuations offering little room for compression.
- Securitized:** Contributed positively, with gains led by agency residential mortgage-backed securities (RMBS) and non-agency RMBS, while non-agency commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS) added incremental performance. Agency RMBS benefited from stable prepayment dynamics and strong demand for high quality collateral, while non-agency segments were supported by resilient credit fundamentals and limited issuance. Technical strength remained a key tailwind, and security selection across RMBS and CMBS continued to drive excess returns.

MAIN STRATEGY CHANGES

In December, the Fund maintained its disciplined risk posture, taking profits on select rate trades and reducing curve risk. We trimmed exposure in South Korean won duration and euro curve steepener, while reallocating from lower-conviction covered bonds to core rate positions. These adjustments reflect our proactive approach to preserving flexibility amid shifting macro conditions. We remain constructive on global fixed income markets. The backdrop is compelling: a resilient global economy, still robust corporate and consumer fundamentals, and attractive real yields across the asset class continue to drive flows. These dynamics continue to support our conviction in the Fund's ability to deliver compelling risk-adjusted returns going forward and we remain confident with the Fund's positioning. Given valuations, we believe bottom-up security selection to identify these higher-yielding names is fundamental to generate alpha moving forward as we do not expect spreads to tighten significantly from here.

Duration Management:

- Portfolio duration was reduced by 0.30 years to 4.53 years, reflecting a more cautious stance after November's rally. The reduction was driven by closing the Australia duration position, recognising that resilient domestic growth and sticky inflation kept the RBA on a higher-for-longer path, limiting near-term rally potential. The Fund also trimmed South Korea duration, closed the Canada/U.S. Treasury relative value trade, and reduced the euro area 5s 30s steepener as curve dynamics and a restrictive ECB tone limited upside.

FX Positioning:

- The Fund marginally increased its short U.S. dollar exposure to approximately 9.7% versus a diversified basket of EM currencies, maintaining a constructive view on EM FX. Within the basket, the Fund trimmed Hungarian forint and Indian rupee positions and added Polish zloty.

Spread Sector Adjustments:

- The most notable adjustment was trimming Danish covered bonds due to relatively rich valuations, freeing risk budget toward higher-conviction spread opportunities.
- Broader allocations to investment grade credit, high yield credit and securitised sectors were maintained, with paydowns in securitised credit reinvested selectively to preserve exposure.

Source: Morgan Stanley Investment Management. As of 31st December 2025.

¹Source: Bloomberg L.P. Data as of 31 December 2025.

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 December 2025. 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.

Overall Asset Allocation

Fund / Sector	% NAV Portfolio	Spread Duration Contribution to Portfolio ^A
Total Assets	100.00	3.12
Credit	30.62	1.35
Investment Grade Corporates	7.02	0.31
High Yield Corporates	18.19	0.58
Covered	5.42	0.47
Securitized	40.32	1.46
Agency RMBS	12.63	0.52
Non-Agency RMBS	14.70	0.51
ABS	7.55	0.30
Non-Agency CMBS	5.44	0.13
Government	19.78	0.25
Treasuries	14.89	0.00
Sovereign	2.64	0.12
Government Related	2.25	0.12
Interest Rate Swaps	0.01	0.00
Mutual Funds	6.02	0.07
Cash & Equivalents	3.24	0.00

PORTFOLIO SPREAD DURATION : 3.12 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.

Geographical Allocation

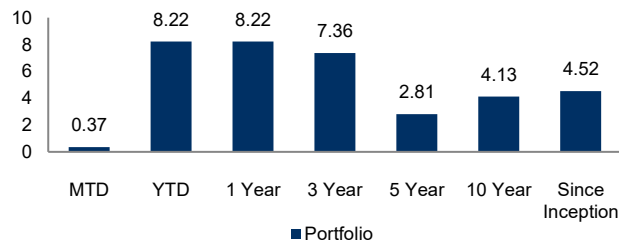
Fund / Sector	% NAV of Portfolio
Total	100.00
Dollar Bloc	47.96
EU Bloc	32.74
Other European Countries	6.43
Asia Bloc	1.12
Latin America Bloc	5.01
Middle East Bloc	0.53
Africa Bloc	2.66
Supranational	0.22
Other	0.09
Cash & FX	3.24

Risk Summary

Fund / Sector	Portfolio
Average Credit Quality	A-
Duration	4.59
Spread Duration ¹	3.12
Yield to Maturity	6.49
Option Adjusted Spread	156

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

Past performance is not a reliable indicator of future results.



Calendar Year Performance (%)

Past performance is not a reliable indicator of future results.

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Class Z Shares (Net)	8.22	5.34	8.55	-7.29	0.10	4.65	9.98	0.23	7.73	5.04

Portfolio inception date: 7th November 2011. 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.

Absolute Currency Exposure (larger positions)

	% NAV of Portfolio	Duration Contribution to Portfolio
Total	100.00	4.59
USD	96.04	2.77
PLN	0.98	0.00
MXN	0.98	0.10
EGP	0.92	0.00
BRL	0.87	0.10
ZAR	0.08	0.13
KRW	0.07	0.10
GBP	0.05	0.18
JPY	0.05	0.01
MXV	0.04	0.00
CAD	0.01	0.00
SEK	-0.01	0.00
EUR	-0.01	0.67
AUD	-0.01	0.00
NZD	-0.01	0.00
PEN	-0.01	0.09
DKK	-0.03	0.43

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

Source: Morgan Stanley Investment Management. As of 31st December 2025.

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"> • Utkarsh Sharma, Leon Grenyer, Vishal Khanduja

*Team members may be subject to change at any time without notice. Effective 31 December 2025, Michael Kushma will no longer manage the Fund.

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 fund's ability to buy or sell securities.
- Investment in Fixed Income Securities via the China Interbank Bond Market may also entail additional risks, such as counterparty and liquidity risk.
- 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.

Please refer to the Prospectus for full risk disclosures, available at www.morganstanleyinvestmentfunds.com. All data as of 31.12.2025 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. Luxembourg 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 from the Prospectus of the Fund.

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.

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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. **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. **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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