

A Sub-Fund of Morgan Stanley Investment Funds

## Euro Corporate Bond Fund

### BROAD MARKETS FIXED INCOME TEAM

Investors should note that, relative to the expectations of the Autorité des Marchés Financiers, this UCITS presents disproportionate communication on the consideration of extra-financial criteria in its management.

### Performance Review

In the one month period ending 30 September 2025, the Fund's Z shares returned 0.48% (net of fees)<sup>1</sup>, while the benchmark returned 0.39%.

The performance can be attributed to the following factors.

The portfolio's overall investment grade credit positioning had a positive impact on performance.

The portfolio is positioned to be overweight financials and underweight industrials when measured in duration times spread terms.

Positions within investment grade financials were drivers of positive performance due to the overweights to banking and insurance.

However, positions within investment grade industrials were detractors from performance, as a result of the underweights to technology and basic industry.

The overweight to investment grade utility had a positive impact on performance, driven by the overweight to electric.

The overweight in high yield corporate positions added to performance.

The overweight in government-related bond positions benefited performance.

The broadly neutral duration positioning had a negative impact on performance. The yield curve steepener position underperformed as curves flattened in September.

### Market Review

Bond yields broke out of their recent range in September, with the 10-year U.S. Treasury yield falling 8 basis points (bps) to end the month at 4.15%.<sup>2</sup> Early in the month, markets absorbed another weak U.S. employment report, showing nonfarm payrolls rose by just 22,000 in August.<sup>3</sup> This fuelled expectations for deeper interest rate cuts, with investors anticipating a terminal fed funds rate below 3%. However, the September Federal Open Market Committee (FOMC) meeting tempered those expectations. The Federal Reserve (Fed) delivered its first cut of the year—25 bps—but offered no guidance toward a rapid or aggressive easing cycle. Chair Powell described the move as a “risk management cut”, citing balanced risks to both inflation and employment. Stronger-than-expected activity data released later in the month further reduced the urgency for additional easing. The U.S. yield curve flattened, with long-maturity Treasuries outperforming, while the two-year yield ended the month little changed.

The Fed wasn't alone in easing policy. On the same day, the Bank of Canada (BoC) cut its overnight rate by 25 bps to 2.50%, marking its third cut this year. While the timing aligned, the rationale differed. Canada's economy has softened more sharply than the U.S., with elevated household leverage, three consecutive quarters of declining housing investment, and home prices down 16% from their March 2022 peak (as reported by the Dallas Fed). Gross domestic product (GDP) growth slowed to 0.9% annualized, and inflation, at 1.9%, is already at target.<sup>2</sup> The BoC's move aimed to reignite growth amid restrictive real rates and tariff-related export concerns.

Other G7 central banks held steady. The European Central Bank (ECB) kept rates at 2.00%, signalling its cutting cycle is likely complete. Bund yields were flat, while peripheral European spreads narrowed slightly. France remained a focal point, struggling to pass a budget or form a stable coalition—symbolically, French and Italian 10-year yields ended the month at identical levels, compared to a 55-basis point gap a year ago.<sup>2</sup> The Bank of England (BoE) also held rates at 4.00%. Inflation remains stubborn, and while the BoE is expected to ease, markets see only a 50/50 chance of more than one cut by next September. Gilts traded in a narrow range and finished the month little changed.

The Bank of Japan, the only G7 central bank still on a hiking path, took no action in September. Markets continue to expect a cautious but steady normalisation to counter persistent inflation pressures. Ten-year Japanese government bond yields rose 4 bps on the month.<sup>2</sup>

Global investment grade spreads closed the month 5 bps tighter, with the demand/supply dynamic continuing to provide support.<sup>2</sup> European and U.S. investment grade corporate spreads closed the month 5 bps tighter at +79 bps and +74 bps, respectively, reversing the widening seen in August.<sup>2</sup> Carry continued to be a significant driver of returns within investment grade, with spreads now at multi-year lows. European and U.S. swap spreads were wider, whilst synthetic/credit default swaps underperformed cash

<sup>1</sup> Source: Morgan Stanley Investment Management Limited. Data as of 30 September 2025.

<sup>2</sup> Source: Bloomberg L.P. Data as of 30 September 2025.

<sup>3</sup> Source: U.S. Bureau of Labor Statistics, 5 September 2025.

spreads. In the euro investment grade index, higher-beta sectors such as financials continued to outperform, driven by strong technicals in banking (limited issuance). Within industrials, outperformance came mainly from consumer non-cyclical sectors like supermarkets and food & beverages, with fundamentals (notably margins) having remained resilient in this space. Within utilities, corporate hybrids continued to outperform, with subordinated debt overall still outperforming senior debt. Looking across countries, Spain was a key outperformer, mainly driven by the banking system, helped by an upgrade of Spain's sovereign rating by multiple rating agencies. From a ratings standpoint, BBB-rated debt marginally outperformed higher quality corporates, and euro high yield outperformed investment grade while the spread difference between BBs and BBBs was broadly unchanged at 90 bps.<sup>2</sup> In the U.S. investment grade market, many of the same themes were evident. Financials outperformed non-financials, while BBB-rated credits marginally outperformed higher quality corporates. At the sector level, traditionally higher-beta areas such as airlines, autos and energy outperformed. In terms of curve dynamics, longer-maturity U.S. investment grade bonds lagged the broader market slightly in September, corresponding with the flattening of the U.S. Treasury curve during the month.

On the corporate news front, September was dominated by more merger and acquisition (M&A) headlines. The biggest headline came out of the U.S. at the end of September with Silverlake and Saudi Arabia's sovereign wealth fund PIF (Public Investment Fund) planning to acquire gaming giant Electronic Arts for \$55 billion, the largest leveraged buyout in history. Also, during the month Heineken agreed to acquire a Central America beverage and retail business for \$3.2 billion, and Pfizer agreed to acquire Metsera for an initial enterprise value of \$4.9 billion. Reuters reported that Adnoc warned regulatory demands from the EU could jeopardise the \$17 billion Covestro deal. TenneT secured €9.5 billion in equity funding for TenneT Germany from a consortium.

The technical remained strong in September despite higher-than-expected primary issuance. Gross primary issuance came in above expectations, with €71 billion in Europe (vs. €60 billion expected) and \$216 billion (vs. \$165 billion expected) in the U.S., driven mainly by higher-than-expected non-financial issuance.<sup>4</sup> Demand for primary issuance remained high, which kept new issue concessions low (in the 0-5 bps range on average). On the demand side, inflows into the asset class continued (we continued to see record run-rate levels of inflows into European investment grade credit while still seeing flows into U.S. investment grade as well).

## Portfolio Activity

No significant changes to note.

## Strategy and Outlook

### Strategy

In the portfolio, we continue our overweight position to credit risk, as we remain constructive on credit from a fundamentals perspective. We therefore prefer to take this position through default risk (duration times spread) rather than general market beta (spread duration).

We remain biased towards financials over non-financials. Financials continue to present strong fundamentals and attractive valuations relative to non-financial credits. We remain underweight industrials on concerns over continued downward ratings migration into BBBs, increased merger and acquisition risk, shareholder-interest focused activity (dividends and buybacks), technological disruption and increasing idiosyncratic news. We thematically prefer regulated business models over unregulated (i.e., utilities) to hedge these risks. We also remain selective in off-benchmark holdings of high yield and government-related bonds.

In terms of interest rate risk, we are broadly neutral in duration terms versus the benchmark. We also continue to look for new issues to take advantage of new opportunities in the primary market.

### Outlook

As we enter the final quarter of 2025, the outlook across fixed income sectors reflects cautious optimism amid evolving macro conditions and central bank policy shifts. From a macro positioning perspective, we maintain our neutral stance on duration, continuing to favour curve steepening positions in our portfolios, in light of structural shifts across developed markets and forward-looking supply/demand dynamics.

We remain cautiously constructive on investment grade credit, anticipating a moderate-growth environment without a meaningful rise in downgrade or default risk. European policy remains broadly supportive, while the U.S. fiscal outlook continues to be mixed and clouded by political uncertainty. Corporate fundamentals remain solid, with issuers maintaining conservative balance sheet strategies and low-risk profiles. Technicals are still favourable, though the recent uptick in primary issuance—particularly in euro investment grade—warrants closer attention. While carry remains a key driver of returns, we remain mindful of the persistent tightness in credit spreads and the potential for volatility as markets recalibrate expectations around central bank easing. With the full impact of trade policy developments yet to materialise, we continue to favour issuers with strong fundamentals, lower cyclicity, and those well positioned to navigate a moderate-growth backdrop.

**For further information, please contact your Morgan Stanley Investment Management representative.**

<sup>2</sup> Source: Bloomberg L.P. Data as of 30 September 2025.

<sup>4</sup> Source: Bank of America/Merrill Lynch.

## Fund Facts

|               |                           |
|---------------|---------------------------|
| Launch date   | 04 September 2001         |
| Base currency | Euro                      |
| Benchmark     | Custom- Blended Benchmark |

## Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

|                   | YTD  | 2024 | 2023 | 2022   | 2021  | 2020 | 2019 | 2018  | 2017 | 2016 | 2015  |
|-------------------|------|------|------|--------|-------|------|------|-------|------|------|-------|
| Class Z Shares    | 3.14 | 5.28 | 9.48 | -14.15 | -0.36 | 3.33 | 8.58 | -3.25 | 4.47 | 5.91 | -0.50 |
| Blended Benchmark | 2.76 | 4.74 | 8.19 | -13.65 | -0.97 | 2.77 | 6.24 | -1.25 | 2.41 | 4.73 | -0.56 |

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](http://www.morganstanley.com/im) to see the latest performance returns for the fund's other share classes.**

## Share Class Z Risk and Reward Profile

- 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.
- Investment in Fixed Income Securities via the China Interbank Bond Market may also entail additional risks, such as counterparty and liquidity risk.

- 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](http://www.morganstanleyinvestmentfunds.com). All data as of 30.09.2025 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](http://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](http://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

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The Blended Index performance shown is calculated using the **MSCI ECCI Index** from inception through 31 May 2007 and the **Bloomberg Euro-Aggregate Corporate Index** thereafter.

The **Bloomberg Euro-Aggregate: Corporates bond index** is a rules based benchmark measuring investment grade, EUR denominated, fixed rate, and corporate only. Only bonds with a maturity of 1 year and above are eligible.

The **MSCI Euro Credit Corporate Index (ECCI)** includes fixed rate corporate debt denominated in the euro.

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A blended benchmark has been used because there has been a change in benchmark during the reporting period shown.

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