

A Sub-Fund of Morgan Stanley Investment Funds

Global Fixed Income Opportunities Fund

BROAD MARKETS FIXED INCOME TEAM

Performance Review

In the one month period ending 30 September 2025, the Fund's Z shares returned 0.70% (net of fees)¹.

September's performance was led by the Fund's macro positioning, with the U.S. Federal Reserve (Fed) delivering its first rate cut of 2025. Softer labour data and elevated but stable inflation supported the move while markets priced further monetary easing. Positioning within spread sectors also contributed, mainly driven by the strong performance from high yield corporates.

Macro Strategies

- **South Africa Duration:** Contributed positively as South African bonds rallied on the back of stable central bank policy, dovish global rates and renewed foreign inflows, driving long-maturity yields lower.
- **Mexico Duration:** Added to performance, as long-dated bonds rallied, supported by attractive carry and stable Banxico policy that kept local yields in check.
- **U.S. and Euro Area Duration:** Yield curve steepening positions in the U.S. and euro area detracted, as curve flattening pressures intensified amid central banks remaining wary of easing too quickly, moderating growth, and persistent inflation concerns. However, year-to-date, these high conviction U.S. and euro area curve steepener trades have contributed 51 basis points (bps) and 27 bps to performance, respectively. We still maintain these positions.
- **Emerging Market (EM) Hard Currency Debt:** Continued to add to performance amid supportive risk sentiment.
- **Foreign Exchange (FX) Positioning:** The Fund's short U.S. dollar versus a diversified basket of developed and EM currencies contributed, as the dollar weakened in September relative to the basket. The higher carry earned from owning EM currencies versus the dollar also continued to contribute to performance.

Spread Sector Strategies

- **Credit Spreads:** Security selection within high yield and investment grade corporate bonds also performed well, mainly within industrials and financials where spreads tightened. The sector also benefited from strong carry and resilient issuer fundamentals.
- **Securitized Debt:** The Fund experienced gains from exposures to commercial mortgage-backed securities (CMBS), non-agency residential mortgage-backed securities (RMBS) and asset-backed securities (ABS). Positive security selection within securitized credit continues to drive performance as one of our best ideas.

Market Review

One year after its decisive 50 basis point "first cut," the U.S. Federal Reserve (Fed) delivered a more restrained 25 basis point reduction this September, lowering its target rate to a range of 4.00%-4.25%. While speculation swirled about multiple dissenters favouring a larger cut, only one voting member broke from consensus—underscoring the Fed's cautious stance.

Market expectations ahead of the 17 September policy meeting were the most dovish since April's post-Liberation Day turmoil, yet the Fed's decision reminded investors that policymakers remain committed to maintaining positive real interest rates until inflation expectations are fully anchored. Despite progress in disinflation, with core personal consumption expenditures (PCE) at 2.9% and unemployment near 4.2%,² the Fed signalled that inflation's "last mile" remains the hardest.

Fed's Measured Cut Flattens Curve, Signals Caution

The Fed's first rate cut of 2025—of 25 bps—tempered expectations for aggressive easing. Despite early-month weak jobs data, stronger activity later in the month reduced urgency for further cuts. The U.S. yield curve flattened, with long-maturity Treasuries outperforming.

Global Divergence in G7 Central Bank Policy

While the Fed and Bank of Canada eased rates, the European Central Bank, Bank of England and Bank of Japan held steady. Canada's cut reflected domestic weakness, while Europe grappled with political gridlock and inflation persistence. Japan maintained its cautious hiking stance.

Dollar Mixed as Foreign Exchange Markets React to Policy Shifts

The Bloomberg Dollar Index was flat, but the U.S. dollar weakened against high-carry and cyclical currencies. The euro edged higher, while New Zealand dollar and Canadian dollar lagged amid diverging central bank paths and growth outlooks.

EM Debt Strengthens on Easing and Inflows

Emerging markets (EM) debt gained as the Fed and EM central banks eased policy. Argentina and Indonesia faced political risks, but

¹ Source: Morgan Stanley Investment Management Limited. Data as of 30 September 2025.

² Source: U.S. Bureau of Labor Statistics, 1 August 2025, and U.S. Bureau of Economic Analysis, 26 September 2025.

strong inflows supported hard and local currency debt. Credit spreads tightened across sovereign and corporate segments.

Investment Grade Credit Tightens Amid Strong Demand and M&A Surge

Global investment grade spreads narrowed by 5 bps, reversing August's widening. Financials and consumer non-cyclicals led gains. Merger and acquisition (M&A) activity surged, highlighted by a record \$55 billion leveraged buyout of Electronic Arts. Technicals remained strong despite elevated issuance.

High Yield and Convertibles Ride Risk-On Sentiment

High yield outperformed investment grade credit, supported by firm demand and record issuance. Convertible securities rallied with equities, with new issuance surpassing 2024's full-year total. Dispersion fell to its lowest since January, reflecting broad sector strength.

Agency MBS Outperforms as Banks Rebuild Holdings

Agency mortgage-backed securities (MBS) outperformed Treasury bonds. Spreads tightened, and bank holdings rose. Mortgage fundamentals remained solid, with low delinquency and limited refinancing activity.

Securitized Credit Resilient Despite Mixed Signals

ABS, CMBS and RMBS issuance rebounded post-summer. CMBS strength came from logistics and luxury hotels; Class B office remained weak. RMBS spreads narrowed on stable home prices and strong credit fundamentals.

Portfolio Activity

In September, the Fund proactively took profits, particularly across some of the tightest investment grade credit names in euro financials and industrials. But it also added some exposure in a few high-conviction high yield credit names. Overall, this move reflects our disciplined approach to risk management in richly valued segments and active search for better risk-adjusted names. 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 investor 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:

- Overall portfolio duration was marginally reduced by 0.07 years to 4.01 years, reflecting an overall neutral exposure. We see better value in yield curve positioning (via curve steepeners in both the U.S. and euro area).

FX Positioning:

- Increased the short U.S. dollar exposure to approximately 8.4% versus a diversified basket of EM and developed market currencies, maintaining a strategic stance against the dollar.
- Added to the selective long EM FX basket (Czech koruna, Hungarian forint and South African rand), to continue to collect positive FX carry on the short U.S. dollar position.

Spread Sector Adjustments:

- Reduced allocation to investment grade credit across some of the tightest names, particularly within financials and industrials in Europe.
- Reduced securitized exposure mainly due to paydowns. The team is actively looking to maintain these positions.
- Increased allocation to high yield corporate credit primarily via high carry industrial names offering attractive valuations.

Strategy and 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. In developed markets, duration positioning remains neutral outside Japan, with selective opportunities in Canadian and Australian government bonds. The U.S. yield curve steepeners are being trimmed, while Japanese exposure is shifting toward short duration and long inflation breakevens. In foreign exchange, a short U.S. dollar stance against high-beta currencies is favoured, supported by global growth differentials and monetary easing cycles outside the U.S.

Emerging markets debt continue to benefit from supportive fundamentals and attractive valuations, particularly in local currency debt. Real yield differentials and reform-oriented policy agendas are drawing sustained inflows, though country-level selectivity remains critical. We believe a softening U.S. dollar and cautious Fed stance further enhance the appeal of EM assets, but investors must navigate idiosyncratic risks and policy divergence.

Corporate credit maintains a cautiously constructive tone, with solid fundamentals and supportive technicals offsetting tight spreads and elevated issuance. Investment grade issuers are expected to weather a low-growth environment, while high yield benefits from resilient earnings and attractive yields despite lingering inflation concerns. Convertible bonds remain well positioned, offering asymmetric return profiles and equity sensitivity that likely reward selectivity and structure quality.

In securitized products, agency MBS is expected to outperform as spreads tighten and valuations remain compelling. Securitized credit spreads should stay stable, with performance driven by carry and resilient fundamentals. Residential mortgage credit securities are favoured, while consumer ABS and commercial real estate securities warrant caution due to interest rate pressures and sector-specific challenges.

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

Fund Facts

Launch date	07 November 2011
Base currency	U.S. dollars

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	6.41	5.34	8.55	-7.29	0.10	4.65	9.98	0.23	7.73	5.04	-0.70

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.

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.

- 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 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 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 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

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