

A Sub-Fund of Morgan Stanley Investment Funds

Calvert Sustainable Euro Corporate Bond Fund



Performance Review

In the one month period ending 31 January 2025, the Fund's I shares returned 0.44% (net of fees)¹, while the benchmark returned 0.44%.

The performance can be attributed to the following factors.

The portfolio's overall investment grade credit positioning had a negligible impact on performance as spreads tightened.

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

Positions within investment grade financials had a positive impact on performance, driven by the overweights to banking, insurance and financial other.

Investment grade industrials were drivers of negative performance, due to the underweights to basic industry, capital goods, consumer cyclical, consumer non-cyclical, energy and technology.

The exposure to investment grade utility had a negligible impact on performance.

The overweight positions in high yield corporate and government-related debt had a positive impact on performance.

Overall, duration positioning had a positive impact on performance, driven by the underweight to euro rates, as yields rose across the curve.

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.

The Fund has an exposure to green bonds and social, sustainability and sustainability-linked bonds of 22.3%, versus 11.3% in the index.

Outlook

Markets are now faced with the challenge of becoming proficient at reading/understanding President Trump's modus operandi and ultimate goals, as policy directives so far have been issued — and rescinded or postponed — at a rapid pace. In the first few days in office, the administration signalled its intent to execute as many campaign promises as possible, with a flurry of executive orders. Markets were initially pleased that the early efforts focused on immigration and government efficiency while steering clear of tariffs. Unfortunately, that reprieve did not last long. On the last day of January, President Trump announced an immediate 25% blanket tariff on all Mexican and Canadian goods, with a 10% carve out for Canadian energy, and an additional 10% tariff on China. Although campaign rhetoric pointed to an aggressive stance on tariffs, the markets were nonetheless caught off guard by the announcement, unsettled by the magnitude of the levies and timing of their targeted effective date. Fortunately, but perhaps unsurprisingly, Mexico and Canada were able to defuse the immediate risk and negotiate with the U.S. administration to postpone implementation for one month. Although China's tariff increase remains on the table, that in itself is not surprising or overly worrisome given the U.S. government's desire to "delink" from China.

While financial markets had a good January, overcoming angst about the incoming U.S. administration, the future remains quite murky. The complication is that the U.S. economy has, in effect, "landed" — meaning that for all the talk of entrenched inflation and

¹ Source: Morgan Stanley Investment Management Limited. Data as of 31 January 2025.

incipient recession risk, the economy's performance was remarkably stable. It is possible that growth has reached a new higher equilibrium, call it 2.5% real growth and 2.5% inflation with a stable, full employment labour market. And Federal Reserve (Fed) policy may have, by skill and/or luck, arrived at the appropriate policy rate to maintain that stability. So, if all looks good for the U.S. economy (with or without further rate cuts), the president's ardent desire to disrupt trade policy and potentially trigger a change in Fed policy is not good for asset prices, which by most calculations are highly or fully valued for both credit and equities. Outside the U.S., the 10-year government bond yields in most countries look okay given economic and policy trajectories. There is an old adage that business cycles don't die of old age, they are "murdered", typically by shocks from policy mistakes, exogenous events or bubbles. In this case, market pricing on a whole host of assets is dependent on the absence of policy errors. With the Trump administration's seemingly relentless focus on immigration and trade, the risk of policy upsetting the current equilibrium has been growing. That said, U.S. Treasury 10-year yields are likely to remain range-bound with the caveats noted.

The central question is whether the Trump administration can implement its policies without causing a pullback in asset prices. Initially, the market's reaction to Trump's victory was positive; the thinking was that although trade and immigration policies were not positives for growth and low inflation, they would be offset by other positives in the policy basket (deregulation, tax cuts) that would, on balance, benefit the economy. This assumption is now being challenged as the administration is implementing the economically negative components of the policy basket first, with the pro-growth elements taking longer to be implemented and their impact therefore delayed. In addition, given a narrow Republican majority in Congress it is difficult to be too confident about how much of the pro-growth agenda will be passed. And, specifically regarding trade policy, we still do not know the ultimate objective(s). The administration has laid out three goals: (1) establish a negotiating tool to achieve other goals, like drug interdiction and illegal immigration; (2) raise money, to either pay for other tax cuts or spend elsewhere; and (3) reduce trade dependency to transition to a more autarkic economy. It is not yet clear which one of these is most important to the administration; this uncertainty will make investing challenging in the months ahead as the "true colours" of the administration's aims come to light.

What does this mean for monetary policy? Tariff uncertainty means less certain U.S. monetary policy. Tariffs — and potentially large ones as directed by the Trump administration — should be viewed as a consumer tax (like the value-added tax, VAT, used in much of the world) and a negative supply shock. This would be a growth-reducing, inflation-enhancing shock to the U.S. economy, while the added uncertainty alone could keep inflation higher than otherwise. This scenario is likely to make the Fed cautious about further rate cuts. While we have been sceptical that the Fed would deliver two rate cuts in 2025, it had remained a distinct possibility. Now, two cuts look even less likely and, assuming tariffs are eventually implemented (we think a 10% levy across the board does not look out of line with administration rhetoric or goals), the impact could cause the Fed to stop cutting rates entirely. Notably, the opposite is true for most other countries. As we saw with Canada, the market immediately priced in additional aggressive rate cuts to offset the deflationary impact of tariffs on the Canadian economy. This relative response rate would, on the surface, suggest a preference for non-U.S. government bonds (except for Japan, whose central bank is raising rates no matter what). But, the increasing headwinds for the world economy and a likely stronger dollar usually means falling prices for risky assets and, importantly, lower U.S. Treasury yields. Netting these forces out leaves us with a small underweight to U.S. interest rate risk relative to the rest of the world. Given all the uncertainty with economic and policy outcomes, we think running a conservative interest rate strategy makes the most sense for now.

Credit markets wobbled a bit on the tariff news but quickly regained their equilibrium, attesting to the still-strong fundamentals underlying credit. With the future murkier and valuations high, we think it is prudent to be prudent. It continues to be true — maybe even more so given uncertainty surrounding the Trump administration — that it will be difficult for spreads to tighten much from current levels. However, we believe that does not detract from the overall total return possibilities of these bonds. With fundamentals still strong, a seemingly voracious investor appetite for taking down supply, and central banks still in easing mode, it is difficult to be underweight. This backdrop requires being highly selective and actively managing rating, country and industry holdings to avoid the inevitable problems likely to arise in the next 12 months. We remain focused on avoiding companies and industries at risk (either from idiosyncratic underperformance, secular challenges or from increased management aggressiveness) while building as much yield as is reasonable into the portfolio without jeopardizing returns from credit losses or spread widening. We still identify better opportunities in U.S. names and European banks in euro-denominated bonds, although we have been selectively reducing overweight positions on outperformance.

Securitized credit remains our go-to overweight sector. But even here, the recent streak of strong performance is reducing its relative and absolute performance. While many components of this sector (commercial mortgage-backed securities, residential mortgage-backed securities, asset-backed securities) look attractive on an equal ratings comparison to credit, absolute spreads, like in credit, are — relative to their own history — nearing levels where it is less attractive to be long. That said, we believe the technical dynamics and fundamentals remain compelling. New issues are frequently multiple times oversubscribed, making it difficult to accumulate large positions. Amid the current noise and uncertainty in the world, we believe this sector can continue to perform well. In the agency sector, higher coupon securities continue to be attractive compared to investment grade corporates and other agency coupon structures, and we believe they are likely to outperform U.S. Treasury securities. Selectivity remains key.

Emerging market (EM) bonds have performed well in early February as the trade war with Mexico was (temporarily) defused. How long this can last is an open question. It is still very possible that postponed tariffs could eventually come into effect. As such, we do not expect the current lull in negativity or the recently good price performance to continue unabated. Nevertheless, we believe that countries with solid economic outlooks, decent growth, falling inflation, high real yields and central banks willing and able to cut interest rates — despite policy changes in the U.S. — are likely to perform well. Country and security selection remain critical. We are keeping an eye on Brazilian local bonds as the fiscal and monetary outlook evolves in 2025. We also think some of the higher-yielding countries with weaker trade linkages to the U.S., like Egypt, are likely to continue to perform relatively better.

In currency markets, the U.S. dollar is likely to remain firm in the months ahead despite its recent correction after the Mexico and Canada tariff postponement. Dollar weakness is likely to be transitory. While the dollar's valuation is high, its fundamental support remains robust, and most other currencies around the world look significantly more challenged. A potentially aggressive U.S. tariff policy would exacerbate the dollar's strength, especially if other countries let their currencies depreciate to offset higher tariffs. However, caveats to this optimistic narrative could be a deterioration in the U.S. labour market, a general weakening in growth, or diminishing confidence in U.S. budget policy. The U.S. economy thrives on capital flows, the mirror image of the trade deficit. If non-U.S. investors lose confidence in the U.S., financing the investment surge alongside the quite outsized public sector deficits may become problematic. These events might pressure the Fed to become more aggressive in cutting interest rates given its dual mandate. The more likely cause of the dollar falling would be something going wrong on the U.S. side of the equation. But, with tariffs imminent, this is difficult to see. We believe avoiding underweight U.S. dollar positions versus other developed market currencies makes sense. That said, we also believe more idiosyncratic positions in selective EM currencies do have merit — selectivity being the key word.

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

Fund Facts

Launch date	31 July 2020
Base currency	Euro
Benchmark	Bloomberg Euro Aggregate: Corporates Index

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 I Shares	0.44	5.21	8.49	-14.35	-1.01	--	--	--	--	--	--
Bloomberg Euro Aggregate: Corporates Index	0.44	4.74	8.19	-13.65	-0.97	--	--	--	--	--	--

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 I 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. All data as of 31.01.2025 and subject to change daily.

Applications for shares in the 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.

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INDEX INFORMATION

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.

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