A Sub-Fund of Morgan Stanley Investment Funds

Global Balanced Fund

PORTFOLIO SOLUTIONS GROUP

Performance Review

In the one month period ending 31 January 2025, the Fund's Z shares returned 1.65% (net of fees)[1].

Global markets closed January 2025 in positive territory, despite news of China's DeepSeek artificial intelligence (AI) model causing a sharp selloff in U.S. technology shares. European equities led in the month, as Big Tech detracted from U.S. gains, while fixed income markets saw generally positive performance thanks to a rally in the second half of the month. Commodities, including gold and oil, were broadly higher in the month.

Our allocations to U.S. equities, European equities and global corporate bonds were the top contributors to performance, and there were no material detractors over the month of January.

Market Review

United States

The MSCI USA Index returned 3.02% in U.S. dollar (USD) terms and 2.32% in euro terms in January. The U.S. manufacturing sector resumed expansion in January. Following a 26-month contraction, the Institute for Supply Management (ISM) Manufacturing PMI rose to 50.9% in January 2025, from 49.2% in December 2024. New orders growth accelerated while production and employment moved from contraction to expansion in the month. The ISM Services PMI marked its seventh month of expansion, although falling to 52.8% in January 2025, from 54.0% in December 2024. Business activity and new orders grew at a softer pace while job creation gained momentum.

The U.S. headline consumer price index (CPI) was up 2.9% in the year ended December 2024, increasing from 2.7% in the year ended November 2024, according to the U.S. Bureau of Labor Statistics (BLS). Excluding food and energy, core CPI grew 3.2% in the 12 months to December 2024, down from 3.3% in November 2024. In a separate report, the BLS said unemployment fell to 4.0% in January 2025, from 4.1% in December 2024, adding 143,000 jobs in the month. Wages grew 4.1% in the 12 months ended January 2025.

Eurozone

The MSCI Europe Index returned 6.47% in euro terms and 7.20% in USD terms in January. The downturn in eurozone manufacturing eased. The HCOB Eurozone Manufacturing PMI rose to 46.6 in January 2025, from 45.1 in December 2024. New orders and output deteriorated at slower rates, although job losses slightly increased. The service sector expansion softened slightly, with the HCOB Eurozone Services PMI falling to 51.3 in January from 51.6 in December. New orders grew at a modestly faster rate but overall remained subdued. Service firms also increased staffing levels in the month.

Annual headline inflation grew 2.5% in January 2025, up from 2.4% in December 2024, according to Eurostat's flash estimate. Annual core inflation (excluding energy, food, alcohol and tobacco) rose 2.7% in January 2025, holding steady from December 2024. In a separate Eurostat report, the unemployment rate in December was estimated at 6.3% in the euro area (up from 6.2% in November) and 5.9% in the European Union (up from 5.8% in November).

Japan

The MSCI Japan Index returned 0.07% in yen terms and 1.56% in USD terms in January. Japan's manufacturing sector took a turn for the worse at the start of the year. The au Jibun Bank Japan Manufacturing PMI fell to 48.7 in January 2025, from 49.6 in December 2024, amid faster downturns in output and new orders. Hiring, however, increased for the second consecutive month. In contrast to the manufacturing sector, Japan's service sector strengthened in January. The au Jibun Bank Japan Services PMI increased to 53.0, from 50.9 in December, supported by a solid increase in total new work and growth in headcounts. The Ministry of Economy, Trade and Industry reported industrial production declined -1.1% year-over-year in December 2024.

Headline inflation increased 3.6% in the year ended December 2024, accelerating from 2.9% in November 2024, as reported by the government's statistics office. Japan's unemployment rate was 2.4% in December 2024, down from 2.5% in November 2024. Household spending rose 2.7% in the year to December 2024.

Portfolio Activity

Portfolio moves in January were consistent with our core views. We added exposures to equities prior to President Trump's inauguration, seeing an opportunity in the market's reset over the preceding month. Within equities, we established a position

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

in the U.S. materials basket funded by reducing our exposure in long duration fixed income, which we expect to benefit from a positive inflection in the manufacturing cycle. This, alongside the mid-cap position (SPDR S&P 400 U.S. Mid Cap ETF) established in December, aim to benefit from a broadening growth picture and a focus on market segments with reasonable valuation and a path to earnings upside. We also reduced duration, representing a shift from effectively neutral to slightly underweight. While our soft-landing view holds, risk scenarios that drive interest rates higher are more probable in our view than ones that drive rates lower. The portfolio's effective equity exposure at the end of the month was 52.8%.

Strategy and Outlook

The inauguration of U.S. President Trump was the key focus coming into January and proved supportive to markets, as Day 1 announcements did not pertain to major tariffs. The timing is important. The Trump administration launched into February by announcing 25% tariffs on Mexico and Canada, as well as 10% tariffs on China. However, tariff implementation for both Canada and Mexico were ultimately delayed by a month following conversations between leaders. Elements of this were no surprise given that tariffs always represented a key policy tool for Trump, with these specific tariffs having been mentioned as early as last November. That said, the market consensus has been that the implemented tariffs would ultimately prove more targeted than the rhetoric suggested, including a view that the 25% tariffs on Mexico and Canada were unlikely to be implemented on any sustained basis. For this reason, this recent announcement was received with some concern, and the subsequent delays brought some relief.

We had noted that the final weeks of 2024 saw a mixed bag of macro data, indicating a shift on what had previously been an improving trend. January data has been more favorable, as evidenced by consistent improvement in Citigroup's Global Economic Surprise Index. The index has moved from negative values in December to positive levels by January-end, consistent with mid-November, which indicate that data is now trending better than expectations. We would also highlight retail sales and personal spending data reinforcing strong consumer demand trends, labor market data seeming to fall in the sweet spot of not-too-hot but not-too-cold, and manufacturing PMI tending to support a positive inflection in the manufacturing cycle. This trend, coupled with favorable earnings surprise trends, helped support equities' strength through January.

Amid a favorable macro backdrop for equities, we did see some thematic volatility. A Chinese AI competitor drew focus after making its most recent model public. This model was seen as relatively robust, but more importantly, the claims that these results were obtained at a fraction of the cost of other models challenged key assumptions around AI-related investment. Much remains unknown, but this tends to reinforce our view on managing two-sided, AI-related risk.

Our positioning entering 2025 maintains that the core-soft landing thesis is firmly intact, the new administration's policies are, in combination, supportive of growth, and that this year will likely see a broadening of growth relative to what has been an uneven recovery. Developments through January have reinforced our confidence, but we recognize there are risks. Technology sector volatility stemming from DeepSeek highlights the fragility of high expectations where valuation is elevated in the market. Recent tariff announcements highlight that uncertainty around trade policy is likely to ebb and flow, even if we see key downside scenarios as relatively unlikely.

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

Fund Facts

Launch date	16 August 2016
Base currency	Euro

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	1.65	12.12	7.35	-9.04	8.79	-2.57	8.59	-4.43	4.63	--	--

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.
- Commodity investments can change significantly and quickly in value as a large variety of factors affect them.
- 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 31.01.2025 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. 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.

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The **MSCI Europe Index** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe. The term "free float" represents the portion of shares outstanding that are deemedto be available for purchase in the public equity markets by investors. The performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends.

The **MSCI Japan Index** is a free-floated adjusted market capitalization weighted index that is designed to track the equity market performance of Japanese securities listed on the Tokyo Stock Exchange, Osaka Stock Exchange, JASDAQ and Nagoya Stock Exchange. The MSCI Japan Index is constructed based on the MSCI Global Investable Market Indices Methodology, targeting a free-float market capitalization coverage of 85%.

The index is unmanaged and does not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

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