

A Sub-Fund of Morgan Stanley Investment Funds Global Convertible Bond Fund

HIGH YIELD TEAM

Performance Review

In the one month period ending 31 January 2025, the Fund's I shares returned 2.58% (net of fees)¹, while the benchmark returned 2.21%.

Consumer discretionary and real estate were the Fund's top-performing sectors relative to the benchmark in January. Relative outperformance in the consumer discretionary sector was driven by favorable security selection and an overweight position. The top relative individual contributor in the sector was an overweight position in a U.S.-based electric vehicle manufacturer. The company's equity fell after the Trump administration rolled back some of the Biden administration's policies that the company stood to benefit from. Relative outperformance in the real estate sector was driven by an overweight position in the sector. The primary individual contributor from a holdings perspective was a lack of exposure to a real estate investment trust focused on the technology sector. The company was negatively impacted by the news that Chinese company DeepSeek has developed a cheaper alternative for artificial intelligence models. The Fund's allocation to Euro Stoxx 50 Index options also helped in a strong month for European equity markets.

Communication services and information technology were the Fund's worst-performing sectors relative to the benchmark during the month. Relative underperformance in the communication services sector was driven by an overweight position and challenging security selection. The primary individual detriment was an overweight position in a Singapore-based global consumer internet company. Relative underperformance in the information technology sector was driven by adverse security selection. The primary individual detractor was an off-benchmark position in a U.S.-based information technology solutions company. The company was also negatively impacted by the release of the new artificial intelligence model from China.

Market Review

Global convertible bonds generated strong returns along with other risk assets in January. Returns in the asset class were led by solid performances in the U.S. and Asia following a sell-off in December. The Federal Reserve's (Fed) decision in January to maintain its key policy rate and the European Central Bank's decision to reduce its key policy rate by a quarter-point were well telegraphed but elicited little reaction. The convertible bond market also performed relatively well post the DeepSeek-driven technology sell-off. The month came to a close with the market squarely focused on threatened shifts in trade policy. Ultimately, global convertible bonds underperformed equities but significantly outperformed global bonds during the month. The FTSE Global Focus Convertible (USD Hedged) Index returned 2.21% during the month, while the MSCI All Country World Index and the Bloomberg Global Aggregate Credit Index rose 3.36% and 0.59%, respectively. Issuance was disappointing at \$3.2 billion, which was half the historical monthly average, following a very strong December and partly due to uncertainty post President Trump's inauguration.²

Strategy and Outlook

We remain constructive on the global convertible bond market as we begin to progress through 2025. Technicals are strong, as convertible bonds have maintained a balanced profile, interest rates remain relatively high, equity valuations increased in 2024, and corporations continue to have financing needs. New convertible bond issuance was strong in 2024 and we expect that to continue as global central banks continue to modestly cut interest rates and as bonds issued during the pandemic mature. Finally, volatility should pick up in the new year as geopolitical tensions and regional tensions remain present and markets digest the policies of the incoming Trump administration.

Global equities delivered strong returns again in 2024. Similar to 2023, returns were driven by a small cohort of large-cap technology companies that typically do not issue convertible bonds. Additionally, approximately 26% of the FTSE Global Focus Convertible (USD Hedged) Index total return in 2024 was driven by a single issuer, MicroStrategy Inc., which benefited from the large rally in bitcoin in the latter part of the year.³ We are optimistic that strong equity performance will likely become more broad-based, which should ultimately lead to greater diversification in global convertible bond returns.

Global convertible bond supply was strong in 2024, and we believe new issuance will be strong once again in 2025 due to continued relatively high interest rates as well as a pending maturity wall in the asset class. Many central banks have taken substantially similar paths to lower interest rates over the last several quarters; however, with potentially stickier inflation in certain regions and diverging growth backdrops in certain developed market economies, these paths may diverge in 2025. For example, after cutting interest rates three times in the last four months of 2024, the Fed's dot plot is only indicating two rate cuts in 2025. There is also a pending maturity wall in the asset class as bonds issued during the 2020 frenzy come due. Approximately \$51 billion and \$69 billion in bonds are maturing in 2025 and 2026, respectively, which represents about one-third of total bonds outstanding.⁴

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

² Source: Bank of America. Data as of 31 January 2025.

³ Source: Morgan Stanley Investment Management. Data as of 31 December 2024.

⁴ Source: Bank of America. Data as of 31 December 2024.

Further, the majority of convertible bonds coming due in the next two years are out of the money, which means a conversion remains highly unlikely.⁴ We believe that a slower reduction in interest rates from global central banks, as well as a slew of bonds that will likely need to be refinanced rather than converted, should lead to another strong year for the global convertible bond primary market.

While volatility was relatively low for most of 2024, we expect volatility to pick up in 2025. Tensions between Russia and Ukraine and in the Middle East, as well as European budgetary concerns, are some of the known risks as we enter the new year; however, policies enacted by the incoming Trump administration present unknown risks and potential sources of volatility. Most of the proposed policies from the incoming administration are pro-growth, which should benefit convertible bond issuers, particularly U.S.-based small-cap issuers. However, these policies may actually be inflationary, which could ultimately offset their positive impacts. Additionally, European and Asian issuers may be negatively impacted by Trump's pro-U.S. focus. Despite the fact that U.S. convertible bonds performed well during Trump's first administration,⁴ there is little certainty around which policies will be enacted and which counter-policies other regions and countries will enact in response. We believe this is an additional source of potential volatility that convertible bonds can benefit from in 2025.

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

Fund Facts

Launch date	17 July 2002
Base currency	U.S. dollars
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 I Shares	2.58	5.81	12.47	-12.54	3.83	22.24	14.75	-3.69	6.01	1.73	0.47
Blended Benchmark	2.21	8.62	9.84	-16.00	-1.11	22.84	13.10	-3.01	6.00	1.59	3.83

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.
- 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

⁴ Source: Bank of America. Data as of 31 December 2024.

mentioned 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 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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Charts and graphs provided herein are for illustrative purposes only and subject to change.

INDEX INFORMATION

The Blended Benchmark performance shown is calculated using the **ICE BofA G300 Global Convertible Index Local Currency** to 31 October 2005, the **ICE BofA G300 Global Convertible Index USD Hedged** to 30 April 2011 and the **Refinitiv Convertible Global Focus (USD Hedged) Index** thereafter. Effective 21 February 2020, the **Thomson Reuters Convertible Global Focus (USD Hedged) Index** was renamed to **Refinitiv Convertible Global Focus (USD Hedged) Index**. Effective 30th June 2024, the **Refinitiv Convertible Global Focus (USD Hedged) Index** was renamed to the **FTSE Global Focus Convertible (USD Hedged) Index**.

The FTSE Convertible Global Focus USD Hedged Index (Index) formerly known as Refinitiv Convertible Global Focus USD Hedged Index is derived from the FTSE Convertible Global Index (Global Index) using Regional Market Capitalization, Percentage Price, and Premium criteria. It aims to represent a sub-set of the Convertible market by selecting a sub-set of constituents from the Global Index with a common set of defined characteristics representing issues with what is termed a "balanced" profile. The Index is a market weighted index with a minimum size for inclusion of \$500 million (US), €375 million (Europe), 22 billion Yen (Japan), \$275 million (Asia ex-Japan), and \$275 million (Other) of Convertible Bonds with an Equity Link.

ICE BofA G300 Global Convertible Index - Local Currency is a global convertible index composed of companies representative of the market structure of countries in North America, Europe and the Asia/Pacific region. It is composed of securities denominated in their respective local currencies.

ICE BofA G300 Global Convertible Index USD Hedged is a global convertible index composed of companies representative of the market structure of countries in North America, Europe and the Asia/Pacific region. It is hedged to the U.S. dollar.

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

The **MSCI All Country World Index (ACWI)** is a free float-adjusted market capitalization weighted index designed to measure the equity market performance of developed and emerging markets. The term "free float" represents the portion of shares outstanding that are deemed to 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 index is unmanaged and

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

The **Bloomberg Global Aggregate Credit Index** is the credit component of the Bloomberg Global Aggregate index, which provides a broad-based measure of the global investment-grade fixed income market.

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