

A Sub-Fund of Morgan Stanley Investment Funds

Calvert Sustainable Euro Corporate Bond Fund



Performance Review

In the one month period ending 31 December 2025, the Fund's I shares returned -0.19% (net of fees)¹, while the benchmark returned -0.19%.

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, specifically the overweight to banking and insurance.

On the other hand, positions within investment grade industrials detracted from performance, specifically the overweight to consumer non-cyclical and the underweight to energy.

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

The overweight in government-related positions added to performance.

The overweight in duration positioning had a negative impact on performance due to the overweight to euro rates, which rose during the period.

Market Review

In a seasonally quiet month, a strong technical (sizeable inflows into investment grade credit and light primary issuance), coupled with limited surprises from multiple central bank meetings, helped global investment grade credit spreads tighten in December.

Government bond yields moved higher following supportive economic data. The German 10-year government bond yield closed 17 basis points (bps) higher in yield at 2.85% while the 10-year U.S. government bond closed 15 bps higher at 4.17%.² Eurozone front-end yields also moved higher as markets priced in a 20% likelihood of a European Central Bank (ECB) rate hike by the end of 2026 after several hawkish comments by Governing Council members.

In Europe, the ECB kept its policy rate unchanged at 2%, while lifting its growth and inflation expectations for 2026. The December meeting outcome and the recent comments by the Governing Council members suggested that the bar for another rate cut is very high. The central bank's outlook for growth is robust, as German fiscal stimulus has started to positively impact sentiment data, but concerns about sticky services inflation remain. As a result, the market has become comfortable with the next ECB move being a hike, leading to the front-end settling in a new, higher range.

In the U.S., the Federal Open Market Committee cut the federal funds rate by 25 bps. The Summary of Economic Projections maintained the median federal funds rate forecast at 3.4% for 2026 and 3.1% for 2027 (unchanged from September), with the Committee signalling a shift to data-dependent policy as rates now sit within the range of neutral estimates. In addition, the Committee announced the initiation of Treasury bill purchases for reserve management purposes at a pace of \$40 billion per month starting 12 December 2025, which was more than many were expecting and it saw the front end of the curve and swap spreads benefit, as it should alleviate funding pressures.

In the U.K., the Bank of England cut rates to 3.75%, with a 5-4 vote split as Governor Bailey supported the doves. The market interpreted the decision somewhat hawkishly, due to the minutes mentioning that as the policy rate gets close to neutral, "judgements for individual members around further policy easing would become a closer call". Still, as the Bank Rate is set to continue on a "gradual downward path", the Bank has maintained its easing bias.

Global investment grade spreads closed the month 3 bps tighter at +80 bps, driven by a supportive technical backdrop with limited issuance, coupled with robust year-end inflows into the asset class.

European investment grade corporate spreads closed the month 5 bps tighter at +78 bps, outperforming U.S. investment grade, which tightened by 2 bps, also closing the month at +78 bps. European and U.S. swap spreads were wider, whilst synthetic/credit default swap spreads outperformed cash spreads.

Within euro investment grade sectors, industrials (-5 bps) and utilities (-5 bps) outperformed financials (-3 bps), reversing their underperformance from prior month. Within non-financial sectors, transportation outperformed, while sub-sectors like building materials and metals also performed strongly. Within financials, outperformance came from the subordinated insurance space. Subordination risk outperformed with subordinated financials 6 bps tighter and corporate hybrids 10 bps tighter. By country, French

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

² Source for all yields and spreads data unless otherwise noted: Bloomberg L.P. Data as of 31 December 2025.

risk marginally outperformed, as political and fiscal risk continued to subside (the spread difference between 10-year yields in Germany and 10-year yields in France closed the year at 70 bps, having been as wide as 90 bps previously).

Within U.S. investment grade sectors, industrials (-3 bps) and utilities (-3 bps) outperformed financials (-3 bps), with lighter issuance in the industrials space relative to November supporting performance. There was some sector dispersion intra-sectors with life insurance and brokerage/asset management (-7 bps) significantly outperforming banks (-1 bps), reversing the underperformance from prior month. Within industrials, energy (-5 bps), basic industry (-5 bps) and consumer cyclicals (-5 bps) outperformed, whilst technology (0 bps) and communications (-1 bps) lagged. By maturity, intermediate maturities (5-7 year and 7-10 year parts of the credit curve) outperformed. By rating, BBB-rated debt (-4 bps) outperformed higher quality corporates.

Corporate news flow was light in December. That said, merger and acquisition (M&A) announcements continued. U.S. pharmaceutical company Cencora (bonds 10 bps wider) agreed to buy a majority equity stake in OneOncology at a \$7.4 billion enterprise value. Cencora will pay \$3.6 billion for the stake and will retire \$1.3 billion of corporate debt, implying a total cash consideration of \$5 billion. IBM agreed to buy Confluent for \$11 billion. Diageo agreed to sell its majority stake in East African Breweries to Asahi for \$3 billion. Asahi's rating was placed on watch by Moody's due to the debt-funded acquisition. Holcim agreed to buy a majority stake in Cementos Pacasmayo at a \$1.5 billion enterprise value. Smiths Group agreed to sell its detection business for £2 billion enterprise value. In general, M&A activity remains skewed to the U.S.

A strong technical supported the European investment grade market in December. Primary issuance was seasonally light, albeit coming in higher than expected at €14 billion (vs. €6 billion forecast). That took 2025 gross issuance to €762 billion (+17% year-over-year), with €431 billion coming from non-financials (+17% year-over-year) and €331 billion from financials (+18% year-over-year).³

In U.S. investment grade, gross primary issuance came in at \$161 billion (vs. \$90 billion expected) due to higher-than-expected issuance to fund artificial intelligence (AI) capital expenditure (Oracle and Meta combined accounted for approximately \$50 billion). October was the largest month on record and the second month in a row to set a new high after September 2025 printed a record \$216 billion. That took year-to-date issuance to \$1.51 trillion (+6.0% year-over-year).³

On the demand side, inflows into the asset class continued at a strong/record pace with investors continuing to reach for the "all-in" yield offered by investment grade credit (helped by the move higher in "risk-free" yields during the month). Idiosyncratically, the market remains alert to the risk of elevated M&A or AI capital expenditure related supply, and we are expecting non-financial supply to drive higher net issuance in 2026.

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 overweight 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 30.7%, versus 18.6% in the index.

Outlook

Looking forward, our base case remains constructive for credit supported by:

1. Expectations for low but positive growth, resulting in low default risk
2. Monetary and fiscal policy that remains supportive of growth/employment/consumption
3. Strong corporate fundamentals heading into a period where late-cycle behaviour is likely to increase, including M&A, capital expenditure (mainly AI and infrastructure related), higher share buybacks/dividends) – making security/sector selection increasingly important
4. Strong demand for the "all-in" yield offered by investment grade credit should provide cushion for the likely increase in 2026 corporate bond issuance (mainly from non-financial corporates, funding M&A and capital expenditure) – security/sector selection will be increasingly important

When looking at credit spreads, we think market valuations (below the long-run average) are justified by a strong fundamental and technical (demand) backdrop and see carry as the main driver of return, with additional gains coming from sector and, increasingly,

³ Source for all issuance data unless otherwise noted: Bank of America (BoFA). Data as of 31 December 2025.

security selection. Given an uncertain medium-term fundamental backdrop (U.S./Trump administration policy uncertainty, political tensions, uncertain growth outlook, above-target inflation in the U.S., increased idiosyncratic news flow) and the risk of primary issuance picking up in the first quarter of 2026 (M&A, AI and infrastructure capital expenditure related issuance), we have less confidence in material spread tightening (not to be ruled out), therefore leaving spread duration positioned a small long relative to the benchmark with plenty capacity to add on weakness.

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	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Class I Shares	3.26	3.26	5.21	8.49	-14.35	-1.01	--	--	--	--	--
Bloomberg Euro Aggregate: Corporates Index	3.03	3.03	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 31.12.2025 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 from the Prospectus of the Fund.

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

INDEX INFORMATION

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