A Sub-Fund of Morgan Stanley Investment Funds

Global Bond Fund

BROAD MARKETS FIXED INCOME TEAM

Investors should note that, relative to the expectations of the Autorité des Marchés Financiers, this UCITS presents disproportionate communication on the consideration of extra-financial criteria in its management.

Performance Review

In the one month period ending 31 December 2025, the Fund's Z shares returned 0.40% (net of fees)[1], while the benchmark returned 0.26%.

December's results were primarily driven by spread sectors, notably securitised credit and high yield corporate bonds, which delivered strong relative returns. This was partially offset by macro decisions, where rate positioning detracted amid shifting central bank signals.

Macro Positioning

- **Japan Duration:** Underweight exposure added to performance as yields moved higher in December. The Bank of Japan raised its policy rate by 25 basis points (bps) to 0.75%, its highest level in decades, signalling continued normalisation while maintaining a cautious tone. This shift, combined with persistent inflation and strong wage trends, pushed long-end yields higher, making the Fund's underweight stance a positive contributor for the month.
- **South Africa Duration:** Contributed positively, as local yields declined through December following a 25 bp repo rate cut to 6.75% by the South African Reserve Bank in November. The move, alongside the formal adoption of a lower 3% inflation target, reinforced policy credibility and improved investor sentiment. Contained inflation and a stronger rand supported demand for long-dated bonds, driving yields toward multi-year lows and adding modest gains to performance.
- **Brazil Duration:** Long position detracted as local curves repriced higher through December as the Selic rate held at 15% amid uneven inflation progress and lingering fiscal uncertainty. These factors reinforced expectations for restrictive policy well into early 2026 and, combined with global term premium adjustments, pushed long-end yields higher and weighed on performance.
- **Denmark Duration:** Danish rates detracted as yields tracked the broader upward move in European yield curves, driven by global term premium adjustments and year-end supply pressures. With domestic policy anchored to the European Central Bank (ECB) and no material local catalysts, Danish bonds offered limited insulation from the global repricing, leaving overweight duration exposure as a modest drag on returns.
- **Foreign Exchange (FX) Positioning:** Marginal detractor, with losses primarily driven by emerging market (EM) currencies. The Fund's short U.S. dollar stance versus a diversified basket of currencies benefited from appreciation in Mexican peso, supported by high carry and improving risk sentiment. These positives were partially offset by weakness in Brazilian real late in the month. Developed market currencies were broadly muted.

Spread Sector Exposures

- **Securitised:** Contributed positively, with gains led by long non-agency residential mortgage-backed securities (RMBS), while overweight agency RMBS and non-agency commercial mortgage-backed securities (CMBS) added incremental performance. Agency RMBS benefited from stable prepayment dynamics and strong demand for high quality collateral, while non-agency segments were supported by resilient credit fundamentals and limited issuance. Technical strength remained a key tailwind, and security selection across RMBS and CMBS continued to drive excess returns.
- **Credit Spreads:** Added to performance, driven by the Fund's long exposure to high yield corporates, benefiting from strong carry and modest spread tightening as risk sentiment improved and default expectations remained contained. Robust demand for higher-yielding paper, coupled with limited new issuance, reinforced technical strength and supported performance across selective positions. Investment grade credit added gains more modestly, as spreads hovered near multi-year tights and liquidity conditions stayed favourable, allowing carry to dominate despite valuations offering little room for compression.

Market Review

Fixed income markets closed the year with a broad repricing of rate expectations, as central bank actions and communication reinforced a more cautious policy outlook. Across developed markets, yields moved higher and curves steepened as investors pushed out expectations for future rate cuts and assigned greater weight to rising term premia.

In the U.S., the Federal Reserve delivered a 25 bp rate cut, but guidance emphasised data dependence, anchoring front-end yields while higher global yields pushed longer maturities higher. In Europe, the ECB held rates steady but struck a more hawkish tone, driving a nearly 20 bp sell-off in 10-year bunds,[2] while policy divergence remained evident elsewhere, including a rate hike by the Bank of Japan and a hawkishly interpreted cut by the Bank of England. In foreign exchange, the U.S. dollar weakened modestly on the month, with the Swedish krona and Canadian dollar outperforming and the Japanese yen lagging.

1 Source: Morgan Stanley Investment Management Limited. Data as of 31 December 2025.
2 Source: Bloomberg L.P. Data as of 31 December 2025.

Despite higher government bond yields, credit markets ended the year on a constructive note. Investment grade spreads tightened modestly, supported by strong year-end inflows, limited primary issuance and continued demand for carry, with European credit outperforming the U.S. High yield posted its strongest month of the fourth quarter, benefiting from improving risk appetite, supportive technicals and a benign default backdrop, while convertible bonds underperformed amid renewed volatility in crypto-linked equities despite robust primary issuance.

Securitised markets were among the strongest performers in December. Agency MBS spreads tightened meaningfully as the yield curve steepened and valuations remained attractive relative to other core fixed income sectors. Demand from money managers remained strong, and early signs of stabilisation emerged in bank balance sheet participation as the Fed's balance sheet runoff continued at a measured pace. Issuance across asset-backed securities (ABS), non-agency RMBS and CMBS was steady, capping a solid year of supply and reinforcing the sector's role as a high-carry, shorter-duration alternative within fixed income portfolios.

Portfolio Activity

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 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:

- The Fund increased its small duration overweight, reflecting a constructive stance on global rates and selective opportunities across yield curves. The Japan duration underweight was reduced as the Fund realised gains on Japanese government bond breakeven positions. The Fund also executed a U.K. treasury 20-year to 30-year swap to improve carry and roll at the long end and trimmed South Korean won exposure after strong performance to lock in gains and reduce concentration risk.

FX Positioning:

- The Fund marginally increased its short U.S. dollar exposure, maintaining a diversified long EM FX basket to capture carry and benefit from improving risk sentiment.

Spread Sector Adjustments:

- The portfolio increased its spread duration overweight by 0.09 years, driven primarily by incremental allocations to securitised credit, where paydowns were reinvested selectively to preserve exposure. Broader investment grade and high yield corporate exposures were maintained, reflecting a steady risk posture and selective positioning into year-end.

Strategy and Outlook

The global macro environment entering 2026 reflects a world adjusting to structurally higher real yields, reduced fiscal flexibility and diverging monetary policy paths—the U.S. and the U.K. easing; Japan, Australia and New Zealand tightening; and others likely on hold. Real rates globally have reset after nearly 15 years of post-Global Financial Crisis monetary repression and now reflect the impact of persistent fiscal expansion funded less by central banks and more by private-sector investors.

Geopolitical risk and trade policy pressures could influence macroeconomic outcomes more directly than in past cycles. China continues to expand its manufacturing and export footprint, even as domestic demand remains weak, policymakers avoid aggressive easing, and U.S. trade policy becomes more restrictive. Across economies, the central question shifts from ***"who cuts fastest?"*** to ***"who can sustainably operate within the constraints of higher real rates, fiscal limits imposed by growing government indebtedness, and geopolitical uncertainty?"*** We believe this regime rewards selective duration, real-yield exposure, inflation hedges and sovereign differentiation.

Markets navigated a landscape shaped by disruptive and often conflicting forces. Tariffs fuelled uncertainty across supply chains, growth and inflation just as the Fed settled into its rate-cutting mode. Political gridlock in the U.S. culminated in a historic 43-day government shutdown—the longest on record. Yet, through these headwinds, fixed income demonstrated remarkable resilience, even amid stubbornly tight spreads.

The Bloomberg Global Aggregate Index USD Hedged returned 8.87% in 2025—its strongest performance since 2020 (and second-best since 2008)—marking a sharp rebound from the losses during the Fed's rate-hiking cycle in 2022.[2]

The theme of higher starting yields and tighter index-level spreads remains intact, but we anticipate greater dispersion across both macro and credit positions. While headlines emphasise tight corporate spreads, we believe structural factors will likely help sustain these levels—yet active credit selection will likely be the key driver of outperformance in the coming year.

Our outlook calls for global growth to moderate yet remain positive, with the potential to reaccelerate in the second half. Corporate fundamentals appear solid, supported by rising profits, while the promise of artificial intelligence-driven productivity gains looms large.

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

2 Source: Bloomberg L.P. Data as of 31 December 2025.

Fund Facts

Launch date	01 November 1989
Base currency	U.S. dollars
Benchmark	Bloomberg Global Aggregate 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 Z Shares	8.82	8.82	-0.78	5.95	-16.65	-5.05	10.52	8.82	-2.56	9.61	2.40
Blended Benchmark	8.17	8.17	-1.69	5.72	-16.25	-4.71	9.20	6.84	-1.20	7.39	2.09

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 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. 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 from the Prospectus of the Fund.

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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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The **Blended Index** performance shown is calculated using the **JPM Global Traded Unhedged Index** from inception through 31 March 2004, the **FTSE WGBI Index** to 31 January 2010 and the **Bloomberg Global Aggregate Bond Index** thereafter.

The **Bloomberg Global Aggregate Index**: provides a broad-based measure of the global investment grade fixed-rate debt markets. Total Returns shown is unhedged USD.

The **JPM Global Traded Unhedged Index:** provides a broad-based measure of the global investment grade fixed-rate debt markets. Total Returns shown is unhedged USD.

The **FTSE WGBI Index:** measures the performance of fixed-rate, local currency, and investment grade sovereign bonds. The WGBI provides a broad benchmark for the global sovereign fixed income market.

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

Inflation measured by the **consumer price index (CPI)** is defined as the change in the prices of a basket of goods and services that are typically purchased by specific groups of households with the G7 countries.

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