A Sub-Fund of Morgan Stanley Investment Funds

Global Convertible Bond Fund

HIGH YIELD 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 -0.22% (net of fees)[1], while the benchmark returned -0.69%.

Information technology and health care were the Fund's top-performing sectors relative to the benchmark in December, both driven by sound security selection. In information technology, a lack of exposure to a bitcoin mining company was the top relative contributor, after the company's bonds fell in a tough month for cryptocurrencies. A lack of exposure to a provider of artificial intelligence (AI)-enabled precision medical solutions was again the top contributor in health care. The company's bonds continued to struggle in December after it reported poor third quarter earnings in the prior month. An allocation to Euro Stoxx 50 Index options also contributed positively in a strong month for European equity markets.

Communication services and consumer discretionary were the Fund's worst-performing sectors relative to the benchmark. Relative underperformance in both sectors was driven by challenging credit selection and underweight positions in these outperforming sectors. In communication services, a lack of exposure to an American satellite communications company was the top individual detractor. The company successfully launched a new satellite, which will potentially help future earnings. An underweight position in an electric car manufacturer was the primary individual detriment in consumer discretionary.

Market Review

Global convertible bonds ended what was a strong year on a negative note in December. Similar to November, negative performance during the month was largely driven by risk-off sentiment in cryptocurrencies, which has become one of the major themes in the asset class. Ultimately, global convertible bonds underperformed both global equities and global bonds during the month. The FTSE Global Focus Convertible (USD Hedged) Index returned -0.69% in December, while the MSCI All Country World Index returned 1.04% and the Bloomberg Global Aggregate Credit Index (USD Hedged) fell -0.12%. The primary market had another strong month in December. In total, $12.3 billion priced during the month, which is more than double the long-term monthly average for December. Total issuance ended 2025 at $166.5 billion, which is approximately $200 million below the historical record issuance in 2001.[2]

Strategy and Outlook

As we enter 2026, we remain constructive on the fundamentals of the global convertible bond market. In the year ahead, we anticipate an environment characterized by decent economic growth across much of North America and Europe, softening labor markets, elevated but likely declining core inflation, evolving monetary policy complicated by political pressure on central banks, and supportive fiscal policy in the U.S. ahead of the midterm elections. While 2026 will not be a year without volatility, we expect corporate balance sheets to largely remain resilient, with increasing dispersion in earnings, and valuations that adjust to more accurately reflect this reality. While deltas remain on the higher end of the range of what is considered balanced, they have come down over the last few months. The average delta for the FTSE Global Focus Convertible Index ended December at approximately 50%, which is down from approximately 58% at the end of September.[3] We continue to believe there remains opportunity for a well-resourced investment team to find balanced, convex convertible bonds with strong bond floors.

The resilience of the U.S. economy continues to surpass expectations, and even as we likely experience moderate deceleration in growth this year, we expect the backdrop to remain supportive. Bloomberg's consensus economic forecast (Bloomberg consensus) calls for 2.1% U.S. real GDP growth in 2026 and 2027.[4] This estimate is broadly in line with the Federal Reserve's (Fed) Summary of Economic Projections released in December, where the median forecast called for 2.3% U.S. real GDP growth in 2026, followed by 2.0% in 2027.[5] The trajectory of the Institute for Supply Management (ISM) Services Purchasing Managers' Index (PMI) is also supportive, with the December report for November solidly in expansion territory at 52.6, an increase of 0.2 month-over-month.[6] Additional notable factors that we think will likely play a supportive role in 2026 include growth in exports and a meaningful drop in imports, consumer support from the 2025 tax and spending bill, an improving housing market, and continued growth in services. Bloomberg consensus forecasts growth in new and existing home sales and building permits in 2026, after consistent contraction in

1 Source: Morgan Stanley Investment Management. Data as of 31 December 2025.
2 Source: Bank of America. Data as of 31 December 2025.
3 Source: FTSE. Data as of 31 December 2025.
4 Source: Bloomberg L.P.: Consensus Economic Forecast, Bloomberg World Interest Rate Pricing. Data as of 5 January 2026.
5 Source: Federal Reserve Summary of Economic Projections. Data as of 10 December 2025.
6 Source: Institute for Supply Management. Data as of 3 December 2025.

the balance of these metrics over the last several years.[4] This has been a particular weak spot in U.S. economic activity amid elevated interest rates, and this improvement should feed through to associated sectors of the economy, particularly building products. These supportive indicators are balanced against several indicators that should give investors reason for caution. The ISM Manufacturing PMI for November indicated consistent contraction in manufacturing activity for nine months, showing a month-over-month deceleration of 0.5 to 48.2, with backlog of orders and manufacturing labor two areas of particular weakness.[6] Softening labor conditions were also clearly evident in the December U.S. Bureau of Labor Statistics (BLS) report, with the unemployment rate touching more than a four-year high in November at 4.6%, and the government's U-6 underemployment rate reaching a new cycle high of 8.5%.[7] Labor conditions warrant ongoing monitoring; however, we assess the lion's share of softening in the labor market to be in the rear view, and we expect some stabilization in the context of current levels in 2026.

Growth in Europe and the U.K. appears to have stabilized in 2025 after a period of softness, with the expectation for slightly slower, still positive growth in 2026 and some level of reacceleration in 2027. Bloomberg consensus calls for real GDP in the European Union (EU) of 1.6% in 2025 to slow slightly to 1.4% in 2026, before returning to 1.6% in 2027.[6] There is a similar trend in expectations for the United Kingdom, where growth is expected to slow from 1.4% in 2025 to 1.1% next year, returning to 1.4% in 2027.[6] In early December, the Organisation for Economic Co-operation and Development released its growth outlook for 2026, showing growth projections of 1.7%, 1.2%, and 1.2% in the U.S., U.K., and euro area, respectively.[8]

Global central banks continue to navigate a precarious period, with disparate and uncertain inflation backdrops across regions. In the U.S., the Fed's December median projections showed the core personal consumption expenditures (PCE) price index slowing from an expected 3.0% in 2025 to 2.5% in 2026.[5] This expected trajectory, coupled with a weakening labor market that is expected to stabilize in 2026, prompted the Fed to reduce its key policy rate by a quarter-point in December, and contributed to median Fed expectations of approximately one additional interest rate cut in 2026.[5] Meanwhile, market pricing calls for approximately two cuts in 2026.[4] Later in December, an arguably distorted BLS report on inflation for the month of November supported this path, registering well below expectations with a core inflation reading of 2.6%. In Europe, inflation appears lower relative to both the U.S. and the U.K, and current monetary policy reflects this. In November, core inflation in the EU was approximately 2.4%, unchanged from the prior month, with the expectation of softening to 1.9% in 2026.[9] The European Central Bank (ECB) maintained its key policy rate at 2.0% in December. In the U.K., the consumer prices index including owner occupiers' housing costs (CPIH) reportedly decreased from 3.8% in October to 3.5% in November.[10] Though moving in the right direction, this preferred measure of inflation remains historically high.[10] Consensus expectations are that inflation will continue to decline in 2026, toward the Bank of England's 2% target.[4] The Bank of England made the decision to reduce its key policy rate to 3.75% in December. While the paths of monetary policy for certain central banks has recently shown relative consistency, the risk of stickier inflation in certain regions, divergence in growth backdrops, and the possibility of political influence in an election year has the potential to cause some level of divergence in policy paths in 2026.

2025 was the second-largest year for the global convertible bond primary market on record.[2] While we do not expect issuance to come close to 2025 levels or even exceed 2024's total of $119 billion,[2] we still expect a healthy primary market in 2026. Despite global interest rates generally falling in 2025, they remain relatively high compared to recent history. Further, the path of additional interest rate cuts in 2026 remains unclear. When compared to traditional bonds, convertible bonds offer corporations a relatively cheap way to fund their growth initiatives. Approximately 50% of 2025 issuance was used for general corporate purposes, and we believe corporations will likely continue to tap the market for these purposes. Another source of issuance will be refinancings, as there is approximately $110 billion in convertible bonds maturing over the next two years. With a typical tenor of five years, most of these bonds were issued in 2021 and 2022 when interest rates were still relatively low. We believe the positive momentum in 2025 will likely carry over to the primary market in 2026, as convertible bonds continue to be an attractive option for corporations to keep their interest expense low.

After cryptocurrency was the dominant theme in the asset class to end 2024 and to start 2025, AI became the most prominent theme in the global convertible bond market in the latter half of 2025. Approximately 15%-20% of global convertible bond issuance in 2025 was from AI-related issuers.[2] Proceeds from the bonds were primarily used to fund capital expenditures, particularly from bitcoin miners who are now turning their infrastructure into data centers to support the AI boom. However, AI-related issuers were a source of volatility in 2025, as concerns around a potential AI bubble mounted in the fourth quarter. We believe caution is warranted when investing in this part of the asset class. According to a recent Bank of America analysis, approximately 44% of AI-related convertible bond issuers in the United States are unprofitable. This compares to 28.5% for all U.S. convertible bond issuers, 22.9% of the Russell 2000 Index, 5.2% of the Nasdaq Composite Index, and 2% of the S&P 500 Index. We believe this provides an opportunity for fundamental investors to identify the winners and losers in this emerging theme in the asset class.

In conclusion, we are transitioning into an environment where we expect growth in the U.S. to slow from the surprising high level experienced over the last few quarters, but ultimately remain supportive, and where we think the trajectory of inflation and labor data will likely remain top of mind and the primary sources of episodic volatility. Geopolitical tensions in the Middle East, Eastern Europe and South America remain elevated, and the evolving situation in Venezuela presents the possibility for deterioration or

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2 Source: Bank of America. Data as of 31 December 2025.
4 Source: Bloomberg L.P.: Consensus Economic Forecast, Bloomberg World Interest Rate Pricing. Data as of 5 January 2026.
5 Source: Federal Reserve Summary of Economic Projections. Data as of 10 December 2025.
6 Source: Institute for Supply Management. Data as of 3 December 2025.
7 Source: U.S. Bureau of Labor Statistics. Data as of 16 December 2025.
8 Source: Organisation for Economic Co-operation and Development. Data as of 2 December 2025.
9 Source: European Central Bank Data Portal. Data as of 2 December 2025.
10 Source: United Kingdom's Office for National Statistics. Data as of 17 December 2025.

successful conclusion. Meanwhile, legislative dysfunction continues to stymie the passage of meaningful legislation, funding-related or otherwise, in the U.S., and the midterm elections will likely add to the political circus. Amid an uncertain and potentially volatile backdrop, we will continue to spend our time concentrating on what we do best — focusing on bottom-up fundamental research with a discerning eye on relative value, as we seek to generate positive risk-adjusted alpha for our clients.

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

Fund Facts

Launch date	17 July 2002
Base currency	U.S. dollars
Benchmark	FTSE Global Focus Convertible (USD Hedged) 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	11.55	11.55	5.89	12.57	-12.47	3.88	22.30	14.82	-3.67	6.04	1.77
Blended Benchmark	13.77	13.77	8.62	9.84	-16.00	-1.11	22.84	13.10	-3.01	6.00	1.59

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.
- 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.

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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 BofAML G300 Global Convertible Index** Local Currency to 31 October 2005, the I**CE BofAML 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 T**homson 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 BofAML 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 BofAML 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 indexes are unmanaged and do 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.

The **Euro Stoxx 50 Index** is a market capitalization-weighted stock index of 50 large, blue-chip European companies operating within Eurozone nations. The universe for selection is found within the 18 Dow Jones EURO STOXX Supersector indexes, from which members are ranked by size and placed on a selection list.

The **Nasdaq Composite Index** is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market. It is used as an indicator of the performance of stocks of technology companies and growth companies. Since both U.S. and non-U.S. companies are listed on the NASDAQ stock market, the index is not exclusively a U.S. index.

The **Standard & Poor's 500® Index** (S&P 500®) measures the performance of the large cap segment of the U.S. equities market, covering approximately 80% of the U.S. equities market. The Index includes 500 leading companies in leading industries of the U.S. economy.

The **Russell 2000® Index** is an index that measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

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