Morgan Stanley Institutional Fund
Asia Opportunity Portfolio

Performance Review

In the quarter period ending December 31, 2019, the Portfolio’s I shares returned 12.10% (net of fees), while the benchmark returned 11.78%.

The long-term investment horizon and conviction-weighted approach embraced by the Global Opportunity team can result in periods of performance deviation from the benchmark and peers. Over time, this has led to the strong record we have developed over our product set. The Fund outperformed the MSCI All Country (“AC”) Asia ex Japan Index this period due to favorable stock selection and sector allocation.

Our team continues to focus on bottom-up stock selection and the long-term outlook for companies owned in the portfolio and we continue to find new ideas which meet our strict criteria for quality and long-term value creation.

Asia ex Japan equities advanced during the period led by the information technology, consumer discretionary, health care and real estate sectors. The utilities, consumer staples, energy and industrials sectors underperformed the MSCI AC Asia ex Japan Index.

Stock selection and a sector overweight position in consumer discretionary were the greatest overall contributors to the relative performance of the portfolio during the period. Shares in China’s leading math and science tutoring provider TAL Education, social commerce platform Meituan Dianping and an online K-12 after school tutoring service provider contributed positively. TAL Education is the leading provider of math and science tutoring with over three million student enrolments across 758 learning centres in 69 cities in China (Source: Company data as of October 24, 2019). We believe TAL Education is unique because of its strong Xueersi brand, excellent teaching quality and leadership in mathematics, as well as its proven track record of scalability and capital efficient business model. As a leading social commerce platform for local services such as food delivery, dine-in and travel, Meituan enjoys strong network effect by offering integrated local services on a single platform with the largest coverage of merchants and users. We believe that Meituan may continue to benefit from urbanization and consumption growth in China. Strength in these shares was partially offset by weakness in shares of Chinese hot pot restaurant Haidilao.

Stock selection in information technology also contributed positively despite an underweight position in the sector which contributed negatively. Shares in Silergy outperformed. The company is a Taiwan-based power management integrated circuit (PMIC) fabless integrated design manufacturer. We believe that Silergy has a cost focus advantage against its U.S. competitors through its access to low cost research and development (R&D) engineers in China and capability to customize its PMIC to optimize customers’ cost performance ratio.

The portfolio’s sector underweight positions in the industrials and utilities sectors contributed positively.

Stock selection in communication services was the greatest detractor from the relative performance of the portfolio as shares in the leading live-streaming gaming platform HUYA. The weakness was partially offset by strength in shares of Naver, which is the leading search engine in Korea as well as a leading mobile social network through LINE in Japan. We believe the company can benefit from network effect with continuous growth in the advertisement segment and the next leg driven by e-commerce and payments in Korea leveraging user traffic to transition its business model from meta search to an e-commerce marketplace.

Conversely, stock selection in health care and a sector overweight position in consumer staples contributed negatively as shares in Jiangsu Yanghe Brewery declined. The Fund currently has a small derivative position in foreign exchange put options for the

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This document constitutes a commentary and does not constitute investment advice nor a recommendation to invest. The value of investments may rise as well as fall. Independent advice should be sought before any decision to invest.
purpose of helping mitigate against a significant devaluation of the Chinese currency which modestly detracted from relative performance during the period.

Outlook

As a team, we continue to focus on bottom-up stock selection and the long-term outlook for companies owned in the portfolio. We assess company prospects over a three- to five-year time horizon and own a portfolio of what we believe are undervalued, high quality companies with diverse business drivers not tied to any particular market environment.

<table>
<thead>
<tr>
<th>FUND FACTS</th>
<th>Base currency</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Launch date</td>
<td>December 29, 2015</td>
<td>U.S. dollars</td>
</tr>
<tr>
<td>MSCI All Country Asia ex Japan Index</td>
<td></td>
<td></td>
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Performance (%)  
As of December 31, 2019 (Class I Share at NAV)

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>QTD</th>
<th>YTD</th>
<th>1 YR</th>
<th>3 YR</th>
<th>5 YR</th>
<th>10 YR</th>
<th>SINCE INCEPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSIF Asia Opportunity Portfolio - I Shares</td>
<td>12.10</td>
<td>44.74</td>
<td>44.74</td>
<td>30.25</td>
<td>--</td>
<td>--</td>
<td>21.57</td>
</tr>
<tr>
<td>MSCI All Country Asia ex Japan Index</td>
<td>11.78</td>
<td>18.17</td>
<td>18.17</td>
<td>12.77</td>
<td>--</td>
<td>--</td>
<td>10.82</td>
</tr>
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Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. For the most recent month end performance figures, please visit morganstanley.com/im. Investment returns and principal value will fluctuate and fund shares, when redeemed, may be worth more or less than their original cost.

The gross expense ratio is 1.67% for Class I shares and the net expense ratio is 1.10%. Where the net expense ratio is lower than the gross expense ratio, certain fees have been waived and/or expenses reimbursed. These waivers and/or reimbursements will continue for at least one year from the date of the applicable fund's current prospectus (unless otherwise noted in the applicable prospectus) or until such time as the fund's Board of Directors acts to discontinue all or a portion of such waivers and/or reimbursements. Absent such waivers and/or reimbursements, returns would have been lower. Expenses are based on the fund's current prospectus. The minimum initial investment is $5,000,000.

Returns are net of fees and assume the reinvestment of all dividends and income. They are compared to an unmanaged market index. Returns for less than one year are cumulative (not annualized). Performance for one year or more is based on average annual total returns. The returns are reported for Class I shares. Performance for other share classes will vary.

Please keep in mind that high double-digit returns are highly unusual and cannot be sustained. Investors should also be aware that these returns were primarily achieved during favorable market conditions.
RISK CONSIDERATIONS

There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by the portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. Accordingly, you can lose money investing in this portfolio. Please be aware that this portfolio may be subject to certain additional risks. Asia market entails liquidity risk due to the small markets and low trading volume in many countries. In addition, companies in the region tend to be volatile and there is a significant possibility of loss. Furthermore, because the strategy concentrates in a single region of the world, performance may be more volatile than a global strategy. In general, equities securities’ values also fluctuate in response to activities specific to a company. Investments in foreign markets entail special risks such as currency, political, economic, market and liquidity risks. The risks of investing in emerging market countries are greater than risks associated with investments in foreign developed countries. Illiquid securities may be more difficult to sell and value than publicly traded securities (liquidity risk).

Focused investing To the extent that the Fund invests in a limited number of issuers, the Fund will be more susceptible to negative events affecting those issuers and a decline in the value of a particular instrument may cause the Fund’s overall value to decline to a greater degree than if the Fund were invested more widely. Derivative instruments may disproportionately increase losses and have a significant impact on performance. They also may be subject to counterparty, liquidity, valuation, correlation and market risks.

Privately placed and restricted securities may be subject to resale restrictions as well as a lack of publicly available information, which will increase their illiquidity and could adversely affect the ability to value and sell them (liquidity risk).

INDEX INFORMATION

The MSCI All Country Asia ex Japan Index is a float-adjusted market capitalization weighted index that is designed to measure the equity market performance of Asia, excluding Japan. 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.

IMPORTANT INFORMATION

The views and opinions expressed are those of the investment team at the time of writing and are subject to change at any time due to market, economic, or other conditions, and may not necessarily come to pass. These comments are not representative of the opinions and views of the firm as a whole. Holdings and sectors/region weightings are subject to change daily. All information provided is for informational purposes only and should not be deemed as a recommendation to buy or sell securities in the sectors and regions referenced.

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Certain information herein is based on data obtained from third party sources believed to be reliable. However, we have not verified this information, and we make no representations whatsoever as to its accuracy or completeness.

Please consider the investment objectives, risks, charges...
and expenses of the fund carefully before investing. The prospectus contains this and other information about the fund. To obtain a prospectus, contact your financial advisor or download one at morganstanley.com/im. Please read the prospectus carefully before investing.

Morgan Stanley Investment Management is the asset management division of Morgan Stanley.

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