

### Morgan Stanley Institutional Fund

# Asia Opportunity Portfolio

ACTIVE FUNDAMENTAL EQUITY | GLOBAL OPPORTUNITY TEAM | COMMENTARY | JUNE 30, 2020

#### Performance Review

In the quarter period ending June 30, 2020, the Portfolio's I shares returned 22.45% (net of fees)<sup>1</sup>, while the benchmark returned 16.71%.

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; accordingly, we have had very little turnover in the portfolio to date, and we continue to find new ideas for inclusion in the portfolio that meet our strict criteria for quality and long-term value creation.

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

Stock selection in consumer discretionary was the greatest overall contributor to the relative performance of the portfolio, as Chinese social commerce platform Meituan Dianping was the top contributor across the portfolio and Chinese tutorial provider TAL Education contributed positively. Meituan Dianping is a leading social commerce platform for local services such as food delivery, dine-in and travel. Meituan enjoys a 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. TAL Education is the leading provider of math and science tutoring, with over four million student enrollments across 871 learning centers in 70 cities in China (source: Company data as of April 28, 2020). 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. A sector overweight position also contributed to relative performance. Within the sector, Chinese online K-12 after-school tutoring service provider GSX Techedu and an underweight position in Chinese social commerce platform Alibaba contributed negatively.

Stock selection in consumer staples contributed positively, despite underperformance in Chinese dairy company Inner Mongolia Yili and a sector overweight position which contributed negatively. Yili is unique due to its differentiation and cost-leadership advantages through brand building, constant product innovation and product enhancement. We believe the company is well positioned to capitalize on the secular growth driven by Chinese consumption upgrade and premiumization trends.

Stock selection in communication services contributed positively, as shares in Korean search engine Naver outperformed. Strength in shares of Naver was partially offset by an underweight position in shares of Chinese social networking platform Tencent. A sector underweight detracted from the relative performance.

Stock selection in information technology also contributed positively, as shares of Taiwan-based power management integrated circuit fabless integrated design manufacturer Silergy Corp. advanced, offsetting weakness in shares of Taiwan Semiconductor Manufacturing Company. A sector underweight position detracted from the relative performance.

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<sup>1</sup> Source: Morgan Stanley Investment Management. Data as of June 30, 2020.

Within the health care sector, shares in leading contract research organization Hangzhou Tigermed Consulting also contributed positively. The portfolio's sector underweight positions in energy and materials also detracted from the relative performance.

## 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.

### FUND FACTS

#### Launch date

December 29, 2015

#### Base currency

U.S. dollars

#### Index

MSCI All Country Asia ex Japan Index

## Performance (%)

As of June 30, 2020 (Class I Share at NAV)

	QTD	YTD	1 YR	3 YR	5 YR	10 YR	SINCE INCEPTION
MSIF Asia Opportunity Portfolio - I Shares	22.45	11.56	24.93	21.89	--	--	21.90
MSCI All Country Asia ex Japan Index	16.71	-4.74	1.69	3.61	--	--	8.40

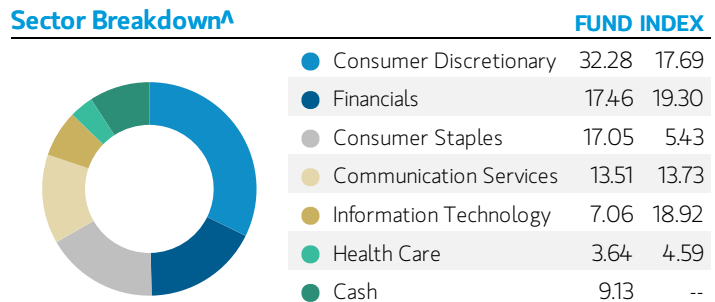
**Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. For the most recent month end performance figures, please visit [morganstanley.com/im](http://morganstanley.com/im). Investment returns 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 1.28% 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.

Top Ten Holdings	FUND	INDEX
TAL Education Group	7.65	0.51
Meituan Dianping	6.06	1.52
Alibaba Group Holding Ltd	5.67	7.82
Naver Corp	5.38	0.53
HDFC Bank Ltd	5.26	--
Tencent Holdings Ltd	5.22	7.12
Foshan Haitian Flavouring	5.00	0.06
Taiwan Semiconductor Mfg Co. Ltd	4.73	5.05
China Resources Beer Holdings	4.34	0.16
Trip.com Group Ltd	4.30	0.24
<b>Total</b>	<b>53.61</b>	<b>--</b>



<sup>^</sup> May not sum to 100% due to the exclusion of other assets and liabilities.

## 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. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. 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. **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**). **China Risk.** Investments in China involve risk of a total

loss due to government action or inaction. Additionally, the Chinese economy is export-driven and highly reliant on trade. Adverse changes to the economic conditions of its primary trading partners, such as the United States, Japan and South Korea, would adversely impact the Chinese economy and the Fund's investments. Moreover, a slowdown in other significant economies of the world, such as the United States, the European Union and certain Asian countries, may adversely affect economic growth in China. An economic downturn in China would adversely impact the Portfolio's investments.

**Risks of Investing through Stock Connect.** Any investments in A-shares listed and traded through Stock Connect, or on such other stock exchanges in China which participate in Stock Connect is subject to a number of restrictions that may affect the Portfolio's investments and returns. Moreover, Stock Connect A shares generally may not be sold, purchased or otherwise transferred other than through Stock Connect in accordance with applicable rules. The Stock Connect program may be subject to further interpretation and guidance. There can be no assurance as to the program's continued existence or whether future developments regarding the program may restrict or adversely affect the Portfolio's investments or returns.

## INDEX INFORMATION

The **MSCI All Country Asia ex Japan Index** is a free 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.

This material is a general communication, which is not impartial and all information provided has been prepared solely for informational and educational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The information herein has not been based on a consideration of any individual investor circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice,

including advice as to tax consequences, before making any investment decision.

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 objective, risks, charges and expenses of the fund carefully before investing. The prospectus contains this and other information about the fund. To obtain a prospectus, download one at [morganstanley.com/im](https://morganstanley.com/im) or call 1-800-548-7786. Please read the prospectus carefully before investing.**

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