

Morgan Stanley Institutional Fund

Asia Opportunity Portfolio

ACTIVE FUNDAMENTAL EQUITY | GLOBAL OPPORTUNITY TEAM | COMMENTARY | MARCH 31, 2019

Performance Review

In the quarter period ending March 31, 2019, the Portfolio's 1 shares returned 25.05% (net of fees)¹, while the benchmark returned 11.43%.

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.

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 rallied during the period with every sector advancing, led by the consumer discretionary, real estate, information technology and energy sectors. The utilities, health care, industrials, materials and consumer staples sectors underperformed the MSCI AC Asia ex Japan Index.

Stock selection in consumer staples was the greatest contributor to the relative performance of the portfolio as shares in baijiu manufacturers Kweichow Moutai and Jiangsu Yanghe Brewery advanced. A sector overweight position was the greatest overall detractor. We believe Jiangsu Yanghe and Kweichow Moutai, which focus on mid-end and high-end markets, respectively, are well-positioned to capitalize on the secular growth in high-end beverages driven by Chinese consumption upgrade.

Stock selection and a sector overweight position in consumer discretionary contributed positively to relative performance as shares in TAL Education and Ctrip.com advanced. Shares of restaurant group Jollibee Foods underperformed. Jollibee Foods Corporation is the dominant quick service restaurant operator and franchiser in the Philippines. Jollibee possesses strong differentiation and cost leadership competitive advantages and can benefit from acceleration of discretionary spending as well as economies of scale via its centralized procurement and process standardization.

Stock selection in information technology detracted from the relative performance of the portfolio as shares in Silergy underperformed. Silergy 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 engineers in China and capability to customize its PMIC to optimize customers' cost performance ratio.

Stock selection in communication services also detracted as shares in Naver declined. Naver 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.

Stock selection in health care and financials contributed positively to the relative performance of the portfolio, while the portfolio's sector underweight positions in real estate and overweight in health care detracted. The Fund currently has a small derivative position in foreign exchange put options for the purpose of insuring against a significant devaluation of the Chinese currency, which modestly detracted from relative performance during the period.

¹ Source: Morgan Stanley Investment Management. Data as of March 31, 2019.

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	Base currency	Index
December 29, 2015	U.S. dollars	MSCI All Country Asia ex Japan Index

Performance (%)

As of March 31, 2019 (Class I Share at NAV)

	QTD	YTD	1 YR	3 YR	5 YR	10 YR	SINCE INCEPTION
MSIF Asia Opportunity Portfolio - I Shares	25.05	25.05	2.82	24.46	--	--	21.59
MSCI All Country Asia ex Japan Index	11.43	11.43	-5.22	11.89	--	--	11.46

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 3.10% for Class I shares and the net expense ratio is 1.07%. 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.

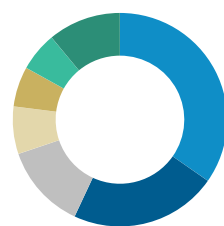
Returns are net of fees and assume the reinvestment of all dividends and income. They are compared to an unmanaged market index. Returns for less than one year are cumulative (not annualized). Performance for one year or more is based on average annual total returns. The returns are reported for Class 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
HDFC Bank Ltd	8.49	--
Tal Education Group	6.45	0.27
Kweichow Moutai Co.	5.10	0.05
Foshan Haitian Flavouring	5.05	0.01
Jiangsu Yanghe Brewery	5.01	0.01
Huazhu Group Ltd	4.57	0.12
AIA Group Ltd	4.38	2.57
China Resources Beer Holdings	4.29	0.13
Shenzhou International Group	4.29	0.21
Ctrip.com International Ltd	4.05	0.38
Total	51.68	--

Sector Breakdown



	FUND	INDEX
Consumer Discretionary	34.73	13.26
Consumer Staples	22.28	4.89
Financials	12.87	23.83
Communication Services	7.17	12.70
Health Care	6.10	2.83
Information Technology	5.92	16.58
Cash	11.01	--

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. **Exchange traded funds (ETFs)** shares have many of the same risks as direct investments in common stocks or bonds and their market value will fluctuate as the value of the underlying index does. By investing in exchange traded funds (ETFs), the portfolio absorbs both its own expenses and those of the ETFs it invests in. Supply and demand for ETFs may not be correlated to that of the underlying securities. 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. The strategy may invest in **restricted and illiquid securities**, which may be difficult for the strategy to sell at a reasonable price. **(Liquidity Risk). 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). To the extent that the Fund invests in a limited number of issuers **(focused investing)**, 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.

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 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.

NOT FDIC INSURED | OFFER NO BANK GUARANTEE | MAY LOSE VALUE | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY | NOT A DEPOSIT