Morgan Stanley
INVESTMENT MANAGEMENT

COMMENTARY
December 31, 2025

Morgan Stanley Institutional Fund

Corporate Bond Portfolio

BROAD MARKETS FIXED INCOME TEAM

Performance

In the quarter period ending December 31, 2025, the Portfolio's I shares returned 0.65% (net of fees)[1], while the benchmark returned 0.84%.

The portfolio's overall investment grade credit positioning had a negative impact on performance. The portfolio is positioned to be overweight financials and underweight industrials when measured in duration times spread terms.

Positions within investment grade financials drove positive performance because of the overweights to the brokerage and finance sectors. However, positions within investment grade industrials detracted from performance due to the overweight to energy and the underweight to capital goods.

The overweight in high yield corporate positions had a positive impact on performance.

The underweight in duration positioning contributed positively to performance.

Market Review

Global fixed income markets closed 2025 navigating a late-cycle environment shaped by diverging policy paths, fiscal uncertainty and structurally higher real yields. The quarter began under the shadow of the October-November U.S. government funding lapse, which delayed key economic releases and briefly clouded visibility for policymakers and investors, contributing to near-term volatility. Despite this backdrop, the Federal Reserve extended its easing cycle with two additional 25 basis point cuts,[2] bringing the target range to 3.50%-3.75% by year-end, while maintaining a data-dependent tone that tempered expectations for an aggressive trajectory. U.S. yields rallied early in the quarter before rebuilding term premium into December, leaving the curve modestly steeper as front-end relief met long-end resilience amid fiscal- and tariff-related inflation concerns.

Across developed markets, German bunds and U.K. gilts broadly tracked U.S. long-end dynamics; the European Central Bank (ECB) held policy rates steady, while the Bank of England delivered a late-quarter 25 basis point cut, reinforcing a meeting-by-meeting approach across Europe. Japan continued its policy normalization into year-end, while Australia and New Zealand maintained restrictive settings in response to persistent domestic inflation signals.

Credit markets demonstrated resilience, with investment grade spreads grinding tighter despite elevated issuance, supported by strong demand for carry and high quality income. Supply was led by large-cap issuers, including hyperscalers and global technology platforms financing data center and artificial intelligence (AI)-related capital expenditures, which was readily absorbed given strong balance sheets, durable cash flows and strategic issuance profiles. Financials also performed constructively, reflecting robust capital positions and stable fundamentals. High yield spreads continued to tighten into lighter net supply and supportive liquidity conditions, while securitized sectors outperformed on strong technicals and improved mortgage carry as 30-year mortgage rates fell to their lowest levels of the year, supporting agency mortgage-backed securities (MBS) and higher quality asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS).

Emerging markets posted gains across hard and local currency debt, aided by calmer dollar conditions, contained rate volatility and local currency strength that reinforced carry's appeal. Currency markets reflected the shifting policy narrative: initial dollar firmness during the data blackout gave way to softness as delayed indicators confirmed orderly cooling in growth and inflation. Against this backdrop, dispersion rather than dislocation defined the fourth quarter, rewarding structure, income and selectivity across rates and credit.

Portfolio Strategy and Analysis

Duration positioning remained broadly unchanged during the period.

The Fund increased the underweight to investment grade corporates, primarily within industrials and financials.

1 Source: Morgan Stanley Investment Management. Data as of December 31, 2025. Performance for other share classes will vary.
2 One basis point = 0.01%

Outlook

Looking forward, our base case remains constructive for credit supported by:

1. Expectations for low but positive growth, resulting in low default risk.

2. Monetary and fiscal policy that remains supportive of growth/employment/consumption.

3. Strong corporate fundamentals heading into a period where late-cycle behaviour is likely to increase, including merger and acquisition (M&A) activity, capital expenditure (mainly AI and infrastructure related), and higher share buybacks/dividends – therefore, security/sector selection is increasingly important.

4. Strong demand for the "all-in" yield offered by investment grade credit should provide cushion for the likely increase in 2026 corporate bond issuance (mainly from non-financial corporates, funding M&A and capital expenditure) – making security/sector selection increasingly important.

When looking at credit spreads, we think market valuations (below the long-run average) are justified by a strong fundamental and technical (demand) backdrop and see carry as the main driver of return, with additional gains coming from sector and, increasingly, security selection. Given an uncertain medium-term fundamental backdrop (U.S./Trump administration policy uncertainty, political tensions, uncertain growth outlook, above-target inflation in the U.S., increased idiosyncratic news flow) and the risk of primary issuance picking up in the first quarter of 2026 (M&A, AI and infrastructure capital expenditure related issuance), we have less confidence in material spread tightening (though, not to be ruled out), therefore leaving spread duration positioned a small long relative to the benchmark with plenty capacity to add on weakness.

Fund Facts

Inception Date	August 31, 1990
Minimum Initial Investment ($)*	A Shares - 1,000
	I Shares - 1,000,000
Benchmark	Bloomberg U.S. Corporate Index
Class I expense ratio	**Gross 0.95 %**
	Net 0.65 %
Class A expense ratio	**Gross 1.12 %**
	Net 1.00 %

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, in effect as of the date of this commentary. For information on the applicable fund's current fees and expenses, please see the fund's current prospectus.

* Share class availability may vary by platform. For more information, please visit the specified fund page on the website.

Performance (%)

As of December 31, 2025	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR
Class I Shares at NAV	-0.28	0.65	7.75	7.75	6.78	-0.01	4.20
Class A Shares at NAV	-0.32	0.55	7.40	7.40	6.46	-0.29	3.89
Class A Shares (With Max 3.25% Sales Charge)	-3.53	-2.68	3.91	3.91	5.30	-0.95	3.55
Bloomberg U.S. Corporate Index	-0.20	0.84	7.77	7.77	6.10	-0.09	3.27

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.

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 and A shares. Performance for other share classes will vary.

The fund has received proceeds related to certain non-recurring litigation settlements. If these monies were not received, any period returns which include these settlement monies would have been lower. These were one-time settlements, and as a result, the impact on the net asset value and consequently the performance will not likely be repeated in the future. Please visit www.morganstanley.com/im for additional details.

INDEX INFORMATION

The **Bloomberg U.S. Corporate Index** is a broad-based benchmark that measures the investment grade, fixed-rate, taxable, corporate bond market.

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The Indexes are unmanaged and do not include any expenses, fees or sales charges. It is not possible to invest directly in an Index. Any index referred to herein is the intellectual property (including registered trademarks) of the applicable licensor.

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. **Fixed-income securities** are subject to the ability of an issuer to make timely principal and interest payments (credit risk), changes in interest rates (interest-rate risk), the creditworthiness of the issuer and general market liquidity (market risk). In a rising interest-rate environment, bond prices may fall and may result in periods of volatility and increased portfolio redemptions. In a declining interest-rate environment, the portfolio may generate less income. **Longer-term securities** may be more sensitive to interest rate changes. **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. **Restricted and illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk).

IMPORTANT INFORMATION

The views and opinions and/or analysis expressed are those of the investment team as of the date of preparation of this material and are subject to change at any time without notice due to market or economic conditions and may not necessarily come to pass. Furthermore, the views will not be updated or otherwise revised to reflect information that subsequently becomes available or circumstances existing, or changes occurring, after the date of publication. The views expressed do not reflect the opinions of all investment personnel at Morgan Stanley Investment Management (MSIM) and its subsidiaries and affiliates (collectively "the Firm"), and may not be reflected in all the strategies and products that the Firm offers.

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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 (which includes the applicable fund's current fees and expenses, if different from those in effect as of the date of this commentary), download one at morganstanley.com/im or call 1-800-548-7786. Please read the prospectus carefully before investing.

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