Morgan Stanley Institutional Fund

Corporate Bond Portfolio

BROAD MARKETS FIXED INCOME TEAM

Performance

In the quarter period ending September 30, 2025, the Portfolio's I shares returned 2.68% (net of fees)[1], while the benchmark returned 2.60%.

The portfolio's overall investment grade credit positioning had a positive 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 were drivers of positive performance because of the overweights to banking, insurance and brokerage. Conversely, positions within investment grade industrials detracted from performance due to the underweights to technology and consumer non-cyclical. The overweight to investment grade utility, however, had a small positive impact on performance.

Elsewhere in the portfolio, the overweight to high yield and government-related bonds contributed positively to performance.

The underweight in duration positioning had a negative impact on performance.

Market Review

Fixed income assets continued to deliver strong returns over the third quarter, boosted by positive risk sentiment, resilient corporate earnings and a supportive technical backdrop.

From a macroeconomic standpoint, we started to see a convergence in growth numbers between Europe and the U.S., with purchasing manager's indexes (PMIs) coming in stronger than expected across the eurozone whilst Institute for Supply Management (ISM) Services PMI data in the U.S. were a touch softer than expected (although still in expansionary territory). Inflation indicators were largely in line with expectations, with services inflation on a downward trajectory whilst core goods inflation remains sticky. In the U.K., food inflation came into focus, as price growth showed a notable acceleration over the quarter.

Whilst inflation and growth prints remained a key area of focus for investors, the trendline in the jobs market continued to be closely scrutinised, with non-farm payrolls reports weaker than expected (including downward revisions) and unemployment rates creeping up across core developed markets.

Turning to central banks, the European Central Bank left its policy rate unchanged at 2%, maintaining optionality on the future rate path whilst both the U.S. Federal Reserve (Fed) and Bank of England cut rates by 25 basis points (bps) over the quarter, with both upside risks to inflation and downside risks to the labour market continuing to be flagged.

Political instability concerns remained elevated over the period, with France's Prime Minister Bayrou losing a vote of confidence, pushing the OAT-bund spread higher and the country remaining stuck in a political and fiscal deadlock. Across the Atlantic, Fed independence fears heightened as President Trump pressured for the firing of Federal Reserve Governor Lisa Cook whilst trade uncertainty remained elevated with tariff passthrough still fairly low and the surprise announcement of a 100% duty on branded or patented pharmaceuticals made headlines.

Against this backdrop, the 10-year German government bond yield closed the quarter 11 bps higher at 2.71% and the 10-year U.S. government bond closed 8 bps lower in yield at 4.15%.[2] In the U.K., all eyes turned to the gilts market as yields on the long end of the curve reached historically high levels (circa 5.5%)[2] and pressure around fiscal consolidation continues to mount ahead of the Autumn budget.

Within credit, corporate earnings overall have showed resilience, driving credit spreads to new lows across investment grade, high yield and emerging markets (EM) credit. We continued to see a marked dispersion between sectors, with the number of idiosyncratic earnings misses picking up relative to previous quarters. Cyclical industries such as autos and chemicals continued to face headwinds given the softening in consumer demand. Bank results continued to come in strong with positive capital build, strong asset quality and stable earnings.

1 Source: Morgan Stanley Investment Management. Data as of September 30, 2025. Performance for other share classes will vary.
2 Source: Bloomberg L.P. Data as of 30 September 2025.

Portfolio Strategy and Analysis

Duration positioning remained broadly unchanged during the period.

The Fund reduced the overweight to investment grade corporates, primarily within industrials.

Outlook

As we enter the final quarter of 2025, the outlook across fixed income sectors reflects cautious optimism amid evolving macro conditions and central bank policy shifts. In developed markets, duration positioning remains neutral outside Japan, with selective opportunities in Canadian and Australian government bonds. The U.S. yield curve steepeners are being trimmed, while Japanese exposure is shifting toward short duration and long inflation breakevens. In foreign exchange, a short U.S. dollar stance against high-beta currencies is favoured, supported by global growth differentials and easing cycles outside the U.S.

We remain cautiously constructive on investment grade credit, anticipating a moderate-growth environment without a meaningful rise in downgrade or default risk. European policy remains broadly supportive, while the U.S. fiscal outlook continues to be mixed and clouded by political uncertainty. Corporate fundamentals remain solid, with issuers maintaining conservative balance sheet strategies and low-risk profiles. Technicals are still favourable, though the recent uptick in primary issuance—particularly in euro investment grade—warrants closer attention. While carry remains a key driver of returns, we remain mindful of the persistent tightness in credit spreads and the potential for volatility as markets recalibrate expectations around central bank easing. With the full impact of trade policy developments yet to materialize, we continue to favour issuers with strong fundamentals, lower cyclicality, and those that we believe are well positioned to navigate a moderate-growth backdrop.

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 September 30, 2025	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR
Class I Shares at NAV	1.60	2.68	7.05	3.61	7.79	0.52	4.08
Class A Shares at NAV	1.57	2.59	6.81	3.37	7.50	0.25	3.78
Class A Shares (With Max 3.25% Sales Charge)	-1.74	-0.76	3.34	-0.01	6.33	-0.40	3.44
Bloomberg U.S. Corporate Index	1.50	2.60	6.88	3.63	7.07	0.35	3.12

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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