Morgan Stanley

INVESTMENT MANAGEMENT

Morgan Stanley Institutional Fund Trust

Corporate Bond Portfolio

GLOBAL FIXED INCOME | GLOBAL FIXED INCOME TEAM | COMMENTARY | JUNE 30, 2020

Performance

In the quarter period ending June 30, 2020, the Portfolio's I shares returned 10.05% (net of fees)[1], while the benchmark returned 8.98%.

This brings year-to-date performance to 4.87% (net of fees) for the Fund's I shares, while the benchmark returned 5.02%.

Over the quarter, the Fund's overall investment grade positioning had a positive impact on performance. In a reversal of what occurred in the first quarter, generally any sectors the Fund was overweight added to performance in the second quarter, while underweight positioning detracted. Underweights to capital goods, consumer non-cyclicals and technology partially offset strong performance from the consumer cyclical and electric sectors. The Fund's overweight to financials, specifically banking and insurance, were the largest contributors over the period. Also during the second quarter, oil prices bounced back from multi-decade lows, driving strong performance across commodity-related sectors. As a result, the portfolio's small overweight to the exploration & production sector contributed positively.

High yield also contributed significantly as several fallen angels rallied over the quarter, particularly in the energy sector. Small off-index allocations to convertibles and emerging market corporates were also additive.

Market Review

Markets enjoyed a historic bounce back in the second quarter of 2020, after a volatile COVID-19 and lockdown-driven first quarter. Equities rallied and credit spreads moved tighter. However, by the end of the second quarter, news on the virus front was no longer all positive. Rising infection rates in the U.S. (and globally) detracted from the uniformly good economic data, which beat expectations across the board. Once again, government bond yields remained exceptionally well anchored, hardly moving over the second quarter. In fact, U.S. Treasury yields ended the second quarter of 2020 basically unchanged from the start of the quarter. While this does not necessarily sound positive, it is an achievement that government bond yields remained unchanged when economic data surpassed even the most bullish forecasts and high yield bonds and equities posted double-digit returns. Indeed, anchoring government bond yields and intervening in credit (both corporate and mortgage) markets are the central bank playbook. So far, it has been a winning strategy. Whether or not central banks win the war will require progress on the health front; for an economy cannot be normal if people cannot work or feel safe spending money.

Spreads on the Bloomberg Barclays U.S. Corporate Index ended the quarter at 150 basis points (bps) over government bonds, after gapping as wide as 373 bps on March 23, 2020, during the peak of the crisis. Year-to-date, spreads are only 57 bps wider.[2] During the second quarter, financials outperformed non-financials, and we saw a continued theme of beta compression, so BBB-rated outperformed A-rated credits. Additionally, given the Federal Reserve's support, the short curve outperformed the long end.

Year-to-date, the U.S. investment grade corporate market saw historic issuance totaling $1.2 trillion, shattering the previous record.[3] We would note that the first wave of supply specifically addressed liquidity needs, while the second wave of supply was driven by issuers taking advantage of improving market conditions and historically low rates. New issue supply was absorbed well by the market, which saw net inflows of $7.1 billion over the first half of the year.[3]

1 Source: Morgan Stanley Investment Management. Data as of June 30, 2020.
2 Source: Bloomberg Barclays. Data as of June 30, 2020. One basis point = 0.01%
3 Source: Deutsche Bank. Data as of June 30, 2020.

Portfolio Strategy and Analysis

In terms of positioning, we have not actively changed the portfolio's key risk positions. The portfolio's largest overweight remains financials. Overall, we remain very selective in the BBB industrials space. We had reduced this exposure in 2019 on valuation grounds, and we remain cautious given high leverage and a now questionable earnings outlook.

While high-level exposures may not look very different, we were quite active at a more idiosyncratic security level. We were very active in the new issue market, particularly early in the quarter when supply was especially elevated and new issue concessions remained higher. As the quarter went on and new issue concessions declined (and overall valuations became relatively less attractive), our focus shifted toward secondary market opportunities.

Outlook

Going forward, key risks remain, such as further increases in infection rates and a slowing of the initial rebound in economic momentum. However, potentially positive medical developments and turbocharged fiscal and monetary stimulus could drive a squeeze in credit product over the less liquid summer months. Our target is for tighter spreads in the next six months, but we would not expect a straight line tighter.

FUND FACTS

Launch date	Base currency	Index
August 31, 1990	U.S. dollars	Bloomberg Barclays U.S. Corporate Index

Performance (%)

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

	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR	SINCE INCEPTION
MSIFT Corporate Bond Portfolio - I Shares	2.35	10.05	4.87	9.53	6.12	7.25	6.21	6.50
Bloomberg Barclays U.S. Corporate Index	1.96	8.98	5.02	9.50	6.34	5.83	5.47	6.90

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 1.01% for Class I shares and the net expense ratio is 0.70%. 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.

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.

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).

INDEX INFORMATION

The **Bloomberg Barclays U.S. Corporate Index** is a broad-based benchmark that measures the investment grade, fixedrate, taxable, corporate bond market. 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 mentioned or 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 or call 1-800-548-7786. Please read the prospectus carefully before investing.

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

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