

Morgan Stanley Institutional Fund

Developing Opportunity Portfolio

GLOBAL OPPORTUNITY TEAM | COMMENTARY | SEPTEMBER 30, 2020

Performance Review

In the quarter period ending September 30, 2020, the Portfolio's I shares returned 18.10% (net of fees)¹, while the benchmark returned 9.56%.

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 Emerging Markets 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.

Emerging markets equities advanced during the period, led by outperformance in consumer discretionary, information technology and materials. The utilities, financials and energy sectors underperformed the MSCI Emerging Markets Index. On a country basis, Taiwan, India, Korea and China outperformed, while Turkey, Thailand and Hungary underperformed the benchmark.

A sector overweight position in consumer discretionary was the greatest overall contributor to the relative performance of the portfolio, with Chinese social commerce platform Meituan Dianping the top contributor across the portfolio and Brazilian omnichannel e-commerce company Magazine Luiza contributing 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. Magazine Luiza is the leading omnichannel e-commerce company in Brazil, supported by strong IT capabilities and an integrated logistics platform. We believe Magazine Luiza is well positioned to benefit from increased online penetration and the growth of online retail sales in Brazil as the company transitions from physical bricks-and-mortar stores. Stock selection and an underweight position in Chinese social commerce platform Alibaba contributed negatively.

Stock selection in consumer staples contributed positively, as shares in the leading soy sauce brand Foshan Haitian outperformed. Foshan Haitian's differentiation advantage has developed strong consumer loyalty supported by taste preference, resulting in price insensitivity. We believe that Foshan Haitian can continue to gain market share and cross-sell other premium products to deliver stable revenue growth driven by domestic consumption upgrade. A sector overweight detracted from relative performance.

Stock selection in communication services contributed overall, but an underweight position in shares of Chinese social networking platform Tencent detracted.

Stock selection in information technology also contributed positively, but the portfolio's underweight position in the sector was the greatest overall detractor. Shares in Taiwan Semiconductor Manufacturing Company and Eastern European outsourced software developer EPAM Systems advanced. The strength was partially offset by the weakness in Taiwan-based power management integrated circuit designer and manufacturer Silergy Corp.

¹ Source: Morgan Stanley Investment Management Limited. Data as of September 30, 2020.

The portfolio's sector underweight position in financials contributed positively, despite the underperformance in Brazilian exchange B3 SA. B3 SA is unique as the dominant multi-product and vertically integrated clearing house for equities and derivatives in Brazil, reinforced by the integration of post-trading activities, which creates a high barrier to entry.

Stock selection in health care detracted as shares in China's leading clinical stage biopharmaceutical company, Alphamab Oncology, underperformed. Alphamab Oncology has a fully integrated proprietary biologics platform in biospecifics and protein engineering. We believe Alphamab Oncology is well positioned to benefit from growth of the domestic health care industry due to its next-generation, in-house developed biospecific antibody candidates with blockbuster potential, robust pipeline of other in-house developed candidates, and fully integrated platform supporting drug discovery, development and manufacturing.

The portfolio's sector underweight position in materials also detracted from relative performance.

Strategy and 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
February 14, 2020	U.S. dollars	MSCI Emerging Markets Net Index

Performance (%)

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

	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR	SINCE INCEPTION
MSIF Developing Opportunity Portfolio - I Shares	-3.24	18.10	25.30	--	--	--	--	25.30
MSCI Emerging Markets Net Index	-1.60	9.56	-0.47	--	--	--	--	-0.47

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.

Short-term returns may not be indicative of the fund's long-term performance potential. A fund's performance, especially for very short time periods, should not be the sole factor in making your investment decision.

The gross expense ratio is 1.62% for Class I shares and the net expense ratio is 1.15%. 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.

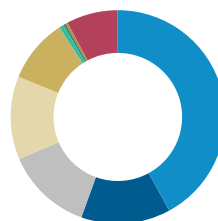
Returns are net of fees and assume the reinvestment of all dividends and income. They are compared to an unmanaged market index. Returns for less than one year are cumulative (not annualized). Performance for one year or more is based on average annual total returns. The returns are reported for Class 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 Holdings (% of Total Net Assets)

	FUND	INDEX
Meituan Dianping	7.31	1.75
TAL Education Group	6.34	0.45
Foshan Haitian Flavouring	5.27	0.06
MercadoLibre Inc	5.09	--
Alibaba Group Holding Ltd	5.01	8.67
Tencent Holdings Ltd	4.83	5.94
HDFC Bank Ltd	4.79	--
Taiwan Semiconductor Mfg Co. Ltd	4.74	5.78
Magazine Luiza	4.71	0.18
Naver Corp	4.66	0.49
Total	52.75	--

Sector Breakdown[^]



	FUND	INDEX
Consumer Discretionary	42.04	20.21
Consumer Staples	13.52	6.09
Financials	13.04	17.15
Communication Services	12.57	12.71
Information Technology	9.68	18.46
Industrials	0.70	4.36
Health Care	0.39	4.32
Real Estate	0.32	2.38
Cash	7.78	--

[^] 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. 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. **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. **Focused Investing.** To the extent that the Portfolio invests in a limited number of issuers, the Portfolio will be more susceptible to negative events affecting those issuers and a decline in the value of a particular instrument may cause the Portfolio's overall value to decline to a greater degree than if the Portfolio were invested more widely. **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 Emerging Markets Index is a free float-adjusted market capitalization weighted index that is designed to measure equity market performance of emerging markets. 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 Index currently consists of 26 emerging markets countries. 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 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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