Morgan Stanley Institutional Fund

Dynamic Value Portfolio

GLOBAL MULTI-ASSET TEAM

Performance Review

In the quarter period ending March 31, 2025, the Portfolio's I shares returned -1.69% (net of fees)[1], while the benchmark returned 2.14%.

During the quarter, the portfolio's security selection process detracted from performance. The portfolio held a neutral allocation to Value stocks.

Market Review

U.S. equities fell -4.3% (S&P 500 Index) during the quarter, as intensifying trade threats and tariffs from the U.S. government added to uncertainty and concerns over the stagflationary impact of tariffs. The U.S. imposed tariffs on Canada, Mexico, and China on March 4 and announced plans to unveil reciprocal tariffs on April 2. Investors' enthusiasm for artificial intelligence (AI) stocks also declined following Chinese startup DeepSeek's large language model release. The DeepSeek model appears to have achieved results similar to those of leading U.S. AI models with lower costs and fewer chips, calling into question the investment thesis of accelerating demand for cutting-edge chips and data centers. Defensive sectors benefited from risk-off sentiment as investors sold out of cyclical assets. Utility and health care stocks gained +5.9% and +4.4%, respectively, while consumer discretionary stocks fell -7.8% and information technology stocks fell -11.8% (MSCI ACWI Utilities, Consumer Discretionary, Information Technology sectors in USD). In fact, the information technology sector was the worst performing sector in the first quarter. Within factors, Value stocks outperformed on a relative basis, rising +2.1%, while Momentum returned -0.9% and Growth fell -6.8% (MSCI ACWI Value Index, Momentum Index, Growth Index in USD).

U.S. government bonds gained +2.7% (Bloomberg U.S. Aggregate Index in USD) during the quarter as yields fell sharply across tenors (U.S. 2-year yield -18 basis points [bps] to 3.88%, U.S. 5-year yield -43 bps to 3.95%, and U.S. 10-year yield -36 bps to 4.21%).[2] Yields were pressured by investor expectations that tariffs would likely reduce economic growth. Federal Reserve (Fed) Chair Powell provided modestly dovish commentary, supporting the median projection of two rate cuts for 2025 and downplaying the recent rise in short-term inflation expectations.

Portfolio Activity

The portfolio maintained neutral exposure to Value stocks during the quarter. As a reminder, the strategy does not take active sector/industry positions versus the Russell 1000 Value Index benchmark.

Outlook

We believe the Value bull market is set to reignite, given how expensive and over-owned Growth and Quality stocks are today. The concentration in Growth and Quality stocks has been driven by AI enthusiasm and the perceived invincibility of the U.S. tech sector. We believe recent outperformance is likely to reverse as AI overinvestment becomes increasingly evident and tariff uncertainty could lead to a pop in speculative enthusiasm surrounding U.S. tech. Growth and Quality stocks have begun to underperform, with Value stocks rising +2.1% in the first quarter while Growth fell -6.8% and Momentum fell -3.6% (MSCI ACWI Value Index, Growth Index, Quality Index in USD).[3] Nonetheless, after 15 years of outperformance, Growth and Quality stocks remain overvalued, over-owned, and massively overinvested.

Growth and Quality stocks are near record valuations, and crowded positioning leaves these stocks vulnerable to disappointment and outflows. The "growthiest" stocks and the highest Quality stocks are trading within the top 5% most expensive valuations of the past 30 years.[4] Concentration, a good indication of crowding, is the highest it has ever been: the largest 10% stocks in the S&P 500

[1] Source: Morgan Stanley Investment Management. Data as of March 31, 2025. Performance for other share classes will vary.
[2] Source: Bloomberg L.P. Data as of March 31, 2025. One basis point = 0.01%
[3] The index performance is provided for illustrative purposes only and is not meant to depict the performance of a specific investment. Past performance is no guarantee of future results.
[4] Source: MSIM Global Multi-Asset Team Analysis, FactSet, Haver Analytics as of April 16, 2025.

account for more than half of total U.S. equity market cap.[4] This is even higher than during the Nifty Fifty Bubble of 1972-73 and the 1990s Dot Com Bubble.[4]

The tech sector's capital expenditure boom is the largest in decades. In many cases, there is no clear path to return on investment. U.S. hyperscalers along with venture capital investors have plowed hundreds of billions of dollars into building artificial intelligence data centers and developing large language models. Hyperscalers expect cloud revenue growth to expand, with the best AI models reaping the majority of the rewards. However, DeepSeek's R1 open-source model release called into question the perceived moat industry AI leaders enjoyed, and challenged assumptions about how much data center capacity would ultimately be required. If AI models can be replicated and distributed for free, with lower hardware requirements, hyperscalers and AI developers may never generate an attractive return on investment to justify current capex spend.

The four U.S. hyperscalers are on track to increase capex by more than 30% in 2025 (to nearly $325 billion).[5] This represents over 20% of sales, double the percentage of a decade ago.[5] Already, capex is outpacing very strong operating cash flows: hyperscaler free cash flows contracted year-over-year in the second half of 2024 and will likely drop 15%-20% in 2025.[4] In recent months, their forward earnings and free cash flow estimates have started lagging the rest of the market.

Tariff rate hikes will weigh on advertising and cloud revenues through lower global GDP growth, exacerbating hysperscaler revenue pressure from more computationally efficient AI models, while China semiconductor export restrictions from the U.S. government will weigh on semiconductor sales.

We continue to highlight the importance of relative valuation metrics because our analysis indicates that, over the long term, relative valuations are the most powerful indicator of future returns to the Value factor. Value trades at only 9x forward price-to-earnings (P/E) compared to 31x for Anti-Value (expensive stocks).[4] Historically, at similar levels of cheapness (December 2000, November 2008), Value stocks have outperformed expensive stocks by 200% and nearly 120%, respectively, over the subsequent eight years.[6] Growth and Quality factors all trade near record high valuation levels; in fact, defensive Quality names are at relative levels usually reserved for recessions, leaving little space for further upside and plenty of space for downside during an eventual reversal. Value has historically been negatively correlated to these factors, and if the market reversal occurs, we believe our investment process, which neutralizes sector and industry exposures as well as market cap bias in the standard indexes, can enable us to capture the anticipated rally in Value stocks. From a contrarian perspective, we are also encouraged by the fact that assets under management flows and investor surveys indicate persistent pessimism and bearish positioning in U.S. Value stocks.

In summary, we believe the Value bull market is set to reignite in the U.S., as the valuation gap between cheap and expensive stocks reverts toward the long-term mean. It is our view that the recent strength in Growth stocks that has temporarily stalled Value's post-COVID recovery reached its peak in July 2024 and is now in the process of reversing. We see more room for Value outperformance as AI enthusiasm starts to fade and tariff impacts cause investors to further question elevated earnings forecasts, causing extreme valuations to normalize.

Fund Facts

Inception Date	March 19, 2021
Minimum Initial Investment*	A Shares - 1,000
	I Shares - 1,000,000
Benchmark	Primary- Russell 1000 Value Index
Class I expense ratio	**Gross 0.80 %**
	Net 0.55 %
Class A expense ratio	**Gross 1.15 %**
	Net 0.90 %

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

4 Source: MSIM Global Multi-Asset Team Analysis, FactSet, Haver Analytics as of April 16, 2025.
5 Source: MSIM Global Multi-Asset Team Analysis and FactSet as of April 16, 2025. Big 4 Hyperscalers: Microsoft, Amazon, Alphabet, Meta.
6 Source: MSIM Global Multi-Asset Team Analysis, FactSet, Haver Analytics as of April 16, 2025. Interestingly, Value stocks' expected earnings growth for the next two years of +13% is lower than +21% for expensive stocks, but it is actually one of the smallest gaps in growth in the past 30 years, i.e. an abnormally narrow gap in growth priced at an abnormally wide gap in valuations.
* Share class availability may vary by platform. For more information, please visit the specified fund page on the website.

information on the applicable fund's current fees and expenses, please see the fund's current prospectus.

Performance (%)

As of March 31, 2025	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR	SINCE INCEPTION
Class I Shares at NAV	-2.93	-1.69	-1.69	-0.59	3.83	--	--	6.75
Class A Shares at NAV	-2.99	-1.73	-1.73	-1.09	3.43	--	--	6.34
Class A Shares (With Max 5.25% Sales Charge)	-8.10	-6.97	-6.97	-6.31	1.58	--	--	4.94
Russell 1000 Value Index	-2.78	2.14	2.14	7.18	6.64	--	--	7.99

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.

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.

Value/Anti-Value Portfolio Characteristics

	VALUE	RUSSELL 1000	RUSSELL 1000 VALUE
Price/earnings (NTM)†	9.40	20.72	17.03
Price/Book	1.36	4.54	2.75
Net Margins (ex Financials & REITS)	3.25	8.98	6.21
Net Debt/EBITDA (ex Financials and REITS)	3.12	1.80	2.62
Dividend Yield (LTM)††	2.60	1.23	2.07

Characteristics

	FUND
Active share (%)	89.48
Number of holdings	199
Median market capitalization ($B)	8.06

Value/Anti-Value Portfolio Allocation (%)

	CURRENT ALLOCATION (%)	TYPICAL MIN/MAX RANGE (%)
Value Portfolio	97.49	80.00/130.00
Anti-Value portfolio	0.00	-30.00/30.00
Net Exposure (ex Cash)	97.49	100.00

†NTM=Next Twelve Months.
††LTM=Last Twelve Months.

INDEX INFORMATION

The **Russell 1000® Value Index** is an index that measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The **Standard & Poor's 500® Index (S&P 500®)** measures the performance of the large cap segment of the U.S. equities market, covering approximately 80% of the U.S. equities market. The Index includes 500 leading companies in leading industries of the U.S. economy.

The **MSCI All Country World Index (ACWI)** is a free float-adjusted market capitalization weighted index designed to measure the equity market performance of developed and 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 performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends.

The **MSCI ACWI Value Index** captures large- and mid-cap securities exhibiting overall value style characteristics across 23 developed markets countries and 24 emerging markets countries. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield.

The **MSCI ACWI Momentum Index** is based on MSCI ACWI, its parent index, which includes large and mid-cap stocks across 23 developed markets countries and 24 emerging markets countries. It is designed to reflect the performance of an equity momentum strategy by emphasizing stocks with high price momentum, while maintaining reasonably high trading liquidity, investment capacity and moderate index turnover.

The **MSCI ACWI Growth Index** captures large- and mid-cap securities exhibiting overall growth style characteristics across 23 developed markets countries and 24 emerging markets countries. The growth investment style characteristics for index construction are defined using five variables: long-term forward earnings per share (EPS) growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend and long-term historical sales per share growth trend.

The **MSCI ACWI Quality Index** is based on MSCI ACWI, its parent index, which includes large and mid-cap stocks across 23 developed markets countries and 24 emerging markets countries. The index aims to capture the performance of quality growth stocks by identifying stocks with high quality scores based on three main fundamental variables: high return on equity (ROE), stable year-over year earnings growth and low financial leverage.

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, **equity securities'**values also fluctuate in response to activities specific to a company. Investments in **foreign markets**entail special risks such as currency, political, economic, and market risks. The risks of investing in **emerging market countries**are greater than risks associated with investments in foreign developed countries. Value Investing. **Value investing**is an investment style. Value stocks are those believed to be undervalued in comparison to their peers due to market, company-specific or other factors. Value stocks can perform differently from the market as a whole and other types of stocks and may fail to increase in price as anticipated or may decrease in price. The Fund may outperform or underperform other funds that invest in similar asset classes but employ different investment styles. **Derivative instruments**can be illiquid, may disproportionately increase losses and may have a potentially large negative impact on the Portfolio's performance. **Illiquid securities**may be more difficult to sell and value than publicly traded securities (liquidity risk). **LIBOR Discontinuance or Unavailability Risk**. The London InterBank Offered Rate ("LIBOR") is intended to represent the rate at which contributing banks may obtain short-term borrowings from each other in the London interbank market. The regulatory authority that oversees financial services firms and financial markets in the U.K. has announced that, after the end of 2021, it would no longer persuade or compel contributing banks to make rate submissions for purposes of determining the LIBOR rate. However, subsequent announcements by the FCA, the LIBOR administrator and other regulators indicate that it is possible that certain LIBOR tenors may continue beyond 2021. As a result, it is possible that commencing in 2022 (or on a late date, if a particular LIBOR tenor is expected to continue beyond the end of 2021), LIBOR may no longer be available or no longer deemed an appropriate reference rate upon which to determine the interest rate on or impacting certain derivatives and other instruments or investments comprising some of the Fund's portfolio.

DEFINITIONS

Active Share is the fraction of the portfolio or fund that is invested differently than its benchmark as of the last day of the reporting period. A portfolio with a high degree of Active Share does not assure a fund's relative outperformance. Active Share calculation may consolidate holdings with the same economic exposure. For MSIFT Dynamic Value Portfolio, active share is calculated based on all long positions in the portfolio. **Dividend yield** is the ratio between how much a company has paid out in dividends each year relative to its share price. **Median market capitalization** is the midpoint of market capitalization of the stocks in a portfolio. Half the stocks in the portfolio will have higher market capitalizations; half will have lower. **Net Debt/EBITDA** is a measurement of leverage, calculated as a company's interest-bearing liabilities minus cash or cash equivalents, divided by its EBITDA. The net debt-to-EBITDA ratio is a debt ratio that shows how many years it would take for a company to pay back its debt if net debt and EBITDA are held constant using a share weighted approach. **Net Margins** is the ratio of net income or profit, divided by revenues using a share weighted approach. **Price/book** compares a stock's market value to the book value per share of total assets less total liabilities. This number is used to judge whether a stock is undervalued or overvalued. **Price/earnings** (NTM) This forward P/E ratio estimates a company's likely earnings per share for the next 12 months. **Value stocks** are defined by the GMA Team's proprietary screening process. **Anti-Value stocks** are defined as the most expensive Value stocks based on the GMA Team's proprietary screening process.

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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