Performance Review

In the quarter period ending March 31, 2021, the Portfolio’s I shares returned 2.38% (net of fees), while the benchmark returned 2.29%.

Our country allocation in aggregate contributed positively to returns both in the first quarter and in the month of March, led by our underweight allocation to China, overweight allocations to South Africa and Russia and zero allocation to Malaysia and the Philippines.

From a sector perspective, our allocation to select quality materials companies contributed strongly. In South Africa, our allocations to Anglo American, Anglo American Platinum (Amplats) and Mondi added to returns (2.5%, 1.2% and 1.9% of the portfolio, respectively). We remain positive on platinum group metals, especially platinum, due to their attractive supply/demand dynamics which we think could benefit from the global economy moving toward more environmentally friendly technologies in energy and transportation. Anglo American and Amplats have significant exposure to platinum. With regards to Mondi, paper packaging markets are tight globally, supported by industrial recovery, continuing e-commerce growth and nascent sustainability trends in packaging (in particular, the substitution of single-use plastics). The market tightness is translating into pricing power for key packaging grades and—coupled with Mondi’s idiosyncratic volume growth—is driving a return to strong revenue and earnings growth for Mondi in the next few years.

Our stock selection in Russia contributed, primarily our overweight allocation to Tinkoff (1.6% of the portfolio). The bank remains a high conviction position as it has exposure to fast-growing businesses such as digital payments, retail brokerage and secured consumer lending. We expect Tinkoff to continue adding more products to its digital-only platform, which bodes well for earnings and returns on capital, which should continue surpassing expectations.

Our allocations to Novatek, Novolipetsk Steel (NLMK) and Lukoil also contributed (2.0%, 1.3% and 1.1% of the portfolio, respectively). Novatek is a low-cost natural gas company that has developed the technology to export liquefied natural gas (LNG) and should be a longer-term beneficiary of the LNG trade to China. NLMK is positioned as a low-cost producer in a sector that is gradually recovering, driven by improving demand both domestic and globally. The company continues to implement its 2022 strategy, including increasing capacity and cost-cutting, and we believe an economic recovery should lead to a rebound in pricing.

Our stock selection in and overweight allocation to Brazil detracted from returns as Petrobras, PagSeguro and Localiza underperformed (1.5%, 1.0% and 0.7% of the portfolio, respectively). Petrobras’s stock price declined on the back of news in February that the current CEO would be replaced. Our original thesis for owning Petrobras had been for its restructuring story—successfully making the transition from a typical state-owned enterprise to a market-driven company. The developments regarding the CEO change now make the outlook for restructuring unclear, including the retail pricing regime, privatization of refineries, reduction of debt and the streamlining of the business. The stock fell 20% in a single day after the news, after having underperformed this year as the market priced in uncertainty and a negative scenario. We note that the last time fuel pricing was a major issue—namely in May 2018—the stock collapsed, but recovered significantly over the following months, and the underlying profitability and balance sheet of the company have improved since then. We continue to monitor the situation closely and seek more details about the plans for the new management.

2 Holdings as of March 31, 2021.

This document constitutes a commentary and does not constitute investment advice nor a recommendation to invest. The value of investments may rise as well as fall. Independent advice should be sought before any decision to invest.
In Poland, our allocation to Allegro (0.6% of the portfolio) detracted as the company underperformed following the launch of Amazon’s Polish website at the beginning of the month (Amazon is not held in the portfolio). Subsequently, on March 16, a group of private equity owners sold part of their ownership of Allegro (totaling 7% of the company), circumventing the 180-day lock-up period. We believe Allegro’s revenues and operating profits will continue to grow as e-commerce gains share in Poland and as it successfully navigates a more competitive market, leveraging its localization strategy and scale.

**Market Review**

The MSCI Emerging Markets (EM) Index returned +2.29% during the quarter, underperforming the MSCI World Index, which returned +4.92%. Chile (+16.86%), Saudi Arabia (+16.47%), the United Arab Emirates (+15.10%), South Africa (+12.11%) and Taiwan (+10.91%) led EM returns. Turkey (-20.43%) was the worst performing EM in the quarter, followed by Colombia (-17.22%), the Philippines (-10.63%), Peru (-10.60%) and Brazil (-9.98%).

Emerging markets equity returns have cooled overall in recent months, which is not surprising considering their extraordinary overall performance since the sharp drawdown in the first quarter of 2020, when COVID-19 became a global pandemic. Equity returns in general were likely to drift sideways for a time in 2021 after markets did such an efficient job in 2020 of discounting the post-COVID-19 future economic recovery. However, it is encouraging that, with the cyclical recovery driving up commodities prices, dispersion of returns is increasing across countries; this comes in sharp contrast to the narrow domination of returns from North Asia over the past several years.

**Portfolio Activity**

During the quarter, we added Copa Holdings to the portfolio (1.2% of the portfolio). Copa is a full-service “hub and spoke” airline operator based in Panama City, serving about 30 countries throughout the region. Copa’s fleet was grounded for much of 2020, but traffic has started to rebound and should continue to be driven by the vaccine and pent-up demand. Many competitors are facing financial pressure—leading some to file for bankruptcy—and with a strong balance sheet, we believe Copa can survive the crisis and any resurgence as demand rebounds.

In Taiwan, our framework for technology holdings remains focused on identifying the leaders across structural growth themes. Within technology, we believe semiconductors will likely be a key enabler of the next digitization cycle. We added Novatek Microelectronics (2.0% of the portfolio), which is the eighth-largest integrated circuit (IC) design company globally and is focused on display-related IC. The company will likely benefit from several trends, including the rise of smartphone display resolution upgrades and increased demand for organic LED panels. We also initiated a position in Silergy (0.4% of the portfolio), the largest analog power management IC supplier for China, as we believe it is well positioned to benefit from the IC localization trend in China. Further, there will be greater structural demand for more efficient power management IC as newer technology requires more power.

We also initiated a position in pneumatic equipment manufacturer Airtac in Taiwan (0.5% of the portfolio). We are positive on the structural industry automation upward trend, driven by depopulation, deglobalization and rising labor costs.

We added Naver to the portfolio (0.6% of the portfolio). Naver is solidifying its position in the Korean e-commerce market, which has historically been highly fragmented and competitive. It has been the top search portal in Korea, including for the online shopping segment, and we believe it could make up a strong portion of the e-commerce industry growth seen in 2020.

We initiated a position in Meituan (0.9% of the portfolio), which we believe can continue to benefit from increasing penetration of the service economy in China. Meituan has developed a strong moat around its food delivery and in-store businesses. It has become an established leader in both spaces and should continue to gain market share, particularly as the company develops new initiatives in the online grocery retail segment and expands into lower-tier cities. Its moat is further supported by established user behavior and the company’s efficient value-chain management. Elsewhere in China, we also added WuXi Biologics (0.5% of the portfolio), as we believe contract research organizations can continue to experience strong growth.

In India, we added Asian Paints (0.6% of the portfolio), a market leader in decorative paints. The company has a strong distribution network, relationships with dealers and thoughtful promotion strategies, which have led to the development of a dominant brand that allows the company to generate strong returns and command pricing power. Asian Paints is also coming out of a capital expenditure cycle that could provide a tailwind in the medium term, particularly as consumers are moving toward a shorter repainting cycle.

2 Holdings data as of March 31, 2021.
We funded these trades by exiting X5, Richter and Rumo to fund higher conviction positions that we believe are more leveraged to a global economic recovery. We sold Rumo as it has been facing increased pressure on volume growth and pricing power as other competitors have become more viable recently. The company is also planning to invest heavily in its rail infrastructure, which makes Rumo a long-dated infrastructure asset in Brazil. Its volatility will remain a headwind to performance.

We also trimmed our positions in Alibaba, Kweichow Moutai and MediaTek (3.7%, 2.5% and 0.8% of the portfolio, respectively). We believe MediaTek will face increased competition from other global players. Though the company should continue to benefit from 5G smartphone penetration, China’s penetration rate could reach close to 90% in 2021, after which growth from this segment could slow.

**Outlook**

In the face of the pandemic throughout 2020, developed countries along with China, Korea and Taiwan had the greater fiscal resources available to spend more heavily on stimulus than the majority of EM countries. The North Asian countries also had among the most effective COVID-19 testing and tracking programs to help contain the virus spread more effectively than most EM countries. In comparison with its massive stimulus response to the Global Financial Crisis, however, China has been more restrained with its stimulus during the pandemic. The market rewarded these North Asian markets in the first half of 2020, in a similar pattern to previous years when investors flocked to them, drawn to mega-cap tech names. But in the second half of the year, as markets began to anticipate a post-COVID-19 economic recovery, country dispersion increased, with many previously ignored markets starting to outperform.

We are very constructive on the broad outlook for emerging markets as an asset class over the next five-plus years, after the U.S. dominance of market returns in the past decade. Key among the catalysts to trigger robust returns for EM equities are an eventual weakening of the U.S. dollar, the recovery of commodities prices, and the emerging reforms and digital innovations emanating from many EM countries. EM valuations overall are at compelling valuations relative to the U.S. equity market, which is likely to trigger asset allocation shifts. We believe we are at an important inflection point, as drivers of economic growth and equity market returns converge to help power the asset class after nearly a decade of underperforming the U.S.

Historically, many emerging markets were able to export their way to prosperity, and manufacturing, export-oriented economies were among the best-performing countries. In the era of deglobalization, this path is narrowing—with increasing trade restrictions and more countries and companies turning to localization, global trade has been on the decline since the Global Financial Crisis of 2008. However, there are a few countries still rising as export manufacturers, including China, Southeast Asian countries like Vietnam, and Eastern European countries like Poland. Mexico and India are also notably increasing their share of exports in the global economy.

Global commodity prices are poised for a cyclical rebound after commodity producers spent the last decade cutting excess supply. The U.S. dollar is near historical extremes, and a weaker dollar is usually supportive of higher commodity prices, which are often denominated in dollars. A rise in commodity prices has typically correlated with stronger EM gross domestic product (GDP) growth. Diversified exporters like Brazil could gain from a broad increase in commodity prices. As net-zero regulations increase globally, countries involved in green electrification (i.e., producers of nickel, aluminum and copper), like Chile and Peru, will benefit. The move to a hydrogen economy will also help boost exporters of platinum, led by South Africa and Russia.

From early on in the pandemic, our sense was that COVID-19 was less likely to “change everything” than to bring more of the same. Indeed it has, deepening trends that were already underway, most notably the expansion of the role of government in the economy and the adoption of digital technology.

Under pressure from weak growth and rising debts, several big emerging markets were making tough reforms even before the pandemic hit, and are still pushing ahead now. In India, lawmakers eased controls on the sale, pricing and storage of agricultural goods, in addition to changing some of the most cumbersome labor laws in the emerging world. Indonesia has also undertaken a major overhaul of labor and tax laws. With their backs up against the wall from the pandemic, EM countries such as these are being forced to reform, solidify national finances, streamline government and be open to global market forces in ways that could help sustain faster growth for many years.

Perhaps most importantly, the pandemic has proven the importance of the digital revolution. Though it typically takes time for revolutions to gain critical mass, the technology wave is likely just in its early days and its impact will likely grow in the coming decades. The technology revolution is spreading the fastest in emerging markets: digital revenues are expected to grow by 11% per annum in EM from 2020-24, compared to 7% in developed markets. Technology is helping streamline costs and lower the

---

2 Holdings data as of March 31, 2021.
cost of starting a business in many EMs. New companies are arising to cater to the growing technological wave spreading across the emerging world. Many of the global leaders helping drive this revolution are in EM, with Korea and Taiwan spending considerably on research and development as a share of GDP.

Our portfolio remains focused on the themes, stocks and countries that we believe can thrive, even if growth levels are much lower than they were in the first decade of the 2000s when EM boomed as an asset class. We continue to be overweight secular growth winners and incrementally add cyclical recovery plays, including select materials and energy companies. From a country allocation perspective, our overweights are primarily in those countries with healthy or improving domestic demand, low debt and resilience in the face of declining global trade, as nationalism and protectionism continue to increase.

**Overweight strategy:**

We continue to overweight the Central and Eastern European (CEE) region through our exposure to stocks mostly in Poland. CEE countries entered the pandemic with little or no economic imbalances and have ample room both on the monetary and fiscal sides to counter the economic impact of COVID-19, making it possible for these economies to recover faster than other developing countries. We continue to invest in secular growth stories and strong franchises in CEE.

We remain overweight Russia, which continues to follow a very orthodox macro policy framework, materially reducing its economy’s vulnerability to external shocks. While we do not foresee rapid economic growth in the country, the abundant low-cost natural resources, lack of legacy infrastructure, strong human capital and declining foreign competition create very attractive investment opportunities at fair valuations. We remain invested in companies in financial services, e-commerce and energy.

Brazil has been hit hard by the coronavirus pandemic, and earlier in the quarter investors showed concern about President Bolsonaro’s potential for more populist measures—chiefly firing the CEO of Petrobras (1.5% of the portfolio)—that seemed to contradict the economic reforms he has already achieved. We think the macro outlook will improve this year, as vaccinations ramp up aggressively in the next six months, the domestic economy “reopens” and the currency, which we believe is undervalued, is bolstered by the global commodity recovery and interest rate normalization by the Central Bank of Brazil. The central bank displayed its independence with a rate hike in February and, as vaccinations roll out, we think the Bolsonaro administration has a good chance of returning to the reform path. Structurally, we are encouraged by Brazil’s large domestic economy, which offers significant growth opportunities given fragmented and/or inefficient industry structures, the limited presence of global players and relatively nascent digital adoption. We believe the stocks we own in the country can execute against these opportunities, have high quality management teams and sustainable competitive advantages, and will benefit from ongoing market share gains (often enabled by superior digital value propositions) and/or a broader economic recovery and then subsequent market share growth.

**Underweight strategy:**

We remain underweight China, mostly owing to our limited exposure to state-owned and so-called “old” China industries. Beyond the pandemic, we believe surviving companies with strong balance sheets and cash flow could become market share consolidators afterward and thus likely long-term winners. In addition, the pandemic is likely to foster digital trends on both the consumer and enterprise sides, favoring companies that embrace and enable the digital transformation. Although we are underweight e-commerce/internet/gaming companies in China relative to the index, we maintain positions in incumbent leaders such as Alibaba and Tencent (3.7% and 7.4% of the portfolio, respectively), and continue to look for winners in this space in other parts of EM, such as Korea and Southeast Asia in China, we continue to focus on long-term fundamentals and identifying structural growth opportunities.

Our medium-term view on the market hinges on whether the Chinese government can take the external pressure to further launch and implement long-term reform measures. While the economic growth rate may continue to slow, reforms could help enhance the quality and sustainability of the economy, which in turn could help boost China’s corporate return on equity and valuation multiple. There are also structural themes that will likely play out, including the ongoing industry consolidation and consumption upgrade. We expect so-called “new economy” companies to deliver superior growth and attract market interest. Against the macro backdrop of slower growth and lower global interest rates, we believe high quality stocks with secular growth trends will likely continue to enjoy a valuation premium and outperform the market in the longer run. As such, we continue to focus our bottom-up stock selection on companies with structural growth, competitive advantages, strong governance and financial strength.

---

2 Holdings data as of March 31, 2021.
We are underweight Korea given its high absolute levels of debt and status as a quasi-developed market. Our stock selection in Korea remains focused on identifying growth opportunities within the specific themes of technology, electric vehicles, media and gaming, most of which are driven by global demand.

<table>
<thead>
<tr>
<th>FUND FACTS</th>
<th>Launch date</th>
<th>Base currency</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>September 25, 1992</td>
<td>U.S. dollars</td>
<td>MSCI Emerging Markets Net Index</td>
</tr>
</tbody>
</table>

**Performance (%)**

*As of date March 31, 2021 (Class I Share at NAV)*

<table>
<thead>
<tr>
<th></th>
<th>MTD</th>
<th>QTD</th>
<th>YTD</th>
<th>1 YR</th>
<th>3 YR</th>
<th>5 YR</th>
<th>10 YR</th>
<th>SINCE INCEPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSIF Emerging Markets Portfolio - I Shares</td>
<td>-1.36</td>
<td>2.38</td>
<td>2.38</td>
<td>60.08</td>
<td>4.38</td>
<td>9.80</td>
<td>346</td>
<td>7.80</td>
</tr>
<tr>
<td>MSCI Emerging Markets Net Index</td>
<td>-1.51</td>
<td>2.29</td>
<td>2.29</td>
<td>58.39</td>
<td>64.8</td>
<td>12.07</td>
<td>3.65</td>
<td>7.82</td>
</tr>
</tbody>
</table>

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 1.16% for Class I shares and the net expense ratio is 1.05%. 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.

**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. 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 strategy. Please be aware that this strategy 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 the risks generally associated with investments in foreign developed countries. 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).

**INDEX INFORMATION**

The MSCI Emerging Markets Net Index is a free float-adjusted market capitalization weighted index that is designed to measure equity market performance of emerging markets. The term "float" represents the portion of shares outstanding that are deemed to be available for purchase in the public equity markets by investors. The MSCI Emerging Markets Index currently consists of 24 emerging-market country indices. The performance of the index is listed in U.S. dollars and assumes reinvestment of
The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the global equity market performance of developed 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 MSCI World Index currently consists of 23 developed market country indexes. The performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends.

The Indexes are unmanaged and do 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.

NOT FDIC INSURED | OFFER NO BANK GUARANTEE | MAY LOSE VALUE | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY | NOT A DEPOSIT