Morgan Stanley Institutional Fund

# Emerging Markets Portfolio

**EMERGING MARKETS EQUITY TEAM**

## Performance Review

In the quarter period ending December 31, 2025, the Portfolio's I shares returned 5.77% (net of fees)[1], while the benchmark returned 4.73%.

Returns for the quarter were led by our stock selection in and overweight allocation to Taiwan, the underweight allocation to China and the overweight allocation to Chile. The underweight allocation to Saudi Arabia and stock selection in Korea also added to returns. Detractors for the quarter included stock selections in Brazil, Mexico and Poland. The underweight allocation to materials also detracted.

Top contributors to performance during the quarter are outlined below:

Stock selection in and the overweight allocation to Taiwan contributed to returns, led by the overweights to select semiconductor and technology hardware companies including TSMC, Wiwynn and ASE Technology (14.9%, 1.4% and 0.8% of the portfolio, respectively).[2] TSMC continues to maintain its leadership in advanced packaging and high-performance semiconductor manufacturing for artificial intelligence (AI) applications. Wiwynn benefited from strong demand for AI servers, particularly in hyperscale data center deployments.

The underweight allocation to China was a top contributor to returns as the equity market pulled back following its DeepSeek-initiated rally earlier in the year. Chinese equities remained under pressure in the fourth quarter amid weak economic data reflecting continued soft domestic and external demand and renewed stress in the property sector.

The portfolio also benefited from the overweight allocation to Chile, led by the allocations to copper miner Antofagasta and Banco de Chile (1.6% and 0.8% of the portfolio, respectively).[2] Antofagasta benefited from higher copper prices, which rose in the year on tight supply conditions and increasing demand led by tailwinds such as electrification and AI infrastructure.

The underweight allocation to Saudi Arabia added to returns as the market faced headwinds from declining crude prices, which weighed on oil revenues and weakened investor sentiment.

Stock selection in Korea contributed, though gains were partially offset by the average underweight allocation to the market. The overweight to Samsung Electronics (7.4% of the portfolio)[2] was the largest stock contributor to returns during the period as the stock benefited from increased demand for memory chips, with optimism around AI server demand and memory pricing driving its sharp rebound.

Top detractors from performance during the quarter are outlined below:

Stock selection in Brazil detracted, through the allocations to MercadoLibre and WEG (0.6% and 1.6% of the portfolio, respectively).[2] MercadoLibre underperformed largely due to a third quarter earnings miss, which was attributed to the company's expansive growth strategy in Brazil. Intensifying competition across Latin American e-commerce and fintech also weighed on the stock's performance.

The portfolio's relative returns were also impacted by aggregate stock selection in Mexico, through the overweight allocations to Banorte and Kimberly-Clark de Mexico (1.4% and 0.6% of the portfolio, respectively)[2] and the zero allocation to CEMEX. Kimberly-Clark de Mexico underperformed in October following a weaker-than-expected third quarter earnings report, where there was a decline in gross margins, impacted by higher raw input prices and unfavorable currency effects.

Stock selection in Poland hampered returns. Within the market, the overweight to e-commerce platform Allegro (1.1% of the portfolio)[2] hampered returns, with the stock price facing weakness in the quarter on concerns over future GMV (gross merchandise value) growth and increased competition from Chinese platforms.

Relative returns were impacted by our overall underweight position in the materials sector, through our zero allocations to Vale and gold mining companies, as prices for commodities such as gold, copper and lithium rose in the quarter.

**1** Source: Morgan Stanley Investment Management. Data as of December 31, 2025. Performance for other share classes will vary.
**2** Holdings data as of December 31, 2025.

## Portfolio Activity

During the quarter, we initiated a position in Telefonica Brasil (Vivo, 0.5% of the portfolio),[2] the largest Brazilian wireless operator with high market share in fixed broadband. We believe that Brazilian telecom companies can benefit from a benign competitive environment after the bankruptcy of Oi, helping to raise revenue-per-user while lowering capital expenditure intensity, which we think should continue to support free cash flow. In particular, Vivo may benefit from expected lower capital expenditure intensity over the next few years and growing enterprise revenues driven by internet of things (IoT), cloud and cybersecurity solutions. The company continues to pay out almost all of its free cash flow, with payout ratios at or above 100%.[3] To fund the trade, we reduced our allocation to Kimberly-Clark De Mexico as its stock has marginally disappointed with negative volumes (impacted by a weak consumer environment and increased competition) and falling gross margins from high input prices and a weak currency. Its valuation discount to its parent company has played out—with the valuation discount now narrowing materially—and volume growth could remain muted moving forward given competition from private label.

We added to Alibaba (3.7% of the portfolio),[2] which we believe is a beneficiary of the AI developments in China as the country continues to build self-sufficiency in the technology sector. Alibaba continues to demonstrate steady growth in its e-commerce segment while accelerating progress in its cloud services. We funded the trade by trimming our position in Wiwynn following recent share price strength. We maintain an overall positive view on the AI infrastructure buildout and continued earnings strength in Taiwan's AI supply chain.

## Outlook

We believe that our integrated top-down and bottom-up analysis remains critical to identify the most attractive macro and stock investments across emerging markets (EM). Both levers continue to be balanced drivers of active returns and risk. In what we expect to be a mixed outlook for growth and ongoing realignment in the global economy, we believe the portfolio is well positioned while providing significant diversification with active positioning at both the country and stock level.[4]

We remain overweight **India** where our long-term secular, domestic-driven growth thesis remains unchanged. The recent cyclical underperformance has led the market to its largest relative underperformance to EM in the last 15 years, and we think the economy and market should begin to show signs of a recovery in the coming quarters. Private consumption has emerged as the key growth engine, supported by goods and service tax (GST) rate cuts, income tax rebates, and easing liquidity, creating a meaningful tailwind for discretionary demand. Inflation remains contained, allowing the Reserve Bank of India flexibility to maintain accommodative liquidity conditions. We also see early signs of a bottoming in corporate earnings and remain constructive on India's manufacturing push, supported by labor reforms and targeted incentives. While the current 50% U.S. tariff on imports may weigh on near-term sentiment, India's low trade dependence and expanding export diversification should help mitigate external risks. We believe that the potential easing of tariffs could be another additional tailwind for the market. We continue to be invested in structural thematics in India including financialization, credit growth showing signs of acceleration, rising health care spend, import substitution and links in the global supply chain, and digitization. Our exposure in India is diversified and includes what we consider to be well-managed financials, industrials and consumer names, along with select IT, real estate, health care, energy and materials companies.[4]

The portfolio is overweight **Poland**, where we believe structural strengths and multiple tailwinds are in position to bring sustained growth. Poland has shown domestic demand remaining resilient, helped by a tight labor market with manageable inflation along with improved external balances and low debt levels. Private investment is set to accelerate on the disbursal of European Union funds while Germany's fiscal stimulus package should provide additional support in the medium term. Inflation has fallen to 2.5%, within the target range, enabling 150 basis points[5] of rate cuts this year. Overall, we believe Poland's economy is structurally among the strongest in the Central and Eastern European region (particularly given its greater domestic focus), and we remain invested in the largest bank in the country, an infrastructure construction company and an e-commerce platform.

**Brazil** continues to be a portfolio overweight. While gross domestic product (GDP) growth was expected to slow in 2025 due to high real interest rates and tariff uncertainty, inflation is easing more quickly than expected. Inflation further declined to 4.4% in December, and we think that with lower inflation, interest rates should begin to come down in early 2026, which will likely be positive for rate-sensitive names owned in the portfolio. We are closely monitoring developments pertaining to the October 2026 presidential elections, where there is the potential for the outcome to result in more market-friendly policies, particularly with regards to fiscal responsibility, which would likely add a further catalyst to the equity market. Other tailwinds for the economy include strong private sector job creation, a higher trade surplus, solid foreign direct investment, and attractive currency and equity valuations.

We are overweight **Mexico**. While we are closely monitoring updates on tariffs, we believe strategic and economic interests will likely prevail and help keep the relationship between the U.S. and Mexico on track. Structurally the U.S.-Mexico-Canada Agreement

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2 Holdings data as of December 31, 2025.
3 Source: Bloomberg L.P. Data as of December 31, 2025.
4 Diversification neither assures a profit nor guarantees against loss in a declining market.
5 One basis point = 0.01%

(USMCA, up for renegotiation in mid-2026) remains a key driver as currently around 75%-80% of Mexican exports flow through the USMCA.[6] The current administration is also looking to boost domestic value-add through "Plan México," which aims to drive domestic reforms and enhance manufacturing competitiveness. The Bank of Mexico continued its easing cycle with another 25 basis point cut in December, signaling that inflation is on track and within the central bank's target of 3%, with future reductions dependent on continued inflation trends. While GDP growth has slowed, President Sheinbaum remains focused on growth and fiscal responsibility, with initiatives such as job creation in specialty manufacturing and strategic sectors, growing real wages and continued investment (led by foreign direct investment and the country's attractive strategic positioning in the global supply chain with more competitive manufacturing wages). We believe many domestically focused companies should continue to benefit from an improving macroeconomic outlook, which would likely translate into solid earnings growth and dividend yields.

We maintain our structural underweight to **China** as the fundamental issues in the economy remain. Trade tensions have been an added headwind; however, the meeting between President Trump and President Xi Jinping in late October signaled a temporary easing, with the two countries agreeing to a one-year trade truce and the U.S. reducing tariffs on Chinese imports from 57% to 47%. China also agreed to resume large-scale purchases of U.S. soybeans in addition to suspending rare earth export controls. During the Fourth Plenum, technology, security and people's livelihood were stated as the top priorities for the country's development strategy for 2026-2030, reflecting the long-term pursuit for "high-quality development" and strengthening national security. Recommendations for the country's 15th Five-Year Plan (with the final plan expected to be released in March 2026) focused on "breakthroughs" and innovation, particularly in an industrial and technological context, as well as seeking to grow domestic demand in a more structural rather than cyclical manner. The December Central Economic Work Conference further reinforced this policy direction, with policymakers emphasizing the need to accelerate the development of these key industries and the importance of improving consumption capacity through social safety net reforms and support measures for middle-income households.

There are interesting local themes that we have been focused on in the portfolio. For example, we believe the emergence of DeepSeek marked a turning point in China's broader resurgence in innovation, investment and global competitiveness. China's strengths in consumer technologies and cost efficiency could unlock a more diversified AI opportunity set, one that balances the high-cost, high-performance AI segment with China's more accessible, cost-efficient solution. We are positioned in what we believe are the most sustainable beneficiaries of the AI thematic. We remain selective in our exposure in China and are invested in attractive growth themes, such as electric vehicles and edge AI, and within those themes are focused on companies with competitive advantages, strong corporate governance and solid growth prospects.

## Fund Facts

| | |
|---|---|
| Inception Date | September 25, 1992 |
| Minimum Initial Investment ($)* | A Shares - 1,000 |
| | I Shares - 1,000,000 |
| Benchmark | MSCI Emerging Markets Net Index |
| Class I expense ratio | **Gross 1.10 %** |
| | **Net 0.99 %** |
| Class A expense ratio | **Gross 1.40 %** |
| | **Net 1.35 %** |

**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.**

6 Source: Liberty Street Economics
* Share class availability may vary by platform. For more information, please visit the specified fund page on the website.

## Performance (%)

| *As of December 31, 2025* | MTD | QTD | YTD | 1 YR | 3 YR | 5 YR | 10 YR |
|---|---|---|---|---|---|---|---|
| Class I Shares at NAV | 2.20 | 5.77 | 32.24 | 32.24 | 17.03 | 4.46 | 7.32 |
| Class A Shares at NAV | 2.15 | 5.68 | 31.79 | 31.79 | 16.62 | 4.10 | 6.97 |
| Class A Shares (With Max 5.25% Sales Charge) | -3.23 | 0.12 | 24.89 | 24.89 | 14.54 | 2.99 | 6.40 |
| MSCI Emerging Markets Net Index | 2.99 | 4.73 | 33.57 | 33.57 | 16.40 | 4.20 | 8.42 |

**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.

### 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 "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 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 net dividends. The index does not include any expenses, fees or sales charges, which would lower performance.

The index is unmanaged and does 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. 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). **China Risk.** Investments in securities of Chinese issuers, including A-shares, involve risks associated with investments in foreign markets as well as special considerations not typically associated with investments in the U.S. securities markets. 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.

### IMPORTANT INFORMATION

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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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