Morgan Stanley Institutional Fund

Emerging Markets ex China Portfolio

EMERGING MARKETS EQUITY TEAM

Performance Review

In the quarter period ending December 31, 2023, the Portfolio's I shares returned 13.45% (net of fees)[1], while the benchmark returned 13.03%.

Year-to-date, the Fund returned 21.57% (I shares net of fees), outperforming the index return of 20.03%.

Performance during the quarter benefited strongly from both country allocation and stock selection. The overweight allocation to Mexico contributed strongly, led by the allocations to Regional and Quálitas (1.4% an 1.4% of the portfolio, respectively).[2] The zero allocations to the United Arab Emirates and Turkey added to returns. Poland also contributed to performance, led by our overweight allocations to apparel retailer LPP and the aluminum processing company, Grupa Kęty (2.4% and 1.8% of the portfolio).[2] Stock selection in Chile contributed to performance, led by our allocation to copper miner Antofagasta (1.5% of the portfolio).[2] Other stock allocations that contributed materially to performance were the overweights to SK Hynix, TSMC and Samsung Electronics (2.3%, 9.5% and 6.7% of the portfolio respectively).[2] Detractors for the quarter include stock selection in India and the allocations to Anglo American and SIG Group (1.4% and 1.3% of the portfolio, respectively).[2]

Top contributors to performance during the quarter are outlined below:

The overweight allocation to Mexico contributed, notably led by our stock overweights in Quálitas and Regional. We continue to like Mexico based on its strong economic fundamentals, balanced growth model and strategic position in the global supply chain.

Poland (+38%)[3] was the best performing market in the index in the quarter. The broad market rallied on the back of the election outcome, with the opposition win and the resulting prospects for more rational economic policy, an end of institutional erosion and improved European Union fund flows all leading to a lower country risk premium. LPP rose more than 70% over the last 12 months and our overweight allocation contributed to returns in the quarter and 2023. We continue to believe LPP is a quality growth company with a strong management team and attractive prospects for further expansion in the region. The allocation to Grupa Kęty also contributed.

The allocation to copper miner Antofagasta—whose mines are concentrated in Chile—contributed as the stock outperformed on rising copper prices from October lows. Antofagasta is a high quality and cost-advantaged producer with prospects for material volume growth in the coming years. We remain positive on the outlook for copper given the electrification of global primary energy and growth of electric vehicles and renewable energy as part of this transition.

Information technology (IT) (+18%) was the best performing emerging markets sector in the quarter and our aggregate positioning in the sector, led by overweight allocations to SK Hynix, TSMC and Samsung Electronics, contributed to overall returns, as did our zero allocations to the United Arab Emirates and Turkey.

Top detractors from performance during the quarter are outlined below:

Our allocation to SIG Group detracted from returns as did our allocation to Anglo American. We continue to like both stocks over the medium term despite their underperformance in the quarter. We remain constructive on South Africa following a recent visit there, and expect the outlook for the macro environment to improve, especially with further liberalization of the electricity and transport sectors.

Within India, our allocations to Bajaj Auto and Macrotech Developers (Lodha) contributed; however, gains were offset by the overweights to select financials including Star Health & Allied Insurance, Bajaj Finance, ICICI Prudential Life Insurance and ICICI Bank (1.7%, 1.3%, 0.9%, 1.4%, 0.8% and 2.6% of the portfolio, respectively).[2] Indian financials were affected during the quarter by the Reserve Bank of India's (RBI) decision to increase the risk weights of unsecured loans on concerns over the recent increase in outstanding balances. While our holdings were not subject to any monetary penalties by the RBI, the sentiment had a significant impact on the sector. Bajaj Finance was also instructed to stop its equal-monthly installment card issuance and digital loans. We

[1] Source: Morgan Stanley Investment Management. Data as of December 31, 2023. Performance for other share classes will vary.
[2] Holdings data as of December 31, 2023.
[3] Regional and country returns are represented by their respective MSCI regional/country indexes, which are broad measures of the region/country's stock market performance.

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believe our investment theses for these stocks remain intact despite the short-term negative sentiment toward the sector. We remain positive on India and the companies we own given the strong structural growth case we see for the country. Elsewhere in India, Delhivery (0.6% of the portfolio)[2] underperformed.

Portfolio Activity

Within India, we initiated positions in HDFC Asset Management and Axis Bank (0.5% and 0.5% of the portfolio, respectively).[2] HDFC Asset Management is among the three largest active asset managers in India and has one of the strongest mutual fund brands in the industry. Our investment thesis is driven by increasing financialization of savings—currently there is a low penetration of financial savings (investments in equities form a small percentage of total household assets in India), presenting a significant opportunity for mutual fund assets under management to grow.

Axis Bank is the third largest private sector bank in India, offering a range of financial services covering large and mid-sized corporates, small and medium-sized enterprises, agriculture and retail businesses. We believe loan growth in select areas in India can continue to grow, net interest margins can expand and the bank is likely to see better credit growth in the coming quarters.

We also initiated a position in United Breweries (0.5% of the portfolio).[2] The company has shifted its focus to the trend of premiumization through its Kingfisher Ultra and Heineken brands. This shift to the consumption of more premium products, combined with rising income levels and the adoption of more widely accepted liquor policies in the country, is likely to lead to better volume growth dynamics for the Indian market and could drive growth for the company in the medium to long term. Elsewhere in India, we reduced Bajaj Auto and Max Healthcare (1.7% and 1.1% of the portfolio, respectively),[2] rebalancing our positions given the stocks' strong performance in the quarter and year-to-date.

We initiated a position in Frontken Corp. (0.5% of the portfolio),[2] a precision equipment cleaning service provider and the largest vendor for TSMC (a notable market share) for etching cleaning. We believe Frontken stands to benefit from both the immediate semiconductors upcycle and long-term opportunities of foundries capacity expansion into Southeast Asia.

Within Taiwan, we added to our existing overweight in United Microelectronics Corporation (UMC, 1.1% of the portfolio).[2] We funded these trades by trimming our position in MediaTek (1.0% of the portfolio)[2] after recent share price strength. We expect the global tech cycle to recover in the first half of 2024, and UMC could benefit from the improving cyclical demand growth and restocking demand, which could drive upside in earnings.

We exited our position in Samsung SDI as the outlook for Korean electric vehicle (EV) battery makers has weakened on increasing competition and a broader slowdown in EV.

We added to our position in Poland following a recent trip to the country. We initiated positions in leading e-commerce company Allegro and PZU, the largest insurer in the country (0.3% and 0.5% of the portfolio).[2] We believe Allegro will likely benefit from a material improvement to real wages in Poland and from a continued increase in e-commerce penetration. We think PZU has a strong competitive advantage in its core business of life and property and casualty (P&C) insurance. We believe the company's profitability can remain supported by its competitive positioning in investment income, and we believe the stock is attractively valued.

Within South Africa, we initiated a position in OUTsurance (0.5% of the portfolio).[2] OUTsurance is a non-life insurance company with an innovative direct distribution (direct-to-consumer) model. We believe OUTsurance is a high-quality growth company with solid return on equity and a strong management team, and we believe the company can be successful in replicating its success in new markets outside of South Africa, such as Australia and Ireland. Elsewhere in South Africa, we trimmed our position in packaging and paper company Mondi (0.6% of the portfolio),[2] given its strong performance.

Within Brazil, we initiated a position in Santos Brasil (0.7% of the portfolio),[2] one of the largest port operators in Brazil. Our investment thesis is driven by pricing recovery at the Port of Santos as key contracts come up for renewal, especially in a scenario of limited capacity expansion and delay in new auctions. In addition, the company business is highly cash generative and management has a record of disciplined capital allocation. Elsewhere in Brazil, we exited our position in Lojas Renner as our thesis was not tracking.

Within Mexico, we exited our positions in Becle (Cuervo) and Mexican airport operator ASUR. The recent changes to the airport regulatory framework (concession agreements) in Mexico may not be material over the longer term; however, the issues with Pratt & Whitney[4] engines (affecting numerous airlines that represent a large portion of ASUR's domestic air traffic) may negatively impact near-term earnings.

Within Chile, we initiated a position in SMU (0.7% of the portfolio),[2] the third largest food retailer with a focused strategy on measured growth, cash generation and dividends. Elsewhere, we exited our position in Galp.

[2] Holdings data as of December 31, 2023.
[4] Not held in the portfolio.

Strategy and Outlook

2023 was a strong year for global equity markets including emerging markets (EM). As an example of China's fading impact on the EM universe, emerging markets excluding China rose nearly +20% in 2023 (as measured by the Index), outperforming the MSCI Emerging Markets Index and U.S. equities excluding the "Magnificent Seven" mega-cap stocks,[5] due to increasing dispersion of returns at the country and sector levels in EM.

We continue to believe that our integrated top-down and bottom-up analysis is important to identify the most attractive macro and stock investments across emerging markets excluding China. As dispersion in the asset class returns has increased, both levers are important drivers of the portfolio. In what we expect to be a mixed growth environment and realigning global economy, we believe our portfolio is well positioned and diversified[6] with active positioning across countries, themes and stocks.

As of the end of the period, the Fund remained overweight **India** given secular, endogenous-driven growth supported by a low base, supply-side investments and digitization. Key drivers for our view on the equity market include India's ability to withstand external shocks, a continued growth outlook (led largely by increased investment), a large domestic market to drive consumption and a strong institutional framework. We have remained constructive on the secular growth story for India and have been confident that forward earnings justify the current multiples of our holdings. The Fund's exposure in India, as of the close of the period, included well-managed financials, industrials and consumer names, along with select IT, health care, energy and materials companies.

At the close of the period, the Fund was overweight **Brazil**, which remains a rate-sensitive market. Brazil's central bank was among the most aggressive in EM in raising rates to fight inflation in 2021 and 2022. The central bank continued with its rate-cutting policy, lowering the Selic target rate by additional 50 basis points[7] to 11.75% at its December 2023 meeting and indicated more rate cuts of a similar pace in 2024. Even with a slowing economy, interest-rate sensitive stocks should respond to monetary policy, and we expect them to continue rebounding into the second half of 2024. The country is well into disinflation and a rate-cutting cycle that we have been expecting and believe will likely continue through 2024. Additionally, cumulative reforms undertaken since 2016 have further boosted the potential growth of the economy. As of period-end, the Brazilian real looked attractive on our currency framework, with external balances in good shape and valuations at low levels relative to its own history. The Fund's exposure in Brazil remained focused on companies with quality management and solid earnings growth, including significant exposure to stocks that we believe can benefit from declining rates.

The Fund remained overweight **Mexico** at the end of the period. We think Mexico offers a combination of growth and strong macroeconomic fundamentals, which supports medium-term economic growth. The country should continue to benefit from rising investment led by foreign direct investment and its attractive strategic positioning in the global supply chain, particularly given the competitiveness of its economy and its nexus with the U.S. The outlook for the consumer remains promising, with rising employment, real wage growth and strong U.S. remittances. We believe the domestic companies owned in the Fund should continue to benefit from current yield, attractive valuations and earnings growth.

Fund Facts

Inception Date	September 30, 2022
Minimum Initial Investment ($)*	A Shares - 1,000
	I Shares - 1,000,000
Benchmark	MSCI Emerging Markets ex China Net Index
Class I expense ratio	**Gross 8.64 %**
	Net 0.99 %
Class A expense ratio	**Gross 13.28 %**
	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.

5 U.S. equities are represented by the S&P 500 Index. The "Magnificent Seven" are Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla.
6 Diversification neither assures a profit nor guarantees against loss in a declining market.
7 One basis point = 0.01%
***** Share class availability may vary by platform. For more information, please visit the specified fund page on the website.

Performance (%)

As of December 31, 2023	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR	SINCE INCEPTION
Class I Shares at NAV	6.60	13.45	21.57	21.57	--	--	--	25.12
Class A Shares at NAV	6.51	13.29	21.10	21.10	--	--	--	24.64
Class A Shares (With Max 5.25% Sales Charge)	0.88	7.38	14.77	14.77	--	--	--	19.42
MSCI Emerging Markets ex China Net Index	6.40	13.03	20.03	20.03	--	--	--	23.01

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.

INDEX INFORMATION

The **MSCI Emerging Markets ex China Index** captures large and mid cap representation across 23 of the 24 Emerging Markets (EM) countries* excluding China. With 654 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. The performance of the index is listed in U.S. dollars and assumes reinvestment of net dividends.

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 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 should not be considered an investment. It is not possible to invest directly in an index.

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RISK CONSIDERATIONS

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