Morgan Stanley Institutional Fund

Emerging Markets Leaders Portfolio

EMERGING MARKETS EQUITY TEAM

Performance Review

In the quarter period ending December 31, 2025, the Portfolio's I shares returned 0.97% (net of fees)[1], while the benchmark returned 4.73%.

Emerging markets (EM) finished the year on a strong note, outperforming key indexes including the S&P 500 Index and MSCI All Country World Index.

Though the Emerging Market Leaders Portfolio's fourth quarter 2025 return was positive overall, it lagged the benchmark return given 1) the strong rally in semiconductor stocks across Korea and Taiwan, and 2) a wider correction in e-commerce platform stocks (such as Sea Limited, MercadoLibre and Coupang, partly due to the rotation into semiconductors and other artificial intelligence [AI] plays). This offset the benefit of our underweight selection to China and Middle Eastern markets in the quarter.

On a full-year basis, our overweight allocation to India was the biggest detractor in the year, driving 8.9% of underperformance. India ended the year on a weak note after four years of outperformance as the U.S. trade issue lingered along with rupee weakness and the lack of AI-related trades. Our underweight allocation to and stock selection in Korea and Taiwan also detracted as both tech-heavy markets ended the year on a strong note driven by surging AI and semiconductor demand. Broadly our overweight to Brazil worked well and canceled out the negative impact of our underweight to China.

Fund performance, and where do we go from here?

The Fund had an exceptionally bad year coinciding with an exceptionally positive year for the broader MSCI Emerging Markets Index. Our performance challenges for the year can be put into three buckets: 1) stock selection mistakes like Globant, where we were late to react to the imminent disruption to software service providers, 2) our significant overweight selection to India, where earnings multiples were stretched in September 2024 and earnings had tactical challenges amid a tightened credit environment and unfavorable weather disruptions to consumption/execution-heavy homebuilding/infrastructure stocks, 3) "lack of new thematic opportunities, which historically has been core to the Fund's ability to deliver strong returns. Given our style, we could not have aggressively invested in Korea (memory names) and China, and our stock picking in Taiwan could have been much better. We aim to improve on the same in the coming year.

In 2025, approximately $60 billion flowed out of active EM funds while approximately $90 billion entered through passive funds.[2] This led to general pressure on the earnings multiples of compounder stocks (excluding AI tech), which were traditionally held by more active funds, while larger index names in general did better. A large part of EM outperformance on a sectoral basis can be explained by a rally in key index weights related to technology, including TSMC, Tencent, Alibaba, SK Hynix and Samsung Electronics. Stocks related to the AI supply chain in Taiwan (including materials stocks), banks (ex-India), and industrials (power and defense-linked stocks) in Korea have further added to the EM returns. Together, information technology, industrials and materials stocks that are thematically linked to AI accounted for a significant portion of the Fund's relative underperformance in 2025.

Is our country framework broken?

The Fund historically has focused on large secular growth markets where institutions are strong and capitalistic businesses thrive. Korea and China were the biggest drivers of index performance this year – countries where the Fund typically has an underweight position. We would like to highlight the recent ongoing investigations into Trip.com (in China) and Coupang (in Korea), where there is a socialistic approach to question these businesses' profitability as well as the way they conduct day-to-day operations. Trip.com corrected 20% in a day as the news came out. While China tech earnings continue to get revised down while narratives remain strong (even Alibaba's earnings are getting cut), the overall operating environment hasn't changed. We think many of the narratives driving China and Korea stocks are dilutive to earnings/return on capital employed (ROCE) over the medium term, at the least. We would like to remind readers that for stocks to consistently generate value, return on invested capital (ROIC) has to be greater than

[1] Source: Morgan Stanley Investment Management. Data as of December 31, 2025. Performance for other share classes will vary.
[2] Source: J.P. Morgan. Global Markets Strategy. EM Money Trail. Published on January 16, 2026.

weighted average cost of capital, and must be sustained for long periods of time. This is precisely why India's (and the U.S.'s) returns over China and Korea have historically been substantially better over a longer-term period despite the latter countries' economies performing much better at an absolute gross domestic product level.

Portfolio Activity

During the quarter, we re-initiated a position in Tencent Holdings. We reduced our underweight allocation to China by adding Tencent given its significant representation in the MSCI China Index. While we expect dominant Chinese e-commerce and tech companies to continue facing intense competition and capital inefficiency, we believe Tencent stands out as the only major platform with clearer visibility on monetizing AI use cases given its strong consumer interface. Specifically, AI integration is accelerating its advertising business and is expected to enhance gaming operations through cost optimization and faster development cycles. While we expect the broader MSCI China Index to gradually retrace gains from the past 15 months, we believe Tencent's differentiated AI monetization strategy positions it to deliver potential relative outperformance versus peers in a challenging market backdrop. We funded the trade by trimming our positions in ICICI Bank, KEI Industries and Bharti Airtel.

We trimmed our position in HDFC Bank and redeployed the capital to Cholamandalam Investment and Finance (Chola). With recent interest rate cuts in India and anticipation for more, we believe Chola will likely be a key beneficiary. We continue to believe that Chola remains one of the best-run vehicle financiers, with its foray into new segments, multiple tailwinds in the form of goods and services tax (GST)/income tax cuts and 8th Pay Commission payouts, and expected strong assets under management growth over the next few years.

We have been adding into fresh ideas such as True Corp (Thailand), a Thai telecom services provider. We believe True is well positioned with its solid ability to take average revenue per user hikes, operational efficiencies in a fixed-cost environment, ongoing cost-cutting measures, and reduced capital expenditure following the 5G rollout.

We initiated a position in Sabesp, Brazil's largest water and sanitation utility, serving approximately 60% of municipalities in São Paulo.[3] We expect the company to double its regulated asset base (RAB) over the next four years, supported by committed organic capital expenditure and improving operating expenditure efficiencies as assets mature. The regulator remains supportive of RAB expansion for value-accretive projects and is likely to provide additional opportunities within São Paulo.

We think the stock is also poised for rerating as Brazil's interest rates decline, reducing cost of equity, and could further benefit from a potential political regime change next year. Led by a CEO from Equatorial and a CFO from 3G Capital, we believe management is strong with disciplined capital allocation and a clear bidding strategy, which is critical for utilities.

We initiated a position in Banco Bradesco. After meeting with company management, we believe the bank's profitability can sharply turn around as 1) the CEO is focusing on reducing operational costs by cutting branches and cutting layers of fat accumulated from years of inefficient operations, and 2) industry credit growth is expected to accelerate as interest rates get cut and the political regime improves. We believe valuations are cheap, earnings expectations are still low and the macro environment is improving.

We trimmed our position in Coupang as the recent data breach and the associated political scrutiny have created an overhang that may weigh on sentiment in the near term. Coupang has not traditionally aligned itself with government objectives, and its recent refusal to participate in parliamentary hearings may increase regulatory and political risks in the near future. Additionally, we expect U.S. tech stocks to face pressure as the AI-driven rally unwinds, which could lead to collateral weakness in global growth-oriented tech names, including Coupang. Given these near-term headwinds, we believe it is prudent to reduce exposure and revisit the position once regulatory uncertainty and sentiment risks subside.

We exited our remaining position in Ambuja Cement due to weaker execution by the management team. The India cement market has yet to see expected pricing recovery or lasting reductions in operating expenses, both of which were expected to raise margins. The company has also faced challenges in leveraging group-level synergies, particularly in logistics and energy costs.

We added to other ideas within Brazil, including NU, XP and Localiza. We marginally trimmed our position in Raia Drogasil, taking some profits and right-sizing the position after its recent rally on third quarter 2025 results. We also right-sized MercadoLibre as concerns around local competition grow. We may reconsider the position if some of these concerns subside.

We also took profit and trimmed our existing position partly in Laurus Labs after its strong year-to-date performance.

We have implemented changes re-aligning our India and Brazil holdings and have reduced our underweight allocation to China. We feel that our portfolio is well positioned in our larger markets of India, Brazil, Taiwan and Mexico.

[3] Source: Sabesp company data as of September 30, 2025.

Outlook

We remain committed to seeking to deliver strong returns to our investors by focusing on secular earnings compounding in specific pockets of EM while minimizing regulatory and tail risks.

Our portfolio remains defensively positioned towards the "old world" of ROCEs and free cash flows largely centered around India and Brazil. By our measures, Brazil remains one of the cheapest markets on both price-to-earnings and dividend yields. We continue to find high quality businesses in Brazil at what we believe are very attractive valuations. We are positioning our portfolio for upcoming interest rate cuts and potential for a political change.

India's valuations have corrected in the past 12 months while earnings have bottomed out. We believe earnings growth should recover given tax cuts and monetary easing. Weather-related challenges, which impacted a significant part of consumption and our holdings (such as Varun Beverages), are expected to ease given the predicted El Nino weather phenomenon this year in India. Fiscal discipline remains a cornerstone of India's governance, and we believe that also argues for a reduction in equity risk premiums for India. We note Indian earnings have continued to be ahead of other large EM peers while the recent outperformance of other EM markets has been driven by multiple rerating.

On a fundamental basis, a large part of the EM rally excluding Taiwan has been driven by: 1) multiple rerating without much upgrade in earnings (such as China). The Hang Sang Tech Index 2025 earnings per share (EPS) estimates have been revised down by 28% over the last 12 months, with 2026 estimates revised 20% lower over the same period.[4] Or, 2) a cyclical bounce in earnings (such as memory stocks in Korea). In our previous newsletters, we have discussed in detail why we remain significant underweight to China. While we don't dispute the technical innovation in China, we continue to flag that competitive intensity remains high and entry barriers remain weak, which are a precursor to reap benefits of any innovation (free cash flow generation led by higher ROCE over a longer time period). We already see some of those challenges in the auto sector in China, which has been long perceived as a leader in electric vehicles (Xiaomi and BYD have corrected more than 30% from their recent highs).[5] And this appears to be a repeat of what we have already seen in solar, real estate, capital goods, quick service restaurants, cosmetics and several other sectors.

Similarly for Korea, where memory stocks and other AI-linked sectors have been rising meaningfully, we continue to believe many of these products remain commoditized in nature (and hence cyclical), eventually with limited pricing power with their customers. The narrative around strong AI demand (which has also propelled many stocks in Taiwan) remains centered around Open AI, where a capital expenditure commitment of $1.4 trillion has been made while its own revenues are only $13 billion.[6] While we don't doubt the revolutionary power of AI, we highlight the concerns around incrementally debt-fueled capital expenditure as well as the circular nature of the demand among various AI players. We think the aggressive capital expenditure over recent years and adoption by real world consumers (whether corporates or individuals) are traveling on different tangents, and both need to eventually match to a respectable ROCE to sustain the recent run-up in valuations.

Overall, we continue to focus on finding what we consider to be high quality businesses across emerging markets at fair valuations while avoiding tail risks such as regulatory, key man and capital misallocation. In these days of exceptional volatility, valuations can get dislocated on both sides in very short time periods, providing good opportunities to both buy and sell stocks.

Fund Facts

Inception Date	June 30, 2011
Minimum Initial Investment ($)*	A Shares - 1,000
	I Shares - 1,000,000
Benchmark	MSCI Emerging Markets Net Index
Class I expense ratio	**Gross 1.16 %**
	Net 0.99 %
Class A expense ratio	**Gross 1.46 %**
	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.

4 Source: Bloomberg L.P. Data as of December 31, 2025.
5 Source: Bloomberg L.P.
6 Source: The Financial Times. Published on November 7, 2025.
* 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	-1.71	0.97	10.61	10.61	8.25	-2.99	6.82
Class A Shares at NAV	-1.71	0.88	10.12	10.12	7.86	-3.32	6.42
Class A Shares (With Max 5.25% Sales Charge)	-6.88	-4.39	4.34	4.34	5.94	-4.36	5.86
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.

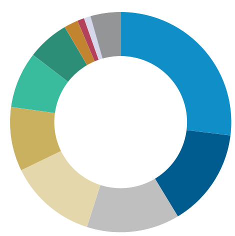
Returns are net of fees and assume the reinvestment of all dividends and income. They are compared to an unmanaged market index. Returns for less than one year are cumulative (not annualized). Performance for one year or more is based on average annual total returns. The returns are reported for Class I and A shares. Performance for other share classes will vary.

Pursuant to an agreement and plan of reorganization, between the fund, on behalf of the Emerging Markets Leaders Portfolio (the "Portfolio"), and Morgan Stanley Emerging Markets Leaders Fund (Cayman) LP (the "Private Fund"), a private fund managed by Morgan Stanley Investment Management Inc., the Portfolio's adviser, on January 6, 2015, the Portfolio acquired substantially all of the assets and liabilities of the Private Fund in exchange for shares of the Portfolio (the "Reorganization"). The Private Fund commenced operations on June 30, 2011, and had an investment objective, policies , and strategies that were, in all material respects, the same as those of the Portfolio, and was managed in a manner that, in all material respects, complied with the investment guidelines and restrictions of the Portfolio. However, the Private Fund was not registered as an investment company under the Investment Company Act of 1940 (the "1940 Act"), and therefore was not subject to certain investment limitations, diversification requirements, liquidity requirements, and other restrictions imposed by the 1940 Act and the Internal Revenue Code of 1986, as amended, which, if applicable, may have adversely affected its performance . The Portfolio adopted the performance history of the Private Fund. As a result, the historical performance information shown reflects, for the periods prior to the Reorganization, the historical performance of the Private Fund. The performance of the Private Fund has been restated to reflect any applicable sales charge but is otherwise not adjusted to reflect differences in expenses between the Private Fund and each Class. If adjusted to reflect such difference in expenses, returns would be different.

Top Holdings (% of Total Net Assets)

	FUND	INDEX
Taiwan Semiconductor Mfg Co. Ltd	12.05	11.88
Localiza Rent A Car S.A.	7.33	0.07
NU Holdings Ltd	4.96	0.55
Grupo Financiero Banorte SAB de CV	4.94	0.23
Varun Beverages Ltd	4.61	0.07
Bharti Airtel Ltd	4.50	0.59
Sea Ltd	4.37	--
XP Inc.	3.79	0.06
Raia Drogasil S.A.	3.75	0.05
MercadoLibre Inc	3.62	--
Total	**53.92**	--

Sector Allocation (% of Total Net Assets)^



	FUND	INDEX
Financials	27.27	22.28
Information Technology	14.62	28.27
Consumer Discretionary	13.76	11.69
Industrials	13.00	7.01
Communication Services	9.53	9.33
Consumer Staples	8.36	3.71
Health Care	6.20	3.10
Materials	2.06	7.09
Real Estate	1.03	1.34
Utilities	1.00	2.28
Energy	--	3.88
Cash	4.44	--

^ May not sum to 100% due to the exclusion of other assets and liabilities.

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.

Hang Seng Tech Index measures the performance of the 30 largest technology companies listed in Hong Kong that have high business exposure to technology themes.

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. 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 nvesting in **emerging market countries** are greater than the risks generally associated with investments in foreign developed countries. Investments in **securities of Chinese issuers**, including A-shares, involve risks and special considerations not typically associated with investments in the U.S. securities markets or foreign developed markets, such as heightened market, political and liquidity risk. Stocks of **small- and medium-capitalization companies** entail special risks, such as limited product lines, markets, and financial resources, and greater market volatility than securities of larger, more-established companies. **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). **Nondiversified portfolios** often invest in a more limited number of issuers. As such, changes in the financial condition or market value of a single issuer may cause greater volatility. **Privately placed and restricted securities** may be subject to resale restrictions as well as a lack of publicly available information, which will increase their illiquidity and could adversely affect the ability to value and sell them (liquidity risk). **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. **ESG Strategies** that incorporate impact investing and/or Environmental, Social and Governance (ESG) factors could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. As a result, there is no assurance ESG strategies could result in more favorable investment performance.

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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