Morgan Stanley Institutional Fund

Emerging Markets Leaders Portfolio

EMERGING MARKETS EQUITY TEAM

Performance Review

In the quarter period ending September 30, 2024, the Portfolio's I shares returned 3.25% (net of fees)[1], while the benchmark returned 8.72%.

The Fund started the quarter on a stronger note, led by healthy performance across key emerging markets (EM) regions. However, the sharp run-up in China's stock market and rotation of investor capital from other countries/regions to China led to our performance lagging the index over last two weeks of the quarter. We have already started to see some recovery of those losses at the time of writing.

We believe recent announcements by the Chinese government do little to solve the structural challenges the country faces. The government's frequent interventions into capital markets and businesses/entrepreneurs make it challenging for mandates like the Fund's, which focuses on structural growth compounders, to pick stocks in China. Visible economic/political/regulatory risks make a reasonable case for China's cheaper earnings multiple versus history, but that can't be the sole reason for owning stocks in China.

Within India, performance did suffer slightly during the quarter as foreign capital meaningfully rotated away from the country to invest in China. Our overweight selections to Trent (apparel retailer, 5.8% of the portfolio) and TVS Motors (two-wheeler manufacturer, 4.3% of the portfolio) were the biggest positive contributors, helped by ongoing strong sales momentum and strong earnings.[2] However, Astral and KEI Industries (3.0% and 4.6% of the portfolio, respectively) consolidated and were among the largest detractors.[2] We remain confident on their strong earnings delivery, and we used the fall in their stock prices to add to the positions. Aarti Industries (3.2% of the portfolio) was another key detractor within India.[2] We are revaluating our thesis on the stock given that our expectations of a demand recovery have been continuously delayed amid dumping from Chinese competition.

Our stock selections in Brazil contributed to returns driven by our overweight allocations to MercadoLibre (MELI) and NU Bank (9.3% and 6.0% of the portfolio, respectively).[2] We believe that MELI continues to be a best-in-class Latin American ecommerce business with strong earnings visibility. We think MELI still has a runway for growth led by growing penetration (better returns logistics, more flexibility on delivery) and improving user experience (assortments, user interface/user experience, better analytics). The growing penetration in fintech for both payments and credit business is also adding to the flywheel from both offline and online presence. NU was another key winner during the quarter. We used the sharp run-up in its stock price during the MSCI index inclusion to book some gains.

We continue to hold larger positions in non-artificial intelligence (AI) stocks such as Voltronic and E-ink, apart from exposure to a cyclical recovery in Unimicron (3.1%, 2.7% and 2.8% of the portfolio, respectively).[2]

Portfolio Activity

During the quarter, our portfolio activity largely focused on two opportunities: 1) continue to look for companies with strong earnings compounding potential, and 2) reduce exposure where valuations have become stretched and potential earnings surprises are limited.

We initiated a position in Taiwanese electronics producer E-Ink, a global leader in e-ink and e-paper with more than 95% market share based on our estimates. There is no close competition so far, and this has translated into high margins for the company. We see E-ink as a beneficiary of the shift away from LED and paper towards ePaper readers with benefits such as high efficiency (digitalized, lower energy consumption, environment friendly), cost savings and reduced eye strain. Electronic shelf labels (ESL) also remain a major driver of growth for E-ink with the rising adoption of ESL in U.S. and European supermarkets.

We continued to add to our position in WEG (2.2% of the portfolio) on improved earnings visibility as U.S. transmission and distribution capital expenditure continues to keep product demand and prices elevated.[2] Similarly, we added to our position in KEI Industries, which we believe will likely see a key benefit from the export of cables to the U.S. on the same theme. We also increased our holdings in Astral Limited (a strong executor in India's homebuilding industry) as valuations became more attractive following a recent earnings miss.

[1] Source: Morgan Stanley Investment Management. Data as of September 30, 2024. Performance for other share classes will vary.
[2] Holdings data as of September 30, 2024.

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Our holding in Indian private banks didn't work that well in the quarter as banking liquidity continues to be tight, leading to some near-term challenges on growth and margins. We did exit our position in Axis Bank as we gradually lost our conviction on the management team and moved some capital to HDFC Bank (3.2% of the portfolio), which will likely see a key catalyst if the Reserve Bank of India starts easing liquidity in the near term.[2]

We exited SK Hynix, the South Korean memory chip maker. We exited our exposure to the memory segment as we became concerned about the valuation, which reached levels seen in the last major cycle peak, and we saw limited opportunity for the stock to further exceed street expectations.

We also exited Shenzhou (China-based apparel manufacturer) over concerns of ongoing increased business volatility. As both domestic and international consumption remains weak, we believe market share gains will be challenging for the company. Growth for athleisure has, in our view, declined structurally compared to the low-teens growth seen in the past decade or so, based on its historical reported sales figures.

We also right-sized our exposure in Trent after the sharp run-up in its share prices drove the portfolio weight meaningfully higher.

We added to our position in Localiza (4.3% of the portfolio) as we found the current valuations to be attractive after a recent earnings disappointment.[2] We believe Localiza will likely be able to restore its historical return on invested capital (ROIC) spreads over cost of capital over next 12 to 24 months. We also added to our position in Bharti Airtel (3.2% of the portfolio) as we find the stock to be attractively valued for its level of capital efficiency and free cash flow yields.[2]

We also added a small position in Techno Electric (1.1% of the portfolio) in India during the quarter as we find the management to be a strong executor in the power infrastructure space.[2] The company has a long history of buffering its ROIC and cash flows in a challenging space. It has further strengthened its business in flue gas desulpharization, data center buildout and smart metering.

Outlook

We continue with our zero holdings in China despite the current rally. We don't see the recent announcements by the Chinese government structurally relieving the economy's challenges. Our view is that China has the challenge of excessive capital injection over the past two decades, which has led to overcapacity across sectors and suboptimal returns. This was funded by a structurally high savings rate at low interest rates, which has kept consumption suppressed. Local government focused more on land monetization as a revenue source rather than consumption-led tax collections. To exit these challenges, China needs to successfully shift its economy away from being investment-led to consumption-led. This would require significant patience over multiple years — a period which would include slowing gross domestic product growth while consumers endure deflation in their asset values (primarily, real estate and depressed real savings rates).

The recent announcement seems to suggest the government is digressing from this approach. Excessive capital markets interference and the principles of common prosperity make finding consistent earnings compounders without regulatory/government noise difficult for a fund like ours. Hence, we chose not to add anything to our China position in the recent run-up.

Our positive view on India remains unchanged, and India remains the largest allocation in the Fund. We continue to rotate capital in India by right-sizing some of the recent winners while being disciplined with our entry prices for new ideas. We expect the market noise to remain elevated, and we remain firmly focused on bottom-up stock ideas. We look for further growth driven by private sector infrastructure investments. We remain positive on: 1) the outlook for private sector banks, 2) the wealth effect trickling into discretionary consumption, and 3) light capital expenditure-led manufacturing opportunities.

While Mexico has disappointed in the short term since the election, we expect the continued strength of the economy to be reflected in market performance going forward. We expect the market to benefit from ongoing structural trends such as near-shoring, which should help drive domestic consumption. Similarly for Brazil, we continue to own what we consider to be the best names that offer attractive valuations alongside double-digit earnings compounding, although the revival of an interest rate cycle uptick has created challenges for market performance and earnings multiple reratings for the businesses we own.

[2] Holdings data as of September 30, 2024.

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 1.13 %**	
	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.

Effective June 18, 2024, Morgan Stanley Investment Management reduced the total expense ratio (“TER”) caps across all share classes for MSIF Emerging Markets Leaders Portfolio. New TER caps are as follows: Class IR & R6: 0.95%, Class I: 0.99%, Class A: 1.35%, Class C: 2.10%.

Performance (%)

As of September 30, 2024	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR
Class I Shares at NAV	-0.30	3.25	12.07	23.64	-7.26	8.39	5.66
Class A Shares at NAV	-0.31	3.15	11.77	23.18	-7.55	8.04	5.29
Class A Shares (With Max 5.25% Sales Charge)	-5.53	-2.25	5.87	16.73	-9.20	6.88	4.72
MSCI Emerging Markets Net Index	6.68	8.72	16.86	26.05	0.40	5.75	4.02

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.

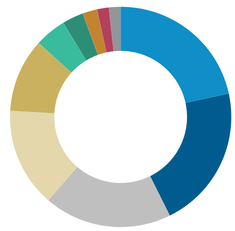
Pursuant to an agreement and plan of reorganization, between the fund, on behalf of the Emerging Markets Leaders Portfolio (the “Portfolio”), and Morgan Stanley Emerging Markets Leaders Fund (Cayman) LP (the “Private Fund”), a private fund managed by Morgan Stanley Investment Management Inc., the Portfolio’s 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.

* Share class availability may vary by platform. For more information, please visit the specified fund page on the website.

Top Holdings (% of Total Net Assets)

	FUND	INDEX
Taiwan Semiconductor Mfg Co. Ltd	9.72	9.00
MercadoLibre Inc	9.33	--
NU Holdings Ltd	6.01	0.49
Trent Ltd	5.78	0.20
Avenue Supermarts Ltd	4.90	0.12
KEI Industries Ltd	4.63	--
ICICI Bank Ltd	4.36	0.96
Localiza Rent A Car S.A.	4.28	0.08
TVS Motor Co. Ltd	4.25	0.10
Globant S.A.	3.94	--
Total	**57.20**	--

Sector Allocation (% of Total Net Assets)^



	FUND	INDEX
Consumer Discretionary	22.08	13.98
Industrials	21.59	6.77
Information Technology	19.10	22.23
Financials	14.87	22.84
Consumer Staples	11.09	5.24
Materials	4.71	6.64
Communication Services	3.19	9.43
Health Care	2.18	3.60
Real Estate	1.77	1.59
Energy	--	4.75
Utilities	--	2.93
Cash	1.74	--

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

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.

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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