

# Morgan Stanley Institutional Fund Europe Opportunity Fund

GLOBAL OPPORTUNITY TEAM | COMMENTARY | CLASS I SHARES | JUNE 30, 2021

## Performance Review

In the quarter period ending June 30, 2021, the Portfolio's I shares returned 12.86% (net of fees)<sup>1</sup>, while the benchmark returned 7.42%.

The long-term investment horizon and conviction-weighted approach embraced by the Global Opportunity team can result in periods of performance deviation from the benchmark and peers. Over time, this has led to the strong record we have developed over our product set. The Fund outperformed the MSCI Europe Index this period due to favorable stock selection and sector allocation.

Our team continues to focus on bottom-up stock selection and the long-term outlook for companies owned in the portfolio; accordingly, we have had limited turnover in the portfolio to date, and we continue to find new ideas for inclusion in the portfolio that meet our strict criteria for quality and long-term value creation.

European equities advanced, led by health care, real estate, information technology and consumer staples. The utilities sector declined, while financials and energy also underperformed the MSCI Europe Index.

Stock selection in the consumer discretionary sector was the greatest overall contributor to the relative performance of the portfolio during the period, driven by strength in shares of German meal delivery kit service HelloFresh SE, luxury brands Hermès and Moncler SpA, and athleisure brand Puma. HelloFresh is a global leader in online meal kits, delivering fresh food direct to consumers' doors across North America and Europe. HelloFresh is unique based on its differentiation focus competitive advantage, integrated supply chain and data-driven technology platform that allows it to optimize the customer experience by differentiating meal kits with data-based recipes. Based on our industry analysis, we believe that HelloFresh is well positioned to benefit from the continued adoption of recipe-based cooking and can transform consumer eating habits.

Within the sector, shares of online luxury marketplace Farfetch Limited and food delivery platform Deliveroo plc underperformed. Farfetch operates the largest global marketplace at scale for fashion and luxury goods, with high return on invested capital in a fragmented industry given its capital-light business model that connects buyers and sellers on the online platform. Based on our industry analysis, we believe the company can continue to benefit from the digital transition trend and growing demand from millennials.

Stock selection in industrials contributed positively, with shares of asset-light Danish freight forwarder DSV Panalpina A/S advancing. DSV enjoys leading positions in air and sea logistics globally as a result of strategic acquisitions that have diversified the firm out of the core road forwarding business. The company's information technology platform, people and processes differentiate DSV from other freight forwarders and allow DSV to operate efficiently in the value-added activities in forwarding that have been more immune from digital disruptions.

Stock selection in health care contributed on strength in shares of Straumann Holding, which was partially offset by weakness in ABCAM plc. Straumann is a leading global provider of products and solutions in the aesthetic dentistry market. We believe Straumann may outpace the growth of the dental market as an industry consolidator, with its strategy targeting underpenetrated and fast-growing markets, proactively cross-selling to its existing customer base and offering a wide range of products supported by strong innovation capabilities.

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<sup>1</sup> Source: Morgan Stanley Investment Management Limited. Data as of June 30, 2021.

Stock selection in communication services was the greatest overall detractor from relative performance due to weakness in shares of Kahoot! As a leader in the growing education technology space, Kahoot! provides a global and highly scalable online education platform that enables its users to create, share and play learning games. In contrast to traditional education players who need to pay for content, Kahoot! relies on free content generated by its user community across the globe. It has successfully begun its monetization journey, while deploying a mergers and acquisitions strategy to build a leading e-learning ecosystem with an enjoyable and engaging user experience across the platform. We believe Kahoot! can monetize its uniqueness by growing its active userbase while increasing monetization and positive spend mix from corporate customers over educators on a global basis. A sector overweight position also detracted.

Sector underweight positions in health care and real estate also detracted, while stock selection in consumer staples and information technology and the portfolio's sector underweight position in financials contributed positively to relative performance during the period.

## Strategy and Outlook

As a team, we continue to focus on bottom-up stock selection and the long-term outlook for companies owned in the portfolio. We assess company prospects over a three- to five-year time horizon and own a portfolio of what we believe are undervalued, high quality companies with diverse business drivers not tied to any particular market environment.

### FUND FACTS

#### Launch date

July 28, 1997

#### Base currency

U.S. dollars

#### Index

MSCI Europe Index

## Performance (%)

As of June 30, 2021 (Class I Share at NAV)

	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR	SINCE INCEPTION
MSIF Europe Opportunity Fund - I Shares	1.19	12.86	134.3	58.38	24.81	194.9	9.67	7.28
MSCI Europe Index	-1.36	7.42	11.80	35.09	8.66	10.34	5.58	5.61

**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](http://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 1.40% 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.**

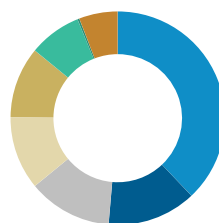
Returns are net of fees and assume the reinvestment of all dividends and income. They are compared to an unmanaged market index. Returns for less than one year are cumulative (not annualized). Performance for one year or more is based on average annual total returns. The returns are reported for Class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

### Top Holdings (% of Total Net Assets)

	FUND	INDEX
DSV Panalpina A/S	7.62	0.44
HelloFresh SE	6.38	0.15
Evolution AB	6.14	0.25
Spotify Technology S.A.	4.98	--
Hermes International	4.73	0.42
Rightmove Plc	4.42	--
Straumann Holding AG	4.32	0.15
Puma SE	4.25	0.12
Moncler SPA	4.21	0.12
Davide Campari-Milano NV	4.13	0.06
<b>Total</b>	<b>51.18</b>	<b>--</b>

### Sector Allocation (% of Total Net Assets)<sup>^</sup>



	FUND	INDEX
Consumer Discretionary	37.89	12.15
Consumer Staples	13.41	12.89
Information Technology	12.66	8.28
Industrials	11.11	14.74
Communication Services	10.74	3.92
Health Care	7.93	14.13
Other	0.29	--
Cash	5.82	--

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

### RISK CONSIDERATIONS

There is no assurance that a mutual fund will achieve its investment objective. Funds are subject to market risk, which is the possibility that the market values of securities owned by the fund will decline and that the value of fund shares may therefore be less than what you paid for them. 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 fund. Please be aware that this fund 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. **European Investments Risk.** Adverse political, social or economic developments in Europe, or in a particular European country, could cause a substantial decline in the value of the Portfolio. In addition, because investments are concentrated in Europe, performance may be more volatile than a more geographically diversified set of investments. If one or more countries leave the European Union ("EU") or the EU dissolves, the world's securities markets likely will be significantly disrupted. The financial instability of some countries in the EU together with the risk of such instability impacting other more stable countries may increase the economic risk of investing in companies in Europe. **Focused Investing** To the extent that the Fund invests in a limited number of issuers, the Fund will be more susceptible to negative events affecting those issuers and a decline in the value of a particular instrument may cause the Fund's overall value to decline to a greater degree than if the Fund were invested more widely. **Derivative instruments** may

disproportionately increase losses and have a significant impact on performance. They also may be subject to counterparty, liquidity, valuation, correlation and market risks. **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**).

### INDEX INFORMATION

The **MSCI Europe Index** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe. 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 performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends.

The index is unmanaged and does 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.

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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](https://morganstanley.com/im) or call 1-800-548-7786. Please read the prospectus carefully before investing.**

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