

MORGAN STANLEY INSTITUTIONAL FUND

Global Advantage Portfolio

ACTIVE FUNDAMENTAL EQUITY | COUNTERPOINT GLOBAL | COMMENTARY | MARCH 31, 2019

Performance Review

Counterpoint Global seeks high quality companies, which we define primarily as those with sustainable competitive advantages. We manage concentrated portfolios that are highly differentiated from the benchmark, with securities weighted on our assessment of the quality of the company and our conviction. The value added or detracted in any period of time will result from stock selection, given our philosophy and process. For the quarter, the Global Advantage Portfolio (Class I) returned 20.56%, and the MSCI All Country World Index returned 12.18%.

The long term investment horizon and conviction weighted investment approach embraced by the team since 1998 can result in periods of performance deviation from the benchmark and peers. The portfolio outperformed the benchmark this quarter largely due to favorable stock selection; sector allocations also contributed, to a lesser extent.

Global equities, as measured by the MSCI All Country World index, advanced during the quarter, with Information Technology the best performing sector. All sectors advanced over the period, however, Health Care and Financials were the relative laggards in the index.

Consumer Discretionary was the greatest contributor in the portfolio this quarter, due to favorable stock selection and a sector overweight position. Latin American ecommerce and payments platform MercadoLibre was the top contributor both in the sector and across the portfolio. Despite a relatively tough local macro environment, the company posted solid results, characterized by better than expected revenue and profit growth. MercadoLibre also raised additional capital during the quarter, including a strategic investment from digital payments provider PayPal. The company intends to extend its leadership position overall by more aggressively investing in its ecommerce and payments platforms and strengthening its logistics capabilities.

Information Technology also contributed, due to both favorable stock selection and a sector overweight position. Several of the portfolio's holdings in the software-as-a-service area were among the portfolio's top contributors, including ServiceNow, which was the fourth greatest contributor across the portfolio. Software-as-a-service providers have benefited from a generally strong demand environment, as enterprises continue to embark on digital transformation projects and employ cloud-based solutions to modernize their software and technology infrastructure, improve efficiency, enhance agility in responding to new business opportunities, and harness data to make more informed business decisions. ServiceNow, which provides cloud-based software to help enterprises automate their information technology operations and manage workflows, advanced on better than expected quarterly results characterized by accelerated bookings growth and a strong financial outlook which was ahead of Street expectations.

Stock selection and sector underweight positions in Financials and Health Care, as well as stock selection in Industrials, also aided relative results. Intuitive Surgical, a leader in robotics assisted surgical systems, was the top contributor among these areas. Its shares advanced on solid reported results characterized by strength in both procedure growth and new system placements, as well as positive sentiment around new product launches. During the quarter, the company received approval from the Food and Drug Administration (FDA) for its next generation ion flexible catheter robotics platform, which enables minimally invasive lung biopsies and can be employed in early lung cancer detection. Within Health Care, the strength in Intuitive Surgical and other holdings was partly offset by underperformance in animal health products maker Elanco, which was the third greatest detractor across the portfolio. Elanco shares advanced over the quarter, however, they lagged the overall market. The company reported mixed results, characterized by strong revenue growth but somewhat weaker than expected gross margin improvement. Eli Lilly spinning off its remaining shares in Elanco also created an overhang on the stock during the quarter. In Financials, strong performance in a number of holdings was partly offset by weakness in Metro Bank, which provides retail and corporate banking services in the United Kingdom. Metro Bank was the second greatest

detractor across the portfolio. The company's results missed expectations due to greater than expected margin pressure. Weak fundamentals, combined with concerns around a capital raise, weighed on its shares.

A lack of exposure to Consumer Staples, Utilities, and Materials also contributed, to a lesser extent.

Conversely, Communication Services was a small detractor during the quarter, due to mixed stock selection. Video game publisher Ubisoft was the weakest performing holding in the sector, and the fifth greatest detractor across the portfolio. Concerns about competition, and the pace and timing of new gaming content releases, weighed on investor sentiment.

Lastly, Energy and Real Estate were also small detractors this quarter, due to a lack of exposure.

Outlook

As a team, we believe having a market outlook can be an anchor. Our focus is on assessing company prospects over a five year horizon, and owning a portfolio of unique companies whose market value can increase significantly for underlying fundamental reasons.

The views, opinions, forecasts and estimates expressed are those of the portfolio management 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. Portfolio holdings and sectors 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 the securities mentioned or securities in the sectors referenced. Past performance is no guarantee of future results.

Performance (%) as of March 31, 2019

Class I Share at NAV

	MTD	QTD	YTD	1 YEAR	3 YEAR	5 YEAR	Since Inception*
MSIF Global Advantage Portfolio	3.31	20.56	20.56	10.13	19.14	11.19	12.79
MSCI All Country World Index	1.26	12.18	12.18	2.60	10.67	6.45	7.65

* The inception date of the MSIF Global Advantage portfolio is 12/28/2010.

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 or call 1-800-548-7786. 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 3.67% for Class I shares and the net expense ratio is 1.10%. 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 (unannualized). 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 Ten Holdings % of Total Net Assets, as of March 31, 2019. Subject to change.

Amazon.com	6.5
MercadoLibre	6.1
Constellation Software	5.2
Christian Dior	5.1
Canadian National Railway Co.	4.9
Farfetch	4.9
Adyen	3.8
Zalando	3.7
Union Pacific Corporation	3.6
Intuitive Surgical	3.6
Total	47.4

Sector Break Down *As of March 31, 2019. Numbers may not add to 100% due to rounding. Subject to change.*

	MSIF Global Advantage Portfolio Weight (%)	MSCI AC World Index Weight (%)	Under/Overweight vs. MSCI AC World (%)
Overweight			
Consumer Discretionary	37	11	26
Information Technology	26	16	10
Industrials	14	10	4
Market weight			
Communication Services	8	9	1
Underweight			
Real Estate	0	3	-3
Utilities	0	3	-3
Health Care	7	12	-5
Materials	0	5	-5
Energy	0	6	-6
Consumer Staples	0	8	-8
Financials	6	17	-11
Cash*	3		

*Cash is frictional

This material is a general communication, which is not impartial and all information provided has been prepared solely for informational and educational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The information herein has not been based on a consideration of any individual investor circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

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.

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 portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. Accordingly, you can lose money investing in this portfolio. 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 investing in **emerging market** countries are greater than risks associated with investments in foreign developed countries. Investments in **small and medium capitalization companies** tend to be more volatile and less liquid than those of larger, more established, companies. **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). **Illiquid securities** may be more difficult to sell and value than public traded securities (liquidity risk). **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.

The **MSCI All Country (MSCI AC) World Index** is a free float-adjusted market-capitalization-weighted index designed to measure the equity market performance of developed and 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 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.

Please consider the investment objectives, risks, charges and expenses of the fund carefully before investing. The prospectus contains this and other information about the fund. To obtain a prospectus, contact your financial advisor or download one at morganstanley.com/im. Please read the prospectus carefully before investing.

Morgan Stanley Investment Management is the asset management division of Morgan Stanley.

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