

MORGAN STANLEY INSTITUTIONAL FUND

Global Endurance Portfolio

ACTIVE FUNDAMENTAL EQUITY | COUNTERPOINT GLOBAL | JUNE 30, 2020

Dear Clients:

Total returns for Global Endurance were +27.94% compared to -6.25% by the All Country World Index for the first half of 2020.

Global Endurance seeks to invest in a select group of companies located throughout the world with durable competitive advantages, sustainable growth opportunities, valuable business models and strong management teams.

One such company was Fastly, which I first invested in the second quarter of 2019. Fastly provides over 297 enterprise customers a secure and programmable edge cloud platform (Fastly.com, May 2020). The architecture of their unique and software-defined global network allows Fastly to meet the ever-growing compute and performance requirements of data rich applications and websites.

This innovative, robust, customizable and developer-focused offering will allow the company to continue to change the way in which consumers access the Internet in a fast, secure and scalable way. Their customer experience resonates with developers, as demonstrated by the extraordinary Net Promoter Score of 64 (Fastly.com, 2018) and Customer Satisfaction score of over 95% in an industry dominated by legacy Content Delivery Networks. I believe we own a company which will continue to take share in a large market – estimated to be \$35.4 billion – while it maintains and builds upon its core competitive advantages of scale and network effects.

Our Fastly stake appreciated 324.17% in the first half of 2020. While Fastly was our top performer, Wayfair, Carvana, Zoom and Smartsheet were also important positive contributors to our results. Conversely, Victoria, Ryman Healthcare, Melrose Industries, Colliers International Group and Party City were the biggest detractors to our performance in the first half of 2020.

I would be remiss if I did not mention that Wayfair, which has been a top contributor for us in the first half of 2020, was among the five largest detractors to our performance in 2019. I mention this to assert my faith in Victoria. Victoria has been among the top detractors for us in 2019 and in the first half of 2020. Victoria is a leading vertically integrated designer, manufacturer and distributor of innovative flooring products such as carpets, ceramic tiles, luxury vinyl tiles and artificial grass. I had studied the business for some time prior to meeting the company's Executive Chairman in London in 2018. Victoria had experienced a series of unfortunate external events including a large shareholder being embroiled in a scandal, the company tapping bond markets at a challenging time in November 2018 (a costly mistake corrected in July 2019 and January 2020), a short-seller attack and now a global pandemic. Even one such event would lead to a crisis of faith in most management teams. However, despite all these external shocks, the company's leadership and employee base has done an extremely admirable job of maintaining focus on execution against their market opportunity, addressing their customers' needs and allocating capital on our behalf. The great Andy Grove's saying comes to my mind when I think about this situation- "Bad companies are destroyed by crisis, Good companies survive them, Great companies are improved by them" (Andy Grove, December 1994). It is my belief that we own a stake in a Great company and will likely be duly rewarded for the company's steadfastness and our patience.

While I did not expect a global pandemic in 2020 when I wrote my 2019 annual letter to you, investing in unique times comes with the territory. It has been heartening to see the bravery of front-line healthcare workers and essential employees during these difficult times. I am also proud of how the management teams and employees of our holdings are navigating through an unprecedented set of challenges. During the highly volatile second quarter, I

was able to acquire more of our core holdings along with some newer holdings. My ever-curious and adaptive approach led us to acquire businesses such as Six Flags, Brookfield Asset Management, Royalty Pharma, TransDigm, Twitter, Floor & Decor and Dino Polska at what I believed were a significant discount. In some cases such as Six Flags and Twitter, I believe the short-term discount closed faster than I anticipated and I parted with them quite profitably to reinvest more in our core holdings. Among the wonderful businesses I acquired during this unprecedented time period, we continue to own Royalty Pharma, Brookfield Asset Management, Floor & Decor, TransDigm and Dino Polska.

It is worth noting that our companies' share prices can vary significantly in any short time period; but it is my belief that over time, they reflect the intrinsic value of their underlying businesses. And given that we own a select group of companies – 30 to be exact – a number which is a fraction of the over 3,000 companies held in the index we compete against, the fund's performance may vary in any given year.

I remain optimistic that a bottom-up approach to investing will allow us to find exceptional companies around the globe truly worthy of our capital in the years ahead. Furthermore, the companies we own today are perennially competing for space in the portfolio with ones we do not. I am committed to searching for exceptional companies, while also deepening my understanding of the fundamentals of our existing businesses.

At the end of the first half of 2020, our top 10 companies accounted for 60.14% of the portfolio and top 20 companies accounted for 85.80% of the portfolio. From a geographic weighting standpoint, our portfolio was 66.63% in United States, 11.09% in Canada, 8.10% in United Kingdom, 4.62% in Sweden, 3.77% in New Zealand, 2.66% in Germany, 1.18% in Finland and 0.97% in Poland.

I am grateful for your trust in Global Endurance.

With best wishes,

Manas Gautam

The views, opinions, forecasts and estimates 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. 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 June 30, 2020

Class I Share at NAV

	MTD	QTD	YTD	1 YEAR	3 YEAR	5 YEAR	Since Inception*
MSIF Global Endurance Portfolio	15.60	75.29	27.94	36.42	--	--	40.77
MSCI All Country World Index	3.20	19.22	-6.25	2.11	--	--	12.14

*The inception date of the MSIF Global Endurance portfolio is 12/31/2018.

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 14.17% for Class I shares and the net expense ratio is 1.00%. 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.

Top Ten Holdings % of Total Net Assets, as of June 30, 2020. Subject to change.	
Fastly	14.2
Carvana	8.3
Cardlytics	5.4
XPO Logistics	5.1
Wayfair	5.0
Constellation Software	4.9
Royalty Pharma	4.5
Colliers International Group	4.4
Appian Corp.	4.3
Smartsheet	4.0
Total	60.1

Sector Break Down As of June 30, 2020. Numbers may not add to 100% due to rounding. Subject to change.

	MSIF Global Endurance Portfolio Weight (%)	MSCI AC World Index Weight (%)	Under/Overweight vs. MSCI AC World (%)
Overweight			
Information Technology	37	21	16
Consumer Discretionary	23	12	11
Health Care	20	13	7
Market weight			
Real Estate	4	3	1
Underweight			
Industrials	7	9	-2
Utilities	0	3	-3
Communication Services	5	9	-4
Energy	0	4	-4
Materials	0	5	-5
Consumer Staples	1	8	-7
Financials	3	13	-10
Cash*	1		

*Cash is frictional.

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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.

Risk considerations: There is no assurance that a 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 an investor 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, an investor can lose money investing in these funds. Please be aware that these funds may be subject to certain additional risks. In general, **equities securities**' values also fluctuate in response to activities specific to a company. **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). 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. **Illiquid securities** may be more difficult to sell and value than public traded securities (liquidity risk).

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 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 or call 1.800.548.7786. Please read the prospectus carefully before investing.

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

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