Morgan Stanley

INVESTMENT MANAGEMENT

Morgan Stanley Institutional Fund

Global Focus Real Estate Portfolio

GLOBAL LISTED REAL ASSETS TEAM | COMMENTARY | MARCH 31, 2022

Performance and Market Review

In the quarter period ending March 31, 2022, the Portfolio's I shares returned -4.96% (net of fees)[1], while the benchmark returned -4.80%.

Global real estate securities (FTSE EPRA Nareit Developed Extended Net Index, -4.8%, the "Index") outperformed the broader equity markets (MSCI World Net Index, -5.2%) for the quarter, although both declined during the period. Geopolitical tensions in Russia and Ukraine, increasing inflation concerns and a shift in monetary policy all contributed to weakness during the quarter and are expected to continue to impact global markets over the coming months. While COVID-19 cases generally continued to decline and pave the way for reopenings in most markets, Hong Kong and China experienced a resurgence in cases. This has resulted in tighter restrictions and government regulation to control the virus, which has negatively impacted economic activity. The geopolitical tensions in Russia and Ukraine have become a global focus, not only because of the humanitarian crisis, but also because of the potential impact to global growth, due to increasing commodities prices and related supply chain issues. The Fund underperformed the Index, returning -5.0% for the quarter (Class I shares net of fees).

In the U.S., the Federal Reserve announced its first interest rate hike of 25 basis points[2] in mid-March and the market is expecting several more increases throughout the year. With decreasing COVID-19 cases, mask-optional mandates continue to be the norm across most public settings, and the Centers for Disease Control and Prevention announced a second booster would be made available for individuals aged 50 and older and those who may be at higher risk of severe outcomes due to COVID-19. Market strength has transitioned from secular beneficiaries to cyclical beneficiaries, and companies within the office, health care and hotel sectors outperformed, while regional malls, towers, data centers and residential underperformed.

In the U.S., Fund security selection within and the overweight to shopping centers, overweight to seniors housing health care, zero position to regional malls, and security selection in industrial companies contributed to relative performance. This was partially offset by the zero position in NYC office and hotel companies, and the overweight to manufactured housing companies.

In Europe, similar to the U.S., decreasing COVID-19 cases and the loosening of restrictions allowed for a return to "normalcy" in consumer and corporate behaviors. However, inflation pressures caused by rising energy prices, supply chain bottlenecks and labor shortages were exacerbated by the Russian invasion of Ukraine, and resulted in an equity markets decline. This rise in geopolitical risk has caused the capital markets to remain highly volatile, and focus has now shifted on the magnitude of the negative impact on European economic growth and potential monetary policy tightening. Within the Index, retail was the best performing sector as concerns of another hard lockdown faded and reported earnings figures were above market expectations. Stocks trading at premium valuations, such as logistics, storage and Swedish companies, were weaker overall, as investors are increasingly worried about growth prospects. Other sectors, such as office, residential and health care, showed more mixed performance over the first three months of the year.

In Europe, the Fund's underweight to Continental residential and security selection in Continental industrial companies contributed to the Fund's performance. This was partially offset by security selection within and the overweight to U.K. office.

In Asia, the COVID-19 outbreak and tighter pandemic policies in Hong Kong and mainland China negatively impacted economic activity. Geopolitical tensions further weighed on investor sentiment and exacerbated supply chain disruptions. In Australia, the 10-year government bond yield rose significantly, negatively impacting residential companies and fund managers. In Japan, the real estate

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[1] Source: Morgan Stanley Investment Management. Data as of March 31, 2022. Performance for other share classes will vary.
[2] One basis point = 0.01%

operating companies outperformed as they were viewed as inflation proxies, whereas the Japan real estate investment trusts underperformed on higher interest rate risk and a series of follow-on equity offerings in the industrial/logistics sector.

In Asia, the Fund's overweight to Australia storage and security selection in Japan office contributed to relative performance; this was more than offset by the Fund's out-of-benchmark position in Australia real estate services and overweight to Hong Kong office companies.

Strategy

The team uses internal proprietary research to invest in public real estate companies that we believe offer the best value relative to their underlying assets and growth prospects. The team combines a bottom-up approach, assessing the intrinsic value, equity multiples and growth prospects of each security, with a top-down view that incorporates fundamental inflection points, macroeconomic considerations, and geopolitical and country risk, and actively selects positions in a limited number of equity securities. By incorporating both an equity market valuation and a more traditional real estate valuation with a top-down overlay, we believe the Fund will be better prepared to identify securities with the best expected total returns.

Outlook

Forecasted market strength in the asset class is supported by a number of macro and fundamental factors, including global gross domestic product growth, limited new real estate supply additions and favorable credit conditions. We believe the relative valuation of real estate securities is attractive compared to investable alternatives, including the broader equity market, fixed income and direct property investment. Fundamental recovery and strength, coupled with attractive relative valuations, appear to be supportive of above-trend growth over the next several years. Additionally, we believe continued mergers and acquisitions and privatizations are possible given discounts to private market valuations observed across sectors.

Within North America, secular trends that have been unfolding over the past several years and that were accelerated in the face of COVID-19 will result in winners and losers for real estate.

- In retail, while secular headwinds remain given the continued focus on omnichannel distribution, retailers have a renewed appreciation for physical storefronts; tenant bankruptcies are expected to decline versus prior years; and enclosed malls remain more challenged than open-air retail formats.
- Work-from-home (WFH) policies are anticipated to continue to be an overhang on office demand. However, an increased focus on health, wellness and safety could serve as a partial offset to demand impairment, but will likely lead to a new "green" capex cycle for landlords.
- In lodging, leisure demand is exceeding expectations amid a "return to normalcy" stemming from dropping COVID-19 cases, but business travel will likely be secularly impaired.
- In health care, pent-up demand for seniors housing is manifesting itself in strong occupancy gains, although expense pressures stemming from labor shortages and inflation may continue to compress margins and dampen forward growth.
- In storage, occupancy gains and pricing strength coming out of the COVID-19 pandemic will likely be more permanent than originally anticipated.
- In industrial, inventory restocking and the easing of supply chain disruptions will likely continue to fuel already robust demand stemming from growing e-commerce sales, and occupancies are expected to remain at record highs, resulting in strong rent growth.
- In residential, strong job growth and household formations, limited new supply additions and under-market rents across the portfolios will likely lead to record levels of internal growth for the sector.

Within Europe, we see many similar trends unfolding.

- In office, the WFH impact on the Continent is expected to be more modest and long-tailed than U.S. or U.K. impacts. Continental landlords are reporting rising tenant demand, particularly for higher quality stock, supported by improving return-to-office levels; London office tenant demand is increasingly pointing to a bifurcated market, with "green" best-in-class space significantly outperforming.
- In retail, the Continent's traffic and retail sales are not far off pre-pandemic levels, although secular challenges remain. In the U.K., further deterioration in shopping center rents and values is anticipated, but there are signs of stabilization for retail parks.
- Industrial demand remains robust, as logistics and supply chain remain front of mind and capital flows into the sector continue to drive up valuations; anticipated strong rental rate growth will likely fuel above-average cash flow growth for the sector.

Within Asia:

- In Japan, global capital continues to be attracted to Tokyo office assets. Grade A office vacancy rates remain among the lowest globally. In Japan hotels, expectations of a reopening have led to improving sentiment toward the sector; however, leisure hotels are expected to perform better than purely business-oriented hotels.

- In Australia office, capital values are holding firm as evidenced by continued activity in the transaction market and office leasing activity is beginning to slowly recover. In Australia retail, while secular challenges remain, capital values appear to have bottomed, with several large transactions being announced at pricing better than feared, although central business district retail is likely to be under pressure for some time due to the decreased amount of international travel.
- In China, fundamentals remain below trend; however, supportive property policies have aided stabilization, specifically with residential sales in higher tier cities. Renewed COVID-19 fears, continued concerns of contagion from Evergrande[3] troubles and related solvency issues warrant an elevated level of scrutiny.
- In Hong Kong, despite a surge in COVID-19 cases, coincident indicators are pointing toward a stabilization in the office market. Within retail, sales are expected to improve when borders with mainland China reopen in 2022. Geopolitical risks remain front of mind.

FUND FACTS

Inception Date	Minimum Initial Investment ($)*	Index
July 30, 2021	A Shares - 1,000 I Shares - 5,000,000	FTSE EPRA Nareit Developed Extended Net Total Return Index

Performance (%)

As of March 31, 2022

	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR	SINCE INCEPTION
Class I Shares at NAV	5.39	-4.96	-4.96	--	--	--	--	0.15
Class A Shares at NAV	5.29	-5.15	-5.15	--	--	--	--	-0.19
Class A Shares (With Max 5.25% Sales Charge)	-0.20	-10.12	-10.12	--	--	--	--	-5.39
FTSE EPRA Nareit Developed Extended Net Total Return Index	5.13	-4.80	-4.80	--	--	--	--	0.85

Class A shares have a maximum front-end sales charge of 5.25%. 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.

The gross expense ratio is 1.35% for Class I shares and the net expense ratio is 0.95%. The gross expense ratio is 1.65% for Class A shares and net expense ratio is 1.30%. 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.

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.

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 and that the value of portfolio 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 strategy. Please be aware that this strategy 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, and market risks. The risks of investing in **emerging market countries** are greater than the

3 Not held in the portfolio as of March 31, 2022.
* Share class availability may vary by platform. For more information, please visit the specified fund page on the website. Effective April 29, 2022, the minimum initial investment for Class I shares will be reduced from $5,000,000 to $1,000,000. The minimum initial investment may be waived in certain situations. Please see the Fund's prospectus for additional information.

risks generally associated with foreign investments. **Real estate investments**, including r**eal estate investment trusts**, are subject to risks similar to those associated with the direct ownership of real estate and they are sensitive to such factors as management skills and changes in tax laws. 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. The risks of investing in the Portfolio may be intensified because the Portfolio's investments may be **concentrated** in securities of a limited number of issuers. As a result, the performance of a particular investment or a small group of investments may affect the Portfolio's performance more than it would if the Portfolio held securities of a larger number of issuers. Share prices also tend to be volatile and there is a significant possibility of loss. Exchange traded funds (ETFs) shares have many of the same risks as direct investments in common stocks or bonds and their market value will fluctuate as the value of the underlying index does. By investing in **exchange traded funds (ETFs)**, the portfolio absorbs both its own expenses and those of the ETFs it invests in. Supply and demand for ETFs may not be correlated to that of the underlying securities. **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. **Short-term returns** may not be indicative of the fund's long-term performance potential. A fund's performance, especially for very short time periods, should not be the sole factor in making your investment decision.

INDEX INFORMATION

The **FTSE EPRA Nareit Developed Extended Net Total Return Index** is a market capitalization weighted index designed to represent general trends in eligible real estate stocks worldwide. Relevant real estate activities are defined as the ownership, trading and development of income-producing real estate. The FTSE EPRA Nareit Developed Extended Index represents the extension of real estate property sectors (e.g. Infrastructure and Timber) and additional securities beyond what is currently eligible for the FTSE EPRA Nareit Developed Index. The performance of the Index is listed in U.S. dollars and assumes reinvestment of dividends.

The **MSCI World Net Index** is a free float adjusted market capitalization weighted index that is designed to measure the global equity market performance of developed 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 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.

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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.

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.

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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