

Morgan Stanley Institutional Fund
Global Franchise Portfolio

INTERNATIONAL EQUITY TEAM

Performance Review

In the quarter period ending December 31, 2025, the Portfolio's I shares returned -3.46% (net of fees)¹, while the benchmark returned 3.12%.

The Portfolio (I shares net of fees) delivered -0.01% in December and -3.46% in the fourth quarter, versus +0.81% and +3.12%, respectively, for the MSCI World Net Index. At the start of 2025, during the market drawdown between mid-February and early April, the portfolio's defensive characteristics contributed positively, delivering nearly 600 basis points² of relative outperformance. However, from April onwards market returns became increasingly driven by a narrow set of macro and thematic exposures, most notably cyclical and artificial intelligence (AI)-linked operating leverage. In this environment the Portfolio did not keep pace with the index, resulting in a full-year return of +0.23% (I shares net of fees) versus +21.09% for the MSCI World.

Our approach continues to prioritise businesses with the ability to compound earnings over time, underpinned by strong competitive positions, durable moats, world-class brands and networks, and pricing power. With valuation dispersion elevated and quality as an investment theme trading at a meaningful discount to recent history, we believe the current environment presents a rare opportunity to take advantage of quality on sale. If market focus shifts back towards fundamentals, this would likely provide a favourable backdrop for the portfolio's disciplined emphasis on earnings resilience, capital discipline and sensible valuation.

The largest absolute contributors to performance in the fourth quarter were companies reporting positive third quarter news: Alphabet rose almost 30%, supported by continued strength across its core Search and YouTube franchises, improving Google Cloud profitability, and the successful rollout of its latest Tensor Processing Unit (TPU), which reinforced confidence in its AI capabilities; Thermo Fisher and Haleon both exceeded analysts' expectations on organic revenue growth and benefited from a broad health care sector rally as regulatory and pricing risk perceptions eased following the Trump administration-Pfizer agreement; S&P Global raised full-year revenue guidance following sustained strength across its core business areas; and Coca-Cola reported strong organic growth for the quarter and further progress toward the near-completion of its well-received refranchising programme.

On the downside, the fourth quarter saw a continuation of the indiscriminate punishing of a diverse range of data-rich and software-enabled business models that has been underway since August, driven by heightened concerns around advanced AI (generative AI and agentic AI) disruption. This resulted in a derating across several differentiated, high quality holdings including RELX, SAP and ADP. As discussed in prior commentaries, these businesses are already integrating AI into their proprietary datasets and deeply embedded workflows, and as such, we believe they are far more likely to benefit from the technology than be displaced by it. For example, RELX's third quarter results highlighted growing uptake of AI-enabled platforms, such as Lexis+ AI, which is supporting revenue growth across its analytics franchise, while SAP's recent results showed strong cloud and ERP (enterprise resource planning) adoption, which management emphasised is expanding the addressable base for AI-led upsell and embedded AI functionality. AJ Gallagher and Microsoft also detracted in the quarter as both stocks pulled back following strong runs earlier in the year.

Stock selection appears as a relative detractor in the fourth quarter partly due to AI disruption concerns, which weighed on several of the portfolio's overweight subgroups, most notably within information technology, financials and industrials. Within information technology, the portfolio's preferred software group declined 8%, while investor preference for AI infrastructure exposure saw the hardware and semiconductors subsectors both rise 6%. In financials, balance-sheet-light areas held by the portfolio – payments, insurance brokers and exchanges and data providers – lagged a 10% gain in banks, which the portfolio does not own. A similar pattern was evident in industrials, where the portfolio is skewed to capital-light professional services, an industry which returned -9% versus a flat overall sector. Outside these areas, Zoetis' share price fall meant the portfolio lagged the very strong health care sector, while AutoZone was a drag within consumer discretionary, partially offset by strong performance in communication services due to Alphabet.

For 2025 overall, the largest contributors to absolute performance were the cloud hyperscalers Alphabet, after its very strong fourth quarter, and Microsoft, where the absolute impact was boosted by the large position size. Hyperscaler Oracle's success with its OCI (Oracle cloud infrastructure) business also contributed positively ahead of our sale in the third quarter, an exit driven by the sharp shift in its business model, reduced free cash flow and stretched valuation. The stock is down over 40% since its peak. In consumer

¹ Source: Morgan Stanley Investment Management. Data as of December 31, 2025. Performance for other share classes will vary.

² One basis point = 0.01%

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staples, L'Oréal had a particularly strong year, significantly outperforming peers as organic growth reaccelerated, backed by improving trends in Asia and resilient demand in Europe. Investor confidence was further boosted by evidence that ongoing digital investments are enhancing execution. Visa also had a decent year as resilient consumer spending and growth in high-margin cross-border volumes supported steady revenue and earnings momentum.

Accenture was the largest absolute detractor in 2025. Share price weakness over the year reflects a continuation of sub-trend industry growth, the demand hit from U.S. government cost-cutting initiatives, along with concerns about advanced artificial intelligence's potential deflationary pressure on industry profit pools, which led to our exit in the fourth quarter. In health care, UnitedHealth cut and then abandoned its 2025 earnings guidance, while Becton Dickinson disappointed on its full-year 2025 growth. We exited both positions in the second quarter. Shares in animal health player Zoetis struggled due to near-term pressures related to its osteoarthritis treatment and investor fear surrounding increased competition, although we continue to view the company as an industry leader with a defensive revenue profile and an attractive pipeline. Finally, Constellation Brands detracted before our exit in the first quarter, reflecting uncertainty over its Mexico-based brewing operations in an increasingly complex tariff environment and the impact of the U.S. administration's immigration policies on its customer base.

Relative performance for 2025 reflects both the persistence of narrow market leadership among cyclical and AI-infrastructure-exposed segments and the broad-based derating of a diverse range of quality business models, impacting names even where underlying fundamentals remained intact. In information technology, software delivered a decent positive return for the year but materially lagged the exceptional gains in electrical components and semiconductors; areas which the portfolio has typically avoided due to high operating leverage, capital intensity and cyclical end-demand. A similar dynamic was evident in financials and industrials, where the more resilient payments, insurance brokers and professional services segments were negative, while lower quality, highly cyclical areas, including banks and aerospace & defence, delivered unusually elevated returns. Index concentration further impacted relative performance as a small number of stocks accounted for a disproportionate share of benchmark performance, most notably Nvidia, Broadcom, JP Morgan and Meta, which the portfolio has not owned due to its quality and valuation discipline. Outside of these dynamics, health care weakness was due to idiosyncratic stock-specific issues, although we remain supportive of the long-term case for high quality names in specific sub-sectors such as life science, animal and consumer health, while communication services saw relative outperformance. Sector allocation for the year was modestly supportive.

Market Review

Global equity markets delivered solid gains in the fourth quarter, closing a year characterised by persistent narrow leadership and pronounced dispersion across sectors and investing styles. The MSCI World Net Index rose +3.1% in U.S. dollars in the fourth quarter and +21.1% for the year. Health care (+11%) led during the quarter, driven by a rebound in pharmaceuticals (+19%); however, ongoing concerns around U.S. policy risk weighed on the overall sector for much of 2025, leaving it behind the index for the year (+15%), along with the other classic defensive sector consumer staples, up just 9% in 2025. Communication services (+5%) also did well in the fourth quarter and was the strongest sector for the year (+32%), supported by continued strength in Alphabet and Meta. Information technology was more subdued in the fourth quarter (+1%), although the sector still modestly outperformed MSCI World in 2025 (+24%), largely due to outsized AI-driven gains in semiconductors (+45%). Financials (+29%), materials (+26%) and industrials (+25%) also saw strong performance in 2025, although returns within these sectors were similarly uneven, with cyclical areas such as banks (+52%), metals & mining (+65%), and aerospace & defence (+52%), respectively, accounting for much of the upside. Weak oil prices meant that energy lagged, returning +2% in the fourth quarter and +13% for 2025.

In terms of geographies, the U.S. mildly underperformed both in the fourth quarter and over the year, meaning most international markets outperformed in U.S. dollars, helped by the weakness of the dollar. Generally, European markets delivered strong returns, with Spain and Italy among the standouts (+82% and +56%, respectively, in U.S. dollar terms for 2025). Non-European markets such as Switzerland and the United Kingdom also delivered strong returns in both periods. Japan performed broadly in line over the year in U.S. dollars but was ahead in local currency terms, aided by domestic equity strength, while Asia ex-Japan was mixed.

Outlook

Quality "on sale"

After a very strong 2025, with the MSCI World Index up 21%, a third boom year after a +19% return in 2024 and +24% in 2023, global equity markets enter 2026 at a pivotal juncture. The close of 2025 was marked by a dynamic tension between those optimistic that artificial intelligence will drive a visible transformation in corporate profitability in the near term, justifying the massive capital expenditures, and the growing voice of those questioning whether these high expectations can be realised in the near term. Against this backdrop of uncertainty, not just around the path of artificial intelligence adoption, but also growth, inflation, trade policy, government debt and geopolitics to name just a few, the MSCI World Index continues to trade at around 20x forward earnings, with the S&P 500 Index at 22x, valuations that imply far more certainty than seems to be warranted.³ These steep

³ Source for all data cited in the outlook commentary, unless otherwise stated: MSIM and FactSet. Data as of December 31, 2025.

valuations rest on the assumption of robust 14% earnings growth for the MSCI World over each of the next two years, driven by further margin expansion from already elevated levels.

A regime of seeming market certainty in a distinctly uncertain world has naturally not been favourable for quality as a style, which has underperformed the broader market to an extent not seen since the dot-com era.⁴ In terms of our outlook, historically, such periods of quality underperformance have been followed by a meaningful relative resurgence in quality stocks, and our portfolio, which contributes to our view that quality offers one of the greatest opportunities in markets today.

In fact, we would argue many of the companies we own across a range of sub-industries are double-discounted, being punished not just for being "quality" but also viewed as being at risk from advanced AI disruption. This has hit software companies within information technology, a variety of professional services within industrials, and information services within financials. Our view is that the market has taken an indiscriminate view, not differentiating enough between industries and business models. We believe companies such as MSCI, S&P Global, RELX and Experian are not only likely to be robust against the advanced AI threat, but should actually be long-term beneficiaries. As such, we disagree with the market about these companies' prospects. This is not to say that we are complacent; we continue to reassess our holdings' moats and focus on names where we are most confident about their resilience against advanced AI risks. While their derating has adversely affected performance in 2025, it does improve their prospects going forward.

Our quality portfolio also has exposure to those providing advanced AI, mainly through select hyperscalers – companies that have decent growth prospects even without advanced AI – alongside reasonable valuations, which we believe should limit the downside from any deflation of advanced AI expectations. Where we have limited direct exposure to semiconductors, we prefer businesses that serve as key bottlenecks in the supply chain with broad use cases that are not wholly reliant on generative AI prospects. We are particularly wary of players where planned capital expenditures are highly dependent on debt financing rather than their own cash flow generation. These advanced AI exposures are deliberately balanced by holding traditional defensives such as high quality consumer and health care companies.

Overall, the portfolio is built around companies with the capacity for sustained earnings growth, supported by pricing power and recurring revenues. These are businesses that have demonstrated resilience through cycles, with lower price and earnings volatility than the broader market, showing a pre-tax return on operating capital employed of over 70% for the portfolio versus 24% for the index, and gross margins at close to 60% versus 33%. In the past, the market has charged an insurance premium for this resilience, with quality significantly pricier than the overall index. This is far from the case today. The portfolio is projected to grow faster than the market, with projected topline growth of over 8% per year over the next two years, well ahead of the index at 5.9%. Despite the attractive combination of this higher topline growth and its traditional resilience, the portfolio actually trades at a significant free cash flow discount to the market, a level of discount not seen in the past decade – a rare opportunity.

Looking forward, we expect fundamentals to reassert themselves, as they have typically done historically. Against the uncertain backdrop, a portfolio of some of the highest quality companies in the world, trading at an unusually discounted price versus the market, suggests a generational opportunity to take advantage of quality on sale. Our conclusion is that this is a great portfolio, full of great companies, that are continuing to deliver resilient earnings growth with strong fundamentals, but are trading at the wrong price, particularly relative to the stretched market.

Fund Facts

Inception Date	November 28, 2001
Minimum Initial Investment (\$)*	A Shares - 1,000 I Shares - 1,000,000
Benchmark	MSCI World Net Index
Class I expense ratio	Gross 0.93 % Net 0.93 %
Class A expense ratio	Gross 1.16 % Net 1.16 %

⁴ Source: S&P 500 Quality Index, as at December 31, 2025.

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

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.

Performance (%)

As of December 31, 2025	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR
Class I Shares at NAV	-0.01	-3.46	0.23	0.23	8.33	5.11	9.44
Class A Shares at NAV	-0.01	-3.50	-0.04	-0.04	8.07	4.85	9.17
Class A Shares (With Max 5.25% Sales Charge)	-5.25	-8.57	-5.30	-5.30	6.15	3.72	8.58
MSCI World Net Index	0.81	3.12	21.09	21.09	21.17	12.15	12.17

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.

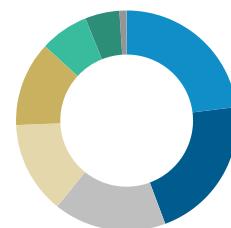
Returns are net of fees and assume the reinvestment of all dividends and income. They are compared to an unmanaged market index. Returns for less than one year are cumulative (not annualized). Performance for one year or more is based on average annual total returns. The returns are reported for Class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

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
Microsoft Corp	8.69	4.12
SAP SE	7.53	0.31
Visa Inc	5.29	0.72
Alphabet Inc	5.04	4.05
RELX Plc	4.30	0.09
Coca-Cola Co.	4.10	0.34
L'Oréal S.A.	3.58	0.12
Arthur J Gallagher & Co.	3.58	0.08
Intercontinental Exchange Inc	3.54	0.11
S&P Global Inc	3.48	0.20
Total	49.13	--

Sector Allocation (% of Total Net Assets)[^]



	FUND	INDEX
Financials	23.06	17.05
Information Technology	21.34	27.09
Industrials	16.49	11.08
Health Care	13.56	9.77
Consumer Staples	12.47	5.26
Consumer Discretionary	7.13	10.02
Communication Services	5.04	8.78
Energy	--	3.34
Materials	--	3.23
Real Estate	--	1.80
Utilities	--	2.58
Cash	1.04	--

[^] May not sum to 100% due to rounding.

INDEX INFORMATION

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 **Standard & Poor's 500® Index (S&P 500®)** measures the performance of the large cap segment of the U.S. equities market, covering approximately 80% of the U.S. equities market. The Index includes 500 leading companies in leading industries of the U.S. economy.

The **S&P 500 Quality Index** measures the performance of high quality stocks in the S&P 500, based on a quality score calculated from return on equity, accruals ratio and financial leverage ratio.

The Index is unmanaged and does not include any expenses, fees or sales charges. It is not possible to invest directly in an Index. Any index referred to herein is the intellectual property (including registered trademarks) of the applicable licensor.

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 value of securities owned by the portfolio will decline. Portfolios are subject to market risk, which is the possibility that the market value 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 portfolio. Please be aware that this strategy may be subject to certain additional risks. **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. Changes in the worldwide economy, consumer spending, competition, demographics and consumer preferences, government regulation and economic conditions may adversely affect **global franchise companies** and may negatively impact the strategy to a greater extent than if the strategy's assets were invested in a wider variety of companies. In general, **equity securities'** values also fluctuate in response to activities specific to a company. Stocks of **small-capitalization companies** carry special risks, such as limited product lines, markets and financial resources, and greater market volatility than securities of larger, more established companies. 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 risks generally associated with investments in foreign developed countries. **Non-diversified 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. **Illiquid securities** may be more difficult to sell and value than publicly 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.

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