

Morgan Stanley Institutional Fund

Global Opportunity Portfolio

ACTIVE FUNDAMENTAL EQUITY | GLOBAL OPPORTUNITY TEAM | COMMENTARY | SEPTEMBER 30, 2019

Performance Review

In the quarter period ending September 30, 2019, the Portfolio's I shares returned -3.51% (net of fees)¹, while the benchmark returned -0.03%.

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 underperformed the MSCI All Country ("AC") World Index this period primarily due to unfavorable stock selection.

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 very little turnover in the portfolio to date, and we continue to find new ideas for inclusion in the portfolio which meet our strict criteria for quality and long-term value creation.

Global equities declined modestly during the period as the energy, materials, health care and financials sectors underperformed. Utilities, consumer staples and real estate advanced, outperforming the MSCI AC World Index.

Stock selection in consumer discretionary was the greatest overall detractor from the relative performance of the portfolio as shares in Farfetch, Moncler SpA, TAL Education and Amazon.com declined. 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 by connecting 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. We believe that Moncler is unique due to its strong brand heritage, excellent quality and elegance and integrated business model. Moncler's upmarket focus on sleek, distinctive high-end outerwear and direct control of higher value-added activities can give the company strong pricing power, high margins and return on invested capital. TAL Education is the leading provider of math and science tutoring with over two million student enrollments across 725 learning centers in 57 cities in China (Source: Company data as of May 31, 2019). We believe TAL Education is unique because of its strong Xueersi brand, excellent teaching quality and leadership in mathematics, as well as its proven track record of scalability and capital efficient business model. Online retail and cloud computing leader Amazon is unique due to its unparalleled scale and cost advantage. We are attracted to management's focus on long-term value creation through reinvestment in its Amazon Web Services (AWS) cloud computing platform and monetization of its global presence through advertisement and subscriptions. Within the sector, shares in Chinese social commerce platform Meituan Dianping contributed positively.

Stock selection in information technology detracted despite gains in shares of top holding Mastercard and European business services firm EPAM Systems.

Stock selection in industrials also contributed negatively due to weakness in shares of global ridesharing and food delivery platform Uber. We believe that Uber is unique because of its strong network effects and scale with over four million drivers and 100 million monthly active platform consumers, and yet it is still in the early stages of penetrating its total addressable market (Source: Company data as of September 26, 2019). We believe Uber's competitive advantage over other pure ridesharing or food

¹ Source: Morgan Stanley Investment Management. Data as of September 30, 2019.

delivery platforms is through synergies, as evidenced by a higher level of engagement for consumers who use both ridesharing and food delivery products as compared to those who only use a single offering.

Stock selection in communication services contributed negatively due to underperformance in audio streaming service Spotify and Zillow Group, despite strength in shares of search leaders Alphabet and Naver. We are attracted to Alphabet's network effect and believe that Alphabet is well-positioned for growth in mobile and video advertising through leading search engine Google, mobile operating system Android and video platform YouTube. Naver is the leading search engine in Korea as well as a leading mobile social network through LINE in Japan. We believe the company can benefit from network effect with continuous growth in the advertisement segment and the next leg driven by e-commerce and payments in Korea leveraging user traffic to transition its business model from meta search to an e-commerce marketplace.

Stock selection in materials contributed positively as Martin Marietta Materials advanced. Martin Marietta Materials is one of the largest U.S. producers of construction aggregates produced from crushed stone, sand and gravel. We believe the company has an intangible asset advantage as aggregates is one of the few commodities that exhibits pricing power across economic cycles due to stringent permitting regulations, high weight-to-value ratio and small installed cost relative to construction cost.

A sector overweight position in technology and sector underweight positions in energy, financials and health care contributed positively to relative performance, while a sector underweight position in the utilities sector detracted.

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
May 30, 2008

Base currency
U.S. dollars

Index
MSCI All Country World Index

Performance (%)

As of September 30, 2019 (Class I Share at NAV)

	QTD	YTD	1 YR	3 YR	5 YR	10 YR	SINCE INCEPTION
MSIF Global Opportunity Portfolio - I Shares	-3.51	21.53	2.91	17.60	15.67	16.18	12.53
MSCI All Country World Index	-0.03	16.20	1.38	9.71	6.65	8.35	4.82

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 0.95% for Class I shares and the net expense ratio is 0.95%. 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.

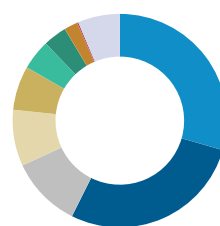
Returns are net of fees and assume the reinvestment of all dividends and income. They are compared to an unmanaged market index. Returns for less than one year are cumulative (not annualized). Performance for one year or more is based on average annual total returns. The returns are reported for Class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

	FUND	INDEX
MasterCard Inc	7.48	0.53
Amazon.com Inc	6.42	1.56
Tal Education Group	6.01	0.03
DSV	4.90	0.04
Alphabet Inc	4.71	1.60
HDFC Bank Ltd	4.57	--
Visa Inc	4.14	0.64
ServiceNow Inc	3.98	0.10
Adobe Inc	3.92	0.29
Booking Holdings Inc	3.68	0.18

Sector Breakdown[^]



	FUND	INDEX
Information Technology	29.59	16.31
Consumer Discretionary	28.04	10.83
Communication Services	10.80	8.77
Consumer Staples	8.54	8.59
Industrials	6.72	10.45
Financials	4.57	16.73
Materials	3.59	4.73
Health Care	2.05	11.30
Other	0.20	--
Cash	6.35	--

[^] May not sum to 100%.

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. 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. **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**). **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. To the extent that the Fund invests in a limited number of issuers (**focused investing**), 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.

INDEX INFORMATION

The **MSCI All Country World Index (MSCI ACWI)** 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 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.

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 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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