Morgan Stanley

INVESTMENT MANAGEMENT

Morgan Stanley Institutional Fund

Global Real Estate Portfolio

GLOBAL LISTED REAL ASSETS TEAM | COMMENTARY | CLASS I SHARES | JULY 31, 2021

Performance and Market Review

In the one month period ending July 31, 2021, the Fund's I shares returned 2.93% (net of fees)[1], while the benchmark returned 3.86%.

Global real estate securities (FTSE EPRA Nareit Developed Real Estate Index – Net Total Return to U.S. Investors, +3.9%, the "Index") outperformed the broader equity markets (MSCI World Net Index, +1.8%) for the month, as demand for commercial real estate continues to gain momentum on the heels of the global ramp-up of vaccinations, despite concerns about the spread of the COVID-19 delta variant. Within the Index, the European (+6.6%) and North American (+4.9%) regions outperformed the broader real estate market, while the Asian (-0.9%) region underperformed.[2] The Fund underperformed the benchmark, returning +2.9% for the month (Class I shares net of fees).

The U.S. market outperformed the broader real estate universe despite the rise of the delta variant. While roughly 70% of eligible Americans have received their first vaccine dose, local governments are considering the reinstatement of indoor mask mandates, particularly in areas with high COVID-19 infection rates. In light of these new developments, sector leadership within real estate rotated into more defensive areas that were favored earlier in the year. Additionally, rising interest rates and inflation concerns continue to weigh on equity investors' minds. Index outperformers for the month include the residential and industrial sectors, while the hotel, regional malls and NYC and West Coast office sectors underperformed. The Fund's overweight to and security selection within the "big three" health care companies, security selection in retail net lease and the underweight to real estate investment trust hotels contributed to relative performance. This was offset by an out-of-benchmark position in gaming companies and the underweight to manufactured housing and apartments.

European real estate securities also outperformed the broader real estate market, as governments continued to push ahead with reopening their economies amid increasing vaccinations, despite the surge in COVID-19 cases. Market volatility remained high as worries over the delta variant and rising inflation continued in July. Additionally, although economies across Europe are rebounding sharply as a result of the reopening, concerns are rising that the post-pandemic economic recovery has already peaked. Subsequently, investors turned to more defensive sectors supported by longer-term structural fundamentals, such as self-storage and logistics. Retail landlords reported encouraging trading performance across Europe not far off pre-pandemic levels since stores have reopened. However, the sector continued its underperformance as the spread of the delta variant dampened investors' optimism. In the office sector, landlords are reporting rising tenant demand, particularly for higher quality stock, supported by improving return-to-office levels. The overweight to and security selection within Continental European office was a top relative contributor; this was partially offset by the underweight to the U.K. industrial sector and stock selection in Continental European residential.

Asian real estate securities underperformed the broader real estate market amid lagging vaccination rollout, a surge in COVID-19 cases due to the delta variant and continued lockdowns. Additionally, monetary policy tightening and the potential for increased government involvement and regulation by the Chinese government, coupled with increased geopolitical tensions between China

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1 Source: Morgan Stanley Investment Management. Data as of July 31, 2021.
2 Regional returns are represented by the FTSE EPRA Nareit Developed Asia Index, FTSE EPRA Nareit North America Index and FTSE EPRA Nareit Developed Europe Index. Data as of July 31, 2021. The performances of the indexes are listed in U.S. dollars and assume reinvestment of dividends. The indexes are unmanaged and their returns do not include any sales charges or fees. Such costs would lower performance. It is not possible to invest directly in an index.

and the U.S., slowed Chinese growth and negatively impacted performance in Hong Kong. The Fund's underweight to the Australian retail and Hong Kong residential sectors contributed to relative performance; this was more than offset by the Fund's out-of-benchmark position in China.

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. 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 monetary stimulus, continued vaccine distribution, and the reopening and/or anticipated reopening of economies around the world, although there are potential risks resulting from increasing COVID-19 cases due to the delta variant. 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, significant capital has been raised for deployment in the real estate space, and the disconnect between public and private market valuations could lead to increased merger and acquisition (M&A) activity, resulting in the crystallization of value for targets within the listed market. Several examples of privatizations have occurred across the globe in 2021, and we anticipate increased M&A activity for the remainder of the year.

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, primarily in open-air and single tenant formats; tenant bankruptcies are expected to decline versus prior years; and enclosed formats with a focus on discretionary retail will remain more challenged.
- Work-from-home policies are anticipated to be an overhang on office demand. However, an increased focus on health, wellness and safety could offset some of this work-from-home demand destruction. Additionally, environmental sustainability is increasing in importance to tenants across the world, and those portfolios with greater exposure to green buildings will likely be better positioned.
- In lodging, leisure demand is recovering and expected to exceed pre-COVID-19 levels on the heels of economic reopening and increasing vaccination rates, but business travel will be secularly impaired. The delta variant will likely delay the return to business travel and could further impair cash flows within the sector.
- In health care, pent-up demand for seniors housing is manifesting itself in strong occupancy gains, and margin improvements are forecasted to be sustainable, likely leading to increased profitability.

Within Europe, we see many similar trends unfolding. Although initial setbacks in the European Union's vaccination campaign delayed the economic reopening, the vaccine rollout has increased pace and demand drivers for commercial real estate are likely to reaccelerate throughout the year, with office and retail as key beneficiaries.

- In office, while a weaker economy has led to softer demand in the short term, vacancy rates for high quality space remain low, and work-from-home demand destruction is forecasted to be less impactful than in North America. This growing bifurcation in demand between high quality and low quality office is expected to continue, and new construction, environmentally sound assets will likely grow in value.
- In retail, store reopenings and pent-up consumer demand will likely lead to a recovery of rent collections and rebounding cash flows for landlords.

Within Asia, retail in Hong Kong is expected to further improve with border reopenings, although offices could be challenged in the face of increasing supply and waning demand for foreign users. In Australia, retail fundamentals have been impacted by secular challenges, and further deterioration in rental rates, occupancies and values is anticipated. For Japan, we remain constructive on logistics given the need for modernized distribution facilities. Finally, within Singapore, we believe the office sector could experience increased demand from multinational tenants looking to diversify geographic exposure outside of Hong Kong.

FUND FACTS

Launch date	Base currency	Index
August 30, 2006	U.S. dollars	FTSE EPRA Nareit Developed Real Estate Index - Net Total Return to US Investors

Performance (%)

As of date July 31, 2021 (Class I Share at NAV)

	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR	SINCE INCEPTION
MSIF Global Real Estate Portfolio - I Shares	2.93	2.93	19.25	38.70	3.19	2.43	5.13	3.83
FTSE EPRA Nareit Developed Real Estate Index - Net Total Return to US Investors	3.86	3.86	20.39	35.81	8.13	5.42	7.35	4.84

Performance (%)

As of date June 30, 2021 (Class I Share at NAV)

	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR	SINCE INCEPTION
MSIF Global Real Estate Portfolio - I Shares	0.95	10.13	15.86	35.32	2.53	2.81	4.84	3.65
FTSE EPRA Nareit Developed Real Estate Index - Net Total Return to US Investors	0.86	9.31	15.92	34.43	7.08	5.66	7.02	4.60

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 1.21% for Class I shares and the net expense ratio is 1.01%. 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.

Effective December 7, 2020, Laurel Durkay was added as portfolio manager on the Fund. Effective December 31, 2020, Ted Bigman is no longer serving as portfolio manager on the Fund.

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 risks generally associated with foreign investments. **Real estate investments, including real 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.

INDEX INFORMATION

The **FTSE EPRA Nareit Developed Real Estate Index** - Net Total Return to U.S. Investors is a free float-adjusted market capitalization weighted index designed to reflect the stock performance of companies engaged in specific aspects of the major real estate markets/regions of the developed world. The performance of the Index is listed in U.S. dollars and assumes reinvestment of dividends. "Net Total Return to U.S. Investors" reflects a reduction in total returns after taking into account the withholding tax on dividends by certain foreign countries represented in the Index.

The **FTSE EPRA Nareit Developed Europe Index** is a subset of the FTSE EPRA Nareit Developed Index and is a free float-adjusted market capitalization weighted index composed of listed real estate securities in the European real estate markets.

The **FTSE EPRA Nareit North America Index** is a subset of the FTSE EPRA Nareit Developed Index and is a free float-adjusted market capitalization weighted index composed of listed real estate securities in the North American (U.S. and Canada) real estate markets.

The **FTSE EPRA Nareit Developed Asia Index** is a subset of the FTSE EPRA Nareit Developed Index and is a free float-adjusted market capitalization weighted index composed of listed real estate securities in the Asian real estate markets.

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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