

Morgan Stanley Institutional Fund

International Advantage Portfolio

GLOBAL OPPORTUNITY TEAM | COMMENTARY | DECEMBER 31, 2020

Performance Review

In the quarter period ending December 31, 2020, the Portfolio's I shares returned 12.85% (net of fees)¹, while the benchmark returned 17.01%.

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 ex USA Index this period due to unfavorable stock selection and sector allocation.

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

International equities rallied following the U.S. election and optimism around successful COVID-19 vaccine trials. Performance was led by the more cyclical information technology, financials, energy and materials sectors, while health care, consumer staples, real estate and communication services underperformed the MSCI AC World ex USA Index.

Stock selection in consumer discretionary was the greatest overall detractor from the relative performance of the portfolio during the period. Shares of Chinese social commerce platform Alibaba Group, tutorial provider TAL Education Group and functional outerwear brand Canada Goose Holdings ranked amongst the greatest individual detractors across the portfolio, offsetting outperformance in shares of top contributor luxury brands Moncler SpA in Italy and Hermès in France. We continue to believe that Alibaba is unique because of the powerful network effect of its online marketplaces Taobao and Tmall, where 881 million monthly active users engage in consumer product reviews and purchases (source: Company data as of November 5, 2020). We believe Alibaba can monetize the uniqueness of its platform through e-commerce, online advertising and cloud computing.

Stock selection in materials detracted on weakness in shares of Chr. Hansen Holding A/S. The Danish firm is the market leader in starter culture for the dairy industry, which is essential for the production of cheese and fermented milk, with a 50% market share. Chr. Hansen is a highly specialized company that has brought new technology and differentiated products to customers. Our research suggests Chr. Hansen's product is 1-2% of the cost of production for customers, but can help improve both customer efficiencies and end product value propositions. Based on our industry research, we believe the company is geared well toward growing dairy consumption in emerging markets (such as China) in the long run.

Stock selection in financials was the greatest overall contributor to relative performance during the period, on strength in shares of HDFC Bank Limited, India's largest private sector bank by assets. HDFC Bank has an outstanding liability and deposit franchise, driven by its long operating history, strong brand, extensive branch network and focus on customer service. HDFC Bank also has the largest personal loan and credit card franchise, with strong risk management processes. We believe that HDFC Bank's cost leadership advantage, coupled with industry-leading digital capabilities, can enable it to continue taking loan and deposit market share amid public sector bank weakness.

A sector underweight position in health care contributed positively, despite weakness in shares of Vitrolife. The Swedish firm is a market leader in media and time lapse technology catering to the in vitro fertilization (IVF) market. We believe Vitrolife can

¹ Source: Morgan Stanley Investment Management Limited. Data as of December 31, 2020.

benefit from its well-executed product development, quality control, and acquisitions and partnerships, furthering the ultimate goal to improve IVF success and fulfill couples' greatest dream of having a baby.

A sector overweight position in information technology contributed positively, on strength in shares of ASML Holdings and Taiwan Semiconductor Manufacturing Co., Ltd. Dutch firm ASML is the leading supplier of lithography equipment used in the production of semiconductors. ASML's competitive advantage is technological leadership, given its significant investment in research and development. We believe the company can benefit from a mix transition from deep ultraviolet to extreme ultraviolet and strong growth in lithography beyond the next decade.

Stock selection in consumer staples also contributed positively, as strength in shares of Chinese soy sauce brand Foshan Haitian Flavouring & Food Co., Ltd. offset weakness in shares of Japanese baby products manufacturer Pigeon Corp.

Stock selection in industrials, the portfolio's sector underweight position in financials and its overweight position in consumer staples also contributed negatively to relative performance during the period.

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

December 28, 2010

Base currency

U.S. dollars

Index

MSCI All Country World Ex-U.S. Index

Performance (%)

As of December 31, 2020 (Class I Share at NAV)

	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR	SINCE INCEPTION
MSIF International Advantage Portfolio - I Shares	6.46	12.85	32.33	32.33	17.74	19.34	13.96	13.93
MSCI All Country World Ex-U.S. Index	5.41	17.01	10.65	10.65	4.88	8.93	4.92	5.03

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.

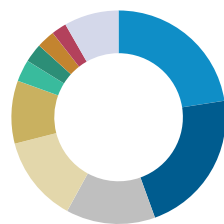
The gross expense ratio is 1.03% for Class I shares and the net expense ratio is 1.00%. Where the net expense ratio is lower than the gross expense ratio, certain fees have been waived and/or expenses reimbursed. These waivers and/or reimbursements will continue for at least one year from the date of 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 (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 Holdings (% of Total Net Assets)	FUND	INDEX
DSV Panalpina A/S	7.96	0.14
Hermes International S.A.	6.17	0.13
HDFC Bank Ltd	5.28	--
Moncler SPA	5.12	0.05
ASML Holding NV	5.03	0.82
Keyence Corporation Ltd	4.99	0.40
Taiwan Semiconductor Mfg Co. Ltd	3.96	1.84
TAL Education Group	3.90	0.11
Foshan Haitian Flavouring	3.83	0.02
EPAM Systems Inc	3.74	--
Total	49.98	--

Sector Breakdown[^]



	FUND	INDEX
Information Technology	22.66	12.69
Consumer Discretionary	22.09	13.79
Consumer Staples	13.54	8.93
Financials	13.12	18.04
Industrials	9.58	11.58
Health Care	3.34	9.56
Utilities	2.87	3.33
Communication Services	2.78	7.06
Materials	2.29	8.08
Cash	8.29	--

[^] May not sum to 100% due to the exclusion of other assets and liabilities.

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 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. 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. **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. **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).

INDEX INFORMATION

The **MSCI All Country World Ex-U.S. Index** is a free float-adjusted market capitalization weighted index designed to measure the equity market performance of developed and

emerging markets, excluding the U.S. 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 does not include any expenses, fees or sales charges, which would lower performance. The index is unmanaged and not representative of any Morgan Stanley investment. 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.

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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.

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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