

Morgan Stanley Institutional Fund

International Equity Portfolio

INTERNATIONAL EQUITY TEAM

Performance Review

In the quarter period ending December 31, 2025, the Portfolio's I shares returned 1.79% (net of fees)¹, while the benchmark returned 4.86%.

The Portfolio (I shares net of fees) underperformed the MSCI EAFE Index in December, returning +1.37% versus +3.00% for the index, and lagged in the fourth quarter, with a return of +1.79% compared with +4.86%. For the full year 2025, the Portfolio (I shares net of fees) delivered a strong absolute return of +21.78% but did not keep pace with the index's exceptional +31.22% gain, which represented MSCI EAFE's best performance since 2009 following the Global Financial Crisis.

Fourth quarter relative underperformance was primarily driven by negative stock selection, stemming from weakness in industrials and, to a lesser extent, communication services and consumer discretionary. Sector allocation also detracted modestly, reflecting the combined impact of several smaller allocation effects.

The largest absolute contributors to performance in the fourth quarter were DSV, driven primarily by optimism around the DB Schenker acquisition and synergies, supported by solid operating performance reflected in its third quarter earnings; AstraZeneca, thanks to better-than-expected earnings and guidance, positive late-stage pipeline progress and reduced regulatory and pricing risk after U.S. policy agreements; Samsung, as artificial intelligence (AI)-driven memory shortages lifted chip prices and led to sharply higher earnings expectations for the fourth quarter and beyond; TSMC, which reported close to 40% year-over-year earnings growth and upgraded full-year guidance on the back of strong AI demand;² and NatWest, thanks to strong third quarter results where it upgraded full-year 2025 income and return guidance.

Among the largest detractors, 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 disruption, including generative AI and agentic AI. This resulted in a derating across several differentiated, high quality holdings including RELX and SAP. 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 enterprise resource planning adoption, which management emphasised is expanding the addressable base for AI-led upsell and embedded AI functionality. Other notable detractors included BayCurrent, which was weak despite guidance-consistent growth, mainly due to valuation-driven market scepticism and leadership change uncertainty rather than any deterioration in fundamentals; Rightmove, due to a reset of medium-term guidance linked to higher AI investment, lower growth in adjacencies, litigation concerns and broader derating of the online classifieds sector; and IMCD, due to softer organic growth driven by customer uncertainty around tariffs and supply-chain disruptions, leading to cautious ordering behaviour despite stable underlying fundamentals.

On a sector basis, 2025 relative underperformance was driven primarily by negative stock selection, reflecting weakness in industrials and, to a lesser extent, financials, communication services and consumer discretionary, which more than offset strength in materials. Our industrials holdings underperformed a very strong sector, boosted by defence and more cyclical capital goods. Aside from the impact of advanced AI concerns on our professional services holdings, additional drags came from positions in SMC, where a sluggish factory automation cycle coincided with continued capacity expansion, and IMCD, which experienced further weakening in end demand. These were more than offset by positive performance from Safran, Legrand, Kone and Diploma. Sector allocation also detracted, as the portfolio was hurt by its underweight to financials and overweight to information technology.

A significant factor impacting the portfolio's relative performance during the year was investor anxiety about potential advanced AI disruption, which took hold in the second half of 2025 and led to broad sell-offs across a wide range of differentiated data-rich industries, particularly software within information technology, exchanges within financials and professional services within industrials.

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

² Source: TSMC 3Q25 Earnings Release, October 16, 2025.

This document constitutes a commentary and does not constitute investment advice nor a recommendation to invest. The value of investments may rise as well as fall. Independent advice should be sought before any decision to invest.

NOT FDIC INSURED | OFFER NO BANK GUARANTEE | MAY LOSE VALUE | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY | NOT A DEPOSIT

The initial market reaction was broad-based, with investors indiscriminately punishing companies perceived to have exposure to data or intellectual property regardless of differences in business models, competitive positioning or adaptability. We believe this approach is misguided. Following a stock-by-stock review, we remain confident in holdings such as SAP, RELX and London Stock Exchange Group, where we view generative AI as an enabler that can strengthen competitive positions over time. The impact on the portfolio is evident when comparing affected sub-sectors with broader sectors: software declined 5% versus a 24% gain for information technology, led by semiconductors; professional services fell 11% in an industrials sector that gained 37%, with capital goods up 46%; and exchanges gained just 11% in a financials sector that rose 53%.

Within financials, the portfolio was hurt by its significant underweight to banks, which finished the year up nearly 70% for the index. We remain underweight banks given concerns that the industry is over-earning, with rerating leaving insufficient margin of relative safety for what we view as lower-quality companies. Valuations are stretched relative to history and value opportunities are limited, leading us to trim exposure further during the year. While this underweight detracted, the banks we do own outperformed the index, returning 78%. It is not unusual for the portfolio to underperform during strong cyclical rallies given its quality bias. The portfolio typically delivers an asymmetric return profile, participating reasonably in strong markets while limiting downside in weaker environments through more resilient and predictable earnings.

Benefiting from the broader strength of the banks industry, Nordea Bank was the largest absolute contributor to performance in 2025, supported by solid interim results, return on equity above 15% and stable earnings per share.³ Other major contributors included several information technology holdings benefiting from generative AI-driven demand for advanced chips and manufacturing capacity: Samsung Electronics through higher memory prices and AI server demand; ASML via strong demand for its extreme ultraviolet lithography machines; and TSMC through surging orders for cutting-edge AI processors. Investors priced in sustained AI-led growth across the semiconductor value chain. Safran was another top contributor, driven by steady demand for aircraft engines and defence systems alongside innovation in next-generation propulsion and long-term airline contracts.

The largest detractors in 2025 were IMCD, driven by slowing growth expectations and margin pressure amid a broader chemicals industry sell-off; BayCurrent; Constellation Software, following multiple earnings misses that raised concerns around profitability and growth momentum; London Stock Exchange Group, impacted by advanced AI-related multiple compression; and LVMH, due to slowing underlying demand, disappointing financial performance and broader concerns around the luxury sector's near-term outlook.

Market Review

In the final quarter of 2025, the MSCI EAFE Index delivered solid gains of +4.9% in U.S. dollars, capping off a remarkable year. These fourth quarter results propelled the index to an impressive full-year return of +31.2%, marking its strongest annual performance since 2009 in the aftermath of the Global Financial Crisis. This performance was built on double-digit rises in both earnings and forward multiples. MSCI EAFE meaningfully outperformed the U.S. in the year, which itself was up nearly 20%.

Looking at sector performance for the year, all sectors posted double-digit returns; however, there was meaningful dispersion, with only three sectors outperforming the index. Financials emerged as the standout sector, surging an impressive +53%. The rally was driven largely by the banks industry, which climbed +69% amid a more pragmatic regulatory environment, a stable, non-recessionary interest-rate outlook and exceptionally strong asset quality. Utilities also delivered strong gains, advancing +46% as AI-driven power demand from data centres supported long-term contracts and incremental grid investment. The final sector to outperform the index for the year was industrials (+37%), driven by strong performance in the defence industry, which rose 78% amid elevated geopolitical tensions.

Turning to the underperformers, consumer discretionary was the weakest sector for the year, gaining 13%, as subdued growth, cautious consumer behaviour and China-related headwinds outweighed company-specific fundamentals. Excluding utilities, defensive sectors generally lagged the momentum-driven rally, leaving health care (+17%) and consumer staples (+20%) near the bottom of the performance rankings. Despite the enthusiasm surrounding generative AI, information technology (+24%) also underperformed the index. While semiconductors posted strong gains of 49%, software fell 5%, reflecting rising investor caution around AI's potential to disrupt existing business models. The remaining cyclical sectors delivered solid absolute returns but still trailed the sharply rising index, including energy (+27%), communication services (+26%), materials (+25%) and real estate (+24%).

Looking at geographies, Spain was the standout performer in the year, finishing up +82% in U.S. dollars. Both Spain and Italy (+56%) benefited from large financials weightings amid the sector's surging performance. Elsewhere in Europe, Germany (+36%), the U.K. (+35%) and Switzerland (+33%) all finished ahead of the index in U.S. dollars, while France (+28%) modestly lagged. In Asia's major markets, Hong Kong (+35%) and Singapore (+32%) managed to beat the index, while Japan (+25%) lagged in U.S. dollars terms due to yen weakness.

³ Source: Nordea 3Q25 results, October 16, 2025.

Outlook

The MSCI EAFE Index delivered a 31% return in U.S. dollars, its strongest annual return since 2009 following the Global Financial Crisis and a potential turning point after a prolonged period of underperformance relative to U.S. equities. This shift reflected a broader reset in investor sentiment toward international markets, supported by a rotation toward diversification and cyclical exposure. At the start of the year, valuations outside the U.S. appeared more attractive as equity leadership within the U.S. became increasingly concentrated, helping to drive renewed interest in international equities. Following its strong performance this year, MSCI EAFE trades at roughly 15.5x forward earnings—about 15% above its 20-year average—yet still at a 30% discount to the very pricey U.S. market, where the S&P 500 trades near 22x.⁴

Investor confidence improved on the back of earnings growth in Europe and Japan, while a weaker U.S. dollar enhanced U.S. dollar-based returns and reinforced positive non-U.S. sentiment. EAFE's higher exposure to financials and industrials benefited from reflationary expectations, higher interest rates and improving corporate governance, particularly in Japan. Banks were the top-performing industry group, supported by expanding net interest margins, stronger capital positions and more favourable regulatory dynamics, while expectations for increased defence spending across Europe and parts of Asia helped drive strength in capital goods. These cyclical tailwinds played a central role in EAFE's strong performance, resulting in a rerating on top of the earnings growth.

At the opposite end of the performance spectrum were industries perceived as potential losers from advanced artificial intelligence, including generative AI and agentic AI. Commercial & professional services and software & services were among the weakest-performing industry groups, where the market indiscriminately punished distinct and differentiated businesses perceived as vulnerable to AI-driven disruption. Alongside these perceived losers, most defensive sectors also lagged the momentum-driven rally, with both health care and consumer staples underperforming the index by more than 1,000 basis points.⁴ The exception was utilities, which performed strongly due to potential AI-driven power demand from data centres.

While cyclical industries drove EAFE's record performance, several factors suggest this leadership may prove difficult to sustain into 2026. Much of the outperformance was driven by valuation rerating and optimism rather than durable earnings improvement, and as growth normalises, dispersion across companies is likely to increase and refocus attention on fundamentals. We reduced our exposure to banks during the year after their strong rally pushed valuations to levels that offer an unattractive risk-reward profile. We continue to hold a small number of banks, such as NatWest and Nordea Bank, where streamlined business models, strong capital returns and sustainable mid-teens returns on equity mean valuations remain reasonable despite the broader sector rerating.

Over recent years, there has been a shift in the quality investment landscape. While the portfolio has historically been overweight defensive sectors such as consumer staples and health care, our exposure to these defensives has declined as their growth profiles face increasing complexity, including digital disruption, evolving consumer behaviour, and greater political and regulatory involvement. Meanwhile, we have been able to invest in higher quality information technology names at reasonable valuations, offering attractive growth from AI, led by first-order beneficiaries such as TSMC and ASML and complemented by software and industrial technology companies with durable growth and second-order AI exposure. We have also identified high quality niches such as exchanges within financials and professional services within industrials that offer capital-light business models with low cyclicity and reasonable growth potential, now trading on particularly compelling valuations.

Although EAFE remains attractively valued relative to the U.S., its absolute valuation has moved into premium territory versus its own history. This valuation rests on the assumption of robust double-digit earnings growth for MSCI EAFE over the next two years, requiring further margin expansion from already elevated levels given top-line growth constrained by approximately 1% real gross domestic product growth across EAFE countries. While the index achieved double-digit U.S. dollar earnings growth in 2025, this was supported by a favourable currency tailwind that would require renewed dollar weakness to persist beyond the first quarter of 2026. Against this backdrop, we remain focused on companies we believe can deliver credible earnings per share growth through strong revenue expansion well ahead of the index, which we view as a more reliable source of long-term compounding than the margin expansion implied by consensus expectations. The portfolio is particularly tilted toward high quality compounders following the cyclical rerating and is expected to deliver resilient top-line growth at nearly twice the rate of the index, while trading at only a negligible premium to the MSCI EAFE Index on a price-to-free-cash-flow basis.

Looking ahead to 2026, after a banner year of cyclically led EAFE outperformance, durable earnings, balance sheet strength, pricing power and consistent free cash flow generation are likely to become increasingly important as earnings growth normalises. In this environment, we believe stock selection and quality-oriented investing should be better rewarded, creating a more supportive backdrop for active managers focused on sustainable earnings and strong returns on operating capital.

⁴ Source for data cited in the outlook commentary, unless otherwise stated: MSIM, FactSet, as of December 31, 2025.

Fund Facts

Inception Date	August 04, 1989
Minimum Initial Investment (\$)*	A Shares - 1,000 I Shares - 1,000,000
Benchmark	MSCI EAFE Index
Class I expense ratio	Gross 1.05 % Net 0.95 %
Class A expense ratio	Gross 1.42 % Net 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, 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 (%)

<i>As of December 31, 2025</i>	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR
Class I Shares at NAV	1.37	1.79	21.78	21.78	13.54	5.53	6.38
Class A Shares at NAV	1.46	1.88	21.50	21.50	13.17	5.25	6.07
Class A Shares (With Max 5.25% Sales Charge)	-3.90	-3.45	15.16	15.16	11.15	4.13	5.49
MSCI EAFE Index	3.00	4.86	31.22	31.22	17.22	8.92	8.18

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.

INDEX INFORMATION

The **MSCI EAFE Index (Europe, Australasia, Far East)** is a free float-adjusted market capitalization index that is designed to measure the international equity market performance of developed markets, excluding the US & Canada. 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 MSCI EAFE Index currently consists of 21 developed market country indices. The performance of the Index is listed in U.S. dollars and assumes reinvestment of net 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.

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 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**

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

, 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. **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. In general, 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. Investments in **small- and medium-capitalization** companies tend to be more volatile and less liquid than those of larger, more established, companies. The risks of investing in **emerging market** countries are greater than risks associated with investments in foreign developed markets. **Derivative instruments** can be illiquid, may disproportionately increase losses and may have a potentially large negative impact on the portfolio's performance. **Illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk).

IMPORTANT INFORMATION

The views and opinions and/or analysis expressed are those of the investment team as of the date of preparation of this material and are subject to change at any time without notice due to market or economic conditions and may not necessarily come to pass. Furthermore, the views will not be updated or otherwise revised to reflect information that subsequently becomes available or circumstances existing, or changes occurring, after the date of publication. The views expressed do not reflect the opinions of all investment personnel at Morgan

Stanley Investment Management (MSIM) and its subsidiaries and affiliates (collectively "the Firm"), and may not be reflected in all the strategies and products that the Firm offers.

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 has been prepared on the basis of publicly available information, internally developed data and other third-party sources believed to be reliable. However, no assurances are provided regarding the reliability of such information and the Firm has not sought to independently verify information taken from public and third-party sources.

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 (which includes the applicable fund's current fees and expenses, if different from those in effect as of the date of this commentary), download one at morganstanley.com/im or call 1-800-548-7786. Please read the prospectus carefully before investing.

The whole or any part of this material may not be directly or indirectly reproduced, copied, modified, used to create a derivative work, performed, displayed, published, posted, licensed, framed, distributed or transmitted or any of its contents disclosed to third parties without MSIM's express written consent. This material may not be linked to unless such hyperlink is for personal and non-commercial use. All information contained herein is proprietary and is protected under copyright and other applicable law.

Morgan Stanley Investment Management is the asset management division of Morgan Stanley.