

Morgan Stanley Institutional Fund

International Opportunity Portfolio

ACTIVE FUNDAMENTAL EQUITY | GLOBAL OPPORTUNITY TEAM | COMMENTARY | MARCH 31, 2019

Performance Review

In the quarter period ending March 31, 2019, the Portfolio's I shares returned 22.36% (net of fees)¹, while the benchmark returned 10.31%.

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 outperformed the MSCI All Country ("AC") World ex USA Index this period due to favorable 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.

International equities rallied during the period with every sector advancing led by information technology, real estate, energy and materials. The communication services, financials, and utilities sectors underperformed the MSCI AC World ex USA Index.

Stock selection in consumer discretionary was the greatest overall contributor to relative performance as shares in TAL Education advanced and were the top individual contributor across the portfolio. TAL Education is the leading provider of math and science tutoring with over two million student enrolments across 666 learning centres in 54 cities in China (Source: Company data as of January 24, 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. Shares in Moncler SpA advanced. We believe that Italian outerwear designer Moncler is unique due to its strong brand heritage, excellent quality and elegance and integrated business model. Based on our company research, 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.

Stock selection in consumer staples was the second greatest contributor as shares in British beverages firm Fevertree Drinks plc partially offset declines in shares of Calbee and Pigeon Corporation, which were the top two detractors from relative performance across the portfolio. We continue to be attracted to Japanese snack food manufacturer Calbee on account of its dominant position in snack foods and the sizeable opportunity it has to grow internationally and expand profit margins under a more focused management team. Pigeon is a leading global baby products brand manufacturer with leading positions in nursing bottles, breast pumps, baby skincare and other baby products in Japan, China and the US. It is unique due to its brand power, being the most trustworthy Japanese children's goods brand and having comprehensive range of childcare products and longstanding relationships with key distribution channels. Global brewer Anheuser-Busch InBev also detracted from relative performance.

Stock selection in information technology contributed positively as shares in business services firm EPAM Systems advanced. The company is focused on sophisticated outsourced software development for global multinationals from its low-cost base in Eastern Europe. Given its cost focus competitive advantage, we believe EPAM is well-positioned to benefit from the secular growth in IT outsourcing and digital transformation as a low cost provider of high-end software development to global, diversified customers.

¹ Source: Morgan Stanley Investment Management. Data as of March 31, 2019.

Stock selection in industrials and healthcare also contributed positively. Stock selection in financials and sector underweight positions in energy, real estate, materials and health care modestly detracted from relative performance. The portfolio's sector underweight position in utilities had negligible impact upon relative performance.

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	Base currency	Index
March 31, 2010	U.S. dollars	MSCI All Country World Ex-U.S. Index

Performance (%)

As of March 31, 2019 (Class I Share at NAV)

	QTD	YTD	1 YR	3 YR	5 YR	10 YR	SINCE INCEPTION
MSIF International Opportunity Portfolio - I Shares	22.36	22.36	2.83	19.32	13.20	--	12.28
MSCI All Country World Ex-U.S. Index	10.31	10.31	-4.22	8.09	2.57	--	4.22

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.

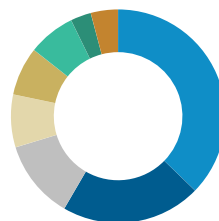
The gross expense ratio is 1.10% for Class I shares and the net expense ratio is 1.00%. Where the net expense ratio is lower than the gross expense ratio, certain fees have been waived and/or expenses reimbursed. These waivers and/or reimbursements will continue for at least one year from the date of 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 Ten Holdings	FUND	INDEX
Moncler SPA	6.92	0.04
Tal Education Group	6.61	0.06
EPAM Systems Inc	5.25	--
HDFC Bank Ltd	5.17	--
DSV	4.68	0.08
Fevertree Drinks Plc	4.51	--
Hermes International S.A.	4.10	0.10
Foshan Haitian Flavouring	3.92	--
Booking Holdings Inc	3.21	--
Rightmove Plc	3.18	--
Total	47.55	--

Sector Breakdown



	FUND	INDEX
Consumer Discretionary	37.29	11.13
Consumer Staples	21.11	9.92
Information Technology	11.93	8.39
Communication Services	8.00	7.05
Industrials	7.37	11.68
Financials	7.13	21.60
Health Care	3.10	8.38
Cash	4.12	--

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**). **Exchange traded funds (ETFs)** shares have many of the same risks as direct investments in common stocks or bonds and their market value will fluctuate as the value of the underlying index does. By investing in exchange traded funds (ETFs), the portfolio absorbs both its own expenses and those of the ETFs it invests in. Supply and demand for ETFs may not be correlated to that of the underlying securities. **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. Investing in the **securities of smaller companies** involves greater risk and price volatility than investing in larger, more established firms. 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 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 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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