

Morgan Stanley Institutional Fund

International Opportunity Portfolio

GLOBAL OPPORTUNITY TEAM | COMMENTARY | SEPTEMBER 30, 2020

Performance Review

In the quarter period ending September 30, 2020, the Portfolio's I shares returned 16.35% (net of fees)¹, while the benchmark returned 6.25%.

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 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 advanced during the period, led by outperformance in consumer discretionary, information technology, materials and industrials. The energy and financials sectors declined, while utilities and real estate also underperformed the MSCI AC World ex USA Index.

A sector overweight position and stock selection in consumer discretionary were the greatest overall contributors to the relative performance of the portfolio during the period. Shares of Chinese social commerce platform Meituan Dianping were the greatest individual contributor. Functional outerwear brand Canada Goose Holdings and luxury retail platform Farfetch Limited also outperformed. Meituan Dianping is a leading social commerce platform for local services such as food delivery, dine-in and travel. Meituan enjoys a strong network effect by offering integrated local services on a single platform with the largest coverage of merchants and users. We believe that Meituan may continue to benefit from urbanization and consumption growth in China.

Stock selection in information technology and industrials contributed positively on strength in shares of asset-light Danish transport and logistics company DSV Panalpina A/S and Eastern European business services firm EPAM Systems. DSV enjoys leading positions in air and sea globally as a result of strategic acquisitions that have diversified the firm out of the core road forwarding business. The company's information technology platform, people and processes differentiate DSV from other freight forwarders and allow DSV to operate efficiently in the value-added activities in forwarding that have been more immune from digital disruptions.

The portfolio's sector underweight positions in materials and industrials were the greatest overall detractors from the relative performance of the portfolio during the period.

Stock selection and a sector overweight position in communication services also contributed negatively, with shares of audio streaming platform Spotify Technology SA the top individual detractor during the period. Headquartered in Sweden, Spotify is an innovative audio streaming platform with differentiation leadership by leveraging the unique data of 299 million monthly active users, including 138 million paying premium subscribers (Source: Company data as of September 10, 2020), and is in a strong position to expand its user base given its extensive playlists. We believe Spotify's strong growth can be supported by entering new geographies, investing in its advertising business and expanding the non-music content as well as user experience.

¹ Source: Morgan Stanley Investment Management. Data as of September 30, 2020.

In financials and health care, shares of Kotak Mahindra Bank Limited and New Frontier Health modestly detracted. Kotak Mahindra Bank is one of the leading private sector banks in India, with a strong presence in the securities, insurance, asset management and auto finance businesses. We believe that Kotak Mahindra Bank is unique due to its cost focus advantage, driven by its strong deposit franchise, granular high yield retail book and prudent risk management process. Based on our industry analysis, we believe Kotak Mahindra Bank can continue to take loan and deposit market share due to its integrated and diversified business model, mobile banking initiatives and public sector bank weakness. New Frontier Health owns United Family Healthcare, the leading private health care services provider in China by revenue. It has a differentiation focus advantage through its top-ranked high-end private hospital brand, culture of patient care focus, strategically central hospital locations, comprehensive multi-specialty service offerings, world-class infrastructure and top medical professionals.

A small derivative position in a foreign exchange put option for the purpose of mitigating a significant devaluation of the Chinese currency also modestly detracted from 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

March 31, 2010

Base currency

U.S. dollars

Index

MSCI All Country World Ex-U.S. Index

Performance (%)

As of September 30, 2020 (Class I Share at NAV)

	QTD	YTD	1 YR	3 YR	5 YR	10 YR	SINCE INCEPTION
MSIF International Opportunity Portfolio - I Shares	16.35	32.55	48.18	18.52	21.04	14.10	14.53
MSCI All Country World Ex-U.S. Index	6.25	-54.4	3.00	1.16	6.23	4.00	4.01

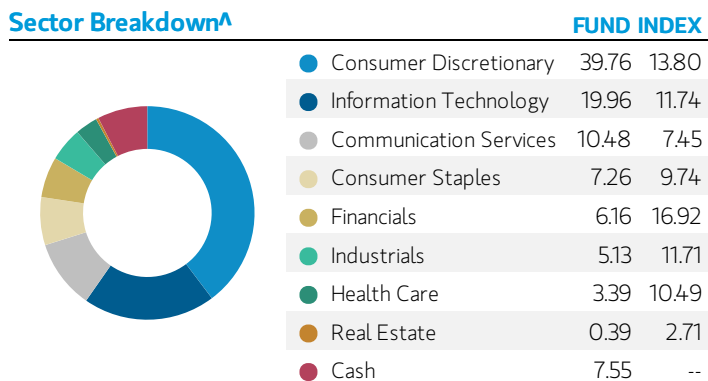
Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. For the most recent month end performance figures, please visit morganstanley.com/im. Investment returns and principal value will fluctuate 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 Ten Holdings	FUND	INDEX
TAL Education Group	7.06	0.13
Spotify Technology S.A.	5.47	--
Meituan Dianping	5.43	0.52
DSV Panalpina A/S	5.13	0.16
Canada Goose Holdings Inc	4.52	--
HDFC Bank Ltd	4.31	--
Shopify Inc.	3.85	0.51
Alibaba Group Holding Ltd	3.73	2.58
EPAM Systems Inc	3.65	--
Keyence Corporation Ltd	3.65	0.39
Total	46.80	--



[^] 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. **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**). **China Risk**. Investments in China involve risk of a total loss due to government action or inaction. Additionally, the Chinese economy is export-driven and highly reliant on trade. Adverse changes to the economic conditions of its primary trading partners, such as the United States, Japan and South Korea, would adversely impact the Chinese economy and the Fund's

investments. Moreover, a slowdown in other significant economies of the world, such as the United States, the European Union and certain Asian countries, may adversely affect economic growth in China. An economic downturn in China would adversely impact the Portfolio's investments. **Risks of Investing through Stock Connect.** Any investments in A-shares listed and traded through Stock Connect, or on such other stock exchanges in China which participate in Stock Connect is subject to a number of restrictions that may affect the Portfolio's investments and returns. Moreover, Stock Connect A shares generally may not be sold, purchased or otherwise transferred other than through Stock Connect in accordance with applicable rules. The Stock Connect program may be subject to further interpretation and guidance. There can be no assurance as to the program's continued existence or whether future developments regarding the program may restrict or adversely affect the Portfolio's investments or returns.

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.

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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