Morgan Stanley
INVESTMENT MANAGEMENT

COMMENTARY
December 31, 2025

Morgan Stanley Institutional Fund

International Resilience Portfolio

INTERNATIONAL EQUITY TEAM

Performance Review

In the quarter period ending December 31, 2025, the Portfolio's I shares returned -0.68% (net of fees)[1], while the benchmark returned 5.05%.

The Portfolio (I shares net of fees) underperformed the MSCI All Country World (ACWI) ex-U.S. Index in December, returning +1.24% versus +3.00% for the index, and also lagged in the fourth quarter, with a return of -0.68% compared with +5.05%. For the full year 2025, the Portfolio (I shares net of fees) delivered a strong absolute return of +12.79% but did not keep pace with the index's exceptional +32.39% gain, which represented the MSCI ACWI ex-U.S.'s best performance since 2009 following the Global Financial Crisis.

The fourth quarter underperformance was driven by negative stock selection, mainly due to weakness in information technology and industrials. Sector allocation contributed modestly, benefiting from the portfolio's overweight to information technology.

Two of the largest absolute contributors to performance in the fourth quarter were semiconductor names TSMC and ASML, which delivered double-digit gains. TSMC reported close to 40% year-over-year earnings growth and upgraded full-year guidance on the back of strong artificial intelligence demand,[2] while ASML reported solid bookings and improved its 2026/27 outlook, supported by ongoing artificial intelligence (AI) infrastructure build-out and a broader, longer-tail customer base. Among the other meaningful contributors to performance were two of the portfolio's health care holdings, Haleon and AstraZeneca, supported by better-than-expected earnings and guidance, positive late-stage pipeline progress and reduced regulatory and pricing risk following U.S. policy agreements. Another top contributor was DSV, driven primarily by optimism around the DB Schenker acquisition and synergies, supported by solid operating performance reflected in its third quarter earnings.

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 artificial intelligence 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, following a reset of medium-term guidance driven by higher AI investment, lower growth in adjacencies, litigation concerns and a broader derating of the online classifieds sector; and Legrand, as third quarter organic growth fell short of expectations.

For the year, relative underperformance was driven primarily by negative stock selection, reflecting weakness in information technology, financials and industrials. Sector allocation also detracted, as the portfolio was hurt by its underweight to financials.

Two of the main drivers of relative underperformance were the portfolio's zero weight to banks and hardware, both of which performed exceptionally well, and investor concerns around generative AI that impacted several holdings. International Resilience Portfolio has not invested in banks due to their high leverage and cyclical nature, nor in hardware companies, which operate in capital-intensive and generally cyclical industries that do not meet the portfolio's strict quality criteria. As both industries rose more than 50% over the year, the portfolio's zero exposure was a notable detractor, particularly the lack of banks. Investor anxiety about potential generative AI disruption in the latter half of 2025 led to broad sell-offs across a wide swath of differentiated data-rich industries, particularly software, financials and industrials. The initial market reaction was broad-based, with investors indiscriminately

1 Source: Morgan Stanley Investment Management. Data as of December 31, 2025. Performance for other share classes will vary.
2 Source: TMSC 3Q25 Earnings Release, October 16, 2025.

punishing companies perceived to have exposure to data or intellectual property regardless of differences in business models, competitive positioning or adaptability. We believe this blanket 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 two largest absolute contributors to performance for the year were semiconductor holdings benefiting from generative AI-driven demand for advanced chips and manufacturing capacity. ASML benefited from strong demand for its extreme ultraviolet lithography machines, while TSMC saw surging orders for cutting-edge AI processors. Investors priced in sustained AI-led growth across the semiconductor value chain, benefiting both names. Among the top contributors were two of the portfolio's high quality industrials holdings, Safran, supported by strong demand for aircraft engines and defence systems alongside innovation in next-generation propulsion and long-term airline contracts, and Legrand, driven by strong data centre demand and upward guidance. Another top contributor was an information technology holding, Halma, which delivered better-than-expected financial performance throughout the year with strong growth in key technological areas such as photonics.

The largest detractors in 2025 were IMCD, driven by slowing growth expectations and margin pressure alongside a broader sell-off in the chemicals industry amid macro uncertainty; BayCurrent; RELX, as concerns grew around the impact of generative AI and market shifts on demand for its traditional information and analytics services; London Stock Exchange Group, impacted by advanced AI-related multiple compression; and Constellation Software, following multiple earnings misses that raised concerns about profitability and growth momentum.

Market Review

In the final quarter of 2025, the MSCI ACWI ex-U.S. Index delivered solid gains of +5.1%, capping off a remarkable year. These fourth quarter results propelled the index to an impressive full-year return of +32.4%, marking its strongest annual performance since 2009 in the aftermath of the Global Financial Crisis. MSCI ACWI ex-U.S. meaningfully outperformed the U.S. during the year, which itself was up nearly 20%.

For the year, materials (+46%) finished as the top-performing sector as improving demand from China and energy-transition tailwinds, combined with constrained supply and supportive currency dynamics, drove earnings and valuation upside. Financials (+44%) also performed well, helped by the strength of the banks industry, which climbed +51% amid a more pragmatic regulatory environment, a stable, non-recessionary interest-rate outlook, and exceptionally strong asset quality. The year's enthusiasm around AI lifted information technology (+41%), with semiconductors benefiting from rising demand for advanced chips and expanded manufacturing capacity, driving the industry to a 57% gain for the year. Utilities (+37%) performed well as AI-driven data centre power demand supported long-term contracts and incremental grid investment, while industrials (+35%) benefited from a sharp rally in defence, which rose +77% amid elevated geopolitical tensions. Consumer discretionary, while still posting a double-digit return, was the weakest-performing sector for the year, gaining +16% as a combination of subdued growth, cautious consumers and China-related headwinds offset company-specific fundamentals. Excluding utilities, defensive sectors generally lagged the year's momentum-driven rally, leaving health care (+16%) and consumer staples (+17%) at the bottom of the performance rankings. Elsewhere, communication services (+32%) performed broadly in line with the index, while the remaining cyclical sectors delivered solid absolute returns but still trailed the sharply rising index, including energy (+23%) and real estate (+18%).

Looking at geographies, Korea was the standout performer for the year, rising nearly 100%, supported by its significant exposure to memory and logic semiconductors amid accelerating AI-related demand. Among other major Asian emerging markets, Taiwan (+39%) also benefited from strength in semiconductors, while China (+31%) delivered solid gains but modestly lagged the index in U.S. dollars terms as macroeconomic and policy uncertainties persisted. In Asia's major developed markets, Hong Kong (+35%) and Singapore (+32%) both outperformed the index, while Japan (+25%) lagged in U.S. dollars terms due to yen weakness.

In Europe, Spain was the leading performer during the year, finishing up +82%. 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.

Outlook

The MSCI ACWI ex-U.S. Index delivered a 32% return, 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 ACWI ex-U.S. trades at roughly 14.9x forward earnings—about 13% above its 20-year average—yet still at a more than 30% discount to the very pricey U.S. market, where the S&P 500 Index trades near 22x.[3]

Investor confidence improved on the back of earnings growth in Europe and Japan, while a weaker U.S. dollar enhanced dollar-based returns and reinforced positive non-U.S. sentiment. Improving demand from China boosted materials, which finished as the top performing sector, while accelerating AI-related demand helped boost semiconductors particularly in emerging markets. Financials and industrials benefited from reflationary expectations, higher interest rates and improving corporate governance (particularly in Japan). Banks were a 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 the Europe, Australasia and Far East (EAFE) region'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 AI (generative AI and agentic AI). Commercial & professional services and software & services were among the weakest-performing industry groups, where the market indiscriminately punished these distinct and differentiated businesses as vulnerable to AI-driven disruption. Along with the perceived losers from advanced AI, most defensive sectors also lagged the momentum-driven rally, with both the health care and consumer staples sectors underperforming the index by more than 1,500 basis points.[4] The exception was utilities, which performed strongly due to the potential AI-driven power demand from data centers.

While cyclical industries drove ACWI ex-U.S.'s record performance, several factors suggest this leadership may be difficult to sustain into 2026. Much of the outperformance reflected valuation rerating and optimism rather than durable earnings improvement, and as growth normalises, dispersion across companies is likely to increase, refocusing investor attention on fundamentals. We believe the quality companies held in International Resilience Portfolio are well suited for this potential shift, combining exposure to more defensive consumer staples and health care with high quality, less cyclical information technology companies trading at reasonable valuations. This includes attractive AI-driven growth from first-order beneficiaries such as TSMC and ASML, complemented by software and industrial technology businesses 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, low cyclicality and reasonable growth potential, currently available at particularly compelling valuations.

Although ACWI ex-U.S. remains attractively valued relative to the U.S., its absolute valuation has moved into premium territory versus its history. And this rich valuation rests on the assumption of robust double-digit earnings growth for MSCI ACWI ex-U.S. over the next two years. This requires further margin expansion from already elevated levels given the top-line is limited by circa 1% real gross domestic product growth in EAFE countries. While the index was able to manage double-digit U.S. dollar earnings growth in 2025, it was boosted by the dollar tailwind which will require another bout of weakness to continue beyond the first quarter 2026. Against this backdrop, we remain focused on companies we believe offer credible earnings per share growth, driven by strong revenue growth well ahead of that of the index, which is a more reliable source of long-term compounding than the supposed margin improvement needed to get the bulk of the index's expected earnings growth. Our portfolio is particularly tilted toward high quality compounders given the cyclical rerating and is expected to deliver resilient top-line growth at nearly twice the rate of the index, while trading at only an approximately 12% premium to the ACWI ex-U.S. Index on a price-to-free cash flow basis.

Looking ahead to 2026, after a banner year of cyclically led ACWI ex-U.S. outperformance, durable earnings, balance sheet strength, pricing power and the ability to generate consistent free cash flows 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.

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[3] Source for data cited in the Outlook commentary, unless otherwise stated: MSIM, FactSet, as of December 31, 2025.
[4] One basis point = 0.01%

Fund Facts

Inception Date	July 29, 2022
Minimum Initial Investment ($)*	A Shares - 1,000
	I Shares - 1,000,000
Benchmark	MSCI AC World ex-US Net Index
Class I expense ratio	**Gross 15.98 %**
	Net 0.85 %
Class A expense ratio	**Gross 19.68 %**
	Net 1.20 %

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 (%)

As of December 31, 2025	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR	SINCE INCEPTION
Class I Shares at NAV	1.24	-0.68	12.79	12.79	10.86	--	--	8.68
Class A Shares at NAV	1.22	-0.71	12.43	12.43	10.46	--	--	8.31
Class A Shares (With Max 5.25% Sales Charge)	-4.06	-5.94	6.49	6.49	8.50	--	--	6.63
MSCI AC World ex-US Net Index	3.00	5.05	32.39	32.39	17.33	--	--	14.88

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.

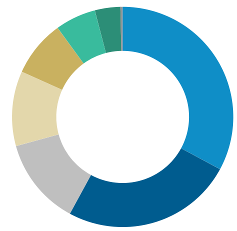
Please keep in mind that high double-digit returns are highly unusual and cannot be sustained. Investors should also be aware that these returns were primarily achieved during favorable market conditions.

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

Top Holdings (% of Total Net Assets)

	FUND	INDEX
Taiwan Semiconductor Mfg Co. Ltd	5.57	3.63
SAP SE	5.12	0.76
Safran S.A.	4.81	0.38
ASML Holding NV	4.54	1.25
RELX Plc	4.24	0.22
Haleon plc	3.95	0.13
Halma plc	3.64	0.05
L'Oréal S.A.	3.60	0.31
Keyence Corp	3.39	0.21
Experian Plc	3.38	0.12
Total	**42.24**	--

Sector Allocation (% of Total Net Assets)^



	FUND	INDEX
Industrials	31.44	14.66
Information Technology	23.96	14.69
Health Care	12.26	7.89
Financials	10.52	25.46
Consumer Discretionary	7.89	9.85
Consumer Staples	5.70	5.96
Communication Services	3.58	5.56
Energy	--	4.39
Materials	--	6.86
Real Estate	--	1.54
Utilities	--	3.15
Cash	0.29	--

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

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 **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, 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. Changes in the worldwide economy, consumer spending, competition, demographics and consumer preferences, government regulation and economic conditions may adversely affect **global franchise companies** and may negatively impact the strategy to a greater extent than if the strategy's assets were invested in a wider variety of companies. **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, **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. 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. **Nondiversified portfolios** often invest in a more limited number of issuers. As such, changes in the financial condition or market value of a single issuer may cause greater volatility. **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. **Illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk).

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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.

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