Morgan Stanley

INVESTMENT MANAGEMENT

Morgan Stanley Institutional Fund

Multi-Asset Portfolio

SOLUTIONS & MULTI ASSET | GLOBAL MULTI-ASSET TEAM | BI–WEEKLY FUND ANALYSIS | June 30, 2019

Commentary as of June 30, 2019*

- U.S. policy rates markets continued to reflect expectations of a more dovish Federal Reserve policy. The U.S. 2-year yield fell -9 bps to 1.75% reflecting expectations for nearly 4 Fed rate cuts over the next 12 months. The U.S. 10-year yield shifted in line (-6 bps) with the short end. This helped global stocks edge higher - equities rose 2.5% (MSCI ACWI, in USD) during the last two weeks of June.
- Global macro data remained subdued and did not confirm the material deterioration signaled by business surveys. The global business sector remains weak, but it appears to have stabilized. In June, the GMA Global All-Industry PMI came in at 51.2 vs. 51.1 in May. By contrast, consumer spending remains largely resilient (real global retail sales grew at a +3.0% YoY rate over the 3 months through April), though potential labor market weakness remains a risk. For now, spillover from the weak business sector to the labor market is not apparent.
- Although the Fed revised down its U.S. inflation forecast to 1.8% from its prior forecast of 2.0% in March, recent readings have been firmer: May and April core PCE deflator readings averaged 2.7% at an annualized rate, above the 2.0% core PCE three-month average. If similarly firm inflation data continues to follow over the coming months while growth remains above potential, much of the Fed easing currently priced in may appear unlikely.
- This would put at risk many of the financial market trends seen over the past weeks, such as the rally in U.S. rates and gold as well as the recently weak-ish dollar. Rising rates would also likely lift underperforming value stocks, at least temporarily, at the expense of momentum and quality stable stocks. Relative valuations in the U.S. and Europe provide an attractive starting point for the consideration of these trades. A benign growth outlook would be important for this development to be meaningful and investable, and the trade truce that was agreed to at the Osaka G-20 Summit in late June may well be sufficient to allow global growth to remain resilient over the next six months.
- The portfolio returned +0.64% in the last two weeks of June. Contributors included our longs in gold and Eurozone domestic equities vs. U.S. equities as well as our currency trades (the euro vs. the U.S. dollar and the Argentine peso vs. emerging market currencies). These gains were partially offset by losses from longs in Japanese real estate vs. domestic equities, U.S. housing stocks vs. U.S. equities, and China H-shares vs. global equities.
- We initiated a long position in a basket of defensive currencies (the Swiss franc, the euro, the British pound, and the Japanese yen) relative to the U.S. dollar in line with our view that U.S. relative outperformance may be ending. We forecast that this basket will appreciate over 10% vs. USD over the next 12 months. We increased our long in the Turkish lira against the U.S. dollar, based on our estimate that the lira is approximately 20-25% undervalued in real effective exchange rate terms. We also increased our long in Turkish banks (FX unhedged) relative to global equities. Valuations for Turkish banks are back to their lowest levels on an absolute and relative basis since the crisis in the early 2000's. We increased our long in Argentina 10-year U.S. dollar denominated bonds, reduced a long in Australia 3-year rates vs. U.S. rates and a directional long in gold. We closed our longs in U.S. housing and gold miner stocks, both relative to U.S. equities, and in U.S. consumer finance stocks relative to U.S. banks stocks.

Asset Allocation (%) as of June 30, 2019

	Net Exposure (1)	Gross Exposure (2)
GLOBAL EQUITY	-3.2	99.3
Developed Markets	**-1.7**	**94.1**
U.S. & Canada	-17.6	52.2
Europe	22.3	22.3
Japan	2.1	10.2
Asia ex-Japan	-8.5	9.4
Emerging Markets	**-1.5**	**5.2**
GLOBAL FIXED INCOME	6.2	38.3
Developed Markets	**-1.9**	**30.2**
U.S. & Canada	3.3	8.6
Europe	-13.4	13.4
Japan	0.0	0.0
Asia ex-Japan	8.2	8.2
Emerging Markets	**8.1**	**8.1**
COMMODITIES	2.3	2.3
Gold	2.3	2.3
TOTAL EXPOSURE (Net of Cash)	5.3	139.9

Investment Performance (% Net of Fees*: Annualized Total Returns)

	MTD	QTD	YTD	1-Yr	**Since Inception
For Periods Ending 06/30/2019†	0.11	0.43	0.53	0.63	1.07

Note: Returns for less than one year are cumulative (not annualized). Performance shown for Class I shares.

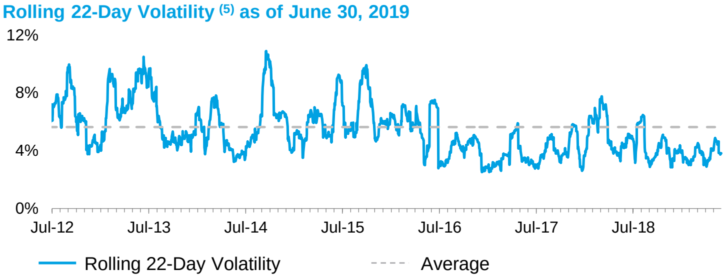
† See page two for the Portfolio's standardized performance.

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. Short-term returns may not be indicative of long-term performance.

Contribution to Gross Absolute Return (%) as of June 30, 2019

	MTD	QTD	YTD	**Since Inception
Equity	0.1	-1.2	-2.1	-0.4
Fixed Income	-0.1	-1.0	0.5	1.9
Commodities	0.2	0.1	0.7	-0.1
Cash / Currency	0.7	0.8	1.4	1.0

Rolling 22-Day Volatility (5) as of June 30, 2019



Source: Morgan Stanley Investment Management; FactSet.

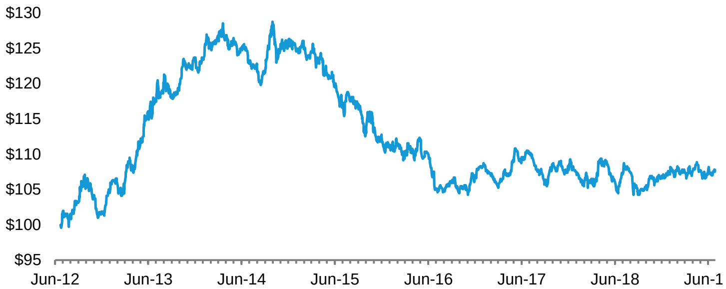
Top Thematic Equity Positions (%) as of June 30, 2019

	Gross Long (2)	Gross Short (2)	Net (1)
Long Eurozone Domestic Equities / Short U.S. Equities	14.6	-14.6	0.0
Short Australian Banks / Long Developed Market Defensives & Banks	8.9	-8.9	0.0
Long U.S. Healthcare / Short U.S. Equities	6.9	-6.9	0.0
Long N. American Midstream Energy / Short U.S. Equities	6.0	-6.0	0.0
Long Japan Real Estate / Short Japan Equities	4.1	-4.1	0.0
Short China H-Shares / Long Global Equities (ex-U.S.)	3.3	-3.3	0.0
Short U.S. Equities	0.0	-3.1	-3.8
Long German Equities / Short Global Equities	2.8	-2.8	0.0
Long Global Equities (ex-U.S.) / Short U.S. Equities	2.8	-2.8	0.0
Long Turkish Banks / Short Global Equities	0.7	-0.7	0.0
TOTAL EXPOSURE	50.1	-53.2	-3.8

Past performance is not indicative of future results. Tables may not sum to 100%. Information shown is subject to change daily, is provided for informational purposes only and should not be deemed as a recommendation to buy or sell any security. Asset allocation does not eliminate the risk of loss. The views, opinions, forecasts and estimates expressed are those of the Global Multi-Asset Team and are subject to change based on economic or market conditions, and may not necessarily come to pass. These comments are not representative of the opinions and views of the firm as a whole.

Performance as of June 30, 2019

Class I Shares, performance of $100 invested since inception on June 22, 2012



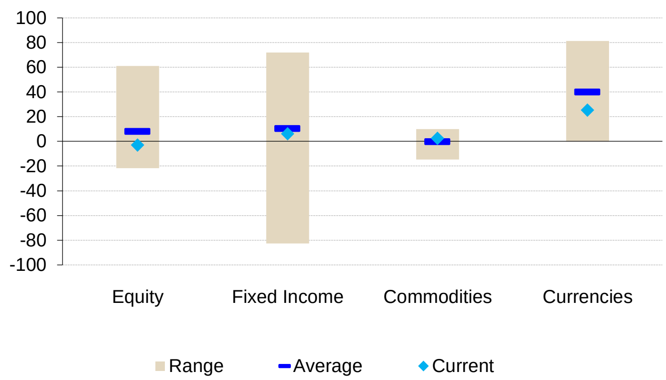
Past performance is not indicative of future results. Performance is net of fees. The performance of other share classes will vary from the Class I shares and will be negatively impacted by additional fees assessed to those classes.

Top Fixed Income Positions (%) as of June 30, 2019

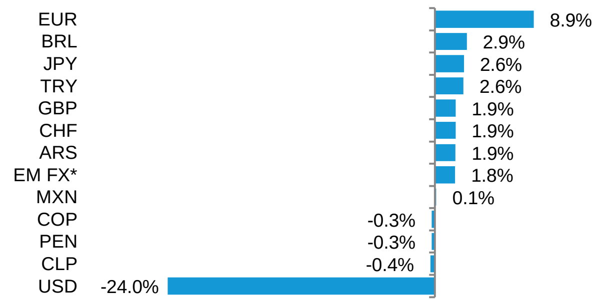
	Rating [3]	Gross Long [2]	Gross Short [2]	Net [1]
Long Australian 3-Year Rates / Short U.S. Rates	NR / NR	8.2	-8.2	0.0
Long Greek 10-Year Bonds / Short Germany, Italy, France, and Spain 10-Year Bonds	B+ / NR	6.3	-6.3	0.0
Long U.S. 10-Year Treasuries / Short German 10-Year Bunds	NR / NR	6.2	-6.2	0.0
Long Argentina 10-Year Bonds	B	1.8	0.0	1.8
TOTAL EXPOSURE		**22.5**	**-20.7**	**1.8**

Historical Asset Allocation (Net Exposure [1]) as of June 30, 2019

% of Portfolio



Top Currency Net Exposures [1], [4] as of June 30, 2019



* EM FX does not include ARS, BRL, CLP, COP, MXN, TRY, and PEN which are shown separately.

Standardized Investment Performance Class I Shares (% Net of Fees*: Average Annual Total Returns)

	MTD	QTD	YTD	1-Yr	5-Yr	**Since Inception
For Periods Ending 06/30/2019	0.11	0.43	0.53	0.63	-2.59	1.07

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 or call 1-800-548-7786. Investment returns and principal value will fluctuate and fund shares, when redeemed, may be worth more or less than their original cost. Short-term returns may not be indicative of long-term performance.

The gross expense ratio is 1.78%. The net expense ratio is 1.10%. The net expense ratio is lower than the gross expense ratio because 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). The returns are reported for Class I shares. Performance for other share classes will vary.

** The portfolio's inception date is June 22, 2012.

Table/Chart Footnotes:

1. Net exposure % calculated as [(MV of long cash security and derivative positions)-(absolute value of MV in short derivative positions)]/(portfolio MV). Fixed income net exposure has been duration adjusted (10-Year U.S. Treasury equivalents).
2. Gross exposure % calculated as [(MV of long cash security and derivative positions)+(absolute value of MV in short derivative positions)]/(portfolio MV). Fixed income gross exposure has been duration adjusted (10-Year U.S. Treasury equivalents).
3. Ratings for cash bonds have been obtained from Standard & Poor's Ratings Group. S&P's credit ratings express its opinion about the ability and willingness of an issuer to meet its financial obligations in full and on time. 'AAA' is the highest rating. Any rating below 'BBB-' rating is considered non-investment grade. Ratings are relative and subjective and are not absolute standards of quality. Ratings apply only to the underlying holdings of the portfolio and does not remove market risk. "NR" or "Not Rated" indicates that no rating has been requested, that there is insufficient information on which to base a rating, or that S&P does not rate a particular obligation as a matter of policy. Futures, swaps, and credit default swaps (CDS/CDX) are not rated (NR).
4. Currency exposure is relative to the Portfolio's base currency (USD).
5. Volatility: characteristic of a security, commodity, or market to rise or fall sharply in price within a short-term period.

Commentary Footnotes:

All performance figures are for the two-week period ending June 30, 2019. Source: Bloomberg; the indices are unmanaged and do not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

The **Bloomberg Barclays U.S. Corporate High Yield Index (LF98TRUU Index)** measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's. Fitch, and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk , based on Barclays EM country definition, are excluded.

The **EURO STOXX 50 Index (SX5E Index)**, Europe's leading blue-chip index for the Eurozone, provides a blue-chip representation of super sector leaders in the region. The index covers 50 stocks from 11 Eurozone countries.

The **MSCI All Country World Index (MSCI ACWI)** is a free-float, market-capitalization weighted index designed to measure the equity market performance of emerging and developed world 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 **S&P 500 Index (SPX)** is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

The **S&P GSCI Index (SPGSCI)** is widely recognized as a leading measure of general price movements and inflation in the world economy. It provides investors with a reliable and publicly available benchmark for investment performance in the commodity markets.

The **U.S. Dollar Index (DXY)** is an index of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies. The Index goes up when the U.S. dollar gains "strength" (value) when compared to other currencies.

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, **equity securities'** values also fluctuate in response to activities specific to a company. 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. **Fixed-income securities** are subject to the ability of an issuer to make timely principal and interest payments (credit risk), changes in interest rates (interest-rate risk), the creditworthiness of the issuer and general market liquidity (market risk). In the current rising interest-rate environment, bond prices may fall and may result in periods of volatility and increased portfolio redemptions. **Longer-term securities** may be more sensitive to interest rate changes. In a declining interest-rate environment, the portfolio may generate less income. **Mortgage- and asset-backed securities (MBS and ABS)** are sensitive t early prepayment risk and a higher risk of default and may be hard to value and difficult to sell (liquidity risk). They are also subject to credit, market and interest rate risks. Certain **U.S. government securities** purchased by the Portfolio, such as those issued by Fannie Mae and Freddie Mac, are not backed by the full faith and credit of the United States. It is possible that these issuers will not have the funds to meet their payment obligations in the future. **Sovereign debt securities**. The issuer or governmental authority that controls the repayment of **sovereign debt** may not be willing or able to repay the principal and/ or pay interest when due in accordance with the terms of such obligations. Investments in **foreign markets** entail special risks such as currency, political, economic, and market risks. The risks of investing in **emerging market countries** are greater than risks associated with investments in foreign developed countries**. Real estate investment trusts** are subject to risks similar to those associated with the direct ownership of real estate and they are sensitive to such factors as management skills and changes in tax laws. **Restricted and illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk). **Derivative instruments** can be illiquid, may disproportionately increase losses and may have a potentially large negative impact on the Portfolio's performance. Trading in, and investment exposure to, the **commodities** markets may involve substantial risks and subject the Portfolio to greater volatility. **Non--diversified 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. By investing in **investment company securities**, the portfolio is subject to the underlying risks of that investment company's portfolio securities. In addition to the Portfolio's fees and expenses, the Portfolio generally would bear its share of the investment company's fees and expenses. **Subsidiary and Tax Risk** The Portfolio may seek to gain exposure to the commodity markets through investments in the Subsidiary or commodity index-linked structured notes. The Subsidiary is not registered under the 1940 Act and is not subject to all the investor protections of the 1940 Act. Historically, the Internal Revenue Service ("IRS") has issued private letter rulings in which the IRS specifically concluded that income and gains from investments in commodity index-linked structured notes or a wholly-owned foreign subsidiary that invests in commodity-linked instruments are "qualifying income" for purposes of compliance with Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). The Portfolio has not received such a private letter ruling, and is not able to rely on private letter rulings issued to other taxpayers. If the Portfolio failed to qualify as a regulated investment company, it would be subject to federal and state income tax on all of its taxable income at regular corporate tax rates with no deduction for any distributions paid to shareholders, which would significantly adversely affect the returns to, and could cause substantial losses for, Portfolio shareholders..

Please consider the investment objective, risks, charges and expenses of the portfolio carefully before investing. The prospectus contains this and other information about the portfolio. To obtain a prospectus, download one at morganstanley.com/im or call 1-800-548-7786. Please read the prospectus carefully before you invest or send money.

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