Morgan Stanley

INVESTMENT MANAGEMENT

Morgan Stanley Institutional Fund

Next Gen Emerging Markets Portfolio

EMERGING MARKETS TEAM | COMMENTARY | CLASS I SHARES | JUNE 30, 2021

Performance Review

In the quarter period ending June 30, 2021, the Portfolio's I shares returned 12.84% (net of fees)[1], while the benchmark returned 7.18%.

Our stock selection in Russia was the largest contributor to performance during the quarter, primarily due to our overweight allocation to Tinkoff (8.7% of the portfolio).[2] The bank remains a high conviction position as it has exposure to fast-growing businesses such as digital payments, retail brokerage and secured consumer lending. We expect Tinkoff to continue adding more products to its digital-only platform, which bodes well for earnings and returns on capital, which may continue surpassing expectations. Our stock selection in Indonesia also added to returns, led by our allocation to ASEAN internet and e-commerce company Sea (10.2% of the portfolio).[2]

Our allocation to Egypt detracted the most from returns as the country was the worst performing frontier market during the quarter. Our stock selection in and underweight allocation to Vietnam also detracted from returns, largely due to our zero allocations to steelmaker Hoa Phat Group and real estate company No Va Land Investment Group.

Market Review

The MSCI Frontier Markets Index returned +14.10% this quarter, outperforming the MSCI Emerging Markets Index (+5.05%). Jordan (+32.63%), Kazakhstan (+32.07%), Saudi Arabia (+21.45%), Bahrain (+21.45%) and Vietnam (+17.25%) were the best performing markets. Egypt (-9.23%) lagged the index significantly. Tunisia (-6.47%), Sri Lanka (-5.19%), Serbia (+0.23) and Croatia (+3.61%) all underperformed the index.

Portfolio Activity

During the quarter, we initiated a position in Capitec Bank (1.8% of the portfolio), the leading consumer bank in South Africa.[2] As South Africa emerges from the pandemic, we expect Capitec to experience rapid growth as the company's simple and affordable banking model could continue to disrupt the country's financial space. Even if economic growth in South Africa does not accelerate materially, we expect Capitec to expand rapidly on the back of client growth and increasing market share. The bank is also entering the small and medium-sized enterprise segment with the acquisition of Mercantile Bank (not held in the portfolio),[2] which offers new growth opportunities in credit and non-credit products. Looking forward, we believe Capitec can deliver strong returns in the next 18 to 24 months.

We also initiated a position in engineering IT services company Grid Dynamics (1.1% of the portfolio). We believe the business has similar characteristics to digital outsourcing peers, such as EPAM (not held in the portfolio) and Globant (2.5% of the portfolio).[2] We expect Grid Dynamics to potentially grow earnings in excess of frontier and emerging markets, primarily due to continued demand for digital transformation services and revenue growth from an existing client base due to increased pricing. Grid has developed a very successful outsourcing model in accessing talent pools in Eastern Europe and has historically exhibited higher revenues versus its peers, which we believe illustrates the company's ability to offer high value-added digital expertise. The company has also seen improved margins post-COVID-19. We funded our entry into Grid by trimming our position in Globant, a company in a similar line of business, which we think has less attractive return potential.

1 Source: Morgan Stanley Investment Management Limited. Data as of June 30, 2021.
2 Holdings as of June 30, 2021

In Russia, we initiated a position in Ozon (1.9% of the portfolio), a leading e-commerce platform in Russia.[2] Given the lack of legacy retail infrastructure in Russia, especially outside of Moscow and a handful of major cities, we believe e-commerce could grow significantly, which could translate into a multiyear period of rapid growth and several business opportunities for Ozon. Ozon manages one of the largest logistics infrastructures in the country, which could translate to quick revenue growth and profitability. We expect Ozon to outperform the broader EM if its revenues grow faster and its returns on investment capital turn positive.

In Poland, we initiated a position in Grupa Kety (1.7% of the portfolio).[2] Kety is a producer of flexible packaging solutions, extruded products and aluminum systems. As economies recover from the pandemic, we expect demand for aluminum products to remain robust. Given their sustainability profile, aluminum products could continue to gain share in the construction and automotive industries. The industry remains fragmented in Europe. However, Kety is agile and has a strong balance sheet that will likely allow the company to capitalize on favorable industry demand trends and exceed market expectations. We expect Kety could outperform in the next 12 to 18 months, if the company can maintain its currently strong returns and if it sees more growth from strong demand for aluminum products. We funded this trade by trimming our position in KRKA (2.0% of the portfolio), a lower conviction name.[2]

Strategy and Outlook

We remain positive on the frontier market equity asset class. Frontier markets provide exposure to large and fast-growing countries, which are set to become future emerging markets. We continue to invest in the winners of the next decade, including countries benefiting from a shift out of China (Vietnam) and countries with large shares of domestic demand which are less reliant on exports (Egypt, Indonesia). The frontier market equity asset class can offer strong diversification benefits, and this diversification can be bought at historic lows in terms of current valuations relative to global equities.[3] After a period of underperformance, we believe frontier equities are set up well to be a clear winner in the coming decade.

In the aftermath of the COVID-19 crisis, we expect an acceleration of several trends that were already in motion before the pandemic and for which our portfolio had already been positioned.

We have long invested in the theme of greater digitization in frontier markets, and with much of the world's population now at home, the online economy has been booming, be it e-commerce, mobile gaming, digital payments or cybersecurity. Another trend is towards formalization—consumers looking to buy from modern retail outlets, be it groceries, health care or education, instead of more traditional "mom and pop" companies—which was already underway and is likely to pick up speed for reasons of quality, safety and pricing.

We are also finding attractive investment opportunities in the "100 Million Club," which we consider to be overlooked countries with large populations of over 100 million consumers: Vietnam, Indonesia, Pakistan, Bangladesh, the Philippines, Egypt and Nigeria. Over the coming decade, 125 million people will enter the labor force in these countries, and more workers means more demand for consumer goods, such as packaged food and beverages, apparel, and digital goods. While we have a number of investments in strong consumer franchises with high returns on capital in these countries, we are looking to add a few more given attractive valuations relative to what we see as a long-term secular story of rising consumer incomes. We continue to evaluate our current portfolio and any potential new entrants using our process which screens for sustainable quality growth.

FUND FACTS

Launch date	Base currency	Index
August 25, 2008	U.S. dollars	MSCI Frontier Emerging Markets Net Index

2 Holdings as of June 30, 2021
3 Diversification neither assures a profit nor guarantees against loss in a declining market.

Performance (%)

As of June 30, 2021 (Class I Share at NAV)

	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR	SINCE INCEPTION
MSIF Next Gen Emerging Markets Portfolio - I Shares	3.90	12.84	17.65	46.85	10.22	8.06	5.97	2.86
MSCI Frontier Emerging Markets Net Index	0.84	7.18	0.67	23.35	1.84	3.15	2.23	-0.23
Blended Index	2.10	13.46	14.37	37.72	8.68	9.25	5.28	0.86

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 2.18% for Class I shares and the net expense ratio is 1.90%. 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.

Performance shown for the Fund's Class I shares reflects the performance of the common shares of the Frontier Predecessor Fund for periods prior to September 17, 2012.

Pursuant to an agreement and plan of reorganization between Morgan Stanley Institutional Fund, Inc., on behalf of the Fund, and Morgan Stanley Frontier Emerging Markets Fund, Inc. (the "Frontier Predecessor Fund"), on September 17, 2012 the Fund acquired all of the assets and liabilities of the Frontier Predecessor Fund in exchange for Class I shares of the Fund (the "Frontier Reorganization"). As a result of the Frontier Reorganization, the Fund is the accounting successor of the Frontier Predecessor Fund. The historical performance information shown reflects, for the period prior to the Frontier Reorganization, the historical performance of the Frontier Predecessor Fund. The Frontier Predecessor Fund may have performed differently if it were an open-end fund since closed-end funds are generally not subject to the cash flow fluctuations of an open-end fund.

Effective June 30 2021, the Morgan Stanley Frontier Markets Portfolio was renamed to Morgan Stanley Next Gen Emerging Markets Portfolio, with an expanded investment universe to include equity securities of companies operating in emerging market countries, which include frontier emerging market countries, and an updated investment approach to reflect top-down allocations are made at the macro and thematic levels. Please see the Prospectus for more details.

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 **frontier emerging markets**are greater than risks associated with investments in other foreign or U.S. issuers and they are often considered highly speculative in nature. Investment opportunities in many frontier emerging markets may be concentrated in the **banking industry**, which could have a disproportionate impact on the portfolio's performance. 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. 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. **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 public traded securities (liquidity risk).

INDEX INFORMATION

The **Blended Index** performance shown is calculated using the MSCI Frontier Markets Net Index from inception through 29 June 2021 and the MSCI Frontier Emerging Markets Net Index thereafter.

The **MSCI Frontier Emerging Markets Net Index** is a free float-adjusted market capitalization index designed to serve as a benchmark covering all countries from the MSCI Frontier Markets Index and the lower size spectrum of the MSCI Emerging Markets Index.

The **MSCI Frontier Markets Net Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance of frontier 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 calculated in U.S. dollars and assumes reinvestment of net dividends. “Net dividends” reflects a reduction in dividends after taking into account withholding of taxes by certain foreign countries represented in the Index.

The **MSCI Emerging Markets Index (MSCI EM)** is a free float-adjusted market capitalization weighted index that is designed to measure equity market performance of emerging markets.

The Indexes are unmanaged and do not include any expenses, fees or sales charges. 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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