Morgan Stanley Institutional Fund

Next Gen Emerging Markets Portfolio

EMERGING MARKETS EQUITY TEAM

Performance Review

In the quarter period ending March 31, 2025, the Portfolio's I shares returned -6.85% (net of fees)[1], while the benchmark returned 6.76%.

Southeast Asian countries faced pressure on the back of proposed tariffs announced by the U.S. as many are manufacturing hubs used by Chinese companies for exports. Our positioning in Vietnam and Indonesia were the main detractors from returns during the quarter as the markets sold off on weaker sentiment on the back of changing global trade and policy discussions. Within Vietnam, our allocations to FPT and Phu Nhuan Jewelry (PNJ) hampered returns (7.5% and 3.8% of the portfolio, respectively).[2] FPT had outperformed significantly in 2024 in connection with the rise in artificial intelligence (AI)-related exposures given its partnerships with Nvidia and focus on leading the government's push to bring semiconductor chip production back to Vietnam. The stock has been impacted year-to-date on a reversal in the AI trade. PNJ was also impacted by the rise in gold prices, which led to higher input costs for its gold jewelry (hurting the short-term retail business margins) and a greater shift to its lower-margin gold bar business as demand for gold increased.

Indonesian equities have additionally been under pressure year-to-date on investor concerns about the fiscal budget, weak consumer sentiment and recent government actions to increase its involvement in the economy, including the formation of sovereign wealth fund Danantara to manage state-owned enterprises (with the dividends to be used to finance infrastructure projects) and the passage of a bill to expand the military's role in civilian government posts. Rumors that the current minister of finance (who has been a proponent of fiscal discipline) was resigning also caused volatility in the market, though the government shortly came out to assure that she was remaining in her position. We are closely monitoring macro developments and how they may affect the trajectory of growth for Indonesia.

Our allocations to IT software and services companies EPAM, Grid Dynamics and System (1.4%, 1.8% and 3.9% of the portfolio, respectively)[2] hampered returns after the industry sold off globally on potential declines in capital expenditure and tariff concerns, with the larger uncertainty around whether tariffs could lead to recession, which would impact the end demand for IT services.

Morocco rallied sharply in the quarter with a +26% return[3]—with Moroccan equities reaching a high last seen in 2011—and our zero allocation to the country detracted. The market's sharp outperformance and Indonesia's underperformance year-to-date represented statistically significant moves, with the three-month rolling country factor return for Indonesia reaching levels seen only five times prior since 2005 and for Morocco only four times prior since 2005.[4]

Our stock selection in the Philippines detracted, particularly through our allocation to Century Pacific Foods (4.2% of the portfolio),[2] though our underweight allocation to the market contributed strongly as the market underperformed on concerns of tariffs on Philippine exports to the U.S. The Philippines government is set to work with its neighbors in the broader Association of Southeast Asian Nations (ASEAN) region to negotiate (rather than retaliate) on President Trump's levies. Century Pacific continues to innovate across product categories and we believe this, combined with improving sentiment in consumer confidence, increasing wages and slowing inflation in the country, should be growth tailwinds for the company.

Colombia was the top performing frontier emerging market during the quarter, and our zero allocation detracted from returns. Slovenia was also among the top performing markets, and our allocation to Nova Ljubljanska Banka (4.0% of the portfolio)[2] contributed strongly. However, gains were more than offset by our aggregate stock selection and underweight allocation to the country. Our positioning in Argentina also detracted.

Contributors for the quarter included the zero allocations to Iceland, Oman, Bahrain, Sri Lanka and Serbia. Within Brazil, our allocation to MercadoLibre (5.0% of the portfolio)[2] was the top security contributor to returns. We continue to believe the company remains a clear leader within the Latin American e-commerce space. Our stock selection in Kenya also added to returns through our

[1] Source: Morgan Stanley Investment Management. Data as of March 31, 2025. Performance for other share classes will vary.
[2] Holdings data as of March 31, 2025.
[3] Regional and country returns are represented by their respective MSCI regional/country indexes, which are broad measures of the region/country's stock market performance. Data as of March 31, 2025.
[4] Source: MSCI Barra. Data as of March 19, 2025.

This document constitutes a commentary and does not constitute investment advice nor a recommendation to invest. The value of investments may rise as well as fall. Independent advice should be sought before any decision to invest.

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allocation to Safaricom (2.4% of the portfolio),[2] which remains a high conviction position given its position as a leader in mobile money and telecommunications in Kenya and Ethiopia.

With a global macro backdrop with heightened uncertainties and volatility, we continue to believe there are idiosyncratic economies in frontier and small emerging markets countries that provide diversification and optionality.[5] We are focused on countries that are home to large populations that are underserved and underpenetrated in areas like banking, health care and access to retail, many of which are undergoing significant macro reforms and appear relatively "insulated" and/or less sensitive to geopolitical and trade volatility. For example, Nigeria is seeing a structural turnaround with a move towards more orthodox monetary policy, liberalization of the currency exchange rate and financial reforms. Egypt could benefit from new Middle East U.S. policies. Bangladesh could see upside risk in reforms and an expected inflection in growth. Further, in our view, many of these markets are trading at attractive valuations and have historically delivered strong earnings growth. We continue to be invested in and look for additional quality growth opportunities that we believe will likely benefit from positive macro tailwinds.

Portfolio Activity

During the quarter we added to two of our high conviction positions in Guaranty Trust Holding in Nigeria and BRAC Bank in Bangladesh (2.2% and 1.8% of the portfolio, respectively).[2] In these two markets, we have witnessed significant macro and reform prospects that do not appear to be priced in or fully appreciated by the market. To fund these trades, we exited our positions in Bank Mandiri and dLocal, the latter due to a poor set of earnings results and our lessened conviction in the company's business model moving forward.

We exited our position in Grupa Kety after we were disappointed with its recent management change and as the company could be impacted by near-to-medium-term headwinds, specifically within the European manufacturing and autos segment.

We reduced our position in Turkish enterprise software as a service (SaaS) company Logo (0.7% of the portfolio)[2] on the deteriorating macro environment in Turkey after the opposition leader and mayor of Istanbul, Ekrem Imamoglu, was jailed on corruption charges, resulting in heightened political volatility and protests. While the company continues to have a solid business model, the macro risk in Turkey creates significant uncertainty for the equity market.

Strategy and Outlook

With increasing volatility in the U.S. and globally, we continue to believe that many frontier and small emerging markets (EM) can remain resilient and emerge as uncorrelated relative safe havens. We remain invested in markets that we believe are set for accelerating gross domestic product (GDP) growth, driven by recently adopted reforms and robust domestic demand.

While global investors remain focused on the U.S., and in mega-cap tech and AI, we believe frontier and small emerging market equities offer a compelling alternative: large countries which are home to the fastest-growing consumer bloc in the world, attracting significant capital from global superpowers as they expand their infrastructure—ranging from hospitals to high speed trains and digital payment systems—offering global investors much-needed diversification at historically low valuations.[5] Below we outline a few key themes for the asset class in 2025:

Reform, Recovery, Resurgence

In the current volatile global landscape, many frontier and small emerging markets have faced economic distress over the past year or two. Yet these crises have prompted significant reforms in countries like Argentina, Egypt, Nigeria and Pakistan, leading them on a path from reform to recovery. When combined with other high growth economies, such as Vietnam and Bangladesh, we believe this sets the stage for a strong resurgence in economic growth for the asset class.

MSCI frontier market countries are projected to accelerate growth from 3.4% in 2024 to 4.1% in 2025.[6] Both the level and acceleration of growth sharply contrasts with MSCI emerging markets economies—decelerating from 4.1% in 2024 to 3.9% in 2025—and to developed markets economies, which are expected to slow from 2.2% to 2.0%.[6]

While major economies have largely tamed inflation, frontier economies will likely see a deceleration in consumer price index (CPI) inflation (4.3% in 2024 versus 3.6% in 2025 estimated) versus no change in EM (2.8% CPI) and 0.3% deceleration in developed markets to 1.9%.[6] Frontier's CPI deceleration is attributable to reform progress as frontier economies adopt more orthodox monetary policies. Notably, across all 19 countries we actively track, 84% now have positive real policy rates, up from 5% in mid-2022.[6]

Expectations are that progress on inflation and growth in ex U.S. markets may be at risk by way of Washington's protectionist trade policies, which could strengthen the dollar. Yet, we believe the unique characteristics of frontier markets may help buffer them from the worst of U.S. trade risks.

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2 Holdings data as of March 31, 2025.
5 Diversification neither assures a profit nor guarantees against loss in a declining market.
6 Source: International Monetary Fund estimates as of September 2024.

Further, aside from Vietnam, frontier economies tend to rely more on domestic demand and represent a small piece of the overall global trading system, accounting for just 8.6% of global exports compared to China's 15.6%.[7] As such, these markets are generally less interconnected globally and consequently less sensitive to international trade policies. For example, trade accounts for only a third of GDP in countries such as Egypt, Kenya and Pakistan.[7]

Markets have recognized that frontier economies are less vulnerable to tariffs. Across frontier markets, equity and currency performance was muted in the aftermath of the U.S. election, demonstrating favorable correlation characteristics in a time of increasing trade uncertainty.

Empowered "Middle" Powers

Large middle powers remain overlooked amid the global focus on the U.S.-China trade war. We think countries such as Indonesia, Egypt, Pakistan and Nigeria are poised to step into the spotlight. These nations have large, domestic demand-driven economies and play crucial roles in regional geopolitics, making them increasingly relevant on the global stage. While middle powers may not be wealthy by traditional measures, they are home to large and rapidly growing middle classes that are beginning to assert themselves on the global stage.

Given the geopolitical backdrop, many middle powers will likely become magnets for geostrategic aid and investment from the U.S., China and the Gulf states, enabling them to build critical infrastructure and stimulate future private investment.

Fastest-Growing Consumer Bloc in the World

As financial capital investments surge, many frontier and small EMs should benefit from an influx of human capital. Countries like Vietnam, Indonesia, the Philippines, Pakistan, Bangladesh, Egypt and Nigeria (each with populations exceeding 100 million) collectively represent over 1.2 billion people.[8] Over the next decade, they will add approximately 132 million people to their labor force, essentially adding the equivalent of another Mexico.[9]

This demographic expansion stands in stark contrast to the global trend, where many regions face slower growth or decline in their working-age populations. Over the same period, China is expected to lose nearly 60 million workers and the European Union will lose over 20 million, while the U.S. will see a modest increase of 3 million.[9] Strong growth in the working-age population fuels economic growth, driving demand for consumer goods such as staples, fashion, appliances and automobiles, which should translate into strong revenue and earnings growth for publicly traded stocks in these markets.

Further, despite global volatility, we think select consumer themes should persist. For example, Indonesia will continue to need more hospitals and we continue to believe that Vietnam will shift from wet markets—where the majority of grocery spending currently occurs—to formal retail, regardless of geopolitical tensions.

Local Brands Taking Share from Global Players

We are witnessing a shift towards local brands in everyday consumer product sectors, and as frontier populations increase their spending on these products, we expect local brands to continue capturing market share from global brands across certain categories.

The strong dollar has made imported global branded products, often priced in U.S. currency, significantly more expensive. In response, many of the companies in which we invest are offering high-quality alternatives that resonate with local consumers seeking better value. We have seen this change across multiple markets, from dairy and pet food in Southeast Asia to cosmetics in Egypt. Rising nationalism and a backlash against global brands are also prompting consumers to re-think their choices, particularly in categories such as quick-service restaurants.

Further, the internet has leveled the playing field. E-commerce and food delivery platforms have commoditized trust, creating an opening for local brands to directly compete without needing to incur steep upfront costs in marketing or distribution, given unlimited website shelf space. Local brands can be showcased alongside global brands—e.g., private label cosmetics from a local South Asian cosmetics company next to a European cosmetics behemoth on an e-commerce website. We expect the competitive advantage for local brands to surge, given many products are half the cost price versus global products, with similar ratings.

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7 Source: Haver Analytics. Data as of September 30, 2024.
8 Source: World Bank December 2023.
9 Source: Haver Analytics, United Nations Population Database. Data as of December 31, 2024.

Fund Facts

Inception Date	August 25, 2008
Minimum Initial Investment ($)*	A Shares - 1,000
	I Shares - 1,000,000
Benchmark	Primary- MSCI Frontier Emerging Markets Net Index
	Custom- Blended Index
Class I expense ratio	**Gross 2.47 %**
	Net 1.25 %
Class A expense ratio	**Gross 2.84 %**
	Net 1.60 %

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 March 31, 2025	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR
Class I Shares at NAV	-3.05	-6.85	-6.85	-1.16	-2.85	5.55	-0.99
Class A Shares at NAV	-3.01	-6.91	-6.91	-1.47	-3.20	5.16	-1.33
Class A Shares (With Max 5.25% Sales Charge)	-8.12	-11.78	-11.78	-6.65	-4.92	4.04	-1.86
MSCI Frontier Emerging Markets Net Index	3.74	6.76	6.76	7.45	1.09	9.02	1.36
Blended Index	3.74	6.76	6.76	7.45	1.09	11.19	3.93

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.

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.

Further to the prospectus supplement issued on April 30, 2021 and subject to shareholder approval secured on August 6, 2021, the MSIF Emerging Markets Small Cap Portfolio was merged into the MSIF Next Gen Emerging Markets Portfolio on or about Friday August 13, 2021.

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

INDEX INFORMATION

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 **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 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. 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).

IMPORTANT INFORMATION

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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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