Morgan Stanley
INVESTMENT MANAGEMENT

COMMENTARY
December 31, 2023

Morgan Stanley Institutional Fund
Ultra-Short Income Portfolio

GLOBAL LIQUIDITY TEAM

Performance Review

In the quarter period ending December 31, 2023, the Portfolio's IN shares returned 1.52% (net of fees)[1], while the benchmark returned 1.37%.

Market Review

At the Federal Open Market Committee's (FOMC) meeting in December 2023, officials voted to hold rates steady at a range of 5.25% to 5.50%. The press release was relatively unchanged, but a couple tweaks underscored the shifting tone of the meeting compared to previous meetings, with a Federal Reserve (Fed) that appears content with the progress and momentum made on its price stability mandate and that is likely at a peak rate for this cycle.

The December 2023 meeting included an update of the Fed's summary of economic projections. The Fed's dot plot showed officials' median projection for the benchmark rate at the end of 2024 was revised lower by 50 basis points[2] compared to September, anticipating a fed funds rate of 4.6% compared to 5.1% only three months earlier. Coupled with a lower year-end 2023 rate compared to September projections, the meeting and subsequent press conference were perceived as dovish, which further exacerbated the rally in rates and expectations for easing priced into the market for 2024. The yield on the policy-sensitive 2-year Treasury touched highs on October 18 at 5.22%, before rallying almost a full 100 basis points to 4.25% by year-end.[3]

Positive factors affecting the Fund's performance in the quarter were the duration extension closer to its guideline maximum in October and November while the market still anticipated a small probability of additional tightening in 2023 with easing in the second half of 2024. As a result of the subsequent rally in the second half of the quarter and the timing of the first rate cut pushed forward to March 2024, the mark-to-market values of existing fixed-rate holdings increased. Additionally, there was minimal year-end technical volatility in the wholesale funding market and spreads tightened throughout December, putting existing holdings further in the money. As a result of the combined rate and spread rally throughout the quarter, the Fund's net asset value (NAV) increased from $9.98 on September 30, 2023, to $9.99 by December 31, 2023.

Legacy fixed-rate securities that were purchased prior to the curve steepening lost some of their mark-to-market value, but did not contribute to movement in NAV.

Portfolio Activity and Outlook

We remain comfortable managing the portfolio with elevated levels of daily and weekly liquidity.

High allocations to SOFR (secured overnight financing rate) and OBFR (overnight bank funding rate) floating-rate notes (FRNs) helped contribute to minimal volatility in the Fund's NAV throughout the first half of the quarter as the short end of the curve steepened. As of December 31, 2023, 46% of portfolio is allocated to SOFR and OBFR FRNs. SOFR and OBFR FRNs reset daily and immediately reprice following each subsequent interest rate hike and help preserve capital as the yield curve steepens.

With the Fed almost certainly at the peak fed funds rate, and the next move likely lower but the timing of the first cut remaining unclear, we opportunistically added duration throughout the quarter closer to the guideline max of 90 days. We anticipate remaining comfortable with this duration profile as we likely enter a Fed easing cycle as 2024 progresses.

Portfolio composition remains high rated and liquid, with no exposure to China.

We continue to maximize the Fund's allowable exposure to A2/P2 rated securities. We believe these securities remain attractive given their yield pickup over A1/P1 paper and diversification away from the financial sector that dominates the commercial paper/certificates of deposit A1/P1 market.[4]

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[1] Source: Morgan Stanley Investment Management. Data as of December 31, 2023. Performance for other share classes will vary.
[2] One basis point = 0.01%
[3] Source: Bloomberg L.P.
[4] Diversification neither assures a profit nor guarantees against a loss in a declining market.

Fund Facts

Inception Date	April 28, 2016
Minimum Initial Investment ($)*	A Shares - 1,000
	IN Shares - 5,000,000
	IR Shares - 10,000,000
Benchmark	ICE BofAML 3-Month U.S. Treasury Bill Index
Class IN expense ratio	**Gross 0.34 %**
	Net 0.30 %
Class A expense ratio	**Gross 0.54 %**
	Net 0.39 %
Class IR expense ratio	**Gross 0.29 %**
	Net 0.25 %

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.

Performance (%)

As of December 31, 2023	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR	SINCE INCEPTION
Class IN Shares at NAV	0.47	1.52	5.57	5.57	2.42	2.05	--	1.82
Class A Shares at NAV	0.57	1.51	5.52	5.52	2.36	1.94	--	1.68
Class IR Shares at NAV	0.58	1.53	5.63	5.63	2.48	2.10	--	1.87
ICE BofAML 3-Month U.S. Treasury Bill Index	0.47	1.37	5.01	5.01	2.15	1.88	--	1.61

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.

INDEX INFORMATION

The **ICE Bank of America Merrill Lynch 3-Month U.S. Treasury Bill Index** is an unmanaged index of short-term U.S. government securities with a remaining term to final maturity of less than three months. 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 **London Interbank Offered Rate (LIBOR)** is the short-term interest rate that banks charge one another and that is generally representative of the most competitive and current cash rates available.

The **Secured Overnight Financing Rate (SOFR)** is a benchmark rate for U.S. dollar-denominated loans and securities based on overnight transactions in the U.S. Treasury repurchase market.

The Indexes are unmanaged and do 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. 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 these portfolios Please be aware that these portfolios may be subject to certain additional risks. **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

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

issuer and general market liquidity (market risk). In a rising interest-rate environment, bond prices may fall and may result in periods of volatility and increased portfolio redemptions. In a declining interest-rate environment, the portfolio may generate less income. **Longer-term securities** may be more sensitive to interest rate changes. The Portfolio is more susceptible to any economic, business, political, regulatory or other developments that adversely affect issuers in the **financial services** industry than a fund that does not concentrate its investments in the financial services industry. **Asset-backed securities** are sensitive to 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. Asset-backed securities are sensitive to 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 U.S. It is possible that these issuers will not have the funds to meet their payment obligations in the future. **Repurchase agreements** are subject to default and credit risks. By investing in **municipal obligations**, the fund may be susceptible to political, economic, regulatory or other factors affecting their issuers. **Foreign securities** are subject to currency, political, economic and market risks. **Illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk). **LIBOR Discontinuance or Unavailability Risk.** The regulatory authority that oversees financial services firms and financial markets in the U.K. has announced that, after the end of 2021, it would no longer persuade or compel contributing banks to make rate submissions for purposes of determining the LIBOR rate. As a result, it is possible that commencing in 2022 , LIBOR may no longer be available or no longer deemed an appropriate reference rate upon which to determine the interest rate on or impacting certain derivatives and other instruments or investments comprising some of the Fund's portfolio.

DEFINITIONS

Weighted average life measures the weighted average of the maturities of the portfolio's individual holdings.

Weighted average maturity measures the weighted average of the maturities of the portfolio's individual holdings, taking into account reset dates for floating rate securities.

Ratings: The rating given by a **Nationally Recognized Statistical Rating Organization ("NRSRO")** is the rating firms' subjective opinion concerning the ability and willingness of an issuer to meet its financial obligations in full and on time. Ratings apply only to portfolio holdings and do not remove the Fund's market risk.

Securities purchased by the Fund (or the issuers of such securities) will carry a rating in the highest two rating categories, A-2, P-2 or F2 or better by S&P, Moody's or Fitch, respectively, or the equivalent by another NRSRO, or if unrated, considered by the Adviser to be of equivalent quality.

IMPORTANT INFORMATION

The views and opinions and/or analysis expressed are those of the investment team as of the date of preparation of this material and are subject to change at any time without notice due to market or economic conditions and may not necessarily come to pass. Furthermore, the views will not be updated or otherwise revised to reflect information that subsequently becomes available or circumstances existing, or changes occurring, after the date of publication. The views expressed do not reflect the opinions of all investment personnel at Morgan Stanley Investment Management (MSIM) and its subsidiaries and affiliates (collectively "the Firm"), and may not be reflected in all the strategies and products that the Firm offers.

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Certain information herein has been prepared on the basis of publicly available information, internally developed data and other third-party sources believed to be reliable. However, no assurances are provided regarding the reliability of such information and the Firm has not sought to independently verify information taken from public and third-party sources.

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.

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