Morgan Stanley

INVESTMENT MANAGEMENT

Morgan Stanley Institutional Fund

Ultra-Short Income Portfolio

GLOBAL LIQUIDITY TEAM | COMMENTARY | CLASS IN SHARES | JUNE 30, 2021

Performance Review

In the quarter period ending June 30, 2021, the Portfolio's IN shares returned 0.02% (net of fees)[1], while the benchmark returned 0.00%.

Market Review

The wholesale funding market remained well bid throughout the second quarter of 2021. Excess cash on the short end of the curve caused LIBOR to rally to all-time lows on June 14 at 0.118%, but it ended the period at 0.14575% following technical adjustments to administered rates at the June Federal Open Market Committee (FOMC) meeting. Spreads remained fairly static throughout the quarter, with the market pricing in an interest rate hike in the second half of 2022.

Portfolio Activity and Outlook

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

We continue to maintain the duration of the portfolio near the Fund limit of 90 days weighted average maturity (WAM). We prefer the rolldown and liquidity benefits of fixed-rate securities over floating-rate securities. Despite this preference, throughout the quarter we did increase exposure to SOFR floating rate notes, whose coupons immediately reset higher following the technical adjustment to administered rates made at the June FOMC meeting.

Portfolio composition remains high rated and liquid, with no exposure to China and minimal exposure to asset-backed commercial paper.

We continue to maximize the Fund's allowable exposure to A2/P2 rated securities, which we believe 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.[2]

Exposure to fixed-rate securities positively contributed to Fund performance in the quarter, allowing high yielding securities to remain on the books until maturity, compared to LIBOR-referencing floating-rate notes whose coupons would have reset lower upon each subsequent reset date . Both LIBOR exposure and the relatively short maturity profile of our Fund contributed to the declining gross yield of the portfolio throughout the quarter, as reinvestment options remained challenging against a backdrop of a flat money market yield curve.

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1 Source: Morgan Stanley Investment Management Limited. Data as of June 30, 2021.
2 Diversification neither assures a profit nor guarantees against loss in a declining market.

FUND FACTS

Launch date	Base currency	Index
April 28, 2016	U.S. dollars	ICE BofAML 3-Month U.S. Treasury Bill Index

Performance (%)

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

	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR	SINCE INCEPTION
MSIF Ultra-Short Income Portfolio - IN Shares	0.01	0.02	0.06	0.14	1.39	1.34	--	1.31
ICE BofAML 3-Month U.S. Treasury Bill Index	0.00	0.00	0.02	0.09	1.34	1.17	--	1.14

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 0.36% for Class IN shares and the net expense ratio is 0.30%. 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 IN shares. Performance for other share classes will vary.

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 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).

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.

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.

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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