Morgan Stanley
INVESTMENT MANAGEMENT

COMMENTARY
December 31, 2025

Morgan Stanley Institutional Fund

Ultra-Short Income Portfolio

GLOBAL LIQUIDITY TEAM

Performance Review

In the quarter period ending December 31, 2025, the Portfolio's IN shares returned 1.03% (net of fees)[1], while the benchmark returned 0.97%.

Market Review

The fourth quarter of 2025 marked a clear pivot toward monetary easing as labor market conditions softened and economic uncertainty rose following a government shutdown that disrupted data releases. The Federal Reserve (Fed) cut rates at both fourth quarter meetings, lowering the policy rate by 50 basis points since the September cut – totaling 75 basis points for the year, to end 2025 at 3.50%-3.75%.[2] However, internal debate is intensifying, with three dissents at the most recent December meeting. Labor data released after the December Federal Open Market Committee (FOMC) meeting showed rising unemployment and falling job openings, supporting the Fed's shift, though the overall picture remained mixed ahead of more key data that we don't expect to see until January 2026. The December dot plot continued to signal just one cut in 2026, while the Fed ended quantitative tightening and introduced short-term Treasury purchases to support liquidity, alongside record usage of its liquidity backstop. Inflation moderated but remains above target, around 2.7%-3.0%, while Treasury yields fell sharply over the year, and corporate credit spreads remained stable. 2025 saw the largest one-year yield decline in rates since December 2020, with the 2-year Treasury yield rallying 79 basis points from the beginning of 2025 and 6 basis points from the start of the fourth quarter, finishing the year at 3.47%. On the final day of 2025, eligible institutions borrowed a record $74.6 billion from the Fed's liquidity backstop (SRF) in exchange for Treasury and agency securities due to elevated funding pressure.

Portfolio Activity and Outlook

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

Increased allocations to fixed-rate securities helped contribute to the Fund's yield remaining at an elevated level following 75 basis points of rate cuts in 2025, slowing reinvestment and reset risk in a lower interest rate environment. However, the book yield of the portfolio continued to decrease as legacy fixed-rate securities matured and we reinvested the proceeds in a lower interest rate environment. As of quarter-end, the Fund is currently composed of 56% fixed-rate securities.

We are keeping the Fund's duration profile near the guideline limits of 90 days, as the Fed projects one additional cut in 2026.

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[3] away from the financial sector that dominates the commercial paper/certificates of deposit A1/P1 market.

1 Source: Morgan Stanley Investment Management. Data as of December 31, 2025. Performance for other share classes will vary.
2 One basis point = 0.01%
3 Diversification neither assures a profit nor guarantees against 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 BofA 3-Month U.S. Treasury Bill Index
Class IN expense ratio	**Gross 0.35 %**
	Net 0.30 %
Class A expense ratio	**Gross 0.55 %**
	Net 0.40 %
Class IR expense ratio	**Gross 0.30 %**
	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, 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 December 31, 2025	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR	SINCE INCEPTION
Class IN Shares at NAV	0.33	1.03	4.46	4.46	5.16	3.43	--	2.46
Class A Shares at NAV	0.33	1.00	4.36	4.36	5.08	3.36	--	2.33
Class IR Shares at NAV	0.34	1.04	4.51	4.51	5.22	3.48	--	2.52
ICE BofA 3-Month U.S. Treasury Bill Index	0.35	0.97	4.18	4.18	4.81	3.17	--	2.24

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 BofA 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

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

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.

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 (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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