Morgan Stanley
INVESTMENT MANAGEMENT

COMMENTARY
August 31, 2024

Morgan Stanley Institutional Fund

U.S. Real Estate Portfolio

GLOBAL LISTED REAL ASSETS TEAM

Performance and Market Review

In the one month period ending August 31, 2024, the Fund's I shares returned 6.30% (net of fees)[1], while the FTSE Nareit Equity REITs Index (benchmark) returned 6.41%.

U.S. real estate securities surged (FTSE Nareit Equity REITs Index, "the Index," 6.41%) and significantly outperformed the broader equity market (S&P 500 Index, 2.43%) for the month. The Fund modestly underperformed the Index, gaining 6.30% (Class I shares net of fees).

Equities ended August higher, but the month began with extreme market volatility and some sharp stock market declines, as investors reacted to weak economic data and priced in several interest rate cuts by the end of the year. However, data later in the month along with strong corporate earnings provided some reassurance as equities lagged listed real estate for the period. Within the Index, the self-storage sector was a top performer in August, benefiting from high operating margins, low capital expenditure needs and need-based demand. Apartments was another outperformer as the for-sale housing market remains challenged. Seniors housing health care was also a top performer for the month, given the continued favorable operating environment, with a decline in new construction over the last two years and population growth within the 80+ age cohort accelerating. Skilled nursing also outperformed, as tenant operations appear to have bottomed and are improving. The cold storage industrial sector was a key underperformer and the only sector posting negative returns for the month as throughput volumes remain depressed. The logistics industrial sector also underperformed as new supply remains elevated and leasing demand slows. The office sector was another underperformer, as depressed leasing, pricing and occupancy, in conjunction with an elevated expense structure, continue to present major headwinds for sector.

The Fund's security selection in single-family rentals and net lease (excluding retail), the underweight to the logistics industrial sector, and overweight to self-storage were top contributors to relative performance. These contributions were partially offset by the Fund's overweight to the cold storage industrial sector, out-of-benchmark position in towers, and security selection in shopping centers and life science health care.

Strategy

The team uses internal proprietary research to invest in public real estate companies that we believe offer the best value relative to their underlying assets and growth prospects. The team combines a bottom-up approach, assessing the intrinsic value, equity multiples and growth prospects of each security, with a top-down view that incorporates fundamental inflection points, macroeconomic considerations and geopolitical risk. By incorporating both an equity market valuation and a more traditional real estate valuation with a top-down overlay, we believe the Fund will be better prepared to identify securities with the best expected total returns.

Outlook

Given the expected stabilization in interest rates across the globe, the start of interest rate cuts in certain countries, and strong and growing expectations of imminent interest rate cuts by the Federal Reserve in the second half of 2024, forecasted returns for the asset class are positive. While changing market sentiment and expectations about the magnitude of interest rate cuts may cause volatility in the overall real estate sector returns, the longer-term outlook remains favorable. Moreover, we believe relative strength in cash flows can be expected given the unique nature of listed real estate. Specifically, contracted rental streams with inflation-linked escalations and the necessity-based nature of real estate—the listed real estate market evolves and grows with the broader needs of society and the economy and sits at the epicenter of how people live, work, shop and communicate—coupled with limited new real estate supply additions in the vast majority of sectors, should result in cash flow growth.

Additionally, secular themes driving demand for necessity-based real estate, including Technology and Innovation, Aging Demographics, Housing Shortages and Affordability, Global Supply Chain Reorganization and Onshoring, and External Growth

[1] Source: Morgan Stanley Investment Management. Data as of August 31, 2024. Performance for other share classes will vary.

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Opportunities, are powerful catalysts that we believe can propel growth above expectations for years to come and ultimately reset valuations higher in exposed sectors. Finally, we believe the relative valuation of real estate securities is attractive, specifically when compared to direct property investment and the broader equities market, and is presenting an interesting pricing arbitrage opportunity for investors.

Secular trends will result in winners and losers for real estate.

- In retail, secular headwinds remain; however, the physical store remains an important point of distribution for retailers. We favor the outlook for nondiscretionary, grocery and convenience-oriented retail landlords. Tenant bankruptcy watch lists are stable, and the pipeline of new tenants looking to enter high quality retail centers is surprisingly strong. New supply is non-existent.
- Work-from-home (WFH) policies will likely be a permanent overhang on office demand, and related uncertainty regarding future office absorption is expected to remain an open question for several more years. Utilization rates remain stubbornly low versus 2019 levels, with high levels of vacancy and sublease space available across key markets. Despite value and demand deterioration broadly, the market is beginning to recognize and appreciate that well located, class A office buildings will likely remain a store of value and could present interesting opportunities for investment.
- In lodging, leisure demand is seeing some moderation from record high levels; however, business and group travel is improving, although is expected to remain below pre-COVID levels. New supply remains below historical averages.
- In residential, affordability concerns regarding homeownership, given high mortgage rates and home prices, has led to increasing rental demand for both traditional multi-family and single-family rentals. However, we are closely monitoring the impacts of lower interest rates and mortgage costs on the rental market, as this could dampen demand in the medium term. New supply growth in multi-family is above the historical trend, particularly in Sunbelt markets, but is beginning to moderate.
- In industrial, longer-term trends remain solid, driven by the continued need to modernize logistics distribution and a growing trend towards onshoring, which has resulted in record-low vacancy and double-digit revenue growth for warehouses. However, new supply is significantly above average and currently outpacing demand, despite these favorable secular tailwinds. Additionally, tenants are displaying less urgency in decision-making, elongating the sales cycle for lease signing. While new market rent growth is moderating and vacancy is modestly increasing, the embedded growth remains among the highest within commercial real estate and is expected to fuel outsized cash flow growth for several years. Additionally, new supply growth is expected to moderate significantly into 2025.
- In self-storage, fundamentals are moderating but are beginning to show very early signs of stabilization. The slowdown in the broader housing market has negatively impacted demand for self-storage, and a turnaround in the housing transaction market will likely fuel increased demand for storage. New market rents are deteriorating; however, existing customer renewals remain positive. New supply remains below historical averages.
- In health care, the necessity-based nature of seniors housing demand is anticipated to insulate fundamentals from macro headwinds. The aging of the population, as evidenced by the growth in the 80 years and above age cohort, is expected to serve as a significant demand driver for seniors housing through the remainder of the decade, with a compound annual growth rate in that age cohort in excess of 4% through 2030.[2] New supply is below historical averages.
- In data centers, data growth facilitating the digital economy and new technologies, including artificial intelligence (AI), continues to provide a robust backdrop for new demand. New supply is more limited than in the past, given power availability challenges, which has resulted in a favorable environment for landlords to increase rents. These power availability challenges are anticipated to remain a critical issue going forward, and advancements in AI are proving to be an incremental demand driver to the sector.

Fund Facts

Inception Date	February 24, 1995
Minimum Initial Investment ($)*	A Shares - 1,000
	I Shares - 1,000,000
Benchmark	FTSE Nareit Equity REITs Index
Class I expense ratio	**Gross 1.78 %**
	Net 0.70 %
Class A expense ratio	**Gross 2.06 %**
	Net 1.05 %

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

[2] Source: U.S. Census Bureau.

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

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 August 31, 2024	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR
Class I Shares at NAV	6.30	12.11	12.83	20.92	1.07	2.65	3.69
Class A Shares at NAV	6.33	12.14	12.52	20.56	0.74	2.33	3.36
Class A Shares (With Max 5.25% Sales Charge)	0.75	6.22	6.58	14.21	-1.05	1.23	2.80
FTSE Nareit Equity REITs Index	6.41	13.03	12.88	22.27	2.23	5.50	6.89

Performance (%)

As of June 30, 2024	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR
Class I Shares at NAV	2.76	0.75	0.64	7.65	-0.78	0.37	2.79
Class A Shares at NAV	2.68	0.58	0.34	7.20	-1.13	0.03	2.45
Class A Shares (With Max 5.25% Sales Charge)	-2.66	-4.74	-4.95	1.63	-2.89	-1.04	1.90
FTSE Nareit Equity REITs Index	2.89	0.06	-0.13	7.79	0.30	3.90	5.90

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.

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.

INDEX INFORMATION

The **FTSE Nareit (National Association of Real Estate Investment Trusts) Equity REITs Index** is a free float-adjusted market-capitalization-weighted index of tax qualified REITs listed on the New York Stock Exchange, NYSE Amex and the NASDAQ National Market Systems. 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 **Standard & Poor's 500® Index (S&P 500®)** measures the performance of the large cap segment of the U.S. equities market, covering approximately 80% of the U.S. equities market. The Index includes 500 leading companies in leading industries of the U.S. economy.

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 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. **Real estate investments, including real estate investment trusts** (REITs), are subject to risks similar to those associated with the direct ownership of real estate and they are sensitive to such factors as management skills and changes in tax laws. **Nondiversified portfolios** often invest in a more limited number of issuers. As such, changes in the financial condition or market value of a single issuer may cause greater volatility. 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.

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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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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