

Morgan Stanley Institutional Fund

U.S. Real Estate Portfolio

REAL ASSETS | GLOBAL LISTED REAL ASSETS TEAM | COMMENTARY | APRIL 30, 2019

Performance

In the one month period ending April 30, 2019, the Fund's I shares returned -0.07% (net of fees)¹, while the benchmark returned -0.24%.

The Fund modestly outperformed the benchmark, the FTSE Nareit Equity REITs Index, for the month. Real estate shares declined 0.2% in the month. As a result, the sector has gained 16.1% on a year-to-date basis.

In April, REITs declined 0.2%, underperforming the broader equity market as the yield on the 10-year Treasury advanced 10 basis points (bps) in the month after declining 20 bps in the latter half of March. Among the primary sectors, the office sector modestly outperformed, the apartment sector performed in-line and the retail sector underperformed the index. The office sector outperformed as the primary central business district (CBD) REITs outperformed, while the secondary CBD/suburban REITs underperformed the index. The retail sector underperformed as both the mall and shopping center stocks underperformed the index. The mall stocks were the weakest sector in the month. The underperformance appeared to be due to negative investor sentiment surrounding a well-publicized analyst report that projected a continued multi-year pace of store closures. The health care sector underperformed in the month. Among the smaller sectors, the industrial, hotel, storage and data center sectors outperformed and the net lease sector modestly underperformed in the month.

Attribution

The Fund modestly outperformed the index in the month. From a bottom-up perspective, the Fund benefited from stock selection in the diversified, industrial and net lease sectors. This was partially offset by stock selection in the primary CBD office sector. From a top-down perspective, the Fund benefited from the overweight to the primary CBD office sector and underweight to the health care sector. This was offset by the overweight to the mall sector and underweight to the industrial sector.

Strategy

We have maintained our core investment philosophy as a real estate value investor. This results in the ownership of stocks whose share prices provide real estate exposure at the best valuation relative to their underlying asset values. We continue to focus on relative implied valuations as a key metric. Our company-specific research leads us to an overweighting in the Fund to a group of companies that are focused in the ownership of NYC office assets, Class A malls and quite a number of stocks in the shopping center, office, hotel and apartment sectors and an underweighting to companies concentrated in the ownership of health care, data center and net lease assets.

Outlook

Our outlook for the REIT market is based on two key factors: private market pricing for underlying real estate assets and public market pricing for the securities. Private market asset values for high-quality assets have generally been flattish since 2016 and appear well supported by a record level of capital committed to invest in real estate. The overall REIT market ended the month trading at an approximate 8% premium to net asset values (NAVs), although there is a significantly wider than typical disparity in

¹ Source: Morgan Stanley Investment Management. Data as of April 30, 2019.

relative valuations among the REIT sectors, with various segments trading at meaningful discounts. We see the most attractive value in the owners of NYC office assets. We also see attractive value in high-quality retail, CBD office, hotel and residential stocks. These companies provide exposure to high-quality core assets at significant discounted valuations.

FUND FACTS

Launch date	Base currency	Index
February 24, 1995	U.S. dollars	FTSE Nareit Equity REITs Index

Performance (%)

As of date April 30, 2019 (Class I Share at NAV)

	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR	SINCE INCEPTION
MSIF U.S. Real Estate Portfolio - I Shares	-0.07	-0.07	14.89	13.10	4.08	6.44	13.46	11.48
FTSE Nareit Equity REITs Index	-0.24	-0.24	16.06	18.88	6.90	8.36	15.10	10.63

Performance (%)

As of date March 31, 2019 (Class I Share at NAV)

	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR	SINCE INCEPTION
MSIF U.S. Real Estate Portfolio - I Shares	2.13	14.97	14.97	14.60	3.11	7.25	16.61	11.53
FTSE Nareit Equity REITs Index	3.35	16.33	16.33	20.86	6.13	9.12	18.28	10.68

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 0.97% for Class I shares and the net expense ratio is 0.90%. 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 I 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 and that the value of portfolio shares may therefore be less than what you paid for them. 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 mediumcapitalization companies** entail special risks, such as limited product lines, markets and financial resources, and greater market volatility than securities of larger, more established companies. When investing in **value securities**

(those believed to be undervalued in comparison to their peers), the market may not have the same value assessment as the manager, and, therefore, the performance of the securities may decline.

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 index is unmanaged and does not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

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 objectives, risks, charges and expenses of the fund carefully before investing. The prospectus contains this and other information about the fund. To obtain a prospectus, contact your financial advisor or download one at morganstanley.com/im. Please read the prospectus carefully before investing.

Morgan Stanley Investment Management is the asset management division of Morgan Stanley.

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