

Morgan Stanley Institutional Fund International Equity Portfolio

4Q18
FACTSHEET

Investment Approach

The investment team believes that the best route to superior returns is through long-term compounding and seeking a measure of downside protection. The International Equity Portfolio is actively managed by consistently applying strict investment criteria to help identify attractive businesses at a discount to their long-term fair value. In-depth fundamental company research is paramount to the team's bottom-up stock selection process with emphasis on companies with high or improving Returns on Operating Capital Employed, recurring cash flows and capable management. This investment discipline is maintained by strict adherence to the team's longstanding investment process and cash-flow-based valuation criteria.

Objective

Seeks long-term capital appreciation by investing primarily in equity securities of non-U.S. issuers.

Lipper Category

International Large-Cap Growth

Morningstar Category

Foreign Large Blend

Investment Team

	Joined Firm	Years of Investment Experience
William Lock, Managing Director	1994	27
Bruno Paulson, Managing Director	2009	25
Dirk Hoffmann-Becking, Executive Director	2013	21
Nic Sochovsky, Executive Director	2015	21
Vladimir A. Demine, Executive Director	2009	17
Nathan Wong, Executive Director	2017	19
Marcus Watson, Executive Director	2008	11
Alex Gabriele, Executive Director	2012	10
Richard Perrott, Vice President	2015	13

Investment Performance - Class I (% net of fees)[†]

% Average Annual Total Returns	1 Year	3 Year	5 Year	10 Year	Inception [†]
Fund	-13.80	1.88	-0.07	5.51	7.75
MSCI EAFE Index ¹	-13.79	2.87	0.53	6.32	4.13
Lipper Category Average	-14.32	2.77	0.66	6.48	-
Morningstar Category Average	-14.58	2.64	0.11	5.93	-

% Calendar Year Returns	4Q18	YTD	2018	2017	2016	2015	2014
Fund	-12.62	-13.80	-13.80	25.17	-2.00	0.36	-6.08
MSCI EAFE Index	-12.54	-13.79	-13.79	25.03	1.00	-0.81	-4.90
Lipper Category Average	-12.85	-14.32	-14.32	27.28	-1.14	-3.39	-4.82
Morningstar Category Average	-12.65	-14.58	-14.58	25.12	0.79	-1.59	-4.98

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 or call 1-800-548-7786. Investment returns and principal value will fluctuate and fund shares, when redeemed, may be worth more or less than their original cost.

[†] Inception returns reflect the inception date of the fund.

Performance and fund information is as of December 31, 2018, unless otherwise noted. Returns are net of fees and assume the reinvestment of all dividends and income. Returns for less than one year are cumulative (not annualized). Performance of other share classes will vary.

Expense Ratios	Symbol	Cusip	Gross (%)	Net (%)
Class A	MIQBX	61744J499	1.31	1.30
Class C	MSECX	61760X372	2.41	2.05
Class I	MSIQX	61744J408	0.99	0.95
Class IS	MIQPX	61760X760	0.91	0.91

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 for Class I shares.

Shares of the portfolio redeemed within 30 days of purchase will be subject to a 2% redemption fee, payable to the portfolio. The redemption fee is designed to protect the portfolio and its remaining shareholders from the effects of short-term trading.



Morningstar Analyst Rating

Morningstar Analysts have rated the fund a bronze medal (effective 1/18/2018). Fewer than 12% of the U.S. Open End funds have a medalist rating (effective 3/31/18).[^]

Morningstar Rankings - Class I Foreign Large Blend Category

	Percentile	Rank/ Total in Category
1 Year	37	199/737
3 Year	70	398/635
5 Year	58	246/506
10 Year	64	231/379

Source: Morningstar, Inc. Rankings are based on total returns, are historical and do not guarantee future results.

Fund Facts

Inception date	August 04, 1989
Total net assets (\$MM)	\$ 2,441.0
Benchmark	MSCI EAFE Index
Distribution frequency	At least annually

Portfolio Characteristics

	Fund	Index
Number of holdings	55	920
Price/earnings (NTM) ²	13.12	11.86
Turnover (%) [*]	18	-

Risk/Return Statistics (3 Year)

	Fund	Index
Active share (%)	82.89	-
Excess Return (%)	-1.00	-
Alpha (%)	-0.78	-
Beta (vs. benchmark)	0.88	1.00
Information ratio	-0.22	-
R squared	0.84	1.00
Sharpe ratio	0.08	0.17
Standard deviation (%)	10.99	11.40
Tracking error (%)	4.61	-

Top Countries (% of Total Net Assets)

	Fund	Index
United Kingdom	24.36	16.91
France	15.50	11.10
Germany	14.17	8.82
Japan	14.07	24.61
Netherlands	8.27	3.43
Switzerland	5.11	8.65
Canada	4.72	-
Hong Kong	3.22	3.91
China	3.13	-
South Korea	2.26	-

Sector Allocation (% of Total Net Assets)

	Fund	Index
Consumer Staples	31.46	11.57
Health Care	16.83	11.18
Financials	14.43	19.49
Industrials	12.69	14.31
Information Technology	6.46	5.96
Energy	4.88	5.86
Materials	4.78	7.37
Communication Services	3.93	5.55
Consumer Discretionary	2.89	11.23

Top Holdings (% of Total Net Assets)

	Fund	Index
Reckitt Benckiser Plc	4.40	0.41
Unilever NV	4.28	0.67
Kirin Holdings Company, Limited	3.51	0.14
Novartis AG	3.51	1.48
GlaxoSmithKline Plc	3.36	0.75
Sanofi	3.30	0.78
SAP SE	3.19	0.78
Pernod Ricard	3.10	0.28
Henkel AG & Co. KGaA	3.06	0.16
Safran	2.73	0.32
Total	34.44	-

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.

Past performance is not indicative of future results. Subject to change daily. Fund information is provided for informational purposes only and should not be deemed as a recommendation to buy or sell any security or securities in the sectors and countries presented.

The index data displayed under allocations are calculated using MSIM and other third-party methodologies and may differ from data published by the vendor.

† **Please keep in mind that 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.**

PORTFOLIO CHARACTERISTICS DEFINITIONS: Price/earnings (P/E) is the price of a stock divided by its earnings per share. Sometimes called the multiple, P/E gives investors an idea of how much they are paying for a company's earning power. **Return On Capital Employed (ROCE)** is a ratio indicating the efficiency and profitability of a company's capital. Calculated as: earnings before interest and taxes/total assets less current liabilities. Financials and Real Estate sectors are excluded from characteristics where income statement, balance sheet, or cash flow statement ratios are not economically meaningful.

Forecast and estimates are subject to change and may not necessarily come to pass due to changing market and/or economic conditions.

RISK/RETURN DEFINITIONS: **Active Share** is the fraction of the portfolio or fund that is invested differently than its benchmark as of the last day of the reporting period. A portfolio with a high degree of Active Share does not assure a fund's relative outperformance. **Active Share** calculation may consolidate holdings with the same economic exposure. **Excess Return** or value added (positive or negative) is the portfolio's return relative to the return of the benchmark. **Alpha** (Jensen's) is a risk-adjusted performance measure that represents the average return on a portfolio or investment above or below that predicted by the capital asset pricing model (CAPM) given the portfolio's or investment's beta and the average market return. Prior to 6/30/2018 Alpha was calculated as the excess return of the fund versus benchmark. **Beta** is a measure of the relative volatility of a security or portfolio to the market's upward or downward movements. A beta greater than 1.0 identifies an issue or fund that will move more than the market, while a beta less than 1.0 identifies an issue or fund that will move less than the market. The Beta of the Market is always equal to 1. **Information ratio** is the portfolio's alpha or excess return per unit of risk, as measured by tracking error, versus the portfolio's benchmark. **R squared** measures how well an investment's returns correlate to an index. An R squared of 1.00 means the portfolio performance is 100% correlated to the index, whereas a low R-squared means that the portfolio performance is less correlated to the index. **Sharpe ratio** is a risk-adjusted measure calculated as the ratio of excess return to standard deviation. The Sharpe ratio determines reward per unit of risk. The higher the Sharpe ratio, the better the historical risk-adjusted performance. **Standard deviation** measures how widely individual performance returns, within a performance series, are dispersed from the average or mean value. **Tracking error** is the amount by which the performance of the portfolio differs from that of the benchmark.

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. Accordingly, you can lose money investing in this strategy. Please be aware that this strategy may be subject to certain additional risks. In general, **equities securities** values also fluctuate in response to activities specific to a company. Investments in **foreign markets** entail special risks such as currency, political, economic, market and liquidity risks. Investments in **small- and medium- capitalization** companies tend to be more volatile and less liquid than those of larger, more established, companies. The risks of investing in **emerging market** countries are greater than risks associated with investments in foreign developed markets. **Derivative instruments** can be illiquid, may disproportionately increase losses and may have a potentially large negative impact on the portfolio's performance. **Illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk).

▲ **Morningstar Analyst Ratings:** A high rating should not be construed as a guarantee for relatively strong performance. The Morningstar Analyst Rating is not a credit or risk rating. It is a subjective evaluation performed by Morningstar's Manager Research Group ("MRG"). The MRG evaluates funds based on five key pillars, which are process, performance, people, parent, and price. The MRG uses this five pillar evaluation to

determine how they believe funds are likely to perform relative to a benchmark over the long term on a risk-adjusted basis. They consider quantitative and qualitative factors in their research, and the weight of each pillar may vary. The Analyst Rating scale is Gold, Silver, Bronze, Neutral, and Negative. A Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the MRG's conviction in a fund's prospects for outperformance. Analyst Ratings ultimately reflect the MRG's overall assessment, are overseen by an Analyst Rating Committee, and are continuously monitored and reevaluated at least every 14 months. For more detailed information about Morningstar's Analyst Rating, including its methodology, please go to global.morningstar.com/managerdisclosures/.

The Morningstar Analyst Rating (i) should not be used as the sole basis in evaluating a fund, (ii) involves unknown risks and uncertainties which may cause Analyst expectations not to occur or to differ significantly from what they expected, and (iii) should not be considered an offer or solicitation to buy or sell the fund.

Morningstar: Rankings and ratings as of December 31, 2018. **Rankings:** The percentile rankings are based on the average annual total returns for the periods stated and do not include any sales charges, but do include reinvestment of dividends and capital gains and Rule 12b-1 fees. The highest (or most favorable) percentile rank is 1 and the lowest (or least favorable) percentile rank is 100. The top-performing fund in a category will always receive a rank of 1. **Ratings:** The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. Ratings do not take into account sales loads.

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OTHER CONSIDERATIONS

¹ The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the international equity market performance of developed markets, excluding the US & Canada. 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 MSCI EAFE Index currently consists of 21 developed market country indices. The performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends. The index is unmanaged and does not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

² NTM = Next Twelve Months.

³ Country weightings arise from our bottom-up fundamental analysis. The team seeks superior companies that are attractively valued regardless of country of domicile.

* Turnover is sourced from the fund's current prospectus.

Effective December 31, 2017, Christian Derold no longer serves as a portfolio manager for International Equity portfolio.

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 (MSIM) is the asset management division of Morgan Stanley.