

Morgan Stanley

INVESTMENT MANAGEMENT

MORGAN STANLEY INSTITUTIONAL FUND

Emerging Markets Small Cap Portfolio

ACTIVE FUNDAMENTAL EQUITY

GLOBAL EMERGING MARKETS
INVESTMENT IDEA
DECEMBER 2020

SYMBOLS

Class A	MSEOX
Class C	MSEX
Class I	MSEMX
Class IS	MSETX

Why now for emerging markets small caps?

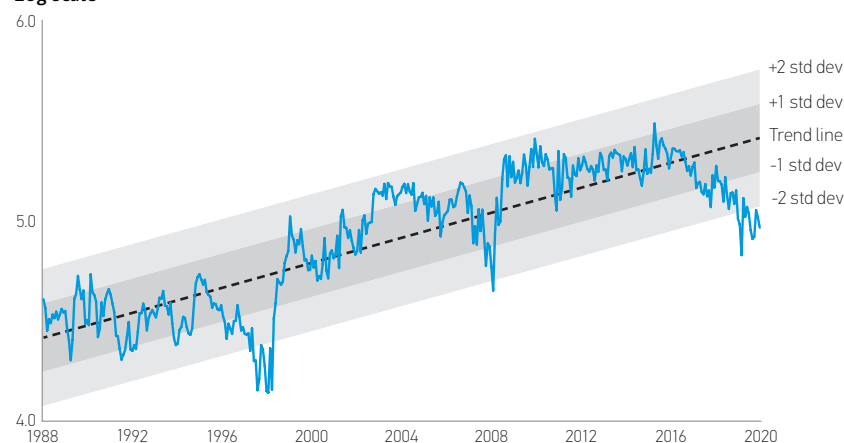
More than ever, we believe the time is right for emerging markets small cap companies. Valuations for the asset class are historically low and small caps are poised to benefit from the next leg of growth in emerging markets. Emerging markets appear to be in the early phases of recovery, and policymakers continue to stimulate the domestic economy because the global export model is broken. Emerging markets small caps' growth largely comes from domestic demand with nearly 60% exposure to these sectors. The performance of the smallest quintile of the universe is currently two standard deviations below performance of the larger-cap index. The dislocation was fueled by a massive run-up in technology and mega-cap stocks in 2017-2018, which caused the big to get bigger. Relative valuations have dropped this low only twice in the past 30 years (1998 and 2008). Both cases were marked by crises and were followed by a significant run-up in relative performance.

A rare entry point

Cumulative price performance ratio: The smallest quintile of stocks in MSCI EM IMI versus the MSCI EM Index. Indexed to 1 at 1988 and shown on a log scale.

December 31, 1988 - December 31, 2020

Log scale



Source: MSIM, Factset, Haver, as of December 31, 2020. Total return indexes, USD. Smallest quintile of emerging markets stocks (cap weighted) versus the MSCI Emerging Markets Index. Performance indexed to 1. **Past performance should not be construed as a guarantee of future performance.**

1 A compelling asset class

Emerging markets small caps may provide portfolio diversification benefits with lower volatility¹ than emerging markets stocks, and the potential for higher returns. Emerging markets small caps are also an under-researched asset class, an inefficiency that can lead to mispricings we actively seek to exploit. We also have a history of expertise in frontier markets and include them in our investment universe to take advantage of the positive investment opportunities and diversification benefits of the region.

2 Deep roots in macro research

The fund is overseen by 25 experienced investors. Within this group, a team devoted to macroeconomic research identifies global themes that drive countries' growth. Country allocation has been the largest contributor to emerging markets returns, and it is where we aim to generate 50% of our excess returns.

3 Concentrated, quality growth

In small caps, a focus on quality is crucial. In the past five years, companies we define as high quality (those with high ROE and low debt) have returned nearly +2% versus -4% for lower quality companies.² We take a concentrated approach to managing our portfolio of 70-90 names that meet our criteria, resulting in a high active share of over 90%.³

¹ Source: MSIM, FactSet, as of December 2020.

² FactSet as of December 31, 2018 (due to company reporting); based on index price performance. High quality was defined as a return on equity (ROE) of over 10% and a net debt to EBITDA ratio of less than 2.5 times.

³ The number of securities provided are a typical range, not a maximum number. The portfolio may exceed this from time to time due to market conditions and outstanding trades. The active share represents a target; there is no assurance this target will be attained.

Investment Team



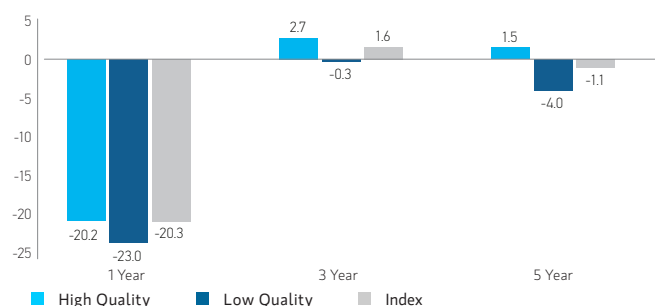
OMAIR ANSARI
Lead Portfolio Manager
Joined MSIM in 2016
15 years of financial industry experience



STEVEN QUATTRY
Portfolio Manager
Joined MSIM in 2011
17 years of financial industry experience

High Quality Matters in EM Small Caps

Performance by Quality
As of December 31, 2018 (%)



Source: FactSet, As of December 31, 2018 (due to company reporting). Based on price index performance. Performance was calculated on stocks in the MSCI EM Small Cap Index. High quality was defined as a return on equity (ROE) of 10% or greater and a net debt to EBITDA ratio of less than 2.5x. Low quality was defined ROE of less than 5% and a net debt to EBITDA ratio of greater than or equal to 4x. MSCI EM Small Cap represents the price return of the entire index. The composites were rebalanced each calendar year and scaled up to a 100% portfolio based on the original weight from the previous year in the index. Returns shown are annualized figures. The index performance is provided for illustrative purposes only and is not meant to depict the performance of a specific investment. Past performance is not indicative of future results.

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.

The gross expense ratio is 1.83% for Class I shares and the net expense ratio is 1.30%. 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 (Trustees) 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.

As of December 31, 2020, unless indicated otherwise. Source: Factset, MSIM. Past performance is not indicative of future results. The index performance is provided for informational purposes only and is not intended to predict or represent the performance of any Morgan Stanley investment or strategy. The indexes are unmanaged and do not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

DEFINITIONS: The MSCI Emerging Markets Investable Market Index (IMI) captures large, mid and small cap representation across 24 Emerging Markets (EM) countries. With 2,712 constituents, the index covers approximately 99% of the free float-adjusted market capitalization in each country. The MSCI Emerging Markets Index (MSCI EM) is a free float-adjusted market capitalization weighted index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Small Cap Index includes small cap representation across 23 Emerging Markets countries. With 1,864 constituents, the index covers approximately 14% of the free float-adjusted market capitalization in each country. The small cap segment tends to capture more local economic and sector characteristics relative to larger Emerging Markets capitalization segments. **Beta** is a measure of the relative volatility of a security or portfolio to the market's upward or downward movements. **Next Twelve Months (NTM)** refers to any financial measure that is being forecasted for the immediate next twelve months from the current date. **Price-Earnings (P/E)** is the price of a stock divided by its earnings per share for the next 12 months. Sometimes called the multiple, P/E gives investors an idea of how much they are paying for a company's earning power. The higher the P/E, the more investors are paying, and therefore the more earnings growth they are expecting. **Standard deviation** shows how much variation or dispersion from the average exists. In finance, standard deviation is applied to the annual rate of return of an investment to measure the investment's volatility. Standard deviation is also known as historical volatility and is used by investors as a gauge for the amount of expected volatility. The **5-Year EPS Growth Rate** is the weighted average of earnings per share growth for all securities in the portfolio projected for the past five fiscal years. Earnings per share for a company is defined as total earnings divided by shares outstanding. Portfolio turnover is a measure of how frequently assets within a fund are bought and sold by the managers. **Portfolio turnover** is calculated by taking either the total amount of new securities purchased or the amount of securities sold - whichever is less - over a particular period, divided by the total net asset value of the fund. **Tracking error** is the amount by which the performance of the portfolio differs from that of the benchmark. **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.

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Portfolio characteristics

A majority share of the portfolio is invested in emerging market countries, with the remaining balance invested in frontier countries.

	FUND	INDEX
Holdings	71	1,693
Price/Earnings (NTM)	19.78	12.16
5 Year EPS Growth (%)	12.51	6.38
Standard Deviation (%)	21.49	23.78
Tracking Error (%)	7.19	—
Active Share (%)	97.54	—
Beta	0.86	1.00

Investment Performance – Class I (% net of fees)

Average Annual Total Return	4Q20	1 YEAR	3 YEAR	5 YEAR	SINCE INCEPTION (12/15/2015)
MSIF Emerging Markets Small Cap	10.91	5.80	0.24	5.54	6.07
MSCI Emerging Markets Small Cap Net Index	22.22	19.29	2.69	8.19	9.07

specific investment strategy. The material contained herein has not been based on a consideration of any individual client 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.

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 this strategy. Please be aware that this strategy may be subject to certain additional risks. In general, **equity securities'** values also fluctuate in response to activities specific to a company. Investments in **foreign markets** entail special risks such as currency, political, economic, and market risks. The risks of investing in **emerging market countries** are greater than the risks generally associated with investments in foreign developed countries. Stocks of **small-capitalization companies** carry special risks, such as limited product lines, markets and financial resources, and greater market volatility than securities of larger, more established companies. **Derivative instruments** may disproportionately increase losses and have a significant impact on performance. They also may be subject to counterparty, liquidity, valuation, correlation and market risks. **Illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk).

Please consider the investment objective, risks, charges and ex-penses 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 you invest or send money.

Morgan Stanley Institutional Fund Inc. (MSIF) is a mutual fund offering various active portfolios, including equity, fixed-income, international, emerging markets, real estate and growth portfolios.

MSIF is managed by Morgan Stanley Investment Management, Inc.

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