Morgan Stanley Institutional Fund

American Resilience Portfolio

INTERNATIONAL EQUITY TEAM

Performance Review

In the quarter period ending September 30, 2024, the Portfolio's I shares returned 8.68% (net of fees)[1], while the benchmark returned 5.89%.

For the third quarter, the Fund's outperformance was mainly due to stock selection, although sector allocation also contributed. The positive selection was due to strength in health care, information technology, financials and industrials, which comfortably overcame communication services weakness. Meanwhile, the primary sources of positive allocation were the overweights to financials and information technology and zero weight to energy. This more than outweighed the drag from the lack of utilities holdings.

Market Review

Despite the July/August volatility, the S&P 500 Index still managed a decent return of +5.9% in the third quarter. This pushed up the index's year-to-date return to a mighty +22%. Interest rate cuts saw utilities (+19%), real estate (+17%) and financials (+11%) finish out in front, whilst news of China's economic stimulus package helped lift industrials (+11%) and materials (+10%). Consumer staples (+9%) and health care (+6%), which showed their worth during the intra-quarter tremor, also finished ahead of the index in the quarter, while questions about the returns on capital that hyperscalers are earning on their fast-accelerating generative artificial intelligence (GenAI) capital expenditure left communication services and information technology (both +2%) toward the bottom of the pile, trailed only by energy (-3%).

Outlook

At the time of writing, consumer staples appear out of favour and somewhat overlooked. Since the end of the pandemic in 2022, while the sector's earnings have grown in the mid-single digits per year,[2] close to the broader market's growth, its stock prices have struggled in relative terms. Notably, compared to the MSCI World Index, consumer staples are now at a near 25-year low in terms of relative valuation and are at their lowest weight in the index this century.[2] In contrast, investor interest has shifted toward more fashionable sectors and themes such as artificial intelligence, global mega-tech and health care innovations aimed at combatting obesity. Despite this trend, we believe the consumer staples sector still encompasses some of the world's most resilient and dependable companies.

High quality characteristics

High quality consumer staples companies can play a crucial role in a portfolio by delivering consistent, reliable growth, driven by recurring revenue from the everyday products they sell. Their typical operating resilience during economic downturns serves as a key advantage, offering relative downside resilience and acting as a stabilising force within the portfolio.

Challenging times

While recent stock price returns for some staples have not met expectations, over the past four years the sector has demonstrated impressive resilience, navigating the pandemic, soaring commodity costs, and numerous emerging market currency devaluations. Despite these challenges, the U.S. dollar sales and earnings of our consumer staples holdings have managed to grow at mid-single-digit levels,[2] affirming their resilience and compounding potential.

The right company in the right categories

As investors, we don't allocate capital by sector but focus on reasonably valued individual companies with strong fundamentals and long-term growth potential. Not all consumer staples fit this profile. In our view, being in the right category where brands matter and the consumer responds to innovation is key. Importantly, companies need to sustain high levels of investment in their brands in the form of marketing, research and development (R&D), supply chain capabilities and talent.

1 Source: Morgan Stanley Investment Management. Data as of September 30, 2024. Performance for other share classes will vary.
2 Source: FactSet. Data as of September 2024.

Being innovative and remaining relevant is crucial

Our holdings across beauty, home care, consumer health and beverages innovate to solve consumer needs. This expands consumer usage and drives category growth. Innovations range from energy-efficient laundry detergents to improved solutions for sensitive teeth, "nolo" (no or low alcohol) and zero-sugar drinks, faster-acting antacids, or improved sun-filtering technology to help protect skin. These innovations are supported by well-invested supply chains and high levels of marketing support, meaning the brand's "share of voice" is above their market share. In so doing, the companies outpace their market and grow share. We avoid food retailers, which are typically low return, capital intensive, price takers – a well-known player in the space is successful precisely because it operates a high volume, low margin business – and mass food producers, whose competitive moats may face threats from local or specialist producers.

Pivoting to where the growth is

Agility is a key attribute we seek in our selection of consumer staples. In a world of economic and geopolitical uncertainty, the ability of management teams leading global operations to swiftly allocate resources – capital, talent and marketing – to the most promising markets is essential.

China's current economic challenges, including rising local government debt, a struggling housing market, deflation and cautious consumers, have led to a marked slowdown in a once fast-growing market. Recent and sizeable stimulus measures may help, but also highlight policymakers' concern for the growth outlook. Fortunately, there is another market of approximately 1.4 billion consumers set to pick up the growth mantle. After years of being the next great hope, we believe India is showing signs its time has come, with its investment in infrastructure, from roads to electricity to digitalisation, contributing to strong gross domestic product and consumption growth. A leading global soft drinks company is investing in 40 new production lines in 2024 to capture this growth opportunity.[3]

The spirits industry has faced recent challenges

Market normalisation in the U.S. following the COVID-induced cocktail boom, coupled with a sluggish consumer recovery in China, has impacted the spirits industry's sales and earnings growth in 2024. The consumer slowdown was further exacerbated by distributor destocking.

We see these issues as cyclical rather than structural. And with the industry's valuation at historically low levels relative to the MSCI World Index, we believe our long-term mindset is likely to be rewarded as the spirits companies we own see their earnings and multiples recover from trough levels.

Why we believe our consumer staples holdings can continue to compound

Looking ahead, after an exceptionally turbulent four years in which the consumer staples sector faced its most challenging environment in a generation — yet demonstrated resilience, with mid-single-digit sales and earnings per share (EPS) growth (albeit below market EPS growth)[2] — we remain confident that staples justify a place in the portfolio for a number of reasons.

Notably, our staples holdings are now at record levels of marketing and R&D spend,[4] setting them up to outgrow their market. Further, efficiency gains are coming from investments in automation, upgraded enterprise resource planning systems, digitalisation and AI. As a result, we expect earnings growth to return to high-single-digit levels driven by a more balanced combination of volume, price mix, margin improvement and strong free cash flow. Additionally, valuations are attractive, with our holdings trading at their 20-year average, compared with what we view as a generally extended market.

Fund Facts

Inception Date	July 29, 2022
Minimum Initial Investment ($)*	A Shares - 1,000
	I Shares - 1,000,000
Benchmark	S&P 500 Index
Class I expense ratio	**Gross 29.44 %**
	Net 0.70 %
Class A expense ratio	**Gross 33.82 %**
	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

2 Source: FactSet. Data as of September 2024.
3 Source: Company report.
4 Source: Company reports and MSIM International Equity Team research.
* Share class availability may vary by platform. For more information, please visit the specified fund page on the website.

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 September 30, 2024	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR	SINCE INCEPTION
Class I Shares at NAV	1.05	8.68	13.71	24.22	--	--	--	11.56
Class A Shares at NAV	0.97	8.54	13.38	23.71	--	--	--	11.15
Class A Shares (With Max 5.25% Sales Charge)	-4.30	2.81	7.41	17.26	--	--	--	8.44
S&P 500 Index	2.14	5.89	22.08	36.35	--	--	--	18.43

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.

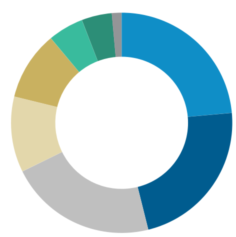
Returns are net of fees and assume the reinvestment of all dividends and income. They are compared to an unmanaged market index. Returns for less than one year are cumulative (not annualized). Performance for one year or more is based on average annual total returns. The returns are reported for Class 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.

Top Holdings (% of Total Net Assets)

	FUND	INDEX
Microsoft Corp	6.91	6.57
Visa Inc	5.30	0.94
Accenture Plc	4.35	0.45
Alphabet Inc	4.28	3.64
Texas Instruments Inc	4.01	0.39
Intercontinental Exchange Inc	3.82	0.19
Aon plc	3.61	0.15
UnitedHealth Group Inc	3.41	1.11
Automatic Data Processing Inc	3.28	0.23
Otis Worldwide Corp	3.17	0.09
Total	**42.14**	--

Sector Allocation (% of Total Net Assets)^



	FUND	INDEX
Information Technology	22.68	31.70
Health Care	21.70	11.60
Financials	20.79	12.91
Industrials	10.69	8.51
Consumer Staples	9.71	5.89
Consumer Discretionary	5.01	10.11
Communication Services	4.28	8.86
Energy	--	3.31
Materials	--	2.23
Real Estate	--	2.34
Utilities	--	2.53
Cash	1.35	--

^ May not sum to 100% due to rounding.

INDEX INFORMATION

The **S&P 500® Index** measures the performance of the large cap segment of the U.S. equities market, covering approximately 75% of the U.S. equities market. The Index includes 500 leading companies in leading industries of the U.S. economy.

The index is unmanaged and does 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.

The **MSCI World Index** is a free float adjusted market capitalization weighted index that is designed to measure the global equity market performance of developed markets. 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 performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends.

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. Changes in the worldwide economy, consumer spending, competition, demographics and consumer preferences, government regulation and economic conditions may adversely affect **global franchise companies** and may negatively impact the strategy to a greater extent than if the strategy's assets were invested in a wider variety of companies. **ESG strategies** that incorporate impact investing and/or Environmental, Social and Governance (ESG) factors could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. As a result, there is no assurance ESG strategies could result in more favorable investment performance. 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. The risks of investing in **emerging market countries** are greater than risks associated with investments in foreign developed countries. 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. **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. **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).

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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