Morgan Stanley
INVESTMENT MANAGEMENT

COMMENTARY
September 30, 2024

Morgan Stanley Institutional Fund

Corporate Bond Portfolio

BROAD MARKETS FIXED INCOME TEAM

Performance

In the quarter period ending September 30, 2024, the Portfolio's I shares returned 5.77% (net of fees)[1], while the benchmark returned 5.84%.

The portfolio's overall investment grade credit positioning had a positive impact on performance. The portfolio is positioned to be overweight financials and underweight industrials when measured in duration times spread terms.

Positions within investment grade financials were drivers of positive performance because of the overweights to banking and brokerage. Conversely, positions within investment grade industrials detracted from performance due to the underweights to technology and consumer non-cyclical. The overweight to investment grade utility had a positive impact on performance because of the overweight to the electric sector.

Elsewhere in the portfolio, the overweight to high yield corporate bonds and government-related debt had positive impacts on performance.

The underweight in duration positioning had a negative impact on performance as a result of the underweight to U.S. dollar rates, which fell during the period.

Market Review

Risk markets performed well in the third quarter, supported by moderating economic data, inflation trending toward 2% and central banks pivoting on monetary policy. Despite developments in the U.S. presidential race (President Biden withdrawing and endorsing Vice President Kamala Harris) and escalating geopolitical tensions in the Middle East, market focus was on when the U.S. Federal Reserve (Fed) would join other central banks in cutting interest rates, which it did in mid-September with a 50 basis point (bp) cut.[2] Expectations for further central bank easing combined with signs of slowing growth in major economies pushed global interest rates lower. The period was characterized by developments related to:

1. Central Banks: The Federal Open Market Committee (FOMC) kicked off its monetary easing cycle with a 50 bp cut, as the risks to its dual mandate were deemed to be "roughly in balance." Outside the U.S., several developed market central banks continued lowering policy rates in response to moderating inflation, including the European Central Bank and Bank of Canada. In addition, the Bank of England made its first rate cut since 2020 in August. The Bank of Japan remained an outlier among its peers, raising rates for the second time this year as weakness in the yen added to upside inflation risks. In emerging markets, China continued to grapple with slowing growth and deflationary pressures, prompting monetary authorities to unveil the largest stimulus package since the pandemic.

2. Economic Data: U.S. data continues to be resilient, as evidenced by retail sales and the labor market. Latest surveys point to moderating sentiment globally, especially in European manufacturing.

3. Inflation: Inflation continued to decelerate in line with market expectations, continuing its trend toward 2%. Consumer and business surveys point to moderating price growth expectations in the U.K. and Europe.

4. Politics: During the quarter French politics was the key area of focus. Following snap elections in July, France formed a new government that failed to reassure investors of their ability to control the deficit, causing French risk assets to underperform.

5. Corporate News: The earnings calendar kicked off with a positive set of results from financials companies while corporate earnings were more mixed, with cyclical sectors, and particularly consumer-facing sectors, under pressure. Most recently we saw notable profit warnings from the auto sector with the likes of BMW, Mercedes, VW and Stellantis all cutting guidance. Companies are largely seeing weaker pricing with flat volumes and China demand remaining challenged.

6. Technical: Primary issuance in the quarter came in higher than expected, which kept secondary spreads under pressure. Despite the higher-than-expected supply, investor demand for risk was strong with large new issue order books and limited new issue

[1] Source: Morgan Stanley Investment Management. Data as of September 30, 2024. Performance for other share classes will vary.
[2] One basis point = 0.01%

concessions. Inflows into the asset class remained strong with investors continuing to reach for the “all-in” yield offered by investment grade credit.

Portfolio Strategy and Analysis

Over the quarter, top-down risk exposure was marginally increased (we retain a small overweight to credit, as measured by active duration times spread). Activity was focused on taking advantage of elevated primary supply to add credit beta, skewed towards investment grade financials, while rotating out of names that had reached our fair value estimates.

The portfolio’s alpha sources remain financials (banks and brokerages), and the portfolio continues to hold small allocations to off-benchmark sectors such as securitized debt and high yield corporates.

Outlook

Given the uncertain medium-term fundamental backdrop (geopolitical tensions, U.S. elections, growth and labor data showing signs of weakness, and increased idiosyncratic news including merger and acquisition activity headlines), we have less confidence in material spread tightening, therefore warranting a slightly long spread duration position relative to the benchmark.

Corporate fundamentals are generally strong, although dispersion is picking up. Markets are punishing underperformers, making company/sector selection increasingly important. Lighter gross issuance in the second half of 2024 coupled with strong demand for the “all-in” yield offered by credit is expected to create a supportive technical dynamic. The appropriate credit market strategy should be focused on avoiding problematic companies and building in as much yield as possible without taking undue risks. We remain modestly overweight credit in the portfolio with a modest bias to upgrade credit quality.

Fund Facts

Inception Date	August 31, 1990
Minimum Initial Investment ($)*	A Shares - 1,000
	I Shares - 1,000,000
Benchmark	Bloomberg U.S. Corporate Index
Class I expense ratio	**Gross 1.00 %**
	Net 0.65 %
Class A expense ratio	**Gross 1.21 %**
	Net 1.00 %

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, 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.

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

Performance (%)

As of September 30, 2024	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR
Class I Shares at NAV	1.72	5.77	6.09	15.66	-0.79	1.39	3.71
Class A Shares at NAV	1.60	5.60	5.82	15.34	-1.08	1.11	3.40
Class A Shares (With Max 3.25% Sales Charge)	-1.68	2.19	2.38	11.54	-2.17	0.45	3.06
Bloomberg U.S. Corporate Index	1.77	5.84	5.32	14.28	-1.18	1.16	2.93

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.

The fund has received proceeds related to certain non-recurring litigation settlements. If these monies were not received, any period returns which include these settlement monies would have been lower. These were one-time settlements, and as a result, the impact on the net asset value and consequently the performance will not likely be repeated in the future. Please visit www.morganstanley.com/im for additional details.

INDEX INFORMATION

The **Bloomberg U.S. Corporate Index** is a broad-based benchmark that measures the investment grade, fixed-rate, taxable, corporate bond market.

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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. **Fixed-income securities** are subject to the ability of an issuer to make timely principal and interest payments (credit risk), changes in interest rates (interest-rate risk), the creditworthiness of the issuer and general market liquidity (market risk). In a rising interest-rate environment, bond prices may fall and may result in periods of volatility and increased portfolio redemptions. In a declining interest-rate environment, the portfolio may generate less income. **Longer-term securities** may be more sensitive to interest rate changes. **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. **Restricted and 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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