Morgan Stanley
INVESTMENT MANAGEMENT

COMMENTARY
September 30, 2024

Morgan Stanley Institutional Fund

Emerging Markets Portfolio

EMERGING MARKETS EQUITY TEAM

Performance Review

In the quarter period ending September 30, 2024, the Portfolio's I shares returned 4.19% (net of fees)[1], while the benchmark returned 8.72%.

During the quarter, our underweight allocation to China was the main detractor from returns as the market ended the month with one of the sharpest rallies in recent history following the government's announcements of several measures aiming to boost liquidity and ease property regulations. Positioning in Korea and Taiwan and the overweights to and positioning in India, Mexico and Poland also detracted. Our stock selection in Brazil contributed to returns, as did our overweight to and stock selection in Indonesia. The portfolio also benefited from our overweight allocation to South Africa and the zero allocation to Turkey.

Top contributors to performance during the quarter are outlined below:

Within Brazil, our aggregate stock selection added to returns, led by the allocations to WEG, Nu Holdings and Itau (2.2%, 0.6% and 1.7% of the portfolio, respectively).[2] WEG is among Brazil's largest industrial companies that manufactures electric motors, industrial automation equipment and energy generation/transmission equipment. The company is benefiting from strong demand driven by electrification and market share gains as it becomes an increasingly global player. Given market trends and the company's culture of innovation, we continue to believe in its path for growth.

Our positioning in and overweight allocation to Indonesia added to returns, through our allocations to Bank Rakyat, Bank Mandiri and Cisarua Mountain Dairy (Cimory) (0.7%, 0.8% and 0.6% of the portfolio, respectively).[2] We are invested in quality Indonesian banks with strong deposit franchises, including Bank Rakyat and Bank Mandiri, and believe they are well positioned to continue gaining deposit market share and remain resilient against credit risks.

The portfolio benefited from our overweight allocation to South Africa. Our allocations to Standard Bank and Capitec (1.2% and 1.5% of the portfolio, respectively)[2] were among the top stock contributors to returns; however, aggregate positioning within the market detracted, impacted by the allocation to Anglo American (we exited the position in the quarter). We are constructive on South Africa, supported by the recent national elections and the formation of a government of national unity (GNU). We believe reforms will likely continue and economic growth can accelerate, particularly with the improving fiscal situation. With inflation declining, the central bank has begun to cut rates, which we think can also support growth.

Turkey was the worst performing emerging market (EM) in the quarter as equities sold off after strong outperformance earlier this year, and our zero allocation to the market contributed. The country is undergoing an economic adjustment, and the more orthodox economic policy and high interest rates have begun to hit the real economy. While inflation is slowing, it is still high. The market is also beginning to question whether the political commitment exists to continue with the tight monetary policy necessary to bring inflation lower, given the economic slowdown.

Top detractors from performance during the quarter are outlined below:

Our underweight to China was the chief source of detraction during the quarter. Chinese equities rallied sharply in the last week of September as the market reacted positively to the surprise coordinated policy efforts to stabilize the property market and stimulate growth in the hope of hitting official growth targets and easing deflationary pressure in the economy. While it is a positive signal that the government is making a coordinated effort to address the structural issues in the economy, given the scale of these issues, it is unclear whether both the amount and the structure of the policy response will address the underlying fundamental issues effectively. We will continue to monitor any further policy response as it is articulated and implemented. We had decreased our underweight in previous quarters and continue to look for stock-specific opportunities.

Our stock selection in Taiwan and Korea detracted, impacted by our overweight allocations to SK Hynix, Wiwynn, TSMC and Unimicron (1.0%, 0.9%, 10.4% and 0.7% of the portfolio, respectively).[2] Semiconductor-related stocks fell after Nvidia's market value dropped a staggering $280 billion in September as the market had growing concerns on whether the immediate economics and

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

benefits of artificial intelligence (AI) can justify the pace of AI-related spending growth. Our positive investment thesis in technology/semiconductor companies remains unchanged. We believe the longer-term secular growth is now being augmented by a cyclical recovery in semiconductors found in more mature end-market applications like handsets, computers and automotives.

Our overweight to and positioning in India detracted, led by our allocations to State Bank of India and Macrotech Developers (Lodha) (1.6% and 0.8% of the portfolio, respectively),[2] as the overall market consolidated and slightly underperformed the broader index in the quarter.

Mexico underperformed EM, and our overweight allocation to the country and positions in Qualitas and Walmex detracted from returns (0.8% and 0.7% of the portfolio, respectively).[2] The economy has slowed given tight monetary policy and high real interest rates. The market has sold off following the June elections as political uncertainty remains high, particularly as congress passed judicial reform during former President AMLO's last few weeks in office. President Claudia Sheinbaum was inaugurated on October 1, and we are closely monitoring the policy direction under the new administration.

Our overweight to Poland and positioning in Allegro and PZU (1.3% and 1.0% of the portfolio)[2] hampered returns. We remain confident on our positions in Poland. We expect growth to accelerate next year, driven by investment with consumption remaining solid. We continue to like our stocks based on a combination of strong fundamentals and attractive valuations.

Portfolio Activity

During the quarter we initiated an allocation to Malaysia through positions in CIMB and Maybank (0.7% and 0.7% of the portfolio, respectively).[2] The macro situation in Malaysia has improved at the margin, with signs of government stability after several years of political uncertainty. With the government's support, incremental reform on power networks and grid access should attract more data centers and investments in the country, which could bolster bank loan demand (through manufacturing loans and lending growth in infrastructure and construction). Malaysian banks should also continue to benefit from higher interest rates. CIMB has undergone a strategic transformation to derisk and has achieved its target of double-digit return on equity through operational expenditure rationalization. We expect the company's trajectory to continue under its new CEO. Maybank has been strengthening its liability franchise and maintains a strong small and medium-sized enterprise (SME) presence, which is likely to benefit in the current investment cycle.

We initiated positions in diversified global manufacturing specialist Samvardhana Motherson and IDFC First Bank (0.5% and 0.2% of the portfolio, respectively)[2] in India. We are positive on IDFC's runway for growth and believe it has various levers to improve profitability, including new asset lines (especially with its notable transition toward becoming a retail liability franchise). Potential rate cuts by the Reserve Bank of India could be an additional tailwind for Indian banks. Samvardhana Motherson's expansion and business evolution—including new businesses in the smartphone manufacturing supply chain—has helped it quickly become one of the largest players in the India manufacturing space as part of the "China plus one" strategy.

We rebalanced our positions in Samsung Electronics and SK Hynix (2.5% and 1.0% of the portfolio, respectively).[2] Within Korea our positioning continues to be in select IT companies, banks, automakers and materials companies that are beneficiaries of greater electric vehicle adoption, and companies we believe can benefit from the value-up opportunity.

We exited our positions in Shenzhou International and China Mengniu Dairy on concerns of weak consumer spending. We also exited our position in Kasikornbank in Thailand on structural headwinds, including political instability and weak growth in credit, consumption and investment.

In Taiwan, we consolidated our financial holdings by initiating a position in Fubon Financial (0.6% of the portfolio) and exiting our positions in Chailease and CTBC Financial, the latter on uncertainties surrounding CTBC's tender offer for Shin Kong Financial Holdings. The merger would create the largest financial conglomerate in Taiwan, but the synergy may take time to materialize. We believe tailwinds for Fubon include additional U.S. Federal Reserve rate cuts (which should be positive for Fubon's earnings outlook given lowered hedging costs), high dividend yields benefiting from Taiwan's exchange-traded fund flows and improving consumer spending and wealth management demand in Taiwan.

We trimmed our position in Walmex (0.7% of the portfolio) in Mexico and reallocated the proceeds to Clicks (0.8% of the portfolio), a South African drugstore/pharmacy chain.[2] Clicks has continued to gain market share across pharmacy, beauty and general merchandise through successful store openings in South Africa and the gradual improvement in retail, which we believe should help earnings growth increase. In addition, the company has a disciplined capital return to shareholders via dividend payouts and share buybacks.

Elsewhere in South Africa, we exited our position in Anglo American and initiated a position in Standard Bank (1.2% of the portfolio).[2] We had started to reduce our position in Anglo American following the buyout offer from BHP, which led to the stock's rerating and partially closed its undervaluation relative to peers. Standard Bank is a leading bank in South Africa with a strong banking franchise in

[2] Holdings data as of September 30, 2024.

Sub-Saharan Africa (which in recent years accounted for nearly 50% of its earnings).[3] We believe the company can benefit from improving loan growth, disciplined cost execution and a potential pickup in investment and growth following the recent elections. We believe the rest of its Africa franchise can grow strongly in dollar terms and the bank is well diversified across countries and business segments.

In Brazil, we initiated a position in Rede D'Or (0.5% of the portfolio) and added to our existing position in Raia Drogasil (1.1% of the portfolio).[2] Rede D'Or is the among the largest private hospital operators in Brazil. The company also owns the second-largest health insurer in the country, following its acquisition of SulAmerica. We believe strong earnings growth over the next few years will likely be driven by organic growth in health care EBITDA[4] (the company plans to significantly increase bed capacity over the next five years) and improvement to SulAmerica's medical loss ratios.

Outlook

We believe that our integrated top-down and bottom-up analysis remains critical to identify the most attractive macro and stock investments across EM. Both levers continue to be balanced drivers of active risk. In what we expect to be a mixed growth environment and realigning global economy, we believe our portfolio is well positioned and diversified with active positioning across countries and stocks.[5]

We remain overweight **India** given secular, domestic-driven growth supported by a low base, supply-side investments and digitization. We are closely monitoring the delivery of earnings in the market. While there may be pockets of earnings consolidation in the market particularly where valuations are high, we believe the fundamental and structural growth story for India continues to be a mainstay in the economy and a market correction could help normalize equity valuations in certain industries. Key drivers for our secular outlook for India include the economy's ability to better withstand external shocks, continued growth outlook (led largely by increased investment), a large domestic market to drive consumption and a strong institutional framework. India remains one of the most sector- and industry-diverse markets in EM, offering an equity market with both depth and breadth of quality growth opportunities. Our exposure in India includes well-managed financials, industrials and consumer names, along with select IT, health care, energy and materials companies.

We maintain our overweight allocation to **Mexico**. President Claudia Sheinbaum has stated she will prioritize growth, fiscal responsibility and central bank independence. The risk for the market, however, is that the Morena party remains in position to continue to push former President AMLO's reform agenda, such as the recently passed judiciary changes. We think the current growth fundamentals for Mexico remain intact but will closely monitor how this reform agenda is legislated into practice with a particular eye toward its impact on the currently favorable conditions for foreign direct investment and the U.S.-Mexico-Canada Agreement (USMCA). Structurally, Mexico's gross domestic product (GDP) growth has remained strong with no major imbalances, growing real wages and continued investment (led by foreign direct investment and the country's attractive strategic positioning in the global supply chain). We believe many domestically focused companies trade at attractive valuations and are likely to continue to benefit from a strong macro outlook, which could translate into solid earnings growth and yields.

We are overweight **South Africa**. The African National Congress (ANC)-backed coalition government with the reform-oriented Democratic Alliance (DA) has formed a government of national unity (GNU), which could result in more effective governance, and the general improvement in business confidence could boost investment in the country after years of deleveraging. While reforms have taken place over the years—including energy reform, which led to significant investment in the sector and the end of "load-shedding"—the key issue has been on policy continuity and execution. The creation of the GNU and the replacement of dozens of government officials as part of the coalition agreement could improve both the prospects for reform and the capacity for implementation. We believe South Africa is on a better path following the elections and equity valuations remain attractive.

We remain overweight **Brazil.** Brazil's central bank began an interest rate-hiking cycle in September, raising the Selic rate by 25 basis points to 10.75% (the first increase since August of 2022). While most the rest of world is looking to cut rates, Brazil is raising rates as the economy continues to run hot and there is uncertainty around the long-term commitment of the Lula administration to fiscal consolidation. While we are monitoring the interest rate changes and fiscal risk in Brazil, we think this hiking cycle will be relatively short-lived. External balances remain in good shape and equity valuations are at low levels relative to its own history. Within the country our portfolio is focused on companies with quality management and solid earnings growth.

We maintain our structural underweight to **China** relative to other opportunities across emerging markets on concerns of high debt, government intervention and property inventory overhang. The recent policy shifts made by the People's Bank of China led to a significant rally in Chinese equities at the end of September; however, we believe the announcements made so far are unlikely to lead to a marked improvement in the economy's underlying fundamentals given the significant level of debt in the system.

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2 Holdings data as of September 30, 2024.
3 Source: Standard Bank 2024 interim results overview published September 2, 2024.
4 Earnings before interest, taxes, depreciation and amortization
5 Diversification neither assures a profit nor guarantees against loss in a declining market.

Following the Golden Week holiday, China's National Development and Reform Commission hosted a press conference pledging further moves to boost the economy but the level of and detail around the announced stimulus broadly disappointed market expectations. Over the past year, we have tactically reduced the size of the underweight to the market and we continue to assess the size of the underweight, monitoring whether further policy announcements will translate into higher GDP growth and ultimately earnings growth. We remain selective in our exposure and are invested in companies that we believe have competitive advantages, strong corporate governance and solid medium-term growth prospects.

Fund Facts

Inception Date	September 25, 1992
Minimum Initial Investment ($)*	A Shares - 1,000
	I Shares - 1,000,000
Benchmark	MSCI Emerging Markets Net Index
Class I expense ratio	**Gross 1.09 %**
	Net 0.99 %
Class A expense ratio	**Gross 1.41 %**
	Net 1.35 %

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.

Performance (%)

As of September 30, 2024	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR
Class I Shares at NAV	4.38	4.19	15.99	26.69	-0.71	5.15	3.30
Class A Shares at NAV	4.34	4.09	15.72	26.23	-1.04	4.81	2.97
Class A Shares (With Max 5.25% Sales Charge)	-1.15	-1.37	9.65	19.63	-2.80	3.68	2.42
MSCI Emerging Markets Net Index	6.68	8.72	16.86	26.05	0.40	5.75	4.02

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.

INDEX INFORMATION

The **MSCI Emerging Markets Net Index** is a free float-adjusted market capitalization weighted index that is designed to measure equity market performance of emerging 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 MSCI Emerging Markets Index currently consists of 24 emerging-market country indices. The performance of the index is listed in U.S. dollars and assumes reinvestment of net dividends. The index does not include any expenses, fees or sales charges, which would lower performance. The index is unmanaged and should not be considered an investment. It is not possible to invest directly in an index.

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. 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.

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

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, **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 the risks generally associated with investments in foreign developed countries. **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). **China Risk.** Investments in securities of Chinese issuers, including A-shares, involve risks associated with investments in foreign markets as well as special considerations not typically associated with investments in the U.S. securities markets. Investments in China involve risk of a total loss due to government action or inaction. Additionally, the Chinese economy is export-driven and highly reliant on trade. Adverse changes to the economic conditions of its primary trading partners, such as the United States, Japan and South Korea, would adversely impact the Chinese economy and the Fund's investments. Moreover, a slowdown in other significant economies of the world, such as the United States, the European Union and certain Asian countries, may adversely affect economic growth in China. An economic downturn in China would adversely impact the Portfolio's investments. **Risks of Investing through Stock Connect.** Any investments in A-shares listed and traded through Stock Connect, or on such other stock exchanges in China which participate in Stock Connect is subject to a number of restrictions that may affect the Portfolio's investments and returns. Moreover, Stock Connect A shares generally may not be sold, purchased or otherwise transferred other than through Stock Connect in accordance with applicable rules. The Stock Connect program may be subject to further interpretation and guidance. There can be no assurance as to the program's continued existence or whether future developments regarding the program may restrict or adversely affect the Portfolio's investments or returns.

IMPORTANT INFORMATION

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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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