Morgan Stanley
INVESTMENT MANAGEMENT

COMMENTARY
September 30, 2024

Morgan Stanley Institutional Fund

Emerging Markets ex China Portfolio

EMERGING MARKETS EQUITY TEAM

Performance Review

In the quarter period ending September 30, 2024, the Portfolio's I shares returned 0.50% (net of fees)[1], while the benchmark returned 3.96%.

Over the one-year period, the portfolio returned 28.51% (I shares net of fees), outperforming the index return of 27.40%.

During the quarter, our overweights to and stock selection in Indonesia and South Africa contributed to returns. The portfolio also benefited from our average overweight to Brazil and the zero allocation to Turkey. Our positioning in Korea, Taiwan and India detracted, as did our overweight allocation to and stock selection in Mexico and our overweight to Poland. The underweights to and positioning in Malaysia and Thailand hampered returns along with our positioning in Saudi Arabia.

Top contributors to performance during the quarter are outlined below:

Our positioning in and overweight allocation to Indonesia added to returns. We remain invested in quality Indonesian banks with strong deposit franchises and believe they are well positioned to continue gaining deposit market share and be resilient against credit risks.

The portfolio benefited from our positioning in and overweight allocation to South Africa. Our allocations to AVI, OUTsurance and Capitec (1.2%, 1.0% and 2.1% of the portfolio, respectively)[2] were among the top stock contributors to returns. Elsewhere in South Africa, returns were impacted by the allocation to Anglo American (we sold down the position in the quarter).

Our average overweight allocation to Brazil added to returns through our positions in WEG, Nu Holdings and Itau (1.4%, 0.6% and 1.1% of the portfolio).[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.

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 stock selection in Taiwan and Korea detracted, impacted by our overweight allocations to SK Hynix, Wiwynn, TSMC and Unimicron (1.1%, 0.7%, 14.1% and 0.9% of the portfolio).[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 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 India contributed to returns, however, gains were offset by our positioning in the market, through our allocations to State Bank of India, Reliance and Macrotech Developers (Lodha) (2.2%, 3.0% and 1.3% of the portfolio, respectively).[2]

Mexico underperformed EM, and our overweight allocation to the country and positions in Qualitas, Regional and Walmex (0.9%, 0% and 0.9% of the portfolio, respectively)[2] detracted from returns. We exited our position in Regional during the quarter. The economy has slowed given tight monetary policy and high real interest rates. The market has sold off following the June elections as uncertainty over government policy 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.

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.

Our overweight to Poland hampered returns. We remain confident on our positions in Poland based on our expectation that growth should 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.

Our underweights to and positioning in Malaysia and Thailand detracted. 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 lending growth in manufacturing, infrastructure and construction).

The portfolio's positioning in Saudi Arabia detracted through our allocation to Bupa Arabia (1.2% of the portfolio).[2] We believe the integration of primary health care, continued growth in the insured population (given Vision 2030 led employment growth), and medical inflation should support pricing, and longer-term regulatory improvements are likely to benefit Bupa Arabia.

Portfolio Activity

During the quarter we initiated an allocation to Malaysia through positions in CIMB and Maybank (0.8% and 0.3% of the portfolio).[2] In addition to an improving macro situation, we believe 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 rebalanced our positions in Samsung Electronics and SK Hynix (3.9% and 1.1% of the portfolio, respectively).[2] Within Korea our positioning continues to be in select IT companies, banks and automakers that are beneficiaries of greater electric vehicle adoption, and also companies we believe can benefit from the value-up opportunity.

We exited our positions in CP All and Kasikornbank in Thailand on structural headwinds, including political instability and weak growth in credit, consumption and investment.

We initiated a position in Bank Syariah (0.6% of the portfolio),[2] Indonesia's largest Syariah bank with significant market share in Syariah assets and among the largest in total assets. Its key moat is the ability to capture payroll accounts, which provides it with liability stickiness as well as exposure to a more resilient segment of consumption. We believe that Bank Syariah has a natural cost-of-funds advantage given the Syariah branding. Even in the volatile cost-of-funds environment over the past two quarters, the bank has shown one of the lowest impacts on funding costs when compared to the rest of the industry.

In Taiwan, we consolidated our financial holdings by initiating a position in Fubon Financial (0.9% of the portfolio)[2] 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 projected 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 in Mexico and reallocated the proceeds to Clicks (0.9% of the portfolio),[2] a South African drugstore/pharmacy chain. 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 sold down our position in Anglo American and initiated a position in Standard Bank (1.1% of the portfolio).[2] We had started to reduce our position in Anglo American following the buy-out 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 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 U.S. dollar terms and the bank is well diversified across countries and business segments.

In Brazil, we initiated a position in Rede D'Or (0.9% of the portfolio),[2] which is 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 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. Elsewhere in Brazil, we exited

---

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

our position in Santos Brasil as risks of a new terminal auction in Sao Paolo are rising (a new port would increase capacity and place further pressure on prices).

We exited our position in SMU in Chile. While the company's free cash flow and dividend yield have remained healthy, sales growth and revenues have remained low and have disappointed relative to expectations, even as the country's macro situation normalizes.

Strategy and 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 and portfolio returns. 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.

Brazil's central bank began an interest rate-hiking cycle in September, raising the Selic rate by 25 basis points[6] to 10.75% (the first increase since August of 2022). While most of 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.

5 Diversification neither assures a profit nor guarantees against loss in a declining market.
6 One basis point = 0.01%

Fund Facts

Inception Date	September 30, 2022
Minimum Initial Investment ($)*	A Shares - 1,000
	I Shares - 1,000,000
Benchmark	MSCI Emerging Markets ex China Net Index
Class I expense ratio	**Gross 7.05 %**
	Net 0.99 %
Class A expense ratio	**Gross 10.80 %**
	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	SINCE INCEPTION
Class I Shares at NAV	1.08	0.50	13.27	28.51	--	--	--	22.46
Class A Shares at NAV	1.01	0.43	12.97	27.98	--	--	--	22.00
Class A Shares (With Max 5.25% Sales Charge)	-4.30	-4.82	7.02	21.31	--	--	--	18.78
MSCI Emerging Markets ex China Net Index	1.26	3.96	12.71	27.40	--	--	--	20.87

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 ex China Index** captures large and mid cap representation across 23 of the 24 Emerging Markets (EM) countries* excluding China. With 654 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. 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. 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. 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). 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 strategies that incorporate ESG factors could result in more

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

favorable investment performance.

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.

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.

Certain information herein has been prepared on the basis of publicly available information, internally developed data and other third-party sources believed to be reliable. However, no assurances are provided regarding the reliability of such information and the Firm has not sought to independently verify information taken from public and third-party sources.

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.

The whole or any part of this material may not be directly or indirectly reproduced, copied, modified, used to create a derivative work, performed, displayed, published, posted, licensed, framed, distributed or transmitted or any of its contents disclosed to third parties without MSIM's express written consent. This material may not be linked to unless such hyperlink is for personal and non-commercial use. All information contained herein is proprietary and is protected under copyright and other applicable law.

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