Morgan Stanley Institutional Fund

Global Strategist Portfolio

GLOBAL MULTI-ASSET TEAM

Performance Review

In the quarter period ending September 30, 2024, the Portfolio's I shares returned 6.58% (net of fees)[1], while the benchmark returned 6.61%.

The Fund underperformed the MSIM Global Allocation Index, its custom benchmark, which returned +6.76%, and the MSCI All Country World Index (ACWI), its primary benchmark, which returned +6.61% in USD.[2] During the quarter, the J.P. Morgan Global Government Bond Index (JPM GBI) returned +7.30% in USD.

The Fund's asset allocation mix of an average overweight to fixed income and neutral allocation to global equities had a positive impact on performance. Top-down thematic positions contributing to performance during the quarter included overweights in South African vs. U.S. 10-year government bonds, in South African banks vs. emerging markets (EM) equities, and in the euro vs. the dollar. A directional overweight in Chinese 10-year bonds also contributed. Detractors included overweights in U.S. and EMU Value vs. Anti-Value stocks, and an underweight in U.S. cyclical stocks vs. U.S. defensive stocks. An overweight in U.S. equity volatility also detracted.

Market Review

Global equity markets gained +6.6% (MSCI ACWI in USD) during the third quarter, driven by a dovish pivot from central banks, resilient economic data, and a series of stimulus measures announced in China. The beginning of the quarter was tumultuous as disappointing earnings releases from big tech stocks pressured high valuations and precipitated a sudden unwind of the yen carry trade, which caused the VIX to temporarily reach a four-year high of 65.7.[3] Following the weak July U.S. jobs report (non-farm payroll gain of only 114,000 vs. 175,000 expected, as well as an uptick in the unemployment rate to 4.3%), investors repriced their expectations for year-end Federal Reserve (Fed) rate cuts from -72 basis points (bps) of cuts to -94 bps.[4] With this repricing of Fed rate cuts coming just days after the Bank of Japan's surprise rate hike to 0.25%, investors rapidly unwound extreme positioning in FX carry trades, which fueled a two-day rally of +4.0% in the yen and created further market turmoil.[3] However, markets recovered in the second half of the quarter as the Fed delivered a larger-than-expected 50 bp rate cut in September. The August jobs report also offset some fears, showing a stabilization in payrolls and a downtick in the unemployment rate to 4.2%. Meanwhile, Chinese officials delivered a sweeping set of policy announcements including both monetary and fiscal stimulus intended to restore confidence in the country's struggling economy. The People's Bank of China announced several rate cuts and additional relief for the beleaguered housing and equity markets while the Politburo vowed to increase its fiscal expenditures and increased its emphasis on improving employment and domestic consumption.

U.S. equities advanced +5.9% (S&P 500 Index), led by rate-sensitive sectors such as utilities and real estate (S&P 500 Utilities +19.4%, S&P 500 Real Estate +17.2%). The equal-weighted index (S&P 500 Equal Weight Index) completed its best quarter since 2010 with a +9.4% gain as the rally in equities broadened. Contrary to previous quarters, which were dominated by large gains in mega-cap tech stocks, the Magnificent 7 gained only +5.4% in the third quarter while the NASDAQ Composite only increased +2.8%, marking the first quarter in which the S&P 500 outperformed the Magnificent 7 since 2022. Energy was the only sector that fell in the third quarter (S&P 500 Energy -2.3%) as West Texas Intermediate (WTI) and Brent oil fell -16.9% and -16.4%, respectively. ***European equities*** increased +6.6% (MSCI Europe Index in USD) as eurozone second quarter GDP growth came in slightly above expectations at +0.3% (vs. 0.2% expected) and headline consumer price index (CPI) fell from 2.5% to 1.8% year-over-year, although core CPI remained at +2.7% year-over-year at the end of the period. Germany continued to weigh on the region's economic recovery as purchasing managers' indexes (PMIs) and investor sentiment weakened. ***Emerging markets*** outperformed their developed market peers (MSCI EM Index +8.7% in USD), led by a +23.5% surge in Chinese equities following the stimulus announcements. Brazil and South Africa also stood out with gains of +7.1% and +16.1%, respectively. South African equities were supported by upward revisions to expected GDP growth as well as a more stable political environment, improved fiscal credibility, and a more reliable electricity grid, all of which fueled investor optimism. ***Japan*** equities advanced 5.7% (MSCI Japan Index in USD) on strong second quarter GDP growth

[1] Source: Morgan Stanley Investment Management. Data as of September 30, 2024. Performance for other share classes will vary.
[2] Currency (FX) abbreviations used in this report are: USD = U.S. dollar
[3] Source: Bloomberg L.P.
[4] One basis point = 0.01%

This document constitutes a commentary and does not constitute investment advice nor a recommendation to invest. The value of investments may rise as well as fall. Independent advice should be sought before any decision to invest.

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(+0.8% vs. +0.6% expected) and improving composite PMIs.

Global government bonds outperformed equities, gaining +7.3% in the third quarter (JPM GBI in USD) as investors priced in more rate cuts for 2024 and 2025. The U.S. yield curve bull steepened, with the 2-year yield falling -111 bps and the 10-year yield falling -62 bps. Abroad, the German 10-year yield fell -38 bps while the Japanese and U.K. 10-year yield fell -20 bps and -17 bps, respectively. Following its decision to cut rates by 50 bps, the Federal Open Market Committee (FOMC) also shared its updated rate projections, which included an additional 50 bps of cuts by year-end while the year-end rate for 2025 remained unchanged, reinforcing the narrative that the Fed is ready to lower rates quickly without materially changing its longer-term baseline view. Although the Fed increased its forecasted unemployment rate for year-end 2025 to 4.4%, it continued to forecast above-trend growth, prompting Chair Powell to describe the Fed's dual mandate as broadly balanced. In Japan, the Bank of Japan sought to ease investor concerns following the volatile unwind of the yen carry trade, stating that it did not intend to raise rates when capital markets are unstable.

Within currencies, the U.S. dollar fell -4.8% (DXY) in response to the Fed's outsized rate cut. The Japanese yen saw the biggest gains among G10 currencies, appreciating +12.0% versus the dollar, completing its strongest quarter since the fourth quarter of 2008.[3] EM currencies advanced +1.3% (JPM EMCI), led by a +13.4% gain in the Thai baht and an 8.2% gain in the Indonesian rupiah.

Portfolio Activity

- We initiated an overweight position in U.S. small cap stocks (S&P 600 Index) vs. an underweight in U.S. large cap stocks (S&P 500). Large-cap stocks benefited relative to small caps from higher interest rates, as small-cap companies have a significantly higher exposure to floating-rate debt, which repriced quickly when the Fed was hiking interest rates. Conversely, large-cap companies have primarily fixed-rate debt and larger cash balances, which reduced the negative impulse from higher interest rates (debt reprices more slowly), while also benefiting from interest income on cash holdings. We believe that the current rate-cutting cycle is likely to be positive for small-cap stocks.
- We have increased our overweight position in South African bank stocks vs. EM equities, following South Africa's positive economic data and continued recovery in electricity consumption and production. Specifically, we saw an improvement in the July South Africa PMIs and in electricity consumption/production, which is now growing at 3.2% and 5.4% year-over-year, respectively. This data reaffirms our view that South Africa's economy is poised to recover faster than the consensus expects after supply shocks from electricity outages and logistics are resolved.
- We have increased our overweight position in European Union (EMU) bank stocks vs. EMU equities. Leading growth indicators, specifically an improvement in the latest European Central Bank (ECB) bank lending survey, have begun pointing to stronger GDP growth ahead. This survey has historically forecasted PMIs and GDP growth for the region and the latest survey showed meaningful improvement in lending standards and expected loan demand.
- We have increased our overweight position in the Brazilian real vs. U.S. dollar. We expect robust growth in Brazil and widening interest rate differentials to be a tailwind for the currency. We have seen a shift to orthodoxy from Brazil's central bank, with FX and monetary policy now aligned to stabilize the currency amid disappointing fiscal expectations from a primary deficit and fiscal slippage earlier this year.
- Overall, we reduced exposure to our Value Recovery theme during the quarter, reducing our overweight in EMU Value vs. Anti-Value stocks in line with our stop-loss policy. However, we increased our overweight in Japan Value stocks vs. Japan Anti-Value stocks. On our composite measure of valuation, Japan Value stocks are trading at a 22% discount to fair value relative to Japan Anti-Value stocks; these discount levels are historically indicative of strong forward returns.[5]
- We have decreased our underweight position in EMU 10-year inflation swaps partly hedged with Brent oil futures. We continue to expect EMU inflation to fall further as utility deflation passes through to core and headline CPI, thus benefiting our underweight position. However, given the large decline in inflation swaps, driven by lower eurozone growth and oil prices, the 10-year inflation swap had reached the upper end of our fair value target.
- We have closed our longstanding overweight in Greek 10-year government bonds vs. Italian 10-year government bonds, booking profits, as our thesis of outperformance by Greece on key credit fundamentals has materialized, resulting in spreads converging to EMU peers.
- We closed our underweight position in Japan 10-year government bonds vs. U.S. 10-year Treasury bonds, booking profits, as market prices largely reflected our current forecasts for the Bank of Japan's policy rate path and inflation expectations.
- We closed our Weak China Growth theme following China's leadership announcing intensified efforts to meet its 5% annual GDP growth target. These measures have supported a rally in the price of Chinese assets, especially equities, and we believe this appreciation may continue in the short term. Therefore, we closed our overweights in Chinese bonds (booking profits) and our underweight in Chinese equities to limit short-term risk to the portfolio.

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[3] Source: Bloomberg L.P.
[5] Source: FactSet, MSIM Global Multi-Asset Team analysis.

Outlook

Recession risks have been top of mind since early 2022 when headline inflation reached 9%, the Fed hiked its policy rate 525 bps in 18 months (the steepest pace in 40 years) and the yield curve inverted by more than 100 bps. Such steep inversion has been a precursor to recession in the following year every time in the past six decades. But the U.S. economy exceeded the consensus and our expectations in late 2022, 2023, and the first half of 2024, averaging 2.3% annual growth. Despite this, the overwhelming majority of investors (79%) today still expect a soft landing (i.e., sub-trend growth) in the next year, and 11% expect recession.[6] In fact, the most contrarian outcome for markets would be "no landing" (i.e., above-trend growth).

Recently, cautiousness on the economy has been driven by weakening labor market data, but households are consuming and businesses are investing. The consensus will likely face another positive surprise in the third quarter with GDP likely to hit 3% vs. 2% currently expected. And there are some reasons why the dichotomy between a weak labor market and strong spending could resolve in favor of the latter: First, job openings have been stabilizing for the past four months to September 20 based on data from Indeed.com. This is confirmed by recent JOLTS (Job Opening and Labor Turnover Survey) data through August. In addition, wages for new Indeed postings rebounded to +3.3% from +3.1% in the spring. Second, mortgage rates are down about 171bps from the October 2023 peak of 7.79%,[3] which is likely to improve housing activity. New home sales rebounded more than 10% in the past seven months, permits for new construction are improving, and mortgage applications and are up 11% from a year ago.[7] Third, consumers have more dry powder than expected as the Bureau of Economic Analysis annual update revealed that the latest quarterly household savings rate is 5.2% (not 3.3% as previously thought) given higher estimated income.

Of course, these are still only ***hints*** of stabilization in the labor market and of recovery in housing, and other risks to the economy remain, such as still-high interest rates and a likely drop in government-driven activity. Nonetheless, a no-landing scenario would likely be a significant surprise to markets. In a higher-than-expected growth (and inflation) environment, the Fed may only need to cut rates to 3.5%-4%, implying a 10-year yield of 4.0%-4.25% (vs. 3.74% currently) and Treasury inflation-protected securities (TIPS) closer to 1.8%-2% (vs. 1.55% currently). Some speculative areas in the market which have benefited from the expectation of much lower rates, such as gold (and cryptocurrencies, to a certain extent), might also come under pressure. Further, in a no-landing scenario, the equity market's bias towards defensiveness and away from cyclicals might come under pressure. And the bias for large-cap, expensive, quality stocks might shift towards lower quality stocks at lower multiples, in neglected areas like small caps and value. On the other hand, the current investor preference for U.S. over international assets could stay well supported, though record valuations are already worrisome.

Given a strong consensus for a soft landing and lingering recession fears, we conclude that no landing would be the most contrarian scenario for markets. In fact, there are some hints that the dichotomy between strong spending and weak labor markets could resolve in favor of no landing. Rates markets and some segments of the equity markets have overpriced a soft landing and would be vulnerable in this scenario.

Fund Facts

Inception Date	December 31, 1992
Minimum Initial Investment ($)*	A Shares - 1,000
	I Shares - 1,000,000
Benchmark	Primary- MSCI All Country World Index
	Custom- Blended Index
Class I expense ratio	**Gross 0.85 %**
	Net 0.74 %
Class A expense ratio	**Gross 1.04 %**
	Net 1.04 %

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.

[3] Source: Bloomberg L.P.
[6] Source: Bank of America Global Fund Manager Survey – September 17, 2024. 40% of investors surveyed see a U.S. recession as the biggest tail risk, more than twice as many who see an inflation reacceleration as the key tail risk.
[7] Source: FactSet, Haver Analytics, MSIM GMA Team Analysis. Data as of October 1, 2024.
* 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	1.84	6.58	11.26	22.35	2.88	6.38	4.98
Class A Shares at NAV	1.82	6.52	11.08	22.02	2.57	6.06	4.65
Class A Shares (With Max 5.25% Sales Charge)	-3.50	0.93	5.25	15.60	0.73	4.92	4.08
MSCI All Country World Index	2.32	6.61	18.66	31.76	8.09	12.19	9.39
Blended Index	2.07	6.76	12.46	23.57	3.64	7.03	5.75

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.

Asset Allocation(%)

	PORTFOLIO	ACTIVE WT
Global Equities	59.98	-0.02
Global Fixed Income	42.34	2.34
Commodities	-0.76	-0.76
Cash	-1.56	-1.56

Currency Exposure(%)

	FUND
Developed Markets	**85.77**
North America	52.70
Europe	22.81
Asia ex-Japan	3.33
Japan	6.94
Emerging Markets	**14.23**

Regional Allocation (% Net of Cash)

	EQUITIES	FIXED INCOME
North America	38.24	21.05
Europe	10.79	10.53
Asia ex-Japan	1.65	0.89
Japan	2.99	2.23
Emerging Markets	6.32	7.64

INDEX INFORMATION

The **Customized MSIM Global Allocation Index** is comprised of 60% MSCI All-Country World Index (benchmark that measures the equity market performance of developed and emerging markets), 30% Bloomberg Global Aggregate Bond Index (benchmark that provides a broad based measure of the global investment grade fixed-rate debt markets), 5% S&P GSCI Light Energy Index (benchmark for investment performance in the energy commodity market), and 5% ICE BofAML US Dollar 1-Month LIBID Average Index (benchmark that tracks the performance of a basket of synthetic assets paying LIBID to a stated maturity).

The **MSCI All Country World Index (ACWI)** is a free float-adjusted market capitalization weighted index designed to measure the equity market performance of developed and 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 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.

The **MSCI Europe Index** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe. 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.

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 **JP Morgan Global Government Bond Index** is a market value weighted fixed income index comprised of government bonds in developed countries.

The **Standard & Poor's 500® Index (S&P 500®)** measures the performance of the large cap segment of the U.S. equities market, covering approximately 80% of the U.S. equities market. The Index includes 500 leading companies in leading

industries of the U.S. economy.

The **MSCI Japan Index** is a free-floated adjusted market capitalization weighted index that is designed to track the equity market performance of Japanese securities listed on the Tokyo Stock Exchange, Osaka Stock Exchange, JASDAQ and Nagoya Stock Exchange. The MSCI Japan Index is constructed based on the MSCI Global Investable Market Indices Methodology, targeting a free-float market capitalization coverage of 85%.

The **US Dollar Index (DXY)** is an index of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of US trade partners' currencies.

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. 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 risks associated with investments in foreign developed countries. **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. **High yield securities ("junk bonds")** are lower rated securities that may have a higher degree of credit and liquidity risk. **Mortgage- and asset-backed securities (MBS and ABS)**are sensitive to early prepayment risk and a higher risk of default and may be hard to value and difficult to sell (liquidity risk). They are also subject to credit, market and interest rate risks. Certain **U.S. government securities**purchased by the Portfolio, such as those issued by Fannie Mae and Freddie Mac, are not backed by the full faith and credit of the United States. It is possible that these issuers will not have the funds to meet their payment obligations in the future. **Real estate investment** trusts are subject to risks similar to those associated with the direct ownership of real estate and they are sensitive to such factors as management skills and changes in tax laws. **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). By investing in **investment company securities**, the portfolio is subject to the underlying risks of that investment company's portfolio securities. In addition to the Portfolio's fees and expenses, the Portfolio generally would bear its share of the investment company's fees and expenses. **Subsidiary and tax risk** the Portfolio may seek to gain exposure to the commodity markets through investments in the Subsidiary or commodity index-linked structured notes. The Subsidiary is not registered under the 1940 Act and is not subject to all the investor protections of the 1940 Act. Historically, the Internal Revenue Service ("IRS") has issued private letter rulings in which the IRS specifically concluded that income and gains from investments in commodity index-linked structured notes or a wholly-owned foreign subsidiary that invests in commodity-linked instruments are "qualifying income" for purposes of compliance with Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). The Portfolio has not received such a private letter ruling, and is not able to rely on private letter rulings issued to other taxpayers. If the Portfolio failed to qualify as a regulated investment company, it would be subject to federal and state income tax on all of its taxable income at regular corporate tax rates with no deduction for any distributions paid to shareholders, which would significantly adversely affect the returns to, and could cause substantial losses for, Portfolio shareholders. **Cryptocurrency (notably, Bitcoin)** operates as a decentralized, peer-to-peer financial exchange and value storage that is used like money. It is not backed by any government. Federal, state or foreign governments may restrict the use and exchange of cryptocurrency. Cryptocurrency may experience very high volatility.

IMPORTANT INFORMATION

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