Morgan Stanley
INVESTMENT MANAGEMENT

COMMENTARY
September 30, 2024

Morgan Stanley Institutional Fund

Next Gen Emerging Markets Portfolio

EMERGING MARKETS EQUITY TEAM

Performance Review

In the quarter period ending September 30, 2024, the Portfolio's I shares returned 6.52% (net of fees)[1], while the benchmark returned 8.33%.

Our allocation to Argentinian company MercadoLibre (MELI, 4.8% of the portfolio) was the largest stock contributor to returns during the quarter.[2] Its online payment ecosystem continues to grow at high double-digit rates in Brazil, Mexico and Chile. The company recently announced plans to double the number of distribution centers in Brazil by the end of 2025 to meet increasing demand. We believe MELI is a clear leader in the e-commerce space in Latin America. The company has continued to deliver solid earnings results even amid macro uncertainty in some of its operating markets.

Our allocation to Indonesia contributed strongly to performance. Bank Indonesia recently delivered a 25 basis point[3] policy rate cut ahead of the U.S. Federal Reserve's (Fed) decision, a sign of low inflation expectations for the next year and a continued move to help bolster economic growth. Our allocations to MAP Aktif Adiperkasa (MAPA), Hermina Hospitals, Cisarua Mountain Dairy (Cimory), Sumber Alfaria (Alfamart), Bank Mandiri and Selamat Sempurna added to returns (3.1%, 4.2%, 3.0%, 2.5%, 1.3%, and 1.5% of the portfolio, respectively).[2] Leading sportswear retailer MAPA reported a mixed set of second quarter results, with a decline in margins from delayed store openings and clearance of excess inventory but also stronger than consensus and company guidance top-line growth of 32% year-over-year.[4] We believe the company is a fast-growing play on the upper middle class consumer in Southeast Asia through strong global sportswear brands, and are closely monitoring any shifts in margins and profitability. Hermina is among the largest private hospital operators in Indonesia and continues to benefit from growth in Indonesia's National Health Insurance Program (JKN), the largest universal health program globally. Cimory outperformed after reporting strong second quarter earnings, delivering 17% year-over-year growth for the first half of the 2024, driven mainly by volume growth in its consumer food division.[5]

Philippine banks rallied after the Bangko Sentral ng Pilipinas (BSP) cut its reserve requirement ratios (RRR) by 25 basis points in August, becoming one of the first Asian central banks to cut rates, and the portfolio benefited from our allocations to two of the largest banks in the country, BDO Unibank and Bank of the Philippine Islands (2.0% and 2.2% of the portfolio, respectively).[2] We believe that further RRR cuts (giving banks more funds to lend) combined with a shift towards more consumer and small-to-medium sized loans, should continue to benefit the banks we own. The market was also boosted by strong remittance inflows, which bolstered consumer spending and corporate earnings, and our allocation to fast-moving consumer goods company Century Pacific (3.7% of the portfolio) added to returns.[2] Gains from aggregate stock selection were more than offset by our underweight allocation to the market.

Aggregate stock selection in Vietnam contributed, led by our allocations to Binh Minh Plastics (BMP), Mobile World Group (MWG), FPT Corp., Bank for Foreign Trade JSC (Vietcombank), Phu Nhuan Jewelry (2.3%, 3.1%, 7.1%, 3.1%, and 3.9% of the portfolio, respectively) and the zero allocation to Hoa Phat Group.[2] BMP is a leading player in the construction plastics industry in Vietnam and continues to gain market share in the south, outpacing competitors that have financial difficulties. The company recently reported stronger-than-expected estimated sales growth for the 2024 fiscal year (a 16% quarter-over-quarter improvement) driven by the gradual recovery of the southern real estate market.[6] We expect BMP to be able to grow attractively on the back of increasing infrastructure and property FDI (foreign direct investment) construction in Vietnam.

Within Poland, our allocation to 11bit studios detracted from returns. The company's long-awaited Frostpunk2 game release and reviews came in below expectations. Amid a tough global gaming environment and given the unpredictability of video game release evolutions, we exited the position in the quarter.

Turkish equities sold-off during the quarter on the back of political uncertainty and inflation concerns, and our allocations to Coca-Cola Icecek and Logo detracted (1.1% and 1.7% of the portfolio, respectively).[2] Within Kazakhstan, Kazatomprom (3.3% of the

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.
3 One basis point = 0.01%
4 Source: MAP Aktif Adiperkasa second quarter 2024 results, June 30, 2024.
5 Source: Cimory company data, September 30, 2024.
6 Source: Binh Minh company data, June 30, 2024.

portfolio)[2] underperformed after the company's 2025 production target was cut by more than 15% due to supply shortages.[7] The company remains a high conviction position in the portfolio.

The zero allocations to Morocco and Iceland detracted, as did our allocations to Slovenian-based bank Nova Ljubljanska Banka (NLB Group), Meezan Bank in Pakistan and Safaricom in Kenya (3.6%, 2.4% and 1.6% of the portfolio, respectively).[2]

Portfolio Activity

During the quarter, we added to our allocation to Argentina through initiating a position in Vista Energy (1.0% of the portfolio),[2] an oil and gas company with 100% shale operations. The company is looking to increase production from 50,000 barrels per day in 2023 to 100,000 by 2026, while improving its free cash flow profile with strong EBITDA (earnings before interest, taxes, depreciation and amortization).[8] Further upside for Vista could come if the new administration is able to fully liberalize domestic oil prices. Argentina's President Javier Milei has made significant moves to enact fiscal reform, which we think will likely place the country on a positive trajectory with improvements in economic conditions and the regulatory environment (and ultimately help benefit the financial and commodity sectors).

Within Kazakhstan we added to Halyk Bank (2.9% of the portfolio).[2] The company has experienced double-digit growth and continues to build its digital ecosystem. We also added to Kazatomprom, which has sold off the past few months and looks increasingly attractive, and reduced our position in index heavyweight Kaspi (2.5% of the portfolio) on capital allocation concerns as the company expands its regional footprint.[2]

We increased our allocation to NLB Group in Slovenia. The bank raised its guidance for the year on return on equity and loan growth and lowered its cost of risk guidance. We believe the risk/reward outlook for the company remains favorable, and the bank's geographic footprint across Southeast Europe is in economies that appear primed for a credit cycle due to under-penetration in the banked population and strong gross domestic product growth. To fund this trade, we trimmed our positions in BDO Unibank in the Philippines and Vietcombank in Vietnam, the latter due to a set of disappointing second quarter earnings, which we think may persist for some time given the government's push for commercial banks to reduce lending rates. Elsewhere in Vietnam we trimmed our position in FPT following the stock's strong outperformance.

We reduced the position in Grid Dynamics (1.3% of the portfolio)[2] on concerns of a delayed pickup in spend for IT service companies and as we continued to reduce our exposure to developed markets and stocks correlated to U.S. equities, and added to high conviction positions including Standard Bank, Emaar Properties, Alfamart and Logo, that have either sold off or that we believe remain undervalued (2.1%, 2.1%, 2.5% and 1.7% of the portfolio, respectively).[2] Additionally, several of these positions have historically very low correlations to the S&P 500 Index and have tended to perform well in past large sell-offs.

We reduced Safaricom (1.6% of the portfolio)[2] as the macro environment in Kenya is becoming increasingly complex, including the protests to the finance bill proposed in May, culminating in its complete removal (leading to a large budgetary hole), President Ruto's firing of his cabinet, and a credit ratings downgrade by Moody's.

Strategy and Outlook

We remain focused on investing in the next generation of global investment opportunities unfolding in large, overlooked frontier and small emerging markets. Our investment universe, including Vietnam, Bangladesh, Indonesia and Nigeria, is comprised of countries with sizeable, fast-growing consumer populations that are in the early stages of development. We think many of these markets are "hidden gems" and have largely been ignored by most investors. Many of these countries represent a small fraction of mainstream emerging markets and global equity indexes but provide less correlated returns at attractive valuations.

We recently came back from a trip to Egypt, a country that has been undergoing an economic adjustment and making much-needed reforms that are leading to interesting investment opportunities in a market trading at attractive valuations (7.7x consensus earnings and 2.5x price/book).[9]

Egypt had been plagued by poor policy choices with a pegged currency and economic mismanagement, further exacerbated by a number of global shocks, including COVID, Ukraine, Gaza, high global interest rates and issues in the Suez Canal. This led to large fiscal and current account deficits, balance of payments issues, high inflation (food inflation reached a high of 70% last year),[10] negative real rates and a massive spread between the official and parallel foreign exchange rate. The country has begun to take steps in the right direction with more orthodox monetary, fiscal and foreign exchange policies, including devaluing the currency over 50% and allowing it to freely float. The central bank has hiked rates by 600 basis points to 27.75% and inflation continues to fall, down from the 40% a year ago to 25% now as the economy slows and adjusts to higher rates.[11]

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2 Holdings data as of September 30, 2024.
7 Source: Kazatomprom company data, second quarter 2024
8 Source: Vista Energy company data, June 30, 2024.
9 Source: Bloomberg L.P. Data as of September 30, 2024.
10 Source: International Monetary Fund. Data as of December 31, 2023.
11 Source: Egypt Central Data Catalog (CAPMAS) September 2024.

The country has also received significant support in the form of over $60 billion in capital from the UAE (through the Ras El-Hekma land development project) and international organizations including the International Monetary Fund, European Union and World Bank, allowing them to build reserves, float the currency and service the debt. Tourism, an important source of revenue for the country, has been recovering after taking a hit from the pandemic and the conflict in Gaza. While on the ground we saw firsthand that the tourism economy is booming; tourist arrivals in Egypt are back to their 2008 peak.

While some risks persist around the current account deficit, currency intervention, underinvestment in energy and the military's role in the economy, we welcome this return to orthodox foreign exchange policy and believe that recent moves, coupled with the massive inflow of money from partners, will likely help Egypt meet its funding needs for the next three to five years, leading to currency stability. Within the portfolio we are invested in what we consider to be a high quality bank (that has continued to deliver on earnings across different macro environments) and continue to look for opportunities in top-tier businesses with strong management teams where we think earnings growth is being undervalued and that can benefit from an improving economic outlook.

Fund Facts

Inception Date	August 25, 2008
Minimum Initial Investment ($)*	A Shares - 1,000
	I Shares - 1,000,000
Benchmark	Primary- MSCI Frontier Emerging Markets Net Index
	Custom- Blended Index
Class I expense ratio	**Gross 2.47 %**
	Net 1.25 %
Class A expense ratio	**Gross 2.84 %**
	Net 1.60 %

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	0.12	6.52	11.79	14.80	-10.77	0.15	-1.48
Class A Shares at NAV	0.12	6.45	11.54	14.44	-11.07	-0.20	-1.83
Class A Shares (With Max 5.25% Sales Charge)	-5.11	0.86	5.70	8.42	-12.66	-1.27	-2.35
MSCI Frontier Emerging Markets Net Index	2.33	8.33	11.98	20.34	1.46	2.12	-0.13
Blended Index	2.33	8.33	11.98	20.34	1.46	5.60	2.10

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.

Performance shown for the Fund's Class I shares reflects the performance of the common shares of the Frontier Predecessor Fund for periods prior to September 17, 2012.

Pursuant to an agreement and plan of reorganization between Morgan Stanley Institutional Fund, Inc., on behalf of the Fund, and Morgan Stanley Frontier Emerging Markets Fund, Inc. (the "Frontier Predecessor Fund"), on September 17, 2012 the Fund acquired all of the assets and liabilities of the Frontier Predecessor Fund in exchange for Class I shares of the Fund (the "Frontier Reorganization"). As a result of the Frontier Reorganization, the Fund is the accounting successor of the Frontier Predecessor Fund. The historical performance information shown reflects, for the period prior to the Frontier Reorganization, the historical performance of the Frontier Predecessor Fund. The Frontier Predecessor Fund may have performed differently if it were an open-end fund since closed-end funds are generally not subject to the cash flow fluctuations of an open-end fund.

Effective June 30 2021, the Morgan Stanley Frontier Markets Portfolio was renamed to Morgan Stanley Next Gen Emerging Markets Portfolio, with an expanded investment universe to include equity securities of companies operating in emerging market countries, which include frontier emerging market countries, and an updated investment approach to reflect top-down allocations are made at the macro and thematic levels. Please see the Prospectus for more details.

Further to the prospectus supplement issued on April 30, 2021 and subject to shareholder approval secured on August 6, 2021, the MSIF Emerging Markets Small Cap Portfolio was merged into the MSIF Next Gen Emerging Markets Portfolio on or about Friday August 13, 2021.

INDEX INFORMATION

The **Blended Index** performance shown is calculated using the MSCI Frontier Markets Net Index from inception through 29 June 2021 and the MSCI Frontier Emerging Markets Net Index thereafter.

The **MSCI Frontier Emerging Markets Net Index** is a free float adjusted market capitalization index designed to serve as a benchmark covering all countries from the MSCI Frontier Markets Index and the lower size spectrum of the MSCI Emerging Markets Index.

The **MSCI Frontier Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance of frontier markets. The MSCI Frontier Markets Index currently consists of 24 frontier market country indices. The performance of the Index is calculated in U.S. dollars and assumes reinvestment of net dividends. "Net dividends" reflects a reduction in dividends after taking into account withholding of taxes by certain foreign countries represented in the Index.

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 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. 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 **frontier emerging markets** are greater than risks associated with investments in other foreign or U.S. issuers and they are often considered highly speculative in nature. Investment opportunities in many frontier emerging markets may be concentrated in the **banking industry**, which could have a disproportionate impact on the portfolio's performance. 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. 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. **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 public 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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