Morgan Stanley
INVESTMENT MANAGEMENT

COMMENTARY
September 30, 2024

Morgan Stanley Institutional Fund

Passport Overseas Equity Portfolio

EMERGING MARKETS EQUITY TEAM

Portfolio Commentary

In the quarter period ending September 30, 2024, the Portfolio's I shares returned 4.84% (net of fees)[1], while the benchmark returned 8.06%.

The third quarter was a bumpy period for global equities. The MSCI All Country (AC) World ex U.S. Index fell 5% from the start of the quarter into early August, then rallied over 10% into the start of September, before weakening (-4%) and then gaining back nearly 6% into the end of September to a record high. The late-September rally was on the back of the 50 basis point[2] U.S. Federal Reserve (Fed) interest rate cut and China's significant policy stimulus proposals. In a broadening of returns away from U.S. dominance, MSCI AC World ex U.S. Index regional returns were led by emerging markets (up 7%), and Asia ex Japan, Europe ex U.K. and Japan (each up 6%) with the U.S. (up 3%) as the laggard.[3] Third quarter MSCI AC World ex U.S. Index sector returns were: real estate 17%, communication services 14%, utilities 13%, discretionary 12%, financials and staples 11% each, materials and industrials 9% each, health care 6%, and technology and energy -2% each.

For the third quarter, the Fund gained 4.84% (I shares net of fees) but trailed the benchmark return of 8.06%. Significant contributors to returns included the overweights to Hong Kong (returning 24% in the quarter), digital platforms (Alibaba returning 47% and MercadoLibre 25%), entertainment (Sea Ltd returning 32%) and personal care products (Unilever returning 19%).[4] Zero allocations to autos and Mexico and underweights to Taiwan and Japan also contributed to third quarter performance. Significant detractors from performance included the position in Despegar.com (falling -6% in the third quarter), positioning in technology (overweights to Samsung, Tokyo Electron and TSMC, and underweight in software) and pharmaceuticals (positions in Vertex, Novo Nordisk and AstraZeneca).[5] The underweight to and positioning in banks and stock selection in materials also held back the portfolio's third quarter return.

Portfolio Activity

In the third quarter, we increased our position in Canada in energy, software and banks. We believe Canadian banks look attractive due to cyclical tailwinds: 1) yield curve un-inversion, 2) Bank of Canada interest rate cuts stimulating consumption and credit growth, and 3) consequent recovery in economic growth. We think structural factors keep risks to a housing downturn minimal, mainly: 1) population growth, 2) supply constraints, and 3) contractual/regulatory protections including mortgage insurance and full recourse status quo (full-recourse debt allows lender rights to assets beyond secured collateral specified). Additionally, the banks appear positioned for some housing volatility if it arises.

To fund these purchases, we eliminated select positions in metals & mining and trimmed several other larger positions that had performed well and gave us an opportunity to rebalance the portfolio exposure across geography and industries.

Strategy and Outlook

Geographically the portfolio has overweight allocations to the U.K., core Europe, Hong Kong and emerging markets and underweights to Japan, Australia, Canada and Switzerland. We have maintained our portfolio strategy of investing in structural themes which include Artificial Intelligence (AI) Picks & Shovels (semiconductors, and tech hardware and services), Software (cybersecurity and AI enablers), Metals & Mining (gold, copper and platinum group metals), Emerging Market Revivals (banks and digital platforms), Energy (oil and natural gas), Digital Platforms (online travel, media & entertainment, e-commerce), Health Care Innovation, Industrials (defense & aerospace, capital goods, industrial automation, electrification), Consumer Premiumization (staples, luxury, beverages), and Financials (banks, fintech, others).

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[1] Source: Morgan Stanley Investment Management. Data as of September 30, 2024. Performance for other share classes will vary.
[2] One basis point = 0.01%
[3] Regional and country returns are represented by their respective MSCI regional/country indexes, which are broad measures of the region/country's stock market performance. Data as of September 30, 2024.
[4] As of September 30, 2024: Alibaba 5.0%, MercadoLibre 2.1%, Sea Ltd 3.1%, Unilever 4.9% of the portfolio.
[5] As of September 30, 2024: Despegar.com 3.4%, Samsung 3.4%, Tokyo Electron 0.9%, TSMC 4.5%, Vertex 1.8%, Novo Nordisk 2.2%, AstraZeneca 3.3% of the portfolio.

We have a constructive view on global economic growth, which we see as normalizing, not collapsing, and expect it to be supported by further rate cuts across the world from the U.S. to India. Geopolitics and elections will continue to be a source of news and commentary. At this point we are managing risk as the U.S. election outcome is a coin flip, and it's very difficult to position for an outcome. Further, inflation is likely to stabilize before resuming a downtrend at the beginning of next year, given the high base effects of inflation prints at the beginning of this year. For the U.S., the Fed's dual mandate of price stability and maximum employment is likely to keep them moving toward neutral rates of around 3.5%, in our view.

Overall, it is encouraging to see the broadening of global equity performance with non-U.S. markets outperforming the U.S. market in the third quarter, and within the U.S., the Magnificent Seven losing some dominance as witnessed by utilities, real estate and industrials leading third quarter U.S. equity returns. Non-U.S. equites have a valuation advantage over the U.S. market (measured by MSCI indexes) with the U.S. trading on a 12-month forward P/E of nearly 22x (2 standard deviations above its history) versus Japan (14x), the euro area (13x) and emerging markets (13x) at fair value.[6]

This valuation gap has been a market feature for some time, and at this point we think that the dominance of mega and large caps in the tech and consumer sectors is fading toward more balanced industry returns and broader market cap performance. We invest in select non-U.S. markets that we believe have supportive macro environments, positive thematics and compelling equity opportunities. Our bottom-up process is focused on identifying companies with low leverage and robust business models, that we see as having favorable pricing power in the next several years. We are avoiding highly valued and highly leveraged companies and are looking for opportunities for growth at the right price. We expect that equities, overall, should be an attractive asset class, and we see non-U.S. markets as attractive as they have improving fundamentals and are valued at undemanding metrics compared to most of their U.S. peers.

Fund Facts

Inception Date	January 17, 1992
Minimum Initial Investment ($)*	A Shares - 1,000
	I Shares - 1,000,000
Benchmark	Primary- MSCI All Country World ex USA Index
	Custom- Blended Index
	Former- MSCI EAFE Index
Class I expense ratio	**Gross 1.02 %**
	Net 0.90 %
Class A expense ratio	**Gross 1.28 %**
	Net 1.25 %

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.

[6] Source: Bloomberg L.P. Data as of September 30, 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	1.54	4.84	14.07	22.75	-0.33	8.24	5.02
Class A Shares at NAV	1.57	4.85	13.86	22.41	-0.61	7.92	4.69
Class A Shares (With Max 5.25% Sales Charge)	-3.74	-0.62	7.89	15.96	-2.38	6.76	4.12
MSCI All Country World ex USA Index	2.69	8.06	14.21	25.35	4.14	7.59	5.22
Blended Index	2.69	8.06	14.21	25.35	4.14	7.59	5.42
MSCI EAFE Index	0.92	7.26	12.99	24.77	5.48	8.20	5.71

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 All Country World Ex-U.S. Index** is a free float-adjusted market capitalization weighted index designed to measure the equity market performance of developed and emerging markets, excluding the U.S. 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 EAFE Index (Europe, Australasia, Far East)** is a free float-adjusted market capitalization index that is designed to measure the international equity market performance of developed markets, excluding the US & Canada. 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 EAFE Index currently consists of 21 developed market country indices. The performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends.

The **Blended Index** performance shown is calculated using the MSCI EAFE Index from inception through 12/30/2016 and the MSCI All Country World ex USA Index Net Index thereafter.

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 **emerging market** countries are greater than risks associated with investments in foreign developed markets. **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).

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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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.

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