Morgan Stanley
INVESTMENT MANAGEMENT

**COMMENTARY**
March 31, 2024

Morgan Stanley Institutional Fund

# Asia Opportunity Portfolio

**GLOBAL OPPORTUNITY**

## Performance Review

In the quarter period ending March 31, 2024, the Portfolio's I shares returned 1.38% (net of fees)[1], while the benchmark returned 2.38%.

The Global Opportunity team creates a high conviction, concentrated portfolio of undervalued, high quality businesses. The long-term investment horizon and high active share approach can result in periods of performance deviation from the benchmark. The Fund underperformed the MSCI All Country ("AC") Asia ex Japan Index this quarter due to unfavorable sector allocation despite favorable stock selection.

## Market Review

Asian equities advanced during the quarter, driven by the energy, information technology and utilities sectors, while the real estate, materials, health care, consumer staples and consumer discretionary sectors declined and underperformed the benchmark.

## Portfolio Review

Stock selection in financials and communication services, an underweight position in information technology, and overweight positions in consumer discretionary and consumer staples were the greatest overall detractors during the period. Top individual detractors included shares of Indian private sector bank HDFC Bank, Korean search engine Naver, Chinese property agency KE Holdings, pan-Asian insurance company AIA Group and power management integrated circuit fabless integrated design manufacturer Silergy.

Conversely, stock selection in consumer discretionary, consumer staples and information technology, and underweight positions in materials and health care were the greatest overall contributors. Top individual contributors included Chinese travel agency Trip.com, Taiwan Semiconductor Manufacturing Co, Indian food delivery platform Zomato, Chinese hot pot restaurant Haidilao and Chinese leading consumer services super-app Meituan.

Shares of detractor HDFC Bank Ltd. declined after India's largest private sector bank reported lower-than-expected net interest margins for the quarter ending in December. Our long-term investment remains intact, and we continue to view HDFC Bank as one of the highest quality banks, which is poised to benefit from the growth trajectory of consumption and infrastructure in India. HDFC Bank is India's largest private bank by assets as of December 31, 2023. HDFC Bank has an outstanding liability and deposit franchise, driven by its long operating history, strong brand, extensive branch network and focus on customer service. HDFC Bank also has the largest personal loan and credit card franchise in India, with strong risk management processes. We believe that HDFC Bank's cost leadership advantage, coupled with industry-leading digital capabilities, can enable it to continue taking loan and deposit market share amid public sector bank weakness.

Top contributor Trip.com is the largest online travel agency in China, which enjoys a strong network effect with one of the broadest hotel coverages and largest affluent travel customer bases, especially within the high-end hotel segment. We believe the company may continue to benefit from the consumption upgrade that is driving rising domestic travel spending and can monetize its uniqueness through growth in gross merchandise value in the domestic market, expansion in overseas markets and tapping into high-margin advertising.

We have made minimal changes to the portfolio given our conviction in the long-term investment thesis of existing holdings. We have optimized the portfolio by re-allocating to positions where we believe that market valuations have disconnected from intrinsic value.

## Outlook

While we are finding great ideas all over the world and are agnostic to where our best ideas come from, we believe high quality companies can be found in a higher ratio in developing economies. In particular, Asia is structurally attractive given the region's rising middle class, consumption upgrades and advanced manufacturing.

1 Source: Morgan Stanley Investment Management. Data as of March 31, 2024. Performance for other share classes will vary.

In India, for example, the ratio of loans as a percentage of gross domestic product (GDP) is converging to the rest of the world. That gives us confidence that there's a meaningful advantage to the financials sector in India, and within that, we see companies gaining market share and operating with strong management teams that can mitigate risk from a loan underwriting perspective.

In China, our preference is for companies that are driven by domestic demand. In that context, it's notable that China's GDP is highly tied to consumption; for illustration, in the period between 2017 and 2022, approximately half of China's real GDP growth was driven by consumption.[2] While China's GDP growth is expected to slow from 7%-8% to 4%-5% going forward, it is still higher compared to developed countries, and notwithstanding recent weakness, we expect consumption will remain an important driver going forward, to the benefit of domestic demand-driven businesses.

Importantly, regardless of where a company is located, it must have a management team with a global perspective that therefore shows good governance and focus on generating good returns, and also have sustainable competitive advantages, in order to be what we consider a good investment.

As a team, we continue to focus on bottom-up stock selection and the long-term outlook for companies owned in the portfolio. We assess company prospects over a five- to ten-year time horizon and own a portfolio of what we believe are undervalued, high quality companies with diverse business drivers not tied to any particular market environment.

## Fund Facts

| | |
|---|---|
| Inception Date | December 29, 2015 |
| Minimum Initial Investment ($)* | A Shares - 1,000 |
| | I Shares - 1,000,000 |
| Benchmark | MSCI All Country Asia Ex Japan Net Index |
| **Class I expense ratio** | **Gross 1.17 %** |
| | **Net 1.10 %** |
| **Class A expense ratio** | **Gross 1.42 %** |
| | **Net 1.42 %** |

**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.**

## Performance (%)

| *As of March 31, 2024* | MTD | QTD | YTD | 1 YR | 3 YR | 5 YR | 10 YR | SINCE INCEPTION |
|---|---|---|---|---|---|---|---|---|
| Class I Shares at NAV | 3.85 | 1.38 | 1.38 | -7.40 | -16.68 | 0.66 | -- | 8.45 |
| Class A Shares at NAV | 3.81 | 1.30 | 1.30 | -7.75 | -16.93 | 0.36 | -- | 8.11 |
| Class A Shares (With Max 5.25% Sales Charge) | -1.64 | -4.00 | -4.00 | -12.59 | -18.41 | -0.71 | -- | 7.41 |
| MSCI All Country Asia Ex Japan Net Index | 2.54 | 2.38 | 2.38 | 3.99 | -6.84 | 1.94 | -- | 5.59 |

**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.**

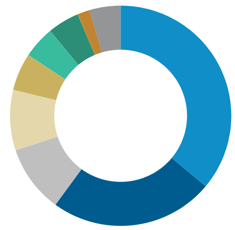
Returns are net of fees and assume the reinvestment of all dividends and income. They are compared to an unmanaged market index. Returns for less than one year are cumulative (not annualized). Performance for one year or more is based on average annual total returns. The returns are reported for Class I and A shares. Performance for other share classes will vary.

[2] Source: National Bureau of Statistics of China, CEIC and Morgan Stanley Research estimates. Data as of December 2023.
* Share class availability may vary by platform. For more information, please visit the specified fund page on the website.

## Top Holdings (% of Total Assets)

| | FUND | INDEX |
|---|---|---|
| ICICI Bank Ltd | 6.65 | 1.10 |
| Trip.com Group Ltd | 5.98 | 0.39 |
| Coupang Inc | 5.48 | -- |
| HDFC Bank Ltd | 5.40 | 0.79 |
| Meituan | 5.01 | 1.01 |
| Haidilao International Holding Ltd | 4.94 | 0.06 |
| Kweichow Moutai Co. Ltd | 4.71 | 0.29 |
| Tencent Holdings Ltd | 4.35 | 4.15 |
| Titan Co. Ltd | 4.13 | 0.26 |
| KE Holdings Inc | 3.96 | 0.15 |
| **Total** | **50.61** | -- |

## Sector Allocation (% of Total Assets)^



| | FUND | INDEX |
|---|---|---|
| Consumer Discretionary | 36.25 | 13.54 |
| Financials | 24.16 | 20.24 |
| Communication Services | 9.94 | 9.08 |
| Consumer Staples | 8.93 | 4.42 |
| Real Estate | 5.52 | 2.64 |
| Information Technology | 4.74 | 27.42 |
| Industrials | 4.69 | 7.66 |
| Health Care | 1.81 | 3.56 |
| Energy | 0.00 | 4.02 |
| Materials | 0.00 | 4.70 |
| Utilities | 0.00 | 2.70 |
| Cash | 4.57 | -- |

^ May not sum to 100% due to the exclusion of other assets and liabilities.

### INDEX INFORMATION

The **MSCI All Country Asia ex Japan Index** is a free floatadjusted market capitalization weighted index that is designed to measure the equity market performance of Asia, excluding Japan. 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 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. **Asia market**entails liquidity risk due to the small markets and low trading volume in many countries. In addition, companies in the region tend to be volatile and there is a significant possibility of loss. Furthermore, because the strategy concentrates in a single region of the world, performance may be more volatile than a global strategy. 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 countries. **Focused investing**To the extent that the Fund invests in a limited number of issuers, the Fund will be more susceptible to negative events affecting those issuers and a decline in the value of a particular instrument may cause the Fund's overall value to decline to a greater degree than if the Fund were invested more widely. **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. **Privately placed and restricted securities**may be subject to resale restrictions as well as a lack of publicly available information, which will increase their illiquidity and could adversely affect the ability to value and sell them **(liquidity risk)**. **China Risk** . 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. There is no assurance strategies that incorporate **ESG factors** will result in more favorable investment performance. **India Risk.** To the extent the Portfolio invests a substantial portion of its assets in Indian issuers, the Portfolio may be adversely affected by factors that impact Indian businesses and the Indian economy (among other factors) and such factors may have a disproportionate impact on performance. **Active Management Risk.** The Adviser has considerable leeway in deciding which investments to buy, hold or sell, and which trading strategies to use. Such decisions will affect performance. To the extent the Portfolio invests a substantial portion of its assets in the **financials sector**, factors that have an adverse impact on this sector may have a disproportionate impact on performance. To the extent the Portfolio invests a substantial portion of its assets in the **consumer discretionary sector**, the Portfolio may be particularly susceptible to the risks associated with companies operating in such sector.

## 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, download one at morganstanley.com/im or call 1-800-548-7786. Please read the prospectus carefully before investing.**



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