Morgan Stanley Institutional Fund

# Emerging Markets Portfolio

**EMERGING MARKETS EQUITY TEAM**

## Performance Review

In the quarter period ending June 30, 2025, the Portfolio's I shares returned 12.49% (net of fees)[1], while the benchmark returned 11.99%.

During the quarter, stock selection in India contributed strongly, though the overweight allocation to the market detracted slightly. The positioning in Taiwan and the overweight allocation to Mexico added to returns. Other contributors included the underweight allocations to China and Saudi Arabia and the zero allocation to Thailand. Detractors for the quarter included stock selection in and the underweight to Korea, stock selections in Brazil and China, and the zero allocation to Greece.

Top contributors to performance during the quarter are outlined below:

Stock selection in India contributed, driven by the allocations to Hitachi Energy, IDFC First Bank and HDFC Asset Management (1.2%, 1.0% and 1.0%, respectively).[2] Hitachi Energy rallied after reporting first quarter 2025 results of a 62% increase in net profit year-over-year.[3] Indian financials rallied after the Reserve Bank of India (RBI) announced a 100 basis point[4] cut in the cash reserve ratio to 3%. The RBI also lowered interest rates for the third time this year in June amid falling inflation and lower growth. Markets reacted positively to the larger-than-expected interest rate cut of 50 basis points, which brought the cumulative rate cut to 100 basis points since February 2025. The RBI changed its stance from "accommodative" to "neutral" as it continues to carefully monitor the inflation and growth outlooks. Our overweight allocation to India partially offset gains as India underperformed emerging markets (EM) during the quarter, though the market has been steadily recovering from its February lows.

Stock selection in and the overweight allocation to Taiwan contributed. Artificial intelligence (AI)-related optimism continued in June, particularly after Nvidia posted strong earnings at the end of May and the share price hit an all-time high in June, which helped lift semiconductor- and AI-related stocks in Taiwan. Our overweights to select tech/semiconductor companies, including TSMC, Wiwynn, Alchip and Unimicron, added to returns (13.0%, 1.3%, 1.2% and 0.6% of the portfolio, respectively).[2]

Mexican equities continued to outperform, ending the quarter as one of the best performing EM markets, and our overweight allocation to the country contributed, led by our allocations to Walmex and Grupo Financiero Banorte (1.3% and 1.6% of the portfolio, respectively).[2] We believe Walmex continues to be a leader in the retail space, and in April the company announced a $6 billion investment to further expand its operations in Mexico, reaffirming both the retailer's confidence in the consumer market and its commitment to expansion plans (via physical stores and digital footprint).

Thailand was among the worst performing EM markets as equities were impacted by political volatility, most recently with the prime minister being suspended and facing calls of resignation relating to an ethics probe, and our zero-allocation to the market added to returns. The underweight allocations to China and Saudi Arabia also contributed as both markets underperformed EM during the quarter, with oil price volatility weighing on Saudi market sentiment.

Top detractors from performance during the quarter are outlined below:

Our underweight allocation to and stock selection in Korea detracted as the market rallied nearly 33% during the quarter, particularly following the presidential election and victory for the Democratic Party leader Lee Jae-Myung. The Democratic Party now controls both the legislative and executive branches in Korea, which could allow Lee's legislative agenda, including capital market reforms, to pass without conservative support. On the other end, our overweight allocations to KB Financial and NAVER (1.1% and 0.7% of the portfolio)[2] contributed, the latter as Korean internet stocks rallied on President Lee's support for various crypto/digital asset initiatives and the push for won-based stablecoins. The portfolio is invested in secular themes in Korea such as technology/semiconductors, media and electric vehicles, and in areas that we believe should benefit from government policy measures to improve corporate governance, including select banks.

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**1** Source: Morgan Stanley Investment Management. Data as of June 30, 2025. Performance for other share classes will vary.
**2** Holdings data as of June 30, 2025.
**3** Source: Hitachi Energy company results March 31, 2025, reported May 14, 2025.
**4** One basis point = 0.01%

Stock selection in Brazil hampered performance, as the overweights to electric motor manufacturer WEG and pharmacy retailer Raia Drogasil detracted (1.7% and 0.6% of the portfolio).[2] Raia Drogasil underperformed after its first quarter 2025 earnings came in below expectations.

Gains from our underweight allocation to China were slightly offset by aggregate stock selection in the market, negatively impacted by BYD, Trip.com and Yum China (1.9%, 1.3% and 0.7% of the portfolio).[2] BYD fell from its May highs as electric vehicle (EV) makers in China have been undergoing a price war amid concerns of potential slowing demand growth in the second half of 2025. The travel/online travel agency industry (including Trip.com) saw a decline after JD.com announced its expansion into the travel sector with the launch of a "lifestyle and travel" section in its app and a three-year, zero-commission hotel membership program.

The zero allocation to Greece also detracted as the market was the second-best performing EM during the quarter.

## Portfolio Activity

During the quarter, we added to the Central and Eastern Europe (CEE) region by initiating positions in Polish construction and engineering company Budimex and Komercni Bank in the Czech Republic (0.6% and 0.7% of the portfolio, respectively).[2] Budimex is the largest Polish construction and engineering company, engaged in building roads, rail and other general industrial/residential construction projects. We believe earnings growth drivers for the company include: 1) revenue acceleration as backlogged new business wins (namely road construction projects) convert to project execution and 2) an acceleration in infrastructure spending in Poland, following the new administration and increase in flow of European Union funds. Further, we believe margins should have lower volatility in the future given indexation clauses, helping to reduce downside risk. With regards to Komercni Bank, the Czech economy is expected to accelerate and loan growth could inflect back up, driven by strong retail loans and a gradual recovery in corporate loans. Elsewhere, we reduced the allocation to insurer PZU (0.7% of the portfolio)[2] in Poland as the company is undergoing a corporate restructuring which could have a dilutive impact on earnings in the medium term.

Within China, we initiated positions in China International Capital Corp (CICC) and Naura Technology (0.4% and 0.5% of the portfolio, respectively).[2] CICC is a full-service investment bank with a diversified client base, which we believe can benefit from strong initial public offering (IPO) activities in the Hong Kong market and trading volume growth. Naura Technology is a wafer fab equipment company covering the majority of wafer production processes including etching, deposition, oxidation/diffusion and cleaning. We believe the company is well positioned to benefit from government support and willingness of local customers to work with Chinese suppliers given U.S. restrictions. The addition is an expansion of our AI thematic holdings that we think are well positioned in China 1) for localization for semiconductor capital equipment and 2) as a proxy for AI chip manufacturing upside.

To fund the Naura trade, we exited our position in Advantech in Taiwan. The stock has outperformed Taiwan and EM (in U.S. dollar terms) year-to-date on improving year-over-year growth, driven by a recovery in the PC/automation theme in the U.S. and EU markets. While we remain positive on Advantech as a proxy for the global capital expenditure cycle, we believe the stock's current valuation has priced in the outlook. Elsewhere in Taiwan, we exited Fubon Financial.

Within South Africa, we added OUTsurance (0.3% of the portfolio),[2] a non-life insurance company with an innovative direct distribution (direct-to-consumer) model. We believe OUTsurance is a high-quality growth company with a historically solid return on equity and a strong management team, and we believe the company can be successful in replicating its success in new markets outside of South Africa, such as Ireland most recently. We exited Standard Bank given the increased uncertainty around reform execution in South Africa (with the pressures facing the Government of National Unity), which could hurt business confidence and prospects for fixed investment growth.

In India, we initiated a position in Swiggy (0.3% of the portfolio),[2] which operates across food delivery, quick commerce, out-of-home consumption through dine-out and platform innovations covering new initiatives around logistics and supply chain distribution through its super-app. We believe that quick commerce economics are showing a path to profitability given increasing demand for convenience as India is among the lowest penetrated of modern retail and ecommerce (within the grocery segment) with one of the densest grocery networks. Further, quick commerce players typically enjoy higher margins versus traditional retail given the ability to cut out distributors/wholesalers in the supply chain. We exited Star Health & Allied Insurance as the company has struggled with rising medical inflation and the ability to organically grow the top-line.

Within Brazil, we initiated a position in leading Latin America financial institution BTG Pactual (0.3% of the portfolio)[2] and exited our position in NuBank. We believe BTG Pactual can deliver strong top- and bottom-line growth for the coming years and its increased focus on asset management and wealth management, digital banking and commercial lending is likely to lead to a relatively stable and faster growth business model. We also added to our existing positions in Rede D'Or and MercadoLibre (1.0% and 0.9% of the portfolio, respectively).[2] Our investment thesis for Rede D'Or continues to be driven by 1) market share gains in both the private hospital and insurance (SulAmerica) segments and organic growth in health care EBITDA (earnings before interest, taxes, depreciation and amortization) as the company plans to significantly expand bed capacity over the next five years and 2) improvement to SulAmerica's medical loss ratios.

[2] Holdings data as of June 30, 2025.

In Mexico, we added Fibra Prologis, an industrial real estate investment trust (REIT) company which has a strong track record in six local markets in Mexico. Its existing rents are approximately 50% below market and those rents continue to rise as they mark-to-market when the leases come up for renewal, which we believe implies a significant rent increase over the next few years. In addition, the company recently acquired Terrafina, which we think gives the company an opportunity to sell non-core assets and increase its strength to deploy into future industrial assets in its core markets without needing to raise money via an equity offering. Elsewhere in Mexico, we reduced our position in Gruma (0.6% of the portfolio)[2] and sold vehicle insurance company Qualitas.

We also added to our existing position in Bupa Arabia (0.8% of the portfolio)[2] in Saudi Arabia and exited our position in Americana Restaurants in the UAE, the latter as the recovery from customer boycotts (spurred by the conflicts in the Middle East) has been slower than expected. We were also disappointed with management's decision to focus on store growth rather than recovery in sales per unit, which we think is key to recovering both margins and the stock price to pre-conflict levels.

## 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 returns and risk. In what we expect to be a mixed outlook for growth and ongoing realignment in the global economy, we believe the portfolio is well positioned while providing significant diversification with active positioning at both the country and stock level.[5]

We remain overweight **India** where our long-term secular, domestic-driven growth thesis remains unchanged. We are closely watching for impacts from external factors such as developments in U.S. economic growth and tariff announcements, though India is relatively more insulated from tariffs versus other countries given its domestic-driven growth drivers. The RBI remains focused on financial stability, and we believe corporates are well positioned as returns on equity and profitability of listed companies are strong and earnings visibility remains high. Shifts in growth should coincide with changes in liquidity conditions, monetary policy, government spending and the flow of credit. Our exposure in India includes what we consider to be well-managed financials, industrials and consumer names, along with select IT, health care, energy and materials companies.

We are overweight **Poland**. We believe the Polish economy is well positioned for sustained growth, benefiting from rising gross domestic product (GDP) growth, manageable inflation, a tight labor market, improved external balances and low debt. Private investment should be a key driver of growth, led by disbursal of European Union funds (over 2% of GDP per year), and Germany's fiscal stimulus package should provide additional support in the medium term. Gross fixed capital formation was +9% in the first quarter 2025 after a contraction in the second half of 2024.[6] Following the recent election outcome and looser fiscal policy, central bank governor Glapinski is likely to skew hawkish, keeping rates higher for longer. The banking system has deleveraged, with low loan-to-deposit ratios, and we believe should be well prepared for an investment cycle. Even after strong year-to-date performance, equity valuations remain close to Poland's historic average (and are cheaper than that of EM). We believe the Poland economy is structurally among the strongest in the CEE region (particularly given its greater domestic focus) and remain invested in the largest bank in the country, an infrastructure construction company, a leading insurer and an e-commerce platform.

We are overweight **Brazil**. GDP growth of 3% for the last three years[7] has outperformed market expectations, largely due to positive structural reforms implemented by the prior administration, including labor, pension and tax reforms, central bank independence and state-owned enterprise privatizations. Further, the labor market is tight with multi-year low unemployment rates and high real wage growth is leading to solid domestic demand. Additional positives include rising tax-to-GDP ratios, strong job creation, higher trade surplus, solid foreign direct investment and rising investment-led growth. We continue to monitor fiscal concerns (high government spending and debt sustainability) and interest rate changes in the country and are focused on companies with quality management and solid earnings growth.

We maintain our overweight allocation to **Mexico**. While we are closely monitoring the tariff news and impacts to trade and growth, we believe strategic and economic interests will likely prevail and help keep the relationship between the U.S. and Mexico on track. Structurally, Mexico's 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 with more affordable manufacturing wages). We believe many domestically focused companies trade at attractive valuations and should continue to benefit from a solid macro outlook, which would likely translate into solid earnings growth and yields.

We maintain our structural underweight to **China** as the fundamental issues in the economy (excess unproductive investment, overcapacity and the need to shift to a consumption-led growth model) will take time to fully address. While we believe the policy stimulus announcements by the People's Bank of China and government in recent months are steps in the right direction, we believe more time and actions would be required to turn around the economy. Volatility around the tariff hikes on Chinese imports by the U.S. and EU is an additional headwind, and with higher tariffs and a global trade slowdown, external drivers are not likely to be the

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**2** Holdings data as of June 30, 2025.
**5** Diversification neither assures a profit nor guarantees against loss in a declining market.
**6** Source: Haver Analytics. Data as of March 31, 2025.
**7** Source: Bloomberg L.P.

main driver of growth in the near term. We believe the emergence of low-cost AI model DeepSeek marks a turning point in China's broader resurgence in innovation, investment and global competitiveness, at a time of renewed nationalism in the country. China's strengths in consumer technologies and cost efficiency could unlock a more diversified AI opportunity set, one that balances the high-cost, high-performance AI segment with China's more accessible, cost-efficient solution. We remain selective in our exposure in China and are invested in attractive growth themes, such as EVs and edge AI, and within those themes are focused on companies with competitive advantages, strong corporate governance and solid growth prospects.

## Fund Facts

| | |
|---|---|
| Inception Date | September 25, 1992 |
| Minimum Initial Investment ($)* | A Shares - 1,000 |
| | I Shares - 1,000,000 |
| Benchmark | MSCI Emerging Markets Net Index |
| Class I expense ratio | **Gross 1.10 %** |
| | **Net 0.99 %** |
| Class A expense ratio | **Gross 1.40 %** |
| | **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 June 30, 2025* | MTD | QTD | YTD | 1 YR | 3 YR | 5 YR | 10 YR |
|---|---|---|---|---|---|---|---|
| Class I Shares at NAV | 5.67 | 12.49 | 14.55 | 11.20 | 12.16 | 7.05 | 4.16 |
| Class A Shares at NAV | 5.64 | 12.38 | 14.34 | 10.77 | 11.75 | 6.68 | 3.82 |
| Class A Shares (With Max 5.25% Sales Charge) | 0.08 | 6.50 | 8.36 | 4.96 | 9.76 | 5.54 | 3.26 |
| MSCI Emerging Markets Net Index | 6.01 | 11.99 | 15.27 | 15.29 | 9.70 | 6.81 | 4.81 |

**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 Net Index** is a free float-adjusted market capitalization weighted index that is designed to measure equity market performance of 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 MSCI Emerging Markets Index currently consists of 24 emerging-market country indices. The performance of the index is listed in U.S. dollars and assumes reinvestment of net dividends. The index does not include any expenses, fees or sales charges, which would lower performance.

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**

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

**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). **China Risk.** Investments in securities of Chinese issuers, including A-shares, involve risks associated with investments in foreign markets as well as special considerations not typically associated with investments in the U.S. securities markets. 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.

## IMPORTANT INFORMATION

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