Morgan Stanley
INVESTMENT MANAGEMENT

COMMENTARY
August 31, 2023

Morgan Stanley Institutional Fund

Emerging Markets Leaders Portfolio

EMERGING MARKETS EQUITY TEAM

Performance Review

In the one month period ending August 31, 2023, the Fund's I shares returned -3.86% (net of fees)[1], while the benchmark returned -6.16%.

August was a poor month for emerging markets (EM) equities as all markets except the smaller markets of Egypt, Turkey and Hungary (only about 1% of the MSCI EM Index benchmark) posted negative returns. Investor sentiment remained weak due to the default risk of the Chinese property sector and weaker-than-expected economic data. To boost the economy, the Chinese authorities lowered down payment ratios and home mortgage rates, but the actual impact to the market was short lived.

The Fund outperformed the broader market in the month, returning -3.86% (I shares net of fees) versus the -6.16% decline for the benchmark. The Fund's performance was helped by a recovery in our digital IT services companies along with e-commerce leader MercadoLibre, which were the two largest contributors to performance. Our stock selections across the board in India helped as India outperformed.

After its recent strong performance, NU Holdings came under pressure along with other our Brazil holdings. NU Holdings' share price weakness came on the back of an announcement that the CEO would be selling 3% of holdings to fund a philanthropic foundation. Our fundamental positive view on the company remains unchanged. The company reported a strong set of second quarter results, with a reported net profit of US$225 million versus US$142 million in the first quarter of 2023, per company data. The company's business momentum remained positive with revenue growth of more than 11% quarter-over-quarter according to management. Total client count reached 83.7 million, rising 28% year-over-year and total active clients hitting 68.8 million, up 32% year-over-year with all reported figures surprising on the upside, as stated by the company.

Taiwan stock selection was the biggest detractor with weak performance from Voltronic (3.4% of the portfolio)[2] along with a relatively lower weight in a global semiconductor foundry leader, which had declined only 4% during the month. Voltronic's share price was under pressure as the management lowered the outlook guidance on inventory destocking.

Our India holdings continued to show resilience, including those in financials, capital expenditure plays and the consumer discretionary sector. With the economy at a turning point, we believe India is well positioned to benefit from increasing consumer purchasing power. Our consumer holdings have been strong performers lately, and we've recently released an industry note outlining our view.

Market Review

While China was not the worst performing market during the month, its continued weakness led to generally poor sentiment in the region. China dropped -8.96%[3] as economic data over the past month broadly missed the market's already low expectations. Industrial production growth continued to slow to +3.7% year-over-year in July, from 4.4% in June, and fixed asset investment growth moderated to 1.2% year-over-year in July, from 3.4% in June, led by slower infrastructure and property investment according to China's National Bureau of Statistics. We were not and are not expecting a massive fiscal policy response, but we do expect more easing of restrictions to stabilize consumer sentiment, in particular. Property-related activity remained subdued in July, as home sales in volume terms declined by 15.4% year-over-year in July, after falling 17.6% in June according to the National Bureau of Statistics. Given the large proportion of wealth tied to the property sector, there needs to be some stability before any extended recovery in consumer sentiment can take hold.

India remained the relative outperformer once again, which helped our performance as we benefited from the absolute positive return among our capex and domestic consumer holdings, as noted earlier. We continue to maintain a balanced exposure in India with both inward- and outward-facing companies. India remains the portfolio's largest country exposure. We believe it remains well positioned to benefit from the recovery in the housing market along with the large infrastructure investment push by the government.

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[1] Source: Morgan Stanley Investment Management. Data as of August 31, 2023. Performance for other share classes will vary.
[2] Holdings data as of August 31, 2023.
[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 August 31, 2023.

While Brazil underperformed the region, our stock selection was relatively resilient, delivering a positive return for the month and helping overall performance.

Outlook

One of the main tenants of the Leaders strategy is to find companies we believe are able to deliver consistent and visible earnings growth. And we aren't relying on our ability to pick the interest rate moves that lead to rerating or derating of our holdings. We believe that our holdings, if they continue to deliver on earnings growth, are likely to meet our minimum return targets equal to the earnings growth. Even as the 10-year U.S. Treasury bond rate rose again this month, our holdings have performed as expected (setting aside bouts of sentiment changes and short-term profit taking).

China remains a challenge in the near term with most allocators and investors nearing a point of not just bearishness but indifference. While the Fund has performed broadly in line with the benchmark on a year-to-date basis through August, this is in the face of China subtracting more than 400 basis points[4] of excess return. Clearly there are challenges for the China markets which have been well documented, but we do believe that valuations are at a level where the risk-reward outlook in both the short and long term looks more interesting.

Our focused exposure to Latin America remains unchanged, and while bouts of volatility are expected, we do believe that our exposures across digital bank, e-commerce, industrial and specific digital IT services companies are well positioned. While some of the large index weight companies in the energy sector in Brazil have done well, our focus remains on those companies we believe have the ability to grow and deliver earnings rather than those that are beneficiaries of commodity or energy price moves. Among our larger country exposures, Brazil remains more cyclical in nature, but we believe our companies there are likely to deliver more consistent growth.

Fund Facts

Inception Date	June 30, 2011
Minimum Initial Investment ($)*	A Shares - 1,000
	I Shares - 1,000,000
Benchmark	MSCI Emerging Markets Net Index
Class I expense ratio	**Gross 1.15 %**
	Net 1.05 %
Class A expense ratio	**Gross 1.43 %**
	Net 1.40 %

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.

[4] One basis point = 0.01%

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

Performance (%)

As of August 31, 2023	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR
Class I Shares at NAV	-3.86	-1.65	4.11	-3.66	-4.62	5.31	4.34
Class A Shares at NAV	-3.89	-1.69	3.97	-3.89	-4.89	4.96	4.01
Class A Shares (With Max 5.25% Sales Charge)	-8.94	-6.84	-1.48	-8.94	-6.59	3.83	3.46
MSCI Emerging Markets Net Index	-6.16	-0.32	4.55	1.25	-1.39	0.98	2.99

Performance (%)

As of June 30, 2023	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR
Class I Shares at NAV	4.19	4.50	5.86	2.88	2.39	5.89	4.23
Class A Shares at NAV	4.22	4.46	5.76	2.65	2.10	5.56	3.91
Class A Shares (With Max 5.25% Sales Charge)	-1.24	-1.02	0.22	-2.72	0.28	4.43	3.35
MSCI Emerging Markets Net Index	3.80	0.90	4.89	1.75	2.32	0.93	2.95

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.

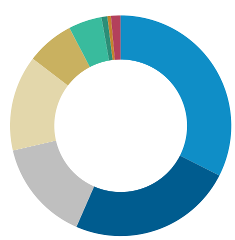
Returns are net of fees and assume the reinvestment of all dividends and income. They are compared to an unmanaged market index. Returns for less than one year are cumulative (not annualized). Performance for one year or more is based on average annual total returns. The returns are reported for Class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

Pursuant to an agreement and plan of reorganization, between the fund, on behalf of the Emerging Markets Leaders Portfolio (the "Portfolio"), and Morgan Stanley Emerging Markets Leaders Fund (Cayman) LP (the "Private Fund"), a private fund managed by Morgan Stanley Investment Management Inc., the Portfolio's adviser, on January 6, 2015, the Portfolio acquired substantially all of the assets and liabilities of the Private Fund in exchange for shares of the Portfolio (the "Reorganization"). The Private Fund commenced operations on June 30, 2011, and had an investment objective, policies , and strategies that were, in all material respects, the same as those of the Portfolio, and was managed in a manner that, in all material respects, complied with the investment guidelines and restrictions of the Portfolio. However, the Private Fund was not registered as an investment company under the Investment Company Act of 1940 (the "1940 Act"), and therefore was not subject to certain investment limitations, diversification requirements, liquidity requirements, and other restrictions imposed by the 1940 Act and the Internal Revenue Code of 1986, as amended, which, if applicable, may have adversely affected its performance . The Portfolio adopted the performance history of the Private Fund. As a result, the historical performance information shown reflects, for the periods prior to the Reorganization, the historical performance of the Private Fund. The performance of the Private Fund has been restated to reflect any applicable sales charge but is otherwise not adjusted to reflect differences in expenses between the Private Fund and each Class. If adjusted to reflect such difference in expenses, returns would be different.

Top Holdings (% of Total Net Assets)

	FUND	INDEX
MercadoLibre Inc	7.17	--
Shenzhou International Group	6.86	0.13
Globant S.A.	6.33	--
Bajaj Finance Ltd	6.15	0.36
NU Holdings Ltd	5.53	--
AU Small Finance Bank Ltd	5.52	0.02
SK Hynix Inc	5.28	0.76
BYD Co. Ltd	4.77	0.52
Li Ning	4.71	0.17
Kei Industries Ltd	4.30	--
Total	**56.62**	**--**

Sector Allocation (% of Total Net Assets)^



	FUND	INDEX
Consumer Discretionary	32.77	13.93
Financials	24.35	21.79
Information Technology	14.97	20.63
Industrials	14.15	6.49
Consumer Staples	7.01	6.28
Materials	4.91	8.01
Communication Services	0.89	9.68
Health Care	0.51	3.79
Cash	1.42	--

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

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. 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 nvesting in **emerging market countries** are greater than the risks generally associated with investments in foreign developed countries. Investments in **securities of Chinese issuers**, including A-shares, involve risks and special considerations not typically associated with investments in the U.S. securities markets or foreign developed markets, such as heightened market, political and liquidity risk. 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. **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). **Nondiversified portfolios** often invest in a more limited number of issuers. As such, changes in the financial condition or market value of a single issuer may cause greater volatility. **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. **ESG Strategies** that incorporate impact investing and/or Environmental, Social and Governance (ESG) factors could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. As a result, there is no assurance ESG strategies could result in more favorable investment performance.

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 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.

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

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