**Morgan Stanley Institutional Fund**

# Emerging Markets Leaders Portfolio

**EMERGING MARKETS EQUITY TEAM**

## Performance Review

In the one month period ending July 31, 2024, the Fund's I shares returned 0.00% (net of fees)[1], while the benchmark returned 0.30%.

Even with weaker U.S. dollar, emerging markets (EM) fell in July on worries over potential tariff increases and continued outflows from EM equities. North Asian markets (Taiwan, China and Korea) took the brunt of the market pullback, all recording negative returns. Health care and utilities (which are more defensive) were the best performing sectors. Information technology was the worst performing sector during the month as artificial intelligence (AI)-related semiconductor and hardware companies fell. This was one reason why Taiwan fell significantly as index heavyweights such as TSMC and Hon Hai saw large declines (8.8% and 0% of the portfolio, respectively).[2] China also dropped on lack of policy support from the third plenum and politburo meetings.

The Fund underperformed as our stock selection within Korea and Brazil detracted. Recent winners such as SK Hynix fell, after it had benefited from the graphics processing unit (GPU) memory theme, and NU Holdings consolidated after the strong run-up to early July (1.0% and 7.6% of the portfolio, respectively).[2]

Our stock selection and underweight allocation in Taiwan was the largest contributor to returns. The recovery in a Latin American digital IT services company contributed during the month after recent challenges. Our main thesis for the stock remains unchanged. Aarti Industries (Indian specialty chemical company, 4.5% of the portfolio)[2] was the largest contributor during the month on expected earnings momentum to continue. We continued to rotate capital in India by right-sizing some of the recent winners such as Trent (5.1% of the portfolio)[2] while being disciplined with our entry prices for new ideas.

## Portfolio Activity

We initiated a position in Taiwanese electronics producer E-Ink (1.8% of the portfolio),[2] a global leader in e-ink and e-paper with more than 95% market share based on our estimates. There is no close competition so far, and this has translated into high margins for the company. We see E-ink as a beneficiary of the shift away from LED and paper towards ePaper readers with benefits such as high efficiency (digitalized, lower energy consumption, environment friendly), cost-saving and gentle on the eyes. Electronic shelf labels (ESL) also remain a major driver of growth for E-ink with the rising adoption of ESL in U.S. and European supermarkets.

We added to our position in Varun Beverages Ltd (VBL, 2.5% of the portfolio),[2] a great executor in the industry with a solid track record of scaling up domestic and global opportunities while driving strong profitability. VBL has played a prominent role for PepsiCo in consolidating markets in India and Africa. Strong execution has made it the second-largest bottler of PepsiCo beverages outside the United States. The company maintains a dominant share (90%+) of PepsiCo's India business, according to the company, and has scaled internationally. VBL has delivered more than 20% annual revenue growth (setting aside 2020 COVID-related impacts) according to its reported sales figures over the past decade, and we expect growth to remain strong.

We also initiated a position in Techno Electric & Engineering (1.3% of the portfolio),[2] an Indian power-infrastructure company. It operates through four verticals: 1) flue gas disposal plants in coal-based thermal power generation, 2) transmission capital expenditure led by grid upgradation and growing focus on renewable power, 3) smart metering engineering, procurement and construction (EPC) opportunity as the central government pushes to reduce distribution losses, and 4) data centers, given the company's expertise in power management. Across these lines, it predominantly operates as an EPC contractor. Against its peers, the company has had a better track record on both margins and working capital management. Its prudent management team have historically chosen not to risk growth at the expense of their balance sheet. As India moves forward in its energy transition plan, we see Techno Electric as a multi-year opportunity to invest in the power revolution theme.

We reduced our exposure in SK Hynix, South Korean memory chip maker that has recently benefited from its focus on high-bandwidth memory (HBM) used by GPUs. We had been reducing our exposure to the memory segment as we became concerned about the valuation, which reached levels of the last major cycle peak.

**1** Source: Morgan Stanley Investment Management. Data as of July 31, 2024. Performance for other share classes will vary.
**2** Holdings data as of July 31, 2024.

We exited Shenzhou International Group (China-based apparel manufacturer) during the month based on concerns about ongoing increased business volatility. As both domestic and international consumption remains weak, we believe market share gains will be challenging for the company. Growth for athleisure has, in our view, declined structurally compared to the low-teens growth seen in the past decade or so, based on its historical reported sales figures.

## Outlook

Our positive view on India remains unchanged, and India remains the largest allocation in the Fund. We continued to rotate capital in India by right-sizing some of the recent winners while being disciplined with our entry prices for new ideas. We expect the market noise to remain elevated, and we remain firmly focused on bottom-up stock ideas. We look for further growth driven by private sector infrastructure investments. We remain positive on 1) the outlook for private sector banks and 2) the wealth effect trickling into discretionary consumption.

While there may be fleeting bounces in the Chinese equity market, our view remains the same: China will likely remain a trading market with structural headwinds that will likely persist for some time. We have maintained quite low exposure in China for the past several years, which has been premised on the reality that the longer-term growth trend remains on a downward trajectory given the regulatory and earnings challenges.

While Mexico has disappointed in the short term since the election, we expect the continued strength of the economy to be reflected in market performance going forward. We expect the market to benefit from the ongoing structural trends such as near-shoring, which should help drive domestic consumption.

## 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 1.13 %** |
| | **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.**

Effective June 18, 2024, Morgan Stanley Investment Management reduced the total expense ratio (“TER”) caps across all share classes for MSIF Emerging Markets Leaders Portfolio. New TER caps are as follows: Class IR & R6: 0.95%, Class I: 0.99%, Class A: 1.35%, Class C: 2.10%.

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

## Performance (%)

| *As of July 31, 2024* | MTD | QTD | YTD | 1 YR | 3 YR | 5 YR | 10 YR |
|---|---|---|---|---|---|---|---|
| Class I Shares at NAV | 0.00 | 0.00 | 8.54 | 12.43 | -6.95 | 7.40 | 5.20 |
| Class A Shares at NAV | -0.06 | -0.06 | 8.29 | 11.95 | -7.24 | 7.05 | 4.83 |
| Class A Shares (With Max 5.25% Sales Charge) | -5.30 | -5.30 | 2.57 | 6.07 | -8.89 | 5.90 | 4.27 |
| MSCI Emerging Markets Net Index | 0.30 | 0.30 | 7.81 | 6.27 | -2.74 | 3.41 | 2.63 |

## Performance (%)

| *As of June 30, 2024* | MTD | QTD | YTD | 1 YR | 3 YR | 5 YR | 10 YR |
|---|---|---|---|---|---|---|---|
| Class I Shares at NAV | 6.03 | 6.45 | 8.54 | 15.01 | -9.07 | 7.58 | 4.81 |
| Class A Shares at NAV | 5.99 | 6.36 | 8.36 | 14.58 | -9.34 | 7.22 | 4.45 |
| Class A Shares (With Max 5.25% Sales Charge) | 0.45 | 0.78 | 2.64 | 8.58 | -10.96 | 6.07 | 3.89 |
| MSCI Emerging Markets Net Index | 3.94 | 5.00 | 7.49 | 12.55 | -5.07 | 3.10 | 2.79 |

**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.**

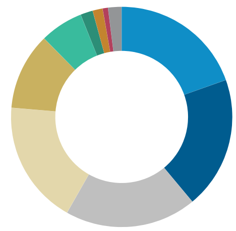
Returns are net of fees and assume the reinvestment of all dividends and income. They are compared to an unmanaged market index. Returns for less than one year are cumulative (not annualized). Performance for one year or more is based on average annual total returns. The returns are reported for Class 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 |
|---|---|---|
| Taiwan Semiconductor Mfg Co. Ltd | 9.21 | 9.28 |
| MercadoLibre Inc | 8.21 | -- |
| Nu Holdings Ltd | 7.74 | -- |
| Trent Ltd | 5.20 | 0.17 |
| Avenue Supermarts Ltd | 4.99 | 0.13 |
| ICICI Bank Ltd | 4.66 | 1.00 |
| Aarti Industries Ltd | 4.58 | -- |
| KEI Industries Ltd | 4.44 | -- |
| Globant S.A. | 4.01 | -- |
| Tvs Motor Co. Ltd | 3.80 | 0.10 |
| **Total** | **56.84** | -- |

## Sector Allocation (% of Total Net Assets)^



| | FUND | INDEX |
|---|---|---|
| Consumer Discretionary | 19.81 | 12.31 |
| Industrials | 19.66 | 6.87 |
| Information Technology | 19.50 | 24.34 |
| Financials | 18.34 | 22.30 |
| Consumer Staples | 11.44 | 5.30 |
| Materials | 6.40 | 6.97 |
| Real Estate | 1.84 | 1.47 |
| Communication Services | 1.48 | 8.81 |
| Health Care | 0.81 | 3.47 |
| Energy | -- | 5.10 |
| Utilities | -- | 3.07 |
| Cash | 1.99 | -- |

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

### 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.

### 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.

## 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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