

Morgan Stanley Institutional Fund

Global Franchise Portfolio

INTERNATIONAL EQUITY TEAM

Performance Review

In the quarter period ending March 31, 2025, the Portfolio's I shares returned 3.22% (net of fees)¹, while the benchmark returned -1.79%.

For the quarter, three of the five largest contributors to absolute performance were financials stocks, all driven by fundamentals following strong stock-specific updates: **Visa** performed well on the back of a good set of first quarter results, which saw the company raise full-year 2025 guidance, helped by strong growth in payments and the company's increasing breadth of products and services; **AJ Gallagher** returned a remarkable +22% in a falling market following a strong operating quarter, which saw the company beat earnings per share (EPS) estimates and reaffirm healthy organic growth guidance; while **Intercontinental Exchange** was bolstered by data reporting strong trading activity – particularly in energy products and fixed income – and realised cost synergies from the Black Knight integration. Elsewhere, **SAP** reported a good set of fourth quarter and full-year 2024 results and was an outlier within the broader global information technology (IT) sector, with the stock up +8% in the first quarter while the MSCI World IT sector fell -12%. After several painful years, the company is now benefiting from the sweet spot of clients' transition to the cloud, which is leading to accelerating growth and improving margins. Meanwhile, **Abbott Laboratories** reported strong fourth quarter results in the first quarter with organic growth up double digits – a trend the company expects to continue through 2025.

Two of the largest absolute detractors during the quarter were **Microsoft** and **Alphabet**, which fell -11% and -18%, respectively, as investors appeared to question the sustainability of the Magnificent Seven's (Mag 7) dominance, given uncertainty regarding the payoff of higher capital expenditure being made by the artificial intelligence (AI) hyperscalers. In the case of Microsoft, we took advantage of the stock derating and added to our position, given the underlying fundamentals of the business appear robust. Other key detractors in the first quarter include **Constellation Brands**, which we sold in the quarter due to tariff implications; **Accenture**, whose shares have continued to slide despite solid results, given the limited visibility on global discretionary spending trends and potential headwinds to its Department of Government Efficiency (DOGE) exposed business; and **Hologic**, after the company reported unimpressive first quarter results and lowered full-year 2025 revenue guidance, citing foreign exchange headwinds and weakness in breast health capital sales ahead of 2026's new product line.

In terms of the **relative performance** picture, stock selection and sector allocation were positive in the quarter.

For the first quarter overall, positive stock selection was primarily driven by our holdings within IT, where strong absolute performers such as SAP and Roper drove a sector-level return of -3% for the portfolio, significantly ahead of the -12% MSCI World IT sector return. In a reversal from previous quarters, relative IT performance was helped by the fact the portfolio doesn't own the more cyclical semiconductors and hardware subsectors, which suffered in the first quarter. Outperformance in financials and consumer discretionary was also notable: more than half of the portfolio's financials names delivered double-digit gains in the first quarter, with the portfolio's sector-level return for financials double that of MSCI World (+12% versus the index sector's +6%), while consumer discretionary returns were flat against the index sector's -10% fall. In terms of sector allocation, the portfolio benefited from its overweight to consumer staples, health care and asset-light financials, as well as the consumer discretionary underweight, which more than outweighed the milder drag from not owning energy.

Market Review

A particularly volatile March rounded out a bumpy first quarter for global equity markets, with the MSCI World Net Index returning -4.5% in U.S. dollars (USD) in the month and -1.8% in the quarter (local currency returns of -5.0% in March and -2.7% in the quarter). Political uncertainty and concerns over a slowing U.S. economy defined market sentiment, although interestingly, the fall in equity markets in the first quarter appeared to be largely down to the high-profile AI plays – the Mag 7 – rather than widespread deterioration in other sectors. The IT and consumer discretionary sectors were down -9% and -8%, respectively, in the month and double digits in the first quarter (-12% and -10%, respectively), mainly due to Nvidia, Apple and Tesla, which each saw several hundred billion dollars wiped off their market capitalisations. The other Mag 7-exposed sector, communication services, delivered -7% in March and a slightly less severe -4% in the quarter, held back by Alphabet. Outside of these Mag 7-exposed sectors underperforming, there

¹ Source: Morgan Stanley Investment Management. Data as of March 31, 2025. Performance for other share classes will vary.

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was little differentiation between defensive and cyclical sectors with all other sectors delivering positive returns. Energy and utilities led in the month (+5% and +3%, respectively) and quarter (+10% and 7%, respectively), while consumer staples, health care and financials were also ahead of the overall index in March and delivered positive quarterly returns (+5%-6%).

Turning to geographies, the rollout of the Trump administration's protectionist policies saw the greenback weaken against international currencies, with the U.S. the only major market to lag the MSCI World in March (-6%) and the first quarter (-5%), in USD terms. Major markets in continental Europe were strong, outperforming the overall index in the month and delivering double-digit USD returns in the quarter (+6%-12% local). Performance in Asia was more mixed: for the quarter overall, Singapore (+10% USD, 8% local) and Hong Kong (+4%, +5%) held up well despite tariff fears, while the appreciation of the yen saw weaker performance by Japan (0%, -5%).

Outlook

Life after the “Liberation Day” tariff announcement

Publishing an outlook in early April 2025 is a hostage to fortune, given the current fluid and fast-moving environment driven by the substantial uncertainties around the path of U.S. economic policy and its effects, not to mention the volatility of equity prices. We do not attempt to make any kind of definitive prediction about economic outcomes right now, but instead analyse what kind of outcomes are discounted in equity prices. We would argue that even after the circa 10% fall in the first two days after the “Liberation Day” tariff announcements, the markets are implicitly assuming that much of the tariff hikes will soon be reversed, before they have significant impacts on the U.S. economy.

Looking at the state of the markets before the “Liberation Day” tariff announcement, there had been much sound and fury about the slide in equity indexes in the first quarter, but the MSCI World Index finished down just 2%, and the S&P 500 only fell 4%. The first quarter drawdown was focused on the tech-plus sectors: information technology itself, communication services, dominated by Alphabet and Meta, and the consumer discretionary sector housing Amazon and Tesla. The other eight sectors in MSCI World were all up in the quarter, with a lack of significant performance differential between the defensive and cyclical sectors. We would argue this implies the market was not pricing in major concerns about an economic slowdown, outside some select pockets of consumer discretionary such as airlines, hotels and the tariff-hit autos industry. This sanguine attitude was also shown in the market earnings forecasts for 2025 and 2026, which stayed roughly flat in the first quarter, admittedly helped at the margin by the weakening dollar, still booking in double-digit earnings growth for 2025 and 2026.

This resilience of the market ex-Mag 7 in the first quarter suggests investors were not yet focusing on the potential negative headwinds from tariffs but rather had continued to focus on the potential benefits to corporate profitability of the new administration policies, such as deregulation. As a result, the “Liberation Day” tariff announcement came as a shock. Multiple analysts² have suggested that the scale of the proposed tariffs, 20%-plus on leading trade partners, if they are indeed sustained, could reduce U.S. gross domestic product (GDP) growth by more than 1%, while adding up to a couple of points to inflation, not to mention cutting corporate profit margins. Such a stagflationary shock could also restrict the U.S. Federal Reserve's (Fed) ability to reduce interest rates, at a time when fiscal policy needs to be tight to start to deal with a deficit at 7% of GDP. While still relatively healthy before the tariff announcement, there were already some signs of the U.S. economy slowing down, while inflation was still above the Fed's 2% target. Aside from the mechanical impact of the tariffs, there is also the impact on both corporate and consumer confidence, both of which had already declined in March in anticipation of tariffs. Importantly, regardless of the end destination of this policy initiative, it is increasingly clear that the current administration has other populist priorities beyond large corporate profitability and the level of the S&P 500. Looking at the targets of the tariffs, major exporters to the U.S. face significant challenges, more likely to be a deflationary than an inflationary shock.

Even after the circa 10% drop in markets in the two days after the tariff announcement (up to the close on April 4), markets look far from cheap by historical standards, with MSCI World on over 16x forward earnings and the S&P 500 still above 19x.³ These multiples are on earnings still assumed to be rising double digits in each of the next two years, a pace we worried about even before the announcement. Both the multiple and earnings will be very vulnerable if the U.S. economy slows to sub-1% growth. This implies that even at its lowered level, the market seems to be pricing in sharp reductions in the tariff rates over the next few months, presumably on the back of successful negotiations with the likes of the EU and China. While not impossible, this tariff de-escalation is certainly not a given, particularly after China's retaliation.

As we explained in our recent Global Equity Observer article – The New Tariff Landscape – in terms of the potential impact of tariffs across our portfolio, we would split them between the direct effects and the more uncertain indirect effects from any retaliation or macroeconomic impacts. At the time of writing, given that our portfolio is skewed towards services rather than goods, we believe most of our companies should face limited direct impact from these U.S. tariffs, while local manufacturing, high gross margins, pricing power and recurring revenues should help dampen the extent of the impact for the goods producers.

² For instance, Goldman Sachs, UBS, Deutsche Bank, Yale Budget Laboratory.

³ Source: FactSet.

It is possible that retaliation may spread beyond the goods sector, perhaps even with sanctions placed on U.S. technology giants by the EU — but again we believe their high gross margins, pricing power and recurring revenues should help mitigate the impacts on the portfolio. These same factors should also help the portfolio in the case that the tariffs trigger a significant slowdown and/or recession, given the portfolio companies' economics and the portfolio's history of earnings' robustness in tough economic times in the past. In addition, it also has limited exposure to the "Trough of Disillusionment" risk in AI. While the portfolio owns Microsoft and Alphabet, where we believe the adoption of GenAI can provide an extra driver of growth on top of the ongoing transition to cloud, it does not own the other five of the Mag 7. Being in the "not owning" business has been a significant tailwind to the portfolio's strong relative performance so far this year. If markets are indeed not reflecting a sustained high tariff environment and the sharp economic slowdown it implies, then not owning could continue to be a positive as the year progresses.

Fund Facts

Inception Date	November 28, 2001
Minimum Initial Investment (\$)*	A Shares - 1,000 I Shares - 1,000,000
Benchmark	MSCI World Net Index
Class I expense ratio	Gross 0.92 % Net 0.92 %
Class A expense ratio	Gross 1.17 % Net 1.17 %

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 March 31, 2025	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR
Class I Shares at NAV	-1.90	3.22	3.22	7.17	6.01	11.47	10.40
Class A Shares at NAV	-1.93	3.13	3.13	6.90	5.74	11.19	10.13
Class A Shares (With Max 5.25% Sales Charge)	-7.08	-2.30	-2.30	1.30	3.85	10.00	9.53
MSCI World Net Index	-4.45	-1.79	-1.79	7.04	7.58	16.13	9.50

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.

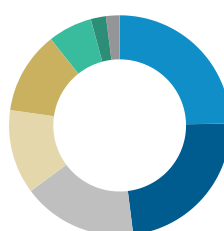
Please keep in mind that high double-digit returns are highly unusual and cannot be sustained. Investors should also be aware that these returns were primarily achieved during favorable market conditions.

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

Top Holdings (% of Total Net Assets)

	FUND	INDEX
Microsoft Corp	7.18	3.89
SAP SE	6.88	0.40
Visa Inc	6.54	0.89
Aon plc	4.35	0.11
L'Oréal S.A.	4.22	0.13
Accenture Plc	3.75	0.29
RELX Plc	3.40	0.14
Arthur J Gallagher & Co.	3.31	0.13
Coca-Cola Co.	3.31	0.43
Procter & Gamble	3.28	0.59
Total	46.22	--

Sector Allocation (% of Total Net Assets)^



	FUND	INDEX
Financials	24.76	17.34
Information Technology	23.35	23.56
Health Care	16.84	11.12
Industrials	12.39	11.06
Consumer Staples	12.11	6.47
Consumer Discretionary	6.47	10.18
Communication Services	2.25	7.91
Energy	--	4.12
Materials	--	3.36
Real Estate	--	2.18
Utilities	--	2.69
Cash	1.96	--

^ May not sum to 100% due to rounding.

INDEX INFORMATION

The **MSCI World Net Index** is a free float adjusted market capitalization weighted index that is designed to measure the global equity market performance of developed 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 performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends.

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 value of securities owned by the portfolio will decline. Portfolios are subject to market risk, which is the possibility that the market value 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 strategy may be subject to certain additional risks. **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. Changes in the worldwide economy, consumer spending, competition, demographics and consumer preferences, government regulation and economic conditions may adversely affect **global franchise companies** and may negatively impact the strategy to a greater extent than if the strategy's assets were invested in a wider variety of companies. In general, **equity securities'** values also fluctuate in response to activities specific to a company. Stocks of **small-capitalization companies** carry special risks, such as limited product lines, markets and financial resources, and greater market volatility than securities of larger, more established companies. Investments in **foreign markets** entail special risks such as currency, political, economic, and market risks. The risks of investing in **emerging market** countries are greater than the risks generally associated with investments in foreign developed countries. **Non-diversified 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. **Illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk). **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.

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Please consider the investment objective, risks, charges and

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