

Morgan Stanley Institutional Fund

Next Gen Emerging Markets Portfolio

EMERGING MARKETS EQUITY TEAM

Performance Review

In the quarter period ending June 30, 2023, the Portfolio's I shares returned -2.04% (net of fees)¹, while the benchmark returned 2.00%.

Within Indonesia, our allocation to Sido Muncul (Sido, 5.1% of the portfolio)² detracted from returns as a post-pandemic inventory adjustment and lower-than-expected gross profit margins driven by the pharma business have weighed on the stock recently. Nonetheless, Sido remains a high conviction position in the portfolio as the rising middle class in Indonesia will increasingly demand healthy consumer products, and the company offers what we believe are best-in-class margins due to the strong brand value the company has built over the last 70 years.

The allocations to EPAM (2.8% of the portfolio)² and Grid Dynamics (2.6% of the portfolio)² detracted during the quarter due to weaker-than-expected earnings outlooks as corporates globally remain cautious on spending budgets in the near term given the uncertain economic environment. We have spoken with both companies' management teams and continue to believe both companies are industry leaders. The allocation to Semrush also detracted, and we exited the position during the quarter as we no longer had high conviction that the company's expertise in building tools for organic discovery in a search engine-driven world will remain as relevant in an increasingly artificial intelligence (AI)-driven landscape.

Our allocations in South Africa detracted due to weak macroeconomic conditions in the country, and we decided to significantly reduce our exposure to the country, reallocating our capital to higher conviction positions.

Our allocations to Mobile World Investment Group (3.7% of the portfolio)² and FPT Corp (7.8% of the portfolio)² were among the top contributors to returns as consumer stocks rallied in Vietnam on easing liquidity, and due to strong earnings from FPT, which continues to see demand for its IT services.

Our allocation to 11 bit studios (7.2% of the portfolio)² contributed to returns as the company updated investors during the quarter about its upcoming game releases. Elsewhere in Poland, Grupa Kęty (3.4% of the portfolio) and LPP (3.0% of the portfolio)² contributed. LPP's store openings remain strong, and we believe improving profitability, margins and returns should be future growth drivers.

Portfolio Activity

During the quarter we initiated positions in two of the largest banks in the Philippines, Bank of Philippine Islands (BPI, 2.6% of the portfolio)² and BDO Unibank (2.6% of the portfolio).² The Philippines is a large (\$440 billion) and fast-growing economy (6% compound annual growth rate since 2012 and 7% post-COVID, the highest in the Southeast Asia region), yet still has low income levels (\$3,600 versus \$7,200 for Thailand and \$12,400 for Malaysia as measured by annual income per capita), which leaves room for faster "catch-up" growth versus higher income peers.³ Philippine households still have very low levels of credit, equal to a mere 9.4% of gross domestic product (GDP) versus Malaysia and Thailand at 67% and 87%, respectively.⁴ We expect the banks to benefit from a corporate lending cycle via the return of public-private partnership projects. Further, while Philippine banks have historically posted low return on equity (ROE) relative to peers, we see reasons for ROEs to structurally improve as reserve requirement ratios are cut, cost-to-income ratios decline and loan books shift towards higher-yielding consumer loans.

We initiated a position in Vietcombank (VCB, 2.0% of the portfolio),² which we believe is a high quality bank in Vietnam. We think top-tier Vietnamese banks are well positioned to benefit from policy changes and rate cuts, and VCB specifically is likely to benefit over the medium term as the sector is likely to see consolidation. Elsewhere in Vietnam, we added to FPT Corp (7.8% of the portfolio)² and trimmed our position in Vietnam Dairy Products (Vinamilk, 3.4% of the portfolio).²

We also initiated a position in Delfi (1.9% of the portfolio),² a chocolate producer in Indonesia with the leading market share, built over a long track record of more than 70 years of operational experience in the country. The company has spent the past few years

¹ Source: Morgan Stanley Investment Management. Data as of June 30, 2023. Performance for other share classes will vary.

² Holdings data as of June 30, 2023.

³ Source: International Monetary Fund (IMF) and Haver Analytics

⁴ Source: The World Bank

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revamping its product portfolio more towards “premiumization” and healthier products catered towards younger generations, including the introduction of new flavors and healthier products (such as granola bars with quinoa, chia seeds, fruits and nuts). We believe we are buying a strong franchise at a sizable discount.

We added to our existing position in pan-African telecom company Airtel Africa (2.6% of the portfolio).² Airtel has a footprint in 14 different countries—including Nigeria, which represents 41% of revenues⁵—and should benefit from what we believe is secular growth in mobile money and data penetration, as well as strong demographic trends. We think Airtel can continue to grow new users in the coming three years given a still-low SIM card penetration in Africa. Data revenue growth should also continue to rise due to low penetration, as only 36% of its subscribers are active data users according to company data. Further, data usage can rise as 4G device adoption increases. We believe mobile money can also grow both in terms of users and average revenue per user.

Strategy and Outlook

We remain focused on investing in the next generation of global investment opportunities unfolding in large, overlooked frontier and small emerging markets (EM). Our investment universe of NextGen countries includes markets like Indonesia, Vietnam, the Philippines and Bangladesh, where populations are young, large and growing fast. These markets are also expected to grow faster than EM and developed markets, with expected 2023 real gross domestic product (GDP) growth of 4.5%, versus 3.6% for EM and 1.4% for developed markets (similar ranges are expected for 2024 as well).⁶

Despite this vast opportunity, NextGen remains largely underinvested—these markets currently account for less than 0.3% of global equity indexes and less than 3% of the traditional MSCI EM Index.⁷ We are finding quality businesses that we think can benefit from trends including positive demographics, growing incomes and digitization in the coming decade, and we remain excited about the opportunities to be unlocked in NextGen.

During the quarter we traveled to Asia and Nigeria. Our trip to Lagos, Nigeria in May led us to believe that the new president, Bola Tinubu, is serious about economic reform in a country that desperately needed a change. The last eight years have been extremely difficult for Nigeria: under former president Muhammadu Buhari, the average Nigerian’s income level shrunk by nearly a third.⁴ During his first weeks in office, Tinubu swiftly ended fuel subsidies—saving the government \$10 billion⁸—and unified the various foreign exchange rates, allowing the currency to depreciate by 40%.⁷ While these actions are likely to prove painful in the near term, we think Tinubu’s actions could potentially mark a turning point for Africa’s largest economy.

We think the surprising turnaround in Nigeria—towards more orthodox economic policies after a long-period of distortionary policies that have harmed economic growth—is emblematic of a broader trend occurring in many overlooked countries. We are seeing similar signs of economic reform in a number of overlooked countries we follow including Bangladesh, Egypt, Turkey, Kenya, Pakistan and possibly even Argentina.

Bangladesh recently surprised the market by announcing a new monetary policy regime that will focus on inflation targeting, and the country also announced a removal of lending rate caps and a change in foreign exchange policy to allow the currency to float. Egypt is slowly allowing the currency to adjust as it seeks an International Monetary Fund package, and the country recently announced long-demanded progress in privatizations, which could help the country secure longer-term funding. In Turkey, upon re-election, President Erdogan has named market-friendly technocrats to key positions in the economy and central bank, and the currency has finally begun its much-needed adjustment. Kenya devalued its currency, hiked interest rates and made cuts to fiscal spending in order to shore up investor confidence.

While none of these in isolation are a panacea, we do think there is somewhat of a trend in place of many large, overlooked countries that are quietly fixing bad economic policies, setting the stages for a potential future pickup in economic growth.

We recognize recent performance has been challenging. As growth investors in frontier and small emerging markets, some of the names we hold have sold off sharply year-to-date on idiosyncratic macro issues in the likes of Kenya, Pakistan and Vietnam, not to mention global growth concerns. We have spent the last few months doing a deep dive into every name in the portfolio to ensure our thesis still holds, and where we have gained greater conviction, we have used the opportunity to add to positions at attractive valuations. While it is too early to tell, we think we might have reached a turning point as conditions are steadily improving in a number of our markets. What we can say is that we will look to invest in top-tier businesses with strong management teams, in overlooked markets where we think earnings growth is being undervalued.

² Holdings data as of June 30, 2023.

⁴ Source: The World Bank

⁵ Source: FactSet

⁶ Real GDP growth estimates based on IMF forecasts as of June 30, 2023. NextGen GDP growth projections is based on a GDP-weighted average of Vietnam, Indonesia, the Philippines, Egypt, Pakistan, Bangladesh, Nigeria and Ethiopia. Real GDP growth forecast for Frontier Markets is 3.7% for 2023 and 4.6% for 2024.

⁷ Source: Bloomberg L.P.

⁸ Source: NNPC

Fund Facts

Inception Date	August 25, 2008
Minimum Initial Investment (\$)*	A Shares - 1,000
	I Shares - 1,000,000
Benchmark	Primary- MSCI Frontier Emerging Markets Net Index
	Custom- Blended Index
Class I expense ratio	Gross 2.30 %
	Net 1.25 %
Class A expense ratio	Gross 2.66 %
	Net 1.60 %

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 June 30, 2023	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR
Class I Shares at NAV	2.80	-2.04	-0.71	-2.11	-3.73	-4.04	-0.55
Class A Shares at NAV	2.76	-2.13	-0.86	-2.48	-4.08	-4.39	-0.88
Class A Shares (With Max 5.25% Sales Charge)	-2.61	-7.26	-6.06	-7.57	-5.79	-5.42	-1.41
MSCI Frontier Emerging Markets Net Index	3.51	2.00	4.43	4.10	2.98	-1.33	0.44
Blended Index	3.51	2.00	4.43	4.10	6.83	2.59	3.56

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.

Performance shown for the Fund's Class I shares reflects the performance of the common shares of the Frontier Predecessor Fund for periods prior to September 17, 2012.

Pursuant to an agreement and plan of reorganization between Morgan Stanley Institutional Fund, Inc., on behalf of the Fund, and Morgan Stanley Frontier Emerging Markets Fund, Inc. (the "Frontier Predecessor Fund"), on September 17, 2012 the Fund acquired all of the assets and liabilities of the Frontier Predecessor Fund in exchange for Class I shares of the Fund (the "Frontier Reorganization"). As a result of the Frontier Reorganization, the Fund is the accounting successor of the Frontier Predecessor Fund. The historical performance information shown reflects, for the period prior to the Frontier Reorganization, the historical performance of the Frontier Predecessor Fund. The Frontier Predecessor Fund may have performed differently if it were an open-end fund since closed-end funds are generally not subject to the cash flow fluctuations of an open-end fund.

Effective June 30 2021, the Morgan Stanley Frontier Markets Portfolio was renamed to Morgan Stanley Next Gen Emerging Markets Portfolio, with an expanded investment universe to include equity securities of companies operating in emerging market countries, which include frontier emerging market countries, and an updated investment approach to reflect top-down allocations are made at the macro and thematic levels. Please see the Prospectus for more details.

Further to the prospectus supplement issued on April 30, 2021 and subject to shareholder approval secured on August 6, 2021, the MSIF Emerging Markets Small Cap Portfolio was merged into the MSIF Next Gen Emerging Markets Portfolio on or about Friday August 13, 2021.

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,

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

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. 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 **frontier emerging markets** are greater than risks associated with investments in other foreign or U.S. issuers and they are often considered highly speculative in nature. Investment opportunities in many frontier emerging markets may be concentrated in the **banking industry**, which could have a disproportionate impact on the portfolio's performance. 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. By investing in **investment company securities**, the portfolio is subject to the underlying risks of that investment company's portfolio securities. In addition to the Portfolio's fees and expenses, the Portfolio generally would bear its share of the investment company's fees and expenses. **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. **Illiquid securities** may be more difficult to sell and value than public traded securities (liquidity risk).

INDEX INFORMATION

The **Blended Index** performance shown is calculated using the MSCI Frontier Markets Net Index from inception through 29 June 2021 and the MSCI Frontier Emerging Markets Net Index thereafter.

The **MSCI Frontier Emerging Markets Net Index** is a free float adjusted market capitalization index designed to serve as a benchmark covering all countries from the MSCI Frontier Markets Index and the lower size spectrum of the MSCI Emerging Markets Index.

The **MSCI Frontier Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance of frontier markets. The MSCI Frontier Markets Index currently consists of 24 frontier market country indices. The performance of the Index is calculated in U.S. dollars and assumes reinvestment of net dividends. "Net dividends" reflects a reduction in dividends after taking into account withholding of taxes by certain foreign countries represented in the Index.

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 should not be considered an investment. It is not possible to invest directly in an index.

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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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