

Morgan Stanley Institutional Fund

Next Gen Emerging Markets Portfolio

EMERGING MARKETS EQUITY TEAM

Performance Review

In the quarter period ending December 31, 2024, the Portfolio's I shares returned 0.51% (net of fees)¹, while the benchmark returned -5.11%.

Our underweight allocation to and stock selection in the Philippines contributed to returns during the quarter, led by the allocation to fast-moving consumer goods company Century Pacific (4.1% of the portfolio)² and zero allocations to SM Prime and Ayala Land.

Our positioning in Vietnam contributed strongly, led by our allocations to IT services company FPT Corp. (8.2% of the portfolio) and Binh Minh Plastics (BMP, 2.6% of the portfolio).² Earlier in the year, FPT and Nvidia (not held in the portfolio) had signed a comprehensive strategic partnership to develop Vietnam into an artificial intelligence (AI) and digital infrastructure hub, allowing the two companies to cross-sell their products and services to each another and helping to boost FPT's client base and further develop its AI/cloud technologies. In November, FPT announced the launch of its FPT AI Factory in Japan, in collaboration with Nvidia to develop an AI and cloud ecosystem and increase AI research in the region. Nvidia also recently announced it would open an AI research and development center in Vietnam in collaboration with the government, leading FPT's stock to further outperform in December. BMP outperformed in the quarter, driven by stronger-than-expected sales growth from the gradual recovery of the southern Vietnam real estate market.

Within Argentina, Despegar (2.6% of the portfolio)²—one of the fastest-growing online travel agencies in the world—was among the largest stock contributors to returns. The company outperformed during the quarter on the back of strong third quarter 2024 results, including record profitability with EBITDA (earnings before interest, taxes, depreciation and amortization) up 94% year-over-year.³ Stock performance was also boosted by the agreement made in December for global technology company Prosus (not held in the portfolio) to acquire Despegar.

The U.A.E. market performed strongly in the quarter on the back of U.S. dollar strength (the dirham is pegged to the dollar). Within the market, our allocation to Emaar Properties (2.6% of the portfolio)² added to returns. The company reported solid third quarter results driven by strong development in the U.A.E., which is expected to continue this year, especially as construction on the company's growing project pipeline begins. Investors also reacted positively to the announcement of the long-awaited change in the company's corporate governance/dividend policy, which addresses key points including capital return to shareholders and predictability of dividends. The dividend policy posted on Emaar's website outlines a long-term dividend policy to shareholders, providing a tailored approach to payouts that aligns with market practices.

After an extended slowdown in IT spending globally, the IT services industry is beginning to experience a pickup in spending as companies look to improve IT efficiencies across cloud and AI-related capabilities. Technology was the best performing sector in the quarter and the portfolio benefited from our allocations to IT software and services companies including EPAM, Systems, Grid Dynamics and Logo in Turkey (1.7%, 3.9%, 2.2% and 2.0% of the portfolio, respectively).² Systems, an IT services company based in Pakistan, also outperformed after the company reported strong third quarter 2024 earnings.

The overweight allocation to Pakistan, which was the best performing frontier emerging market in the quarter, also contributed positively. However, the portfolio's zero allocations to select companies in the market, including Fauji Fertilizer, Pakistan State Oil and Pakistan Petroleum, detracted.

Our allocation to MercadoLibre was the largest stock detractor from returns. The stock underperformed in the quarter following the release of third quarter 2024 results; while the company reported strong year-over-year sales growth, increased spending led to a decline in operating income. We continue to believe MercadoLibre is a clear leader in the e-commerce space in Latin America.

Iceland was a top performing market in the quarter, and our zero allocation there detracted. In Indonesia, our allocations to mini-market retailer Sumber Alfaria Trijaya (Alfamart), Bank Mandiri, Cisarua Mountain Dairy and Champ Resto also detracted (1.9%, 0.8%, 2.4% and 0% of the portfolio, respectively).² We continue to believe Alfamart can benefit from the shift in mass-market consumer

¹ Source: Morgan Stanley Investment Management. Data as of December 31, 2024. Performance for other share classes will vary.

² Holdings data as of December 31, 2024.

³ Source: Despegar company data as of September 30, 2024.

This document constitutes a commentary and does not constitute investment advice nor a recommendation to invest. The value of investments may rise as well as fall. Independent advice should be sought before any decision to invest.

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dynamics, especially with the recently announced, approximately 6.5% minimum wage increase in 2025, which could shift mass-market consumer dynamics.

Grupa Kety (0.8% of the portfolio)² in Poland hampered returns as the prices of base metals slid on headwinds including potential U.S. tariffs, the contraction in China's manufacturing PMIs (purchasing managers' indexes) and the lack of clarity on China's stimulus measures. We significantly reduced our position during the quarter.

Portfolio Activity

During the quarter we initiated a position in Perseus Mining (0.9% of the portfolio),² an Africa-focused, gold-mining company with operations in Ghana and Cote d'Ivoire and development projects in Tanzania, Guinea and Sudan. Perseus has a healthy balance sheet and has been a strong free cash flow generator. Additionally, the exposure to gold should help add diversification⁴ to the Fund's portfolio amid the number of global inflationary trends. The company has a strong emphasis on safety, as reflected in its SHED (Safely Home Every Day) program. The company's total recordable injury frequency rate across its operations is well below the industry average.

We also initiated a position in Pan-African e-commerce company Jumia Technologies (0.7% of the portfolio).² The company is in the process of building out its e-commerce business in key markets on the African continent. We believe Jumia can accelerate growth in order volumes over the coming years, driven by relatively low e-commerce penetration rates, improving macro conditions in most key markets and the build-out of the supply-side marketplace (e.g., bringing in low-cost suppliers to close the gap between pricing and assortment). To fund this trade, we exited our position in Airtel Africa.

We added dLocal (1.0% of the portfolio),² a provider of cross-border payment solutions across many emerging markets. Key drivers for the company include gains in wallet share with existing merchants, growth in new products and services, and geographical expansion. The company generates a significant amount of free cash flow due to strong operating cash flow from high gross and EBIT margins and favorable working capital dynamics.

We increased our allocation to Egypt by initiating a position in fintech company Fawry (1.8% of the portfolio).² The company has successfully transitioned away from its legacy business of alternative digital payments, and we believe Fawry can grow its top-line at a strong compound annual growth rate in the next five years and continue to generate strong free cash flow (with low capital needs) given low financial penetration levels and cross-selling opportunities (in particular, credit cards and "buy now, pay later"). Further, we believe the Egyptian pound will likely see stability over the next two to three years given the amount of U.S. dollars that have flowed into the economy to help the country meet external funding requirements.

Within Peru, we initiated positions in Credicorp and Southern Copper (2.0% and 0.8% of the portfolio, respectively).² We believe Credicorp is among the strongest banking franchises in Peru, with a rapidly growing digital offering (Yappe) that is trading at a 1.5x price-to-book ratio, as well as a 5%-6% dividend yield in a fairly stable currency.⁵ We think the asset quality cycle in Peru is turning around and that gross domestic product (GDP) growth will likely accelerate next year, which should result in higher loan growth (the company is expecting mid-to-high single digits).⁶ Southern Copper has the highest copper reserves of any publicly listed company, and our investment thesis is underpinned by a combination of strong organic growth, low production costs (the company sits on the low end of the cost curve), an experienced management team, and a strong dividend policy with a clean balance sheet (net debt-to-EBITDA ratio of approximately 1x). We believe price dynamics are favorable as copper is among the most supply-constrained commodities, and we think prices will likely be supported around \$4 per pound, leading to strong free cash flow generation for Southern Copper, given net cash production costs of \$1.25 per pound.

We also initiated a position in International Container Terminal Services, Inc. (ICTSI, 1.0% of the portfolio)² in the Philippines. The company has a large global footprint, and unlike other publicly listed port operators, ICTSI has a smaller ports strategy (located mostly in emerging markets countries), with higher growth potential and higher margins versus many of the larger, advanced economies. We think volumes can grow attractively over the coming two to three years, and we expect the company to improve yields via a mix of efficiencies (lower costs and higher pricing) to generate top-line growth. To fund this trade, we reduced our overweight allocation to Indonesia, taking profits on recent outperformer Cimory and reducing our allocation to Hermina Hospitals (2.4% and 4.1% of the portfolio, respectively).²

We exited Coca-Cola Icecek. While we continue to believe the company is a great business run by a strong management team, part of our investment thesis was predicated on the company's roadmap for volume growth in underpenetrated markets such as Pakistan, Kazakhstan and Uzbekistan, which has not played out as the consumer in these markets remains weak.

² Holdings data as of December 31, 2024.

⁴ Diversification neither assures a profit nor guarantees against loss in a declining market.

⁵ Source: Bloomberg L.P. Data as of October 2024.

⁶ Source: Credicorp 3Q24 earnings call.

We also exited our positions in fast casual restaurant chain operator Champ Resto in Indonesia and in Polish software company Text, the latter due to the uncertain impact of generative artificial intelligence on customer service business models. With regard to Champ Resto, we lost conviction in management's ability to execute its growth plan amid an increasingly intense competitive environment.

Elsewhere, we reduced our allocation to Grupa Kety. The company has high returns on equity and management is aligned with shareholders. However, we were disappointed with the recent management change. Further, the company is facing near-to-medium-term headwinds, specifically among the European manufacturing and autos segment.

Strategy and Outlook

Conflicts in Europe and the Middle East, increasing tension between the U.S. and China, and the fallout from global elections dominated news headlines in 2024. Yet frontier and small emerging markets (EM) remained resilient, emerging as uncorrelated relative safe havens. We continue to believe that many of the markets in which we invest are set for accelerating GDP growth, driven by recently adopted reforms and robust domestic demand.

While global investors remain captivated by U.S. mega-cap tech and AI, we believe frontier and small emerging market equities offer a compelling alternative: large countries which are home to the fastest-growing consumer bloc in the world, attracting significant capital from global superpowers as they expand their infrastructure—ranging from hospitals to high-speed trains and digital payment systems—offering global investors much-needed diversification⁴ at historically low valuations. Below we outline a few key themes for the asset class in 2025.

Reform, Recovery, Resurgence

In the current volatile global landscape, many frontier and small emerging markets have faced economic distress over the past year or two. Yet these crises have prompted significant reforms in countries like Argentina, Egypt, Nigeria, Pakistan and Turkey, leading them on a path from reform to recovery. When combined with other high growth economies, such as Vietnam and Bangladesh, we believe this sets the stage for a strong resurgence in economic growth for the asset class.

MSCI Frontier Market countries are projected to accelerate growth from 3.4% in 2024 to 4.1% in 2025.⁷ Both the level and acceleration of growth sharply contrasts with MSCI Emerging Markets countries—decelerating from 4.1% in 2024 to 3.9% in 2025—and to developed markets, which are expected to slow from 2.2% to 2.0%.⁷

While major economies have largely tamed inflation, frontier economies will likely see a deceleration in consumer price index (CPI) (4.3% in 2024 versus 3.6% in 2025 estimated) versus no change in EMs (2.8% CPI) and 0.3% deceleration in developed markets to 1.9%.⁷ Frontier's CPI deceleration is attributable to the reform progress from their adoption of more orthodox monetary policies. Notably, across all 19 countries we actively track, 84% now have positive real policy rates, up from 5% in mid-2022.⁷

Expectations are that progress on inflation and growth in non-U.S. markets may be at risk by way of Washington's protectionist trade policies, which could strengthen the dollar. Yet, we believe the unique characteristics of frontier markets may help buffer them from the worst of U.S. trade risks.

Further, aside from Vietnam, frontier economies tend to rely more on domestic demand and represent a small piece of the overall global trading system, accounting for just 8.6% of global exports compared to China's 15.6%.⁸ As such, these markets are generally less interconnected globally and consequently less sensitive to international trade policies. For example, trade accounts for only a third of GDP in countries such as Egypt, Kenya and Pakistan.⁸

Markets have recognized that frontier economies are less vulnerable to tariffs. Across frontier markets, equity and currency performance was muted in the aftermath of the U.S. election, demonstrating favorable correlation characteristics in a time of increasing trade uncertainty.

Empowered "Middle" Powers

Large middle powers remain overlooked amid the global focus on the U.S.-China trade war. We think countries such as Indonesia, Turkey, Egypt, Pakistan and Nigeria are poised to step into the spotlight. These nations have large, domestic demand-driven economies and play crucial roles in regional geopolitics, making them increasingly relevant on the global stage. While middle powers may not be wealthy by traditional measures, they are home to large and rapidly growing middle classes that are beginning to assert themselves on the global stage.

Given the geopolitical backdrop, many middle powers will likely become magnets for geostrategic aid and investment from the U.S., China and the Gulf states, enabling them to build critical infrastructure and stimulate future private investment.

⁴ Diversification neither assures a profit nor guarantees against loss in a declining market.

⁷ Source: International Monetary Fund estimates as of September 2024.

⁸ Source: Haver Analytics. Data as of September 30, 2024.

Fastest-Growing Consumer Bloc in the World

As financial capital investments surge, many frontier and small EMs should benefit from an influx of human capital. Countries like Vietnam, Indonesia, the Philippines, Pakistan, Bangladesh, Egypt and Nigeria (each with populations exceeding 100 million) collectively represent over 1.2 billion people.⁹ Over the next decade, they will add approximately 132 million people to their labor force, essentially adding the equivalent of another Mexico.¹⁰

This demographic expansion stands in stark contrast to the global trend, where many regions face slower growth or decline in their working-age populations. Over the same period, China is expected to lose nearly 60 million workers and the European Union will lose over 20 million, while the U.S. will see a modest increase of 3 million.¹⁰ Strong growth in the working-age population fuels economic growth, driving demand for consumer goods such as staples, fashion, appliances and automobiles, which should translate into strong revenue and earnings growth for publicly traded stocks in these markets.

Further, despite global volatility, we think select consumer themes should persist. For example, we believe Indonesia continues to need more hospitals and Vietnam's shift from wet markets—where the majority of grocery spending currently occurs—to formal retail remains ongoing, regardless of geopolitical tensions.

Local Brands Taking Share from Global Players

We are witnessing a shift towards local brands in everyday consumer product sectors, and as frontier populations increase their spending on these products, we expect local brands to continue capturing market share from global brands across certain categories.

The strong dollar has made imported global branded products, often priced in U.S. currency, significantly more expensive. In response, many of the companies in which we invest are offering high-quality alternatives that resonate with local consumers seeking better value. We have seen this change across multiple markets, from dairy and pet food in Southeast Asia to cosmetics in Egypt. Rising nationalism and a backlash against global brands are also prompting consumers to re-think their choices, particularly in categories such as quick-service restaurants.

Further, the internet has leveled the playing field. E-commerce and food delivery platforms have commoditized trust, creating an opening for local brands to directly compete without needing to incur steep upfront costs in marketing or distribution, given unlimited website shelf space. Local brands can be showcased alongside global brands—e.g., private label cosmetics from a local South Asian cosmetics company placed next to a European cosmetics behemoth on an e-commerce website. We expect the competitive advantage for local brands to surge, given many products are half the cost price versus global products, with similar ratings.

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 2.47 %
	Net 1.25 %
Class A expense ratio	Gross 2.84 %
	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, 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.

⁹ Source: World Bank December 2023.

¹⁰ Source: Haver Analytics, United Nations Population Database. Data as of December 31, 2024.

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

Performance (%)

As of December 31, 2024

	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR
Class I Shares at NAV	0.82	0.51	12.36	12.36	-9.23	-0.33	-0.40
Class A Shares at NAV	0.77	0.40	11.99	11.99	-9.55	-0.70	-0.74
Class A Shares (With Max 5.25% Sales Charge)	-4.52	-4.85	6.11	6.11	-11.16	-1.76	-1.28
MSCI Frontier Emerging Markets Net Index	-0.64	-5.11	6.26	6.26	-0.93	-0.26	0.45
Blended Index	-0.64	-5.11	6.26	6.26	-0.93	3.16	2.93

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.

INDEX INFORMATION

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 **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 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 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 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).

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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