Morgan Stanley Institutional Fund

U.S. Focus Real Estate Portfolio

GLOBAL LISTED REAL ASSETS TEAM

Performance and Market Review

In the quarter period ending September 30, 2023, the Portfolio's I shares returned -6.48% (net of fees)[1], while the benchmark returned -8.33%.

U.S. real estate securities posted declines (FTSE Nareit All Equity REITs Index, "the Index," -8.33%) and underperformed the broader equity market (S&P 500 Index, -3.27%) for the quarter, as listed real estate continues to significantly lag equity markets on a year-to-date basis. The Fund outperformed the Index, returning -6.48% (Class I shares net of fees).

The real estate investment trust (REIT) market declined as the threat of a government shutdown loomed and the Federal Reserve hinted at an additional interest rate hike before year-end. Within the Index, skilled nursing health care was the top-performing sector for the quarter as it benefited from positive regulatory news. The office sector outperformed for the quarter from very depressed levels, but it continues to underperform on a year-to-date basis amid anemic fundamentals and continued hybrid work pressures. The data center sector also outperformed, as it benefited from favorable secular demand trends driven by data growth and digital transformation combined with limited new supply growth. The towers sector was a key underperformer, due to the now well-flagged deterioration in leasing activity. The net lease sector was another key underperformer, as the spike in the U.S. 10-year Treasury yield negatively impacted the sector. The storage sector underperformed due to weakening demand versus 2022 levels, given slowing housing markets. The billboards sector also underperformed, as did apartments due to the softening rental market.

The Fund's overweight allocation to data centers; security selection in the health care sector, particularly within seniors housing health care; security selection in apartments; and underweight allocation to towers were key relative contributors. These contributions were partially offset by the Fund's zero weight allocation to the office sector and underweight to hotels, both of which detracted from relative performance.

Strategy

The team uses internal proprietary research to invest in public real estate companies that we believe offer the best value relative to their underlying assets and growth prospects. The team combines a bottom-up approach, assessing the intrinsic value, equity multiples and growth prospects of each security, with a top-down view that incorporates fundamental inflection points, macroeconomic considerations and geopolitical risk, and actively selects positions in a limited number of equity securities. By incorporating both an equity market valuation and a more traditional real estate valuation with a top-down overlay, we believe the Fund will be better prepared to identify securities with the best expected total returns.

Outlook

Despite the challenging macro backdrop and tight credit conditions, forecasted returns for the asset class have improved in the intermediate term given the expected stabilization in interest rates across the globe. Moreover, we believe relative strength in cash flows can be expected given the unique nature of listed real estate. Specifically, the contracted rental streams with inflation-linked escalations and the necessity-based nature of real estate — the listed real estate market evolves and grows with the broader needs of society and the economy and sits at the epicenter of how people live, work, shop and communicate — coupled with limited new real estate supply additions may portend limited downside in cash flows, despite near-term macro weakness and uncertainty. Additionally, we believe the relative valuation of real estate securities is attractive, specifically when compared to direct property investment and the broader equities market, and is presenting an interesting pricing arbitrage opportunity for investors.

Secular trends that have been unfolding over the past several years and that were accelerated by COVID-19 will result in winners and losers for real estate.

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

- In retail, secular headwinds remain, given the continued expectation for growth in e-commerce and the focus on omnichannel distribution; however, COVID-19 has highlighted the importance of physical stores due to benefits from increased brand recognition and stronger insulation from supply chain issues, among others. Discretionary spending and consumer confidence are declining amid high inflation and could negatively impact store plans for discretionary retailers; we therefore favor the outlook for nondiscretionary, grocery and convenience-oriented retail landlords. While tenant bankruptcy watch lists are increasing, they remain manageable for the sector to navigate, and the pipeline of new tenants looking to enter high quality retail centers is surprisingly strong.
- Work-from-home policies will likely be a permanent overhang on office demand, and related uncertainty regarding future office absorption is expected to remain an open question for several more years. Utilization rates remain stubbornly low versus 2019 levels. Meanwhile, office-using labor markets are moderating, with increased layoffs and hiring freezes expected to continue.
- In lodging, leisure demand is strong but beginning to see some moderation from record high levels. Business travel is likely secularly impaired, and increasing recession odds are a negative for corporate capital expenditure and lodging demand.
- In residential, affordability concerns regarding homeownership given rising mortgage rates and home price appreciation will likely lead to increasing rental demand for both traditional multi-family and single-family rentals. However, supply growth in multi-family is above the historical trend, particularly in Sunbelt markets, and increasing job layoffs could serve as a governor on new household formation and rent growth.
- In industrial, fundamentals remain robust, driven by the continued need to modernize logistics distribution, which has resulted in record-low vacancy and double-digit revenue growth for warehouses. While new market rent growth is moderating from historic highs, the embedded growth remains the highest within commercial real estate and is expected to fuel outsized growth for several years.
- In self-storage, fundamentals are moderating, most notably with declines in new market rents and a return to typical seasonality for the sector, after bucking those trends throughout the pandemic; despite moderation, cash flows are expected to remain strong with below-average new supply and continued demand.
- In health care, the necessity-based nature of seniors housing demand is anticipated to insulate fundamentals from macro headwinds. Labor shortages and expense pressures are dissipating. The aging of the population, as evidenced by the growth in the 80+ age cohort, is expected to serve as a significant demand driver for seniors housing through the remainder of the decade, with a compound annual growth rate in that age cohort in excess of 4% through 2030.[2]
- In data centers, data growth facilitating the digital economy and new technologies, including artificial intelligence (AI), continues to provide a robust backdrop for new demand. New supply is more limited than in the past, given power availability challenges, which has resulted in a favorable environment for landlords to increase rents. These power availability challenges are anticipated to remain a critical issue going forward, and advancements in AI are proving to be an incremental demand driver to the sector.

Fund Facts

Inception Date	September 30, 2021
Minimum Initial Investment ($)*	A Shares - 1,000
	I Shares - 1,000,000
Benchmark	FTSE Nareit All Equity REITs Index
Class I expense ratio	**Gross 7.46 %**
	Net 0.90 %
Class A expense ratio	**Gross 11.91 %**
	Net 1.25 %

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.

2 Source: U.S. Census Bureau.

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

Performance (%)

As of September 30, 2023	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR	SINCE INCEPTION
Class I Shares at NAV	-6.31	-6.48	-1.79	1.67	--	--	--	-9.70
Class A Shares at NAV	-6.32	-6.57	-2.09	1.18	--	--	--	-10.04
Class A Shares (With Max 5.25% Sales Charge)	-11.19	-11.49	-7.24	-4.13	--	--	--	-12.42
FTSE Nareit All Equity REITs Index	-7.04	-8.33	-5.61	-1.71	--	--	--	-9.28

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.

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. **Real estate investments,** including **real estate investment trusts**, are subject to risks similar to those associated with the direct ownership of real estate and they are sensitive to such factors as management skills and changes in tax laws. **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. 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. **Exchange traded funds (ETFs)** shares have many of the same risks as direct investments in common stocks or bonds and their market value will fluctuate as the value of the underlying index does. By investing in exchange traded funds (ETFs), the portfolio absorbs both its own expenses and those of the ETFs it invests in. Supply and demand for ETFs may not be correlated to that of the underlying securities. **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 **FTSE Nareit (National Association of Real Estate Investment Trusts)All Equity REITs Index** is a free float-adjusted market-capitalization weighted index of tax qualified REITs listed on the New York Stock Exchange, NYSE Amex and the NASDAQ National Market Systems. 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 **Standard & Poor's 500® Index (S&P 500®)** measures the performance of the large cap segment of the U.S. equities market, covering approximately 80% of the U.S. equities market. The Index includes 500 leading companies in leading industries of the U.S. economy.

The Indexes are 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.

IMPORTANT INFORMATION

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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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