

Morgan Stanley Institutional Fund
Emerging Markets Leaders Portfolio

EMERGING MARKETS EQUITY TEAM

Performance Review

In the quarter period ending September 30, 2025, the Portfolio's I shares returned 0.98% (net of fees)¹, while the benchmark returned 10.64%.

Emerging markets (EM) took a breather, declining -2.4% in U.S. dollar terms (MSCI Emerging Markets Index) as strong market performers on year-to-date basis in North Asia consolidated on the tech sector pullback and more hawkish tone at the U.S. Federal Open Market Committee October meeting. Korea and Taiwan recorded the largest foreign outflows while China continued to face macro headwinds. India was a relative outperformer, recording a small gain. Brazil was among the best performers during the month. Both an overweight allocation to the country and positive stock selection helped to drive approximately 298 basis points (bps) of the 411 bps of relative outperformance for the Emerging Markets Leaders Portfolio during the month.² Our overweight allocation and stock selection in India also contributed to returns, along with our underweight allocation to Korea.

At the stock level, Localiza surged on strong fleet expansion and resilient rental demand. Raia Drogasil gained from strong digital sales growth and market share gains in pharma retail. NU rallied on rising transaction volumes and improving profitability, supported by fintech adoption and cross-selling momentum. Sea Ltd and Coupang were the biggest detractors as both shares declined after posting third quarter 2025 profits that came in below expectations. Sea Ltd had increased its spending to compete in Southeast Asia's highly competitive e-commerce market.

Past performance is no guarantee of future results. The attribution is presented gross of fees. Had these fees and expenses been deducted, returns would be lower.

Portfolio Activity

We have implemented minor changes re-aligning our India and Brazil holdings but have not made significant changes as we feel the portfolio is well positioned in our larger markets of India, Brazil, Taiwan and Mexico.

We marginally trimmed our position in Raia Drogasil, taking some profits and right-sizing the position after its recent rally on third quarter 2025 results.

We exited our remaining position in Ambuja Cement due to weaker execution by the management team. The India cement market has yet to see expected pricing recovery or lasting reductions in operating expenses, both of which were expected to raise margins. The company has also faced challenges in leveraging group-level synergies, particularly in logistics and energy costs.

We added to our existing position in Cholamandalam Investment and Finance. With recent interest rate cuts in India and anticipation for more, we believe Chola will likely be a key beneficiary.

Outlook

On a year-to-date basis, our overweight allocation to India has been a key detractor along with significant underweights in Korea and China. A large part of EM outperformance on a sectoral basis can be explained by a rally in key index weights related to technology, including TSMC, Tencent, Alibaba, SK Hynix and Samsung Electronics. Stocks related to the artificial intelligence (AI) supply chain in Taiwan (including materials stocks), banks (ex-India) and industrials (power and defence-linked stocks) in Korea have further added to the EM returns. Together, information technology, industrials and materials that are linked to AI as a theme account for approximately 75% of the Fund's relative underperformance.

On a fundamental basis, a large part of the EM rally excluding Taiwan has been driven by: 1) multiple rerating without much upgrade in earnings (such as China). The Hang Sang Tech Index 2025 earnings per share (EPS) estimates have been revised down by nearly 29% over the last 12 months, with 2026 estimates revised 21% lower over the same period.³ Or, 2) a cyclical bounce in earnings (such

¹ Source: Morgan Stanley Investment Management. Data as of September 30, 2025. Performance for other share classes will vary.

² One basis point = 0.01%

³ Source: Bloomberg L.P. Data as of December 11, 2025.

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as memory stocks in Korea). In our previous newsletters, we have discussed in detail why we remain nearly zero weight on China. While we don't dispute the technical innovation in China, we continue to flag that competitive intensity remains high and entry barriers remain weak, which are a precursor to reap benefits of any innovation (free cash flow generation led by higher return on capital employed (ROCE) over a longer time period). We already see some of those challenges in the auto sector in China, which has been long perceived as a leader in electric vehicles (Xiaomi and BYD have corrected more than 30% from their recent highs).⁴ And this appears to be a repeat of what we have already seen in solar, real estate, capital goods, quick service restaurants, cosmetics and several other sectors.

Similarly for Korea, where memory stocks and other AI-linked sectors have been rising meaningfully, we continue to believe many of these products remain commoditized in nature (and hence cyclical), eventually with limited pricing power with their customers. The narrative around strong AI demand (which has also propelled many stocks in Taiwan) remains centered around Open AI, where a capital expenditure commitment of \$14 trillion has been made while its own revenues are only \$13 billion.⁵ While we don't doubt the revolutionary power of AI, we highlight the concerns around incrementally debt-fueled capital expenditure as well as the circular nature of the demand among various AI players. We think the aggressive capital expenditure over recent years and adoption by real world consumers (whether corporates or individuals) are traveling on different tangents, and both need to eventually match to a respectable ROCE to sustain the recent run-up in valuations.

Our portfolio remains defensively positioned towards the "old world" of ROCEs and free cash flows largely centered around India and Brazil. By our measures, Brazil remains one of the cheapest markets on both price-to-earnings and dividend yields. We continue to find high quality businesses in Brazil at what we believe are very attractive valuations. We are positioning our portfolio for upcoming interest rate cuts and potential for a political change.

On other hand, India's valuations have meaningfully corrected versus the rest of EMs over the past 12 months while earnings have bottomed out. India's earnings growth was muted over the last 12 months due to significant regulatory and monetary tightening as well as a slowdown in government capital expenditure spending. We think those challenges are dissipating given recent tax cuts and monetary easing. Fiscal discipline remains a cornerstone of India's governance, and we believe that also argues for a reduction in equity risk premiums for India. We note Indian earnings have continued to be ahead of other large EM peers while the recent outperformance of other EM markets has been driven by multiple rerating.

Overall, we continue to focus on finding what we consider to be high quality businesses across emerging markets at fair valuations while avoiding tail risks such as regulatory, key man and capital misallocation. In these days of exceptional volatility, valuations can get dislocated on both sides in very short time periods, providing good opportunities to both buy and sell stocks.

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 1.16 % Net 0.99 %
Class A expense ratio	Gross 1.46 % 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.

⁴ Source: Bloomberg L.P.

⁵ Source: The Financial Times. Published on November 7, 2025.

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

Performance (%)

As of September 30, 2025	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR
Class I Shares at NAV	2.86	0.98	9.55	-0.06	8.85	1.05	6.86
Class A Shares at NAV	2.77	0.82	9.16	-0.50	8.45	0.71	6.45
Class A Shares (With Max 5.25% Sales Charge)	-2.62	-4.49	3.43	-5.73	6.53	-0.37	5.88
MSCI Emerging Markets Net Index	7.15	10.64	27.53	17.32	18.21	7.02	7.99

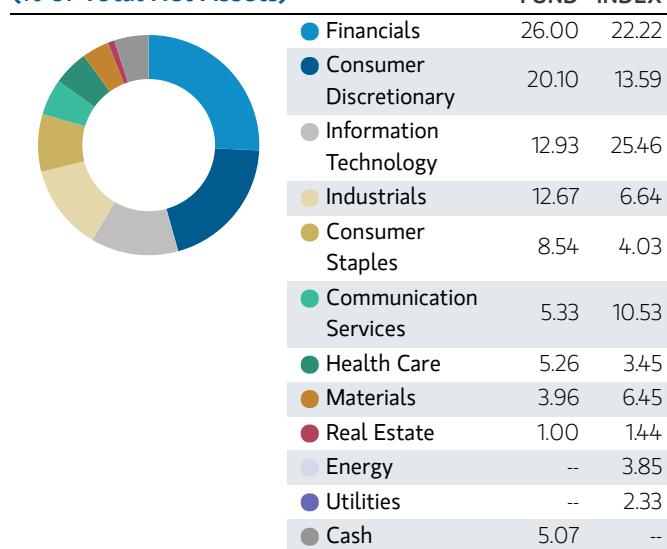
Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. For the most recent month end performance figures, please visit morganstanley.com/im. Investment returns and principal value will fluctuate 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	10.09	10.87
Localiza Rent A Car S.A.	6.44	0.07
MercadoLibre Inc	5.96	--
Grupo Financiero Banorte SAB de CV	5.35	0.26
Sea Ltd	4.82	--
Bharti Airtel Ltd	4.82	0.56
NU Holdings Ltd	4.49	0.56
Varun Beverages Ltd	4.21	0.07
ICICI Bank Ltd	4.21	0.83
Coupang Inc	4.13	--
Total	54.52	--

**Sector Allocation
(% of Total Net Assets)[^]**


[^] 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. 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.

Hang Seng Tech Index measures the performance of the 30 largest technology companies listed in Hong Kong that have high business exposure to technology themes.

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 investing 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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