Morgan Stanley Institutional Fund

Next Gen Emerging Markets Portfolio

EMERGING MARKETS EQUITY TEAM

Performance Review

In the quarter period ending June 30, 2025, the Portfolio's I shares returned 11.97% (net of fees)[1], while the benchmark returned 10.79%.

Within Brazil, our allocation to MercadoLibre (6.1% of the portfolio)[2] contributed to returns, with the stock outperforming after reporting strong results for first quarter 2025. The company's reported revenue and EBIT (earnings before interest and taxes) beat expectations and gross merchandise volume rose 17% year-over-year.[3] The company continues to focus on future opportunities for growth through taking market share from physical stores, making further investment in logistics and technology, and expanding its reach across Latin America.

Within Indonesia, our allocations to Hermina Hospitals and Alfamart (3.7% and 1.6% of the portfolio, respectively)[2] added to returns. Indonesian equities recovered during the quarter (from mid-April lows) on the U.S. tariffs delay and negotiations. Our underweight to and stock selection in the Philippines also contributed.

Stock selection in Pakistan added to returns through our allocation to Meezan Bank (2.9% of the portfolio).[2] The bank reported strong fee and commission income for first quarter 2025, which helped offset the decline in year-over-year profits. Meezan is one of the largest banks in Pakistan in terms of deposits and its total assets reached 4 trillion Pakistani rupees in March. Our allocations to Guaranty Trust Holding Co. (GTCO) and Jumia Technologies (2.3% and 0.8% of the portfolio)[2] in Nigeria were also among the top security contributors to returns. GTCO is a leading financial services group with operations across Africa. The company reported a strong set of first quarter 2025 financial results, with solid loan and deposit growth and net profits that increased on the back of strong performance of the company's core earnings lines, including interest income.

The portfolio also benefited from stock selection in Kazakhstan, though our overweight allocation to the country detracted. Within the market, our allocation to Kazatomprom (4.3% of the portfolio)[2] added to returns. During the quarter, the company announced a production cut in uranium (due to uncertainties in sulphuric acid supply), which sparked supply constraint concerns and a subsequent rally in uranium prices.

Our aggregate positioning in Vietnam detracted, impacted by the zero allocations to Vingroup and Vihomes and our allocations to FPT Corp., VCB and Phu Nhuan Jewelry (6.5%, 2.8% and 3.3% of the portfolio, respectively).[2]

Our zero allocation to Romania hampered returns. Elsewhere, our allocations to EPAM and Grid Dynamics (1.4% and 1.2% of the portfolio, respectively)[2] detracted, as did the zero allocation to Croatia. EPAM faced weak demand as macro uncertainties weighed on IT spending, while Grid Dynamics' strength in new contracts did not translate into higher second quarter results, though the company expects stronger results for the first half of 2025 as the lag in contract wins and revenues align.

Stock selection in Bangladesh added to returns, but gains were more than offset by our overweight allocation to the market as it was the second-worst performing frontier emerging market during the quarter. Macro headwinds weighed on the country during the quarter, though investor optimism was renewed thanks to several reforms, including the revocation of a January order that had limited foreign exchange movements, allowing more currency flexibility and helping lead to a $1.3 billion disbursal of International Monetary Funds (IMF) funds in June. The IMF funding provides Bangladesh immediate access to critical financing, improving external balances and fiscal flexibility.

Portfolio Activity

During the quarter, we added to our existing high conviction position in Square Pharmaceuticals (3.1% of the portfolio)[2] in Bangladesh.

We exited our position in Turkish enterprise software as a service (SaaS) company Logo. While the company continues to have a solid business model, we believe the macro risk in Turkey has created significant uncertainty for the equity market.

1 Source: Morgan Stanley Investment Management. Data as of June 30, 2025. Performance for other share classes will vary.
2 Holdings data as of June 30, 2025.
3 Source: MercadoLibre company results March 31, 2025, published May 7, 2025.

Strategy and Outlook

With heightened volatility in the U.S. and globally, we continue to believe that many frontier and small emerging markets (EM) can remain resilient and emerge as uncorrelated relative safe havens. We remain invested in markets that we believe are set for accelerating gross domestic product (GDP) growth, driven by recently adopted reforms and robust domestic demand.

While global investors remain focused on the U.S., and in mega-cap tech and artificial intelligence (AI), we believe frontier and small emerging market equities offer a compelling alternative: large countries that 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 diversification at historically low valuations.[4] Below we outline a few key themes for the asset class:

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 and Pakistan, 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 grow faster than MSCI emerging markets and developed markets in the coming years. The IMF estimates that frontier countries will maintain 2024 growth of 3.5% in 2025 and then accelerate to 3.8% in 2026, versus developed markets estimated growth of 1.6% in 2025, consistent with 2024.[5]

While major economies have largely tamed inflation, frontier economies will likely see a deceleration in consumer price index (CPI) inflation (3.7% in 2024 versus 3.5% in 2025 estimated), consistent with EM (2.5% in 2024 versus 2.4% in 2025), and an expected 0.5% deceleration in developed markets to 2.1%.[5] Frontier's CPI deceleration is attributable to reform progress as frontier economies adopt more orthodox monetary policies. Notably, across all 19 countries we actively track, 89% now have positive real policy rates, up from 5% in mid-2022.[5]

Expectations are that progress on inflation and growth in ex 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%. As such, these markets are generally less interconnected globally and consequently less sensitive to international trade policies. For example, trade only accounts for a third of GDP in countries such as Egypt, Kenya and Pakistan.[6]

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, 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.

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.[7] Over the next decade, they will add approximately 132 million people to their labor force, essentially adding the equivalent of another Mexico.[8]

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4 Diversification neither assures a profit nor guarantees against loss in a declining market.
5 Source: International Monetary Fund estimates as of April 30, 2025.
6 Source: Haver Analytics. Data as of September 30, 2024.
7 Source: World Bank December 2023.
8 Source: Haver Analytics, United Nations Population Database. Data as of December 31, 2024.

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.[8] 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, Indonesia will continue to need more hospitals, and we continue to believe that Vietnam will shift from wet markets—where the majority of grocery spending currently occurs—to formal retail, 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 rethink 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 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 3.03 %**
	Net 1.25 %
Class A expense ratio	**Gross 3.38 %**
	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.

[8] 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 June 30, 2025	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR
Class I Shares at NAV	3.20	11.97	4.30	11.66	7.21	2.35	0.07
Class A Shares at NAV	3.17	11.80	4.08	11.24	6.81	1.98	-0.28
Class A Shares (With Max 5.25% Sales Charge)	-2.24	5.94	-1.37	5.40	4.92	0.88	-0.81
MSCI Frontier Emerging Markets Net Index	4.52	10.79	18.28	21.59	11.90	8.01	2.52
Blended Index	4.52	10.79	18.28	21.59	11.90	10.41	5.01

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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