

## MORGAN STANLEY INSTITUTIONAL FUND

# Global Endurance Portfolio

COUNTERPOINT GLOBAL | SEMI-ANNUAL COMMENTARY | December 31, 2024

Dear Clients,

Total returns for Global Endurance were 5.98% compared to 17.49% for the MSCI All Country World Index for 2024.

The fund's performance recovered from a first-half decline of -5.29% through June. While I am certainly not pleased with these disappointing returns, I take some reassurance in having closed the year in positive territory.

As a reminder, Global Endurance seeks to invest in a select group of companies worldwide that possess durable competitive advantages, sustainable growth potential, valuable business models and exceptional management teams.

Detractors for this year were Victoria, Fastly, NVIDIA (a business we have never owned!), Appian and Eurofins Scientific. I'd like to specifically highlight Victoria plc, which detracted -11.24% from the portfolio, making it the single largest driver of our underperformance.

We have been owners of Victoria since the fund's inception. The company continues to navigate a challenging environment in the European building materials sector. Compounding these difficulties, the company also embarked on a mission to refinance its bonds due in 2026. While a prudent decision, investor concerns over the terms and potential dilution caused the stock to fall precipitously. Finally, as the year drew to a close, the company's stock faced further extreme selling pressure as large investors harvesting tax losses became indiscriminate sellers, rushing for the exit at any price.

Throughout this period, we were buyers. Buying shares of a company as its price continues to fall is a painful exercise. It naturally challenges one's conviction and triggers flight responses as fear takes hold. However, if you have evaluated the situation unemotionally and liked the business at a higher price, you should absolutely love it when the market offers it at a discount. Furthermore, an important point to note is that lower the valuation (as price falls), the less risky the investment starts to become as valuation and risk are inversely correlated. The practice of dollar cost averaging has historically led to strong gains for us. You need not look further than this year's top five contributors – with a special shout out to Carvana – where I have utilized dollar cost averaging to enhance our returns. While it has only been a few weeks into 2025 and Victoria's story is far from over, our year-to-date returns on the business have been quite promising. I look forward to updating you in the half-year letter once the refinancing and restructuring are behind us and the company's operational execution and efficiencies begin to be reflected in the numbers.

Moving on, our top five contributors for the year were Tesla, Carvana, Vistra, Talen and Global-e. These businesses demonstrated strong returns given solid operational execution and fundamentals. From Tesla's impressive Megapack sales, to Vistra and Talen benefitting from surging energy demand due to power-hungry

AI models, to the continued recovery in the used car market for Carvana and the growing adoption of Global-e's e-commerce solution by merchants – we saw significant 2024 performance for these individual stocks.

Turning to portfolio positioning, we've sharpened our focus on Utilities and Healthcare – two sectors undergoing fundamental shifts that create compelling opportunities.

Utilities, specifically Independent Power Producers, comprise of 8.53% of our portfolio. They are businesses that I have avoided owning since the inception of the fund as they historically have had low growth dynamics, high operating leverage, significant regulation, and high capital expenditure requirements. However, demand for energy has notably increased in large part due to the current AI and crypto boom, and the ongoing electrification of vehicles. This has led to an acceleration of growth and increased cash flows for these Independent Power Producers, and it has changed the financial profiles of the businesses making them quite compelling investments.

While we have consistently owned healthcare businesses since the fund's inception, our current weighting to the Healthcare sector is 24.66%, of which Biotechnology businesses comprise the majority of the weighting. My focus on biotechnology warrants further discussion, as the investment thesis originates from the sector's prolonged weakness over the past few years.

While unloved in recent years, biotechnology companies have always been the true R&D engine that big Pharma companies have relied on. Many of these biotech franchises are currently valued well below their intrinsic worth as we enter a year in which Big Pharma will need to find and replace over \$150 billion in lost sales due to patent expirations. By acquiring smaller biotech firms, pharmaceutical giants can replenish their portfolio of drugs and leverage their global distribution networks to manufacture and distribute at scale and collect the revenues. This is a win-win solution for both parties as biotechnology companies tend to have limited amounts of capital and focus their time and money on the trials and the science rather than manufacturing and distributing. While a deep understanding of each company's prospects is required, I believe we will see our biotechnology companies develop innovative and effective drugs and ultimately become attractive acquisition targets or ink lucrative royalty deals with larger companies. This, in turn, should reignite investor interest in the sector.

If you look at our portfolio as a mini-conglomerate, as I do, our businesses operate in end markets which we believe are quite diversified. Our mini-conglomerate, for example, owns enterprise software companies, a flooring manufacturer, auto dealerships, energy companies, a defence contractor, luxury goods manufacturers and retailers, building products distributors, e-commerce platforms, a fast food franchise and biotech businesses, to mention a few. These are real businesses that provide meaningful value to their end-customers, and I believe they are undervalued when I compare them to the expensive market-cap weighted indices that I compete against.

Furthermore, my continued preference for investing in unique and lesser-known businesses reinforces my confidence in our portfolio's positioning amid the ongoing hype surrounding specific mega-capitalization stocks. Chasing momentum is not in my DNA, as it can often lead to disappointment. I have a strong preference for fishing in ponds with fewer fishermen, where competition is low, but the fish are just as big.

It is worth noting that our companies' share prices can vary significantly in any short time period; but it is my belief that over time, they reflect the intrinsic value of their underlying businesses. And given that we own a select group of companies – 31 to be exact – a number which is a fraction of the over 2,600 companies held in the index we compete against, the fund's performance may vary in any given year.

I remain optimistic that a company-focused approach to investing will continue to lead us to exceptional businesses around the globe that are truly worthy of our capital in the years ahead. Furthermore, the

companies we own today are perennially competing for space in the portfolio with ones we do not. I am committed to searching for exceptional companies, while also deepening my understanding of the fundamentals of our existing businesses.

At the end of 2024, our top 10 companies accounted for 55.3% of the portfolio and top 20 companies accounted for 73.9% of the portfolio. From a geographic domicile weighting standpoint, our portfolio was 67.48% in the United States, 17.08% in the United Kingdom, 3.93% in Germany, 3.20% in Israel, 2.76% in Japan, 2.28% in France, 1.52% in Sweden, 0.84% in Australia and 0.81% in China.

I am grateful for your trust in Global Endurance.

With best wishes,  
Manas Gautam

The views, opinions, forecasts and estimates expressed are those of the investment team at the time of writing and are subject to change at any time due to market, economic, or other conditions, and may not necessarily come to pass. These comments are not representative of the opinions and views of the firm as a whole. Portfolio holdings and sectors are subject to change daily. All information provided is for informational purposes only and should not be deemed as a recommendation to buy or sell the securities mentioned or securities in the sectors referenced. Past performance is no guarantee of future results. Please keep in mind that high double-digit returns are highly unusual and cannot be sustained. Investors should also be aware that these returns were primarily achieved during favorable market conditions. There can be no guarantee that the Fund will achieve its investment objectives or that a portfolio consisting of the team's "best ideas" will experience positive performance.

## INVESTMENT MANAGEMENT

## Performance (%) as of December 31, 2024

Class I Shares – Net of Fees

	MTD	QTD	YTD	1 YR	3 YR	5 YR	Since Inception*
<b>MSIF Global Endurance Portfolio</b>	-3.28	-1.35	5.98	5.98	-14.84	7.28	10.82
<b>MSCI All Country World Index</b>	-2.37	-0.99	17.49	17.49	5.44	10.06	12.66

\*The inception date of the MSIF Global Endurance portfolio is 12/31/2018.

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](http://morganstanley.com/im) or call 1-800-548-7786. Investment returns and principal value will fluctuate and fund shares, when redeemed, may be worth more or less than their original cost.

The gross expense ratio is 1.67% for Class I shares and the net expense ratio is 1.00%. 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. The minimum initial investment is \$1,000,000.

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 (unannualized). Performance for one year or more is based on average annual total returns. The returns are reported for Class I shares. Performance for other share classes will vary.

**The MSCI All Country (MSCI AC) World Index** is a free float-adjusted market-capitalization-weighted index designed to measure the equity market performance of developed and 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 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.

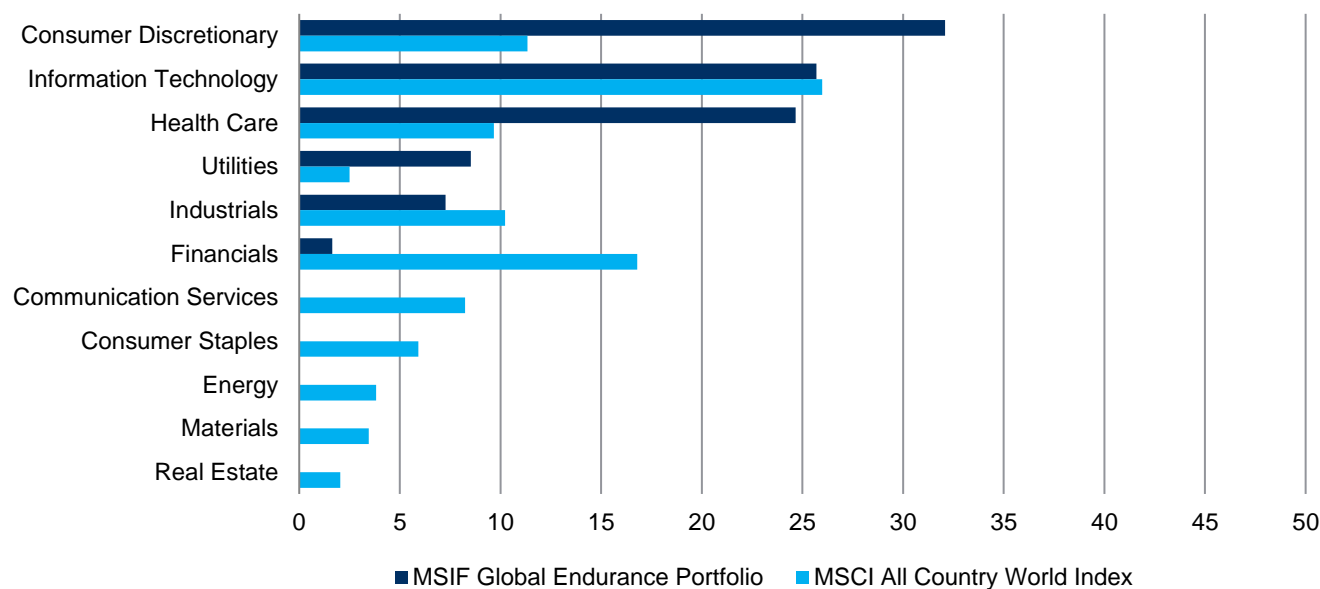
## Top 10 Holdings

% of Total Net Assets, as of December 31, 2024. Subject to change

	PORTFOLIO WEIGHT
Appian Corp	11.96
Victoria PLC	10.89
Talen Energy	4.86
Lithia Motors Inc	4.56
Babcock Intl Group	4.46
Tesla Inc	3.98
Delivery Hero SE	3.95
Avadel Pharmaceuticals	3.78
Vistra Corp	3.67
Global-E Online Ltd	3.20
<b>TOTAL</b>	<b>55.31%</b>

Source: FactSet Research Systems, Inc. / Morgan Stanley Investment Management

## Sector Allocation As of December 31, 2024



Source: FactSet Research Systems, Inc. / Morgan Stanley Investment Management. Numbers may not add to 100 due to rounding and the exclusion of cash. Subject to change daily. Fund information is provided for informational purposes only and should not be deemed as a recommendation to buy or sell any security or securities in the sectors and countries that may be presented.

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Certain information herein is based on data obtained from third party sources believed to be reliable. However, we have not verified this information, and we make no representations whatsoever as to its accuracy or completeness.

**Risk considerations** There is no assurance that a mutual fund will achieve its investment objective. Funds 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. 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. **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**). 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 risks associated with investments in foreign developed countries. Investments in **small- and medium- capitalization companies** tend to be more volatile and less liquid than those of larger, more established, companies. To the extent that the Fund invests in a limited number of issuers (**focused investing**), the Fund will be more susceptible to negative events affecting those issuers and a decline in the value of a particular instrument may cause the Fund's overall value to decline to a greater degree than if the Fund were invested more widely. **Active Management Risk.** In pursuing the Portfolio's investment objective, the Adviser has considerable leeway in deciding which investments to buy, hold or sell on a day-to-day basis, and which trading strategies to use. The success or failure of such decisions will affect performance. To the extent the Portfolio invests a substantial portion of its assets in the **information technology sector**, the Portfolio may be particularly impacted by events that adversely affect the sector, such as rapid changes in technology product cycles, product obsolescence, government regulation, and competition, and may fluctuate more than that of a portfolio that does not invest significantly in companies in the technology sector. To the extent the Portfolio invests a substantial portion of its assets in the **household durables sector**, Portfolio may be particularly impacted by issues that adversely affect the sector, such as changes in consumer confidence, disposable household income and spending, and consumer tastes and preferences. As a result, the Portfolio may fluctuate more than that of a portfolio that does not invest significantly in companies in the household durables sector.

**Please consider the investment objectives, risks, charges and expenses of the fund carefully before investing. The prospectus contains this and other information about the fund. To obtain a prospectus, contact your financial advisor or download one at [morganstanley.com/im](https://morganstanley.com/im). Please read the prospectus carefully before investing.**

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