Morgan Stanley
INVESTMENT MANAGEMENT

COMMENTARY
December 31, 2025

Morgan Stanley Institutional Fund

Global Stars Portfolio

INTERNATIONAL EQUITY TEAM

Performance Review

In the quarter period ending December 31, 2025, the Portfolio's I shares returned -3.37% (net of fees)[1], while the benchmark returned 3.29%.

Global Stars Portfolio fell 3.37% in the fourth quarter but managed to finish 2025 with a positive absolute return of +6.61% (I shares net of fees). For reference only, the MSCI All Country World Index returned +3.29% in the fourth quarter, bringing the full-year 2025 return to +22.34%.

The investment philosophy of Global Stars is to compound investor wealth over the long term by owning a concentrated portfolio of growth-orientated quality companies. These businesses are identified through fundamental, bottom-up analysis where it is possible to gain conviction in the medium-term prospects of the investment candidate. Portfolio holdings should exhibit the potential to grow at high returns on incremental capital over a multi-year period.

Over shorter time periods, investment performance may deviate meaningfully from any broad market index or benchmark. Philosophically, investment opportunities are viewed on an absolute return basis, not relative to an index.

The two largest contributors to absolute performance during the fourth quarter were both generative artificial intelligence (AI) beneficiaries: Alphabet and TSMC. Investors reacted positively to Alphabet's record earnings while confidence grew that Google's AI strategy could drive sustained growth. The late-2025 launch of Gemini 3 reinforced this optimism by signalling clear AI leadership and real product integration across its Search business and the broader ecosystem, strengthening expectations for long-term monetisation. TSMC benefited from strong third quarter results, with U.S. dollar revenue up about 40% year-over-year[2] and margins exceeding guidance, driven primarily by robust AI and high-performance computing demand at advanced nodes. Management raised its growth outlook into the fourth quarter and the full year, supported by extremely strong AI demand and heavy investment in leading-edge manufacturing.

Other top contributors in the quarter included two of the portfolio's health care holdings. Galderma raised its full-year 2025 guidance driven by strong sales momentum across aesthetics and therapeutic dermatology, while investors remained optimistic about successful product launches and approvals. Cencora reported better-than-expected results, including a 15% increase in adjusted diluted earnings per share[3] and revenue growth that exceeded analyst forecasts. Another contributor was DSV, supported by optimism surrounding its DB Schenker acquisition and expected synergies alongside solid operating performance reflected in its third quarter earnings.

The largest detractors in the fourth quarter included BayCurrent, which weakened despite guidance-consistent growth, largely due to valuation-driven market scepticism and leadership change uncertainty rather than any deterioration in fundamentals. Netflix detracted after missing earnings per share expectations, largely due to an unexpected tax charge that pressured margins and added uncertainty around the Warner Brothers acquisition. Uber declined as investors grew concerned about rising autonomous vehicle competition and weaker forward earnings expectations despite solid core operating performance. Sea fell as investors reacted to near-term profitability and margin concerns highlighted in third quarter earnings and increased competition in Brazil, despite continued revenue growth. SAP also detracted amid market pressure on data-rich software companies driven by heightened fears of generative and agentic AI disruption, despite strong cloud and enterprise resource planning adoption and positioning to benefit from AI.

The portfolio's underperformance relative to the MSCI All Country World Index in the fourth quarter was driven by negative stock selection, largely due to weakness in industrials, information technology and financials. Sector allocation was neutral.

The top contributors for 2025 were Alphabet, TSMC and Galderma. Alphabet delivered strong earnings and broad-based revenue growth across Search, YouTube and a rapidly expanding cloud segment. Improving digital advertising trends and accelerating enterprise demand for AI infrastructure reinforced confidence in the durability of its cash-generative platforms. TSMC continued to benefit from robust demand for advanced chips, delivering strong financial results, raising its growth outlook and investing heavily in

1 Source: Morgan Stanley Investment Management. Data as of December 31, 2025. Performance for other share classes will vary.
2 Source: TMSC 3Q25 Earnings Release, October 16, 2025.
3 Source: Cencora 4Q25 results as of November 5, 2025.

advanced manufacturing. Galderma delivered consistently strong sales growth and record revenues across its aesthetics, skincare and therapeutic dermatology businesses, raising guidance multiple times during the year and reinforcing confidence in earnings momentum.

Other notable contributors during the year included Halma and Uber. Halma delivered strong revenue and profit growth, exceeded expectations and raised guidance, reinforcing confidence in its long-term growth model supported by organic expansion across safety, health and environmental technology businesses and continued dividend growth. Despite weaker performance in the fourth quarter, Uber benefited earlier in the year from operating momentum and improving growth visibility, supported by strong revenue performance and positive investor reaction to strategic autonomous vehicle partnerships, most notably with Nvidia.

The largest detractor for 2025 was UnitedHealth Group, which derated following an unprecedented downgrade to full-year earnings per share guidance, leading to our exit in the second quarter. Dingli also detracted earlier in the year amid tariff-related concerns and continued to face weak revenue and mixed earnings results, prompting an exit in the fourth quarter. Sea detracted as growth expectations cooled and valuation concerns led to heightened volatility despite continued revenue and profit growth. ServiceNow weakened as investors reassessed growth expectations following mixed earnings and guidance against a high valuation backdrop. Salesforce also detracted after revenue and forward growth guidance fell short of investor expectations around AI-driven products, leading to our exit in the third quarter.

As was the case in the fourth quarter, the portfolio's underperformance relative to the MSCI All Country World Index for the year was driven by negative stock selection, primarily reflecting weakness in financials, industrials and information technology. Sector allocation was modestly positive, supported by the portfolio's slight overweight to information technology.

Outlook

"We have to live with the world as it is, not as we wish it should be."
Lee Kuan Yew

At the outset of Global Stars, we sought to target double-digit absolute performance each year. We fell short of that in 2025, in what was admittedly a challenging investing backdrop. The underperformance of quality as a factor and the narrowness of market leadership have been widely noted by market participants, with quality representing an estimated 500 to 1,000 basis points[4] headwind, depending on how it is measured. At the same time, market structure has continued to evolve, with a growing share of trading activity driven by retail participation, short-dated options and high-frequency trading.

These dynamics have underscored the importance of the flexibility that is already embedded in the Global Stars approach. Performance this year has encouraged us to sharpen our execution and act more swiftly in the face of shifting valuation and market signals. As demonstrated in our fourth quarter activity, portfolio turnover may be higher in the Fund at times, reflecting our ability to act nimbly and pragmatically as conditions evolve, while remaining firmly anchored to our core investment discipline.

In terms of outlook, the past year has been dominated by expectations for and advances in artificial intelligence. AI is certainly real and is going to have a significant impact on how work gets done, even if the ultimate economic outcomes remain uncertain. When hundreds of billions, and soon trillions, of dollars are deployed into a new technology, disruption is inevitable. New entrants emerge, corporate behaviour changes — perhaps software gets pulled in-house — and long-standing economic models get tested, with seat-based pricing in software likely to be a casualty of innovation, a shift that could prove disruptive for incumbents and investors.

While investment clearly needs to lead demand, "build it and they will come" has limits. AI capital expenditure is proceeding at vast scale and running ahead of adoption. There is little room for error, and if the gap between spending growth and real-world usage widens meaningfully, capital destruction will become unavoidable — some of today's investment will go to zero. That is not a failure of AI, but a feature of every major technology cycle. Software, IT services, professional services, capital markets and interactive media face the strongest economic incentives to adopt AI because labour is both expensive and theoretically addressable. However, exposure is not the same as realisation. Turning task-level exposure into sustained productivity gains requires workflow redesign, organisational change and often pricing model disruption. Real-world implementation is therefore likely to make demand growth for AI bumpier than markets would prefer.

Meanwhile, several bottlenecks are emerging. Power is likely the most important and the most persistent. Constraints on power availability are already shaping the entire AI value chain, from silicon chip strategy to large language model design and where data centres can be built. Over the medium term, the ability to generate or efficiently use power may matter more than incremental improvements in model reasoning. Data centres coming online this year secured power in 2022 and 2023, before the scale of the AI build-out was fully understood or priced in. From here, the true extent of the power bottleneck is likely to become far more visible.

[4] One basis point = 0.01%

Financing adds another layer of risk. AI capital expenditure and private credit appear to be in an uneasy partnership, feeding off one another. Debt has quietly entered the funding mix for AI investment, but unlike prior cycles it is flowing largely through unregulated private credit markets. The broader proliferation of private credit means traditional credit spreads may not provide their usual early warning signals, raising the risk that this cycle could end with little advance notice.

Meanwhile, the macro backdrop is increasingly defined by a disconnect between financial markets and the real economy. Asset prices continue to be supported by expectations for strong earnings and optimism around productivity, even as labour market pressures, elevated real wage growth and rising cost bases point to a more constrained underlying environment. Beneath the surface, growth appears increasingly uneven, with strength concentrated in large-cap technology and investment-led sectors, while labour market conditions are softening elsewhere. Several historical warning signals suggest the economy may be closer to a downturn than headline indicators imply.

Geopolitical risks add another layer of fragility, particularly through energy and supply security, as highlighted by recent developments involving Venezuela and Iran, as well as heightened rhetoric around Taiwan. These risks underscore how geopolitical stress could quickly transmit into macro outcomes despite benign surface conditions. Consensus expects 2026 to be a year of two halves, with generally favourable tailwinds in the first half, from the World Cup boost to stimulus flowing in the lead-up to the U.S. midterms. The second half is expected to feature several significant initial public offerings that will need to succeed to sustain market momentum. As it stands, consensus appears to capture the most visible path today, but understates the widening range of alternative outcomes.

As ever, we remain grateful for your support.

Fund Facts

Inception Date	August 30, 2013
Minimum Initial Investment ($)*	A Shares - 1,000
	I Shares - 1,000,000
Benchmark	MSCI All Country World Net Index
	Custom- Blended Index
	Former- MSCI World Net Index
Class I expense ratio	**Gross 1.32 %**
	Net 0.80 %
Class A expense ratio	**Gross 1.60 %**
	Net 1.15 %

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.

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

Performance (%)

As of December 31, 2025	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR
Class I Shares at NAV	0.22	-3.37	6.61	6.61	14.69	7.25	10.67
Class A Shares at NAV	0.22	-3.45	6.28	6.28	14.29	6.90	10.29
Class A Shares (With Max 5.25% Sales Charge)	-5.03	-8.53	0.68	0.68	12.25	5.76	9.70
MSCI All Country World Net Index	1.04	3.29	22.34	22.34	20.65	11.19	11.72

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.

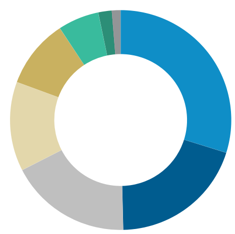
Returns are net of fees and assume the reinvestment of all dividends and income. They are compared to an unmanaged market index. Returns for less than one year are cumulative (not annualized). Performance for one year or more is based on average annual total returns. The returns are reported for Class I and A shares. Performance for other share classes will vary.

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.

Top Holdings (% of Total Net Assets)

	FUND	INDEX
Taiwan Semiconductor Mfg Co. Ltd	6.56	1.31
SAP SE	4.55	0.27
Visa Inc	4.01	0.64
Alphabet Inc	3.92	3.60
Intercontinental Exchange Inc	3.77	0.10
MasterCard Inc	3.65	0.52
Uber Technologies Inc	3.54	0.17
Microsoft Corp	3.51	3.67
Cencora Inc	3.50	0.07
S&P Global Inc	3.38	0.18
Total	**40.39**	--

Sector Allocation (% of Total Net Assets)^



	FUND	INDEX
Information Technology	29.64	27.22
Financials	19.70	17.63
Industrials	17.72	10.63
Consumer Discretionary	13.07	10.21
Communication Services	10.07	8.84
Health Care	5.95	9.03
Consumer Staples	1.99	5.09
Energy	--	3.40
Materials	--	3.66
Real Estate	--	1.75
Utilities	--	2.54
Cash	1.25	--

^ May not sum to 100% due to the exclusion of other assets and liabilities.

INDEX INFORMATION

The **MSCI All Country World Index (ACWI)** 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 performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends.

Blended Index performance shown is calculated using the MSCI World Net Index from inception through 06/27/2024 and the MSCI All Country World Net Index thereafter.

The **MSCI World Net Index** is a free float adjusted market capitalization weighted index that is designed to measure the global equity market performance of developed 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 performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends.

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.

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. **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. 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 risks associated with investments in foreign developed countries. 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. **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. **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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