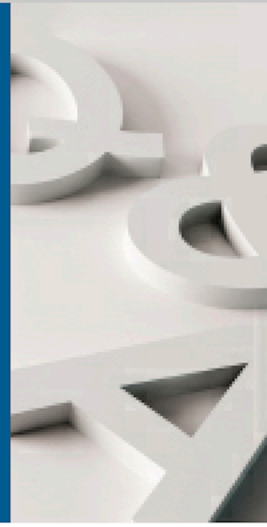
Morgan Stanley

INVESTMENT MANAGEMENT



Morgan Stanley Institutional Funds (MSIF)

Passport Overseas Equity Portfolio

Q&A | November 2023

The Passport Overseas Equity Portfolio has been investing in international markets since 1992, providing a solution for U.S. clients seeking exposure to overseas markets. We sat down with the investment team for insights on their portfolio.

Q. Can you tell me about the portfolio?

A. Passport Overseas Equity Portfolio is a one-fund international equity allocation solution that can be used as an anchor for non-U.S. investing. It's a "go anywhere" core portfolio of 70-90 positions that invests in the most attractive opportunities across global equity markets. The Passport Overseas Equity team seeks to generate superior long-term performance through rigorous analysis designed to identify compelling countries and markets, then invest in the sectors, industries and stocks that best capture their macro outlook.

Q. The portfolio had been known as Active International Allocation since its inception in 1992. What prompted the name change?

A. We believe Passport Overseas Equity better reflects the active, high-conviction approach and international reach across both developed and emerging markets.

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Passport Overseas Equity at a glance	
Investment Objective	Long-term capital appreciation
Benchmark	S&P 500
Portfolio Composition	Quality compounders
Stock Range	20-50 stocks
Investment Team	Emerging Markets Equity
Strategy Launch	31 May 2022
Fund Launch	15 December 2022

THREE REASONS TO CONSIDER

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Q. *So the name has changed. Has the investment approach changed as well?*

A. No. While the strategy was created by the legendary Barton Biggs in 1992 to capture the most attractive top-down investment opportunities in international equity markets, we continue to employ his approach today. Co-portfolio managers Jitania Kandhari and Ben Rozin took over in 2018, and have been utilizing his original macro approach in combination with their bottom-up stock selection to reflect the team's best thinking. Jitania is Head of the Emerging Markets Team's Macro-thematic Research Group and Deputy CIO of MSIM's Portfolio Solutions Group. Ben joined MSIM from Manning & Napier where he co-managed international and emerging market equity funds for over a decade.

Q. *There are a lot of international funds available for investors. What sets this portfolio apart?*

A. We've built the portfolio to provide clients with core international exposure in a single fund. We accomplish this through our differentiated approach that invests across international markets along the continuum of growth and value stocks. We identify and invest in compelling businesses in the "sweet spot" on the continuum as either a Sustainable Grower or Compelling Value.

– *Sustainable Growers* have strong competitive advantages including established business moats, pricing power and continually improving returns. Our sustainable growers include technology and healthcare companies with strong cash flows, innovation and a disruptive trend.

– *Compelling Value* stocks are priced at a substantial discount to fair value but have recognized positive catalysts and are under appreciated or overlooked by investors. Our compelling values includes companies with significantly undervalued tangible assets, leveraged buyout applications, are certain cyclicals.

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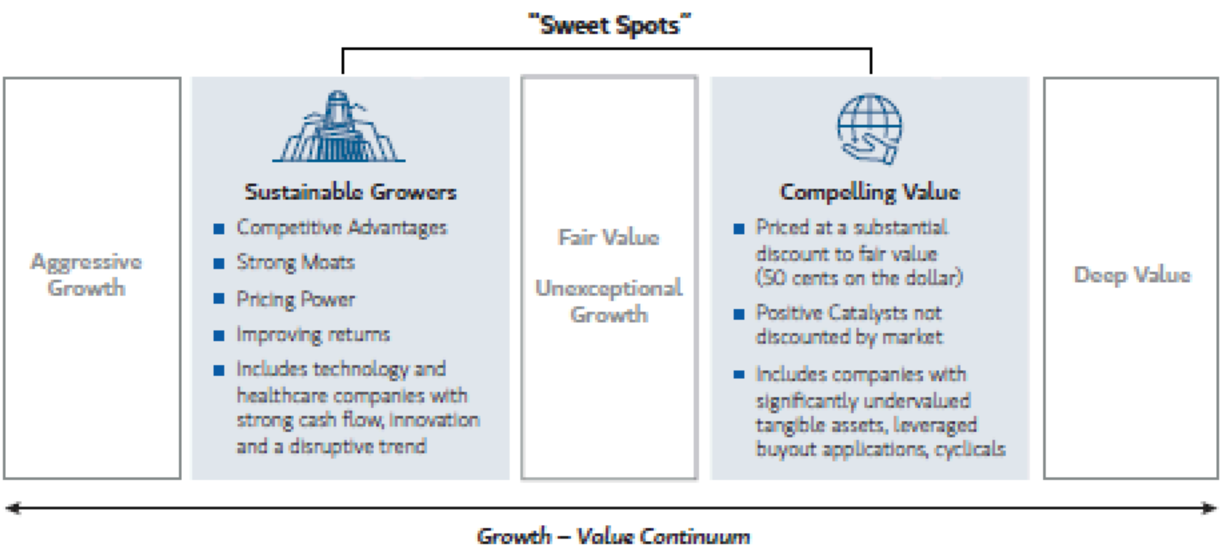
DISPLAY 1

Stock Selection Framework

Sustainable Growers and Compelling Value Strategic fits



Source: Morgan Stanley Investment Management and FactSet. This represents how the portfolio management team generally implements its investment process under normal market conditions.

Q. *Could you describe the "differentiated approach" you reference above?*

A. For international equity investing, we believe one needs to start with a global macro framework across developed and emerging markets. We use this to evaluate the return potential of countries, sectors, industries and themes, and then combine this with fundamental stock selection. In our mind this is the best way to generate long-term capital appreciation over a market cycle. The portfolio team analyse each country in the MSCI All Country World ex-U.S. Index to identify the countries with the highest equity return potential.

We consider the future economic growth of countries and currency movements to be critical drivers of stock returns. The team actively selects compelling countries and employs fundamental analysis to identify attractive sectors, industries, themes and equities with the ability to generate long-term earnings growth. All country/currency, sector, industry, thematic, and stock weightings are driven by a disciplined investment process and a fundamental analysis of inherent quality and valuation characteristics.

Our stock selection process focuses on specific fundamentals, such as earnings growth, pricing power, competitive landscape and returns on invested capital, valuation metrics and investor sentiment. As mentioned, each stock is either a Sustainable Growth or Compelling Value opportunity. We believe the result is a high-conviction, actively-managed core portfolio.

Q. *Research shows that U.S. investors have historically held a home-country bias. What are clients missing by under-allocating – or not investing at all – in international markets?*

A. Non-U.S. equity markets are currently more attractively valued across a range of valuation measures. Returns from non-U.S. equities should also be augmented as we expect the U.S. dollar's dominance to decline from its recent peaks.

Q. *What investment themes are most compelling in your portfolio today?*

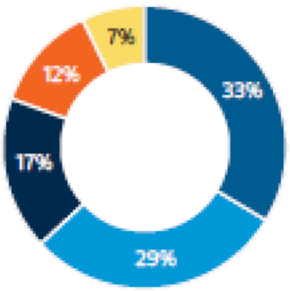
A. Our high conviction themes are outlined below:

DISPLAY 2

Active International Allocation Thematic Positions

Data as of March 31, 2023

- **Macro**
  - Geopolitical Hedges
  - Copper Supply
  - EM Macro/Cheap FX
  - Energy Transition
  - Food Security
  - Supply Chain/Re-shoring
- **Consumer**
  - EM Consumer
  - E-commerce
  - Digital Entertainment
  - Premiumization
  - Travel & Experiences
  - Consumer Services
- **Technology**
  - Business Digitalization
  - Innovation
  - Industrial Automation
  - Artificial Intelligence
  - Data Growth
  - Digital Payments
  - Semi Capex
  - EV Proliferation
- **Healthcare Innovation**
  - Geopolitical Hedges
  - Copper Supply
  - EM Macro/Cheap FX
  - Energy Transition
  - Food Security
  - Supply Chain/Re-shoring
- **Mispriced Cyclical Companies w/ Structural Drivers**



Source: Morgan Stanley Investment Management. Subject to change daily. Fund Information and Characteristics are provided for informational purposes only, and should not be deemed as a recommendation to buy or sell any security or securities in the sectors presented. May not sum to 100% due to rounding.

What is resilience and why does it matter?

Resilience as a general concept refers to the ability to recover from or adjust easily to adversity. Through our high quality investment lens:

- **In the short term,** resilience is the ability to withstand cyclical disruption due to strong pricing power, recurring revenues and high gross margins. Without it, companies may not survive tough economic environments.
- **Longer term,** business model resilience is largely dictated by management's influence in protecting the moat of the intangible assets, which in turn affects the ability of the company to compound.

- In our view, **ESG integration is a key component** of assessing business model resilience as material ESG factors can pose a variety of risks to the long-term sustainability of return on operating capital.

Ultimately, companies which demonstrate resilience – i.e. businesses that can adapt, innovate and grow all the while safeguarding their people, existing assets and brand equity – should be better positioned to compound shareholder wealth over the long term.

We believe the portfolio's thematic positions are key differentiators of the strategy. Our analysis of where we are and where we are heading in the macro cycle helps inform the portfolio positioning across sectors and industries. Within our macro theme—the largest thematic currently represented in the portfolio—food security is a key position. Over the last 50+ years, population growth has significantly outpaced the growth rate of arable land and it is estimated that by 2050 food production needs to increase by 60% to meet demand . Food affordability is critical and further increases in efficiency (i.e., yield per acre) such as those in seed genomics and crop protection chemicals will drive both production and affordibilty. The market in seed genomics is concentrated with the top four players accounting for approximately 59% of global sales, and we are invested in the leading company

Healthcare innovation is another long standing thematic within the portfolio. We believe the amount of innovation and technology that is available in healthcare may be underappreciated by the market. We seek to own companies that will help treat and solve global issues such as aging demographics and chronic diseases, while maintaining relatively high margins.

Q. *Any final thoughts you would like to share for those considering adding this portfolio to their investment mix?*

A. We believe active management is best approach in non-U.S. markets and this "go-anywhere" portfolio can provide and anchor position in non-U.S. equities across developed and emerging markets. But it takes skilled, active managers to hone in on what we believe are the most compelling opportunities in those markets and to avoid areas where we see macro and fundamentals risks. We do this by seeking structural winners, namely those that have an opportunity for sustainable growth or are a compelling value, underappreciated by the market. In our view, this targeted approach can offer U.S. clients a one-fund solution for overseas exposure.

Risk Considerations

Diversification does not eliminate the risk of loss. 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 value 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 in this strategy. Please be aware that this strategy 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 risks associated with investments in foreign developed markets. **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). **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).

DEFINITIONS

The **MSCI All Country World ex USA Index** is a free float-adjusted market capitalization weighted index designed to measure the equity market performance of developed and emerging markets, excluding the U.S. 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.

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.

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