

## MORGAN STANLEY INSTITUTIONAL FUND

# Global Infrastructure Portfolio

REAL ASSETS | GLOBAL LISTED REAL ASSETS | COMMENTARY | OCTOBER 31, 2017

### Performance

For the month ending October 31, 2017, MSIF Global Infrastructure Portfolio Class I shares increased 0.19% (net of fees) while the benchmark, the Dow Jones Brookfield Global Infrastructure Index, decreased 0.15%.

The fund outperformed the benchmark in October. From a bottom-up perspective, the fund benefited from favorable stock selection in the communications and pipeline companies sectors, but this was more than offset by adverse stock selection in the electricity transmission & distribution, European regulated utilities, and diversified sectors. From a top-down perspective, the fund benefited from all overweight sector positions (primarily renewables and toll roads), as well as an underweight to energy infrastructure (primarily gas midstream), which was partially offset by underweights to gas distribution utilities and communications.

### Market Review

Infrastructure shares declined 0.15% in the month ending October 31, 2017 as measured by the Dow Jones Brookfield Global Infrastructure Index. Amongst the major infrastructure sectors, water, toll roads, communications, gas distribution utilities, diversified, and ports outperformed the index, while pipeline companies, gas midstream, airports, electricity transmission & distribution, and European regulated utilities underperformed. Though the performance of the asset class was relatively flat overall, October did modestly extend the slight declines experienced in September and continued the divergence with the broader global equity markets. Furthermore, despite the infrastructure asset class remaining up meaningfully on the year (+15.03%), it is now lagging global equity markets, as represented by the Standard & Poor's Global BMI Index (+20.23%).

### Portfolio Activity

Portfolio activity in October was balanced in terms of the magnitude of purchases and sales. Purchases were primarily concentrated in building a recently established position in toll roads, as well as in adding to existing positions in energy infrastructure, select utility companies, and companies in the diversified sector. Sales were concentrated in outperforming transportation infrastructure companies, as well as in the areas of electricity transmission & distribution and communications.

## Strategy and Outlook

We remain committed to our core investment philosophy as an infrastructure value investor. As a value-oriented, bottom-up driven investor, our investment perspective is that over the medium- and long-term, the key factor in determining the performance of infrastructure securities will be underlying infrastructure asset values. Given the large and growing private infrastructure market, we believe that there are limits as to the level of premium or discount at which the public sector should trade relative to its underlying private infrastructure value. These limits can be viewed as the point at which the arbitrage opportunity between owning infrastructure in the private versus public markets becomes compelling. In aiming to achieve core infrastructure exposure in a cost effective manner, we invest in equity securities of publicly listed infrastructure companies we believe offer the best value relative to their underlying infrastructure value and Net Asset Value (NAV) growth prospects.

Our research currently leads us to an overweighting in the fund to a group of companies in the toll roads and diversified sectors, and an underweighting to companies in the gas distribution utilities, gas midstream, electricity transmission & distribution, communications, European regulated utilities, airports, water, ports, and pipeline companies sectors. Finally, we continue to retain out-of-benchmark positions in renewables and railroads, with our positions in renewables representing the largest bet from an industry-line perspective.

**Performance (%) as of October 31, 2017**

(Class I Share at NAV)

	1 MONTH	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	SINCE INCEPTION 9/20/10
<b>MSIF Global Infrastructure Portfolio</b>	0.19	0.32	11.70	9.35	3.62	9.27	11.54
<b>Dow Jones Brookfield Global Infrastructure Index</b>	-0.15	-0.10	15.03	12.66	3.33	8.68	10.93

**Performance (%) as of September 30, 2017**

(Class I Share at NAV)

	1 MONTH	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	SINCE INCEPTION 9/20/10
<b>MSIF Global Infrastructure Portfolio</b>	-1.58	2.43	11.48	5.31	4.07	9.52	11.66
<b>Dow Jones Brookfield Global Infrastructure Index</b>	-1.36	3.30	15.21	9.16	4.03	9.01	11.09

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). 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 1.04% for Class I shares and the net expense ratio is 0.96%. 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 \$5,000,000.

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 (not annualized). 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.

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.

The views and opinions expressed are those of the portfolio management 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. Holdings and sectors/region weightings 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 securities in the sectors and regions referenced.

This material is a general communication, which is not impartial and all information provided has been prepared solely for informational and educational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The information herein has not been based on a consideration of any individual investor circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

**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. 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 **emerging market** countries are greater than the risks generally associated with investments in foreign developed countries. Companies within the **infrastructure industry** are subject to a variety of factors that may adversely affect their business or operations, including high interest, leverage and regulatory costs, difficulty raising capital, the effect of an economic slowdown or recession and surplus capacity, and increased competition. Other risks include technological innovation, significant changes in the number of end-users, an increasing deregulatory environment, natural and environmental risks, and terrorist attacks. 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. **Non-diversified portfolios** often invest in a more limited number of issuers so changes in the financial condition or market value of a single issuer may cause greater volatility in the portfolio. **Illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk). **Real estate investments**, including **real estate investment trusts (REITs)**, are subject to risks similar to those associated with the direct ownership of real estate and they are sensitive to such factors as management skills and changes in tax laws.

The **Dow Jones Brookfield Global Infrastructure Index** is a free float-adjusted market capitalization weighted index that measures the stock performance of companies that exhibit strong infrastructure characteristics. The Index intends to measure all sectors of the infrastructure market. The Index is unmanaged and does not include any expenses, fees or sales charges. It is not possible to invest directly in an Index.

The **Standard & Poor's Global BMI Index** is a broad market index designed to capture exposure to equities in all countries in the world that meet minimum size and liquidity requirements. The index includes developed and emerging market countries. The indices are unmanaged and do not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

**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](http://morganstanley.com/im). Please read the prospectus carefully before investing.**

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