

Morgan Stanley

U.S. Real Estate Portfolio

The Fund is intended to be a funding vehicle for variable annuity contracts and variable life insurance policies offered by the separate accounts of certain life insurance companies.

Table of Contents

Expense Example.....	2
Portfolio of Investments.....	3
Statement of Assets and Liabilities	5
Statement of Operations.....	6
Statements of Changes in Net Assets.....	7
Financial Highlights	8
Notes to Financial Statements.....	10
Investment Advisory Agreement Approval	16
Liquidity Risk Management Program	18
Director and Officer Information	Back Cover

Expense Example

U.S. Real Estate Portfolio

As a shareholder of the U.S. Real Estate Portfolio (the “Fund”), you incur two types of costs: (1) insurance company charges; and (2) ongoing costs, which may include advisory fees, administration fees, distribution (12b-1) fees and other Fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds.

This example is based on an investment of \$1,000 invested at the beginning of the six-month period ended June 30, 2021 and held for the entire six-month period.

Actual Expenses

The table below provides information about actual account values and actual expenses. You may use the information in this table, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the table under the heading entitled “Actual Expenses Paid During Period” to estimate the expenses you paid on your account during this period.

Hypothetical Example for Comparison Purposes

The table below provides information about hypothetical account values and hypothetical expenses based on the Fund’s actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund’s actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any insurance company charges. Therefore, the table below is useful in comparing ongoing costs, but will not help you determine the relative total cost of owning different funds. In addition, if these insurance company charges were included, your costs would have been higher.

	Beginning Account Value 1/1/21	Actual Ending Account Value 6/30/21	Hypothetical Ending Account Value	Actual Expenses Paid During Period*	Hypothetical Expenses Paid During Period*	Net Expense Ratio During Period**
U.S. Real Estate Portfolio Class I	\$1,000.00	\$1,209.60	\$1,020.73	\$4.49	\$4.11	0.82%
U.S. Real Estate Portfolio Class II	1,000.00	1,208.50	1,019.49	5.86	5.36	1.07

* Expenses are calculated using each Fund Class’ annualized net expense ratio (as disclosed), multiplied by the average account value over the period and multiplied by 181/365 (to reflect the most recent one-half year period).

** Annualized.

Portfolio of Investments

U.S. Real Estate Portfolio

	Shares	Value (000)
Common Stocks (99.9%)		
Apartments (11.5%)		
American Campus Communities, Inc. REIT	203,112	\$ 9,489
AvalonBay Communities, Inc. REIT	79,388	16,568
UDR, Inc. REIT	377,158	18,473
		44,530
Data Centers (10.9%)		
CyrusOne, Inc. REIT	67,442	4,823
Equinix, Inc. REIT	43,479	34,896
GDS Holdings Ltd. ADR (China) (a)	33,505	2,630
		42,349
Diversified (1.0%)		
JBG SMITH Properties REIT	117,038	3,688
Free Standing (3.3%)		
Agree Realty Corp. REIT	70,691	4,983
NETSTREIT Corp. REIT	334,992	7,725
		12,708
Health Care (18.5%)		
Healthcare Trust of America, Inc., Class A REIT	211,392	5,644
Healthpeak Properties, Inc. REIT	613,773	20,433
Medical Properties Trust, Inc. REIT	283,242	5,693
Ventas, Inc. REIT	186,801	10,666
Welltower, Inc. REIT	352,811	29,319
		71,755
Industrial (9.8%)		
Prologis, Inc. REIT	318,680	38,092
Lodging/Resorts (4.2%)		
Boyd Gaming Corp. (a)	63,376	3,897
Caesars Entertainment, Inc. (a)	27,462	2,849
Host Hotels & Resorts, Inc. REIT (a)	387,622	6,625
RLJ Lodging Trust REIT	182,465	2,779
		16,150
Manufactured Homes (2.0%)		
Equity Lifestyle Properties, Inc. REIT	103,498	7,691
Office (7.2%)		
Alexandria Real Estate Equities, Inc. REIT	64,659	11,764
Columbia Property Trust, Inc. REIT	210,602	3,662
Empire State Realty Trust, Inc., Class A REIT	480,216	5,763
Kilroy Realty Corp. REIT	97,246	6,772
		27,961
Regional Malls (4.6%)		
Simon Property Group, Inc. REIT	135,884	17,730
Self Storage (10.2%)		
Life Storage, Inc. REIT	58,183	6,246
Public Storage REIT	109,997	33,075
		39,321
Shopping Centers (8.8%)		
Brixmor Property Group, Inc. REIT	382,742	8,761
Kimco Realty Corp. REIT	184,742	3,852
Retail Properties of America, Inc., Class A REIT	447,443	5,123
RPT Realty REIT	534,923	6,943
Weingarten Realty Investors REIT	293,017	9,397
		34,076

	Shares	Value (000)
Single Family Homes (3.0%)		
Invitation Homes, Inc. REIT	314,924	\$ 11,743
Specialty (4.9%)		
Lamar Advertising Co., Class A	48,246	5,038
VICI Properties, Inc. REIT	448,024	13,898
		18,936
Total Common Stocks (Cost \$302,630)		386,730
Short-Term Investment (2.2%)		
Investment Company (2.2%)		
Morgan Stanley Institutional Liquidity Funds — Treasury Portfolio — Institutional Class (See Note H) (Cost \$8,375)	8,375,129	8,375
Total Investments (102.1%) (Cost \$311,005) (b)		395,105
Liabilities in Excess of Other Assets (-2.1%)		(7,961)
Net Assets (100.0%)		\$387,144

(a) Non-income producing security.

(b) At June 30, 2021, the aggregate cost for federal income tax purposes approximates the aggregate cost for book purposes. The aggregate gross unrealized appreciation is approximately \$85,447,000 and the aggregate gross unrealized depreciation is approximately \$1,347,000, resulting in net unrealized appreciation of approximately \$84,100,000.

ADR American Depositary Receipt.

REIT Real Estate Investment Trust.

Portfolio of Investments (cont'd)

U.S. Real Estate Portfolio

Portfolio Composition

Classification	Percentage of Total Investments
Other*	24.6%
Health Care	18.2
Apartments	11.3
Data Centers	10.7
Self Storage	9.9
Industrial	9.6
Shopping Centers	8.6
Office	7.1
Total Investments	<u>100.0%</u>

* Industries and/or investment types representing less than 5% of total investments.

U.S. Real Estate Portfolio

Statement of Assets and Liabilities

June 30, 2021
(000)

Assets:	
Investments in Securities of Unaffiliated Issuers, at Value (Cost \$302,630)	\$386,730
Investment in Security of Affiliated Issuer, at Value (Cost \$8,375)	8,375
Total Investments in Securities, at Value (Cost \$311,005)	395,105
Foreign Currency, at Value (Cost \$21)	22
Receivable for Investments Sold	3,442
Dividends Receivable	818
Receivable for Fund Shares Sold	112
Receivable from Affiliate	— [@]
Other Assets	41
Total Assets	399,540
Liabilities:	
Payable for Investments Purchased	9,085
Payable for Fund Shares Redeemed	2,489
Payable for Advisory Fees	513
Payable for Servicing Fees	146
Payable for Distribution Fees — Class II Shares	44
Payable for Professional Fees	36
Payable for Administration Fees	26
Payable for Custodian Fees	7
Payable for Transfer Agency Fees	3
Other Liabilities	47
Total Liabilities	12,396
NET ASSETS	\$387,144
Net Assets Consist of:	
Paid-in-Capital	\$274,183
Total Distributable Earnings	112,961
Net Assets	\$387,144
CLASS I:	
Net Assets	\$178,133
Net Asset Value, Offering and Redemption Price Per Share Applicable to 8,596,987 Outstanding \$0.001 Par Value Shares (Authorized 500,000,000 Shares)	\$ 20.72
CLASS II:	
Net Assets	\$209,011
Net Asset Value, Offering and Redemption Price Per Share Applicable to 10,157,080 Outstanding \$0.001 Par Value Shares (Authorized 500,000,000 Shares)	\$ 20.58

[@] Amount is less than \$500.

U.S. Real Estate Portfolio

Statement of Operations

Six Months Ended
June 30, 2021
(000)

Investment Income:	
Dividends from Securities of Unaffiliated Issuers (Net of \$2 of Foreign Taxes Withheld)	\$ 5,219
Dividends from Security of Affiliated Issuer (Note H)	—@
Income from Securities Loaned — Net	—@
Total Investment Income	5,219
Expenses:	
Advisory Fees (Note B)	1,286
Servicing Fees (Note D)	269
Distribution Fees — Class II Shares (Note E)	247
Administration Fees (Note C)	147
Professional Fees	59
Shareholder Reporting Fees	13
Custodian Fees (Note G)	8
Transfer Agency Fees (Note F)	7
Directors' Fees and Expenses	4
Pricing Fees	2
Other Expenses	6
Total Expenses	2,048
Waiver of Advisory Fees (Note B)	(295)
Rebate from Morgan Stanley Affiliate (Note H)	(1)
Net Expenses	1,752
Net Investment Income	3,467
Realized Gain:	
Investments Sold	61,164
Foreign Currency Translation	2
Net Realized Gain	61,166
Change in Unrealized Appreciation (Depreciation):	
Investments	5,751
Foreign Currency Translation	—@
Net Change in Unrealized Appreciation (Depreciation)	5,751
Net Realized Gain and Change in Unrealized Appreciation (Depreciation)	66,917
Net Increase in Net Assets Resulting from Operations	\$ 70,384

@ Amount is less than \$500.

U.S. Real Estate Portfolio

	Six Months Ended June 30, 2021 (unaudited) (000)	Year Ended December 31, 2020 (000)
Statements of Changes in Net Assets		
Increase (Decrease) in Net Assets:		
Operations:		
Net Investment Income	\$ 3,467	\$ 6,687
Net Realized Gain (Loss)	61,166	(36,828)
Net Change in Unrealized Appreciation (Depreciation)	5,751	(37,337)
Net Increase (Decrease) in Net Assets Resulting from Operations	70,384	(67,478)
Dividends and Distributions to Shareholders:		
Class I	—	(9,097)
Class II	—	(9,892)
Total Dividends and Distributions to Shareholders	—	(18,989)
Capital Share Transactions:⁽¹⁾		
Class I:		
Subscribed	4,180	28,573
Distributions Reinvested	—	9,097
Redeemed	(27,868)	(28,557)
Class II:		
Subscribed	5,116	28,140
Distributions Reinvested	—	9,892
Redeemed	(24,513)	(29,553)
Net Increase (Decrease) in Net Assets Resulting from Capital Share Transactions	(43,085)	17,592
Total Increase (Decrease) in Net Assets	27,299	(68,875)
Net Assets:		
Beginning of Period	359,845	428,720
End of Period	\$387,144	\$359,845
⁽¹⁾ Capital Share Transactions:		
Class I:		
Shares Subscribed	226	1,848
Shares Issued on Distributions Reinvested	—	616
Shares Redeemed	(1,513)	(1,728)
Net Increase (Decrease) in Class I Shares Outstanding	(1,287)	736
Class II:		
Shares Subscribed	275	1,846
Shares Issued on Distributions Reinvested	—	673
Shares Redeemed	(1,306)	(1,795)
Net Increase (Decrease) in Class II Shares Outstanding	(1,031)	724

Financial Highlights

U.S. Real Estate Portfolio

Selected Per Share Data and Ratios	Class I					
	Six Months Ended June 30, 2021 (unaudited)	Year Ended December 31,				
		2020	2019	2018	2017	2016 ⁽¹⁾
Net Asset Value, Beginning of Period	\$17.13	\$21.93	\$19.52	\$21.72	\$21.39	\$20.28
Income (Loss) from Investment Operations:						
Net Investment Income ⁽²⁾	0.19	0.35	0.51	0.51	0.45	0.35
Net Realized and Unrealized Gain (Loss)	3.40	(4.20)	3.15	(2.13)	0.20	1.04
Total from Investment Operations	3.59	(3.85)	3.66	(1.62)	0.65	1.39
Distributions from and/or in Excess of:						
Net Investment Income	—	(0.48)	(0.42)	(0.58)	(0.32)	(0.28)
Net Realized Gain	—	(0.47)	(0.83)	—	—	—
Total Distributions	—	(0.95)	(1.25)	(0.58)	(0.32)	(0.28)
Net Asset Value, End of Period	\$20.72	\$17.13	\$21.93	\$19.52	\$21.72	\$21.39
Total Return⁽³⁾	20.96% ⁽⁹⁾	(16.85)%	18.94%	(7.71)%	3.11%	6.81%
Ratios to Average Net Assets and Supplemental Data:						
Net Assets, End of Period (Thousands)	\$178,133	\$169,291	\$200,635	\$185,191	\$228,487	\$251,517
Ratio of Expenses Before Expense Limitation	0.98% ⁽¹⁰⁾	0.99%	0.97%	1.03%	1.07%	1.06%
Ratio of Expenses After Expense Limitation	0.82% ⁽⁴⁾⁽¹⁰⁾	0.82% ⁽⁴⁾	0.82% ⁽⁴⁾	0.86% ⁽⁴⁾⁽⁵⁾	0.92% ⁽⁴⁾⁽⁶⁾	0.97% ⁽⁴⁾⁽⁷⁾
Ratio of Net Investment Income	2.02% ⁽⁴⁾⁽¹⁰⁾	2.07% ⁽⁴⁾	2.36% ⁽⁴⁾	2.47% ⁽⁴⁾	2.13% ⁽⁴⁾	1.66% ⁽⁴⁾
Ratio of Rebate from Morgan Stanley Affiliates	0.00% ⁽⁸⁾⁽¹⁰⁾	0.00% ⁽⁸⁾	0.00% ⁽⁸⁾	0.00% ⁽⁸⁾	0.00% ⁽⁸⁾	0.01%
Portfolio Turnover Rate	77% ⁽⁹⁾	50%	20%	40%	44%	21%

- (1) Reflects prior period custodian out-of-pocket expenses that were reimbursed in September 2016. The amount of the reimbursement was immaterial on a per share basis and did not impact the total return of Class I shares. The Ratio of Expenses After Expense Limitation and the Ratio of Net Investment Income would be unchanged as the reimbursement of custodian fees was offset against expense waivers/reimbursements with no impact to net expenses or net investment income.
- (2) Per share amount is based on average shares outstanding.
- (3) Calculated based on the net asset value as of the last business day of the period. Performance does not reflect fees and expenses imposed by your insurance company's separate account. If performance information included the effect of these additional charges, the total return would be lower.
- (4) The Ratio of Expenses After Expense Limitation and Ratio of Net Investment Income reflect the rebate of certain Fund expenses in connection with the investments in Morgan Stanley affiliates during the period. The effect of the rebate on the ratios is disclosed in the above table as "Ratio of Rebate from Morgan Stanley Affiliates."
- (5) Effective July 1, 2018, the Adviser has agreed to limit the ratio of expenses to average net assets to the maximum ratio of 0.82% for Class I shares. Prior to July 1, 2018, the maximum ratio was 0.90% for Class I shares.
- (6) Effective July 1, 2017, the Adviser has agreed to limit the ratio of expenses to average net assets to the maximum ratio of 0.90% for Class I shares. Prior to July 1, 2017, the maximum ratio was 0.95% for Class I shares.
- (7) Effective July 1, 2016, the Adviser has agreed to limit the ratio of expenses to average net assets to the maximum ratio of 0.95% for Class I shares. Prior to July 1, 2016, the maximum ratio was 1.00% for Class I shares.
- (8) Amount is less than 0.005%.
- (9) Not annualized.
- (10) Annualized.

Financial Highlights

U.S. Real Estate Portfolio

Selected Per Share Data and Ratios	Class II					
	Six Months Ended June 30, 2021 (unaudited)	Year Ended December 31,				
		2020	2019	2018	2017	2016 ⁽¹⁾
Net Asset Value, Beginning of Period	\$17.03	\$21.80	\$19.40	\$21.59	\$21.26	\$20.16
Income (Loss) from Investment Operations:						
Net Investment Income ⁽²⁾	0.16	0.30	0.45	0.46	0.40	0.29
Net Realized and Unrealized Gain (Loss)	3.39	(4.17)	3.14	(2.13)	0.20	1.04
Total from Investment Operations	3.55	(3.87)	3.59	(1.67)	0.60	1.33
Distributions from and/or in Excess of:						
Net Investment Income	—	(0.43)	(0.36)	(0.52)	(0.27)	(0.23)
Net Realized Gain	—	(0.47)	(0.83)	—	—	—
Total Distributions	—	(0.90)	(1.19)	(0.52)	(0.27)	(0.23)
Net Asset Value, End of Period	\$20.58	\$17.03	\$21.80	\$19.40	\$21.59	\$21.26
Total Return⁽³⁾	20.85% ⁽⁹⁾	(17.10)%	18.68%	(7.97)%	2.87%	6.55%
Ratios to Average Net Assets and Supplemental Data:						
Net Assets, End of Period (Thousands)	\$209,011	\$190,555	\$228,085	\$218,290	\$283,481	\$298,254
Ratio of Expenses Before Expense Limitation	1.23% ⁽¹⁰⁾	1.24%	1.22%	1.28%	1.32%	1.31%
Ratio of Expenses After Expense Limitation	1.07% ⁽⁴⁾⁽¹⁰⁾	1.07% ⁽⁴⁾	1.07% ⁽⁴⁾	1.11% ⁽⁴⁾⁽⁵⁾	1.17% ⁽⁴⁾⁽⁶⁾	1.22% ⁽⁴⁾⁽⁷⁾
Ratio of Net Investment Income	1.77% ⁽⁴⁾⁽¹⁰⁾	1.82% ⁽⁴⁾	2.11% ⁽⁴⁾	2.22% ⁽⁴⁾	1.88% ⁽⁴⁾	1.41% ⁽⁴⁾
Ratio of Rebate from Morgan Stanley Affiliates	0.00% ⁽⁸⁾⁽¹⁰⁾	0.00% ⁽⁸⁾	0.00% ⁽⁸⁾	0.00% ⁽⁸⁾	0.00% ⁽⁸⁾	0.01%
Portfolio Turnover Rate	77% ⁽⁹⁾	50%	20%	40%	44%	21%

- (1) Reflects prior period custodian out-of-pocket expenses that were reimbursed in September 2016. The amount of the reimbursement was immaterial on a per share basis and did not impact the total return of Class II shares. The Ratio of Expenses After Expense Limitation and the Ratio of Net Investment Income would be unchanged as the reimbursement of custodian fees was offset against expense waivers/reimbursements with no impact to net expenses or net investment income.
- (2) Per share amount is based on average shares outstanding.
- (3) Calculated based on the net asset value as of the last business day of the period. Performance does not reflect fees and expenses imposed by your insurance company's separate account. If performance information included the effect of these additional charges, the total return would be lower.
- (4) The Ratio of Expenses After Expense Limitation and Ratio of Net Investment Income reflect the rebate of certain Fund expenses in connection with the investments in Morgan Stanley affiliates during the period. The effect of the rebate on the ratios is disclosed in the above table as "Ratio of Rebate from Morgan Stanley Affiliates."
- (5) Effective July 1, 2018, the Adviser has agreed to limit the ratio of expenses to average net assets to the maximum ratio of 1.07% for Class II shares. Prior to July 1, 2018, the maximum ratio was 1.15% for Class II shares.
- (6) Effective July 1, 2017, the Adviser has agreed to limit the ratio of expenses to average net assets to the maximum ratio of 1.15% for Class II shares. Prior to July 1, 2017, the maximum ratio was 1.20% for Class II shares.
- (7) Effective July 1, 2016, the Adviser has agreed to limit the ratio of expenses to average net assets to the maximum ratio of 1.20% for Class II shares. Prior to July 1, 2016, the maximum ratio was 1.25% for Class II shares.
- (8) Amount is less than 0.005%.
- (9) Not annualized.
- (10) Annualized.

Notes to Financial Statements

Morgan Stanley Variable Insurance Fund, Inc. (the “Company”) is registered under the Investment Company Act of 1940, as amended (the “Act”), as an open-end management investment company. The Company is comprised of ten separate active, diversified and non-diversified funds (individually referred to as a “Fund,” collectively as the “Funds”). The Company applies investment company accounting and reporting guidance.

The accompanying financial statements relate to the U.S. Real Estate Portfolio. The Fund seeks to provide above average current income and long-term capital appreciation by investing primarily in equity securities of companies in the U.S. real estate industry, including real estate investment trusts (“REITs”). The Fund offers two classes of shares — Class I and Class II. Both classes of shares have identical voting rights (except that shareholders of a Class have exclusive voting rights regarding any matter relating solely to that Class of shares), dividend, liquidation and other rights.

The Company is intended to be a funding vehicle for variable annuity contracts and variable life insurance policies offered by the separate accounts of certain life insurance companies.

A. Significant Accounting Policies: The following significant accounting policies are in conformity with U.S. generally accepted accounting principles (“GAAP”). Such policies are consistently followed by the Company in the preparation of its financial statements. GAAP may require management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results may differ from those estimates.

1. Security Valuation: (1) An equity portfolio security listed or traded on an exchange is valued at its latest reported sales price (or at the exchange official closing price if such exchange reports an official closing price), and if there were no sales on a given day and if there is no official exchange closing price for that day, the security is valued at the mean between the last reported bid and asked prices if such bid and asked prices are available on the relevant exchanges. If only bid prices are available then the latest bid price may be used. Listed equity securities not traded on the valuation date with no reported bid and asked prices available on the exchange are valued at the mean between the current bid and asked prices obtained from one or more reputable brokers or dealers. In cases where a security is traded on more than one exchange, the security is valued on the exchange designated as the primary market; (2) all other equity portfolio securities for which over-the-counter (“OTC”) market quotations are readily available are valued at the latest reported sales price (or at the market official closing price if such

market reports an official closing price), and if there was no trading in the security on a given day and if there is no official closing price from relevant markets for that day, the security is valued at the mean between the last reported bid and asked prices if such bid and asked prices are available on the relevant markets. An unlisted equity security that does not trade on the valuation date and for which bid and asked prices from the relevant markets are unavailable is valued at the mean between the current bid and asked prices obtained from one or more reputable brokers or dealers; (3) certain portfolio securities may be valued by an outside pricing service/vendor approved by the Company’s Board of Directors (the “Directors”). The pricing service/vendor may employ a pricing model that takes into account, among other things, bids, yield spreads and/or other market data and specific security characteristics. Alternatively, if a valuation is not available from an outside pricing service/vendor, and the security trades on an exchange, the security may be valued at its latest reported sale price (or at the exchange official closing price if such exchange reports an official closing price), prior to the time when assets are valued. If there are no sales on a given day and if there is no official exchange closing price for that day, the security is valued at the mean between the last reported bid and asked prices if such bid and asked prices are available in the relevant exchanges. If only bid prices are available then the latest bid price may be used. If Morgan Stanley Investment Management Inc. (the “Adviser”), a wholly-owned subsidiary of Morgan Stanley, determines that the price provided by the outside pricing service/vendor or exchange does not reflect the security’s fair value or is unable to provide a price, prices from brokers or dealers may also be utilized. In these circumstances, the value of the security will be the mean of bid and asked prices obtained from brokers or dealers; (4) when market quotations are not readily available, including circumstances under which the Adviser determines that the closing price, last sale price or the mean between the last reported bid and asked prices are not reflective of a security’s market value, portfolio securities are valued at their fair value as determined in good faith under procedures established by and under the general supervision of the Directors. Occasionally, developments affecting the closing prices of securities and other assets may occur between the times at which valuations of such securities are determined (that is, close of the foreign market on which the securities trade) and the close of business of the New York Stock Exchange (“NYSE”). If developments occur during such periods that are expected to materially affect the value of such securities, such valuations may be adjusted to reflect the

Notes to Financial Statements (cont'd)

estimated fair value of such securities as of the close of the NYSE, as determined in good faith by the Directors or by the Adviser using a pricing service and/or procedures approved by the Directors; and (5) investments in mutual funds, including the Morgan Stanley Institutional Liquidity Funds, are valued at the net asset value (“NAV”) as of the close of each business day.

The Directors have responsibility for determining in good faith the fair value of the investments, and the Directors may appoint others, such as the Company’s Adviser or a valuation committee, to assist the Directors in determining fair value and to make the actual calculations pursuant to the fair valuation methodologies previously approved by the Directors. Under procedures approved by the Directors, the Company’s Adviser has formed a Valuation Committee whose members are approved by the Directors. The Valuation Committee provides administration and oversight of the Company’s valuation policies and procedures, which are reviewed at least annually by the Directors. These procedures allow the Company to utilize independent pricing services, quotations from securities and financial instrument dealers and other market sources to determine fair value.

The Fund invests a significant portion of its assets in securities of REITs. The market’s perception of prospective declines in private real estate values and other financial assets may result in increased volatility of market prices that can negatively impact the valuation of certain issuers held by the Fund.

2. Fair Value Measurement: Financial Accounting Standards Board (“FASB”) Accounting Standards Codification™ (“ASC”) 820, “Fair Value Measurement” (“ASC 820”), defines fair value as the value that the Fund would receive to sell an investment or pay to transfer a liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal market, the most advantageous market for the investment or liability. ASC 820 establishes a three-tier hierarchy to distinguish between (1) inputs that reflect the assumptions market participants would use in valuing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) inputs that reflect the reporting entity’s own assumptions about the assumptions market participants would use in valuing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to establish classification of fair value measurements for disclosure purposes. Various inputs are used in determining the value of the

Fund’s investments. The inputs are summarized in the three broad levels listed below:

- Level 1 – unadjusted quoted prices in active markets for identical investments
- Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 – significant unobservable inputs including the Fund’s own assumptions in determining the fair value of investments. Factors considered in making this determination may include, but are not limited to, information obtained by contacting the issuer, analysts, or the appropriate stock exchange (for exchange-traded securities), analysis of the issuer’s financial statements or other available documents and, if necessary, available information concerning other securities in similar circumstances.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities and the determination of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to each security.

The following is a summary of the inputs used to value the Fund’s investments as of June 30, 2021:

Investment Type	Level 1	Level 2	Level 3	Total
	Unadjusted quoted prices (000)	Other significant observable inputs (000)	Significant unobservable inputs (000)	
Assets:				
Common Stocks				
Apartments	\$ 44,530	\$—	\$—	\$ 44,530
Data Centers	42,349	—	—	42,349
Diversified	3,688	—	—	3,688
Free Standing	12,708	—	—	12,708
Health Care	71,755	—	—	71,755
Industrial	38,092	—	—	38,092
Lodging/Resorts	16,150	—	—	16,150
Manufactured Homes	7,691	—	—	7,691
Office	27,961	—	—	27,961
Regional Malls	17,730	—	—	17,730
Self Storage	39,321	—	—	39,321
Shopping Centers	34,076	—	—	34,076
Single Family Homes	11,743	—	—	11,743
Specialty	18,936	—	—	18,936
Total Common Stocks	386,730	—	—	386,730
Short-Term Investment				
Investment Company	8,375	—	—	8,375
Total Assets	\$395,105	\$—	\$—	\$395,105

Notes to Financial Statements (cont'd)

Transfers between investment levels may occur as the markets fluctuate and/or the availability of data used in an investment's valuation changes.

3. Foreign Currency Translation and Foreign Investments: The books and records of the Fund are maintained in U.S. dollars. Foreign currency amounts are translated into U.S. dollars as follows:

- investments, other assets and liabilities at the prevailing rate of exchange on the valuation date;
- investment transactions and investment income at the prevailing rates of exchange on the dates of such transactions.

Although the net assets of the Fund are presented at the foreign exchange rates and market values at the close of the period, the Fund does not isolate that portion of the results of operations arising as a result of changes in the foreign exchange rates from the fluctuations arising from changes in the market prices of securities held at period end. Similarly, the Fund does not isolate the effect of changes in foreign exchange rates from the fluctuations arising from changes in the market prices of securities sold during the period. Accordingly, realized and unrealized foreign currency gains (losses) on investments in securities are included in the reported net realized and unrealized gains (losses) on investment transactions and balances. However, pursuant to U.S. federal income tax regulations, gains and losses from certain foreign currency transactions and the foreign currency portion of gains and losses realized on sales and maturities of foreign denominated debt securities are treated as ordinary income for U.S. federal income tax purposes.

Net realized gains (losses) on foreign currency transactions represent net foreign exchange gains (losses) from foreign currency forward exchange contracts, disposition of foreign currencies, currency gains (losses) realized between the trade and settlement dates on securities transactions, and the difference between the amount of investment income and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent amounts actually received or paid. The change in unrealized currency gains (losses) on foreign currency transactions for the period is reflected in the Statement of Operations.

Foreign security and currency transactions may involve certain considerations and risks not typically associated with those of U.S. dollar denominated transactions as a result of, among other factors, fluctuations of exchange rates in relation to the U.S. dollar, the possibility of lower levels of governmental supervision and regulation of

foreign securities markets and the possibility of political or economic instability.

Governmental approval for foreign investments may be required in advance of making an investment under certain circumstances in some countries, and the extent of foreign investments in domestic companies may be subject to limitation in other countries. Foreign ownership limitations also may be imposed by the charters of individual companies to prevent, among other concerns, violations of foreign investment limitations. As a result, an additional class of shares (identified as "Foreign" in the Portfolio of Investments) may be created and offered for investment. The "local" and "foreign shares" market values may differ. In the absence of trading of the foreign shares in such markets, the Fund values the foreign shares at the closing exchange price of the local shares.

4. Securities Lending: The Fund lends securities to qualified financial institutions, such as broker-dealers, to earn additional income. Any increase or decrease in the fair value of the securities loaned that might occur and any interest earned or dividends declared on those securities during the term of the loan would remain in the Fund. The Fund would receive cash or securities as collateral in an amount equal to or exceeding 100% of the current fair value of the loaned securities. The collateral is marked-to-market daily by State Street Bank and Trust Company ("State Street"), the securities lending agent, to ensure that a minimum of 100% collateral coverage is maintained.

Based on pre-established guidelines, the securities lending agent invests any cash collateral that is received in an affiliated money market portfolio and repurchase agreements. Securities lending income is generated from the earnings on the invested collateral and borrowing fees, less any rebates owed to the borrowers and compensation to the lending agent, and is recorded as "Income from Securities Loaned — Net" in the Fund's Statement of Operations. Risks in securities lending transactions are that a borrower may not provide additional collateral when required or return the securities when due, and that the value of the short-term investments will be less than the amount of cash collateral plus any rebate that is required to be returned to the borrower.

The Fund has the right under the securities lending agreement to recover the securities from the borrower on demand.

At June 30, 2021, the Fund did not have any outstanding securities on loan.

Notes to Financial Statements (cont'd)

5. Indemnifications: The Company enters into contracts that contain a variety of indemnifications. The Company's maximum exposure under these arrangements is unknown. However, the Company has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

6. Security Transactions, Income and Expenses: Security transactions are accounted for on the trade date (date the order to buy or sell is executed). Realized gains and losses on the sale of investment securities are determined on the specific identified cost method. Dividend income and other distributions are recorded on the ex-dividend date (except for certain foreign dividends which may be recorded as soon as the Fund is informed of such dividends) net of applicable withholding taxes. Non-cash dividends received in the form of stock, if any, are recognized on the ex-dividend date and recorded as non-cash dividend income at fair value. Interest income is recognized on the accrual basis except where collection is in doubt. Discounts are accreted and premiums are amortized over the life of the respective securities. Most expenses of the Company can be directly attributed to a particular Fund. Expenses which cannot be directly attributed are apportioned among the Funds based upon relative net assets or other appropriate methods. Income, expenses (other than class specific expenses) and realized and unrealized gains or losses are allocated to each class of shares based upon their relative net assets.

The Fund owns shares of REITs which report information on the source of their distributions annually in the following calendar year. A portion of distributions received from REITs during the year is estimated to be a return of capital and is recorded as a reduction of their cost.

7. Dividends and Distributions to Shareholders: Dividends and distributions to shareholders are recorded on the ex-dividend date. Dividends from net investment income, if any, are declared and paid annually. Net realized capital gains, if any, are distributed at least annually.

B. Advisory Fees: The Adviser, a wholly-owned subsidiary of Morgan Stanley, provides the Fund with advisory services under the terms of an Investment Advisory Agreement, paid quarterly, at the annual rate based on the daily net assets as follows:

First \$500 million	Next \$500 million	Over \$1 billion
0.70%	0.65%	0.60%

For the six months ended June 30, 2021, the advisory fee rate (net of waiver/rebate) was equivalent to an annual effective rate of 0.54% of the Fund's average daily net assets.

The Adviser has agreed to reduce its advisory fee and/or reimburse the Fund so that total annual Fund operating expenses, excluding certain investment related expenses, taxes, interest and other extraordinary expenses (including litigation), will not exceed 0.82% for Class I shares and 1.07% for Class II shares. The fee waivers and/or expense reimbursements will continue for at least one year from the date of the Fund's prospectus or until such time as the Directors act to discontinue all or a portion of such waivers and/or reimbursements when they deem such action is appropriate. For the six months ended June 30, 2021, approximately \$295,000 of advisory fees were waived pursuant to this arrangement.

C. Administration Fees: The Adviser also serves as Administrator to the Company and provides administrative services pursuant to an Administration Agreement for an annual fee, accrued daily and paid monthly, of 0.08% of the Fund's average daily net assets.

Under a Sub-Administration Agreement between the Administrator and State Street, State Street provides certain administrative services to the Company. For such services, the Administrator pays State Street a portion of the fee the Administrator receives from the Fund.

D. Servicing Fees: The Company accrues daily and pays quarterly a servicing fee of up to 0.17% of the average daily value of shares of the Fund held in an insurance company's account. Certain insurance companies have entered into a servicing agreement with the Company to provide administrative and other contract-owner related services on behalf of the Fund.

E. Distribution Fees: Morgan Stanley Distribution, Inc. ("MSDI" or the "Distributor"), a wholly-owned subsidiary of the Adviser and an indirect subsidiary of Morgan Stanley, serves as the Distributor of the Fund and provides the Fund's Class II shareholders with distribution services pursuant to a Distribution Plan (the "Plan") in accordance with Rule 12b-1 under the Act. Under the Plan, the Fund is authorized to pay the Distributor a distribution fee, which is accrued daily and paid monthly, at an annual rate of 0.25% of the Fund's average daily net assets attributable to Class II shares.

F. Dividend Disbursing and Transfer Agent: The Company's dividend disbursing and transfer agent is DST Asset Manager Solutions, Inc. ("DST"). Pursuant to a Transfer Agency Agreement, the Company pays DST a fee based on the number of classes, accounts and transactions relating to the Funds of the Company.

G. Custodian Fees: State Street (the "Custodian") also serves as Custodian for the Company in accordance with a Custodian Agreement. The Custodian holds cash, securities and other assets of the Company as required by the Act.

Notes to Financial Statements (cont'd)

Custody fees are payable monthly based on assets held in custody, investment purchases and sales activity and account maintenance fees, plus reimbursement for certain out-of-pocket expenses.

H. Security Transactions and Transactions with Affiliates: For the six months ended June 30, 2021, purchases and sales of investment securities for the Fund, other than long-term U.S. Government securities and short-term investments were approximately \$281,533,000 and \$312,701,000, respectively. There were no purchases and sales of long-term U.S. Government securities for the six months ended June 30, 2021.

The Fund invests in the Institutional Class of the Morgan Stanley Institutional Liquidity Funds — Treasury Portfolio (the “Liquidity Funds”), an open-end management investment company managed by the Adviser, both directly and as a portion of the securities held as collateral on loaned securities. Advisory fees paid by the Fund are reduced by an amount equal to its pro-rata share of the advisory and administration fees paid by the Fund due to its investment in the Liquidity Funds. For the six months ended June 30, 2021, advisory fees paid were reduced by approximately \$1,000 relating to the Fund’s investment in the Liquidity Funds.

A summary of the Fund’s transactions in shares of affiliated investments during the six months ended June 30, 2021 is as follows:

Affiliated Investment Company	Value			
	December 31, 2020 (000)	Purchases at Cost (000)	Proceeds from Sales (000)	Dividend Income (000)
Liquidity Funds	\$5,321	\$79,703	\$76,649	\$—@

Affiliated Investment Company (cont'd)	Realized Gain (Loss)	Change in Unrealized Appreciation (Depreciation)	Value June 30, 2021 (000)
	(000)	(000)	(000)
Liquidity Funds	\$—	\$—	\$8,375

@ Amount is less than \$500.

The Fund is permitted to purchase and sell securities (“cross-trade”) from and to other Morgan Stanley funds as well as other funds and client accounts for which the Adviser or an affiliate of the Adviser serves as investment adviser, pursuant to procedures approved by the Directors in compliance with Rule 17a-7 under the Act (the “Rule”). Each cross-trade is executed at the current market price in compliance with provisions of the Rule. For the six months ended June 30, 2021, the Fund did not engage in any cross-trade transactions.

The Fund has an unfunded Deferred Compensation Plan (the “Compensation Plan”), which allows each independent Direc-

tor to defer payment of all, or a portion, of the fees he or she receives for serving on the Board of Directors. Each eligible Director generally may elect to have the deferred amounts credited with a return equal to the total return on one or more of the Morgan Stanley funds that are offered as investment options under the Compensation Plan.

Appreciation/depreciation and distributions received from these investments are recorded with an offsetting increase/decrease in the deferred compensation obligation and do not affect the NAV of the Fund.

I. Federal Income Taxes: It is the Fund’s intention to continue to qualify as a regulated investment company and distribute all of its taxable and tax-exempt income. Accordingly, no provision for federal income taxes is required in the financial statements.

The Fund may be subject to taxes imposed by countries in which it invests. Such taxes are generally based on income and/or capital gains earned or repatriated. Taxes are accrued based on net investment income, net realized gains and net unrealized appreciation as such income and/or gains are earned. Taxes may also be based on transactions in foreign currency and are accrued based on the value of investments denominated in such currency.

FASB ASC 740-10, “Income Taxes — Overall”, sets forth a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken in a tax return. Management has concluded there are no significant uncertain tax positions that would require recognition in the financial statements. If applicable, the Fund recognizes interest accrued related to unrecognized tax benefits in “Interest Expense” and penalties in “Other Expenses” in the Statement of Operations. The Fund files tax returns with the U.S. Internal Revenue Service, New York and various states. Generally, each of the tax years in the four-year period ended December 31, 2020 remains subject to examination by taxing authorities.

The tax character of distributions paid may differ from the character of distributions shown for GAAP purposes due to short-term capital gains being treated as ordinary income for tax purposes. The tax character of distributions paid during fiscal years 2020 and 2019 was as follows:

2020 Distributions Paid From:		2019 Distributions Paid From:	
Ordinary Income (000)	Long-Term Capital Gain (000)	Ordinary Income (000)	Long-Term Capital Gain (000)
\$9,512	\$9,477	\$8,744	\$14,986

The amount and character of income and gains to be distributed are determined in accordance with income tax regulations which may differ from GAAP. These book/tax

Notes to Financial Statements (cont'd)

differences are either considered temporary or permanent in nature.

Temporary differences are attributable to differing book and tax treatments for the timing of the recognition of gains (losses) on certain investment transactions and the timing of the deductibility of certain expenses.

Permanent differences, due to an adjustment to prior period equalization debits, resulted in the following reclassifications among the components of net assets at December 31, 2020:

Total Distributable Earnings (000)	Paid-in- Capital (000)
\$2	\$(2)

At December 31, 2020, the components of distributable earnings for the Fund on a tax basis were as follows:

Undistributed Ordinary Income (000)	Undistributed Long-Term Capital Gain (000)
\$7,684	\$—

At December 31, 2020, the Fund had available for federal income tax purposes unused short-term and long-term capital losses of approximately \$2,162,000 and \$33,996,000, respectively, that do not have an expiration date.

To the extent that capital loss carryforwards are used to offset any future capital gains realized, no capital gains tax liability will be incurred by the Fund for gains realized and not distributed. To the extent that capital gains are offset, such gains will not be distributed to the shareholders.

J. Credit Facility: The Company and other Morgan Stanley funds participated in a \$300,000,000 committed, unsecured revolving line of credit facility (the “Facility”) with State Street. This Facility is to be used for temporary emergency purposes or funding of shareholder redemption requests. The interest rate on borrowings is based on the federal funds rate or 1 month LIBOR rate plus a spread. Effective April 19, 2021, the interest rate on borrowings is based on the federal funds effective rate or overnight bank funding rate plus a spread. The Facility also has a commitment fee of 0.25% per annum based on the unused portion of the Facility. During the six months ended June 30, 2021, the Fund did not have any borrowings under the Facility.

K. Other: At June 30, 2021, the Fund had record owners of 10% or greater. Investment activities of these shareholders could have a material impact on the Fund. The aggregate percentage of such owners was 63.4%.

L. Market Risk: Certain impacts to public health conditions particular to the coronavirus (“COVID-19”) outbreak

could impact the operations and financial performance of certain of the Fund’s investments. The extent of the impact to the financial performance of the Fund’s investments will depend on future developments, including (i) the duration and spread of the outbreak, (ii) the restrictions and advisories, (iii) the effects on the financial markets, and (iv) the effects on the economy overall, all of which are highly uncertain and cannot be predicted. If the financial performance of the Fund’s investments is impacted because of these factors for an extended period, the Fund’s investment results may be adversely affected.

Investment Advisory Agreement Approval

Nature, Extent and Quality of Services

The Board reviewed and considered the nature and extent of the investment advisory services provided by the Adviser under the advisory agreement, including portfolio management, investment research and equity and fixed income securities trading. The Board also reviewed and considered the nature and extent of the non-advisory, administrative services provided by the Administrator under the administration agreement, including accounting, operations, clerical, bookkeeping, compliance, business management and planning, legal services and the provision of supplies, office space and utilities at the Adviser's expense. The Board also considered the Adviser's investment in personnel and infrastructure that benefits the Fund. (The Adviser and Administrator together are referred to as the "Adviser" and the advisory and administration agreements together are referred to as the "Management Agreement.") The Board also considered that the Adviser serves a variety of other investment advisory clients and has experience overseeing service providers. The Board also compared the nature of the services provided by the Adviser with similar services provided by non-affiliated advisers as prepared by Broadridge Financial Solutions, Inc. ("Broadridge").

The Board reviewed and considered the qualifications of the portfolio managers, the senior administrative managers and other key personnel of the Adviser who provide the advisory and administrative services to the Fund. The Board determined that the Adviser's portfolio managers and key personnel are well qualified by education and/or training and experience to perform the services in an efficient and professional manner. The Board concluded that the nature and extent of the advisory and administrative services provided were necessary and appropriate for the conduct of the business and investment activities of the Fund and supported its decision to approve the Management Agreement.

Performance, Fees and Expenses of the Fund

The Board reviewed the performance, fees and expenses of the Fund compared to its peers, as prepared by Broadridge, and to appropriate benchmarks where applicable. The Board discussed with the Adviser the performance goals and the actual results achieved in managing the Fund. When considering a fund's performance, the Board and the Adviser place emphasis on trends and longer-term returns (focusing on one-year, three-year and five-year performance, as of December 31, 2020, or since inception, as applicable). When a fund underperforms its benchmark and/or its peer group average, the Board and the Adviser discuss the causes of such underperformance and, where necessary, they discuss specific changes to investment strategy or investment personnel. The Board noted that the Fund's performance was below its peer group average for the one-, three- and five-year periods. The Board discussed with the Adviser the level of the advisory and administration fees (together, the "management fee") for this Fund relative to comparable funds and/or other accounts advised by the Adviser and/or compared to its peers as prepared by Broadridge. In addition to the management fee, the Board also reviewed the Fund's total expense ratio. The Board noted that the Fund's contractual management fee and total expense ratio were higher than but close to its peer group averages and the actual management fee was lower than its peer group average. After discussion, the Board concluded that the Fund's (i) performance was acceptable and (ii) management fee and total expense ratio were competitive with its peer group averages.

Economies of Scale

The Board considered the size and growth prospects of the Fund and how that relates to the Fund's total expense ratio and particularly the Fund's management fee rate, which includes breakpoints. In conjunction with its review of the Adviser's profitability, the Board discussed with the Adviser how a change in assets can affect the efficiency or effectiveness of managing the Fund and whether the management fee level is appropriate relative to current and projected asset levels and/or whether the management fee structure reflects economies of scale as asset levels change. The Board has determined that its review of the actual and/or potential economies of scale of the Fund supports its decision to approve the Management Agreement.

Profitability of the Adviser and Affiliates

The Board considered information concerning the costs incurred and profits realized by the Adviser and its affiliates during the last year from their relationship with the Fund and during the last two years from their relationship with the Morgan Stanley Fund Complex and reviewed with the Adviser the cost allocation methodology used to determine the profitability of the Adviser and affiliates. The Board has determined that its review of the analysis of the Adviser's expenses and profitability supports its decision to approve the Management Agreement.

Investment Advisory Agreement Approval (cont'd)

Other Benefits of the Relationship

The Board considered other direct and indirect benefits to the Adviser and/or its affiliates derived from their relationship with the Fund and other funds advised by the Adviser. These benefits may include, among other things, fees for trading, distribution and/or shareholder servicing and for transaction processing and reporting platforms used by securities lending agents, and research received by the Adviser generated from commission dollars spent on funds' portfolio trading. The Board reviewed with the Adviser these arrangements and the reasonableness of the Adviser's costs relative to the services performed. The Board has determined that its review of the other benefits received by the Adviser or its affiliates supports its decision to approve the Management Agreement.

Resources of the Adviser and Historical Relationship Between the Fund and the Adviser

The Board considered whether the Adviser is financially sound and has the resources necessary to perform its obligations under the Management Agreement. The Board also reviewed and considered the historical relationship between the Fund and the Adviser, including the organizational structure of the Adviser, the policies and procedures formulated and adopted by the Adviser for managing the Fund's operations and the Board's confidence in the competence and integrity of the senior managers and key personnel of the Adviser. The Board concluded that the Adviser has the financial resources necessary to fulfill its obligations under the Management Agreement and that it is beneficial for the Fund to continue its relationship with the Adviser.

Other Factors and Current Trends

The Board considered the controls and procedures adopted and implemented by the Adviser and monitored by the Fund's Chief Compliance Officer and concluded that the conduct of business by the Adviser indicates a good faith effort on its part to adhere to high ethical standards in the conduct of the Fund's business.

As part of the Board's review, the Board received information from management on the impact of the COVID-19 pandemic on the firm generally and the Adviser and the Fund in particular including, among other information, the pandemic's current and expected impact on the Fund's performance and operations.

General Conclusion

After considering and weighing all of the above factors, with various written materials and verbal information presented by the Adviser, the Board concluded that it would be in the best interest of the Fund and its shareholders to approve renewal of the Management Agreement for another year. In reaching this conclusion the Board did not give particular weight to any single piece of information or factor referenced above. The Board considered these factors and information over the course of the year and in numerous meetings, some of which were in executive session with only the independent Board members and their counsel present. It is possible that individual Board members may have weighed these factors, and the information presented, differently in reaching their individual decisions to approve the Management Agreement.

Liquidity Risk Management Program

In compliance with Rule 22e-4 under the Investment Company Act of 1940, as amended (the “Liquidity Rule”), the Fund has adopted and implemented a liquidity risk management program (the “Program”), which is reasonably designed to assess and manage the risk that the Fund could not meet requests to redeem shares issued by the Fund without significant dilution of remaining investors’ interests in the Fund (i.e., liquidity risk). The Fund’s Board of Directors (the “Board”) previously approved the designation of the Liquidity Risk Subcommittee (the “LRS”) as Program administrator. The LRS is comprised of representatives from various divisions within Morgan Stanley Investment Management.

At a meeting held on March 3-4, 2021, the Board reviewed a written report prepared by the LRS that addressed the Program’s operation and assessed its adequacy, and effectiveness of implementation for the period from January 1, 2020, through December 31, 2020, as required under the Liquidity Rule, and discussed the impact of the COVID-19 pandemic on liquidity and the LRS’s assessment of liquidity risk during the reporting period, including during the distressed market environment caused by the onset of the COVID-19 pandemic. The report concluded that the Program operated effectively and was adequately and effectively implemented in all material aspects, and that the relevant controls and safeguards were appropriately designed to enable the LRS to administer the Program in compliance with the Liquidity Rule.

In accordance with the Program, the LRS assessed each Fund’s liquidity risk no less frequently than annually taking into consideration certain factors, as applicable, such as (i) investment strategy and liquidity of portfolio investments, (ii) short-term and long-term cash flow projections and (iii) holdings of cash and cash equivalents and borrowing arrangements and other funding sources. Certain factors are considered under both normal and reasonably foreseeable stressed conditions.

Each Fund portfolio investment is classified into one of four liquidity categories, which classification is assessed at least monthly by the LRS. The classification is based on a determination of the number of days it is reasonably expected to take to convert the investment into cash, or sell or dispose of the investment, in current market conditions without significantly changing the market value of the investment. Liquidity classification determinations take into account various market, trading and investment-specific considerations, as well as market depth, and in some cases utilize third-party vendor data.

The Liquidity Rule limits a fund’s investments in illiquid investments to 15% of its net assets and requires funds that do not primarily hold assets that are highly liquid investments to determine and maintain a minimum percentage of the fund’s net assets to be invested in highly liquid investments (highly liquid investment minimum or “HLIM”). The LRS believes that the Program includes provisions reasonably designed to review, monitor and comply with the 15% limit on illiquid investments and for determining, periodically reviewing and complying with the HLIM requirement, as applicable.

There can be no assurance that the Program will achieve its objectives under all circumstances in the future. Please refer to the Fund’s prospectus for more information regarding the Fund’s exposure to liquidity risk and other risks to which it may be subject.

(This page has been left blank intentionally.)

(This page has been left blank intentionally.)

Director and Officer Information

Directors

Frank L. Bowman
Kathleen A. Dennis
Nancy C. Everett
Jakki L. Haussler
Dr. Manuel H. Johnson
Joseph J. Kearns
Michael F. Klein
Patricia Maleski
W. Allen Reed, *Chair of the Board*

Adviser and Administrator

Morgan Stanley Investment Management Inc.
522 Fifth Avenue
New York, New York 10036

Distributor

Morgan Stanley Distribution, Inc.
522 Fifth Avenue
New York, New York 10036

Dividend Disbursing and Transfer Agent

DST Asset Manager Solutions, Inc.
2000 Crown Colony Drive
Quincy, Massachusetts 02169

Custodian

State Street Bank and Trust Company
One Lincoln Street
Boston, Massachusetts 02111

Officers

John H. Gernon
President and Principal Executive Officer

Timothy J. Knierim
Chief Compliance Officer

Mary E. Mullin
Secretary

Francis J. Smith
Treasurer and Principal Financial Officer

Michael J. Key
Vice President

Legal Counsel

Dechert LLP
1095 Avenue of the Americas
New York, New York 10036

Counsel to the Independent Directors

Perkins Coie LLP
1155 Avenue of the Americas,
22nd Floor
New York, New York 10036

Independent Registered Public Accounting Firm

Ernst & Young LLP
200 Clarendon Street
Boston, Massachusetts 02116

Reporting to Shareholders

Each Morgan Stanley fund provides a complete schedule of portfolio holdings in its Semi-Annual and the Annual Reports within 60 days of the end of the fund's second and fourth fiscal quarters. The Semi-Annual and Annual Reports are filed electronically with the Securities and Exchange Commission ("SEC") on Form N-CSRS and Form N-CSR, respectively. Morgan Stanley also delivers the Semi-Annual and Annual Reports to fund shareholders and makes these reports available on its public website, www.morganstanley.com/im/shareholderreports. Each Morgan Stanley non-money market fund also files a complete schedule of portfolio holdings with the SEC for the fund's first and third fiscal quarters as an attachment to Form N-PORT. Morgan Stanley does not deliver the reports for the first and third fiscal quarters to shareholders, but makes the complete schedule of portfolio holdings for the fund's first and third fiscal quarters available on its public website. The holdings for each money market fund are also posted to the Morgan Stanley public website. You may obtain the Form N-PORT filings (as well as the Form N-CSR and N-CSRS filings) by accessing the SEC's website, www.sec.gov. You can also request copies of these materials, upon payment of a duplicating fee, by electronic request at the SEC's email address (publicinfo@sec.gov).

Proxy Voting Policies and Procedures and Proxy Voting Record

You may obtain a copy of the Company's Proxy Voting Policy and Procedures and information regarding how the Company voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30, without charge, upon request, by calling toll free 1 (800) 548-7786 or by visiting our website at www.morganstanley.com/im/shareholderreports. This information is also available on the SEC's website at www.sec.gov.

This report is submitted for the general information of the shareholders of the Fund. For more detailed information about the Fund, its fees and expenses and other pertinent information, please read its Prospectus. The Company's Statement of Additional Information contains additional information about the Fund, including its Directors. It is available, without charge, by calling 1 (800) 548-7786.

This report is not authorized for distribution to prospective investors in the Fund unless preceded or accompanied by an effective Prospectus. Read the Prospectus carefully before investing.

This Page Intentionally Left Blank

This Page Intentionally Left Blank

This Page Intentionally Left Blank

VARIABLE PORTFOLIO FUNDS

70100 Ameriprise Financial Center
Minneapolis, MN 55474