Morgan Stanley

Morgan Stanley Variable Insurance Fund, Inc.

Semi-Annual Report – June 30, 2020

Global 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.

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Expense Example

Global Real Estate Portfolio

As a shareholder of the Global Real Estate Portfolio (the "Fund"), you incur two types of costs: (1) insurance company charges; and (2) ongoing costs, which 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, 2020 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 1/1/20	Actual Ending Account Value 6/30/20	Hypothetical Ending Account Value	Actual Expenses Paid During Period*	Hypothetical Expenses Paid During Period*	Net Expense Ratio During Period**
Global Real Estate Portfolio Class II	$1,000.00	$731.50	$1,018.65	$5.38	$6.27	1.25%

* Expenses are calculated using the Fund Class' annualized net expense ratio (as disclosed), multiplied by the average account value over the period and multiplied by 182/366 (to reflect the most recent one-half year period).

** Annualized.

Portfolio of Investments

Global Real Estate Portfolio

	Shares	Value (000)
Common Stocks (98.0%)		
Australia (2.5%)		
Dexus REIT	75,629	$ 485
Goodman Group REIT	5,080	53
GPT Group (The) REIT	85,317	248
Mirvac Group REIT	91,521	138
Scentre Group REIT	145,421	221
Stockland REIT	7,447	17
Vicinity Centres REIT	76,935	77
		1,239
Austria (0.0%)		
CA Immobilien Anlagen AG	195	7
Canada (1.5%)		
Boardwalk REIT	1,914	42
Crombie Real Estate Investment Trust REIT	8,510	80
First Capital Real Estate Investment Trust	26,622	272
H&R Real Estate Investment Trust REIT	5,783	42
RioCan Real Estate Investment Trust REIT	24,806	281
SmartCentres Real Estate Investment Trust REIT	2,615	40
		757
China (1.5%)		
China Overseas Land & Investment Ltd. (a)	18,000	55
China Resources Land Ltd. (a)	60,000	229
KWG Property Holding Ltd. (a)(b)	11,000	19
Longfor Group Holdings Ltd. (a)	66,000	316
Poly Property Development Co., Ltd., Class H (a)	2,400	24
Shimao Property Holdings Ltd. (a)	16,500	71
Sunac China Holdings Ltd. (a)	5,000	21
		735
Finland (0.3%)		
Kojamo Oyj	7,229	153
France (3.8%)		
Carmila SA REIT	4,824	66
Covivio REIT	638	46
Gecina SA REIT	4,111	508
ICADE REIT	270	19
Klepierre SA REIT	31,571	631
Mercialys SA REIT	23,193	195
Unibail-Rodamco-Westfield REIT	7,474	421
		1,886
Germany (4.5%)		
ADO Properties SA (b)	1,891	51
Alstria Office AG REIT	16,115	240
Deutsche Wohnen SE	14,527	653
LEG Immobilien AG	1,905	241
Vonovia SE	17,140	1,048
		2,233
Hong Kong (7.8%)		
CK Asset Holdings Ltd.	38,000	228
Hang Lung Properties Ltd.	103,000	245
Hongkong Land Holdings Ltd.	115,400	480

	Shares	Value (000)
Hysan Development Co., Ltd.	18,921	$ 61
Link REIT	80,264	659
New World Development Co., Ltd.	63,146	300
Sun Hung Kai Properties Ltd.	84,393	1,078
Swire Properties Ltd.	196,500	502
Wharf Real Estate Investment Co., Ltd.	67,420	323
		3,876
Ireland (0.7%)		
Hibernia REIT PLC	274,038	346
Japan (10.7%)		
Activia Properties, Inc. REIT	17	59
Advance Residence Investment Corp. REIT	69	205
Daiwa Office Investment Corp. REIT	27	149
GLP J-REIT	145	210
Hulic Co., Ltd.	11,200	106
Hulic REIT, Inc.	35	43
Invincible Investment Corp. REIT	281	73
Japan Hotel REIT Investment Corp.	228	95
Japan Prime Realty Investment Corp. REIT	11	32
Japan Real Estate Investment Corp. REIT	85	436
Japan Retail Fund Investment Corp. REIT	29	36
Kenedix Office Investment Corp. REIT	23	129
Kenedix, Inc.	10,100	50
Mitsubishi Estate Co., Ltd.	51,800	772
Mitsubishi Estate Logistics REIT Investment Corp. REIT	34	125
Mitsui Fudosan Co., Ltd.	42,300	751
Mitsui Fudosan Logistics Park, Inc. REIT	43	192
Mori Trust Sogo Reit, Inc.	46	57
Nippon Building Fund, Inc. REIT	112	638
Nippon Prologis, Inc. REIT	60	182
Nomura Real Estate Master Fund, Inc. REIT	168	201
Orix, Inc. J-REIT	38	50
Premier Investment Corp. REIT	45	50
Sumitomo Realty & Development Co., Ltd.	20,000	552
United Urban Investment Corp. REIT	124	134
		5,327
Malta (0.0%)		
BGP Holdings PLC (b)(c)	5,886,464	9
Netherlands (0.6%)		
Eurocommercial Properties N.V. CVA REIT	13,121	169
NSI N.V. REIT	3,507	136
		305
Norway (0.5%)		
Entra ASA	16,438	211
Norwegian Property ASA	34,158	43
		254
Singapore (1.8%)		
Ascendas Real Estate Investment Trust REIT	107,524	247
CapitaLand Commercial Trust REIT	20,592	25
CapitaLand Mall Trust REIT	26,500	37
Frasers Logistics & Industrial Trust REIT	19,600	17

Portfolio of Investments (cont'd)

Global Real Estate Portfolio

	Shares	Value (000)
Singapore (cont'd)		
Keppel DC REIT	114,600	$ 210
Mapletree Commercial Trust REIT	74,112	104
Mapletree Industrial Trust REIT	48,000	100
Mapletree Logistics Trust REIT	52,500	74
UOL Group Ltd.	9,074	44
		858
Spain (1.1%)		
Inmobiliaria Colonial Socimi SA REIT	23,143	205
Merlin Properties Socimi SA REIT	40,991	341
		546
Sweden (1.1%)		
Atrium Ljungberg AB, Class B	5,989	85
Castellum AB	2,627	49
Fabege AB	16,136	190
Hufvudstaden AB, Class A	13,504	168
Kungsleden AB	8,772	66
		558
Switzerland (0.4%)		
PSP Swiss Property AG (Registered)	1,604	181
United Kingdom (5.4%)		
British Land Co., PLC (The) REIT	133,786	640
Capital & Counties Properties PLC	39,683	72
Derwent London PLC REIT	10,997	378
Grainger PLC	11,000	39
Great Portland Estates PLC REIT	39,147	307
Hammerson PLC REIT	94,524	94
Land Securities Group PLC REIT	102,943	703
Segro PLC REIT	10,287	114
Shaftesbury PLC REIT	3,524	23
St. Modwen Properties PLC	15,389	66
Urban & Civic PLC	67,047	194
Workspace Group PLC REIT	6,459	52
		2,682
United States (53.8%)		
Alexandria Real Estate Equities, Inc. REIT	3,120	506
American Campus Communities, Inc. REIT	19,230	672
American Homes 4 Rent, Class A REIT	8,217	221
AvalonBay Communities, Inc. REIT	8,977	1,388
Boston Properties, Inc. REIT	14,618	1,321
Brixmor Property Group, Inc. REIT	980	13
Camden Property Trust REIT	9,586	874
Cousins Properties, Inc. REIT	14,569	435
CubeSmart REIT	19,477	526
DiamondRock Hospitality Co. REIT	23,377	129
Digital Realty Trust, Inc. REIT	7,170	1,019
Duke Realty Corp. REIT	13,181	467
Equity Lifestyle Properties, Inc. REIT	1,124	70
Equity Residential REIT	16,411	965
Essex Property Trust, Inc. REIT	2,409	552
Extra Space Storage, Inc. REIT	3,390	313
Five Star Senior Living, Inc. (b)	621	2
Gaming and Leisure Properties, Inc. REIT	8,419	$ 291
Healthcare Realty Trust, Inc. REIT	24,898	729
Healthcare Trust of America, Inc., Class A REIT	10,168	270
Healthpeak Properties, Inc. REIT	12,566	346
Highwoods Properties, Inc. REIT	2,750	103
Host Hotels & Resorts, Inc. REIT	99,697	1,076
Hudson Pacific Properties, Inc. REIT	25,901	652
Invitation Homes, Inc. REIT	24,896	685
JBG SMITH Properties REIT	10,506	311
Kilroy Realty Corp. REIT	8,208	482
Lexington Realty Trust REIT	13,830	146
Life Storage, Inc. REIT	1,795	170
Macerich Co. (The) REIT	3,242	29
Mack-Cali Realty Corp. REIT	17,322	265
Mid-America Apartment Communities, Inc. REIT	2,795	321
Paramount Group, Inc. REIT	29,372	227
ProLogis, Inc. REIT	28,827	2,690
Public Storage REIT	4,136	794
QTS Realty Trust, Inc., Class A REIT	519	33
Regency Centers Corp. REIT	10,288	472
RLJ Lodging Trust REIT	27,970	264
Simon Property Group, Inc. REIT	28,815	1,970
SL Green Realty Corp. REIT	38,011	1,874
Sunstone Hotel Investors, Inc. REIT	51,947	423
Taubman Centers, Inc. REIT	4,160	157
UDR, Inc. REIT	1,794	67
Ventas, Inc. REIT	29,185	1,069
Vornado Realty Trust REIT	16,841	644
Weingarten Realty Investors REIT	25,901	490
Welltower, Inc. REIT	4,254	220
		26,743
Total Common Stocks (Cost $47,514)		48,695
Short-Term Investment (1.7%)		
Investment Company (1.7%)		
Morgan Stanley Institutional Liquidity Funds — Treasury Portfolio — Institutional Class (See Note H) **(Cost $844)**	844,217	844
Total Investments (99.7%) (Cost $48,358) (d)(e)		49,539
Other Assets in Excess of Liabilities (0.3%)		159
Net Assets (100.0%)		$49,698

Country assignments and aggregations are based generally on third party vendor classifications and information, and may be different from the assignments and aggregations under the policies set forth in the Fund's prospectus and/or statement of additional information relating to geographic classifications.

(a) Security trades on the Hong Kong exchange.

(b) Non-income producing security.

(c) At June 30, 2020, the Fund held a fair valued security valued at approximately $9,000, representing less than 0.05% of net assets. This security has been fair valued as determined in good faith under procedures established by and under the general supervision of the Company's (as defined herein) Directors.

The accompanying notes are an integral part of the financial statements.

Portfolio of Investments (cont'd)

Global Real Estate Portfolio

(d) The approximate fair value and percentage of net assets, $20,886,000 and 42.0%, respectively, represent the securities that have been fair valued under the fair valuation policy for international investments as described in Note A-1 within the Notes to the Financial Statements.

(e) At June 30, 2020, the aggregate cost for federal income tax purposes approximates the aggregate cost for book purposes. The aggregate gross unrealized appreciation is approximately $8,018,000 and the aggregate gross unrealized depreciation is approximately $6,837,000, resulting in net unrealized appreciation of approximately $1,181,000.

CVA Certificaten Van Aandelen.

REIT Real Estate Investment Trust.

Portfolio Composition

Classification	Percentage of Total Investments
Diversified	23.4%
Office	20.8
Residential	17.3
Retail	12.9
Other*	11.7
Industrial	8.6
Health Care	5.3
Total Investments	100.0%

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

Global Real Estate Portfolio

Statement of Assets and Liabilities

	June 30, 2020 (000)
Assets:	
Investments in Securities of Unaffiliated Issuers, at Value (Cost $47,514)	$48,695
Investment in Security of Affiliated Issuer, at Value (Cost $844)	844
Total Investments in Securities, at Value (Cost $48,358)	49,539
Foreign Currency, at Value (Cost $108)	108
Dividends Receivable	180
Receivable for Investments Sold	40
Tax Reclaim Receivable	33
Receivable for Fund Shares Sold	4
Receivable from Affiliate	—@
Other Assets	14
Total Assets	49,918
Liabilities:	
Payable for Investments Purchased	49
Payable for Professional Fees	34
Payable for Advisory Fees	30
Payable for Fund Shares Redeemed	28
Payable for Servicing Fees	21
Deferred Capital Gain Country Tax	18
Payable for Distribution Fees — Class II Shares	11
Payable for Custodian Fees	9
Payable for Administration Fees	3
Payable for Transfer Agency Fees	1
Other Liabilities	16
Total Liabilities	220
NET ASSETS	$49,698
Net Assets Consist of:	
Paid-in-Capital	$52,649
Total Accumulated Loss	(2,951)
Net Assets	$49,698
CLASS II:	
Net Asset Value, Offering and Redemption Price Per Share Applicable to 6,289,202 Outstanding $0.001 Par Value Shares (Authorized 500,000,000 Shares)	$ 7.90

@ Amount is less than $500.

The accompanying notes are an integral part of the financial statements.

Global Real Estate Portfolio

Statement of Operations

	Six Months Ended June 30, 2020 (000)
Investment Income:	
Dividends from Securities of Unaffiliated Issuers (Net of $42 of Foreign Taxes Withheld)	$ 972
Dividends from Security of Affiliated Issuer (Note H)	1
Total Investment Income	973
Expenses:	
Advisory Fees (Note B)	222
Distribution Fees — Class II Shares (Note E)	69
Professional Fees	59
Servicing Fees (Note D)	47
Custodian Fees (Note G)	29
Administration Fees (Note C)	22
Shareholder Reporting Fees	11
Pricing Fees	5
Directors' Fees and Expenses	3
Transfer Agency Fees (Note F)	2
Other Expenses	7
Total Expenses	476
Waiver of Advisory Fees (Note B)	(130)
Rebate from Morgan Stanley Affiliate (Note H)	(1)
Net Expenses	345
Net Investment Income	628
Realized Gain (Loss):	
Investments Sold (Net of $9 of Capital Gain Country Tax)	(3,643)
Foreign Currency Translation	4
Net Realized Loss	(3,639)
Change in Unrealized Appreciation (Depreciation):	
Investments (Net of Decrease in Deferred Capital Gain Country Tax of $1)	(15,286)
Foreign Currency Translation	(6)
Net Change in Unrealized Appreciation (Depreciation)	(15,292)
Net Realized Loss and Change in Unrealized Appreciation (Depreciation)	(18,931)
Net Decrease in Net Assets Resulting from Operations	$(18,303)

Global Real Estate Portfolio

Statements of Changes in Net Assets

	Six Months Ended June 30, 2020 (unaudited) (000)	Year Ended December 31, 2019 (000)
Increase (Decrease) in Net Assets:		
Operations:		
Net Investment Income	$ 628	$ 1,191
Net Realized Gain (Loss)	(3,639)	2,682
Net Change in Unrealized Appreciation (Depreciation)	(15,292)	7,870
Net Increase (Decrease) in Net Assets Resulting from Operations	(18,303)	11,743
Dividends and Distributions to Shareholders:		
Class II	—	(5,238)
Capital Share Transactions:[1]		
Class II:		
Subscribed	4,812	6,093
Distributions Reinvested	—	5,238
Redeemed	(7,237)	(14,161)
Net Decrease in Net Assets Resulting from Capital Share Transactions	(2,425)	(2,830)
Total Increase (Decrease) in Net Assets	(20,728)	3,675
Net Assets:		
Beginning of Period	70,426	66,751
End of Period	$ 49,698	$ 70,426
[1] **Capital Share Transactions:**		
Class II:		
Shares Subscribed	607	571
Shares Issued on Distributions Reinvested	—	498
Shares Redeemed	(837)	(1,313)
Net Decrease in Class II Shares Outstanding	(230)	(244)

The accompanying notes are an integral part of the financial statements.

Financial Highlights

Global Real Estate Portfolio

	Class II					
	Six Months Ended June 30, 2020	Year Ended December 31,				
Selected Per Share Data and Ratios	**(unaudited)**	**2019**	**2018**	**2017**	**2016[1]**	**2015**
Net Asset Value, Beginning of Period	$10.80	$9.87	$11.09	$10.36	$10.18	$10.57
Income (Loss) from Investment Operations:						
Net Investment Income[2]	0.10	0.18	0.25	0.24	0.16	0.14
Net Realized and Unrealized Gain (Loss)	(3.00)	1.58	(1.13)	0.75	0.16	(0.29)
Total from Investment Operations	(2.90)	1.76	(0.88)	0.99	0.32	(0.15)
Distributions from and/or in Excess of:						
Net Investment Income	—	(0.29)	(0.34)	(0.26)	(0.14)	(0.24)
Net Realized Gain	—	(0.54)	—	—	—	—
Total Distributions	—	(0.83)	(0.34)	(0.26)	(0.14)	(0.24)
Net Asset Value, End of Period	$7.90	$10.80	$9.87	$11.09	$10.36	$10.18
Total Return[3]	(26.85)%[7]	18.06%	(8.20)%	9.71%	3.12%	(1.42)%
Ratios to Average Net Assets and Supplemental Data:						
Net Assets, End of Period (Thousands)	$49,698	$70,426	$66,751	$83,625	$86,247	$94,884
Ratio of Expenses Before Expense Limitation	1.72%[8]	1.64%	1.66%	1.69%	1.60%	1.67%
Ratio of Expenses After Expense Limitation	1.25%[4][8]	1.25%[4]	1.33%[4][5]	1.40%[4]	1.40%[4]	1.40%[4]
Ratio of Net Investment Income	2.26%[4][8]	1.67%[4]	2.37%[4]	2.26%[4]	1.54%[4]	1.80%[4]
Ratio of Rebate from Morgan Stanley Affiliates	0.00%[6][8]	0.00%[6]	0.00%[6]	0.00%[6]	0.00%[6]	0.00%[6]
Portfolio Turnover Rate	20%[7]	24%	36%	34%	24%	26%

(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 1.25% for Class II shares. Prior to July 1, 2018, the maximum ratio was 1.40% for Class II shares.

(6) Amount is less than 0.005%.

(7) Not annualized.

(8) 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 Global Real Estate Portfolio. The Fund seeks to provide current income and capital appreciation. The Fund currently offers Class II shares only, although Class I shares may be offered in the future.

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.

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-13, Fair Value Measurement (Topic 820) — Disclosures Framework — Changes to Disclosure Requirements of Fair Value Measurement ("ASU 2018-13") which introduces new fair value disclosure requirements as well as eliminates and modifies certain existing fair value disclosure requirements. ASU 2018-13 would be effective for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years. The impact of the Fund's adoption was limited to changes in the Fund's financial statement disclosures regarding fair value, primarily those disclosures related to transfers between levels of the fair value hierarchy and disclosure of the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements, when applicable.

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") or Morgan Stanley Investment Management Limited ("MSIM Limited") and Morgan Stanley Investment Management Company ("MSIM Company") (together, the "Sub-Advisers"), each 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 cir-

Notes to Financial Statements (cont'd)

cumstances under which the Adviser or the Sub-Advisers determine 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 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; (5) quotations of foreign portfolio securities, other assets and liabilities and forward contracts stated in foreign currency are translated into U.S. dollar equivalents at the prevailing market rates prior to the close of the NYSE; and (6) 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:** 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.

Notes to Financial Statements (cont'd)

The following is a summary of the inputs used to value the Fund's investments as of June 30, 2020:

Investment Type	Level 1 Unadjusted quoted prices (000)	Level 2 Other significant observable inputs (000)	Level 3 Significant unobservable inputs (000)	Total (000)
Assets:				
Common Stocks				
Diversified	$ 2,614	$ 9,302	$—	$ 11,916
Health Care	2,636	—	—	2,636
Industrial	3,303	967	—	4,270
Industrial/Office Mixed	—	462	—	462
Lodging/Resorts	1,892	168	—	2,060
Office	5,600	4,683	—	10,283
Residential	5,857	2,698	9	8,564
Retail	3,804	2,606	—	6,410
Self Storage	1,803	—	—	1,803
Specialty	291	—	—	291
Total Common Stocks	**27,800**	**20,886**	**9**	**48,695**
Short-Term Investment				
Investment Company	844	—	—	844
Total Assets	**$28,644**	**$20,886**	**$ 9**	**$49,539**

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

Following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value:

	Common Stock (000)
Beginning Balance	$ 9
Purchases	—
Sales	—
Amortization of discount	—
Transfers in	—
Transfers out	—
Corporate actions	—
Change in unrealized appreciation (depreciation)	—@
Realized gains (losses)	—
Ending Balance	$ 9
Net change in unrealized appreciation (depreciation) from investments still held as of June 30, 2020.	$—@

@ Value is less than $500.

The following table presents additional information about valuation techniques and inputs used for investments that are measured at fair value and categorized within Level 3 as of June 30, 2020:

	Fair Value at June 30, 2020 (000)	Valuation Technique	Unobservable Input	Amount*	Impact to Valuation from an Increase in Input**
Common Stock	$9	Market Transaction Method	Transaction Valuation	$0.001	Increase
			Discount for Lack of Marketability	50.0%	Decrease

* Amount is indicative of the weighted average.

** Represents the expected directional change in the fair value of the Level 3 investments that would result from an increase in the corresponding input. A decrease to the unobservable input would have the opposite effect. Significant changes in these inputs could result in significantly higher or lower fair value measurements.

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

Notes to Financial Statements (cont'd)

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. **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.

5. **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. 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.

Settlement and registration of foreign securities transactions may be subject to significant risks not normally associated with investments in the United States. In certain markets, ownership of shares is defined according to entries in the issuer's share register. It is possible that a Fund holding these securities could lose its share registration through fraud, negligence or even mere oversight. In addition, shares being delivered for sales and cash being paid for purchases may be delivered before the exchange is complete. This may subject the Fund to further risk of loss in the event of a failure to complete the transaction by the counterparty.

6. **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/Sub-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 an annual rate of 0.80% of the daily net assets of the Fund.

The Adviser has agreed to reduce its advisory fee and/or reimburse the Fund so that the total annual Fund operating expenses, excluding certain investment related expenses, taxes, interest and other extraordinary expenses (including litigation), will not exceed 1.25% 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

Notes to Financial Statements (cont'd)

action is appropriate. For the six months ended June 30, 2020, approximately $130,000 of advisory fees were waived pursuant to this arrangement.

The Adviser has entered into Sub-Advisory Agreements with the Sub-Advisers, each a wholly-owned subsidiary of Morgan Stanley. The Sub-Advisers provide the Fund with advisory services subject to the overall supervision of the Adviser and the Company's Officers and Directors. The Adviser pays the Sub-Advisers on a monthly basis a portion of the net advisory fees the Adviser receives from the Fund.

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 Bank and Trust Company ("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. 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, 2020, purchases and sales of investment securities for the Fund, other than long-term U.S. Government securities and short-term investments were approximately $11,078,000 and $12,558,000, respectively. There were no purchases and sales of long-term U.S. Government securities for the six months ended June 30, 2020.

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. 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, 2020, 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, 2020 is as follows:

Affiliated Investment Company	Value December 31, 2019 (000)	Purchases at Cost (000)	Proceeds from Sales (000)	Dividend Income (000)
Liquidity Funds	$473	$5,120	$4,749	$1

Affiliated Investment Company (cont'd)	Realized Gain (Loss) (000)	Change in Unrealized Appreciation (Depreciation) (000)	Value June 30, 2020 (000)
Liquidity Funds	$—	$—	$844

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, 2020, 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 Director to defer payment of all, or a portion, of the fees he or she receives for serving on the Board of Directors. Each eligible

Notes to Financial Statements (cont'd)

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, 2019 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 2019 and 2018 was as follows:

2019 Distributions Paid From:		2018 Distributions Paid From:	
Ordinary Income (000)	Long-Term Capital Gain (000)	Ordinary Income (000)	Long-Term Capital Gain (000)
$1,979	$3,259	$2,376	$—

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 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, primarily due to equalization debits and an adjustment to prior period distributable earnings, resulted in the following reclassifications among the components of net assets at December 31, 2019:

Total Distributable Earnings (000)	Paid-in-Capital (000)
$(622)	$622

At December 31, 2019, 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)
$2,332	$1,067

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. 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, 2020, the Fund did not have any borrowings under the Facility.

K. Other: At June 30, 2020, 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 85.4%.

L. Subsequent Event: 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 reviewed similar information and factors regarding the Sub-Advisers, to the extent applicable. 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, Sub-Advisers and Administrator together are referred to as the "Adviser" and the advisory, sub-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, 2019, 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 does not include 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

Investment Advisory Agreement Approval (cont'd)

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.

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 COVID-19 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 April 22-23, 2020, 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 December 1, 2018, through December 31, 2019, as required under the Liquidity Rule. 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.

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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
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Sub-Advisers
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Dividend Disbursing and Transfer Agent
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Officers
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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

Custodian
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Legal Counsel
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Counsel to the Independent Directors
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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, nor are the reports posted to the Morgan Stanley public website. However, the holdings for each money market fund are 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.

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Variable Product Funds
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