Morgan Stanley

Morgan Stanley Variable Insurance Fund, Inc.

Semi-Annual Report – June 30, 2018

# Emerging Markets Equity 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 (unaudited)

## Emerging Markets Equity Portfolio

As a shareholder of the Emerging Markets Equity 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, 2018 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 1/1/18 | Actual Ending Account Value 6/30/18 | Hypothetical Ending Account Value | Actual Expenses Paid During Period* | Hypothetical Expenses Paid During Period* | Net Expense Ratio During Period** |
|---|---|---|---|---|---|---|
| Emerging Markets Equity Portfolio Class I | $1,000.00 | $905.30 | $1,018.70 | $5.81 | $6.16 | 1.23% |
| Emerging Markets Equity Portfolio Class II | 1,000.00 | 905.00 | 1,018.45 | 6.05 | 6.41 | 1.28 |

* 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

## Emerging Markets Equity Portfolio

| | Shares | Value (000) |
|---|---|---|
| **Common Stocks (94.7%)** | | |
| Argentina (0.4%) | | |
| Grupo Financiero Galicia SA ADR | 29,835 | $ 984 |
| Austria (0.8%) | | |
| Erste Group Bank AG (a) | 49,591 | 2,070 |
| Brazil (4.8%) | | |
| B3 SA — Brasil Bolsa Balcao | 369,327 | 1,949 |
| Banco Bradesco SA (Preference) | 504,328 | 3,500 |
| Itau Unibanco Holding SA (Preference) | 396,719 | 4,129 |
| Petroleo Brasileiro SA | 376,454 | 1,886 |
| Petroleo Brasileiro SA (Preference) | 433,032 | 1,921 |
| | | 13,385 |
| Chile (1.8%) | | |
| Banco Santander Chile | 21,411,659 | 1,677 |
| Banco Santander Chile ADR | 8,148 | 256 |
| SACI Falabella | 318,771 | 2,921 |
| | | 4,854 |
| China (26.0%) | | |
| AAC Technologies Holdings, Inc. (b) | 61,000 | 859 |
| Alibaba Group Holding Ltd. ADR (a) | 51,314 | 9,520 |
| Baidu, Inc. ADR (a) | 2,700 | 656 |
| Bank of China Ltd. H Shares (b) | 11,414,000 | 5,659 |
| Brilliance China Automotive Holdings Ltd. (b) | 518,000 | 935 |
| China Construction Bank Corp. H Shares (b) | 8,405,230 | 7,767 |
| China Mengniu Dairy Co., Ltd. (a)(b) | 689,000 | 2,336 |
| China Mobile Ltd. (b) | 140,000 | 1,244 |
| China Overseas Land & Investment Ltd. (b) | 376,000 | 1,239 |
| China Pacific Insurance Group Co., Ltd. H Shares (b) | 786,200 | 3,041 |
| China Resources Land Ltd. (b) | 202,000 | 681 |
| China Unicom Hong Kong Ltd. (b) | 886,000 | 1,107 |
| CSPC Pharmaceutical Group Ltd. (b) | 924,000 | 2,791 |
| JD.com, Inc. ADR (a) | 31,842 | 1,240 |
| Kweichow Moutai Co., Ltd., Class A | 4,598 | 508 |
| New Oriental Education & Technology Group, Inc. ADR | 22,903 | 2,168 |
| PetroChina Co., Ltd. H Shares (b) | 2,076,000 | 1,580 |
| Shenzhou International Group Holdings Ltd. (b) | 232,000 | 2,864 |
| Sino Biopharmaceutical Ltd. (b) | 1,651,000 | 2,534 |
| Sinopharm Group Co., Ltd. H Shares (b) | 128,000 | 515 |
| Sogou, Inc. ADR (a)(c) | 74,633 | 853 |
| TAL Education Group ADR (a) | 31,552 | 1,161 |
| Tencent Holdings Ltd. (b) | 409,900 | 20,574 |
| | | 71,832 |
| Egypt (0.7%) | | |
| Commercial International Bank Egypt SAE | 396,535 | 1,875 |
| Germany (0.9%) | | |
| Adidas AG | 10,800 | 2,358 |
| Hong Kong (1.1%) | | |
| Samsonite International SA (a) | 874,500 | 3,093 |

| | Shares | Value (000) |
|---|---|---|
| Hungary (1.1%) | | |
| OTP Bank Nyrt | 87,436 | $ 3,166 |
| India (8.1%) | | |
| Ashok Leyland Ltd. | 1,606,339 | 2,949 |
| Eicher Motors Ltd. | 3,680 | 1,536 |
| HDFC Bank Ltd. ADR | 15,800 | 1,659 |
| ICICI Bank Ltd. | 283,983 | 1,142 |
| ICICI Bank Ltd. ADR | 97,505 | 783 |
| IndusInd Bank Ltd. | 107,555 | 3,033 |
| Marico Ltd. | 707,828 | 3,426 |
| Maruti Suzuki India Ltd. | 25,245 | 3,252 |
| Shree Cement Ltd. | 9,154 | 2,078 |
| Zee Entertainment Enterprises Ltd. | 334,473 | 2,656 |
| | | 22,514 |
| Indonesia (3.9%) | | |
| Astra International Tbk PT | 4,606,600 | 2,122 |
| Bank Mandiri Persero Tbk PT | 3,620,800 | 1,731 |
| Bumi Serpong Damai Tbk PT | 9,924,100 | 1,084 |
| Semen Indonesia Persero Tbk PT | 3,273,600 | 1,628 |
| Telekomunikasi Indonesia Persero Tbk PT | 7,908,400 | 2,069 |
| Unilever Indonesia Tbk PT | 677,700 | 2,180 |
| | | 10,814 |
| Korea, Republic of (7.8%) | | |
| CJ Corp. | 5,253 | 669 |
| Coway Co., Ltd. | 16,533 | 1,285 |
| Hanssem Co., Ltd. | 7,142 | 673 |
| Hugel, Inc. (a) | 2,336 | 1,010 |
| Hyundai Motor Co. | 14,513 | 1,634 |
| KB Financial Group, Inc. | 20,984 | 994 |
| Korea Electric Power Corp. | 45,695 | 1,312 |
| NAVER Corp. | 3,064 | 2,098 |
| Samsung Electronics Co., Ltd. | 212,574 | 8,898 |
| Samsung Electronics Co., Ltd. (Preference) | 59,123 | 1,997 |
| Shinhan Financial Group Co., Ltd. | 26,797 | 1,041 |
| | | 21,611 |
| Malaysia (5.0%) | | |
| Gamuda Bhd | 624,000 | 505 |
| Genting Malaysia Bhd | 2,523,800 | 3,049 |
| IHH Healthcare Bhd | 2,425,200 | 3,662 |
| Malayan Banking Bhd | 999,001 | 2,226 |
| Malaysia Airports Holdings Bhd | 1,038,000 | 2,261 |
| Sime Darby Plantation Bhd | 1,370,600 | 1,808 |
| Sime Darby Property Bhd | 1,395,200 | 415 |
| | | 13,926 |
| Mexico (5.4%) | | |
| Alsea SAB de CV | 558,662 | 1,925 |
| America Movil SAB de CV, Class L ADR | 162,933 | 2,714 |
| Fomento Economico Mexicano SAB de CV ADR | 35,224 | 3,092 |
| Grupo Financiero Banorte SAB de CV Series O | 718,085 | 4,222 |
| Wal-Mart de Mexico SAB de CV | 1,179,603 | 3,114 |
| | | 15,067 |

# Portfolio of Investments (cont'd)

## Emerging Markets Equity Portfolio

| | Shares | Value (000) |
|---|---|---|
| **Pakistan (0.4%)** | | |
| United Bank Ltd. | 819,600 | $ 1,137 |
| **Peru (0.9%)** | | |
| Credicorp Ltd. | 10,846 | 2,442 |
| **Philippines (2.8%)** | | |
| Ayala Corp. | 73,150 | 1,261 |
| Ayala Land, Inc. | 1,541,900 | 1,095 |
| Metropolitan Bank & Trust Co. | 2,132,591 | 2,933 |
| SM Investments Corp. | 149,724 | 2,455 |
| | | 7,744 |
| **Poland (4.5%)** | | |
| Bank Zachodni WBK SA | 23,694 | 2,110 |
| CCC SA | 32,180 | 1,778 |
| Jeronimo Martins SGPS SA | 148,816 | 2,150 |
| LPP SA | 881 | 1,996 |
| Powszechna Kasa Oszczednosci Bank Polski SA (a) | 285,499 | 2,819 |
| Powszechny Zaklad Ubezpieczen SA | 153,502 | 1,598 |
| | | 12,451 |
| **Russia (4.9%)** | | |
| LUKOIL PJSC ADR | 47,602 | 3,255 |
| MMC Norilsk Nickel PJSC ADR | 126,042 | 2,262 |
| Sberbank of Russia PJSC ADR | 267,447 | 3,861 |
| X5 Retail Group N.V. GDR | 80,955 | 2,144 |
| Yandex N.V., Class A (a) | 58,690 | 2,107 |
| | | 13,629 |
| **South Africa (5.8%)** | | |
| AVI Ltd. | 326,897 | 2,578 |
| Bidvest Group Ltd. (The) | 145,216 | 2,086 |
| Capitec Bank Holdings Ltd. (c) | 33,276 | 2,106 |
| Clicks Group Ltd. (c) | 137,854 | 1,975 |
| Imperial Holdings Ltd. | 124,715 | 1,781 |
| Naspers Ltd., Class N | 4,395 | 1,116 |
| Reunert Ltd. | 195,809 | 1,146 |
| Sanlam Ltd. | 439,439 | 2,245 |
| Tiger Brands Ltd. (c) | 36,516 | 882 |
| | | 15,915 |
| **Taiwan (7.6%)** | | |
| ASE Technology Holding Co., Ltd. | 418,738 | 983 |
| CTBC Financial Holding Co. Ltd. | 908,000 | 654 |
| Hon Hai Precision Industry Co., Ltd. | 274,965 | 750 |
| Largan Precision Co., Ltd. | 17,000 | 2,504 |
| MediaTek, Inc. | 162,000 | 1,594 |
| Nanya Technology Corp. | 562,000 | 1,534 |
| Nien Made Enterprise Co., Ltd. | 170,000 | 1,452 |
| President Chain Store Corp. | 110,000 | 1,247 |
| Taiwan Semiconductor Manufacturing Co., Ltd. | 1,467,000 | 10,417 |
| | | 21,135 |
| **Total Common Stocks (Cost $210,298)** | | 262,002 |

| | Shares | Value (000) |
|---|---|---|
| **Short-Term Investments (7.1%)** | | |
| **Securities held as Collateral on Loaned Securities (1.8%)** | | |
| **Investment Company (1.8%)** | | |
| Morgan Stanley Institutional Liquidity Funds — Government Portfolio — Institutional Class (See Note H) **(Cost $4,968)** | 4,968,318 | $ 4,968 |
| **Investment Company (5.3%)** | | |
| Morgan Stanley Institutional Liquidity Funds — Government Portfolio — Institutional Class (See Note H) **(Cost $14,620)** | 14,619,648 | 14,620 |
| **Total Short-Term Investments (Cost $19,588)** | | 19,588 |
| **Total Investments (101.8%) (Cost $229,886) Including $4,862 of Securities Loaned** (d) | | 281,590 |
| **Liabilities in Excess of Other Assets (-1.8%)** | | (5,031) |
| **Net Assets (100.0%)** | | $276,559 |

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) Non-income producing security.
(b) Security trades on the Hong Kong exchange.
(c) All or a portion of this security was on loan at June 30, 2018.
(d) At June 30, 2018, the aggregate cost for federal income tax purposes approximates the aggregate cost for book purposes. The aggregate gross unrealized appreciation is approximately $65,751,000 and the aggregate gross unrealized depreciation is approximately $14,069,000, resulting in net unrealized appreciation of approximately $51,682,000.
ADR American Depositary Receipt.
GDR Global Depositary Receipt.
PJSC Public Joint Stock Company.

### Foreign Currency Forward Exchange Contract:

The Fund had the following foreign currency forward exchange contract open at June 30, 2018:

| Counterparty | Contract to Deliver (000) | In Exchange For (000) | Delivery Date | Unrealized Depreciation (000) |
|---|---|---|---|---|
| State Street Bank and Trust Co. | HKD 332,722 | $42,435 | 9/13/18 | $(22) |

HKD — Hong Kong Dollar



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

# Portfolio of Investments (cont'd)

## Emerging Markets Equity Portfolio

### Portfolio Composition*

| Classification | Percentage of Total Investments |
|---|---|
| Other** | 52.9% |
| Banks | 23.6 |
| Internet Software & Services | 12.9 |
| Short-Term Investment | 5.3 |
| Semiconductors & Semiconductor Equipment | 5.3 |
| Total Investments | 100.0%*** |

* Percentages indicated are based upon total investments (excluding Securities held as Collateral on Loaned Securities) as of June 30, 2018.

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

*** Does not include an open foreign currency forward exchange contract with unrealized depreciation of approximately $22,000.

## Emerging Markets Equity Portfolio

# Statement of Assets and Liabilities

| | June 30, 2018 (000) |
|---|---|
| **Assets:** | |
| Investments in Securities of Unaffiliated Issuers, at Value[(1)] (Cost $210,298) | $262,002 |
| Investment in Security of Affiliated Issuer, at Value (Cost $19,588) | 19,588 |
| Total Investments in Securities, at Value (Cost $229,886) | 281,590 |
| Foreign Currency, at Value (Cost $13) | 12 |
| Dividends Receivable | 907 |
| Receivable for Fund Shares Sold | 157 |
| Tax Reclaim Receivable | 64 |
| Receivable for Investments Sold | 40 |
| Receivable from Affiliate | 18 |
| Receivable from Securities Lending Income | 3 |
| Other Assets | 32 |
| Total Assets | 282,823 |
| **Liabilities:** | |
| Collateral on Securities Loaned, at Value | 4,968 |
| Payable for Advisory Fees | 654 |
| Payable for Fund Shares Redeemed | 206 |
| Payable for Custodian Fees | 140 |
| Payable for Servicing Fees | 108 |
| Payable for Professional Fees | 44 |
| Payable for Investments Purchased | 31 |
| Deferred Capital Gain Country Tax | 30 |
| Unrealized Depreciation on Foreign Currency Forward Exchange Contracts | 22 |
| Payable for Administration Fees | 19 |
| Payable for Directors' Fees and Expenses | 6 |
| Payable for Transfer Agency Fees | 5 |
| Payable for Distribution Fees — Class II Shares | 1 |
| Other Liabilities | 30 |
| Total Liabilities | 6,264 |
| **NET ASSETS** | $276,559 |
| **Net Assets Consist of:** | |
| Paid-in-Capital | $207,065 |
| Accumulated Undistributed Net Investment Income | 2,476 |
| Accumulated Undistributed Net Realized Gain | 15,375 |
| Unrealized Appreciation (Depreciation) on: | |
| Investments (Net of $30 of Deferred Capital Gain Country Tax) | 51,674 |
| Foreign Currency Forward Exchange Contracts | (22) |
| Foreign Currency Translation | (9) |
| **Net Assets** | $276,559 |
| **CLASS I:** | |
| **Net Assets** | $199,346 |
| **Net Asset Value, Offering and Redemption Price Per Share** Applicable to 12,479,103 Outstanding $0.001 Par Value Shares (Authorized 500,000,000 Shares) | $ 15.97 |
| **CLASS II:** | |
| **Net Assets** | $ 77,213 |
| **Net Asset Value, Offering and Redemption Price Per Share** Applicable to 4,851,566 Outstanding $0.001 Par Value Shares (Authorized 500,000,000 Shares) | $ 15.91 |
| [(1)] **Including:** | |
| Securities on Loan, at Value: | $ 4,862 |



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

## Emerging Markets Equity Portfolio

# Statement of Operations

| | Six Months Ended June 30, 2018 (000) |
|---|---|
| **Investment Income:** | |
| Dividends from Securities of Unaffiliated Issuers (Net of $454 of Foreign Taxes Withheld) | $ 3,125 |
| Dividends from Security of Affiliated Issuer (Note H) | 78 |
| Income from Securities Loaned — Net | 24 |
| Total Investment Income | 3,227 |
| **Expenses:** | |
| Advisory Fees (Note B) | 1,360 |
| Servicing Fees (Note D) | 255 |
| Custodian Fees (Note G) | 119 |
| Administration Fees (Note C) | 128 |
| Distribution Fees — Class II Shares (Note E) | 111 |
| Professional Fees | 62 |
| Shareholder Reporting Fees | 21 |
| Transfer Agency Fees (Note F) | 8 |
| Pricing Fees | 5 |
| Directors' Fees and Expenses | 6 |
| Other Expenses | 10 |
| Expenses Before Non Operating Expenses | 2,085 |
| Bank Overdraft Expense | 1 |
| Total Expenses | 2,086 |
| Waiver of Distribution Fees — Class II Shares (Note E) | (88) |
| Rebate from Morgan Stanley Affiliate (Note H) | (8) |
| Net Expenses | 1,990 |
| **Net Investment Income** | 1,237 |
| **Realized Gain (Loss):** | |
| Investments Sold | 23,034 |
| Foreign Currency Translation | (102) |
| Net Realized Gain | 22,932 |
| **Change in Unrealized Appreciation (Depreciation):** | |
| Investments (Net Decrease in Deferred Capital Gain Country Tax of $277) | (53,246) |
| Foreign Currency Forward Exchange Contracts | (22) |
| Foreign Currency Translation | (8) |
| Net Change in Unrealized Appreciation (Depreciation) | (53,276) |
| **Net Realized Gain and Change in Unrealized Appreciation (Depreciation)** | (30,344) |
| **Net Decrease in Net Assets Resulting from Operations** | $(29,107) |

## Emerging Markets Equity Portfolio

# Statements of Changes in Net Assets

| | Six Months Ended June 30, 2018 (unaudited) (000) | Year Ended December 31, 2017 (000) |
|---|---|---|
| **Increase (Decrease) in Net Assets:** | | |
| **Operations:** | | |
| Net Investment Income | $ 1,237 | $ 1,631 |
| Net Realized Gain | 22,932 | 17,193 |
| Net Change in Unrealized Appreciation (Depreciation) | (53,276) | 68,183 |
| Net Increase (Decrease) in Net Assets Resulting from Operations | (29,107) | 87,007 |
| **Distributions from and/or in Excess of:** | | |
| Class I: | | |
| Net Investment Income | — | (1,590) |
| Class II: | | |
| Net Investment Income | — | (640) |
| Total Distributions | — | (2,230) |
| **Capital Share Transactions:**[1] | | |
| Class I: | | |
| Subscribed | 25,276 | 32,549 |
| Distributions Reinvested | — | 1,590 |
| Redeemed | (43,052) | (30,630) |
| Class II: | | |
| Subscribed | 11,194 | 20,588 |
| Distributions Reinvested | — | 640 |
| Redeemed | (15,027) | (33,054) |
| Net Decrease in Net Assets Resulting from Capital Share Transactions | (21,609) | (8,317) |
| Total Increase (Decrease) in Net Assets | (50,716) | 76,460 |
| **Net Assets:** | | |
| Beginning of Period | 327,275 | 250,815 |
| End of Period (Including Accumulated Undistributed Net Investment Income of $2,476 and $1,239) | $276,559 | $327,275 |
| [1] **Capital Share Transactions:** | | |
| Class I: | | |
| Shares Subscribed | 1,432 | 2,061 |
| Shares Issued on Distributions Reinvested | — | 101 |
| Shares Redeemed | (2,440) | (1,930) |
| Net Increase (Decrease) in Class I Shares Outstanding | (1,008) | 232 |
| Class II: | | |
| Shares Subscribed | 627 | 1,364 |
| Shares Issued on Distributions Reinvested | — | 41 |
| Shares Redeemed | (850) | (2,155) |
| Net Decrease in Class II Shares Outstanding | (223) | (750) |



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

# Financial Highlights

## Emerging Markets Equity Portfolio

| Selected Per Share Data and Ratios | Class I Six Months Ended June 30, 2018 (unaudited) | Year Ended December 31, 2017 | 2016[1] | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|
| **Net Asset Value, Beginning of Period** | $17.65 | $13.16 | $12.39 | $13.98 | $14.69 | $15.03 |
| **Income (Loss) from Investment Operations:** | | | | | | |
| Net Investment Income[2] | 0.07 | 0.09 | 0.10 | 0.08 | 0.08 | 0.08 |
| Net Realized and Unrealized Gain (Loss) | (1.75) | 4.52 | 0.73 | (1.56) | (0.73) | (0.24) |
| Total from Investment Operations | (1.68) | 4.61 | 0.83 | (1.48) | (0.65) | (0.16) |
| **Distributions from and/or in Excess of:** | | | | | | |
| Net Investment Income | — | (0.12) | (0.06) | (0.11) | (0.06) | (0.18) |
| **Net Asset Value, End of Period** | $15.97 | $17.65 | $13.16 | $12.39 | $13.98 | $14.69 |
| **Total Return[3]** | (9.47)%[8] | 35.06% | 6.74% | (10.69)% | (4.49)% | (1.02)% |
| **Ratios and Supplemental Data:** | | | | | | |
| Net Assets, End of Period (Thousands) | $199,346 | $238,026 | $174,423 | $204,032 | $268,121 | $271,285 |
| Ratio of Expenses to Average Net Assets[10] | 1.23%[4][9] | 1.25%[4] | 1.28%[4][6] | 1.40%[4][5] | 1.42%[4] | 1.41%[4] |
| Ratio of Expenses to Average Net Assets Excluding Non Operating Expenses | 1.23%[4][9] | N/A | N/A | N/A | N/A | N/A |
| Ratio of Net Investment Income to Average Net Assets[10] | 0.80%[4][9] | 0.56%[4] | 0.74%[4] | 0.55%[4] | 0.53%[4] | 0.57%[4] |
| Ratio of Rebate from Morgan Stanley Affiliates to Average Net Assets | 0.01%[9] | 0.00%[7] | 0.00%[7] | 0.00%[7] | 0.00%[7] | 0.01% |
| Portfolio Turnover Rate | 19%[8] | 37% | 34% | 38% | 45% | 48% |
| **[10] Supplemental Information on the Ratios to Average Net Assets:** | | | | | | |
| Ratios Before Expense Limitation: | | | | | | |
| Expenses to Average Net Assets | N/A | 1.32% | 1.39% | 1.64% | 1.70% | 1.71% |
| Net Investment Income to Average Net Assets | N/A | 0.49% | 0.63% | 0.31% | 0.25% | 0.27% |

(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 to Average Net Assets and the Ratio of Net Investment Income to Average Net Assets 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 Ratios of Expenses and 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 to Average Net Assets."

(5) Effective September 30, 2015, the Adviser has agreed to limit the ratio of expenses to average net assets to the maximum ratio of 1.35% for Class I shares. Prior to September 30, 2015, the maximum ratio was 1.42% for Class I shares.

(6) Effective September 30, 2016, the Adviser has agreed to limit the ratio of expenses to average net assets to the maximum ratio of 1.25% for Class I shares. Prior to September 30, 2016, the maximum ratio was 1.35% for Class I shares.

(7) Amount is less than 0.005%.

(8) Not annualized.

(9) Annualized.

# Financial Highlights

## Emerging Markets Equity Portfolio

| | Class II | | | | | |
|---|---|---|---|---|---|---|
| | Six Months Ended June 30, 2018 | Year Ended December 31, | | | | |
| **Selected Per Share Data and Ratios** | **(unaudited)** | **2017** | **2016[1]** | **2015** | **2014** | **2013** |
| **Net Asset Value, Beginning of Period** | $17.59 | $13.11 | $12.35 | $13.93 | $14.64 | $14.98 |
| **Income (Loss) from Investment Operations:** | | | | | | |
| Net Investment Income[2] | 0.06 | 0.08 | 0.09 | 0.07 | 0.07 | 0.08 |
| Net Realized and Unrealized Gain (Loss) | (1.74) | 4.51 | 0.73 | (1.55) | (0.73) | (0.25) |
| Total from Investment Operations | (1.68) | 4.59 | 0.82 | (1.48) | (0.66) | (0.17) |
| **Distributions from and/or in Excess of:** | | | | | | |
| Net Investment Income | — | (0.11) | (0.06) | (0.10) | (0.05) | (0.17) |
| **Net Asset Value, End of Period** | $15.91 | $17.59 | $13.11 | $12.35 | $13.93 | $14.64 |
| **Total Return[3]** | (9.50)%[8] | 35.06% | 6.62% | (10.71)% | (4.55)% | (1.10)% |
| **Ratios and Supplemental Data:** | | | | | | |
| Net Assets, End of Period (Thousands) | $77,213 | $89,249 | $76,392 | $73,325 | $87,934 | $101,815 |
| Ratio of Expenses to Average Net Assets[10] | 1.28%[4][9] | 1.30%[4] | 1.33%[4][6] | 1.45%[4][5] | 1.47%[4] | 1.46%[4] |
| Ratio of Expenses to Average Net Assets Excluding Non Operating Expenses | 1.28%[4][9] | N/A | N/A | N/A | N/A | N/A |
| Ratio of Net Investment Income to Average Net Assets[10] | 0.75%[4][9] | 0.51%[4] | 0.69%[4] | 0.50%[4] | 0.48%[4] | 0.52%[4] |
| Ratio of Rebate from Morgan Stanley Affiliates to Average Net Assets | 0.01%[9] | 0.00%[7] | 0.00%[7] | 0.00%[7] | 0.00%[7] | 0.01% |
| Portfolio Turnover Rate | 19%[8] | 37% | 34% | 38% | 45% | 48% |
| **[10] Supplemental Information on the Ratios to Average Net Assets:** | | | | | | |
| Ratios Before Expense Limitation: | | | | | | |
| Expenses to Average Net Assets | 1.48%[9] | 1.57% | 1.64% | 1.92% | 2.05% | 2.06% |
| Net Investment Income (Loss) to Average Net Assets | 0.55%[9] | 0.24% | 0.38% | 0.03% | (0.10)% | (0.08)% |

(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 to Average Net Assets and the Ratio of Net Investment Income to Average Net Assets 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 Ratios of Expenses and 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 to Average Net Assets."

(5) Effective September 30, 2015, the Adviser has agreed to limit the ratio of expenses to average net assets to the maximum ratio of 1.40% for Class II shares. Prior to September 30, 2015, the maximum ratio was 1.47% for Class II shares.

(6) Effective September 30, 2016, the Adviser has agreed to limit the ratio of expenses to average net assets to the maximum ratio of 1.30% for Class II shares. Prior to September 30, 2016, the maximum ratio was 1.40% for Class II shares.

(7) Amount is less than 0.005%.

(8) Not annualized.

(9) 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 Emerging Markets Equity Portfolio. The Fund seeks long-term capital appreciation by investing primarily in growth-oriented equity securities of issuers in emerging market countries. 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. 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; (4) when market quotations are not readily available, including circumstances under which Morgan Stanley Investment Management Inc. (the "Adviser") or Morgan Stanley Investment Management Company ("MSIM Company") (the "Sub-Adviser"), each a wholly-owned subsidiary of Morgan Stanley, 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 Fund's Board of Directors (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

# Notes to Financial Statements (cont'd)

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 Company has procedures to determine the fair value of securities and other financial instruments for which market prices are not readily available. Under these procedures, the Valuation Committee convenes on a regular and ad hoc basis to review such securities and considers a number of factors, including valuation methodologies and significant unobservable valuation inputs, when arriving at fair value. The Valuation Committee may employ a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed. The Valuation Committee employs various methods for calibrating these valuation approaches including a regular review of valuation methodologies, key inputs and assumptions, transactional back-testing or disposition analysis and reviews of any related market activity.

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.

# 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, 2018:

| 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** | | | | |
| Automobiles | $ 7,943 | $ — | $— | $ 7,943 |
| Banks | 65,322 | — | — | 65,322 |
| Beverages | 3,600 | — | — | 3,600 |
| Biotechnology | 1,010 | — | — | 1,010 |
| Capital Markets | 1,949 | — | — | 1,949 |
| Commercial Banks | 654 | — | — | 654 |
| Construction & Engineering | 505 | — | — | 505 |
| Construction Materials | 3,706 | — | — | 3,706 |
| Distributors | 1,781 | — | — | 1,781 |
| Diversified Consumer Services | 3,329 | — | — | 3,329 |
| Diversified Financial Services | 1,261 | — | — | 1,261 |
| Diversified Telecommunication Services | 3,176 | — | — | 3,176 |
| Electric Utilities | 1,312 | — | — | 1,312 |
| Electronic Equipment, Instruments & Components | 4,113 | — | — | 4,113 |
| Food & Staples Retailing | 10,630 | — | — | 10,630 |
| Food Products | 7,604 | — | — | 7,604 |
| Health Care Providers & Services | 4,177 | — | — | 4,177 |
| Hotels, Restaurants & Leisure | 4,974 | — | — | 4,974 |
| Household Durables | 3,410 | — | — | 3,410 |
| Household Products | 2,180 | — | — | 2,180 |
| Industrial Conglomerates | 6,356 | — | — | 6,356 |
| Insurance | 6,884 | — | — | 6,884 |
| Internet & Direct Marketing Retail | 1,240 | — | — | 1,240 |
| Internet Software & Services | 35,808 | — | — | 35,808 |
| Machinery | 4,485 | — | — | 4,485 |
| Media | 3,772 | — | — | 3,772 |
| Metals & Mining | 2,262 | — | — | 2,262 |
| Multi-Line Retail | 2,921 | — | — | 2,921 |
| Oil, Gas & Consumable Fuels | 8,642 | — | — | 8,642 |
| Personal Products | 3,426 | — | — | 3,426 |
| Pharmaceuticals | 5,325 | — | — | 5,325 |
| Real Estate Management & Development | 4,514 | — | — | 4,514 |
| Semiconductors & Semiconductor Equipment | 14,528 | — | — | 14,528 |
| **Common Stocks (cont'd)** | | | | |
| Tech Hardware, Storage & Peripherals | $ 10,895 | $ — | $— | $ 10,895 |
| Textiles, Apparel & Luxury Goods | 12,089 | — | — | 12,089 |
| Transportation Infrastructure | 2,261 | — | — | 2,261 |
| Wireless Telecommunication Services | 3,958 | — | — | 3,958 |
| **Total Common Stocks** | **262,002** | **—** | **—** | **262,002** |
| **Short-Term Investment** | | | | |
| Investment Company | 19,588 | — | — | 19,588 |
| **Total Assets** | **281,590** | **—** | **—** | **281,590** |
| **Liabilities:** | | | | |
| **Foreign Currency Forward Exchange Contract** | — | (22) | — | (22) |
| **Total** | **$281,590** | **$(22)** | **$—** | **$281,568** |

Transfers between investment levels may occur as the markets fluctuate and/or the availability of data used in an investment's valuation changes. The Fund recognizes transfers between the levels as of the end of the period. As of June 30, 2018, securities with a total value of approximately $196,371,000 transferred from Level 2 to Level 1. Securities that were valued using other significant observable inputs at December 31, 2017 were valued using unadjusted quoted prices at June 30, 2018. At December 31, 2017, the fair value of certain securities were adjusted due to developments which occurred between the time of the close of the foreign markets on which they trade and the close of business on the NYSE which resulted in their Level 2 classification.

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

# Notes to Financial Statements (cont'd)

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. Net unrealized currency gains (losses) from valuing foreign currency denominated assets and liabilities at period end exchange rates are reflected as a component of unrealized appreciation (depreciation) in the Statement of Assets and Liabilities. The change in unrealized currency gains (losses) on foreign currency translations 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. **Derivatives:** The Fund may, but is not required to, use derivative instruments for a variety of purposes, including hedging, risk management, portfolio management or to earn income. Derivatives are financial instruments whose value is based, in part, on the value of an underlying asset, interest rate, index or financial instrument. Prevailing interest rates and volatility levels, among other things, also affect the value of derivative instruments. A derivative instrument often has risks similar to its underlying asset and may have additional risks, including imperfect correlation between the value of the derivative and the underlying asset, risks of default by the counterparty to certain transactions, magnification of losses incurred due to changes in the market value of the securities, instruments, indices or interest rates to which the derivative instrument relates, risks that the transactions may not be liquid and risks arising from margin requirements. The use of derivatives involves risks that are different from, and possibly greater than, the risks associated with other portfolio investments. Derivatives may involve the use of highly specialized instruments that require investment techniques and risk analyses different from those associated with other portfolio investments. All of the Fund's holdings, including derivative instruments, are marked-to-market each day with the change in value reflected in unrealized appreciation (depreciation). Upon disposition, a realized gain or loss is recognized.

Certain derivative transactions may give rise to a form of leverage. Leverage magnifies the potential for gain and the risk of loss. Leverage associated with derivative transactions may cause the Fund to liquidate portfolio positions when it may not be advantageous to do so to satisfy its obligations or to meet earmarking or segregation requirements, pursuant to applicable Securities and Exchange Commission ("SEC") rules and regulations, or may cause the Fund to be more volatile than if the Fund had not been leveraged. Although the Adviser and/or Sub-Adviser seek to use derivatives to further the Fund's investment objectives, there is no assurance that the use of derivatives will achieve this result.

Following is a description of the derivative instruments and techniques that the Fund used during the period and their associated risks:

**Foreign Currency Forward Exchange Contracts:** In connection with its investments in foreign securities,

# Notes to Financial Statements (cont'd)

the Fund also entered into contracts with banks, brokers or dealers to purchase or sell securities or foreign currencies at a future date. A foreign currency forward exchange contract ("currency contract") is a negotiated agreement between the contracting parties to exchange a specified amount of currency at a specified future time at a specified rate. The rate can be higher or lower than the spot rate between the currencies that are the subject of the contract. Currency contracts may be used to protect against uncertainty in the level of future foreign currency exchange rates or to gain or modify exposure to a particular currency. To the extent hedged by the use of currency contracts, the precise matching of the currency contract amounts and the value of the securities involved will not generally be possible because the future value of such securities in foreign currencies will change as a consequence of market movements in the value of those securities between the date on which the contract is entered into and the date it matures. Furthermore, such transactions may reduce or preclude the opportunity for gain if the value of the currency should move in the direction opposite to the position taken. There is additional risk to the extent that currency contracts create exposure to currencies in which the Fund's securities are not denominated. Unanticipated changes in currency prices may result in poorer overall performance for the Fund than if it had not entered into such contracts. The use of currency contracts involves the risk of loss from the insolvency or bankruptcy of the counterparty to the contract or the failure of the counterparty to make payments or otherwise comply with the terms of the contract. A currency contract is marked-to-market daily and the change in market value is recorded by the Fund as unrealized gain or loss. The Fund records realized gains (losses) when the currency contract is closed equal to the difference between the value of the currency contract at the time it was opened and the value at the time it was closed.

FASB ASC 815, "Derivatives and Hedging" ("ASC 815"), is intended to improve financial reporting about derivative instruments by requiring enhanced disclosures to enable investors to better understand how and why the Fund uses derivative instruments, how these derivative instruments are accounted for and their effects on the Fund's financial position and results of operations.

The following table sets forth the fair value of the Fund's derivative contracts by primary risk exposure as of June 30, 2018:

| | Liability Derivatives Statement of Assets and Liabilities Location | Primary Risk Exposure | Value (000) |
|---|---|---|---|
| Foreign Currency Forward Exchange Contract | Unrealized Depreciation on Foreign Currency Forward Exchange Contract | Currency Risk | $(22) |

The following table sets forth by primary risk exposure the change in unrealized appreciation (depreciation) by type of derivative contract for the six months ended June 30, 2018 in accordance with ASC 815:

| Change in Unrealized Appreciation (Depreciation) | | |
|---|---|---|
| **Primary Risk Exposure** | **Derivative Type** | **Value (000)** |
| Currency Risk | Foreign Currency Forward Exchange Contract | $(22) |

At June 30, 2018, the Fund's derivative assets and liabilities are as follows:

| Gross Amounts of Assets and Liabilities Presented in the Statement of Assets and Liabilities | | |
|---|---|---|
| **Derivatives** | **Assets(a) (000)** | **Liabilities(a) (000)** |
| Foreign Currency Forward Exchange Contract | $— | $(22) |

(a) Absent an event of default or early termination, OTC derivative assets and liabilities are presented gross and not offset in the Statement of Assets and Liabilities.

The Fund typically enters into International Swaps and Derivatives Association, Inc. Master Agreements ("ISDA Master Agreements") or similar master agreements (collectively, "Master Agreements") with its contract counterparties for certain OTC derivatives in order to, among other things, reduce its credit risk to counterparties. ISDA Master Agreements include provisions for general obligations, representations, collateral and events of default or termination. Under an ISDA Master Agreement, the Fund typically may offset with the counterparty certain OTC derivative financial instruments' payables and/or receivables with collateral held and/or posted and create one single net payment (close-out netting) in the event of default, termination and/or potential deterioration in the credit quality of the counterparty. Various Master Agreements govern the terms of certain transactions with counterparties, including transactions such as swap, forward, repurchase and reverse repurchase agreements. These Master Agreements typically attempt to reduce the counterparty risk associated with such transactions by specifying credit protection mechanisms

# Notes to Financial Statements (cont'd)

and providing standardization that improves legal certainty. Cross-termination provisions under Master Agreements typically provide that a default in connection with one transaction between the Fund and a counterparty gives the non-defaulting party the right to terminate any other transactions in place with the defaulting party to create one single net payment due to/due from the defaulting party and may be a feature in certain Master Agreements. In the event the Fund exercises its right to terminate a Master Agreement after a counterparty experiences a termination event as defined in the Master Agreement, the return of collateral with market value in excess of the Fund's net liability may be delayed or denied.

The following tables present derivative financial instruments that are subject to enforceable netting arrangements as of June 30, 2018:

| | | Gross Amounts Not Offset in the Statement of Assets and Liabilities | | |
|---|---|---|---|---|
| Counterparty | Gross Liability Derivatives Presented in the Statement of Assets and Liabilities (000) | Financial Instrument (000) | Collateral Pledged (000) | Net Amount (not less than $0) (000) |
| State Street Bank and Trust Co. | $(22) | $— | $— | $(22) |

For the six months ended June 30, 2018, the approximate average monthly amount outstanding for each derivative type is as follows:

**Foreign Currency Forward Exchange Contracts:**

Average monthly principal amount . . . . . . . . . . . . . $7,073,000

**5. 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.

The following table presents financial instruments that are subject to enforceable netting arrangements as of June 30, 2018:

| | Gross Amounts Not Offset in the Statement of Assets and Liabilities | | |
|---|---|---|---|
| Gross Asset Amounts Presented in the Statement of Assets and Liabilities (000) | Financial Instrument (000) | Collateral Received (000) | Net Amount (not less than $0) (000) |
| $4,862(b) | $— | $(4,862)(c)(d) | $0 |

(b) Represents market value of loaned securities at period end.

(c) The Fund received cash collateral of approximately $4,968,000, which was subsequently invested in Morgan Stanley Institutional Liquidity Funds as reported in the Portfolio of Investments.

(d) The actual collateral received is greater than the amount shown here due to overcollateralization.

FASB ASC 860, "Transfers & Servicing: Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures", is intended to provide increased transparency about the types of collateral pledged in securities lending transactions and other similar transactions that are accounted for as secured borrowing.

The following table displays a breakdown of transactions accounted for as secured borrowings, the gross obligations by class of collateral pledged and the remaining

# Notes to Financial Statements (cont'd)

contractual maturity of those transactions as of June 30, 2018:

| Remaining Contractual Maturity of the Agreements | Overnight and Continuous (000) | <30 days (000) | Between 30 & 90 days (000) | >90 days (000) | Total (000) |
|---|---|---|---|---|---|
| **Securities Lending Transactions** | | | | | |
| Common Stocks | $ 4,862 | $— | $— | $— | $ 4,862 |
| **Total Borrowings** | **$4,862** | **$—** | **$—** | **$—** | **$4,862** |
| **Gross amount of recognized liabilities for securities lending transactions** | | | | | **$4,862** |

**6. 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.

**7. 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.

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.

**8. 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 the annual rate based on the daily net assets as follows:

| First $500 million | Next $500 million | Next $1.5 billion | Over $2.5 billion |
|---|---|---|---|
| 0.85% | 0.75% | 0.70% | 0.65% |

For the six months ended June 30, 2018, the advisory fee rate (net of rebate) was equivalent to an annual effective rate of 0.84% 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 portfolio operating expenses, excluding certain investment related expenses, taxes, interest and other extraordinary expenses (including litigation), will not exceed 1.25% for Class I shares and 1.30% 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. This arrangement had no effect for the six months ended June 30, 2018.

The Adviser has entered into a Sub-Advisory Agreement with the Sub-Adviser, a wholly-owned subsidiary of Morgan Stanley. The Sub-Adviser provides the Fund with advisory services subject to the overall supervision of the Adviser and the Fund's Officers and Directors. The Adviser pays the Sub-Adviser 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, 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

# Notes to Financial Statements (cont'd)

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. The Distributor has agreed to waive 0.20% of the 0.25% distribution fee that it may receive. This fee waiver will continue for at least one year or until such time as the Directors act to discontinue all or a portion of such waiver when they deem such action is appropriate. For the six months ended June 30, 2018, this waiver amounted to approximately $88,000.

**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, 2018, purchases and sales of investment securities for the Fund, other than long-term U.S. Government securities and short-term investments, were approximately $59,924,000 and $89,546,000, respectively. There were no purchases and sales of long-term U.S. Government securities for the six months ended June 30, 2018.

The Fund invests in the Institutional Class of the Morgan Stanley Institutional Liquidity Funds (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, 2018, advisory fees paid were reduced by approximately $8,000 relating to the Fund's investment in the Liquidity Funds.

A summary of the Fund's transactions in shares of the Liquidity Funds during the six months ended June 30, 2018 is as follows:

| Affiliated Investment Company | Value December 31, 2017 (000) | Purchases at Cost (000) | Proceeds from Sales (000) | Dividend Income (000) |
|---|---|---|---|---|
| Liquidity Funds | $7,801 | $58,153 | $46,366 | $78 |

| Affiliated Investment Company (cont'd) | Realized Gain (Loss) (000) | Change in Unrealized Appreciation (Depreciation) (000) | Value June 30, 2018 (000) |
|---|---|---|---|
| Liquidity Funds | $— | $— | $19,588 |

During the six months ended June 30, 2018, the Fund incurred less than $500 in brokerage commissions with Morgan Stanley & Co., LLC, an affiliate of the Adviser/Administrator, Sub-Adviser and Distributor, for portfolio transactions executed on behalf of the Fund.

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, 2018, 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 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.

# Notes to Financial Statements (cont'd)

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 that 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. Each of the tax years in the four-year period ended December 31, 2017, remains subject to examination by taxing authorities.

The tax character of distributions paid may differ from the character of distributions shown in the Statements of Changes in Net Assets due to short-term capital gains being treated as ordinary income for tax purposes. The tax character of distributions paid during fiscal years 2017 and 2016 was as follows:

| 2017 Distributions Paid From: | | 2016 Distributions Paid From: | |
|---|---|---|---|
| Ordinary Income (000) | Long-Term Capital Gain (000) | Ordinary Income (000) | Long-Term Capital Gain (000) |
| $2,230 | $— | $1,267 | $— |

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 differing treatments of gains (losses) related to foreign currency transactions, foreign capital gains tax and an expired capital loss carryforward, resulted in the following reclassifications among the components of net assets at December 31, 2017:

| Accumulated Undistributed Net Investment Income (000) | Accumulated Net Realized Loss (000) | Paid-in-Capital (000) |
|---|---|---|
| $(295) | $23,678 | $(23,383) |

At December 31, 2017, 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) |
|---|---|
| $1,272 | $— |

At December 31, 2017, the Fund had available for federal income tax purposes unused short term capital losses of approximately $6,470,000 that do not have an expiration date.

During the year ended December 31, 2017, capital loss carryforwards of approximately $23,383,000 expired for federal income tax purposes.

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. During the year ended December 31, 2017, the Fund utilized capital loss carryforwards for U.S. federal income tax purposes of approximately $17,351,000.

**J. Credit Facility:** The Company and other Morgan Stanley funds participated in a $150,000,000 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, 2018, the Fund did not have any borrowings under the Facility.

**K. Other:** At June 30, 2018, 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 37.5%.

# Investment Advisory Agreement Approval (unaudited)

## 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-Adviser, 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-Adviser 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, 2017, 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 management fee and total expense ratio were lower than its peer group averages. 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

# Investment Advisory Agreement Approval (unaudited) (cont'd)

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.

## 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.

# 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
Michael E. Nugent, *Chair of the Board*
W. Allen Reed
Fergus Reid

**Adviser and Administrator**
Morgan Stanley Investment Management Inc.
522 Fifth Avenue
New York, New York 10036

**Sub-Adviser**
Morgan Stanley Investment Management Company
23 Church Street
16-01 Capital Square, Singapore 049481

**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

**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

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

**Legal Counsel**
Dechert LLP
1095 Avenue of the Americas
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**Counsel to the Independent Directors**
Perkins Coie LLP
30 Rockefeller Plaza
New York, New York 10112

**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 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. Each Morgan Stanley fund also files a complete schedule of portfolio holdings with the SEC for the fund's first and third fiscal quarters on Form N-Q. 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. You may, however, obtain the Form N-Q filings (as well as the Form N-CSR and N-CSRS filings) by accessing the SEC's website, www.sec.gov. You may also review and copy them at the SEC's Public Reference Room in Washington, DC. Information on the operation of the SEC's Public Reference Room may be obtained by calling the SEC toll free at 1 (800) SEC-0330. 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) or by writing to the SEC's Public Reference Section, Washington, D.C. 20549-1520.

**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. 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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