Morgan Stanley

The Universal Institutional Funds, Inc.

Annual Report – December 31, 2013

U.S. Real Estate Portfolio

The Portfolio 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)

U.S. Real Estate Portfolio

As a shareholder of the Portfolio, you incur two types of costs: (1) insurance company charges; and (2) ongoing costs, including advisory fees, administration fees, distribution (12b-1) fees and other Portfolio expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Portfolio 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 December 31, 2013 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 Portfolio's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Portfolio'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 Portfolio 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 7/1/13	Actual Ending Account Value 12/31/13	Hypothetical Ending Account Value	Actual Expenses Paid During Period*	Hypothetical Expenses Paid During Period*	Net Expense Ratio During Period**
U.S. Real Estate Portfolio Class I	$1,000.00	$973.70	$1,019.81	$5.32	$5.45	1.07%
U.S. Real Estate Portfolio Class II	1,000.00	971.80	1,018.55	6.56	6.72	1.32

* Expenses are calculated using each Portfolio Class' annualized net expense ratio (as disclosed), multiplied by the average account value over the period, and multiplied by 184/365 (to reflect the most recent one-half year period).

** Annualized.

Investment Overview (unaudited)

U.S. Real Estate Portfolio

The U.S. Real Estate Portfolio (the "Portfolio") seeks to provide above average current income and long-term capital appreciation by investing primarily in equity securities of companies in the U.S. real estate industry, including real estate investment trusts ("REITs").

Performance

For the fiscal year ended December 31, 2013, the Portfolio had a total return based on net asset value and reinvestment of distributions per share of 2.05%, net of fees, for Class I shares and 1.75%, net of fees, for Class II shares. The Portfolio's Class I and Class II shares underperformed against their benchmark, the FTSE NAREIT (National Association of Real Estate Investment Trusts) Equity REITs Index (the "Index"), which returned 2.47%, and underperformed against the Standard and Poor's 500® (S&P 500®) Index, which returned 32.39%.

Factors Affecting Performance

- The REIT market gained 2.47% in the 12-month period ending December 31, 2013, as measured by the Index. REITs rallied approximately 20% through late-May as they benefited from yield-oriented buying and then declined by 14.5% for the remainder of the year on concerns over higher interest rates and U.S. Federal Reserve quantitative easing (QE) tapering, which was announced in December. During the year, movements in REIT share prices appeared to have been influenced by transactional evidence in the private markets of strong investor demand for core assets at valuations that demonstrate the acceptance of low expected returns as well as investors' search for yield. REITs trailed the broader equity markets during the year, as investors remained cautious towards the sector due to higher interest rates.

- Among the major sectors, the office sector outperformed, the retail sector modestly underperformed, and the apartment sector underperformed the Index. Apartment companies underperformed as they appeared to continue to be plagued by negative sentiment associated with the decelerating growth in rental rates and increased pipeline of new supply. This was somewhat surprising, as apartments tend to outperform the overall REIT sector in rising rate environments due to shorter-term leases and lower dividend yields. Within the office sector, companies with exposure to central business district (CBD) assets and suburban office assets outperformed, while the specialty office companies underperformed the Index. The retail sector modestly underperformed as the owners of shopping centers outperformed and the owners of malls underperformed the Index. The health care REITs underperformed the Index, as the sector had been a beneficiary of investors' chase for higher yields in the earlier part of 2013, which appeared to reverse. Among the smaller sectors, the hotel sector significantly outperformed likely due to an improved outlook for the economy. The net lease, storage and industrial sectors outperformed the Index.

- The Portfolio underperformed the Index for the period. Bottom-up stock selection modestly detracted from and top-down sector allocation contributed to the Portfolio's performance relative to the Index. From a bottom-up perspective, the Portfolio achieved favorable relative stock selection in the diversified, net lease, mall and hotel sectors. This was offset by the negative impact of stock selection in the apartment, health care, shopping center and suburban office sectors. From a top-down perspective, the overweight to the hotel sector, and the underweight to the health care and specialty office sectors contributed to relative performance. This was partially offset by the underweight to the net lease sector and the overweight to the diversified and apartment sectors, which dampened performance.

Management Strategies

- We have maintained our core investment philosophy as a real estate value investor. This results in the ownership of stocks whose share prices provide real estate exposure at the best valuation relative to their underlying asset values. We continue to focus on relative implied valuations as a key metric. Our company-specific research leads us to an overweighting in the Portfolio to a group of companies that are focused in the ownership of high quality malls, apartments, CBD office assets, upscale hotels and a number of out-of-favor companies, and an underweighting to companies concentrated in the ownership of net lease, health care, suburban office, specialty office, shopping center, storage and industrial assets.

- Our outlook for the REIT market is based on two key factors: private market pricing for underlying real estate assets and public market pricing for the securities. With asset values for what we believe are high-quality assets having fully recovered and now, on average, modestly in excess of their all-time peak levels achieved in mid-2007, the overall REIT market ended the year at a modest premium to Net Asset Values (NAVs). This reflects a bifurcation in the market between the core property sectors (apartments, malls) trading at meaningful discounts to Net Asset Values (NAVs) and finance-company/dividend-oriented stocks (health care, net lease) trading at significant

Investment Overview (unaudited) (cont'd)

U.S. Real Estate Portfolio

premiums to NAVs. It is noteworthy that the sector ended the year trading below its historical average premium to NAVs, most likely due to investor concerns with regard to rising rates negatively impacting asset values.

Performance Compared to the FTSE NAREIT Equity REITs Index[1] and the S&P 500® Index[2]

	Period Ended December 31, 2013			
	Total Returns[3]			
		Average Annual		
	One Year	Five Years	Ten Years	Since Inception[6]
Portfolio – Class I[4]	2.05%	15.87%	9.02%	9.71%
FTSE NAREIT Equity REITs Index	2.47	16.50	8.42	9.08
S&P 500® Index	32.39	17.94	7.40	7.08
Portfolio – Class II[5]	1.75	15.65	8.77	11.21
FTSE NAREIT Equity REITs Index	2.47	16.50	8.42	10.89
S&P 500® Index	32.39	17.94	7.40	8.70

Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. Performance assumes that all dividends and distributions, if any, were reinvested. For the most recent month-end performance figures, please contact the issuing insurance company or speak with your financial advisor. Investment return and principal value will fluctuate so that Portfolio shares, when redeemed, may be worth more or less than their original cost. Total returns do not reflect the deduction of taxes that a shareholder would pay on Portfolio distributions or the redemption of Portfolio shares. Performance shown 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 returns would be lower.

(1) The FTSE NAREIT (National Association of Real Estate Investment Trusts) Equity REITs Index is free float-adjusted market capitalization weighted index of tax-qualified REITs listed on the New York Stock Exchange, NYSE Amex and the NASDAQ National Market Systems. The Index is unmanaged and its returns do not include any sales charges or fees. Such costs would lower performance. It is not possible to invest directly in an index.

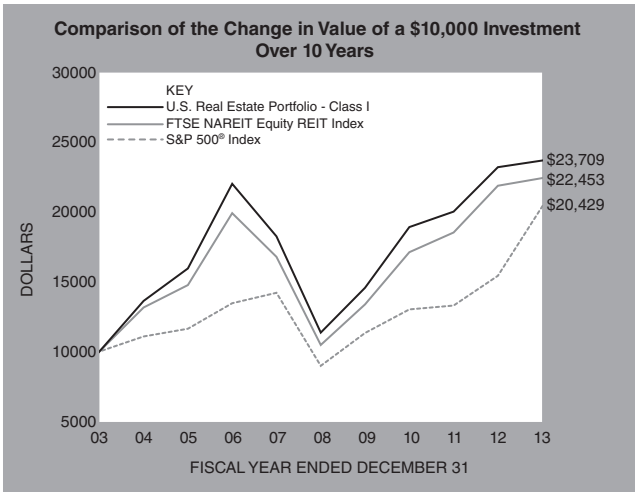
(2) The Standard and Poor's 500® Index (S&P 500®) measures the performance of the large cap segment of the U.S. equities market, covering approximately 75% of the U.S. equities market. The Index includes 500 leading companies in leading industries of the U.S. economy. The Index is unmanaged and its returns do not include any sales charges or fees. Such costs would lower performance. It is not possible to invest directly in an index.

(3) Total returns for the Portfolio reflect fees waived and expenses reimbursed, if applicable, by the Adviser. Without such waivers and reimbursements, total returns would have been lower. The fee waivers and/or expense reimbursements will continue for at least one year or until such time as the Fund's Board of Directors acts to discontinue all or a portion of such waivers and/or expense reimbursements when it deems that such action is appropriate.

(4) Commenced operations on March 3, 1997.

(5) Commenced offering on November 5, 2002.

(6) For comparative purposes, average annual since inception returns listed for the Indexes refer to the inception date or initial offering of the respective share class of the Portfolio, not the inception of the Index.



In accordance with SEC regulations, Portfolio performance shown assumes that all recurring fees (including management fees) were deducted and all dividends and distributions were reinvested. The performance of Class II shares will vary from the Class I shares based upon its different inception date and will be negatively impacted by additional fees assessed to that class.

Portfolio Composition

Classification	Percentage of Total Investments
Regional Malls	22.3%
Apartments	18.3
Lodging/Resorts	10.1
Health Care	9.9
Diversified	8.7
Office	8.3
Shopping Centers	5.9
Industrial	5.7
Other*	5.5
Self Storage	5.3
Total Investments	100.0%

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

Portfolio of Investments

U.S. Real Estate Portfolio

	Shares	Value (000)
Common Stocks (97.7%)		
Apartments (18.1%)		
American Campus Communities, Inc. REIT	81,960	$ 2,640
AvalonBay Communities, Inc. REIT	212,525	25,127
BRE Properties, Inc. REIT	23,809	1,303
Camden Property Trust REIT	164,700	9,368
Equity Residential REIT	897,535	46,555
Essex Property Trust, Inc. REIT	7,257	1,041
Post Properties, Inc. REIT	5,550	251
		86,285
Diversified (8.7%)		
Cousins Properties, Inc. REIT	348,293	3,587
Forest City Enterprises, Inc., Class A (a)	243,609	4,653
Lexington Realty Trust REIT	33,050	337
Vornado Realty Trust REIT	358,284	31,812
Winthrop Realty Trust REIT	70,903	784
		41,173
Health Care (9.8%)		
HCP, Inc. REIT	557,841	20,261
Health Care, Inc. REIT	58,000	3,107
Healthcare Realty Trust, Inc. REIT	272,244	5,801
Senior Housing Properties Trust REIT	280,009	6,225
Ventas, Inc. REIT	199,260	11,414
		46,808
Industrial (5.7%)		
Cabot Industrial Value Fund II, LP REIT (a)(b)(c)(d)	11,760	5,089
DCT Industrial Trust, Inc. REIT	694,794	4,954
Keystone Industrial Fund, LP REIT (a)(b)(c)(d)	6,362,376	6,655
ProLogis, Inc. REIT	262,624	9,704
Rexford Industrial Realty, Inc. REIT	50,600	668
		27,070
Lodging/Resorts (10.1%)		
Ashford Hospitality Prime, Inc. REIT	47,230	860
Ashford Hospitality Trust, Inc. REIT	236,150	1,955
Host Hotels & Resorts, Inc. REIT	1,900,717	36,950
Starwood Hotels & Resorts Worldwide, Inc.	102,762	8,164
		47,929
Manufactured Homes (1.4%)		
Equity Lifestyle Properties, Inc. REIT	189,498	6,866
Mixed Industrial/Office (1.7%)		
Duke Realty Corp. REIT	249,690	3,755
Liberty Property Trust REIT	48,000	1,626
PS Business Parks, Inc. REIT	36,997	2,827
		8,208
Office (8.2%)		
Alexandria Real Estate Equities, Inc. REIT	66,840	4,253
Boston Properties, Inc. REIT	173,387	17,403
BRCP REIT I, LP (a)(b)(c)(d)	2,928,671	603
BRCP REIT II, LP (a)(b)(c)(d)	7,155,500	3,785
Brookfield Office Properties, Inc.	8,466	163
Hudson Pacific Properties, Inc. REIT	249,300	$ 5,452
Mack-Cali Realty Corp. REIT	343,252	7,373
		39,032
Regional Malls (22.1%)		
CBL & Associates Properties, Inc. REIT	44,550	800
General Growth Properties, Inc. REIT	943,187	18,930
Macerich Co. (The) REIT	156,832	9,236
Simon Property Group, Inc. REIT	471,015	71,670
Taubman Centers, Inc. REIT	69,936	4,470
		105,106
Retail Free Standing (0.8%)		
National Retail Properties, Inc. REIT	95,930	2,910
Realty Income Corp. REIT	22,970	857
		3,767
Self Storage (5.2%)		
Public Storage REIT	154,136	23,201
Sovran Self Storage, Inc. REIT	27,242	1,775
		24,976
Shopping Centers (5.9%)		
Acadia Realty Trust REIT	103,356	2,566
DDR Corp. REIT	141,780	2,179
Federal Realty Investment Trust REIT	56,164	5,696
Regency Centers Corp. REIT	378,569	17,528
		27,969
Total Common Stocks (Cost $314,912)		465,189
Short-Term Investment (1.5%)		
Investment Company (1.5%)		
Morgan Stanley Institutional Liquidity Funds — Treasury Portfolio — Institutional Class (See Note H) **(Cost $7,048)**	7,047,926	7,048
Total Investments (99.2%) (Cost $321,960)		472,237
Other Assets in Excess of Liabilities (0.8%)		3,636
Net Assets (100.0%)		$475,873

(a) Non-income producing security.

(b) Security has been deemed illiquid at December 31, 2013.

(c) At December 31, 2013, the Portfolio held fair valued securities valued at approximately $16,132,000, representing 3.4% of net assets. These securities have been fair valued as determined in good faith under procedures established by and under the general supervision of the Fund's Directors.

(d) Restricted security valued at fair value and not registered under the Securities Act of 1933, BRCP REIT I, LLC was acquired between 12/04 - 5/08 and has a current cost basis of approximately $556,000. BRCP REIT II, LLC was acquired between 1/07 - 4/11 and has a current cost basis of approximately $7,155,000. Cabot Industrial Value Fund II, LP was acquired between 3/07 - 5/09 and has a current cost basis of approximately $5,880,000, Keystone Industrial Fund LP was acquired between 3/07 - 6/11 and has a current cost basis of approximately $4,654,000. At December 31, 2013, these securities had an aggregate market value of approximately $16,132,000 representing 3.4% of net assets.

REIT Real Estate Investment Trust.

U.S. Real Estate Portfolio

Statement of Assets and Liabilities

	December 31, 2013 (000)
Assets:	
Investments in Securities of Unaffiliated Issuers, at Value (Cost $314,912)	$ 465,189
Investment in Security of Affiliated Issuer, at Value (Cost $7,048)	7,048
Total Investments in Securities, at Value (Cost $321,960)	472,237
Foreign Currency, at Value (Cost $ —@)	—@
Receivable for Portfolio Shares Sold	2,259
Dividends Receivable	2,133
Receivable for Investments Sold	1,502
Receivable from Affiliate	—@
Other Assets	8
Total Assets	478,139
Liabilities:	
Payable for Advisory Fees	975
Payable for Investments Purchased	819
Payable for Portfolio Shares Redeemed	289
Payable for Administration Fees	100
Payable for Distribution Fees — Class II Shares	39
Payable for Professional Fees	9
Payable for Custodian Fees	4
Payable for Directors' Fees and Expenses	4
Other Liabilities	27
Total Liabilities	2,266
NET ASSETS	$ 475,873
Net Assets Consist of:	
Paid-in-Capital	$ 523,353
Accumulated Undistributed Net Investment Income	6,009
Accumulated Net Realized Loss	(203,766)
Unrealized Appreciation (Depreciation) on:	
Investments	150,277
Foreign Currency Translations	(—@)
Net Assets	$ 475,873
CLASS I:	
Net Assets	$ 289,874
Net Asset Value, Offering and Redemption Price Per Share Applicable to 18,420,749 Outstanding $0.001 Par Value Shares (Authorized 500,000,000 Shares)	$ 15.74
CLASS II:	
Net Assets	$ 185,999
Net Asset Value, Offering and Redemption Price Per Share Applicable to 11,876,720 Outstanding $0.001 Par Value Shares (Authorized 500,000,000 Shares)	$ 15.66

@ Amount is less than $500.

U.S. Real Estate Portfolio

Statement of Operations

	Year Ended December 31, 2013 (000)
Investment Income:	
Dividends from Securities of Unaffiliated Issuers (Net of $2 of Foreign Taxes Withheld)	$ 12,306
Dividends from Security of Affiliated Issuer (Note H)	2
Total Investment Income	12,308
Expenses:	
Advisory Fees (Note B)	3,998
Administration Fees (Note C)	1,251
Distribution Fees — Class II Shares (Note D)	649
Professional Fees	78
Shareholder Reporting Fees	35
Custodian Fees (Note F)	24
Directors' Fees and Expenses	12
Pricing Fees	3
Transfer Agency Fees (Note E)	2
Other Expenses	21
Expenses Before Non Operating Expenses	6,073
Investment Related Expenses	85
Total Expenses	6,158
Distribution Fees — Class II Shares Waived (Note D)	(185)
Rebate from Morgan Stanley Affiliate (Note H)	(9)
Net Expenses	5,964
Net Investment Income	6,344
Realized Gain:	
Investments Sold	15,696
Foreign Currency Transactions	—@
Net Realized Gain	15,696
Change in Unrealized Appreciation (Depreciation):	
Investments	(12,776)
Foreign Currency Translations	(—@)
Net Change in Unrealized Appreciation (Depreciation)	(12,776)
Net Realized Gain and Change in Unrealized Appreciation (Depreciation)	2,920
Net Increase in Net Assets Resulting from Operations	$ 9,264

@ Amount is less than $500.

U.S. Real Estate Portfolio

Statements of Changes in Net Assets

	Year Ended December 31, 2013 (000)	Year Ended December 31, 2012 (000)
Increase (Decrease) in Net Assets:		
Operations:		
Net Investment Income	$ 6,344	$ 5,310
Net Realized Gain	15,696	18,542
Net Change in Unrealized Appreciation (Depreciation)	(12,776)	45,919
Net Increase in Net Assets Resulting from Operations	9,264	69,771
Distributions from and/or in Excess of:		
Class I:		
Net Investment Income	(3,449)	(2,576)
Class II:		
Net Investment Income	(1,580)	(1,069)
Total Distributions	(5,029)	(3,645)
Capital Share Transactions:[1]		
Class I:		
Subscribed	49,592	41,613
Distributions Reinvested	3,449	2,576
Redeemed	(71,228)	(57,248)
Class II:		
Subscribed	45,406	20,907
Distributions Reinvested	1,580	1,069
Redeemed	(39,618)	(48,149)
Net Decrease in Net Assets Resulting from Capital Share Transactions	(10,819)	(39,232)
Total Increase (Decrease) in Net Assets	(6,584)	26,894
Net Assets:		
Beginning of Period	482,457	455,563
End of Period (Including Accumulated Undistributed Net Investment Income of $6,009 and $4,979)	$475,873	$482,457
[1] **Capital Share Transactions:**		
Class I:		
Shares Subscribed	3,025	2,765
Shares Issued on Distributions Reinvested	211	165
Shares Redeemed	(4,385)	(3,814)
Net Decrease in Class I Shares Outstanding	(1,149)	(884)
Class II:		
Shares Subscribed	2,800	1,395
Shares Issued on Distributions Reinvested	97	68
Shares Redeemed	(2,450)	(3,223)
Net Increase (Decrease) in Class II Shares Outstanding	447	(1,760)

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

Financial Highlights

U.S. Real Estate Portfolio

	Class I				
	Year Ended December 31,				
Selected Per Share Data and Ratios	**2013**	**2012**	**2011**	**2010**	**2009**
Net Asset Value, Beginning of Period	$ 15.59	$ 13.57	$ 12.91	$ 10.15	$ 8.20
Income (Loss) from Investment Operations:					
Net Investment Income†	0.22	0.18	0.08	0.14	0.17
Net Realized and Unrealized Gain (Loss)	0.11	1.97	0.69	2.87	2.04
Total from Investment Operations	0.33	2.15	0.77	3.01	2.21
Distributions from and/or in Excess of:					
Net Investment Income	(0.18)	(0.13)	(0.11)	(0.25)	(0.26)
Net Asset Value, End of Period	$ 15.74	$ 15.59	$ 13.57	$ 12.91	$ 10.15
Total Return ++	2.05%	15.84%	5.92%	29.96%	28.36%
Ratios and Supplemental Data:					
Net Assets, End of Period (Thousands)	$289,874	$305,099	$277,481	$288,516	$244,866
Ratio of Expenses to Average Net Assets[1]	1.10%+††	1.10%+††	1.09%+††	1.11%+††	1.13%+
Ratio of Expenses to Average Net Assets Excluding Non Operating Expenses	1.08%+††	1.08%+††	1.07%+††	1.10%+††	1.10%+
Ratio of Net Investment Income to Average Net Assets[1]	1.36%+††	1.19%+††	0.64%+††	1.20%+††	2.25%+
Ratio of Rebate from Morgan Stanley Affiliates to Average Net Assets	0.00%††§	0.00%††§	0.00%††§	0.00%††§	0.00%§
Portfolio Turnover Rate	17%	17%	18%	22%	36%
[1] Supplemental Information on the Ratios to Average Net Assets:					
Ratios Before Expense Limitation:					
Expenses to Average Net Assets	N/A	N/A	N/A	1.12%+††	1.14%+
Net Investment Income to Average Net Assets	N/A	N/A	N/A	1.19%+††	2.24%+

† Per share amount is based on average shares outstanding.

++ 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.

\+ The Ratios of Expenses and Net Investment Income reflect the rebate of certain Portfolio 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."

†† Reflects overall Portfolio ratios for investment income and non-class specific expenses.

§ Amount is less than 0.005%.

Financial Highlights

U.S. Real Estate Portfolio

	Class II				
	Year Ended December 31,				
Selected Per Share Data and Ratios	**2013**	**2012**	**2011**	**2010**	**2009**
Net Asset Value, Beginning of Period	$ 15.52	$ 13.50	$ 12.84	$ 10.11	$ 8.16
Income (Loss) from Investment Operations:					
Net Investment Income†	0.18	0.14	0.05	0.11	0.14
Net Realized and Unrealized Gain (Loss)	0.10	1.97	0.68	2.84	2.05
Total from Investment Operations	0.28	2.11	0.73	2.95	2.19
Distributions from and/or in Excess of:					
Net Investment Income	(0.14)	(0.09)	(0.07)	(0.22)	(0.24)
Net Asset Value, End of Period	$ 15.66	$ 15.52	$ 13.50	$ 12.84	$ 10.11
Total Return ++	1.75%	15.62%	5.66%	29.53%	28.49%
Ratios and Supplemental Data:					
Net Assets, End of Period (Thousands)	$185,999	$177,358	$178,082	$198,500	$258,106
Ratio of Expenses to Average Net Assets[1]	1.35%+††	1.35%+††	1.34%+††	1.36%+††	1.38%+
Ratio of Expenses to Average Net Assets Excluding Non Operating Expenses	1.33%+††	1.33%+††	1.32%+††	1.35%+††	1.35%+
Ratio of Net Investment Income to Average Net Assets[1]	1.11%+††	0.94%+††	0.39%+††	0.95%+††	1.83%+
Ratio of Rebate from Morgan Stanley Affiliates to Average Net Assets	0.00%††§	0.00%††§	0.00%††§	0.00%††§	0.00%§
Portfolio Turnover Rate	17%	17%	18%	22%	36%
[1] Supplemental Information on the Ratios to Average Net Assets:					
Ratios Before Expense Limitation:					
Expenses to Average Net Assets	1.45%††	1.45%††	1.44%††	1.47%+††	1.49%+
Net Investment Income to Average Net Assets	1.01%††	0.84%††	0.29%††	0.84%+††	1.72%+

† Per share amount is based on average shares outstanding.

++ 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.

+ The Ratios of Expenses and Net Investment Income reflect the rebate of certain Portfolio 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."

†† Reflects overall Portfolio ratios for investment income and non-class specific expenses.

§ Amount is less than 0.005%.

Notes to Financial Statements

The Universal Institutional Funds, Inc. (the "Fund") is registered under the Investment Company Act of 1940, as amended (the "Act"), as an open-end management investment company. The Fund is comprised of ten separate active, diversified and non-diversified portfolios (individually referred to as a "Portfolio", collectively as the "Portfolios").

The accompanying financial statements relate to the U.S. Real Estate Portfolio. The Portfolio seeks to provide above average current income and long-term capital appreciation by investing primarily in equity securities of companies in the U.S. real estate industry, including real estate investment trusts ("REITs"). The Portfolio 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 Fund is intended to be the 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 Fund 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), if there were no sales on a given day, the security is valued at the mean between the last reported bid and asked prices; (2) all other equity portfolio securities for which over-the-counter market quotations are readily available are valued at its latest reported sales price. In cases where a security is traded on more than one exchange, the security is valued on the exchange designated as the primary market; (3) when market quotations are not readily available, including circumstances under which Morgan Stanley Investment Management Inc. (the "Adviser") determines that the closing price, last sale price or the mean between the last reported bid and asked prices are not reflective of a security's market value, portfolio securities are valued at their fair value as determined in good faith under procedures established by and under the general supervision of the 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; (4) investments in mutual funds, including the Morgan Stanley Institutional Liquidity Funds, are valued at the net asset value as of the close of each business day; and (5) short-term debt securities with remaining maturities of 60 days or less at the time of purchase may be valued at amortized cost, unless the Adviser determines such valuation does not reflect the securities' market value, in which case these securities will be valued at their fair market value determined by the Adviser.

Under procedures approved by the Directors, the Fund's Adviser has formed a Valuation Committee. The Valuation Committee provides administration and oversight of the Fund's valuation policies and procedures, which are reviewed at least annually by the Directors. These procedures allow the Fund to utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

The Fund 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

Notes to Financial Statements (cont'd)

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 Measurements and Disclosures" ("ASC 820"), defines fair value as the value that the Fund would receive to sell an investment or pay to transfer a liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal market the most advantageous market for the investment or liability. ASC 820 establishes a three-tier hierarchy to distinguish between (1) inputs that reflect the assumptions market participants would use in valuing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in valuing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to establish classification of fair value measurements for disclosure purposes. Various inputs are used in determining the value of the Fund's investments. The inputs are summarized in the three broad levels listed below.

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

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

The following is a summary of the inputs used to value the Portfolio's investments as of December 31, 2013.

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				
Apartments	$ 86,285	$ —	$ —	$ 86,285
Diversified	41,173	—	—	41,173
Health Care	46,808	—	—	46,808
Industrial	15,326	—	11,744	27,070
Lodging/Resorts	47,929	—	—	47,929
Manufactured Homes	6,866	—	—	6,866
Mixed Industrial/Office	8,208	—	—	8,208
Office	34,644	—	4,388	39,032
Regional Malls	105,106	—	—	105,106
Retail Free Standing	3,767	—	—	3,767
Self Storage	24,976	—	—	24,976
Shopping Centers	27,969	—	—	27,969
Total Common Stocks	**449,057**	**—**	**16,132**	**465,189**
Short-Term Investment —				
Investment Company	**7,048**	**—**	**—**	**7,048**
Total Assets	**$456,105**	**$ —**	**$16,132**	**$472,237**

Transfers between investment levels may occur as the markets fluctuate and/or the availability of data used in an investment's valuation changes. The Portfolio recognizes transfers between the levels as of the end of the period. As of December 31, 2013, the Portfolio did not have any investments transfer between investment levels.

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

	Common Stocks (000)
Beginning Balance	$15,603
Purchases	—
Sales	—
Amortization of discount	—
Transfers in	—
Transfers out	—
Corporate Action	(706)
Change in unrealized appreciation/depreciation	1,235
Realized gains (losses)	—
Ending Balance	$16,132
Net change in unrealized appreciation/depreciation from investments still held as of December 31, 2013	$ 1,235

Notes to Financial Statements (cont'd)

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 December 31, 2013.

	Fair Value at December 31, 2013 (000)	Valuation Technique	Unobservable Input
Industrial			
Common Stocks	$11,744	Reported Capital Balance, Adjusted for Subsequent Capital Calls and Returns of Capital, as applicable.	Adjusted Capital Balance
Office			
Common Stocks	$ 4,388	Reported Capital Balance, Adjusted for Subsequent Capital Calls and Returns of Capital, as applicable.	Adjusted Capital Balance

3. **Unfunded Commitments:** Subject to the terms of a Subscription Agreement between the Portfolio and BRCP REIT I, LLC, the Portfolio has made a subscription commitment of $3,360,000 for which it will receive 3,360,000 shares of common stock. As of December 31, 2013, BRCP REIT I, LLC has drawn down approximately $2,929,000, which represents 87.2% of the commitment.

   Subject to the terms of a Subscription Agreement between the Portfolio and BRCP REIT II, LLC, the Portfolio has made a subscription commitment of $7,700,000 for which it will receive 7,700,000 shares of common stock. As of December 31, 2013, BRCP REIT II, LLC has drawn down approximately $7,155,000, which represents 92.9% of the commitment.

   Subject to the terms of a Subscription Agreement between the Portfolio and Keystone Industrial Fund, LP, the Portfolio has made a subscription commitment of $6,675,000 for which it will receive 6,675,000 shares of common stock. As of December 31, 2013, Keystone Industrial Fund, LP has drawn down approximately $6,362,000, which represents 95.3% of the commitment.

   Subject to the terms of a Subscription Agreement between the Portfolio and Cabot Industrial Value Fund, LP, the Portfolio has made a subscription commitment of $6,300,000 for which it will receive 12,600 shares of common stock. As of December 31, 2013, Cabot Industrial Value Fund, LP has drawn down approximately $5,880,000 which represents 93.3% of the commitment.

4. **Restricted Securities:** The Portfolio invests in unregistered or otherwise restricted securities. The term "restricted securities" refers to securities that are unregistered or are held by control persons of the issuer and securities that are subject to contractual restrictions on their resale. As a result, restricted securities may be more difficult to value and the Portfolio may have difficulty disposing of such assets either in a timely manner or for a reasonable price. In order to dispose of an unregistered security, the Portfolio, where it has contractual rights to do so, may have to cause such security to be registered. A considerable period may elapse between the time the decision is made to sell the security and the time the security is registered so that the Portfolio could sell it. Contractual restrictions on the resale of securities vary in length and scope and are generally the result of a negotiation between the issuer and acquirer of the securities. The Portfolio would, in either case, bear market risks during that period. Restricted Securities are identified in the Portfolio of Investments.

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

6. **Security Transactions, Income and Expenses:** Security transactions are accounted for on the trade date (date the order to buy or sell is executed). Realized gains and losses on the sale of investment securities are determined on the specific identified cost method. Dividend income and other distributions are recorded on the ex-dividend date (except for certain foreign dividends which may be recorded as soon as the Portfolio 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 Fund can be directly attributed to a particular Portfolio. Expenses which cannot be directly attributed are apportioned among the Portfolios 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 Portfolio 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

Notes to Financial Statements (cont'd)

prices that can negatively impact the valuation of certain issuers held by the Portfolio.

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

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

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

First $500 million	Next $500 million	Over $1 billion
0.80%	0.75%	0.70%

For the year ended December 31, 2013, the advisory fee rate (net of rebate) was equivalent to an annual effective rate of 0.80% of the Portfolio's daily net assets.

The Adviser has agreed to reduce its advisory fee and/or reimburse the Portfolio so that total annual portfolio operating expenses, excluding certain investment related expenses, taxes, interest and other extraordinary expenses (including litigation), will not exceed 1.10% for Class I shares and 1.35% for Class II shares. The fee waivers and/or expense reimbursements will continue for at least one year or until such time that the Directors act to discontinue all or a portion of such waivers and/or reimbursements when it deems such action is appropriate.

C. Administration Fees: The Adviser also serves as Administrator to the Fund and provides administrative services pursuant to an Administration Agreement for an annual fee, accrued daily and paid monthly, of 0.25% of the Portfolio'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 Fund. For such services, the Administrator pays State Street a portion of the fee the Administrator receives from the Portfolio.

D. 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 Portfolio and provides the Portfolio'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 Portfolio is authorized to pay the Distributor a distribution fee, which is accrued daily and paid monthly, at an annual rate of 0.35% of the Portfolio's average daily net assets attributable to Class II shares. The Distributor has agreed to waive 0.10% of the 0.35% 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 it deems such action is appropriate. For the year ended December 31, 2013, this waiver amounted to approximately $185,000.

E. Dividend Disbursing and Transfer Agent: The Fund's dividend disbursing and transfer agent was Morgan Stanley Services Company Inc. ("Morgan Stanley Services"). Effective July 1, 2013, the Directors approved changing the transfer agent to Boston Financial Data Services, Inc.

F. Custodian Fees: State Street (the "Custodian") serves as Custodian for the Fund in accordance with a Custodian Agreement. The Custodian holds cash, securities, and other assets of the Fund 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.

G. Federal Income Taxes: It is the Portfolio'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 Portfolio 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 Portfolio recognizes interest accrued related to unrecognized tax benefits in "Interest Expense" and penalties in "Other Expenses" in the Statement of Operations. The Portfolio 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, 2013, remains subject to examination by taxing authorities.

Notes to Financial Statements (cont'd)

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 2013 and 2012 was as follows:

2013 Distributions Paid From:		2012 Distributions Paid From:	
Ordinary Income (000)	Long-Term Capital Gain (000)	Ordinary Income (000)	Long-Term Capital Gain (000)
$5,029	—	$3,645	—

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 REIT basis adjustments, securities sold with return of capital basis adjustment, partnership basis adjustments and nondeductible expenses, resulted in the following reclassifications among the components of net assets at December 31, 2013:

Accumulated Undistributed Net Investment Income (000)	Accumulated Net Realized Loss (000)	Paid-in-Capital (000)
$(285)	$76	$209

At December 31, 2013, the components of distributable earnings for the Portfolio on a tax basis were as follows:

Undistributed Ordinary Income (000)	Undistributed Long-Term Capital Gain (000)
$5,698	—

At December 31, 2013, the aggregate cost for Federal income tax purposes is approximately $342,539,000. The aggregate gross unrealized appreciation is approximately $140,238,000 and the aggregate gross unrealized depreciation is approximately $10,541,000 resulting in net unrealized appreciation of approximately $129,697,000.

At December 31, 2013, the Portfolio had available for Federal income tax purposes unused capital losses, which will expire on the indicated dates:

Amount (000)	Expiration
$183,187	December 31, 2017

To the extent that capital loss carryforwards are used to offset any future capital gains realized during the carryover period as provided by U.S. Federal income tax regulations, no capital gains tax liability will be incurred by the Portfolio 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, 2013, the Portfolio utilized capital loss carryforwards for U.S. Federal income tax purposes of approximately $15,931,000.

H. Security Transactions and Transactions with Affiliates: For the year ended December 31, 2013, purchases and sales of investment securities for the Portfolio, other than long-term U.S. Government securities and short-term investments, were approximately $81,684,000 and $94,826,000, respectively. There were no purchases and sales of long-term U.S. Government securities for the year ended December 31, 2013.

The Portfolio 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. Advisory fees paid by the Portfolio are reduced by an amount equal to its pro-rata share of the advisory and administration fees paid by the Portfolio due to its investment in the Liquidity Funds. For the year ended December 31, 2013, advisory fees paid were reduced by approximately $9,000 relating to the Portfolio's investment in the Liquidity Funds.

A summary of the Portfolio's transactions in shares of the Liquidity Funds during the year ended December 31, 2013 is as follows:

Value December 31, 2012 (000)	Purchases at Cost (000)	Sales (000)	Dividend Income (000)	Value December 31, 2013 (000)
$2,798	$61,784	$57,534	$2	$7,048

From January 1, 2013 to June 30, 2013, the Portfolio incurred approximately $1,000 in brokerage commissions with Citigroup, Inc., and its affiliated broker-dealers, which may be deemed affiliates of the Adviser, Administrator and Distributor under Section 17 of the Act, for portfolio transactions executed on behalf of the Portfolio. Citigroup, Inc. and its affiliated broker-dealers ceased to be affiliates of the Portfolio pursuant to Section 17 of the Act as of July 1, 2013.

I. Other (unaudited): At December 31, 2013, the Portfolio had otherwise unaffiliated record owners of 10% or greater. Investment activities of these shareholders could have a material impact on the Portfolio. The aggregate percentage of such owners was 44% and 74%, for Class I and Class II, respectively.

Notes to Financial Statements (cont'd)

J. Accounting Pronouncement: In June 2013, FASB issued Accounting Standards Update 2013-08 Financial Services – Investment Companies (Topic 946) – Amendments to the Scope, Measurement, and Disclosure Requirements ("ASU 2013-08") which is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013. ASU 2013-08 sets forth a methodology for determining whether an entity should be characterized as an investment company and prescribes fair value accounting for an investment company's non-controlling ownership interest in another investment company. FASB has determined that a fund registered under the Investment Company Act of 1940 automatically meets ASU 2013-08's criteria for an investment company. Although still evaluating the potential impacts of ASU 2013-08 to the Portfolio, management expects that the impact of the Portfolio's adoption will be limited to additional financial statement disclosures.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of
The Universal Institutional Funds, Inc. —
U.S. Real Estate Portfolio

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments, of U.S. Real Estate Portfolio (one of the portfolios constituting The Universal Institutional Funds, Inc.) (the "Portfolio") as of December 31, 2013, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Portfolio's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Portfolio's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Portfolio's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2013, by correspondence with the custodian and others or by other appropriate auditing procedures where replies from others were not received. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of U.S. Real Estate Portfolio (one of the portfolios constituting The Universal Institutional Funds, Inc.) at December 31, 2013, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Boston, Massachusetts
February 21, 2014

Federal Tax Notice (unaudited)

For Federal income tax purposes, the following information is furnished with respect to the distributions paid by the Portfolio during its taxable year ended December 31, 2013.

For corporate shareholders, 7.83% of the dividends qualified for the dividends received deduction.

In January, the Portfolio provides tax information to shareholders for the preceding calendar year.

Director and Officer Information (unaudited)

Independent Director:

Name, Age and Address of Independent Director	Position(s) Held with Registrant	Length of Time Served*	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Overseen by Independent Director**	Other Directorships Held by Independent Director***
Frank L. Bowman (69) c/o Kramer Levin Naftalis & Frankel LLP Counsel to the Independent Directors 1177 Avenue of the Americas New York, NY 10036	Director	Since August 2006	President, Strategic Decisions, LLC (consulting) (since February 2009); Director or Trustee of various Morgan Stanley Funds (since August 2006); Chairperson of the Insurance Sub-Committee of the Compliance and Insurance Committee (since February 2007); served as President and Chief Executive Officer of the Nuclear Energy Institute (policy organization) (February 2005-November 2008); retired as Admiral, U.S. Navy after serving over 38 years on active duty including 8 years as Director of the Naval Nuclear Propulsion Program in the Department of the Navy and the U.S. Department of Energy (1996-2004); served as Chief of Naval Personnel (July 1994-September 1996); and on the Joint Staff as Director of Political Military Affairs (June 1992-July 1994); knighted as Honorary Knight Commander of the Most Excellent Order of the British Empire; awarded the Officier de l'Orde National du Mérite by the French Government; elected to the National Academy of Engineering (2009).	98	Director of BP p.l.c.; Director of Naval and Nuclear Technologies LLP; Director of the Armed Services YMCA of the USA and the U.S. Naval Submarine League; Director of the American Shipbuilding Suppliers Association; Member of the National Security Advisory Council of the Center for U.S. Global Engagement and a member of the CNA Military Advisory Board; Chairman of the charity J Street Cup Golf; Trustee of Fairhaven United Methodist Church.
Michael Bozic (73) c/o Kramer Levin Naftalis & Frankel LLP Counsel to the Independent Directors 1177 Avenue of the Americas New York, NY 10036	Director	Since April 1994	Private investor and a member of the advisory board of American Road Group LLC (retail) (since June 2000); Chairperson of the Compliance and Insurance Committee (since October 2006); Director or Trustee of various Morgan Stanley Funds (since April 1994); formerly, Chairperson of the Insurance Committee (July 2006-September 2006); Vice Chairman of Kmart Corporation (December 1998-October 2000); Chairman and Chief Executive Officer of Levitz Furniture Corporation (November 1995-November 1998) and President and Chief Executive Officer of Hills Department Stores (May 1991-July 1995); variously Chairman, Chief Executive Officer, President and Chief Operating Officer (1987-1991) of the Sears Merchandise Group of Sears, Roebuck & Co.	100	Trustee and member of the Hillsdale College Board of Trustees.
Kathleen A. Dennis (60) c/o Kramer Levin Naftalis & Frankel LLP Counsel to the Independent Directors 1177 Avenue of the Americas New York, NY 10036	Director	Since August 2006	President, Cedarwood Associates (mutual fund and investment management consulting) (since July 2006); Chairperson of the Money Market and Alternatives Sub-Committee of the Investment Committee (since October 2006) and Director or Trustee of various Morgan Stanley Funds (since August 2006); formerly, Senior Managing Director of Victory Capital Management (1993-2006).	98	Director of various non-profit organizations.
Dr. Manuel H. Johnson (65) c/o Johnson Smick International, Inc. 220 I Street, NE-Suite 200 Washington, D.C. 20002	Director	Since July 1991	Senior Partner, Johnson Smick International, Inc. (consulting firm); Chairperson of the Investment Committee (since October 2006) and Director or Trustee of various Morgan Stanley Funds (since July 1991); Co-Chairman and a founder of the Group of Seven Council (G7C) (international economic commission); formerly, Chairperson of the Audit Committee (July 1991-September 2006); Vice Chairman of the Board of Governors of the Federal Reserve System and Assistant Secretary of the U.S. Treasury.	101	Director of NVR, Inc. (home construction).
Joseph J. Kearns (71) c/o Kearns & Associates LLC PMB754 22631 Pacific Coast Highway Malibu, CA 90265	Director	Since August 1994	President, Kearns & Associates LLC (investment consulting); Chairperson of the Audit Committee (since October 2006) and Director or Trustee of various Morgan Stanley Funds (since August 1994); formerly, Deputy Chairperson of the Audit Committee (July 2003-September 2006) and Chairperson of the Audit Committee of various Morgan Stanley Funds (since August 1994); CFO of the J. Paul Getty Trust.	101	Director of Electro Rent Corporation (equipment leasing) and The Ford Family Foundation.

Director and Officer Information (unaudited) (cont'd)

Independent Director (cont'd):

Name, Age and Address of Independent Director	Position(s) Held with Registrant	Length of Time Served*	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Overseen by Independent Director**	Other Directorships Held by Independent Director***
Michael F. Klein (55) c/o Kramer Levin Naftalis & Frankel LLP Counsel to the Independent Directors 1177 Avenue of the Americas New York, NY 10036	Director	Since August 2006	Managing Director, Aetos Capital, LLC (since March 2000); Co-President, Aetos Alternatives Management, LLC (since January 2004) and Co-Chief Executive Officer of Aetos Capital LLC (since August 2013); Chairperson of the Fixed Income Sub-Committee of the Investment Committee (since October 2006) and Director or Trustee of various Morgan Stanley Funds (since August 2006); formerly, Managing Director, Morgan Stanley & Co. Inc. and Morgan Stanley Dean Witter Investment Management, President, various Morgan Stanley Funds (June 1998-March 2000) and Principal, Morgan Stanley & Co. Inc. and Morgan Stanley Dean Witter Investment Management (August 1997-December 1999).	98	Director of certain investment funds managed or sponsored by Aetos Capital, LLC. Director of Sanitized AG and Sanitized Marketing AG (specialty chemicals).
Michael E. Nugent (77) 522 Fifth Avenue New York, NY 10036	Chairperson of the Board and Director	Chairperson of the Boards since July 2006 and Director since July 1991	Chairperson of the Boards of various Morgan Stanley Funds (since July 2006); Chairperson of the Closed-End Fund Committee (since June 2012) and Director or Trustee of various Morgan Stanley Funds (since July 1991); formerly, Chairperson of the Insurance Committee (until July 2006); General Partner, Triumph Capital, L.P. (private investment partnership) (1988-2013).	100	None.
W. Allen Reed (66) c/o Kramer Levin Naftalis & Frankel LLP Counsel to the Independent Directors 1177 Avenue of the Americas New York, NY 10036	Director	Since August 2006	Chairperson of the Equity Sub-Committee of the Investment Committee (since October 2006) and Director or Trustee of various Morgan Stanley Funds (since August 2006); formerly, President and CEO of General Motors Asset Management; Chairman and Chief Executive Officer of the GM Trust Bank and Corporate Vice President of General Motors Corporation (August 1994-December 2005).	98	Director of Temple-Inland Industries (packaging and forest products); Director of Legg Mason, Inc. and Director of the Auburn University Foundation.
Fergus Reid (81) c/o Joe Pietryka, Inc. 85 Charles Colman Blvd. Pawling, NY 12564	Director	Since June 1992	Chairman, Joe Pietryka, Inc.; Chairperson of the Governance Committee and Director or Trustee of various Morgan Stanley Funds (since June 1992).	101	Through December 31, 2012, Trustee and Director of certain Investment companies in the JPMorgan Fund Complex.

Interested Director:

Name, Age and Address of Interested Director	Position(s) Held with Registrant	Length of Time Served*	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Overseen by Interested Director**	Other Directorships Held by Interested Director***
James F. Higgins (66) One New York Plaza New York, NY 10004	Director	Since June 2000	Director or Trustee of various Morgan Stanley Funds (since June 2000); Senior Advisor of Morgan Stanley (since August 2000).	99	Formerly, Director of AXA Financial, Inc. and AXA Equitable Life Insurance Company (2002-2011) and Director of AXA MONY Life Insurance Company and AXA MONY Life Insurance Company of America (2004-2011).

* Each Director serves an indefinite term, until his or her successor is elected.

** The Fund Complex includes (as of December 31, 2013) all open-end and closed-end funds (including all of their portfolios) advised by Morgan Stanley Investment Management Inc. (the "Adviser") and any funds that have an adviser that is an affiliated person of the Adviser (including, but not limited to, Morgan Stanley AIP GP LP).

*** This includes any directorships at public companies and registered investment companies held by the Director at any time during the past five years.

Director and Officer Information (unaudited) (cont'd)

Executive Officers:

Name, Age and Address of Executive Officer	Position(s) Held with Registrant	Length of Time Served*	Principal Occupation(s) During Past 5 Years
John H. Gernon (50) 522 Fifth Avenue New York, NY 10036	President and Principal Executive Officer — Equity, Fixed Income and AIP Funds	Since September 2013	President and Principal Executive Officer of the Equity and Fixed Income Funds and the Morgan Stanley AIP Funds (since September 2013) in the Fund Complex. Managing Director of the Adviser.
Stefanie V. Chang Yu (47) 522 Fifth Avenue New York, NY 10036	Chief Compliance Officer	Since January 2014	Managing Director of the Adviser and various entities affiliated with the Adviser; Chief Compliance Officer of various Morgan Stanley Funds and the Adviser (since January 2014). Formerly, Vice President of various Morgan Stanley Funds (December 1997-January 2014).
Joseph C. Benedetti (48) 522 Fifth Avenue New York, NY 10036	Vice President	Since January 2014	Managing Director of the Adviser and various entities affiliated with the Adviser; Vice President of various Morgan Stanley Funds (since January 2014). Formerly, Assistant Secretary of various Morgan Stanley Funds (October 2004-January 2014).
Francis J. Smith (48) 522 Fifth Avenue New York, NY 10036	Treasurer and Principal Financial Officer	Treasurer since July 2003 and Principal Financial Officer since September 2002	Executive Director of the Adviser and various entities affiliated with the Adviser; Treasurer and Principal Financial Officer of various Morgan Stanley Funds (since July 2003).
Mary E. Mullin (46) 522 Fifth Avenue New York, NY 10036	Secretary	Since June 1999	Executive Director of the Adviser and various entities affiliated with the Adviser; Secretary of various Morgan Stanley Funds (since June 1999).

* Each officer serves an indefinite term, until his or her successor is elected.

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

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

Dividend Disbursing and Transfer Agent
Boston Financial Data Services, Inc.
2000 Crown Colony Drive
Quincy, Massachusetts 02169

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

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

Counsel to the Independent Directors
Kramer Levin Naftalis & Frankel LLP
1177 Avenue of the Americas
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 annual reports within 60 days of the end of the fund's second and fourth fiscal quarters by filing the schedule electronically with the Securities and Exchange Commission (SEC). The semi-annual reports are filed on Form N-CSRS and the annual reports are filed on Form N-CSR. 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 the Public Reference Room of the SEC, Washington, DC 20549-0102.

Proxy Voting Policies and Procedures and Proxy Voting Record

You may obtain a copy of the Fund's Proxy Voting Policy and Procedures and information regarding how the Fund 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. 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 Portfolio. For more detailed information about the Portfolio, its fees and expenses and other pertinent information, please read its Prospectus. The Fund's Statement of Additional Information contains additional information about the Portfolio, 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 Portfolio unless preceded or accompanied by an effective Prospectus. Read the Prospectus carefully before investing.

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