

Market Insights

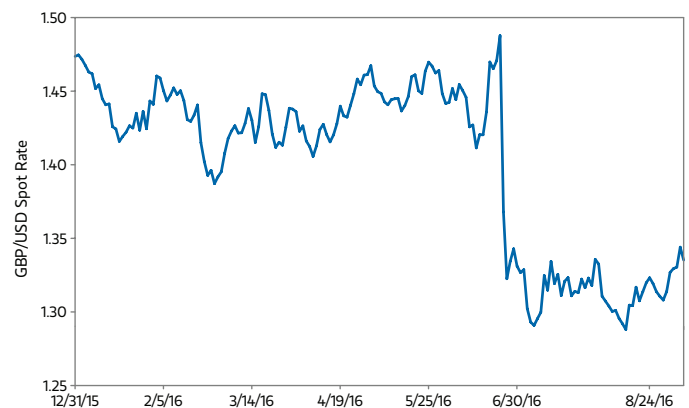
Market Overview¹

During the historically quiet month of August, strong economic data coming out of the U.S. and the Federal Reserve's (Fed) annual Jackson Hole Summit gave the markets confidence that a rate hike could still be on the table for this year. On the other hand, the Bank of England (BOE) signaled a different message to investors as the BOE cut interest rates to an all-time low and introduced additional stimulus to its economy in the aftermath of the Brexit vote in June.

The July U.S. employment report was stronger than expected across the board as nonfarm payrolls increased 255,000 in July, beating forecasts of 180,000. May and June payroll net revisions were higher by 18,000 and the unemployment rate held steady at 4.9%. The labor force participation rate increased slightly to 62.8%, while hourly earnings also saw gains and beat expectations with a month-over-month increase of 0.3% and a 2.6% year-over-year gain. The employment report boosted the Fed's confidence going into its annual meeting at Jackson Hole, especially after a rocky first half of the year in the markets and economy. Despite gross domestic product (GDP) averaging about 1% during the first half of 2016 – below the Fed's forecast of 1.8% – strong employment reports and economic data in recent months have given investors new hope for a stronger remainder of the year. Following the release of the July jobs report, the markets saw a sharp increase in the probability of a rate hike in 2016, from 34.4% to 46.5%.

Fed Chair Janet Yellen gave her annual remarks at Jackson Hole on August 26 and stated that the case for an increase in the federal funds rate has strengthened in recent months due to "continued solid performance of the labor market and our outlook for economic activity and inflation." Yellen erred on the side of caution by not providing an exact timeline for the next rate hike and highlighted ongoing concern about market and global economic uncertainty. Yellen's remarks were relatively consistent with what the Fed has been saying in recent weeks by also stating "of course, our decisions always depend on the degree to which incoming data continues to confirm the Committee's outlook," reinforcing the fact that the Fed remains

extremely data dependent. In her prepared remarks, Yellen also gave insight into the Federal Open Market Committee's (FOMC) economic forecasts. The FOMC expects moderate growth in real GDP for the remainder of this year, inflation to reach its 2% target in the next "few years," and additional strengthening in the labor market.



Source: Bloomberg

Earlier in August, the BOE's Monetary Policy Committee (MPC) voted for a series of additional measures to help spur economic growth and reach the BOE's inflation target of 2%. The package comes after the sterling has dropped significantly against the dollar and the short- to medium-term economic outlook in the U.K. has "weakened materially" due to the uncertainty surrounding the consequences of Brexit. The MPC's stimulus package includes a 25 basis point cut to the bank rate to 0.25%, a new term funding scheme, an expansion of the current asset purchase program for U.K. government bonds, and a 10 billion pound U.K. corporate bond purchase program. The market expects a high likelihood that the bank rate will be cut further toward zero at subsequent meetings. Despite the eventful month in the U.K., August was relatively quiet for the rest of Europe. The next European Central Bank (ECB) meeting is scheduled for the first week in September and investors largely expect the ECB to follow suit and introduce new and/or extend the current stimulus programs in the eurozone.

¹ Source: Bloomberg.

Monthly Interest Rate Summary

As of 8/31/2016

US TREASURY RATES	YIELD (%)	MOM CHANGE (%)
1M UST	0.27	0.09
3M UST	0.33	0.08
6M UST	0.46	0.09
12M UST	0.59	0.10
2Y UST	0.81	0.15
5Y UST	1.20	0.17
10Y UST	1.58	0.13
30Y UST	2.23	0.05
USD LIBOR CURVE		
O/N LIBOR	0.42	0.01
1M LIBOR	0.52	0.03
3M LIBOR	0.84	0.08

Source: Bloomberg

Strategy

Prime Strategy²

With October money market reform rapidly approaching, we continue to manage our Portfolios emphasizing short duration and high liquidity, purchasing very short-dated maturities. As of August 31, 2016, the Funds have greater than 75 percent weekly liquidity and hold no paper with maturities past October 14, 2016.

Government/Treasury Strategy

In August, LIBOR indices climbed higher as many investors moved cash from prime to government money market funds ahead of the October money market reform deadline. Agency and Treasury yields ticked up only slightly during the month with some help from increased bill auction supply. However, large inflows into government funds are expected to continue and could mute any movement higher in rates, especially in the short end of the curve. We continued to focus purchases in agency floating-rate notes that should benefit from the higher LIBOR movements and in some 4- to 6-month fixed-rate Treasury debt. We continued to maintain a significant portion of the Portfolio in short-term repurchase agreements.

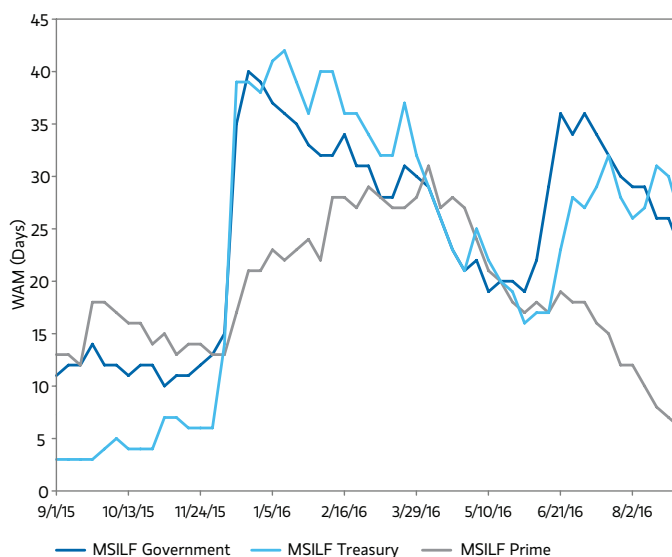
² Effective on or about October 7, 2016, the Portfolio will be required to price and transact in their shares at a floating Net asset value ("NAV") and will be permitted to impose a liquidity fee on redemptions or temporarily restrict redemptions in the event that the Portfolio's weekly liquid assets fall below certain thresholds.

Tax-Exempt Strategy²

Tax-exempt money market funds continued to see outflows during the month of August as money market fund complexes restructured product lineups in advance of money fund reform. Tax-exempt money fund outflows year-to-date now exceed \$100 billion.³ Dealer inventories remained elevated over the course of the month, placing upward pressure on yields for variable rate demand obligations (VRDOs). The SIFMA Index,⁴ which measures yields for weekly VRDOs, rose from 0.44 percent at the start of the month to 0.63 percent on August 31, a new seven-year high. We will maintain our emphasis on high levels of liquidity and very short duration in the period immediately ahead.

MSILF Weighted Average Maturities⁵

8/31/15-8/31/16



Source: iMoneyNet

³ Source: iMoneyNet

⁴ The **SIFMA Index** is issued weekly and is compiled from the weekly interest rate resets of tax-exempt variable rate issues included in a database maintained by Municipal Market Data which meet specific criteria established from time to time by The Bond Market Association. The index is unmanaged and should not be considered an investment. It is not possible to invest directly in an index.

⁵ **Weighted Average Maturity (WAM):** The weighted dollar average maturities of all securities held within a 2a-7 fund. WAM is used as a measure of sensitivity to interest rate risk (the longer the maturity the greater the sensitivity). WAM is calculated by using the asset weighted days until maturity of securities in the portfolio calculated by using the lower of the stated maturity date or the next interest rate reset date.

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(Prior to changes effective, on or about, October 7, 2016) An investment in the portfolio is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the portfolio seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the portfolio. The portfolio is managed to maintain its stable \$1.00 per share price.

STABLE NAV FUNDS (Effective on or about October 7, 2016) You could lose money by investing in the Fund. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it cannot guarantee it will do so. The Fund may impose a fee upon

the sale of your shares or may temporarily suspend your ability to sell shares if the Fund's liquidity falls below required minimums because of market conditions or other factors. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Funds' sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time.

FLOATING NAV FUNDS (Effective on or about October 7, 2016) You could lose money by investing in the Fund. Because the share price of the Fund will fluctuate, when you sell your shares they may be worth more or less than what you originally paid for them. The Fund may impose a fee upon the sale of your shares or may temporarily suspend your ability to sell shares if the Fund's liquidity falls below required minimums because of market conditions or other factors. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Funds' sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time.

The Tax-Exempt Portfolio may invest a portion of its total assets in bonds that may subject certain investors to the federal Alternative Minimum Tax (AMT). Investors should consult their tax adviser for further information on tax implications.

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