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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 Fund's Statement of Additional Information contains additional information about the Fund, including its trustees. It is available, without charge, by calling (800) 548-7786.

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

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INVESTMENT MANAGEMENT

Morgan Stanley
U.S. Government
Money Market
Trust

Annual Report
January 31, 2016



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Morgan Stanley U.S. Government Money Market Trust

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Welcome Shareholder,

We are pleased to provide this annual report, in which you will learn how your investment in Morgan Stanley U.S. Government Money Market Trust (the “Fund”) performed during the latest twelve-month period. It includes an overview of the market conditions and discusses some of the factors that affected performance during the reporting period. In addition, the report contains financial statements and a list of portfolio holdings.

Morgan Stanley Investment Management is a client-centric, investor-led organization. Our global presence, intellectual capital, and breadth of products and services enable us to partner with investors to meet the evolving challenges of today’s financial markets. We aim to deliver superior investment service and to empower our clients to make the informed decisions that help them reach their investment goals.

As always, we thank you for selecting Morgan Stanley Investment Management, and look forward to working with you in the months and years ahead.

This material must be preceded or accompanied by a prospectus for the fund being offered.

Market forecasts provided in this report may not necessarily come to pass. There is no assurance that a mutual fund will achieve its investment objective. An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of an investment at \$1.00 per share, it is possible to lose money by investing in the Fund. Please see the prospectus for more complete information on investment risks.

Fund Report **(unaudited)**

For the year ended January 31, 2016

Market Conditions

The economy grew an average of 2.3 percent in the first half of 2015, as 3.9 percent gross domestic product (GDP) growth in the second quarter more than compensated for weak first quarter growth of 0.6 percent caused by bad winter weather.ⁱ The economy expanded at a somewhat slower pace in the third quarter, at 2.0 percent, as slower inventory growth subtracted from GDP as did lower exports due to the dollar's appreciation. Fourth quarter GDP rose in line with median forecasts, growing at 0.7 percent (annualized). Growth was diminished due to slowing markets abroad, strong dollar appreciation, and plunging oil prices. The economy grew at an average of 1.8 percent through 2015.

While economic growth continued to exhibit a choppy pattern, labor market conditions have improved markedly. Non-farm payrolls rose an average of 173,000 per month in the third quarter of 2015, accelerating in the fourth quarter to an average of 279,000.ⁱⁱ Healthy job creation and fairly static participation rates allowed the unemployment rate to fall to 5.0 percent as of December 2015, at or near the Federal Reserve's (Fed) definition of full employment. The January non-farm payrolls rose 151,000, led by strong results in the retail trade sector, but fell short of consensus expectations of 190,000. In addition, November payrolls were revised up from 252,000 to

280,000, while December payrolls were revised down from 292,000 to 262,000. The unemployment rate decreased to 4.9 percent in January.

At the June meeting, the Federal Open Market Committee (FOMC) delivered its much-anticipated updated interest rate projections from FOMC members, which showed that the median forecast for the fed funds rate at the end of 2015 was unchanged from the March statement at 0.625 percent and that 15 of the 17 voting members believed that 2015 will be the appropriate time to increase interest rates off of the zero bound.ⁱⁱⁱ The Fed noted that the economy and labor market were improving but it needs to see more progress before raising rates. Fed Chair Janet Yellen reiterated that the forward path of rate hikes will be very gradual and that all policy decisions will be data dependent.

Over the June 30 quarter-end, the Federal Reserve Bank of New York (FRBNY) conducted term fixed-rate reverse repurchase agreement (RRP) facility, in addition to the overnight RRP operation, which helped counterbalance some of the supply pullback in our markets over quarter-ends. The FRBNY held two term auctions, with 7-day and 2-day maturity tenors, both for \$100 billion each that matured over month-end. Both auctions were oversubscribed and each stopped at a 0.07 percent rate. Aggregating the overnight RRP, which totaled nearly \$200 billion, with the term auctions, total RRP

(i) GDP data from the Bureau of Economic Analysis

(ii) Jobs and unemployment data from the Bureau of Labor Statistics

(iii) Fed funds rate projections from the Federal Open Market Committee

outstandings over the third quarter was about \$450 billion, a new high for the facility.

The July FOMC meeting went fairly as expected, with no changes to policy and an upgraded assessment of the labor market. There was no FOMC meeting in August. However, China stole the spotlight globally as growth concerns sent the Shanghai Composite Index, a gauge of the Chinese stock market, sharply lower. The People's Bank of China has struggled to stem the market sell-off, despite using a wide array of unconventional policy tools. Although global growth concerns linger, U.S. economic data continued to remain solid.

All eyes were on the FOMC in September as markets around the world eagerly anticipated the interest rate decision and update on the economy. The September FOMC meeting was accompanied by the quarterly Summary of Economic Projections (SEP) and a press conference with Chair Yellen. In the meeting's most noteworthy decision, the benchmark fed funds rate was left unchanged, as the Fed refrained from hiking rates for the first time since 2006. In terms of a rate outlook going forward, projections from FOMC members showed that the median forecasts for the level of the fed funds rate over the next few years were revised downward slightly. Despite this, 13 of the 17 FOMC members still believed that 2015 was the appropriate time for the initial interest rate hike, which was down from 15 of 17 members in June. This messaging suggested a likelihood of a rate hike before the end of 2015.

The Fed saw further improvement in the labor market but inflation continued to run below the longer-run objective. The Fed also noted that the "recent global economic and financial developments may restrain economic activity somewhat and are likely to put downward pressure on inflation in the near-term." Overall, in light of heightened uncertainties abroad and subdued inflation, the Fed believed it should wait for further economic data to justify a rate hike. Forward guidance on this topic remained unchanged as the FOMC needed to see further progress in the labor market and must be "reasonably confident" that inflation is moving toward the long-run target of 2 percent over the medium term before raising rates. Messaging from Chair Yellen reiterated that the forward path of rate hikes will be very gradual and that all policy decisions will be data dependent.

The October FOMC meeting offered the market an important update on the Fed's views on market conditions and the economy. The FOMC indicated that the economy continued to expand at a moderate pace and upgraded household spending and business fixed investment progress to "solid" from "moderate." The statement also noted that the pace of job gains had slowed but the unemployment rate remained steady. Concerns had dissipated about global developments restraining financial activity, as this wording was completely dropped from the October statement. A key addition to this statement was the explicit mentioning of the next meeting in the context of raising rates. Many believed that the FOMC continued to favor increasing rates off of the zero bound before the end of the year.

November contained no Fed meetings. U.S. data started the month off well as the October Employment Report was much stronger than expected. Nonfarm payrolls increased 271,000 in October, easily surpassing expectations of 185,000. August and September payrolls were revised higher by 12,000. The unemployment rate dropped by 0.1 percent to 5.0 percent, which was in line with consensus expectations. U.S. third quarter GDP growth and inflation (as measured by the consumer price index and personal consumption expenditures) were in line with expectations, as the overall data trend has been positive. The rates market reflected this sentiment as short-dated Treasuries sold off considerably during November, with yields on 1-, 3-, 6-, and 12-month Treasuries all rising by 10 to 20 basis points.

At the much-anticipated December FOMC meeting, interest rates were increased in line with expectations by basis points to a range of 0.25 percent to 0.50 percent. FOMC members acknowledged progress in the labor market but noted that inflation remains below their target. The Committee expects inflation to rise to 2 percent over the medium term as transitory factors dissipate. The Fed's updated interest rate forecasts were revised down very slightly. These projections imply four rate hikes in 2016, while market pricing currently indicates expectations of only two hikes in 2016. Overall, the Fed vowed to remain data dependent in terms of its decisions on further policy normalization going forward.

Following the December rate hike, the FRBNY made adjustments to the overnight fixed-rate RRP facility,

increasing the offering rate from 5 basis points to 25 basis points. In addition, the previous \$300 billion overnight limit was removed. On year-end, the FOMC accepted a new high of over \$474 billion in overnight repos that all matured on January 4, 2016, aiding the collateral squeeze in our markets at quarter-end periods. Unlike previous quarter-ends, there were no submissions in the term auctions leading up to year-end due to a lack of yield incentive.

The January FOMC meeting went as expected, with members concerned about weakening growth in foreign economies and turbulence in the global equity markets. With the Committee's uncertainty about the impact of global developments on the U.S. economy, they have adopted a "wait and see" stance before considering any additional monetary actions in the near term.

Performance Analysis

As of January 31, 2016, Morgan Stanley U.S. Government Money Market Trust had net assets of approximately \$1.2 billion and an average portfolio maturity of 23 days. For the 12-month period ended January 31, 2016, the Fund provided a total return of 0.01 percent. For the seven-day period ended January 31, 2016, the Fund provided an effective annualized yield of 0.01 percent (subsidized) and -0.20 percent (non-subsidized) and a current yield of 0.01 percent (subsidized) and -0.20 percent (non-subsidized), while its 30-day moving average yield for January was 0.01 percent (subsidized) and -0.21 percent (non-subsidized). Yield quotations more closely reflect the current earnings of the Fund. The non-subsidized yield reflects what the yield would have been

had a fee and/or expense waiver not been in place during the period shown. *Past performance is no guarantee of future results.*

We continued to maintain a conservative approach in managing the Fund. For most of the period, yields on short-term investments remained low, which resulted in limited yield opportunities. As yields moved higher in late November and into December, we opportunistically bought government agency debt, maturing up to 7-month tenors, as the higher yields became too cheap, in our opinion. While our purchases increased the Fund's WAM and WAL measures, we continued to focus on ensuring liquidity and held a significant portion of the Fund's portfolio in short-term repurchase agreements.

There is no guarantee that any sectors mentioned will continue to perform as discussed herein or that securities in such sectors will be held by the Fund in the future.

PORTFOLIO COMPOSITION as of 01/31/16

Repurchase Agreements	59.8%
U.S. Agency Securities	40.2

MATURITY SCHEDULE as of 01/31/16

1 - 30 Days	82.6%
31 - 60 Days	8.3
61 - 90 Days	2.0
91 - 120 Days	1.1
121 + Days	6.0

Subject to change daily. Provided for informational purposes only and should not be deemed as a recommendation to buy or sell the types of securities mentioned above. Portfolio composition and maturity schedule are as a percentage of total investments.

Morgan Stanley is a full-service securities firm engaged in securities trading and brokerage activities, investment banking, research and analysis, financing and financial advisory services.

Investment Strategy

The Fund invests in high quality, short-term U.S. government securities. In selecting investments, the Fund's "Adviser," Morgan Stanley Investment Management Inc., seeks to maintain the Fund's share price at \$1.00. The share price remaining stable at \$1.00 means that the Fund would preserve the principal value of your investment.

An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the Fund.

For More Information About Portfolio Holdings

Each Morgan Stanley fund provides a complete schedule of portfolio holdings in its semiannual and annual reports within 60 days of the end of the fund's second and fourth fiscal quarters. The semiannual reports and the 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 semiannual and annual reports to fund shareholders and makes these reports available on its public web site, 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 and monthly holdings for each money market fund on Form N-MFP. Morgan Stanley does not deliver these reports to shareholders, nor are the first and third fiscal quarter reports posted to the Morgan Stanley public web site. However, the holdings for each money market fund are posted to the Morgan Stanley public web site. You may

obtain the Form N-Q filings (as well as the Form N-CSR, N-CSRS and N-MFP filings) by accessing the SEC's web site, <http://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 at (800) SEC-0330. You can also request copies of these materials, upon payment of a duplicating fee, by electronic request at the SEC's e-mail address (publicinfo@sec.gov) or by writing the public reference section of the SEC, Washington, DC 20549-1520.

Householding Notice

To reduce printing and mailing costs, the Fund attempts to eliminate duplicate mailings to the same address. The Fund delivers a single copy of certain shareholder documents, including shareholder reports, prospectuses and proxy materials, to investors with the same last name who reside at the same address. Your participation in this program will continue for an unlimited period of time unless you instruct us otherwise. You can request multiple copies of these documents by calling (800) 548-7786, 8:00 a.m. to 8:00 p.m., ET. Once our Customer Service Center has received your instructions, we will begin sending individual copies for each account within 30 days.

Expense Example (unaudited)

As a shareholder of the Fund, you incur ongoing costs, including advisory fees, administration fees, shareholder services 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 period and held for the entire period 08/01/15 – 01/31/16.

Actual Expenses

The first line of the table below provides information about actual account values and actual expenses. You may use the information in this line, 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 first line under the heading entitled “Expenses Paid During Period” to estimate the expenses you paid on your account during this period.

Hypothetical Example for Comparison Purposes

The second line of the table below provides information about 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 cost 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. Therefore, the second line of the table is useful in comparing ongoing costs, and will not help you determine the relative total cost of owning different funds that have transactional costs, such as sales charges (loads) or exchange fees.

	<u>Beginning Account Value</u>	<u>Ending Account Value</u>	<u>Expenses Paid During Period@</u>
	<u>08/01/15</u>	<u>01/31/16</u>	<u>08/01/15 – 01/31/16</u>
Actual (0.00% return)	\$1,000.00	\$1,000.05	\$1.00
Hypothetical (5% annual return before expenses)	\$1,000.00	\$1,023.93	\$1.01

@ Expenses are equal to the Fund's annualized expense ratio of 0.20% multiplied by the average account value over the period, multiplied by 182^{@@}/365 (to reflect the most recent one-half year period). If the fund had borne all of its expenses, the annualized expense ratio would have been 0.59%.

@@ Adjusted to reflect non-business day accruals.

Morgan Stanley U.S. Government Money Market Trust

Portfolio of Investments ■ January 31, 2016

PRINCIPAL AMOUNT (000)		ANNUALIZED YIELD ON DATE OF PURCHASE	MATURITY DATE	VALUE
	Repurchase Agreements (60.5%)			
\$ 75,000	ABN Amro Securities LLC, (interest in \$900,000,000 joint repurchase agreement, dated 01/29/16 under which ABN Amro Securities LLC, will repurchase the securities provided as collateral for \$900,026,250 on 02/01/16. The securities provided as collateral at the end of the period held with BNY Mellon, tri-party agent, were various U.S. Government agency securities and U.S. Government obligations with various maturities to 09/20/65; valued at \$925,648,379)	0.35 %	02/01/16	\$ 75,000,000
12,000	Bank of Montreal, (dated 01/08/16; proceeds \$12,003,307; fully collateralized by various U.S. Government agency securities, 2.50% - 5.00% due 03/01/25 - 12/01/44 and U.S. Government obligations, 1.00% - 2.50% due 07/15/18 - 01/15/29; valued at \$12,359,191) (Demand 02/05/16)	0.32(a)	02/08/16	12,000,000
15,000	Bank of Nova Scotia, (dated 08/04/15; proceeds \$15,058,331; fully collateralized by various U.S. Government agency securities, 1.79% - 5.00% due 04/01/26 - 11/01/44; valued at \$15,462,977) (Demand 02/05/16)	0.38(a)	08/04/16	15,000,000
57,000	Bank of Nova Scotia, (dated 01/05/16; proceeds \$57,227,164; fully collateralized by various U.S. Government agency securities, 1.79% - 6.00% due 02/01/2 - 09/20/45; valued at \$58,749,444) (Demand 02/05/16)	0.39(a)	01/05/17	57,000,000

See Notes to Financial Statements

Morgan Stanley U.S. Government Money Market Trust

Portfolio of Investments ■ January 31, 2016 *continued*

PRINCIPAL AMOUNT (000)		ANNUALIZED YIELD ON DATE OF PURCHASE	MATURITY DATE	VALUE
\$ 40,000	Bank of Nova Scotia, (dated 10/07/15; proceeds \$40,151,556; fully collateralized by various U.S. Government agency securities, 1.79% - 6.00% due 11/01/20 - 09/20/45; valued at \$41,200,001) (Demand 02/05/16)	0.40(a)%	09/12/16	\$ 40,000,000
75,000	Barclays Capital, Inc., (dated 01/29/16; proceeds \$75,002,125; fully collateralized by various U.S. Government obligations, 2.00% - 6.63% due 07/31/22 - 02/15/27; valued at \$76,473,181)	0.34	02/01/16	75,000,000
24,900	BNP Paribas Securities Corp., (dated 01/29/16; proceeds \$24,900,726; fully collateralized by various U.S. Government agency securities, 1.63% - 6.25% due 12/01/19 - 01/01/46 and U.S. Government obligations, 2.00% - 2.63% due 08/15/20 - 08/15/25; valued at \$25,655,619)	0.35	02/01/16	24,900,000
11,000	ING Financial Markets LLC, (dated 01/04/16; proceeds \$11,009,176; fully collateralized by a U.S. Government agency security, 4.00% due 01/01/45; valued at \$11,331,595)	0.39	03/21/16	11,000,000
10,000	ING Financial Markets LLC, (dated 12/18/15; proceeds \$10,010,000; fully collateralized by a U.S. Government agency security, 4.00% due 01/01/45; valued at \$10,300,084)	0.40	03/17/16	10,000,000
10,000	ING Financial Markets LLC, (dated 12/28/15; proceeds \$10,009,333; fully collateralized by a U.S. Government agency security, 4.00% due 01/01/45; valued at \$10,300,084)	0.40	03/21/16	10,000,000

See Notes to Financial Statements

Morgan Stanley U.S. Government Money Market Trust

Portfolio of Investments ■ January 31, 2016 *continued*

PRINCIPAL AMOUNT (000)		ANNUALIZED YIELD ON DATE OF PURCHASE	MATURITY DATE	VALUE
\$105,000	Mizuho Securities USA, Inc., (dated 01/28/16; proceeds \$105,006,942; fully collateralized by various U.S. Government agency securities, 0.00% - 3.12% due 02/03/16 - 01/05/26; valued at \$106,968,401)	0.34 %	02/04/16	\$ 105,000,000
10,000	RBC Capital Markets LLC, (dated 10/29/15; proceeds \$10,007,500; fully collateralized by various U.S. Government obligations, 0.63% - 1.38% due 04/30/18 - 09/30/18; valued at \$10,200,020) (Demand 02/05/16)	0.15(a)	04/26/16	10,000,000
32,000	RBC Capital Markets LLC, (dated 11/05/15; proceeds \$32,013,600; fully collateralized by various U.S. Government agency securities, 1.46% - 5.50% due 12/01/19 - 01/01/46; valued at \$32,960,000)	0.17	02/03/16	32,000,000
8,000	RBC Capital Markets LLC, (dated 09/18/15; proceeds \$8,010,458; fully collateralized by various U.S. Government agency securities, 2.00% - 5.50% due 12/01/19 - 12/01/45; valued at \$8,240,000) (Demand 02/05/06)	0.26(a)	03/17/16	8,000,000
100,000	RBC Capital Markets LLC, (dated 12/17/15; proceeds \$100,088,472; fully collateralized by various U.S. Government agency securities, 2.41% - 4.00% due 09/01/34 - 12/01/45; valued at \$103,005,861) (Demand 02/05/16)	0.35(a)	03/17/16	100,000,000
85,000	RBS Securities, Inc., (dated 01/29/16; proceeds \$85,002,408; fully collateralized by various U.S. Government obligations, 0.75% - 2.00% due 06/30/17 - 07/31/20; valued at \$86,704,068)	0.34	02/01/16	85,000,000

See Notes to Financial Statements

Morgan Stanley U.S. Government Money Market Trust

Portfolio of Investments ■ January 31, 2016 *continued*

PRINCIPAL AMOUNT (000)		ANNUALIZED YIELD ON DATE OF PURCHASE	MATURITY DATE	VALUE
\$ 10,000	Wells Fargo Securities LLC, (dated 01/26/16; proceeds \$10,000,661; fully collateralized by a U.S. Government agency security, 3.50% due 12/01/45; valued at \$10,326,743)	0.34 %	02/02/16	\$ 10,000,000
10,000	Wells Fargo Securities LLC, (dated 01/27/16; proceeds \$10,000,661; fully collateralized by a U.S. Government agency security, 3.50% due 01/01/46; valued at \$10,300,000)	0.34	02/03/16	10,000,000
15,000	Wells Fargo Securities LLC, (dated 01/04/16; proceeds \$15,011,558; fully collateralized by a U.S. Government obligation, 0.63% due 10/15/16; valued at \$15,327,639)	0.38	03/17/16	15,000,000
5,000	Wells Fargo Securities LLC, (dated 01/05/16; proceeds \$5,003,853; fully collateralized by a U.S. Government obligation, 1.50% due 10/31/19; valued at \$5,100,070)	0.38	03/18/16	5,000,000
10,000	Wells Fargo Securities LLC, (dated 12/21/15; proceeds \$10,009,778; fully collateralized by a U.S. Government agency security, 3.50% due 01/01/46; valued at \$10,326,743)	0.40	03/18/16	10,000,000
Total Repurchase Agreements (Cost \$719,900,000)				<u>719,900,000</u>

			DEMAND DATE (b)		
U.S. Agency Securities (40.7%)					
Federal Farm Credit Bank					
6,000	.....	0.40(a)	02/09/16	08/09/16	5,999,687
5,000	.....	0.41(a)	02/20/16	10/20/16	5,000,926
10,000	.....	0.45(a)	02/26/16	08/26/16	9,999,444
15,000	.....	0.45(a)	02/03/16	10/03/16	15,000,019
5,000	.....	0.45(a)	02/26/16	07/26/17	4,999,240

See Notes to Financial Statements

Morgan Stanley U.S. Government Money Market Trust

Portfolio of Investments ■ January 31, 2016 *continued*

PRINCIPAL AMOUNT (000)		ANNUALIZED YIELD ON DATE OF PURCHASE	DEMAND DATE (b)	MATURITY DATE	VALUE
\$ 2,500	.....	0.46(a)%	02/05/16	06/05/17	\$ 2,496,550
15,000	.....	0.46(a)	02/28/16	08/28/17	14,997,585
10,000	.....	0.48(a)	02/10/16	08/10/17	9,997,708
2,210	.....	0.49(a)	02/27/16	02/27/17	2,210,849
	Federal Home Loan Bank				
10,000	.....	0.21(a)	02/10/16	02/10/17	9,998,361
35,000	.....	0.23(a)	02/14/16	02/14/17	34,994,186
9,000	.....	0.27	—	02/24/16	8,998,313
5,000	.....	0.32	—	03/02/16	4,998,600
10,000	.....	0.37(a)	02/18/16	05/18/16	10,000,000
10,000	.....	0.38(a)	02/17/16	08/17/16	9,998,949
1,950	.....	0.38(a)	02/24/16	08/24/16	1,948,261
10,000	.....	0.38(a)	02/17/16	01/17/17	9,998,526
1,525	.....	0.39(a)	02/24/16	08/24/16	1,523,684
5,000	.....	0.39(a)	02/08/16	09/08/16	5,000,000
4,000	.....	0.40(a)	02/26/16	08/26/16	3,999,923
15,000	.....	0.42(a)	02/28/16	03/28/16	15,000,000
8,000	.....	0.42(a)	02/18/16	08/18/17	8,000,000
9,000	.....	0.43(a)	02/16/16	05/16/16	9,000,000
12,000	.....	0.43(a)	02/05/16	10/05/16	11,997,998
6,000	.....	0.43(a)	02/17/16	03/17/17	5,998,971
5,000	(c)	0.45(a)	03/01/16	08/01/16	5,000,000
10,000	(c)	0.45(a)	03/02/16	08/02/16	9,999,885
5,000	(c)	0.46(a)	03/01/16	09/01/16	5,000,000
9,000	.....	0.48	—	03/11/16	8,995,080
14,621	.....	0.50	—	03/21/16	14,610,643
14,000	.....	0.50	—	05/10/16	13,980,361
5,000	.....	0.58	—	06/24/16	4,988,239
18,500	.....	0.60	—	06/24/16	18,455,433
7,250	.....	0.61	—	06/17/16	7,233,064
10,000	.....	0.62	—	06/15/16	9,976,406
13,000	.....	0.64	—	06/17/16	12,967,876
6,000	.....	0.64	—	06/20/16	5,984,853
6,300	.....	0.65	—	06/10/16	6,284,985
	Federal Home Loan Mortgage Corporation				
10,000	.....	0.38(a)	02/24/16	08/24/16	10,000,000
35,000	.....	0.39	—	02/18/16	34,999,722
10,000	.....	0.41(a)	02/15/16	06/15/16	9,999,426
13,000	.....	0.42(a)	02/21/16	07/21/16	12,999,366

See Notes to Financial Statements

Morgan Stanley U.S. Government Money Market Trust

Portfolio of Investments ■ January 31, 2016 *continued*

PRINCIPAL AMOUNT (000)		ANNUALIZED YIELD ON DATE OF PURCHASE	DEMAND DATE (b)	MATURITY DATE	VALUE
\$ 15,000	.....	0.47(a)%	02/27/16	04/27/17	\$ 14,996,210
13,000	.....	0.51	—	04/25/16	12,984,162
11,000	.....	0.51	—	04/27/16	10,986,287
11,000	.....	0.56(a)	02/21/16	07/21/17	10,998,332
	Federal National Mortgage Association				
15,000	.....	0.44(a)	02/05/16	10/05/17	14,996,147
6,098	.....	0.62	—	06/15/16	6,083,612
Total U.S. Agency Securities (Cost \$484,677,869)					<u>484,677,869</u>
Total Investments (Cost \$1,204,577,869) (d)(e)				101.2%	1,204,577,869
Liabilities in Excess of Other Assets				(1.2)	<u>(14,600,766)</u>
Net Assets				<u>100.0%</u>	<u>\$1,189,977,103</u>

(a) Rate shown is the rate in effect at January 31, 2016.

(b) Date of next interest rate reset.

(c) Security is subject to delayed delivery.

(d) Securities are available for collateral in connection with securities purchased on a forward commitment basis.

(e) The aggregate cost for Federal income tax purposes approximates the aggregate cost for book purposes.

See Notes to Financial Statements

Morgan Stanley U.S. Government Money Market Trust

Financial Statements

Statement of Assets and Liabilities *January 31, 2016*

Assets:

Investments in securities, at value (cost \$1,204,577,869, including value of repurchase agreements of \$719,900,000)	\$1,204,577,869
Cash	127,239
Receivable for:	
Shares of beneficial interest sold	13,345,945
Interest	228,116
Prepaid expenses and other assets	75,433
Total Assets	<u>1,218,354,602</u>

Liabilities:

Payable for:	
Investments purchased	19,999,885
Shares of beneficial interest redeemed	7,809,345
Advisory fee	248,789
Transfer and sub transfer agent fees	112,142
Administration fee	48,264
Accrued expenses and other payables	159,074
Total Liabilities	<u>28,377,499</u>
Net Assets	<u>\$1,189,977,103</u>

Composition of Net Assets:

Paid-in-capital	\$1,190,058,764
Dividends in excess of net investment income	(81,661)
Net Assets	<u>\$1,189,977,103</u>

Net Asset Value Per Share

1,190,059,627 shares outstanding (<i>unlimited shares authorized of \$0.01 par value</i>)	<u>\$1.00</u>
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See Notes to Financial Statements

Morgan Stanley U.S. Government Money Market Trust

Financial Statements *continued*

Statement of Operations *For the year ended January 31, 2016*

Net Investment Income:

Interest Income	\$ 1,981,972
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Expenses

Advisory fee (Note 3)	4,496,255
Shareholder services fee (Note 4)	1,166,331
Administration fee (Note 3)	583,166
Transfer and sub transfer agent fees (Note 5)	272,404
Professional fees	71,020
Registration fees	56,470
Shareholder reports and notices	49,492
Custodian fees	46,879
Trustees' fees and expenses	31,615
Other	74,086

Total Expenses	6,847,718
Less: amounts waived/reimbursed (Note 4)	(4,982,322)

Net Expenses	1,865,396
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Net Investment Income	116,576
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Net Realized Gain	1,009
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Net Increase	\$ 117,585
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See Notes to Financial Statements

Morgan Stanley U.S. Government Money Market Trust

Financial Statements *continued*

Statements of Changes in Net Assets

	FOR THE YEAR ENDED JANUARY 31, 2016	FOR THE YEAR ENDED JANUARY 31, 2015
Increase (Decrease) in Net Assets:		
Operations:		
Net investment income	\$ 116,576	\$ 129,896
Net realized gain	<u>1,009</u>	<u>2,265</u>
Net Increase	<u>117,585</u>	<u>132,161</u>
 Dividends to shareholders from net investment income	 (116,576)	 (129,896)
Net decrease from transactions in shares of beneficial interest	<u>(1,983,915)</u>	<u>(316,309,462)</u>
Net Decrease	<u>(1,982,906)</u>	<u>(316,307,197)</u>
Net Assets:		
Beginning of period	<u>1,191,960,009</u>	<u>1,508,267,206</u>
End of Period		
(Including dividends in excess of net investment income of \$(81,661) and \$(75,302))	<u>\$1,189,977,103</u>	<u>\$1,191,960,009</u>

See Notes to Financial Statements

Morgan Stanley U.S. Government Money Market Trust

Notes to Financial Statements ■ January 31, 2016

1. Organization and Accounting Policies

Morgan Stanley U.S. Government Money Market Trust (the “Fund”) is registered under the Investment Company Act of 1940, as amended (the “Act”), as a diversified, open-end management investment company. The Fund applies investment company accounting and reporting guidance. The Fund’s investment objectives are security of principal, high current income and liquidity. The Fund was organized as a Massachusetts business trust on November 18, 1981 and commenced operations on February 17, 1982.

The following is a summary of significant accounting policies:

A. Valuation of Investments — Portfolio securities are valued at amortized cost, which approximates fair value, in accordance with Rule 2a-7 under the Act. The amortized cost of an instrument is determined by valuing it at its original cost and thereafter amortizing any discount or premium from its face value at a constant rate until maturity.

B. Accounting for Investments — Security transactions are accounted for on the trade date (date the order to buy or sell is executed). Realized gains and losses on security transactions are determined by the identified cost method. Discounts are accreted and premiums are amortized over the life of the respective securities and are included in interest income. Interest income is accrued daily as earned.

C. Repurchase Agreements — The Fund invests directly with institutions in repurchase agreements. The Fund’s custodian receives the collateral, which is marked-to-market daily to determine that the value of the collateral does not decrease below the repurchase price plus accrued interest as earned. If such a decrease occurs, additional collateral will be requested and, when received, will be added to the account to maintain full collateralization.

The Fund may enter into repurchase agreements in which eligible securities are transferred into joint trading accounts maintained by the custodian for investment companies advised by the Fund’s Adviser. The Portfolio will participate on a pro rata basis with the other investment companies in its share of the securities transferred under such repurchase agreements and in its share of proceeds from any repurchase or other disposition of such securities.

Repurchase agreements are subject to Master Repurchase Agreements, which are agreements between the Fund and its counterparties that typically include provisions which provide for the net settlement of all transactions and collateral with the Fund, through a single payment, in the event of default or termination. Amounts presented on the Portfolio of Investments and Statement of Assets and Liabilities are not net settlement amounts but gross. As indicated on the Portfolio of Investments, the cash or securities to be repurchased exceeds the repurchase price to be paid under the agreement reducing the net settlement amount to zero.

Morgan Stanley U.S. Government Money Market Trust

Notes to Financial Statements ■ January 31, 2016 *continued*

D. When-Issued/Delayed Delivery Securities — The Fund may purchase or sell when-issued and delayed delivery securities. Securities purchased on a when-issued or delayed delivery basis are purchased for delivery beyond the normal settlement date at a stated price, and no income accrues to the Fund on such securities prior to delivery date. Payment and delivery for when-issued and delayed delivery securities can take place a month or more after the date of the transaction. When the Fund enters into a purchase transaction on a when-issued or delayed delivery basis, securities are available for collateral in an amount at least equal in value to the Fund's commitments to purchase such securities. Purchasing securities on a when-issued or delayed delivery basis may involve a risk that the market price at the time of delivery may be lower than the agreed upon purchase price, in which case there could be an unrealized loss at the time of delivery. Purchasing investments on a when-issued or delayed delivery basis may be considered a form of leverage which may increase the impact that gains (losses) may have on the Fund.

E. Dividends and Distributions to Shareholders — Dividends and distributions to shareholders are recorded on the close of each business day. Dividends from net investment income, if any, are declared and paid daily. Net realized capital gains, if any, are distributed at least annually.

F. Use of Estimates — The preparation of financial statements in accordance with generally accepted accounting principles in the United States ("GAAP") requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

G. 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.

2. Fair Valuation Measurements

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

Morgan Stanley U.S. Government Money Market Trust

Notes to Financial Statements ■ January 31, 2016 *continued*

purposes. Various inputs are used in determining the value of the Fund's investments. The inputs are summarized in the three broad levels listed below.

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

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

The following is a summary of the inputs used to value the Fund's investments as of January 31, 2016.

INVESTMENT TYPE	LEVEL 1 UNADJUSTED QUOTED PRICES	LEVEL 2 OTHER SIGNIFICANT OBSERVABLE INPUTS	LEVEL 3 SIGNIFICANT UNOBSERVABLE INPUTS	TOTAL
Assets:				
Repurchase Agreements	\$—	\$ 719,900,000	\$—	\$ 719,900,000
U.S. Agency Securities	—	484,677,869	—	484,677,869
Total Assets	\$—	\$1,204,577,869	\$—	\$1,204,577,869

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 January 31, 2016, the Fund did not have any investments transfer between investment levels.

Morgan Stanley U.S. Government Money Market Trust

Notes to Financial Statements ■ January 31, 2016 *continued*

3. Advisory/Administration Agreements

Pursuant to an Investment Advisory Agreement with Morgan Stanley Investment Management Inc. (the "Adviser"), the Fund pays the Adviser an advisory fee, accrued daily and paid monthly, by applying the following annual rates to the net assets of the Fund determined as of the close of each business day: 0.45% to the portion of the daily net assets not exceeding \$500 million; 0.375% to the portion of the daily net assets exceeding \$500 million but not exceeding \$750 million; 0.325% to the portion of the daily net assets exceeding \$750 million but not exceeding \$1 billion; 0.30% to the portion of the daily net assets exceeding \$1 billion but not exceeding \$1.5 billion; 0.275% to the portion of the daily net assets exceeding \$1.5 billion but not exceeding \$2 billion; 0.25% to the portion of the daily net assets exceeding \$2 billion but not exceeding \$2.5 billion; 0.225% to the portion of the daily net assets exceeding \$2.5 billion but not exceeding \$3 billion; and 0.20% to the portion of the daily net assets exceeding \$3 billion. For the year ended January 31, 2016, the advisory fee rate (net of waivers) was equivalent to an annual effective rate of 0.06% of the Fund's average daily net assets.

The Adviser also serves as the Administrator to the Fund and provides administrative services pursuant to an Administration Agreement for an annual fee, accrued daily and paid monthly, of 0.05% of the Fund's 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 Fund.

The Adviser/Administrator has agreed to assume all operating expenses of the Fund and to waive the advisory fee and administration fee, as applicable, to the extent that such expenses and fees excluding certain investment related expenses, taxes, interest and other extraordinary expenses (including litigation), on an annualized basis exceeds 0.75% of the average daily net assets of the Fund. 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 that the Fund's Board of Trustees, (the "Trustees"), act to discontinue all or a portion of such waivers and/or expense reimbursements when they deem such action is appropriate.

4. Shareholder Services Plan

Pursuant to a Shareholder Services Plan (the "Plan"), the Fund may pay Morgan Stanley Distribution, Inc. (the "Distributor"), an affiliate of the Adviser/Administrator, as compensation for the provision of services to shareholders a service fee up to the rate of 0.15% on an annualized basis of the average daily net assets of the Fund.

Morgan Stanley U.S. Government Money Market Trust

Notes to Financial Statements ■ January 31, 2016 *continued*

Reimbursements for these expenses are made in monthly payments by the Fund to the Distributor, which will in no event exceed an amount equal to a payment at the annual rate of 0.15% of the Fund's average daily net assets during the month. Expenses incurred by the Distributor pursuant to the Plan in any fiscal year will not be reimbursed by the Fund through payments accrued in any subsequent fiscal year. For the year ended January 31, 2016, the distribution fee was accrued at the annual rate of 0.10%.

The Distributor and Adviser/Administrator have agreed to waive all or a portion of the Fund's shareholder services fee, advisory fee and administration fee, respectively, and/or reimburse expenses, to the extent that total expenses exceed total income of the Fund on a daily basis. For the year ended January 31, 2016, the Distributor waived \$1,166,331, and the Adviser waived \$3,815,991. These 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 that the Trustees act to discontinue all or a portion of such waivers and/or expense reimbursements when they deem such action is appropriate.

5. Dividend Disbursing and Transfer Agent

The Fund's dividend disbursing and transfer agent is Boston Financial Data Services, Inc. ("BFDS"). Pursuant to a Transfer Agency Agreement, the Fund pays BFDS a fee based on the number of classes, accounts and transactions relating to the Fund.

6. Transactions with Affiliates

The Fund has an unfunded noncontributory defined benefit pension plan covering certain independent Trustees of the Fund who will have served as independent Trustees for at least five years at the time of retirement. Benefits under this plan are based on factors which include years of service and compensation. The Trustees voted to close the plan to new participants and eliminate the future benefits growth due to increases to compensation after July 31, 2003. Aggregate pension costs for the year ended January 31, 2016, included in "Trustees' fees and expenses" in the Statement of Operations amounted to \$3,542. At January 31, 2016, the Fund had an accrued pension liability of \$55,754, which is included in "Accrued expenses and other payables" in the Statement of Assets and Liabilities.

The Fund has an unfunded Deferred Compensation Plan (the "Compensation Plan"), which allows each independent Trustee to defer payment of all, or a portion, of the fees he or she receives for serving on the Board of Trustees. Each eligible Trustee 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

Morgan Stanley U.S. Government Money Market Trust

Notes to Financial Statements ■ January 31, 2016 *continued*

from these investments are recorded with an offsetting increase/decrease in the deferred compensation obligation and do not affect the net asset value ("NAV") of the Fund.

7. Shares of Beneficial Interest

Transactions in shares of beneficial interest, at \$1.00 per share, were as follows:

	FOR THE YEAR ENDED JANUARY 31, 2016	FOR THE YEAR ENDED JANUARY 31, 2015
Shares sold	3,260,650,083	3,991,503,429
Shares issued in reinvestment of dividends	116,576	129,896
	3,260,766,659	3,991,633,325
Shares redeemed	(3,262,750,574)	(4,307,942,787)
Net decrease in shares outstanding	(1,983,915)	(316,309,462)

8. Risks Relating to Certain Financial Instruments

The Fund may invest in, or receive as collateral for repurchase agreements, securities issued by Federal National Mortgage Association ("FNMA") and Federal Home Loan Mortgage Corporation ("FHLMC"). Securities issued by FNMA and FHLMC are not backed by or entitled to the full faith and credit of the United States and are supported by the right of the issuer to borrow from the U.S. Department of the Treasury.

The Federal Housing Finance Agency ("FHFA") serves as conservator of FNMA and FHLMC and the U.S. Department of the Treasury has agreed to provide capital as needed to ensure FNMA and FHLMC continue to provide liquidity to the housing and mortgage markets.

The Fund may enter into repurchase agreements under which the Fund sends cash and takes possession of securities with an agreement that the counterparty will repurchase such securities. In the event of default on the obligation to repurchase, the Fund has the right to liquidate the collateral and apply the proceeds in satisfaction of the obligation. In the event of default or bankruptcy by the counterparty to the agreement, realization of the collateral proceeds may be subject to certain costs and delays.

9. Federal Income Tax Status

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.

Morgan Stanley U.S. Government Money Market Trust

Notes to Financial Statements ■ January 31, 2016 *continued*

FASB ASC 740-10, "Income Taxes — Overall", sets forth a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken in a tax return. Management has concluded there are no significant uncertain tax positions that would require recognition in the financial statements. If applicable, the Fund recognizes interest accrued related to unrecognized tax benefits in "Interest Expense" and penalties in "Other Expenses" in the Statement of Operations. The Fund files tax returns with the U.S. Internal Revenue Service, New York and various states. Each of the tax years in the four-year period ended January 31, 2016, 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 2016 and 2015 was as follows:

2016 DISTRIBUTIONS PAID FROM:		2015 DISTRIBUTIONS PAID FROM:	
ORDINARY INCOME	LONG-TERM CAPITAL GAIN	ORDINARY INCOME	LONG-TERM CAPITAL GAIN
<u>\$116,576</u>	<u>\$—</u>	<u>\$129,896</u>	<u>\$—</u>

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, due to equalization debits and nondeductible expenses, resulted in the following reclassifications among the Fund's components of net assets at January 31, 2016:

DIVIDENDS IN EXCESS OF NET INVESTMENT INCOME	ACCUMULATED UNDISTRIBUTED NET REALIZED GAIN	PAID-IN-CAPITAL
<u>\$(6,359)</u>	<u>\$(1,009)</u>	<u>\$7,368</u>

Morgan Stanley U.S. Government Money Market Trust

Notes to Financial Statements ■ January 31, 2016 *continued*

At January 31, 2016, the components of distributable earnings for the Fund on a tax basis were as follows:

UNDISTRIBUTED ORDINARY INCOME	UNDISTRIBUTED LONG-TERM CAPITAL GAIN
<u>\$5,285</u>	<u>\$—</u>

10. Other

At January 31, 2016, 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 95.9%.

11. Money Market Fund Regulation

The SEC has adopted changes to the rules that govern money market funds. These changes have a phase-in period ranging from mid-2015 to the latter half of 2016. “Government money market funds,” which are money market funds that invest in cash, U.S. government securities, and/or repurchase agreements that are collateralized fully by government securities, will be exempt from the requirement to consider imposing a redemption fee or suspending redemptions at certain liquidity levels.

Government money market funds will also be exempt from the requirement to operate with a floating NAV and may continue to seek a stable NAV of \$1.00 per share. While the industry is still assessing the impact of these rule changes, they may affect the investment strategies, performance, operating expenses and structure of money market funds. The Fund intends to operate as a “government money market fund,” which allows the Fund to continue to seek a stable NAV. The Fund will also not impose a liquidity fee or temporarily suspend redemptions in the event that the Fund’s weekly liquid assets fall below specified regulatory thresholds.

Morgan Stanley U.S. Government Money Market Trust

Financial Highlights

Selected ratios and per share data for a share of beneficial interest outstanding throughout each period:

	FOR THE YEAR ENDED JANUARY 31,				
	2016	2015	2014	2013	2012
Selected Per Share Data:					
Net asset value, beginning of period	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00
Net income from investment operations	0.000 ⁽¹⁾	0.000 ⁽¹⁾	0.000 ⁽¹⁾	0.000 ⁽¹⁾	0.000 ⁽¹⁾
Less dividends from net investment income	(0.000) ⁽¹⁾	(0.000) ⁽¹⁾	(0.000) ⁽¹⁾	(0.000) ⁽¹⁾	(0.000) ⁽¹⁾⁽²⁾
Net asset value, end of period	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00
Total Return	0.01%	0.01%	0.01%	0.01%	0.01%
Ratios to Average Net Assets:					
Net expenses	0.16% ⁽³⁾	0.09% ⁽³⁾	0.10% ⁽³⁾	0.16% ⁽³⁾	0.09% ⁽³⁾
Net investment income	0.01% ⁽³⁾	0.01% ⁽³⁾	0.01% ⁽³⁾	0.01% ⁽³⁾	0.01% ⁽³⁾
Supplemental Data:					
Net assets, end of period, in millions	\$1,190	\$1,192	\$1,508	\$1,692	\$1,868

(1) Amount is less than \$0.001.

(2) Includes capital gain distribution of less than \$0.001.

(3) If the Fund had borne all of its expenses that were reimbursed or waived by the Distributor and Adviser/Administrator, the annualized expense and net investment loss ratios, would have been as follows:

PERIOD ENDED	EXPENSE RATIO	NET INVESTMENT LOSS RATIO
January 31, 2016	0.59%	(0.42)%
January 31, 2015	0.58	(0.48)
January 31, 2014	0.56	(0.45)
January 31, 2013	0.55	(0.38)
January 31, 2012	0.56	(0.46)

See Notes to Financial Statements

Morgan Stanley U.S. Government Money Market Trust

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Trustees of Morgan Stanley U.S. Government Money Market Trust

We have audited the accompanying statement of assets and liabilities of Morgan Stanley U.S. Government Money Market Trust (the "Fund"), including the portfolio of investments, as of January 31, 2016, 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 Fund'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 Fund'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 Fund'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 January 31, 2016, 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 Morgan Stanley U.S. Government Money Market Trust at January 31, 2016, 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
March 18, 2016

Morgan Stanley U.S. Government Money Market Trust

U.S. Privacy Policy (unaudited)

An Important Notice Concerning Our U.S. Privacy Policy

This privacy notice describes the U.S. privacy policy of Morgan Stanley Distribution, Inc., and the Morgan Stanley family of mutual funds (“us”, “our”, “we”).

We are required by federal law to provide you with notice of our U.S. privacy policy (“Policy”). This Policy applies to both our current and former clients unless we state otherwise and is intended for individual clients who purchase products or receive services from us for personal, family or household purposes. This Policy is not applicable to partnerships, corporations, trusts or other non-individual clients or account holders, nor is this Policy applicable to individuals who are either beneficiaries of a trust for which we serve as trustee or participants in an employee benefit plan administered or advised by us. This Policy is, however, applicable to individuals who select us to be a custodian of securities or assets in individual retirement accounts, 401(k) accounts, or accounts subject to the Uniform Gifts to Minors Act.

This notice sets out our business practices to protect your privacy; how we collect and share personal information about you; and how you can limit our sharing or certain uses by others of this information. We may amend this Policy at any time, and will inform you of any changes to our Policy as required by law.

We Respect Your Privacy

We appreciate that you have provided us with your personal financial information and understand your concerns about your information. We strive to safeguard the information our clients entrust to us. Protecting the confidentiality and security of client information is an important part of how we conduct our business.

This notice describes what personal information we collect about you, how we collect it, when we may share it with others, and how certain others may use it. It discusses the steps you may take to limit our sharing of certain information about you with our affiliated companies, including, but not limited to our affiliated banking businesses, brokerage firms and credit service affiliates. It also discloses how you may limit our affiliates’ use of shared information for marketing purposes.

Throughout this Policy, we refer to the nonpublic information that personally identifies you as “personal information.” We also use the term “affiliated company” in this notice. An affiliated company is a company in our family of companies and includes companies with the Morgan Stanley name. These affiliated companies are financial institutions such as broker-dealers, banks, investment advisers and credit card issuers. We refer to any company that is not an affiliated company as a nonaffiliated third party. For purposes of Section 5 of this notice, and your ability to limit certain uses of personal information by our affiliates, this notice applies to the use of personal information by our affiliated companies.

Morgan Stanley U.S. Government Money Market Trust

U.S. Privacy Policy (unaudited) *continued*

1. What Personal Information Do We Collect From You?

We may collect the following types of information about you: (i) information provided by you, including information from applications and other forms we receive from you, (ii) information about your transactions with us or our affiliates, (iii) information about your transactions with nonaffiliated third parties, (iv) information from consumer reporting agencies, (v) information obtained from our websites, and (vi) information obtained from other sources. For example:

- We collect information such as your name, address, e-mail address, telephone/fax numbers, assets, income and investment objectives through applications and other forms you submit to us.
- We may obtain information about account balances, your use of account(s) and the types of products and services you prefer to receive from us through your dealings and transactions with us and other sources.
- We may obtain information about your creditworthiness and credit history from consumer reporting agencies.
- We may collect background information from and through third-party vendors to verify representations you have made and to comply with various regulatory requirements.

2. When Do We Disclose Personal Information We Collect About You?

We may disclose personal information we collect about you in each of the categories listed above to affiliated and nonaffiliated third parties.

a. Information We Disclose to Affiliated Companies. We may disclose personal information that we collect about you to our affiliated companies to manage your account(s) effectively, to service and process your transactions, and to let you know about products and services offered by us and affiliated companies, to manage our business, and as otherwise required or permitted by law. Offers for products and services from affiliated companies are developed under conditions designed to safeguard your personal information.

b. Information We Disclose to Third Parties. We may disclose personal information that we collect about you to nonaffiliated third parties to provide marketing services on our behalf or to other financial institutions with whom we have joint marketing agreements. We may also disclose all of the information we collect to other nonaffiliated third parties for our everyday business purposes, such as to process transactions, maintain account(s), respond to court orders and legal investigations, report to credit bureaus, offer our own products and services, protect against fraud, for institutional risk control, to perform services on our behalf, and as otherwise required or permitted by law.

Morgan Stanley U.S. Government Money Market Trust

U.S. Privacy Policy (unaudited) *continued*

When we share personal information about you with a nonaffiliated third party, they are required to limit their use of personal information about you to the particular purpose for which it was shared and they are not allowed to share personal information about you with others except to fulfill that limited purpose or as may be permitted or required by law.

3. How Do We Protect The Security and Confidentiality Of Personal Information We Collect About You?

We maintain physical, electronic and procedural security measures that comply with applicable law and regulations to help safeguard the personal information we collect about you. We have internal policies governing the proper handling of client information by employees. Third parties that provide support or marketing services on our behalf may also receive personal information about you, and we require them to adhere to appropriate security standards with respect to such information.

4. How Can You Limit Our Sharing Certain Personal Information About You With Our Affiliated Companies For Eligibility Determination?

By following the opt-out procedures in Section 6 below, you may limit the extent to which we share with our affiliated companies, personal information that was collected to determine your eligibility for products and services such as your credit reports and other information that you have provided to us or that we may obtain from third parties ("eligibility information"). Eligibility information does not include your identification information or personal information pertaining to our transactions or experiences with you. Please note that, even if you direct us not to share eligibility information with our affiliated companies, we may still share your personal information, including eligibility information, with our affiliated companies under circumstances that are permitted under applicable law, such as to process transactions or to service your account.

5. How Can You Limit the Use of Certain Personal Information About You by Our Affiliated Companies for Marketing?

By following the opt-out instructions in Section 6 below, you may limit our affiliated companies from marketing their products or services to you based on personal information we disclose to them. This information may include, for example, your income and account history with us. Please note that, even if you choose to limit our affiliated companies from using personal information about you that we may share with them for marketing their products and services to you, our affiliated companies may use your personal information that they obtain from us to market to you in circumstances permitted by law, such as if the affiliated party has its own relationship with you.

Morgan Stanley U.S. Government Money Market Trust

U.S. Privacy Policy (unaudited) *continued*

6. How Can You Send Us an Opt-Out Instruction?

If you wish to limit our sharing of eligibility information about you with our affiliated companies, or our affiliated companies' use of personal information for marketing purposes, as described in this notice, you may do so by:

- Calling us at (800) 548-7786
Monday–Friday between 8a.m. and 6p.m. (EST)
- Writing to us at the following address:
Boston Financial Data Services, Inc.
c/o Privacy Coordinator
P.O. Box 219804
Kansas City, Missouri 64121

If you choose to write to us, your request should include: your name, address, telephone number and account number(s) to which the opt-out applies and whether you are opting out with respect to sharing of eligibility information (Section 4 above), or information used for marketing (Section 5 above), or both. Written opt-out requests should not be sent with any other correspondence. In order to process your request, we require that the request be provided by you directly and not through a third party. Once you have informed us about your privacy preferences, your opt-out preference will remain in effect with respect to this Policy (as it may be amended) until you notify us otherwise. If you are a joint account owner, we will accept instructions from any one of you and apply those instructions to the entire account.

Please understand that if you limit our sharing or our affiliated companies' use of personal information, you and any joint account holder(s) may not receive information about our affiliated companies' products and services, including products or services that could help you manage your financial resources and achieve your investment objectives.

If you have more than one account or relationship with us, please specify the accounts to which you would like us to apply your privacy choices. If you have accounts or relationships with our affiliates, you may receive multiple privacy policies from them, and will need to separately notify those companies of your privacy choices for those accounts or relationships.

7. What if an affiliated company becomes a nonaffiliated third party?

If, at any time in the future, an affiliated company becomes a nonaffiliated third party, further disclosures of personal information made to the former affiliated company will be limited to those described in Section 2(b) above relating to nonaffiliated third parties. If you elected under Section 6 to limit disclosures we make to affiliated companies, or use of personal information by affiliated companies,

Morgan Stanley U.S. Government Money Market Trust

U.S. Privacy Policy (unaudited) *continued*

your election will not apply to use by any former affiliated company of your personal information in their possession once it becomes a nonaffiliated third party.

Special Notice to Residents of Vermont

The following section supplements our Policy with respect to our individual clients who have a Vermont address and supersedes anything to the contrary in the above Policy with respect to those clients only.

The State of Vermont requires financial institutions to obtain your consent prior to sharing personal information that they collect about you with nonaffiliated third parties, or eligibility information with affiliated companies, other than in certain limited circumstances. Except as permitted by law, we will not share personal information we collect about you with nonaffiliated third parties or eligibility information with affiliated companies, unless you provide us with your written consent to share such information.

Special Notice to Residents of California

The following section supplements our Policy with respect to our individual clients who have a California address and supersedes anything to the contrary in the above Policy with respect to those clients only.

In response to a California law, if your account has a California home address, your personal information will not be disclosed to nonaffiliated third parties except as permitted by applicable California law, and we will limit sharing such personal information with our affiliates to comply with California privacy laws that apply to us.

Morgan Stanley U.S. Government Money Market Trust

Trustee and Officer Information (unaudited)

Independent Trustees:

Name, Age and Address of Independent Trustee	Position(s) Held with Registrant	Length of Time Served*	Principal Occupation(s) During Past 5 Years and Other Relevant Professional Experience	Number of Portfolios in Fund Complex Overseen by Trustee**	Other Directorships Held by Independent Trustee***
Frank L. Bowman (71) c/o Kramer Levin Naftalis & Frankel LLP Counsel to the Independent Trustees 1177 Avenue of the Americas New York, NY 10036	Trustee	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 Compliance and Insurance Committee (since October 2015); Formerly, Chairperson of the Insurance Sub-Committee of the Compliance and Insurance Committee (February 2007-December 2015); 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'Ordre 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 Emeritus of the Armed Services YMCA; Director of the U.S. Naval Submarine League; 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; and Director of other various non-profit organizations.

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Trustee and Officer Information (unaudited) *continued*

Name, Age and Address of Independent Trustee	Position(s) Held with Registrant	Length of Time Served*	Principal Occupation(s) During Past 5 Years and Other Relevant Professional Experience	Number of Portfolios in Fund Complex Overseen by Trustee**	Other Directorships Held by Independent Trustee ***
Kathleen A. Dennis (62) c/o Kramer Levin Naftalis & Frankel LLP Counsel to the Independent Trustees 1177 Avenue of the Americas New York, NY 10036	Trustee	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 nonprofit organizations.
Nancy C. Everett (61) c/o Kramer Levin Naftalis & Frankel LLP Counsel to the Independent Trustees 1177 Avenue of the Americas New York, NY 10036	Trustee	Since January 2015	Chief Executive Officer, Virginia Commonwealth University Investment Company (since November 2015); Owner OBIR, LLC (institutional investment management consulting) (since June 2014); formerly, Managing Director, BlackRock, Inc. (February 2011-December 2013); and Chief Executive Officer, General Motors Asset Management (a/k/a Promark Global Advisors, Inc.) (June 2005-May 2010).	98	Member of Virginia Commonwealth University School of Business Foundation; formerly, Member of Virginia Commonwealth University Board of Visitors (2013-2015); Member of Committee on Directors for Emerging Markets Growth Fund, Inc. (2007-2010); Chairperson of Performance Equity Management, LLC (2006-2010); and Chairperson, GMAM Absolute Return Strategies Fund, LLC (2006-2010).
Jakki L. Haussler (58) c/o Kramer Levin Naftalis & Frankel LLP Counsel to the Independent Trustees 1177 Avenue of the Americas New York, NY 10036	Trustee	Since January 2015	Chairman and Chief Executive Officer, Opus Capital Group (since January 1996); and formerly, Director, Capvest Venture Fund, LP (May 2000-December 2011); Partner, Adena Ventures, LP (July 1999-December 2010); Director, The Victory Funds (February 2005-July 2008).	98	Director of Cincinnati Bell Inc. and Member, Audit Committee and Compensation Committee; Director of Northern Kentucky University Foundation and Member, Investment Committee; Member of Chase College of Law Transactional Law Practice Center Board of Advisors; Director of Best Transport; Chase College of Law Board of Visitors; formerly Member, University of Cincinnati Foundation Investment Committee; Member, Miami University Board of Visitors (2008-2011); Trustee of Victory Funds (2005-2008) and Chairman, Investment Committee (2007-2008) and Member, Service Provider Committee (2005-2008).

Morgan Stanley U.S. Government Money Market Trust

Trustee and Officer Information (unaudited) *continued*

Name, Age and Address of Independent Trustee	Position(s) Held with Registrant	Length of Time Served*	Principal Occupation(s) During Past 5 Years and Other Relevant Professional Experience	Number of Portfolios in Fund Complex Overseen by Trustee**	Other Directorships Held by Independent Trustee * * *
Dr. Manuel H. Johnson (67) c/o Johnson Smick International, Inc. 220 I Street, N.E. — Suite 200 Washington, D.C. 20002	Trustee	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.	100	Director of NVR, Inc. (home construction).
Joseph J. Kearns (73) c/o Kearns & Associates LLC 23823 Malibu Road S-50-440 Malibu, CA 90265	Trustee	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). Prior to December 31, 2013, Director of The Ford Family Foundation.

Morgan Stanley U.S. Government Money Market Trust

Trustee and Officer Information (unaudited) *continued*

Name, Age and Address of Independent Trustee	Position(s) Held with Registrant	Length of Time Served*	Principal Occupation(s) During Past 5 Years and Other Relevant Professional Experience	Number of Portfolios in Fund Complex Overseen by Trustee**	Other Directorships Held by Independent Trustee***
Michael F. Klein (57) c/o Kramer Levin Naftalis & Frankel LLP Counsel to the Independent Trustees 1177 Avenue of the Americas New York, NY 10036	Trustee	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).	97	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 (79) 522 Fifth Avenue New York, NY 10036	Chair of the Board and Trustee	Chair of the Boards since July 2006 and Trustee since July 1991	Chair 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.

Morgan Stanley U.S. Government Money Market Trust

Trustee and Officer Information (unaudited) *continued*

Name, Age and Address of Independent Trustee	Position(s) Held with Registrant	Length of Time Served*	Principal Occupation(s) During Past 5 Years and Other Relevant Professional Experience	Number of Portfolios in Fund Complex Overseen by Trustee**	Other Directorships Held by Independent Trustee***
W. Allen Reed (68) c/o Kramer Levin Naftalis & Frankel LLP Counsel to the Independent Trustees 1177 Avenue of the Americas New York, NY 10036	Trustee	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 Legg Mason, Inc.; formerly Director of the Auburn University Foundation (2010-2015).
Fergus Reid (83) c/o Joe Pietryka, Inc. 85 Charles Colman Blvd. Pawling, NY 12564	Trustee	Since June 1992	Chairman, Joe Pietryka, Inc.; Chairperson of the Governance Committee and Director or Trustee of various Morgan Stanley Funds since June 1992).	100	Formerly, Trustee and Director of certain investment companies in the JP Morgan Fund Complex managed by JP Morgan Investment Management Inc. (1987-2012).

Interested Trustee:

Name, Age and Address of Interested Trustee	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 Trustee**	Other Directorships Held by Interested Trustee***
James F. Higgins (68) One New York Plaza, New York, NY 10004	Trustee	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).

* This is the earliest date the Trustee began serving the Morgan Stanley Funds. Each Trustee serves an indefinite term, until his or her successor is elected.

** The Fund Complex includes (as of December 31, 2015) 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 Trustee at any time during the past five years.

Morgan Stanley U.S. Government Money Market Trust

Trustee and Officer Information (unaudited) *continued*

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 (52) 522 Fifth Avenue New York, NY 10036	President and Principal Executive Officer	Since September 2013	President and Principal Executive Officer of the Equity and Fixed Income Funds and the Morgan Stanley AIP Funds (since September 2013) and the Liquidity Funds and various money market funds (since May 2014) in the Fund Complex, Managing Director of the Adviser; Head of Product (since 2006).
Stefanie V. Chang Yu (49) 522 Fifth Avenue New York, NY 10036	Chief Compliance Officer	Since December 1997	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 (50) 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 (50) 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 (since July 2003) and Principal Financial Officer of various Morgan Stanley Funds (since September 2002).
Mary E. Mullin (48) 522 Fifth Avenue New York, NY 10036	Secretary	Since June 1999	Executive Director of the Adviser; Secretary of various Morgan Stanley Funds (since June 1999).

* This is the earliest date the officer began serving the Morgan Stanley Funds. Each officer serves a one-year term, until his or her successor is elected and has qualified.

