Performance Review

In the quarter period ending December 31, 2020, the Portfolio’s I shares returned 2.01% (net of fees), while the benchmark returned 0.67%.

Market Review and Outlook

An extraordinary finish to an extraordinary year. Asset returns continued their ascent in the final quarter of 2020. Outside of U.S. Treasuries, it was hard to find an investment that disappointed. Investment grade, high yield and emerging markets all generated stellar relative and absolute returns, with high yield and emerging markets leading the way. This was all the more surprising given the deteriorating economic data, whether it be employment in the U.S. or growth dynamics in Europe. Of course, this can all be blamed on the resurgence of the pandemic and the inability of governments to stop it. But there was a silver lining: vaccines. Confidence that vaccine rollouts would lead to “normal” economies in 2021 overcame worries about near-term lockdowns, rising hospitalizations and fatalities.

For the year as whole, despite all the challenges both economic and virus related, asset class returns surprised to the upside. Poor returns were confined to sectors directly impacted by COVID-19 like energy and commercial real estate. What was truly amazing was that, for the year as a whole, in many respects, it looked like a boring year; as it looked like hardly anything changed. Investment grade corporate bond spreads widened by a mere 3 basis points (bps), and high yield corporate bond spreads widened only 24 bps. U.S. Treasury yields did fall meaningfully, though, and the Fed did cut rates by 150 bps, generating well above average returns. Of course, overall market performance hid wide dispersions in returns among subsectors, like energy versus tech, and over time, as the bounce back that began in April offset a poor first quarter. Unprecedented policy support was able to turn a desperate year (as of March) into a fine year. One of the biggest questions for 2021 is how much of the surprisingly high returns in 2020 borrowed from 2021, the year when the world is supposed to return to normal.

There are several good reasons to be optimistic about the reflation/recovery theme and the potential outperformance of credit-sensitive assets. Growth is expected to be strong, with consensus estimates of 5-7% looking very possible; the global economic rebound is likely to be synchronized; policy rates are zero (in most of the world outside of emerging markets); short- and long-term real yields are negative; financial conditions are at record easy levels in the U.S. and easy everywhere else; additional fiscal easing is coming in the U.S. and Europe; commodity prices are rising; and inflation is stuck at a low level. These conditions are an excellent backdrop for risk-taking.

Indeed, as has been the case for much of the past few years, monetary and fiscal policy are likely to play a critical role in asset performance in 2021. The key difference is that policy support will accompany an economic rebound (i.e., be pro-cyclical) in 2021, versus offsetting an economic deterioration (i.e., being counter-cyclical) in 2020. The goal of policy is to ensure that the economic rebound is big enough and lasts long enough to produce enough aggregate demand to close the output gap, raise wages and engineer a return to trend growth. This process is unlikely to be smooth, and asset prices and interest rates will fluctuate along the way. In this environment, active management, security selection and valuation will be critical to generate a robust fixed income strategy.

Source: Bloomberg L.P. Data as of December 31, 2020. One basis point = 0.01%

This document constitutes a commentary and does not constitute investment advice nor a recommendation to invest. The value of investments may rise as well as fall. Independent advice should be sought before any decision to invest.
In the fourth quarter, 2-year yields were again unchanged, and 5-, 10- and 30-year rates rose by 8, 23 and 19 bps, respectively.\(^2\) Longer-maturity yields have recently exhibited more volatility than shorter maturities as Fed policy is keeping yields on the shorter maturity bonds in a tight range. For the year, 2-, 5-, 10- and 30-year yields fell by 145, 133, 100 and 74 bps, respectively.\(^2\)

Corporate spreads again tightened during the quarter. The Bloomberg Barclays U.S. Corporate Index spreads declined by 40 bps to end the year at 96 bps over government bonds.\(^3\) They were driven by continued positive sentiment from vaccine announcements (with the first doses administered in December), central bank support, strong equity markets and higher oil/commodity prices, and strong demand for credit in a period of limited supply going into year end.

Looking forward, we expect 2021 to start with a positive backdrop for corporates, supported by expectations of an economic rebound, continued positive support from monetary and fiscal policy, companies maintaining conservative strategies until the real economy normalizes, and demand staying strong as government bonds offer little yield. Though later in the year, sentiment could change if merger and acquisition activity increases, concerns grow about the Fed dialing back its support, and/or the “fear of missing out” turns to fear of owning bonds at valuations that look historically expensive.

Both agency mortgage-backed securities (MBS) and securitized credit performed strongly in the fourth quarter. Nominal spreads on current coupon agency MBS tightened 20 bps to 71 bps above comparable duration U.S. Treasuries, the tightest spread since the second quarter of 2019.\(^2\) The Fed purchased almost $15 trillion agency MBS in 2020, and is expected to continue buying more agency MBS in 2021, as long as economic conditions remain challenging. The Fed’s MBS purchases have recently been primarily concentrated in 30-year 2.0% and 30-year 2.5% coupons, and the to-be-announced (TBA) rolls in these lower coupons have offered attractive carry in recent months as a result (i.e., traded special). Mortgage rates hit new historic lows again in December (2.67% for a 30-year fixed rate), which should help keep refinancings at elevated levels.\(^4\)

U.S. non-agency residential MBS spreads continued to tighten in the quarter, with AAA spreads now ranging from +80-90 bps, and BBB spreads ranging from +170-200 bps.\(^5\) Mortgage fundamental performance continues to be generally positive. Loan delinquencies and forbearance requests continue to decline from the peaks in April, and remain much lower than most analysts feared, given the challenging economic situation. National home prices are up 8% over the past year ended October 2020, fueled by record low mortgage rates and historically low housing supply.\(^6\)

U.S. asset-backed securities (ABS) and commercial MBS spreads have also tightened recently. Strong fundamental consumer credit performance has helped many sectors. More distressed sectors such as aircraft and mortgage servicing ABS and hotel and retail CMBS experienced more significant spread tightening in the quarter, although these sectors are still trading at substantially wider levels than they were in February.

Agency MBS looks moderately expensive, having tightened consistently since March when the Fed renewed its MBS purchase program. But they should benefit from continued Fed support in 2021. We expect non-agency residential MBS to perform well in 2021. Home prices should remain stable, supported by historically low mortgage rates and very limited housing supply. Mortgage delinquency/default rates should remain at modest levels, substantially below structural credit protection levels for most securities.

U.S. ABS has a mixed outlook for 2021, with traditional consumer ABS (credit cards and auto loans) looking relatively expensive while the most COVID-challenged ABS sectors offer much greater recovery potential. CMBS remains a stressed but potentially opportunistic sector. Hotels and shopping centers have been severely impacted by the pandemic and remain vulnerable to high levels of defaults. There is significant recovery potential in these sectors but also substantial risk. Multi-family housing (apartments) and office buildings have performed better and have lower risks of near-term defaults, but these sectors could still face challenges if there are fundamental shifts in how people want to live and work in the post-pandemic world. We anticipate a meaningful decline in rent and occupancy levels, particularly in major cities, which could impact property valuations and refinancing prospects. Industrial and logistics centers seem poised to benefit from the pandemic with increased demand, and appear more stable from a credit and valuation perspective.

In emerging market (EM) debt, the J.P. Morgan EMBI Global Index spread tightened by 75 bps in the fourth quarter to 323 bps above Treasuries. Conditions for EM debt outperformance in the near term appear to be in place, despite the recent tightening of lockdown measures around the world in response to a rapid increase in COVID-19 infections. Our constructive view on risk assets is predicated on a global backdrop of steady, extended monetary accommodation, an ongoing rollout of multiple vaccines in the developed world (and parts of EM), and expectations of looser fiscal policy under the incoming Biden administration. Moreover, the incoming U.S. administration, by signaling a more cooperative and multilateral foreign policy stance, may alleviate trade tensions and support global trade, thus further supporting EM assets. Though we are cognizant that

\(^2\) Source: Bloomberg L.P. Data as of December 31, 2020. One basis point = 0.01%
excessive optimism about reduced trade frictions under a Biden administration (particularly in U.S.-China relations) could challenge our positive scenarios for global trade and growth, and thus negatively impact the performance of growth-sensitive EM assets.

Portfolio Strategy and Analysis

The portfolio’s outperformance over the quarter was mainly due to spread sector decisions. The portfolio’s overweight to securitized credit (non-agency RMBS, CMBS and ABS) contributed to performance, as spreads continued to tighten over the quarter. Corporate credit positioning also contributed to relative performance, as spreads tightened over the quarter as well, across both investment grade and high yield. The portfolio’s exposure to bank loans, emerging markets external debt and convertibles added to performance as they continued to recover after the sell-off seen in the first quarter. There were no meaningful detractors from relative performance over the quarter.

The MSIFT Core Plus Fixed Income Portfolio continues to be a well-diversified, conservative bond fund aimed at providing investors with traditional fixed income exposure while aiming to achieve a yield advantage relative to the benchmark. Our active approach to managing the portfolio allows us to simultaneously source attractive risk-adjusted opportunities in the markets while reducing exposure in any areas that we think may become problematic.

<table>
<thead>
<tr>
<th>FUND FACTS</th>
<th>Base currency</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Launch date</td>
<td>U.S. dollars</td>
<td>Bloomberg Barclays U.S. Aggregate Index</td>
</tr>
</tbody>
</table>

Performance (%)
As of date December 31, 2020 (Class I Share at NAV)

<table>
<thead>
<tr>
<th></th>
<th>MTD</th>
<th>QTD</th>
<th>YTD</th>
<th>1 YR</th>
<th>3 YR</th>
<th>5 YR</th>
<th>10 YR</th>
<th>SINCE INCEPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSIFT Core Plus Fixed Income Portfolio - I Shares</td>
<td>0.72</td>
<td>2.01</td>
<td>7.82</td>
<td>7.82</td>
<td>5.93</td>
<td>7.16</td>
<td>5.90</td>
<td>7.18</td>
</tr>
<tr>
<td>Bloomberg Barclays U.S. Aggregate Index</td>
<td>0.14</td>
<td>0.67</td>
<td>7.51</td>
<td>7.51</td>
<td>5.34</td>
<td>4.44</td>
<td>3.84</td>
<td>6.87</td>
</tr>
</tbody>
</table>

Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. For the most recent month end performance figures, please visit morganstanley.com/im. Investment returns and principal value will fluctuate and fund shares, when redeemed, may be worth more or less than their original cost.

The gross expense ratio is 0.67% for Class I shares and the net expense ratio is 0.42%. Where the net expense ratio is lower than the gross expense ratio, certain fees have been waived and/or expenses reimbursed. These waivers and/or reimbursements will continue for at least one year from the date of the applicable fund's current prospectus (unless otherwise noted in the applicable prospectus) or until such time as the fund's Board of Directors acts to discontinue all or a portion of such waivers and/or reimbursements. Absent such waivers and/or reimbursements, returns would have been lower. Expenses are based on the fund's current prospectus. The minimum initial investment is $5,000,000.

Returns are net of fees and assume the reinvestment of all dividends and income. They are compared to an unmanaged market index. Returns for less than one year are cumulative (not annualized). Performance for one year or more is based on average annual total returns. The returns are reported for Class I shares. Performance for other share classes will vary.

The fund has received proceeds related to certain non-recurring litigation settlements. If these monies were not received, any period returns which include these settlement monies would have been lower. These were one-time settlements, and as a result, the impact on the net asset value and consequently the performance will not likely be repeated in the future. Rankings for the fund were more favorable due to these settlements and ratings may also have been positively impacted. Please visit www.morganstanley.com/im for additional details.
RISK CONSIDERATIONS

There is no assurance that a Portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by the Portfolio will decline and that the value of Portfolio shares may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing in this Portfolio. Please be aware that this Portfolio may be subject to certain additional risks. Fixed-income securities are subject to the ability of an issuer to make timely principal and interest payments (credit risk), changes in interest rates (interest-rate risk), the creditworthiness of the issuer and general market liquidity (market risk). In a rising interest-rate environment, bond prices may fall and may result in periods of volatility and increased portfolio redemptions. In a declining interest-rate environment, the portfolio may generate less income. Longer-term securities may be more sensitive to interest rate changes. Mortgage- and asset-backed securities are sensitive to early prepayment risk and a higher risk of default and may be hard to value and difficult to sell (liquidity risk). They are also subject to credit, market and interest rate risks. Municipal securities are subject to early redemption risk and sensitive to tax, legislative and political changes. High yield securities (“junk bonds”) are lower rated securities that may have a higher degree of credit and liquidity risk. Public bank loans are subject to liquidity risk and the credit risks of lower rated securities. Foreign securities are subject to currency, political, economic and market risks. The risks of investing in emerging market countries are greater than risks associated with investments in foreign developed countries. Derivative instruments may disproportionately increase losses and have a significant impact on performance. They also may be subject to counterparty, liquidity, valuation, correlation and market risks. Restricted and illiquid securities may be more difficult to sell and value than publicly traded securities (liquidity risk).

INDEX INFORMATION

The Bloomberg Barclays U.S. Aggregate Index tracks the performance of all U.S. government agency and Treasury securities, investment-grade corporate debt securities, agency mortgage-backed securities, asset-backed securities and commercial mortgage-backed securities. The Indexes are unmanaged and do not include any expenses, fees or sales charges. It is not possible to invest directly in an Index.

The Bloomberg Barclays U.S. Corporate Index is a broad-based benchmark that measures the investment grade, fixed-rate, taxable, corporate bond market.

JP Morgan Emerging Markets Bond Global Index tracks total returns for traded external debt instruments in the emerging markets, and is an expanded version of the EMBI+. As with the EMBI+, the EMBI Global includes US dollar-denominated Brady bonds, loans, and Eurobonds with an outstanding face value of at least $500 million.

S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index measures U.S. residential real estate prices, tracking changes in the value of residential real estate nationally.

IMPORTANT INFORMATION

The views and opinions expressed are those of the investment team at the time of writing and are subject to change at any time due to market, economic, or other conditions, and may not necessarily come to pass. These comments are not representative of the opinions and views of the firm as a whole. Holdings and sectors/region weightings are subject to change daily. All information provided is for informational purposes only and should not be deemed as a recommendation to buy or sell securities in the sectors and regions referenced.

This material is a general communication, which is not impartial and all information provided has been prepared solely for informational and educational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The information herein has not been based on a consideration of any individual investor circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

Certain information herein is based on data obtained from third party sources believed to be reliable. However, we have not verified this information, and we make no representations whatsoever as to its accuracy or completeness.

Please consider the investment objective, risks, charges and expenses of the fund carefully before investing. The prospectus contains this and other information about the fund. To obtain a prospectus, download one at morganstanley.com/im or call 1-800-548-7786. Please read the prospectus carefully before investing.

Morgan Stanley Investment Management is the asset management division of Morgan Stanley.

NOT FDIC INSURED | OFFER NO BANK GUARANTEE | MAY LOSE VALUE | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY | NOT A DEPOSIT