Performance

In the quarter period ending December 31, 2019, the Portfolio’s I shares returned 1.33% (net of fees)\(^1\), while the benchmark returned 1.18%.

This brings year-to-date performance to 15.72% (net of fees) for the Fund’s I shares, while the benchmark returned 14.54%.

Market Review

The final quarter of 2019 provided a remarkable ending to a remarkable year. The world’s issues seemed to vanish as financial markets rallied. Government bond yields rose, driven by reduced trade tensions, better economic data and renewed optimism that the economic malaise that had consumed the world for the past two years was coming to an end. Credit markets enjoyed meaningful tightening in their spreads.

At its December meeting, the Federal Reserve suggested that it will keep interest rates on hold through 2020, unless the economic landscape deteriorates drastically and warrants additional action. With central banks likely to be firmly on hold in 2020, the lagged positive effects of monetary easing still likely to be felt, fiscal policy neutral to easy and inflation stable to slightly higher, we think the environment is still supportive for non-government bonds. Although with credit spreads at or close to cyclical lows, we still believe that caution is warranted.

Corporate spreads tightened during the fourth quarter. The Bloomberg Barclays U.S. Corporate Index spread fell 22 basis points (bps) to end the month at 93 bps over government bonds, its tightest level of the year (and 60 bps tighter than where they started the year).\(^2\) Risk was rewarded, as lower-quality and longer-maturity bonds performed the best. The key drivers of tighter spreads were (1) a reported agreement on a U.S.-China "phase one" trade deal, (2) a victory for the Tories in the U.K. election reducing Brexit uncertainty, (3) macroeconomic data continuing a stabilization trend, (4) minimal negative corporate news and (5) low supply in a period of strong demand.

Portfolio Strategy and Analysis

Over the quarter, the Fund’s overall investment grade positioning contributed positively to performance, primarily driven by the Fund’s overweight positioning to financials, specifically the banking and insurance sectors. Within non-financials, overweight positioning in the consumer cyclical and electric sectors was also additive; however, this was partially offset by an underweight to technology and consumer non-cyclicals, which detracted from returns. A small allocation to high yield and convertible bonds had a positive impact on performance over the quarter, as did the Fund’s duration positioning.

As of December 31, 2019, the Fund is positioned to be modestly underweight credit risk as measured by spread duration, but remains biased towards some wider-spread credits and sectors. Specifically, the Fund is overweight financials and utilities and underweight industrials. Over the period, we slightly decreased our underweight to industrials by reducing our financials overweight.

The Fund remains neutral duration and continues to hold small allocations to high yield bonds and convertible bonds.


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.
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. 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

Outlook

We expect 2020 to be a year of two halves, with credit initially well supported by the improving economic backdrop, reduced political risk and strong demand for credit. As we move to the second half of 2020, we expect the uncertainty experienced in recent years to repeat, impacting confidence that the economy is rebounding. Whether the cause is fear of a recession, political volatility or liquidation of credit positions creating a weak technical, we believe the result will be a year of two halves that warrants active management of credit and reducing risk following periods of spread tightening by rotating to higher-quality, shorter-maturity credit.

<table>
<thead>
<tr>
<th>Performance (%)</th>
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<tbody>
<tr>
<td>As of date December 31, 2019 (Class I Share at NAV)</td>
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<tr>
<td>Index</td>
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<td>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.</td>
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<td>The gross expense ratio is 0.97% for Class I shares and the net expense ratio is 0.70%. 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.</td>
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<td>The minimum initial investment is $5,000,000.</td>
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<td>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.</td>
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<td>Please keep in mind that high double-digit returns are highly unusual and cannot be sustained. Investors should also be aware that these returns were primarily achieved during favorable market conditions.</td>
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<td>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. Please visit <a href="http://www.morganstanley.com/im">www.morganstanley.com/im</a> for additional details.</td>
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generate less income. **Longer-term securities** may be more sensitive to interest rate changes. **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. Corporate Index is a broad-based benchmark that measures the investment grade, fixedrate, taxable, corporate bond market. The index is unmanaged and does not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

**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.

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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 objectives, risks, charges and expenses of the fund carefully before investing. The prospectus contains this and other information about the fund. To obtain a prospectus, contact your financial advisor or download one at morganstanley.com/im. Please read the prospectus carefully before investing.

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