Performance Review

In the quarter period ending December 31, 2019, the Portfolio’s I shares returned 3.78% (net of fees)\(^1\), while the benchmark returned 3.08%.

During the period, the portfolio benefited from both rates and currencies in local markets, as well as allocation across and security selection within countries. The countries that contributed the most to performance were Mexico, Russia, Argentina, Brazil, South Africa and Egypt. Conversely, holdings in Lebanon, Chile, Venezuela, Ecuador and Lithuania detracted from performance.

Market Overview

Emerging markets (EM) fixed income assets had a strong quarter as improving risk appetite more than offset the negative impact of higher U.S. Treasury yields. The improvement in sentiment was primarily attributed to positive geopolitical developments as the probability of a hard Brexit was reduced following the electoral win of Boris Johnson’s Conservative Party and the U.S. and China appeared to be close to signing a phase one trade deal. Also contributing to the positive momentum were some signs of stabilization in global economic growth. China’s economy showed stabilization in credit growth, improvement in purchasing managers indexes, increased investment, and better housing and retail sales. EM currencies strengthened versus the dollar, leading the way for EM fixed income returns. Dollar-denominated corporate debt outpaced sovereign debt as both segments were driven by higher yielding countries and companies. Commodity prices also rose in the period, with broad gains in energy, metals and agriculture products and the only notable exceptions being natural gas, iron ore and nickel.

The broader EM debt market returned 3.18% in the period as measured by the Blended Index, an equal-weighted index comprised of the JP Morgan GBI-EM Global Diversified Index (domestic debt), JP Morgan EMBI Global Index (external debt) and the JP Morgan CEMBI BD Index (corporate debt). EM local currency debt outpaced dollar-denominated debt with a return of 5.20%.\(^2\) Within the dollar segment, corporates debt led the way with a return of 2.21%, outpacing the return of sovereign debt, which returned 2.09%.\(^2\)

A decade of slow growth has exacerbated income inequality across the globe, and one manifestation of the dissatisfaction has been protests against the standing political order. Over the past quarter there were continued protests in Hong Kong and flaring demonstrations in Lebanon, Iraq, Chile and Ecuador. In Lebanon and Iraq, street protests arose as the populace vented their anger at perceived economic mismanagement and the lack of infrastructure and employment. In Latin America, after a failed attempt at a spending reform that was diluted following violent protests, the National Assembly of Ecuador approved a tax reform bill which hopes to raise revenues to achieve International Monetary Fund (IMF) targets. Following the tax reform approval, the IMF reached an agreement with Ecuador on the combined second and third review of the economic program supported by a three-year Extended Fund Facility (EFF), and released the disbursement of $500 million (but delayed the second and third planned disbursement). Earlier in the quarter, in an ongoing reform agenda fight, Peru’s President Vizcarra dissolved Congress and called for early parliamentary elections in January. In addition, he reshuffled his cabinet, naming Maria Antonieta Alva as finance minister. Her appointment signaled policy continuity to the market. In Chile, economic stagnation following destructive protests, sparked by hikes in electricity prices and transit fares, prompted the Central Bank to cut its economic growth forecast, by 100-200 basis points (bps), for this year and next to 1% for 2019 and 0.5-1.5% for 2020. In order to mollify

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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.
protestors, the House of Representatives approved the bill to modify the constitution, and the discussion will proceed to the
Senate. A referendum will be held on April 26, in which Chileans will vote whether to reform the Constitution.

In Argentina, newly elected President Alberto Fernandez’s government sent a Solidarity Bill to Congress that included, among
other items, export tax hikes, a 30% tax on consumption in dollars, higher wealth taxes, a utility tariffs freeze and a suspension
of the formula used to adjust retirement benefits for 180 days. The government also issued a $4.6 billion 10-year note which was
placed to the central bank, the proceeds of which could be used to pay dollar obligations, triggering a short-term rally in
Argentinian bonds. In Uruguay, center-right candidate Luis Lacalle Pou was declared the winner in a close presidential election.
The market showed a muted reaction to the outcome, since both parties acknowledged the importance of fiscal consolidation,
with Lacalle preferring cuts in public sector expenditure. Further evidence of resistance to fiscal reforms was displayed in
Colombia, as the constitutional court knocked down a proposed Financing Law due to a breach of procedure. This put into
question the ability of the government to enact reforms needed to set the country on a stronger fiscal path. In Brazil, oil
auctions disappointed investors after Petrobras won 90% of production rights in the coveted Buzios oil field and the other two
blocks failed to generate bids, thus lowering the expectation for foreign inflows. More positively, pension reform was finally
passed in Brazil after a lengthy process. The changes will help the country’s fiscal dynamics and should improve its debt-to-gross
domestic product (GDP) trajectory. Brazil’s central bank cut the policy rate 100 bps to 4.5% during the quarter.

In Indonesia, the Ministry of Finance and the central bank held 3-day meetings with the IMF in October to propose reduced
foreign exchange reserves as the main source of the country’s payments deficit, and the central bank cut its standing
repurchase rate by 25 bps to 3.75%. The cuts were seen as stepping stones for the broad-based rate cuts in the coming
quarter. In Mexico, Banxico cut the policy rate 50 bps to 7.25% over the quarter with a dovish minority arguing again for 50 bps of cuts
on the back of low growth. We expect a gradual approach going forward since core inflation remains sticky. Peru’s central bank
also cut its policy rate 25 bps to 2.25% during the quarter as inflation was below target and growth expectations remained
subdued.

In Europe, the Central Bank of Russia (CBR) cut its policy rate to 6.25% during the quarter, in line with expectations. The post-
meeting communication hinted at further easing during the first half of 2020, provided the CBR’s baseline scenario of inflation
below target materialized. Turkey and Qatar announced an agreement to increase military cooperation and the size of their
bilateral swap line to $5 billion from $3 billion. Turkey’s political risk persisted throughout the period as the government moved
forward with testing Russian missile systems and the U.S. House of Representatives passed a bipartisan bill sanctioning the
government over its military operation in Northern Syria. In addition, Turkey’s central bank cut its policy rate to 12%. The easing
step took place amid a November inflation spike (to 10.56% year-over-year) and inflation expectations in double-digit territory. Other central banks were on hold in Hungary, Poland and Czech Republic. In Ukraine, the IMF and the government reached a staff
level agreement for a 3-year Extended Fund Facility loan worth $5.5 billion, to be disbursed likely in the first quarter of 2020,
providing the government delivers on prior action items. In addition, Naftogaz and Gazprom agreed on a 5-year gas transit
contract as well as the settlement of a favorable Naftogaz ruling worth $2.9 billion. Meanwhile, inflation in the country collapsed
to 5.1% last November, allowing the National Bank of Ukraine to slash interest rates by 200 bps to 13.5% at its last meeting of
2019. In Romania, President Iohannis won reelection by defeating former Prime Minister Dancila by a wide margin.

In Asia, after early cuts in the quarter, most central banks were on hold, including the Reserve Bank of India (RBI), which
surprised markets by holding its repurchase rate at 5.15%. RBI’s decision was predicated on inflation above its 4% target, largely
explained by a supply-side shock from food, its intention to wait for past rate cuts to transmit through the financial system and
on a still uncertain fiscal policy stance for the next fiscal year. RBI also unveiled new forecasts, downgrading fiscal year 2020
growth to 5% (from 6.1%). Bank Indonesia kept its policy rate unchanged at 5% at its last meeting, citing an improvement in the
global environment but keeping an accommodative monetary policy bias after easing liquidity conditions via a 50 bp reserve
requirement ratio cut. The Bank of Thailand cut its benchmark rate by 25 bps to 1.25% in the quarter to boost flagging growth
and curb persistent baht appreciation. Earlier in the quarter, the People’s Bank of China surprised markets by implementing a 5
bp cut to its 1-year medium-term lending facility (MLF) to 3.25%, a move that was followed a few weeks later by a similar
reduction in the loan prime rate. Subsequently, China’s November consumer price index inflation surprised to the upside (4.5%
year-over-year versus 4.3% consensus), driven by food prices, and manufacturing purchasing managers indexes (PMIs) held above
50 for the second consecutive month in December. Malaysia’s central bank kept its overnight policy rate unchanged (3%), but
surprised markets by cutting statutory reserve requirements to improve banking liquidity conditions. Meanwhile, in Sri Lanka,
candidate Gotabaya Rajapaksa was elected president and appointed his brother Mahinda Rajapaksa as interim prime minister. The
government quickly announced a set of tax cuts that negatively impacted Sri Lankan assets, as they were perceived to worsen
the country’s fragile debt dynamics.

Elsewhere, South Africa’s central bank held rates steady, as expected. In the press conference, the governor alluded to the fact
that the increase in South Africa’s risk premium related to its deteriorating fiscal situation influences the Monetary Policy

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3 Source: Bloomberg L.P. and national sources. Data as of December 31, 2019.
Committee’s view of the South African neutral real rate. Economic data reported in the period was slightly positive as headline and core inflation surprised to the downside and business confidence rebounded from record lows. The country’s mid-year budget review significantly disappointed market expectations as budget deficits are expected to stay in the 5-6% range and debt-to-GDP is forecast to grow rapidly. Authorities also failed to announce a comprehensive plan for struggling state power producer Eskom, disappointing market expectations. As a result, both S&P and Moody’s changed their rating outlooks from stable to negative based on low growth, a deteriorating debt trajectory and continued uncertainty about the funding plans for failing state-owned enterprises.

Fund Strategy and Performance
During the quarter we spent cash to add investment in dollar-denominated sovereign debt and domestic debt, while reducing in corporate debt. This was reflected in duration changes as well. From a country perspective, we added in Angola, Costa Rica, Lithuania, Ecuador, Egypt, Israel, Peru, Russia and supranational debt. Conversely, we reduced in Argentina, Colombia and Indonesia, while rotating in Brazil, Mexico and Cote D’Ivoire.

Outlook
In our view, stabilizing but still subpar global growth will reign in 2020. Our baseline scenario envisions a global economic backdrop only marginally better than in 2019, thus leaving global monetary policy accommodation largely in place. Though we see widening emerging market-developed market growth differentials supporting EM assets, we expect EM fixed income to deliver more subdued returns relative to 2019, given our views on current valuations and limited scope for aggressive monetary policy accommodation in the developed world.

In local rates, we see the most attractive opportunities in countries with subdued inflation and generous real rates (Russia, Indonesia and Mexico) or implementing reforms that could cause risk premiums to compress (most notably, Brazil). Emerging market currencies, relative laggards versus the U.S. dollar in 2019, could also offer value. However, we believe opportunities may arise in currencies of economies experiencing cyclical rebounds and showing robust external accounts (for example, Russian ruble and Brazilian real). In hard currency debt, valuations are less convincing after a solid performance in 2019, with limited opportunities in investment grade and potentially more interesting alternatives in high yield sovereigns undergoing structural reforms, such as Ukraine, Egypt or Angola. We will also monitor countries currently undergoing political transitions such as Sri Lanka and Argentina, but we remain sidelined for the time being, awaiting more clarity on politics. As for EM corporates, we see the benign macro outlook as supportive of credit fundamentals, with the financial discipline practiced by EM companies’ managements leading us to expect default rates to remain limited and idiosyncratic. As such, we believe there will be interest to return to high yield at the expense of investment grade credit and higher quality duration, which were very much the market’s focus in second half of 2019. We think that, on the margin, risks are skewed to the downside, given the optimism already priced in on trade issues and heightened and increasing social tensions in EM economies, which could give rise to populism and a deterioration in economic policymaking.

<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>JP Morgan Emerging Markets Blended Index - Equal Weighted</td>
</tr>
<tr>
<td>May 24, 2012</td>
<td>U.S. dollars</td>
<td>Index - Equal Weighted</td>
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Performance (%)
As of December 31, 2019 (Class I Share at NAV)

<table>
<thead>
<tr>
<th>Fund/Index</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>
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</thead>
<tbody>
<tr>
<td>MSIF Emerging Markets Fixed Income Opportunities Portfolio - I Shares</td>
<td>2.64</td>
<td>3.78</td>
<td>14.41</td>
<td>14.41</td>
<td>6.34</td>
<td>5.89</td>
<td>--</td>
<td>4.93</td>
</tr>
<tr>
<td>JP Morgan Emerging Markets Blended Index - Equal Weighted</td>
<td>2.37</td>
<td>3.08</td>
<td>13.93</td>
<td>13.93</td>
<td>6.73</td>
<td>5.05</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Blended Index 1</td>
<td>2.33</td>
<td>3.18</td>
<td>13.73</td>
<td>13.73</td>
<td>6.53</td>
<td>5.97</td>
<td>--</td>
<td>5.50</td>
</tr>
<tr>
<td>Blended Index 2</td>
<td>2.33</td>
<td>3.18</td>
<td>13.73</td>
<td>13.73</td>
<td>6.53</td>
<td>4.93</td>
<td>--</td>
<td>4.26</td>
</tr>
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</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 1.98% for Class I shares and the net expense ratio is 0.85%. 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.

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.

Effective close of business on December 31, 2019, the Fund’s primary benchmark index has changed to JP Morgan Emerging Markets Blended Index (JEMB) - Equal Weighted.

The Blended Index is comprised of 1/3 JP Morgan Emerging Markets Bond Index Global (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), 1/3 JP Morgan GBI-EM Global Diversified Index (a comprehensive global local emerging markets index that consists of regularly traded, liquid fixed-rate, domestic currency government bonds and includes only the countries which give access to their capital market to foreign investors (excludes China, India). The index is market capitalization weighted, with a cap of 10% to any one country) and 1/3 JP Morgan CEMBI Broad Diversified Index (a global, liquid corporate emerging-markets benchmark that tracks U.S.-denominated corporate bonds issued by emerging-markets entities). The returns shown prior to September 28, 2015 are that of the Blended Index. These indices are unmanaged and do not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

Former Index is comprised of 1/3 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), 1/3 JP Morgan GBI-EM Global Diversified Index (a comprehensive global local emerging markets index that consists of regularly traded, liquid fixed-rate, domestic currency government bonds and includes only the countries which give access to their capital market to foreign investors (excludes China, India). The index is market capitalization weighted, with a cap of 10% to any one country) and 1/3 JP Morgan CEMBI Broad Diversified Index (a global, liquid corporate emerging-markets benchmark that tracks U.S.-denominated corporate bonds issued by emerging-markets entities).

RISK CONSIDERATIONS
There is no assurance that a mutual fund will achieve its investment objective. Funds are subject to market risk, which is the possibility that the market values of securities owned by the fund will decline and that the value of fund shares may therefore be less than what you paid for them.
Accordingly, you can lose money investing in this fund. Please be aware that this fund 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. Certain **U.S. government securities** purchased by the Strategy, such as those issued by Fannie Mae and Freddie Mac, are not backed by the full faith and credit of the U.S. It is possible that these issuers will not have the funds to meet their payment obligations in the future. **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. **Sovereign debt** securities are subject to default risk. **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). Due to the possibility that prepayments will alter the cash flows on **collateralized mortgage obligations (CMOs)**, it is not possible to determine in advance their final maturity date or average life. In addition, if the collateral securing the CMOs or any third party guarantees are insufficient to make payments, the portfolio could sustain a loss.

**INDEX INFORMATION**

The **JP Morgan Emerging Markets Bond Index Global (EMBI Global)** 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.

The **JP Morgan CEMBI Broad Diversified Index** is a global, liquid corporate emerging-markets benchmark that tracks U.S.-denominated corporate bonds issued by emerging-markets entities.

The **JP Morgan GBI-EM Global Diversified Index** is a comprehensive global local emerging markets index that consists of regularly traded, liquid fixed-rate, domestic currency government bonds and includes only the countries which give access to their capital market to foreign investors (excludes China, India). The index is market capitalization weighted, with a cap of 10% to any one country.

**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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