Performance
In the quarter period ending December 31, 2019, the Portfolio’s I shares returned 1.05% (net of fees)\(^1\), while the benchmark returned -0.49%.

Market Overview
The final quarter of 2019 provided a remarkable ending to a remarkable year. The world’s issues seemed to vanish as financial markets melted up. 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.

This Christmas present to investors should not be expected to repeat itself in 2020. As 2019 came to a close, optimism grew, data improved and the trade war seemed to have peaked. And, most importantly, the monetary easing seen in 2019 will not likely be repeated any time soon. Indeed, one of the risks for 2020 might be a surprise rise in inflation, which could lead to central banks to reverse their easy policies. Moreover, risk events are still out there; to name just a few, (1) renewed Middle East tensions, (2) Trump’s impeachment, (3) disappointing U.S. business confidence data and (4) U.S.-China trade. While we do not think these issues are likely to change the direction of the global economy, with asset prices now high, we do not think there is a lot of upside for financial markets in the near term. A focus on security selection remains of paramount importance to take advantage of pockets of opportunity – and to avoid overvalued sectors.

At its December meeting, the Federal Reserve (Fed) 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 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. Though with credit spreads at or close to cycle lows, we still believe that caution is warranted.

Yields on 2-year Treasuries fell by 5 basis points (bps) during the quarter, as the Fed signaled a continued easy policy stance. Yields on 5-, 10-, and 30-year Treasuries rose by 15, 25, and 28 bps, respectively, as the curve steepened.\(^2\) The 10-year breakeven inflation rate rose 27 bps.\(^2\) Yields fell significantly for the year, by 92, 82, 77 and 62 bps, respectively, for 2-, 5-, 10- and 30-year Treasuries.\(^2\)

Corporate spreads tightened during the fourth quarter. The Bloomberg Barclays U.S. Corporate Index spread fell 22 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).\(^3\) 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.

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\(^2\) Source: Bloomberg L.P. Data as of December 31, 2019.
\(^3\) Source: Bloomberg Barclays. Data as of December 31, 2019.

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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 to be on the lookout for 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 weak technical conditions, we believe the result will be a period that warrants active management of credit and reducing risk following periods of spread tightening.

Agency mortgage-backed securities (MBS) performed strongly during the quarter. The current coupon spread fell by 11 bps to 70 bps above similar duration U.S. Treasuries. Despite this strong finish, for the year they trailed credit markets, as they were only 4 bps tighter.² With the rise in longer-term rates, the duration of the Bloomberg Barclays U.S. MBS Index lengthened by about half a year to 3.2 years.³ Pay-ups for specified pools weakened along with diminished prepayment concerns.

With its underperformance relative to credit sectors in 2019, agency MBS now appear attractive on a risk-adjusted relative value basis for the first time in many years. Prepayment risk should subside in 2020, now that rates have backed off their lows from August and now that a greater portion of the mortgage market has already refinanced into lower coupon mortgages. The supply pressure from the Fed’s balance sheet reduction will likely continue in 2020, as we anticipate the Fed to reduce its MBS holdings by another $200 billion in 2020. The supply pressure could continue to push spreads modestly wider in 2020, but improving demand should minimize the impact. Within agency MBS, we favor higher yielding, more prepayment-sensitive pools. The dominant agency MBS trade in 2019 was paying up for specified pools with significantly better prepayment risk profiles, and these pay-ups spiked higher as a result. As rates ease off the lows and remain more range-bound in 2020, we expect demand for these better prepayment story pools to weaken, and we believe the recently shunned, more prepayment-sensitive pools should outperform in 2020.

Non-agency residential mortgage-backed securities (RMBS) spreads were slightly tighter during the fourth quarter, and finished 2019 roughly 15 to 20 bps tighter for the year.⁴ Fundamental credit conditions in the U.S. housing market remain positive. National home prices increased 0.1% in October and were up 3.3% over the last 12 months.⁵ Commercial mortgage-backed securities (CMBS) spreads also tightened marginally during the quarter, though they were significantly tighter for the year. AAA-rated CMBS spreads finished roughly 15 bps tighter in 2019, while BBB-rated CMBS spreads were roughly 125 bps tighter.⁶ Commercial real estate market credit conditions remain positive; commercial real estate prices rose 0.5% in October and are up 2.4% over the past year.⁷ Fundamental conditions remain favorable in most commercial real estate markets, with high occupancy rates and improving rental rates. Asset-backed securities (ABS) spreads were mixed during the quarter as consumer credit conditions remained healthy. In 2019, AAA-rated ABS were generally 5-10 bps tighter, while BBB-rated ABS were 15-25 bps tighter. Fundamentals still appear strong, as consumer debt levels remain below historical levels on an inflation-adjusted basis.

Reduced trade tensions were particularly favorable for emerging markets (EM) external debt, as their average spread narrowed 60 bps in the fourth quarter. For the year, they were 157 bps tighter.⁸ In 2020, we see a widening emerging market-developed market growth differentials supporting EM assets. Though we expect EM fixed income to deliver more subdued returns than in 2019, given inflated current valuations and limited scope for aggressive monetary policy accommodation in the developed world.

**Fund Strategy and Performance**

During the fourth quarter, both sector and macro positioning contributed to performance. In the spread sector, corporate positioning (investment grade and high yield) and securitized exposure contributed the most to performance. Positions in emerging markets also contributed to performance, both in local rates and local currencies, as well as in dollar-denominated sovereign and quasi-sovereign debt. Conversely, rate positions in the U.S. and Australia detracted from performance.

During the period, we reduced government debt in both developed and emerging markets, while adding in corporate debt, both investment grade and high yield. From a duration perspective, the move was more pronounced in developed markets as we reduced in New Zealand, Spain and Austria. In the U.S., we added curve-steepening trades. Within currencies, we added to the Mexican peso at the expense of the U.S. dollar.

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² Source: Bloomberg L.P. Data as of December 31, 2019.
⁸ Source: Green Street Advisors. Data as of December 31, 2019.
**Outlook**

December’s returns added to an already stellar year. Only developed market government bonds sold off in December, as one would expect given the improving economic data and renewed optimism that the economic malaise that had consumed the world for the past two years was coming to an end. Indeed, if we view the last two years as a “mini” recession, this economic expansion is not 10 years old, it could be much younger! While that is a bit of an exaggeration, it does point out that the economic data could improve for several years, like the late 1990s and 2005-2006.

Corporate bonds of all flavors had outsized returns in December, particularly CCC rated bonds and energy-related companies. In many ways this was understandable given their poor performance in November and for the year as a whole. The U.S. dollar also sold off notably, but for the year as a whole the currency still appreciated on a trade-weighted basis. A weaker dollar would be a welcome development for the global economy and hopefully a harbinger of good news on the trade front in 2020. But with a mercurial President Trump still directing policy, there are reasons to be cautious, with renewed Middle Eastern tensions certainly a reminder of potential pitfalls in the months ahead.

December’s Christmas present to investors should not be construed in general as a down payment on further gifts! Credit spreads have tightened closer to cycle lows without a lot of “new news” in December. Most bonds, both government and corporate, do not appear “cheap.” That makes us a bit nervous about the market’s ability and willingness to absorb supply in the first quarter. However, this does not mean we are bearish as fundamentals are quite solid. The general macro environment is improving, absent some surprisingly weak U.S. business confidence indicators (e.g., the Institute for Supply Management and CEO confidence indicators). This makes us more confident that global yields have bottomed. Credit is well supported, albeit on the expensive side of fair value. With central banks likely to be firmly on hold in 2020, the lagged effects of monetary easing should still support the economy. Fiscal policy is likely to be neutral to easy, and inflation likely stable to slightly higher. The environment is likely to be positive for non-government bonds. But we would like to see wider spreads, and/or even stronger fundamentals, before further increasing risk exposure to credit. We believe a small long position to credit, based on solid and/or improving fundamentals, a more meaningful long position to EM and modestly underweight interest rate risk (concentrated in the U.S., core Europe, Japan and U.K.) look appropriate.

For the first time in a while, U.S. exceptional economic and financial market outperformance is abating. It is not yet clear if this will be a 2020 trend or merely a blip, but it does bode well for a weaker dollar story and stronger EM currencies, the largest laggards in 2019. We are comfortable holding more EM currency risk in this year.

In summary, fundamentals are good, government bonds look rich but are supported by still accommodative central banks, credit spreads seem expensive and emerging markets generally look like a better value than developed markets. For spreads to rally further we will require good economic data, confirming the current optimism, AND confirmation that central banks will not rescind on their wait-and-see strategy, holding back on tightening policy until inflation rises to, or above, target levels. The least vulnerable area of fixed income remains securitized credit, which seems immune to many of the forces potentially buffeting financial markets given the strength of the household sector. Although, even here, after a strong 2019, valuations are no longer exceptionally attractive and are unlikely to repeat 2019’s performance.

**FUND FACTS**

<table>
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<tr>
<th>Launch date</th>
<th>Base currency</th>
<th>Index</th>
</tr>
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<tbody>
<tr>
<td>July 28, 1997</td>
<td>U.S. dollars</td>
<td>Bloomberg Barclays Global Aggregate Hedged USD Index</td>
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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**

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 0.65% for Class I shares and the net expense ratio is 0.60%. 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 January 1, 2017, the benchmark index for the MS Global Fixed Income Opportunities Fund changed from Bloomberg Barclays Global Aggregate Index to the Bloomberg Barclays Global Aggregate Hedged USD Index. Blended Index performance shown is calculated using the Bloomberg Barclays Global Aggregate Index from inception through 12/31/2016 and the Bloomberg Barclays Global Aggregate Hedged USD Index thereafter.

<table>
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<th>Performance (%)</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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<tr>
<td>MS Global Fixed Income Opportunities Fund - I Shares</td>
<td>0.69</td>
<td>1.05</td>
<td>10.04</td>
<td>10.04</td>
<td>5.86</td>
<td>4.36</td>
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<tr>
<td>Bloomberg Barclays Global Aggregate Hedged USD Index</td>
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<td>-0.49</td>
<td>8.22</td>
<td>8.22</td>
<td>4.30</td>
<td>3.57</td>
<td>4.08</td>
<td>5.13</td>
</tr>
<tr>
<td>Blended Index</td>
<td>-0.21</td>
<td>-0.49</td>
<td>8.22</td>
<td>8.22</td>
<td>4.30</td>
<td>2.33</td>
<td>2.49</td>
<td>4.48</td>
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<tr>
<td>Bloomberg Barclays Global Aggregate Index</td>
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<td>0.49</td>
<td>6.84</td>
<td>6.84</td>
<td>4.27</td>
<td>2.31</td>
<td>2.48</td>
<td>4.47</td>
</tr>
</tbody>
</table>
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 Bloomberg Barclays Global Aggregate Index provides a broad-based measure of the global investment grade fixed-rate debt markets. Total Returns shown is unhedged USD.

The Bloomberg Barclays Global Aggregate Hedged Index provides a broad-based measure of the global investment grade fixed-rate debt markets. Total Returns shown is hedged USD.

The Bloomberg Barclays U.S. Corporate High Yield Index measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody’s, Fitch, and S&P is Ba1/BB+/BB+ or below. The Index excludes emerging market debt.

The Bloomberg Barclays U.S. Mortgage Backed Securities (MBS) Index tracks agency mortgage backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The index is constructed by grouping individual TBA-deliverable MBS pools into aggregates or generics based on program, coupon and vintage. The index is unmanaged and does not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

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.

The Indexes are unmanaged and do 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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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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