Performance Review
In the quarter period ending March 31, 2021, the Portfolio’s I shares returned 2.35% (net of fees), while the benchmark returned 4.92%.

For first quarter (Q1) overall, the underperformance was driven by sector allocation, given the value and cyclical rally. The overweight in consumer staples, health care and information technology all hurt performance, as did the underweight in financials and the lack of energy holdings. Stock selection was mildly positive in the quarter, as outperformance in information technology and communication services was nearly entirely offset by the underperformance of the portfolio’s holdings in financials and industrials, far higher quality than their respective sectors, which were unable to keep up with the value rally.

Market Review
For Q1, the MSCI World Index gained 4.9% in U.S. dollars (USD) (+6.1% in local currencies). Behind this overall picture, there was sharp variation by sector, given the value/cyclical rally. Energy (+22%) and financials (+13%) continued the strong recovery seen in the fourth quarter 2020, with banks up 19% within financials. The other cyclical sectors showed milder outperformance. Industrials were up 8%, though commercial & professional services, the highest quality element within the sector, only gained 1%. At the other end of the spectrum, defensive sectors lagged, with consumer staples down 1% despite the decent March, utilities flat and health care up only 1%. Information technology, the clear leader in 2020, and one of three main sectors for the portfolio alongside consumer staples and health care, also lagged the market, only up 1%, though semiconductors did gain 11% thanks to the global chip shortage. The quarter saw less variation by geography than sector, despite the very different levels of success with vaccinations. Canada (+10% USD, +8% local), Singapore (+9%, +11%) and Hong Kong (+7%, +8%) were ahead of the MSCI World Index, while Switzerland (-2%, +4%), Spain (+1%, +5%) and Japan (+2%, +9%) lagged mildly. The U.S. (+5%) was 40 basis points ahead of the overall index.

Outlook
Is Quality Now (Relatively) On Sale?
It has been a tough 12 months, in relative terms at least, for investing in Quality, particularly for those who pay close attention to valuations. There has been a double whammy from the combination of the “Value Rally” and the “Growth Bubble,” which has meant that reasonably priced compounders have significantly lagged the market, despite continuing to perform their core role of compounding their earnings far better than the index as a whole over the cycle. While not cheap, the portfolio now looks attractively valued against the MSCI World Index given that it is at only a 13% earnings premium despite its far higher quality and ability to compound. In the shorter term, the relative picture is less clear, but there is at least some evidence that both the “Value Rally” and the “Growth Bubble” may be close to running their course.

It is unsurprising that Value has done well from the March 2020 market trough. There has been a great deal of positive economic news. The massive level of government intervention — be it through stimulus packages, furloughing workers or central bank intervention to support markets and minimise the chances of corporate financial distress — has both mitigated the

2 Source for all earnings and valuations data in this report: FactSet and Morgan Stanley Investment Management.

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.
economic impacts of the crisis and limited the fallout on corporate earnings. The speed of vaccine development, and in some cases vaccine rollouts, have also been a significant positive surprise. Given all this, the switch from “risk-off” to “risk-on” is understandable, and the sharp improvement in earnings expectations for cyclical sectors seems justified. Both of these factors naturally leave the higher quality names in the shade, given they are seen as safe havens with less volatile revenues and lower operational leverage. Over the 12 months ended March 31, 2021, the consumer staples sector only returned 24% and health care 29%, as against 54% for the MSCI World Index as a whole, more than giving up their significant relative gains of the first quarter of 2020. The two sectors combined make up 42% of the portfolio.

In addition, there has been talk of reflation and rising rates, which has direct positive effects for financials, and also notionally makes cheaper and thus shorter duration equities more attractive as against higher quality or faster-growing longer duration plays. While the U.S. 10-year rate has indeed risen by over 100 basis points to 1.74% over the last year, this impact seems less clear-cut. Not only does the German 10-year rate still languish at -0.29%, only 16 basis points up from a year ago, but the duration argument does not fit well with the exuberance in growth stocks. Our December 2020 piece (“Avoiding Losing Money in Equities”) discussed how the most expensive quintile of the MSCI World Index’s information technology sector was trading on 160 times earnings two years forward, even excluding share-based compensation, and actually gained 160% during 2020, massively ahead of the duller, and cheaper, stocks from the third and fourth valuation quintiles that make up the information technology element of the portfolio. This meant that the portfolio’s holdings in the information technology sector, one of three key sectors for the portfolio alongside consumer staples and health care, have only returned 51% since the March 2020 trough, as against 68% for the sector as a whole.

Global Franchise, Global Sustain’s close cousin, has been going for 25 years. 2020-21 was the fourth significant, i.e. double-digit, relative drawdown that it has suffered over this quarter century. The others came in 1998-99, during the tech-media-telecom (TMT) growth bubble; 2002-03 in the cyclical earnings rally; and 2012-13, as risk came back on post the euro crisis. The last year has arguably seen a perfect storm as all three factors have played their part. While the past is always an imperfect guide to the future, in these previous three cases the double-digit relative ground lost had all been recovered (or in 2005, all but 1% recovered) within 17 to 21 months.

While the portfolio has lagged significantly over the last 12 months, the stocks within it have been performing their core function, that of compounding. The portfolio’s forward earnings growth may not have kept up with the index since the earnings trough in June 2020, up only 17% as against 27% for the MSCI World Index, but the far higher robustness in the crisis conditions of the first half 2020 (down only 7% as against -21% for the index) means that the portfolio’s earnings are up 9% since the start of 2020, while the earnings of the index are flat. Going back another year makes the comparison even more stark, with the portfolio’s earnings up 15%, a full 16 percentage points ahead of the MSCI World Index’s earnings, which are actually down 1% over the 27 months.

Looking backwards, it is clear that the portfolio has suffered from the combination of its very high weights in the lagging quality defensive sectors of consumer staples and health care and missing out on the growth exuberance within information technology. Looking forwards, it is far less clear. As the baseballer-philosopher Yogi Berra put it, “It’s tough to make predictions, especially about the future,” though we prefer William Goldman’s “Nobody knows anything.” Mind you it is “inconceivable” that you will not love the William Goldman scripted masterpiece “The Princess Bride” if you have not yet seen it.

While not at the same level of certainty as our film recommendations, we are confident about the path of the portfolio’s earnings. The companies are compounders after all, with a proven ability to grow across cycles at a high return on operating capital, with resilience in tough times, as proven again in 2020. Admittedly, there is a higher level of noise than usual at present. Medical devices should gain as social distancing eases, allowing for routine operations in hospitals, while some of the portfolio’s “bonus” earnings from hygiene products and COVID-19 testing may ease off. There may also be a headwind from rising corporate tax rates, already implemented in the U.K. and potentially looming in the U.S. However, beneath this short-term noise the structural drivers of recurring revenues and pricing power are still in place.

As ever, there is much less clarity for the market’s earnings. Progress depends on the extent and duration of the recovery. Earnings forecasts do lag, so there may well be more growth to come, but the pace of improvement seems to be slowing outside the commodity plays of energy and materials. The other nine sectors’ earnings only rose 0.5% in March, as against the 2%-plus monthly progress since last June. Aside from the potential tax rise headwind, one area of concern is how effectively companies with limited pricing power will be able to pass on any rising input costs, be they from commodities or labour.

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3 Source: Bloomberg L.P. One basis point = 0.01%
The larger risk for the market is multiples. The MSCI World Index’s forward earnings multiple is still above 20x, only down 1% despite the 27% rise in the earnings denominator over the last nine months. This is defying the normal pattern of a falling multiple as earnings recover from a cyclical low. The current market valuation is a full six turns above the 2005-18 average multiple and seems to imply further sharp earnings growth. The other worry is that macroeconomic forecasts are now extremely bullish, with Wall Street talking about U.S. gross domestic product growth reaching 8% by the end of the year with no Federal Reserve reaction expected until 2023 at the earliest. This may well turn out to be correct, but it does leave limited room for further macroeconomic surprises, or at least further positive macroeconomic surprises. The strength and speed of the recovery may also limit its duration and imply that the early part of the cycle – so favourable for value plays – may be nearing its end.

Multiples are a particular concern in the growthier extremes of the market, given the 2020 exuberance. Special purpose acquisition companies (SPACs) are still flooding onto the market, raising $88 billion in the first quarter of 2021, more than in the whole of 2020. However, there are signs that the air is beginning to hiss out of this inflated area, with the most expensive quintile of information technology returning -9% in March, while the other four quintiles were up on average 3.6%, admittedly only a small dent in 2020’s 160% top quintile return. The CNBC SPAC 50 Index, which covers the 50 largest SPACs, is now down for the year, having been up 20% in late February. The portfolio is seeing the benefit of this growth reversal, as stock selection in information technology has moved positive in 2021 after the significant negative in 2020.

While we would not claim that the portfolio is cheap in absolute terms, trading at 24.2x earnings, it does seem reasonably valued in relative terms, at only a 20% earnings premium to the MSCI World Index, and half that premium in free cash flow terms, given its high returns have been better at turning earnings to cash than the index. This premium, or lack of it, looks attractive given the far higher quality – be it in higher returns on operating capital, lower operational and financial leverage, and the proven resilience of earnings – and is close to historical lows. The portfolio has “only” rerated by 30% since the start of 2019, while the index’s multiple is up by more than 50%. If the portfolio can indeed continue to compound its earnings, it looks like a far safer medium- or long-term bet than the market, which remains at multiples not seen since the TMT bubble at the end of the last century. In the shorter term, market moves are more of a lottery, but there are reasons to believe that the Growth Bubble may have peaked and that the Value Rally is at least nearing its end.

**FUND FACTS**

<table>
<thead>
<tr>
<th>Launch date</th>
<th>Base currency</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 30, 2013</td>
<td>U.S. dollars</td>
<td>MSCI World Net Index</td>
</tr>
</tbody>
</table>

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4 Source: Goldman Sachs, Q4 2021 vs. Q4 2020
5 Source: SPAC Research
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. Please be aware that this Portfolio may be subject to certain additional risks. In general, equities securities' values also fluctuate in response to activities specific to a company. Investments in foreign markets entail special risks such as currency, political, economic, market and liquidity risks. The risks of investing in emerging market countries are greater than...

Performance (%)
As of date March 31, 2021 (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>MSIF Global Sustain Portfolio - I Shares</td>
<td>4.18</td>
<td>2.35</td>
<td>2.35</td>
<td>37.76</td>
<td>15.76</td>
<td>14.23</td>
<td>--</td>
<td>12.38</td>
</tr>
<tr>
<td>MSCI World Net Index</td>
<td>3.33</td>
<td>4.92</td>
<td>4.92</td>
<td>54.03</td>
<td>12.81</td>
<td>13.36</td>
<td>--</td>
<td>10.96</td>
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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 1.92% for Class I shares and the net expense ratio is 0.90%. 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.

Top Holdings (% of Total Net Assets)

<table>
<thead>
<tr>
<th>Company</th>
<th>FUND</th>
<th>INDEX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microsoft Corp</td>
<td>7.19</td>
<td>3.15</td>
</tr>
<tr>
<td>Reckitt Benckiser Plc</td>
<td>5.96</td>
<td>0.12</td>
</tr>
<tr>
<td>Visa Inc</td>
<td>5.30</td>
<td>0.67</td>
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<tr>
<td>SAP SE</td>
<td>4.85</td>
<td>0.24</td>
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<tr>
<td>Henkel AG &amp; Co. KGaA</td>
<td>4.82</td>
<td>0.06</td>
</tr>
<tr>
<td>Accenture Plc</td>
<td>4.79</td>
<td>0.33</td>
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<tr>
<td>Baxter International Inc</td>
<td>4.33</td>
<td>0.08</td>
</tr>
<tr>
<td>Procter &amp; Gamble Co.</td>
<td>4.23</td>
<td>0.62</td>
</tr>
<tr>
<td>Automatic Data Processing Inc</td>
<td>3.86</td>
<td>0.15</td>
</tr>
<tr>
<td>Medtronic Plc</td>
<td>3.75</td>
<td>0.30</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>49.08</strong></td>
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</tbody>
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**Performance (%)**

As of date March 31, 2021 (Class I Share at NAV)
risks associated with investments in foreign developed countries. Stocks of small- and medium-capitalization companies entail special risks, such as limited product lines, markets and financial resources, and greater market volatility than securities of larger, more established companies. Nondiversified portfolios often invest in a more limited number of issuers. As such, changes in the financial condition or market value of a single issuer may cause greater volatility. 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. Illiquid securities may be more difficult to sell and value than public traded securities (liquidity risk).

INDEX INFORMATION

The MSCI World Index is a free float adjusted market capitalization weighted index that is designed to measure the global equity market performance of developed markets. The term “free float” represents the portion of shares outstanding that are deemed to be available for purchase in the public equity markets by investors. The performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends.

The CNBC SPAC 50 Index tracks the performance of the 50 largest, U.S.-based pre-merger special purpose acquisition company (SPAC) deals by market capitalization.

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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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.

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