

Morgan Stanley Institutional Fund High Yield Portfolio

HIGH YIELD TEAM

Performance

In the quarter period ending September 30, 2025, the Portfolio's I shares returned 2.50% (net of fees)¹, while the benchmark returned 2.54%.

Retailers and independent were the Fund's top-performing sectors relative to the benchmark during the third quarter, both due to favorable credit selection. In retailers, the primary individual contributor was an off-benchmark position in the leveraged loan of a pet health and wellness company. The company reported second quarter earnings that beat expectations and also raised its forward guidance. The primary individual contributor in independent was an overweight position in a hydrocarbon exploration company that announced it was being acquired by a larger energy company.

Media & entertainment and cable & satellite were the Fund's worst-performing sectors relative to the benchmark during the period. Relative underperformance in media & entertainment was driven by adverse credit selection and an underweight position in this outperforming sector. The primary individual detriment was a lack of exposure to a large media provider that was recently downgraded from investment grade. In September it was announced that the company was likely being acquired. In cable & satellite, relative outperformance was driven by challenging credit selection. The primary detractor was a lack of exposure to a wireless spectrum provider and an affiliated satellite TV business. The parent company reached multiple agreements during the quarter to sell large portions of its wireless spectrum licenses.

From a credit quality perspective, adverse credit selection in BB-rated bonds detracted from relative returns during the quarter. Credit selection in bonds rated CCC or below also hurt. Conversely, an overweight position and credit selection in B-rated bonds contributed positively to relative performance. An overweight position in bonds rated CCC or below and an underweight in BB-rated bonds also aided returns.

Market Review

The U.S. and global high yield markets got off to a slower start in the third quarter, following exceptionally strong performance in May and June, but ultimately brushed off the bad news, latched onto the good and recorded a strong quarter overall. Softening labor data proved insufficient to materially dampen risk sentiment, but was weak enough to prompt the Federal Reserve (Fed) to resume reducing short-term interest rates in the face of accelerating inflation. The quarter wrapped up with a tidal wave of corporate issuance, dashed hopes for near-term peace in Ukraine coupled with escalating tensions between the West and Russia, and the U.S. headed toward a government shutdown. It also concluded with a decent close to second quarter earnings, signs of stabilization in the U.S. labor market, and economic data pointing toward strong third quarter U.S. gross domestic product (GDP) growth and an acceptable growth trajectory moving forward.²

The U.S. and global high yield markets moderated in July, following a strong second quarter finish in June. The U.S. administration made mixed progress in trade negotiations with several key trading partners, second quarter U.S. GDP growth came in above expectations, and the initial batch of corporate earnings for the second quarter indicated continued resilience. Capital market activity accelerated in July, with the U.S. high yield market recording the busiest month for gross issuance of the year so far, while the leveraged loan market absorbed a flood of repricing activity. Lower quality segments generally outperformed amid strong demand for risk and a 17 basis point (bps) increase in 5-year Treasury yields, which eroded returns for the higher quality BB-rated segment.²

Performance in the U.S. and global high yield markets was strong in August, from the perspective of both total and excess return. Strong risk sentiment was evidenced by new records in the equity market and spread compression in the lowest-rated segment within leveraged credit. Credit received a boost from a sharp month-over-month drop in 5- and 10-year Treasury yields, amid growing anticipation of a potential September interest rate cut by the Fed. The strong tone provided further opportunity for issuers to tap into receptive capital markets, resulting in an unseasonably active month of primary issuance. Use of proceeds, however, remained heavily focused on refinancings, resulting in limited net new issuance. Meager net supply, coupled with a seasonal decline in trading volume and strong demand, resulted in a strong technical within the high yield market.²

¹ Source: Morgan Stanley Investment Management. Data as of September 30, 2025. Performance for other share classes will vary.

² Source: Bloomberg L.P., Morgan Stanley Investment Management. Data as September 30, 2025.

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Performance in the U.S. and global high yield markets moderated to close the quarter as primary market volume surged to a record level. Ultimately, firm institutional demand was sufficient to absorb the heavy volume as managers worked down cash balances. The Fed's September decision to reduce its key policy rate by a quarter-point was fully priced into the market well in advance, and minutes from the meeting did little to dissuade bullish sentiment. The quarter concluded with the announcement of the largest leveraged buyout on record, worth a reported \$55 billion. As spreads grinded moderately tighter, dispersion fell to the lowest level since January this year.

For U.S. high yield issuers, second quarter earnings released in the third quarter were softer, in aggregate, with barely positive revenue and earnings growth, but only slightly higher interest expense, according to J.P. Morgan.³ The trailing 12-month par-weighted default rate ended the third quarter at 0.49%, or 1.39% including distressed exchanges.⁴

Primary market activity increased sharply quarter-over-quarter due to a strong September, and demand was broadly strong, with few exceptions. Issuance totaled \$121.9 billion in the third quarter. Refinancing accounted for 72.1% of quarterly issuance, and acquisition financing accounted for only 9.3%. According to preliminary Lipper estimates, U.S. high yield retail funds experienced a net inflow of \$5.0 billion in the third quarter.⁴ September issuance was sufficient to swing the high yield market from a net supply shortfall to a surplus of approximately \$15.1 billion year-to-date.⁴

The Bloomberg U.S. Corporate High Yield Index returned 2.54% for the three months ending September 30, 2025.²

Outlook

We begin the fourth quarter of 2025 with an outlook that is slightly improved, while still cautious. Peak risk and volatility emanating from evolving trade policy are likely behind us, strong second quarter U.S. economic growth metrics released in the third quarter exceeded expectations, corporate earnings were largely resilient, and a weakened lower-end consumer in the U.S. showed signs of stabilization. However, third quarter indicators, including a downshift in job growth in the U.S., a mixed bag of industry and consumer surveys and an acceleration in growth of consumer prices, are among reasons for continued caution. Ultimately, moving forward we expect a backdrop of much slower but positive growth, coupled with stickier inflation, from a starting point where the average spread in high yield is only marginally above post-Global Financial Crisis (GFC) lows, but where a historically attractive yield should continue to attract capital.⁵ We come to this conclusion after a thorough analysis of factors including U.S. and global economic growth, the evolving monetary policy of global central banks, consumer health, the fundamentals of high yield issuers, technical conditions, and valuations. On balance, conditions appear marginally better quarter-over-quarter, but the question ultimately is how much of this improvement is reflected in current valuations.

The U.S. economy appears to have modestly downshifted in the third quarter, from a second quarter in which U.S. GDP was upwardly revised to 3.8%, fueled by a drop in imports and an increase in consumer spending, representing a sharp rebound from a modest contraction in the first quarter.⁶ In mid-September, the Federal Reserve Bank of Atlanta's GDPNow forecasting model indicated growth likely slowed to a still robust 3.3% in the third quarter, well above trend growth of 1%-2%.⁷ This slightly softening trend is consistent with the balance of purchasing managers' index (PMI) and employment data published in the quarter. The Institute for Supply Management (ISM) PMI Reports for August, released in September, depicted a continued contraction in manufacturing activity and expansion in services. The Manufacturing PMI registered a still sluggish 48.7, while improving sequentially, and new manufacturing orders rebounded back into expansion territory with a reading of 51.4, following a six-month period of contraction. The Services PMI was also strong at 52.0, an increase of 1.9% from July and the third consecutive month of expansion.⁸ Perhaps the most consistently weak aspect of the ISM report was with regard to labor, where its employment index remained in contraction territory in August for the third month in a row and for the fifth time in the last six months.⁸ This softness is also evident in the government's U-6 underemployment rate, which rose month-over-month in both July and August, with the August reading reaching a cycle high 8.1%.⁹ While perhaps soft on balance, the employment data appeared to improve in the second half of the quarter, as the four-week moving average of continued unemployment claims successively moderated since August 16, offering evidence of stabilization.¹⁰ Looking forward, we anticipate the potential for improving labor conditions amid record equity valuations, improving animal spirits, and diminishing uncertainty emanating from evolving trade policy. The most recent CEO Confidence Index indicated that only 28% of

² Source: Bloomberg L.P., Morgan Stanley Investment Management. Data as September 30, 2025.

³ Source: J.P. Morgan. Data as of September 15, 2025.

⁴ Source: J.P. Morgan. Data as of October 1, 2025.

⁵ Source: ICE BofA U.S. High Yield Index, Morgan Stanley Investment Management. Data as of September 30, 2025.

⁶ Source: U.S. Bureau of Economic Analysis. Data as of September 25, 2025.

⁷ Source: Federal Reserve Bank of Atlanta. Data as of September 17, 2025.

⁸ Source: Institute for Supply Management. Data as of September 4, 2025.

⁹ Source: U.S. Bureau of Labor Statistics. Data as of September 5, 2025.

¹⁰ Source: U.S. Employment and Training Administration via Federal Reserve Bank of St. Louis. Data as of September 19, 2025.

CEOs expected deteriorating conditions in the year ahead.¹¹ We assess the likelihood of a recession over the near term as low, given the fiscal tailwinds on both the corporate and consumer sector from the tax bill. We expect growth in the U.S. will likely slow in the fourth quarter relative to the elevated growth experienced in the second and third quarters, before modest improvement in 2026, likely in the context of 1.5%-2% growth. Our view is not dissimilar from projections released at the September Fed meeting. The Fed raised expectations for 2025 full-year U.S. GDP from 1.4% to 1.6%, and 2026 expectations from 1.6% to 1.8%.¹²

Forward economic growth expectations for the United Kingdom and euro area are of similar magnitude to expectations for the U.S., with slightly slower growth expected in the euro area. GDP growth in the U.K. reportedly slowed from 0.7% in the first quarter to 0.3% in the second quarter, and the U.K. Office for Budget Responsibility is projecting GDP to grow at 1.0% for calendar year 2025, and to accelerate to 1.9% in 2026.¹³ Growth was slower in the euro area over the first half of the year, reportedly accelerating from 0.1% in the first quarter to 0.2% in the second.¹⁴ The European Central Bank (ECB) is projecting the euro area economy to grow at a rate of 1.2% in 2025, 1.0% in 2026 and 1.3% in 2027.¹⁴ In late September, the Organisation for Economic Co-operation and Development released its expectations for 2026 economic growth of 2.2%, 1.0%, and 1.0% in the U.S., U.K., and euro area, respectively.¹⁵

Global central banks are navigating a precarious period, with disparate and uncertain inflation backdrops across regions. In Europe, inflation appears tame relative to both the U.S. and U.K., and current monetary policy reflects it. In August, headline inflation in the eurozone was approximately 2.0%, and core inflation 2.3%. The ECB is projecting headline inflation will average 2.1% in 2025 and slow to 1.7% in 2026.¹⁶ The ECB maintained its key policy rate at 2.0% in September. In the U.K., the 12-month consumer price index (CPI) was reportedly 3.8% in August and expected to increase modestly in September, before beginning to fall back toward 2% thereafter.¹⁷ The Bank of England made the decision to maintain its key policy rate at 4.0% in September. Meanwhile, in the U.S., inflation showed definitive signs of acceleration in late summer, and the forward path of inflation is of clear concern. The Bureau of Labor Statistics (BLS) reported U.S. headline CPI rose 0.4% month-over-month in August, and on a 12-month basis increased 2.9% year-over-year in August. U.S. core CPI rose 0.2% month-over-month in August, and on a 12-month basis increased 3.2% year-over-year, according to BLS data. At its September meeting, the Fed increased its projections for 2026 headline and core inflation to 2.6% apiece.¹² We expect inflation in 2026 will likely prove sticky and remain closer to 3% as businesses look to continue to defend margins and pass on rising input costs. Complicating the Fed's decision on its key policy rate was a concern over the potential for further softening in the labor market. This concern clearly weighed on the Fed's decision in September as it chose to reduce its key policy rate to 4.0%.¹² Our expectation is for the Fed to make one more quarter-point reduction in the fourth quarter if current labor market conditions persist, with the potential for an additional cut before year-end should labor data further deteriorate.

U.S. consumer health remains a point of focus for us given the weakening and ultimately compromised health of the lower-end consumer. The aforementioned challenges with regard to a softer labor market and hotter inflation are further potential headwinds; however, we believe that recent data supports a level of stabilization in the lower-end consumer. The delinquency rate on credit card loans decreased to 3.05% in the first quarter and remained unchanged in the second quarter. At the same time, the delinquency rate on consumer loans decreased in the second quarter from 2.77% to 2.63%.¹⁸ Both of these metrics remain near levels last reached in 2012, but the fact that one appears to have troughed and the other is potentially moving out of a trough is encouraging. This encouragement is tempered by the Conference Board's Consumer Confidence Survey, which declined 1.3 points in August to 97.4, with consumers citing a weaker appraisal of current job availability and increased pessimism about future job availability.¹⁹ Over the near term, we are not concerned by the low probability of a sharp decline in consumer health, though we will continue to cast a discerning eye on these metrics given the importance of this cohort.

The fundamentals of high yield issuers remain healthy in a historical context, but second quarter earnings released in the third quarter depict a continued trend of modest softening. Top- and bottom-line growth remained positive but have failed to break out of the low single digits for the balance of the last two years. Earnings margins continued to weaken, reaching their lowest level since the first quarter of 2021, leverage increased, and interest coverage was unchanged. According to J.P. Morgan, second quarter earnings released in the third quarter show revenue growth of 2.1% and EBITDA²⁰ growth of 1.1%. At the same time, profit margins deteriorated for the fourth consecutive quarter, falling from 14.4% to 14.2% in the second quarter, relative to a recent peak of 16.6%

¹¹ Source: Chief Executive Research. Data as of September 2025.

¹² Source: Board of Governors of the Federal Reserve System. Data as of September 17, 2025.

¹³ Source: Office for Budget Responsibility, United Kingdom. Data as of September 30, 2025.

¹⁴ Source: European Central Bank Data Portal. Data as of September 5, 2025.

¹⁵ Source: Organisation for Economic Co-operation and Development. Data as of September 23, 2025.

¹⁶ Source: European Central Bank Data Portal. Data as of September 17, 2025.

¹⁷ Source: Bank of England. Data as of September 18, 2025.

¹⁸ Source: Board of Governors of the Federal Reserve System. Data as of August 18, 2025.

¹⁹ Source: The Conference Board: Consumer Confidence Survey. Data as of August 26, 2025.

²⁰ Earnings before interest, taxes, depreciation and amortization.

in the first quarter of 2023.³ Earnings across sectors were significantly bifurcated, with the notable laggards being housing, automotive, media, and chemicals, with the first two experiencing a year-over-year earnings decline of over 17% and 15%, respectively.³ At the same time, technology, services and consumer products experienced strong growth. The average leverage (debt-to-EBITDA ratio) of high yield issuers remained healthy in a historical context, though increased from 4.08x to 4.20x in the second quarter.³ Automotive, media and telecommunications are the most aggressively levered sectors in high yield. Meanwhile, interest expense increased only 0.1% for the trailing 12-month period ending June 30, and coverage (EBITDA-to-interest expense) remained stable at 4.71x.³ Though well below post-pandemic peaks, interest coverage of high yield issuers remains historically healthy relative to a long-term average of 4.5x.³

The pace of primary issuance in the high yield market remained elevated in the third quarter, with only a modest slowdown in August, before leaping to a multiyear record in September. Ultimately, the third quarter saw healthy issuance characterized by a high level of refinancing activity, contributing to a total gross issuance volume of \$121.9 billion.⁴ With limited exceptions, issuers generally found a receptive investor base. The quality of issuance remained high, with approximately 56% of issuance rated split-BB (rated BB by at least one major rating agency) or higher.⁴ Lower-rated issuance remained remarkably limited. While one-quarter of limited issuance from lower-rated issuers is not statistically significant, CCC issuance has not broken above 5% since 2022.⁴ It bears watching given the greater portion of CCC-rated bonds that mature in the next two to three years relative to the single-B or BB-rated segments. Approximately 25% of outstanding CCC-rated bonds mature before October 2028.⁵ Our estimate for full-year gross issuance volume has increased given the surge in third quarter issuance and the pickup in acquisition-related activity that will need to be financed, including the largest planned leveraged buyout in history. A shift toward deregulation under the current U.S. administration and a lower regulatory hurdle for strategic consolidation should spur additional acquisition-related issuance across sectors such as oil and gas, cable, media, and telecommunications. Finally, institutional demand from global yield-based investors in the third quarter remained remarkably firm, in aggregate. We expect demand from this cohort to remain supportive given average yields that, while materially lower quarter-over-quarter, remain attractive in a historical context. We also expect that investors will likely remain less receptive to aggressive and lower-rated opportunities over the near-to-intermediate term.

The pace of liability management exercises (LMEs) among high yield bond and leveraged loan issuers remains elevated; however, the aggregate volume of distressed exchanges and traditional defaults in high yield bonds remains manageable and well below long-term averages. The trailing 12-month par-weighted default rate for high yield issuers, inclusive of distressed exchanges, decreased modestly from 1.41% at the end of the second quarter to 1.39% by quarter-end. The same metric for loan issuers decreased to 3.49%.⁴ Over the next several quarters, our base case is that default and LME activity in leveraged credit will likely continue to creep higher, with a notable contribution coming from companies that have executed an LME over the past couple of years, in an unsuccessful bid to fix their capital structure. LMEs accounted for 57% of default volume over the first eight months of 2025 and 68% of default volume in 2024.²¹ Approximately half of all LMEs re-default in the subsequent three years, with the subsequent default resulting in lower recovery rates.²² We expect the default rate for high yield bonds inclusive of distressed exchanges to remain below the long-term average and likely finish 2025 in the context of 2%-2.5%. It is worth taking note of the higher relative risk of credit losses that is building in private credit. According to Bank of America Global Research, the current issuer-weighted default rate in private credit in mid-September was 5%. Another 2.5% of the private credit market is classified as “bad PIKs,” comprised of issuers that converted from cash coupon payment to payment-in-kind (PIK), or said another way, paying coupons by issuing additional debt, at some point after issuance due to an inability to service their debt with cash payments.²³ Furthermore, approaching maturity walls in private credit are significantly higher than the benign maturity walls currently found in public leverage credit markets. 17% of private loans mature over the next two years, relative to approximately 3% of broadly syndicated loans and 9% of high yield bonds. Additionally, 30% of all private loans classified as PIK come due in the next two years, and an estimated 25% of these loans are currently paying-in-kind.²³ We expect this risk to be partially mitigated by the continued flow of capital into private credit, which will, in part, serve to provide bailouts for a portion of these troubled credits.

We begin the fourth quarter with an average spread that is approximately 20 bps lower quarter-over-quarter and only approximately 25 bps above post-GFC lows, reached in January, and an average yield that is roughly 30 bps lower quarter-over-quarter and approximately in line with the 10-year historical average.⁵ The notable decompression in the incremental spread relationship between the CCC and single-B segments that began after reaching a low of 409 bps in January and continued through the second quarter reversed in the third quarter, as lower-rated credit outperformed.⁵ This relationship tightened from 566 bps at the beginning of the three-month period to 510 bps at quarter-end.⁵ We believe valuations across several segments of the high yield market have

³ Source: J.P. Morgan. Data as of September 15, 2025.

⁴ Source: J.P. Morgan. Data as of October 1, 2025.

⁵ Source: ICE BofA U.S. High Yield Index, Morgan Stanley Investment Management. Data as of September 30, 2025.

²¹ Source: J.P. Morgan. Data as of September 3, 2025.

²² Source: Goldman Sachs. Data as of September 12, 2025.

²³ Source: Bank of America Global Research. Data as of September 18, 2025.

compressed below fair value in light of the many risks facing our market, and we expect to reach wider peak spreads in the coming months. However, we believe there remains opportunity. We continue to identify idiosyncratic situations to capture spread compression, even in segments where we think valuations, at the sector level, will likely widen moving forward. We are also evaluating new opportunities in more cyclical segments that appear to be at or near cyclical troughs. Finally, there remains opportunity in challenged segments where neatly structured covenants, adequate loan-to-value ratios, and appropriate risk compensation form to represent compelling investment opportunities.

In conclusion, we remain in an uncertain environment, but one where we assess the risk of recession over the near term to be low. Fundamentals and technical conditions remain largely supportive and, on average, yield compensation is broadly appropriate; however, additional spread compression has resulted in valuations that are more exposed to future bouts of volatility. We expect the balance of 2025 will likely be a competitive period for high yield, and our base case calls for relatively range-bound spreads, but with risk skewed toward higher spreads. Geopolitical tensions are perhaps more heightened than just three months ago, particularly between NATO-member countries and Russia, and hopes for an ultimate resolution in the Russia-Ukraine war in the near term appear to have all but vanished. Meanwhile, legislative dysfunction over differing fiscal priorities has stymied the passage of long-term government funding bills in the U.S. and in several European countries. Amid an uncertain and potentially volatile backdrop, we will continue to spend our time concentrating on what we do best — focusing on bottom-up fundamental credit analysis with a discerning eye on relative value, as we seek to generate positive risk-adjusted alpha for our clients.

Fund Facts

Inception Date	February 07, 2012
Minimum Initial Investment (\$)*	A Shares - 1,000
	I Shares - 1,000,000
Benchmark	Bloomberg U.S. Corporate High Yield Index
Class I expense ratio	Gross 1.16 %
	Net 0.65 %
Class A expense ratio	Gross 1.39 %
	Net 1.00 %

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, in effect as of the date of this commentary. For information on the applicable fund's current fees and expenses, please see the fund's current prospectus.

Performance (%)

As of September 30, 2025	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR
Class I Shares at NAV	0.67	2.50	6.34	7.11	10.81	5.38	5.46
Class A Shares at NAV	0.64	2.42	6.10	6.72	10.46	5.02	5.08
Class A Shares (With Max 3.25% Sales Charge)	-2.63	-0.94	2.60	3.27	9.26	4.33	4.73
Bloomberg U.S. Corporate High Yield Index	0.82	2.54	7.22	7.41	11.09	5.55	6.17

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.

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 and A 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.

* Share class availability may vary by platform. For more information, please visit the specified fund page on the website.

INDEX INFORMATION

The **Bloomberg 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 **ICE BofA U.S. High Yield Master II Constrained Index (ICE BofA US High Yield)** is a market-value-weighted index of all domestic and Yankee high-yield bonds, including deferred interest bonds and payment-in-kind securities. Its securities have maturities of one year or more and a credit rating lower than BBB-/Baa3, but are not in default.

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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. **High yield securities ("junk bonds")** are lower rated securities that may have a higher degree of credit and liquidity risk. **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. **Public bank loans** are subject to liquidity risk and the credit risks of lower rated securities.

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. **Distressed and defaulted securities** are speculative and involve substantial risks in addition to the risks of investing

in junk bonds. The Portfolio will generally not receive interest payments on the distressed securities and the principal may also be at risk. These securities may present a substantial risk of default or may be in default at the time of investment, requiring the portfolio to incur additional costs. **Preferred securities** are subject to interest rate risk and generally decreases in value if interest rates rise and increase in value if interest rates fall.

Mezzanine investments are subordinated debt securities, thus they carry the risk that the issuer will not be able to meet its obligations and they may lose value. **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.

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The views and opinions and/or analysis expressed are those of the investment team as of the date of preparation of this material and are subject to change at any time without notice due to market or economic conditions and may not necessarily come to pass. Furthermore, the views will not be updated or otherwise revised to reflect information that subsequently becomes available or circumstances existing, or changes occurring, after the date of publication. The views expressed do not reflect the opinions of all investment personnel at Morgan Stanley Investment Management (MSIM) and its subsidiaries and affiliates (collectively "the Firm"), and may not be reflected in all the strategies and products that the Firm offers.

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