Performance

In the one month period ending January 31, 2020, the Fund’s I shares returned -2.12% (net of fees)\(^1\), while the benchmark returned 0.35%.

The Fund underperformed the benchmark, the FTSE EPRA Nareit Developed ex-North America Real Estate Index – Net Total Return, for the month.

Analysis

In recent years the global real estate securities market has generally been dominated by thematic investing and an emphasis on macro factors with little to no regard to underlying property values as a key metric. We suspect that underlying private market property valuation has become a less relevant metric as generalist investors and passive funds have become the marginal buyer of real estate securities. Generalist investors appear to place a greater focus on secular themes and are untethered to private market valuations. Given this combination of thematic investing and all-time low bond yields, we have witnessed a continued willingness to pay premium valuations for segments of the market that are viewed as having greater predictability in cash flows. In addition, concerns with regard to economic growth have generally placed downward pressure on segments viewed as more vulnerable – office, retail and hotels. Many of these stocks are trading at large discounts to net asset values (NAVs), despite significant transactional evidence in the private markets in the office and hotel sectors. This has resulted in a wide disparity in share price valuations among market segments. The Fund continues to be underweight segments that have benefited from defensive and secular investment themes due to premium share price valuations, and overweight market segments which trade at very attractive discounted valuations.

The Fund underperformed the benchmark for the month. Performance within the European and Asian regional portfolios detracted from relative performance. Top-down regional allocation was relatively neutral and cash held in the Fund detracted. In the Asian region, the Fund benefited from Japan real estate investment trust (J-REIT) stock selection; this was more than offset by the overweight to China and underweight to the Singapore and J-REITs. In the European region, the Fund benefited from the overweight to French office; this was more than offset by the overweight to Continental European retail, stock selection within and the overweight to the U.K. Majors, and underweight to Belgium, Switzerland and Germany.

Strategy

Regional bets are currently relatively muted due to a lack of large valuation disparities among the regions and due to macro uncertainties which may impact regional share prices far more than underlying fundamentals and valuations, and we have instead focused more on the significant disparity in valuations within each of the regions. While the overall global real estate securities market ended the month trading at an 8% premium to NAVs, we see significant disparities in valuations among market segments within each of the major regions, with the most attractive expected return prospects from companies concentrated in Continental high quality retail, the Hong Kong commercial property companies, the U.K. Majors, and select opportunities to invest in other core assets at attractive discounted valuations in a number of other global markets.

In Asia, the Fund continues to be overweight the Hong Kong real estate operating companies (REOCs). Following declines in the month on coronavirus concerns, the stocks ended the month trading at an average 52% discount to NAVs and continue to trade

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at the widest discounts on a global basis. The discounted valuations are further accentuated as the Hong Kong REOCs maintain very modest leverage levels. Select companies have tried to narrow these discounts by recycling assets on their balance sheet to realize their latent gains and by engaging in corporate restructuring to improve transparency and capital management. Notably, our valuations for the Hong Kong REOCs do not reflect the low cap rates evidenced in the private investment market prior to the protests, thus providing a substantial buffer to potential downside risk in asset values. The Japan REOCs ended the month trading at a 14% discount to NAVs and continued to offer attractive value relative to the J-REITs, which traded at a 27% premium. The J-REITs generally own lower quality assets as compared to the J-REOCs, but J-REIT share prices have been bolstered by investors’ search for yield and the Bank of Japan’s commitment to monetary easing and the asset purchase program. As a result, the Fund remains underweight the J-REITs. In Australia, the key office markets in Sydney and Melbourne continued to benefit from solid operating fundamentals. In the retail sector, operating fundamentals remain challenging and landlords will have to spend capex to ensure their malls/shopping centers remain competitive. The Australian REIT sector ended the month trading at a 4% premium to NAVs. The Fund remains underweight Australia.

In Europe, property stocks in the U.K. ended the month trading at an average 7% premium to NAVs, with the large-cap U.K. Majors trading at an average 9% discount. Property stocks on the Continent ended the month trading at an average 5% premium to NAVs, although there is meaningful disparity in valuations within the Continent, with the French and Dutch companies focused on pan-European shopping centers trading at deeply discounted valuations (-34%) and stocks trading above NAV in the Nordics (+22%), Switzerland (+28%) and Belgium (+70%). The Continental retail companies continue to deliver solid operating results, and we expect them to continue to report positive like-for-like rental growth over the coming years, especially those companies focused on centers in prime locations with quality catchments and high footfall. Within Europe, we are overweight to the U.K. Majors and Continental retail, and remained underweight to Germany and other segments in the U.K.

Outlook

We maintain a strong adherence to our value-oriented, bottom-up driven investment process, which focuses on investing in equity securities of publicly listed real estate companies we believe offer the best value relative to underlying real estate value and NAV growth prospects, irrespective of short-term market trends.

We believe listed real estate security returns should mirror private real estate performance. This strategy may result in periods of underperformance, particularly when the market is driven more by thematic/momentum investing and macro factors, as opposed to fundamentals and intrinsic value. The current prolonged period, in which underlying private market valuation is not a relevant determinant of share prices, has been surprising. The private market is more than six times larger than the public markets and has, up until this period, always served as a key determinant of share prices and our key metric. It is logical to us that persistent discounts cannot exist when there is so much money on the sidelines needing to invest and we believe we will be rewarded as these stocks provide favorable risk-adjusted return opportunities based on our analysis.

We would note the lack of focus on valuations/fundamentals has been prolonged due to the following factors:

- Institutional investors have demonstrated a significant preference for private real estate (as opposed to public real estate); as a result, generalist and passive investors have become the marginal buyers.
- Generalist investors tend to focus less on valuations and more on traditional stock market metrics (such as earnings growth and dividend yields) and secular themes (lower-for-longer, e-commerce, tech).
- Growth of passive investing in the REIT space has contributed to exacerbating the dislocation due to a lack of focus on differentiating among stocks based on fundamentals, and instead adding to overvalued stocks that have grown in market capitalization and reducing exposure to undervalued stocks that have decreased in size.
- Untethered to private real estate valuations, earnings multiples have expanded to record levels in sectors viewed as more defensive or benefiting from favorable secular themes. This has resulted in a willingness to ignore the distinction in multiples used to value assets in the private real estate sector and therefore indifference about the quality of the real estate cash flow when buying stocks based on fund from operations (FFO) multiples.

We believe the following may be the catalysts for the valuation gap to narrow:

- **Take-private activity to focus investors on NAV as meaningful metric:** Given the enormous disparities between public and private market valuations that exist within certain market sectors and record levels of dry powder to invest, there may be increased take-private activity as the private funds put capital to work and can access real estate at more attractive valuations through the public companies than through acquisitions in the private market.
• **Well-known activist/event driven investors enter**: The appearance of well-known investors taking long positions in discounted companies that have underperformed and are viewed as short candidates can quickly reverse sentiment on the stocks.

• **Reversal in current theme**: As we have witnessed in past periods, an improved outlook for the economy and higher interest rates would cause a reversal in the lower-for-longer investment theme. Indeed this is precisely what occurred starting in early September and continued through year-end 2019, which resulted in relative outperformance for our strategies over the last four months of 2019.

• **Resurgence of value-based investment style**: The current market environment characterized by momentum and thematic investing with less emphasis on valuation has caused enormous valuation disparities amongst sectors. Mean reversion may provide significant upside potential for undervalued stocks to narrow the large price per NAV (P/NAV) discounts, and may also provide significant downside potential for those stocks that are expensive on a P/NAV basis and also trade at very large premiums to their long-term average earnings multiple.

<table>
<thead>
<tr>
<th>FUND FACTS</th>
<th>Launch date</th>
<th>Base currency</th>
<th>Index</th>
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<tr>
<td></td>
<td>October 01, 1997</td>
<td>U.S. dollars</td>
<td>FTSE EPRA Nareit Developed ex-North America Real Estate - Net Total Return Index</td>
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### Performance (%)

**As of date January 31, 2020 (Class I Share at NAV)**

<table>
<thead>
<tr>
<th>Fund</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>MSIF International Real Estate Portfolio - I Shares</td>
<td>-2.12</td>
<td>-2.12</td>
<td>-2.12</td>
<td>4.33</td>
<td>743</td>
<td>314</td>
<td>5.60</td>
<td>7.28</td>
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<tr>
<td>FTSE EPRA Nareit Developed ex-North America Real Estate - Net Total Return Index</td>
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<td>0.35</td>
<td>0.35</td>
<td>10.13</td>
<td>10.16</td>
<td>5.24</td>
<td>7.59</td>
<td>6.22</td>
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### Performance (%)

**As of date December 31, 2019 (Class I Share at NAV)**

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<tr>
<th>Fund</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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<tbody>
<tr>
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<td>5.91</td>
<td>17.94</td>
<td>17.94</td>
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<td>20.65</td>
<td>10.73</td>
<td>5.80</td>
<td>6.86</td>
<td>6.23</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 1.90% for Class I shares and the net expense ratio is 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. 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.
RISK CONSIDERATIONS

There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by the portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. Accordingly, you can lose money investing in this portfolio. Please be aware that this portfolio may be subject to certain additional risks. 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 the risks generally associated with investments in foreign developed countries. Real estate investments, including real estate investment trusts (REITs), are subject to risks similar to those associated with the direct ownership of real estate and they are sensitive to such factors as management skills and changes in tax laws. 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. Illiquid securities may be more difficult to sell and value than public traded securities. 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. When investing in value securities (those believed to be undervalued in comparison to their peers), the market may not have the same value assessment as the manager, and, therefore, the performance of the securities may decline.

INDEX INFORMATION

The FTSE EPRA Nareit Developed ex-North America Real Estate – Net Total Return Index is a free-float adjusted market capitalization weighted index designed to represent general trends in eligible real estate equities worldwide excluding North America. The performance of the Index is listed in U.S. dollars and assumes reinvestment of dividends. “Net Total Return” reflects a reduction in total returns after taking into account the withholding tax on dividends by certain foreign countries represented in the Index for periods after 2/18/05 (gross returns used prior to 2/18/05).

The Index is 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 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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