

Morgan Stanley Institutional Fund

Long Duration Government Opportunities Fund

MORTGAGE & SECURITIZED TEAM

Performance Review

In the quarter period ending September 30, 2025, the Portfolio's I shares returned 3.38% (net of fees)¹, while the benchmark returned 2.49%.

The Fund (I shares net of fees) outperformed its benchmark, the Bloomberg U.S. Long Treasury Index (the Index), during the third quarter. The Fund's yield curve positioning, which included greater exposure to the 7- to 10-year part of the curve and an underweight to securities with durations of 20 years and longer, contributed positively to returns relative to the Index, as short-term interest rates fell in a much more pronounced manner than long-term rates. Security selection also positively impacted returns, as an overweight to fixed-rate agency collateralized mortgage obligations (CMOs) boosted performance, thanks to spread tightening and higher-than-benchmark coupon income. The Fund's overweight to high-coupon specified pools slightly offset outperformance, due to these having worse convexity and shorter durations.

The Fund is currently structured to have an underweight to Treasuries and a yield advantage relative to the Index. The Fund's largest allocations are in agency mortgage-backed securities (MBS), which is a sector that has been under significant pressure in recent years. Despite rallying in the third quarter, agency MBS spreads remain nearly 20 basis points (bps) wider than long-term averages,² which has resulted in agency MBS offering a meaningful yield pickup relative to Treasuries and other high quality alternatives.

Market Review

U.S. Treasury yields fell and the yield curve steepened materially during the period as weaker economic data increased expectations for Federal Reserve (Fed) rate cuts. Over the quarter, up to two more cuts (after a cut in September) for 2025 were priced, up from only two cuts at the end of the second quarter. The Fed cut rates 0.25% to a range of 4.00%-4.25% during the quarter and indicated that the path of future cuts would be largely data dependent.

The Fed also continued letting its MBS holdings run off during the quarter, which declined \$52 billion to \$2.078 trillion.² The 2-year U.S. Treasury yield fell 11 bps to 3.62% during the third quarter, while the 10-year U.S. Treasury yield fell 8 bps to 4.15% and 30-year yields fell 4 bps to 4.74%.² U.S. bank MBS holdings rose to \$2.695 trillion, but are still down \$314 billion since early 2022. However, we expect bank holdings to increase with the supplementary leverage ratio easing and with short-term rates coming down.² The 30-year mortgage rate fell 33 bps during the quarter from 6.67% to 6.34%.² MBS current coupon nominal spreads tightened 21 bps during the quarter to 126 bps above interpolated U.S. Treasuries.² The Bloomberg U.S. MBS Index returned 2.43% during the quarter, outperforming U.S. Treasuries by 82 bps on a duration-adjusted basis.² Agency MBS have outperformed Treasuries by 92 bps year-to-date on a duration-adjusted basis.² The duration of the Bloomberg U.S. MBS Index fell 0.2 years to 5.2 years, and the majority of the outstanding U.S. mortgage market remains "out-of-the-money" to refinance with new origination mortgage rates still at historically high levels.²

Agency MBS performed in line with other fixed income sectors during the period as most other sector spreads also tightened during the quarter and benefited from the rate rally. Securitized credit spreads tightened in line with other fixed income credit sectors and also performed in line with these sectors, despite having lower duration, due to their higher cash flow carry.

Strategy and Outlook

Fixed income markets enjoyed another quarter of strong performance in the third quarter of 2025. Yields generally fell across most of the curve and credit spreads continued grinding tighter, but the quarter was not without volatility and uncertainty. As indications of a weakening labor market began to take hold, commentary out of Washington raised concerns among market participants about the independence of the Fed. That, coupled with worries about a potential resurgence in inflation following the tariff announcements from earlier in the year, led to some volatility on the long end of the yield curve. However, by the end of the quarter, the Fed had resumed its rate-cutting cycle, reducing its policy rate by 25 bps on September 17.

As of the end of September, the market was pricing in roughly 4.5 additional interest rate cuts for this easing cycle, which would end the cutting cycle at approximately 3%. We continue to believe that the labor market will likely continue to deteriorate and that the

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

² Source: Bloomberg L.P. Data as of September 30, 2025. One basis point = 0.01%

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Fed may be forced to act more aggressively to prevent significant damage to the labor market. This, in our view, will likely result in the Fed cutting through its “neutral rate,” which would put further downward pressure on the front end of the yield curve and lead to continued steepening.

Agency MBS remains one of the only investment grade sectors that is still cheap when compared to longer-term averages. The sector closed the quarter at spreads of 126 bps over Treasurys, which compares to its 10-year average of approximately 109 bps.² Despite being a U.S. government-backed asset class, agency MBS spreads are wider than even BBB-rated corporate bonds.² Non-agency MBS represent another sector in which yields are higher than average, spreads remain attractive and fundamentals are quite strong. Given the substantial home price appreciation we have seen in recent years, the sector may prove resilient even if home prices fall. While investors in non-agency MBS are exposed to varying levels of credit risk, this sector has undergone a significant transformation since the financial crisis, as ratings agencies and investors have demanded more structural protection, resulting in higher credit quality.

From a security selection standpoint, we continue to avoid low-coupon, fixed-rate agency MBS pools, which make up the bulk of the Bloomberg U.S. Mortgage Backed Securities Index, because they trade significantly tighter than higher-coupon agency MBS. While we believe mortgage rates will continue to decline over the coming year, we think the borrowers in low-coupon mortgages would need rates to fall several percentage points from their current levels before seeing a substantial prepayment pickup in these deep-discount bonds. On the other hand, we’re finding more attractive opportunities in the collateralized mortgage obligation (CMO) bond market, which offers investors an opportunity to pick up longer-duration structures comparable to low coupons, at substantially wider spreads. Lastly, we believe investors in specified pools of high-coupon MBS can add value through collateral analysis, which involves targeting stories which are less likely to refinance, despite declining mortgage rates.

Fund Facts

Inception Date	July 28, 1997
Minimum Initial Investment (\$)*	A Shares - 1,000
	I Shares - 1,000,000
Benchmark	Bloomberg US Long Treasury Index
	Custom- BBG US Government/Mortgage / BBG US Long Treasury Blended Index
	Former- Bloomberg U.S. Government/Mortgage Index
Class I expense ratio	Gross 0.82 %
	Net 0.49 %
Class A expense ratio	Gross 1.09 %
	Net 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, 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.

² Source: Bloomberg L.P. Data as of September 30, 2025. One basis point = 0.01%

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

Performance (%)

As of September 30, 2025

	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR
Class I Shares at NAV	1.15	3.38	11.78	-1.08	3.86	-0.97	1.32
Class A Shares at NAV	1.12	3.29	11.49	-1.30	3.50	-1.31	0.97
Class A Shares (With Max 3.25% Sales Charge)	-2.11	-0.06	7.85	-4.50	2.38	-1.95	0.63
Bloomberg US Long Treasury Index	3.09	2.49	5.64	-3.47	0.43	-7.79	-0.11

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.

Effective May 31, 2023, the Fund changed its name from Morgan Stanley U.S. Government Securities Trust to Morgan Stanley Long Duration Government Opportunities Fund, changed its benchmark, amended its principal investment strategy to target an average portfolio duration of at least ten years under normal circumstances, and changed the portfolio managers for the Fund. See prospectus supplement for details.

INDEX INFORMATION

Bloomberg U.S. Long Treasury Index measures the performance of US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury with a maturity greater than 10 years.

Blended Index performance shown is calculated using the Bloomberg U.S. Government/Mortgage Index from inception through 05/31/2023 and the Bloomberg US Long Treasury Index thereafter.

The **Bloomberg U.S. Government/Mortgage Index** includes Treasuries, government-related issues, and agency mortgage-backed pass-through securities issued by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

The Bloomberg 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.

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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. 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 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. 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. **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. **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. 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 strategy could sustain a loss. **Inverse floaters** are sensitive to early prepayment risk and interest rate changes and are more volatile than most other fixed-income securities. **Illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk). **Zero coupon securities** are more sensitive to interest rate changes than comparable interest-paying securities. By investing in **municipal obligations**, the Fund may be susceptible to political, economic, regulatory or other factors affecting their issuers. **Portfolio Turnover.** Consistent with its investment policies, the Fund will purchase and sell securities without regard to the effect on portfolio turnover. Higher portfolio turnover will cause the Fund to incur additional transaction costs.

IMPORTANT INFORMATION

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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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 (which includes the applicable fund's current fees and expenses, if different from those in effect as of the date of this commentary), download one at morganstanley.com/im or call 1-800-548-7786. Please read the prospectus carefully before investing.

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