Morgan Stanley
INVESTMENT MANAGEMENT

COMMENTARY
June 30, 2023

Morgan Stanley Institutional Fund

Long Duration Government Opportunities Fund

BROAD MARKETS FIXED INCOME TEAM

Performance Review

In the quarter period ending June 30, 2023, the Portfolio's I shares returned -2.10% (net of fees)[1], while the benchmark returned -2.30%.

Market Review

While banking fears dominated the price action observed in the first quarter, market behavior coming into the second quarter seemed to be range-bound between two narratives. The first was a resilient labor market and sticky core inflation due to pressures from elevated services inflation. The second was the concern around an economic fallout and a potential credit crunch driven by regional banking fears. However, both narratives stood down during May as all eyes turned to the U.S. debt ceiling. Once a deal became imminent, that uncertainty subsided and all eyes turned back to the economic data. During the first quarter, we saw wider credit spreads and materially lower Treasury yields, as markets reflected concerns of a heightened risk of recession. However, economic and labor market data continuously surprised to the upside, conflicting with fears of a weak economy burdened by banking woes, persistent inflation and hawkish policymakers.

During the quarter, 2-, 5-, 10- and 30-year Treasury yields rose by 87, 58, 37 and 21 basis points (bps), respectively.[2] The upswing in rates was primarily due to the market repricing government yields to reflect a stronger economy and subsequent Federal Reserve (Fed) hikes.

The Bloomberg U.S. Corporate Index spread tightened 15 bps during the quarter to 123 bps.[2] The bulk of the tightening was due to the market repricing weakness in the financial sector lower, with financial spreads tightening 25 bps.[2] Though financial spreads remain wider than their pre-banking crisis levels, it is evident that the market has abandoned fears of a potential systemic financial crisis. U.S. investment grade spreads broadly performed well due to numerous factors. Firstly, there were several economic data surprises (particularly in the U.S.) exceeding weak expectations, with the labor markets remaining strong and inflation starting to fall. Secondly, corporate news was generally bondholder friendly. Finally, general risk sentiment improved as debt ceiling contention faded, risks of a recession accompanied by a spike in defaults receded, and equity market volatility fell to pre-COVID levels.

Broadly, securitized credit sectors were relatively unchanged, though AAA collateralized loan obligations (CLOs), asset-backed securities (ABS) and non-agency commercial mortgage-backed securities (CMBS) tightened 12 bps, 18 bps and 9 bps, respectively.[2] Within securitized markets, fundamental credit conditions remain stable despite recession risks Agency mortgage-backed securities (MBS) yields broadly tracked the rates market, with yields rising roughly 60 bps.[2] Securitized yields remain at historically wide levels, and we believe these wider spreads offer more than sufficient compensation for current market risks.

Portfolio Activity

The portfolio (I shares net of fees) underperformed its benchmark during the quarter. 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 10 years under normal circumstances, and changed the portfolio managers for the Fund. During the quarter, coinciding with the aforementioned changes, many of the Fund's non-U.S. government holdings, such as taxable municipal bonds, asset-backed securities and commercial mortgage-backed securities were sold from the portfolio, while the portfolio's allocation to agency mortgage-backed securities was increased. In addition, the Fund's duration profile was lengthened as a result of these changes.

The portfolio is currently structured to have an underweight in Treasuries and a yield advantage relative to its new benchmark, the Bloomberg U.S. Long Treasury Index. The Fund's largest allocations are in agency mortgage-backed securities, which is a sector that has been under significant pressure in recent quarters but now offers a meaningful yield pickup relative to Treasuries. With valuations now very cheap relative to history, the sector appears attractive relative to other high quality alternatives.

1 Source: Morgan Stanley Investment Management. Data as of June 30, 2023. Performance for other share classes will vary.
2 Source: Bloomberg L.P. Data as of June 30, 2023. One basis point = 0.01%

Strategy and Outlook

Entering 2023, one of the top concerns on investors' minds was the fear that the extreme tightening of financial conditions in 2022, which included the Fed hiking rates by more than 400 basis points, would ultimately result in a recession. While there have certainly been pockets of weakness in the economy and recession risks remain, financial market performance would suggest that many of those fears appear to have been overblown. Inflation has fallen dramatically, equities have rebounded and are up double-digits, and credit spreads are meaningfully tighter. While many risk markets have climbed the proverbial "wall of worry" higher through the first half of 2023, the agency MBS market has faced persistent headwinds for much of the last 18 months.

Concerns about the Fed's tapering of its asset purchases were quickly followed by the impact that quantitative tightening would have on the sector, which was subsequently followed by a regional banking crisis that created uncertainty about future bank demand for agency MBS. The tumultuous environment for the sector has resulted in agency MBS spreads widening by more than 100 bps since their lows in late-2021.[2] Today, the agency MBS market is now trading more than 60 bps cheaper than its average over the last 10 years,[2] which makes for an attractive entry point for this high quality sector.

We continue to believe that the market may be underappreciating the potential economic slowdown stemming from the Fed's rate hiking cycle and tighter lending standards following the regional banking crisis. Given the yield pickup that investors are currently receiving by moving out of investment grade corporates into higher quality agency MBS, we expect increased demand from crossover buyers in the second half of the year. Further, while it may not happen in the very near term, should the economic slowdown become more severe than anticipated, an end to quantitative tightening may follow, which would reduce MBS supply and potentially result in tighter spreads.

Fund Facts

Inception Date	July 28, 1997
Minimum Initial Investment ($)*	A Shares - 1,000
	I Shares - 1,000,000
Benchmark	Primary- 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 0.80 %**
	Net 0.49 %
Class A expense ratio	**Gross 1.05 %**
	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.

2 Source: Bloomberg L.P. Data as of June 30, 2023. 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 June 30, 2023	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR
Class I Shares at NAV	-1.53	-2.10	0.61	-3.25	-4.57	-0.22	1.02
Class A Shares at NAV	-1.42	-2.18	0.58	-3.45	-4.85	-0.55	0.69
Class A Shares (With Max 3.25% Sales Charge)	-4.57	-5.39	-2.65	-6.62	-5.88	-1.20	0.36
Bloomberg US Long Treasury Index	-0.02	-2.30	3.72	-6.82	-12.09	-0.88	1.80

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.

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.

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.

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. Corporate Index** is a broad-based benchmark that measures the investment grade, fixed-rate, taxable, corporate bond market.

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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, download one at morganstanley.com/im or call 1-800-548-7786. Please read the prospectus carefully before investing.

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