

Morgan Stanley Institutional Fund

Long Duration Government Opportunities Fund

MORTGAGE & SECURITIZED TEAM

Performance Review

In the quarter period ending December 31, 2025, the Portfolio's I shares returned 1.91% (net of fees)¹, while the benchmark returned -0.05%.

The Fund (I shares net of fees) outperformed its benchmark, the Bloomberg U.S. Long Treasury Index (the Index), during the fourth 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 while long-term rates rose modestly. 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 also benefited from a small allocation to non-agency mortgage-backed securities (MBS), which outperformed agency MBS during the period. A small allocation to interest-only agency MBS detracted from performance during the period.

The Fund is currently structured to have an underweight to Treasurys and a yield advantage relative to the Index. The Fund's largest allocations are in agency MBS, which is a sector that has been under significant pressure in recent years. While agency MBS spreads once again rallied in the fourth quarter and are in line with long-term averages,² the sector continues to offer a meaningful yield pickup relative to Treasurys and more attractive valuations than other high quality alternatives.

Market Review

In the fourth quarter, world equity markets continued to post positive returns, capping a year of gains in both developed and developing markets. The same was mostly true for global fixed income in the quarter, with positive returns across the asset class broadly, excluding some non-U.S. developed markets. The U.S. Federal Reserve (Fed) delivered two interest rate cuts of 0.25 percentage points in October and December — the second and third reductions by that amount in 2025. Nine other central banks joined the Fed in lowering policy rates in the quarter. Contrary to other major markets, Japan announced a large fiscal stimulus package in November against the backdrop of ongoing rate hikes.

U.S. growth remained positive during the quarter, supported by steady consumer spending, although labor market data showed softening trends and highlighted an increasingly "K-shaped" economy in which higher-income households continued to spend while lower-income consumers pulled back. Inflation moderated compared with earlier in the year, reinforcing the Fed's pivot toward accommodation.

The agency MBS market delivered a solid quarter, benefiting from falling short-term interest rates and improving demand. The sector posted a total return of more than 8% in 2025, marking its third consecutive calendar year of positive returns.² Spreads were relatively stable during the period, but mortgage rates fell, resulting in slightly faster prepayment speeds.² Overall, a steeper yield curve, lower volatility and a diverse buyer base, which includes money managers, banks and government-sponsored enterprises (GSEs), have sustained performance for the sector.

Strategy and Outlook

The fourth quarter capped off a strong year for fixed income markets in 2025, as the Bloomberg U.S. Aggregate Bond Index posted a calendar year return in excess of 7%. Yields on the front end of the Treasury curve fell during the quarter, while credit spreads continued grinding tighter. Despite the fact that inflation remained above its 2% target, the Fed continued its cutting cycle in response to weakening employment data, lowering the fed funds rate by 25 basis points each at both the October and December Federal Open Market Committee meetings. We continue to believe that inflation will likely gradually subside in 2026, most notably due to cooling wage inflation and shelter inflation. As of the end of December, the market was pricing in fewer than 2.5 additional interest rate cuts for this easing cycle, which would end the cutting cycle at approximately 3%. We believe that the job market will likely continue to deteriorate and that the 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.

¹ Source: Morgan Stanley Investment Management. Data as of December 31, 2025. Performance for other share classes will vary.

² Source: Bloomberg L.P. Data as of December 31, 2025. One basis point = 0.01%

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While the agency MBS sector saw tightening spreads over the course of 2025, it remains one of the only investment grade sectors trading at inexpensive valuations when compared to longer-term averages. In addition, despite being a U.S. government-backed asset class, agency MBS spreads remain wider than even BBB-rated corporate bonds.² Elevated mortgage rates are currently making it an incredibly difficult environment for homebuyers, but it is a great environment to be lending into that market, and that is in essence what investors in agency MBS are doing. As noted, spreads remain wide relative to history, partially as a result of Fed quantitative tightening and regional banking challenges from a couple of years ago. In recent quarters, however, banks have begun growing their allocations to agency MBS, and various policy actions, either monetary or fiscal, have the potential to further compress agency MBS spreads.

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 likely 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 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 December 31, 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 December 31, 2025	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR
Class I Shares at NAV	-0.96	1.91	13.91	13.91	4.15	-0.61	1.54
Class A Shares at NAV	-0.85	1.82	13.51	13.51	3.83	-0.95	1.19
Class A Shares (With Max 3.25% Sales Charge)	-4.07	-1.55	9.81	9.81	2.71	-1.60	0.86
Bloomberg US Long Treasury Index	-1.73	-0.05	5.59	5.59	0.61	-7.23	0.02

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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