Performance Review

In the quarter period ending March 31, 2021, the Portfolio’s I shares returned -0.25% (net of fees), while the benchmark returned -1.10%.

Although the Fund had a slightly negative return during the first quarter, the Fund performed well on a relative basis. The Fund’s agency mortgage-backed securities (MBS) positions outperformed the Index. The Fund’s agency MBS pass-through positions underperformed the Index during the quarter due to our overweight to lower coupon MBS, which underperformed due to its longer duration and additional duration extension as interest rates increased and the curve steepened during the quarter. The Fund’s agency collateralized mortgage obligation (CMO) positions substantially outperformed the Index due to the higher coupon positioning and interest-only securities, both of which benefited from higher interest rates and expected slower prepayments. The Fund’s duration position detracted from performance as rates rose sharply during the quarter.

The Fund’s largest contributors over the quarter were its allocations in U.S. and European residential mortgage-backed securities (RMBS) and asset-backed securities (ABS) (40% and 19% of the portfolio, respectively), as nearly all European RMBS and many U.S. RMBS and ABS bonds are floating rate; while most ABS deals that are fixed rate have very short durations, which aren’t very sensitive to changes in interest rates. Within ABS, the strongest performance was generated from aircraft, small business and mortgage-related loans, as these more COVID-sensitive sectors experienced material spread tightening over the quarter, benefiting from an improving pandemic outlook with vaccinations becoming more widely administered.

Market Review

Rising rates was the dominant market theme of the first quarter, along with the positive economic tailwinds of enormous fiscal spending, extraordinarily easy central bank policies and an improving pandemic outlook with vaccinations becoming more widely administered.

Interest rates rose and the U.S. Treasury curve steepened during the quarter, with the 2-year U.S. Treasury rate rising 4 basis points to 0.16%, while the 10-year U.S. Treasury rate increased 84 basis points to 1.74%. The Federal Reserve (Fed) purchased nearly $400 billion agency MBS during the first quarter and the Fed’s agency MBS holdings hit a new high of $2.225 trillion in March, up $54 billion from the previous high and now accounting for over one-third of the outstanding agency MBS market. The Fed has purchased over $1.8 trillion agency MBS since it renewed its purchase program in March 2020, and it is expected to continue buying more agency MBS for as long as economic conditions remain challenging.

Nominal spreads on current coupon MBS tightened 1 basis point during the quarter to 70 basis points above interpolated U.S. Treasuries. After weak performance in January and February, spreads resumed tightening in March to the levels they traded at in early 2021, as the Fed had its largest monthly agency MBS purchases since April 2020, buying over $132 billion agency MBS in

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2 Source: Bloomberg L.P. Data as of March 31, 2021. One basis point = 0.01%

This document constitutes a commentary and does not constitute investment advice nor a recommendation to invest. The value of investments may rise as well as fall. Independent advice should be sought before any decision to invest.
March. The duration of the Bloomberg Barclays U.S. MBS Index (the Index) lengthened 1.8 years to 4.1 years during the first quarter as interest rates moved higher. The current yield on the Index ended the quarter at 1.82%, up from 1.25% at the end of the fourth quarter. The Bloomberg Barclays U.S. MBS Index generated a -1.10% return during the quarter, outperforming U.S. Treasuries on a duration adjusted basis by 15 basis points, but underperforming the Bloomberg Barclays U.S. Treasury Index, which returned -0.83% during the quarter. Mortgage rates gapped higher as interest rates increased during the quarter, with the average 30-year mortgage rate climbing to 3.18% in March, up from 2.97% at the end of February and 2.65% in early January. Thus far in 2021, U.S. mortgage mutual funds have seen net inflows of $3.2 billion.

U.S. non-agency RMBS spreads continued to tighten during the first quarter, although to a lesser degree than in the fourth quarter of 2020, with AAA spreads roughly 5 basis points tighter than December levels, now ranging around +75-85 basis points. BBB spreads tightened roughly 20 basis points during the quarter, now trading around 150-180 basis points. Mortgage fundamental performance continues to be generally positive as loan delinquencies and forbearance requests continue to decline and economic forecasts have shifted positively. National home prices increased more than 10% over the past year, fueled by record low mortgage rates and historically low housing supply. New non-agency RMBS securitizations increased again in March, but much of the supply stemmed from refinancings of outstanding deals, and the net new issuance in March was relatively minimal and met with healthy demand.

U.S. ABS spreads varied during the quarter. AAA spreads continue to trade roughly 50-70 basis points above comparable duration swaps for most credit card and auto deals. BBB spreads were tighter, now ranging around +100-150 basis points. Similar to U.S. non-agency RMBS, fundamental performance for consumer credit sectors continues to be solid. Delinquencies have been in line with historical vintages, with no substantial increases resulting from the pandemic. Consumer credit conditions also continue to improve; average consumer FICO scores increased to 710 in 2020, up from 703 at the beginning of the year and from 689 in 2010. Consumer savings rates have also spiked near historical highs as the travel, leisure and retail industries came to a complete standstill, and although different industries have begun to slowly reopen, there still are far fewer outlets for spending money. ABS issuance also increased in March, but this supply was met with healthy demand, and most deals were multiple times over-subscribed.

U.S. commercial mortgage-backed securities (CMBS) spreads were largely unchanged over the quarter with AAA CMBS spreads continuing to trade roughly 80-100 basis points above comparable duration swaps, while lower-rated classes tightened slightly. CMBS issuance remained sluggish during the quarter, unlike most other securitized sectors. Single-asset CMBS securitizations are seeing moderate volumes, while conduit transactions have declined substantially.

European RMBS spreads were largely unchanged during the quarter. The European Central Bank largely maintained its ABS holdings during the quarter, at approximately $29 billion. Fundamental performance has been generally good, with only minimal increases in mortgage delinquencies. European RMBS, ABS and CMBS issuance increased slightly in March, with a mixture of newly originated loans and re-securitizations of previously securitized loans.

**Portfolio Activity**

We decreased our agency MBS positioning from 38% to 36% during the quarter as spreads tightened in March and our outlook turned into a more negative stance, due to these tighter valuations and our concern that the Fed may begin to taper its agency MBS purchases in the coming months. During the quarter, we increased both our U.S. non-agency RMBS exposure by 1.7% to 32% and our ABS exposure by 1.3% to 19%. We also continued to trim our CMBS exposure, primarily by reducing exposure to retail and hotel properties, which are the sectors that continue to suffer the most from the pandemic. We decreased our U.S. CMBS exposure by 1% to 5% during the quarter.

**Strategy and Outlook**

2021 is off to a solid start in the securitized credit markets, where a combination of spread tightening and cash flow carry have effectively counterbalanced the sharp rise in interest rates this year. Credit fundamentals remain strong in the residential and consumer sectors of the securitized markets, while commercial real estate continues to face pandemic-induced stress. We continue to have a positive outlook on residential and consumer credit sectors and a more cautious view on CMBS.

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2 Source: Bloomberg L.P. Data as of March 31, 2021. One basis point = 0.01%
4 Source: Freddie Mac Survey Rate. Data as of March 31, 2021.
Agency MBS has been more vulnerable to the rise in rates, with agency MBS durations extending substantially as mortgage rates rose. Agency MBS spreads are now tighter on the year, after widening in February, as agency MBS has been well supported with over $350 billion in Fed purchases this year. We have moved to a negative stance on agency MBS, due to these tighter valuations and our concern that the Fed may begin to taper its agency MBS purchases in the coming months. In terms of agency MBS positioning, we have been slowly shifting up in coupon as prepayment risk eases and duration extension risk increases. Carry remains the most compelling in lower coupon MBS, but with much greater duration exposure. Within lower coupon MBS, we remain focused on to-be-announced securities (TBAs) and benefiting from attractive carry (the "specialness" of the roll). Within higher coupons, we remain focused on specified pools with better carry and lower prepayment risk.

U.S. non-agency RMBS have largely recovered to pre-pandemic levels, but still offer reasonably attractive relative value. Home prices should remain stable, supported by historically low mortgage rates and very limited housing supply. Mortgage delinquency and default rates should remain at modest levels, substantially below structural credit protection levels for most securities. Non-agency RMBS spreads still look compelling versus comparably rated U.S. corporates.

U.S. ABS continues to have mixed outlook for 2021, with traditional consumer ABS (credit cards and auto loans) looking relatively expensive while the more COVID-challenged ABS sectors continue to offer much greater recovery potential. Auto loans, credit cards and consumer loans have performed well during the pandemic, and we expect this fundamental credit performance to continue, but current valuations are more expensive than pre-pandemic levels and are generally unattractive on a relative value basis. Aircraft leases, small business loans and mortgage servicing assets have begun to recover in the last few months but remain cheaper than pre-pandemic levels and still offer meaningful pandemic recovery potential.

CMBS valuations have also increased over the past few months, but this sector remains very idiosyncratic, with some attractive value opportunities and some potential credit problems as well. Hotels and shopping centers have been severely impacted by the pandemic and remain vulnerable to high levels of defaults. There is significant recovery potential in these sectors but also substantial risk. Even within hotels and shopping centers, there is significant differentiation between individual properties. Multi-family housing (apartments) and office buildings have performed better and have lower risks of near-term defaults, but these sectors could still face challenges if there are fundamental shifts in how people want to live and work in the post-pandemic world. We anticipate meaningful declines in rent and occupancy levels, particularly in major cities, which could impact property valuations and refinancing prospects. Current fundamental performance has been okay, but credit conditions remain moderately concerning. Industrial and logistics centers have generally benefited from the pandemic with increased demand, and consequently look stable from a credit perspective, but current valuations now reflect this positive credit profile and relative value only looks marginal.

European markets are experiencing similar sector-specific performance dynamics, and overall European credit performance has been comparable to U.S. markets. European spreads are now back in line with comparable U.S. assets. European securitized markets should remain well supported by the historically low rates in Europe and by the asset purchase programs and lending programs of the European Central Bank and Bank of England.

Overall, we remain constructive on securitized credit and have a modest credit overweight across the portfolio. We remain cautious on interest rate risk, and we continue to manage the portfolio with a relatively short duration.

<table>
<thead>
<tr>
<th>FUND FACTS</th>
<th>Base currency</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Launch date</td>
<td>U.S. dollars</td>
<td>Bloomberg Barclays U.S. Mortgage Backed Securities (MBS) Index</td>
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</tbody>
</table>
Performance (%)
As of March 31, 2021 (Class I Share at NAV)

<table>
<thead>
<tr>
<th></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>
</tr>
</thead>
<tbody>
<tr>
<td>MS Mortgage Securities Trust - I Shares</td>
<td>-0.36</td>
<td>-0.25</td>
<td>-0.25</td>
<td>10.68</td>
<td>4.06</td>
<td>4.74</td>
<td>5.04</td>
<td>4.70</td>
</tr>
<tr>
<td>Bloomberg Barclays U.S. Mortgage Backed Securities (MBS) Index</td>
<td>-0.51</td>
<td>-1.10</td>
<td>-1.10</td>
<td>-0.09</td>
<td>3.75</td>
<td>2.43</td>
<td>2.83</td>
<td>4.69</td>
</tr>
</tbody>
</table>

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 0.91% for Class I shares and the net expense ratio is 0.70%. 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.

The fund has received proceeds related to certain non-recurring litigation settlements. If these monies were not received, any period returns which include these settlement monies would have been lower. These were one-time settlements, and as a result, the impact on the net asset value and consequently the performance will not likely be repeated in the future. Please visit www.morganstanley.com/im for additional details.

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.

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. **High yield securities ("junk bonds")** are lower rated securities that may have a higher degree of credit and liquidity risk. **Foreign securities** are subject to currency, political, economic and market risks. **Illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk). **Inverse floaters** are sensitive to early prepayment risk and interest rate changes and are more volatile than most other fixed-income securities.

**INDEX INFORMATION**

The **Bloomberg Barclays 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.

**S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index** measures U.S. residential real estate prices, tracking changes in the value of residential real estate nationally.

**The Bloomberg Barclay's U.S. Treasury Index** includes public obligations of the U.S. Treasury.

**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 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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