Performance Review

In the one month period ending January 31, 2020, the Fund's I shares returned 0.61% (net of fees), while the benchmark returned 0.55%.

Despite a modest amount of spread widening (particularly in investment grade corporates), the overweight to credit sectors was a positive contributor to relative excess returns. The largest detractor was a yield curve steeper position, as interest rates fell over the period.

Market Review

Another year, another risk to the business cycle. It seems every year at least one new challenge arises that could derail the elongated cycle. And each year the cycle demonstrates its resilience and continues on. Last year, it was a trade war and lagged effects of U.S. monetary tightening. In 2020, we are already faced with the impact of the coronavirus. Understandably, the largest impact so far has been on commodity and Asian markets. For now, other markets do not appear to be pricing in a global recession. But the volatility we have seen reflects the importance of China in the global economy – it now represents a much larger proportion of global gross domestic product (over three times larger) than it did during the SARS outbreak in 2003.

Indeed, outside of developed country government bonds, commodity prices and a few Asian equity markets, you would be hard-pressed to believe a globally impactful medical catastrophe was unfolding in China. This strong relative performance seems to suggest confidence that the virus outbreak will be contained and that economic data will rebound sharply after the inevitable short-term deterioration. We think it also reflects the power of easy financial conditions. A large drop in government bond yields no doubt cushioned the impact. The fact that the Federal Reserve (Fed) had been cutting rates and has suggested in its communications that rate cuts are more likely than rate hikes has built confidence that, if data did deteriorate, the Fed would react. Ironically, by communicating this, the market’s moves may obviate the Fed’s need to actually move. Regardless, a lot of uncertainty remains.

Yields on 2-, 5-, 10- and 30-year Treasuries fell by 26, 38, 41 and 39 basis points (bps) respectively in January. The 10-year breakeven inflation rate fell 15 bps.²

Though coronavirus concerns led to a widening in corporate spreads in January, the magnitude was muted. The Bloomberg Barclays U.S. Corporate Index spread rose 9 bps to end the month at 102 bps over government bonds, which is still at the low end of its historical range.³ Financials widened less than non-financials in the month. Higher-beta, riskier sectors (longer maturity and lower rated) performed the worst.

Agency mortgage-backed securities (MBS) underperformed in January, as lower rates increased prepayment concerns. The duration of the Bloomberg Barclays U.S. MBS Index shortened 0.59 years to 2.62 years.³ Average national mortgage rates decreased 23 bps in January to 3.63%, finishing the month at the lowest levels since 2016.⁴ Pay-ups for specified pools strengthened as investors favored pools with lower prepayment risks.

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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.
Unlike other credit markets, in January securitized credit spreads were unchanged (residential mortgage-backed securities) or tighter (commercial mortgage-backed securities and asset-backed securities). Fundamental credit conditions in the U.S. housing market remain positive. National home prices increased 0.2% in November and were up 3.5% over the last 12 months.\textsuperscript{5} Commercial real estate market credit conditions remain positive, with commercial real estate prices unchanged in December and up 2.5% over the past year.\textsuperscript{6} Fundamental conditions remain favorable in most commercial real estate markets, with high occupancy rates and improving rental rates. Healthy consumer credit conditions continue to support asset-backed securities (ABS).

**Portfolio Activity**

We added to the short-duration securitized credit position via new issues. We added to the securitized credit position via new-issue ABS and non-agency MBS deals.

**Strategy and Outlook**

Looking ahead, we expect corporates to generate attractive excess returns, primarily through carry as opposed to capital gains. Sector and issuer selection will remain key decisions as technology and behavioral change are both fast-moving and disruptive for many traditional industry business models. These concerns, coupled with absolute valuations, will likely keep us cautious and tactical with our additions and subtractions of risk in the near future.

<table>
<thead>
<tr>
<th><strong>FUND FACTS</strong></th>
<th><strong>Launch date</strong></th>
<th><strong>Base currency</strong></th>
<th><strong>Index</strong></th>
</tr>
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<tbody>
<tr>
<td></td>
<td>March 31, 1992</td>
<td>U.S. dollars</td>
<td>Bloomberg Barclays 1-3 Year U.S. Government/Credit Index</td>
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</tbody>
</table>


\textsuperscript{6} Source: Green Street Advisors. Data as of January 31, 2020.
Performance (%)  
As of January 31, 2020 (Class I Share at NAV)

<table>
<thead>
<tr>
<th>Fund Name</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>MSIF Short Duration Income Portfolio - I Shares</td>
<td>0.61</td>
<td>0.61</td>
<td>4.31</td>
<td>2.87</td>
<td>3.37</td>
<td>2.63</td>
<td>3.12</td>
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<td>Bloomberg Barclays 1-3 Year U.S. Government/Credit Index</td>
<td>0.55</td>
<td>0.55</td>
<td>3.88</td>
<td>2.00</td>
<td>1.41</td>
<td>1.23</td>
<td>3.71</td>
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<td>ICE BofAML 1-Year U.S. Treasury Note Index</td>
<td>0.24</td>
<td>0.24</td>
<td>2.90</td>
<td>1.81</td>
<td>1.27</td>
<td>0.83</td>
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Performance (%)  
As of date December 31, 2019 (Class I Share at NAV)

<table>
<thead>
<tr>
<th>Fund Name</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>MSIF Short Duration Income Portfolio - I Shares</td>
<td>0.36</td>
<td>0.78</td>
<td>4.07</td>
<td>2.70</td>
<td>3.24</td>
<td>2.63</td>
<td>3.11</td>
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<tr>
<td>Bloomberg Barclays 1-3 Year U.S. Government/Credit Index</td>
<td>0.21</td>
<td>0.51</td>
<td>3.59</td>
<td>3.59</td>
<td>1.86</td>
<td>1.25</td>
<td>3.70</td>
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<td>ICE BofAML 1-Year U.S. Treasury Note Index</td>
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<td>0.59</td>
<td>2.93</td>
<td>1.78</td>
<td>1.25</td>
<td>0.83</td>
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</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 0.49% for Class I shares and the net expense ratio is 0.30%. 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.

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 Portfolio received monies related to certain nonrecurring litigation settlements. If these monies were not received, any period returns which include these settlement monies would have been lower. The returns on the other Share Classes would also have been similarly impacted. 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. Rankings for the fund were more favorable due to these settlements and ratings may also have been positively impacted. For additional information please visit morganstanley.com/im or call 1-800-548-7786.

Effective August 1, 2019, the Fund’s primary benchmark index has changed to the Bloomberg Barclays 1-3 Year U.S. Government/Credit Index. In addition, the Fund’s average duration target has changed from 1 year or less to 3 years or less. See prospectus 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. 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. **Foreign securities** are subject to currency, political, economic and market risks. The risks of investing in **emerging market** countries are greater than risks associated with investments in foreign developed countries. **Restricted and illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk).

**INDEX INFORMATION**

The **Bloomberg Barclays 1-3 Year U.S Government/Credit Index** tracks the securities in the 1-3 year maturity range of the Barclays U.S. Government/Credit Index which tracks investment-grade (BBB-/Baa3) or higher publicly traded fixed rate U.S. government, U.S. agency, and corporate issues.

The **ICE BofAML 1-Year U.S. Treasury Note Index** is an unmanaged index tracking U.S. government securities with a maturity of at least one year and less than three years.

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

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.

**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.

Morgan Stanley Investment Management is the asset management division of Morgan Stanley.

**NOT FDIC INSURED | OFFER NO BANK GUARANTEE | MAY LOSE VALUE | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY | NOT A DEPOSIT**