

Morgan Stanley Mortgage Securities Trust

4Q18
FACTSHEET

Investment Approach

Our investment approach is structured around five principal risk factors: prepayment, convexity, volatility, spread, and interest rate. The compensation for bearing these risks varies over time, reflecting the market's expectation of the future. As value investors, when the market's expectation of the future is extreme, we structure portfolios to benefit should the future evolve closer to historical precedent than to these extreme forecasts. When using proprietary models, we endeavor to understand and adjust for their weaknesses. This process ensures that our final valuation of securities is forward looking and not limited to historical relationships.

Objective

Seeks a high level of current income.

Lipper Category

US Mortgage

Morningstar Category

Intermediate-Term Bond

Portfolio Managers

	Joined Firm	Years of Investment Experience
Gregory A. Finck, Managing Director	2014	27
Neil Stone, Managing Director	1995	34

Investment Performance - Class I (% net of fees)

% Average Annual Total Returns	1 Year	3 Year	5 Year	10 Year	Inception		
Fund	2.12	4.91	4.73	5.51	4.73		
Bloomberg Barclays U.S. Mortgage Backed Securities (MBS) Index ¹	0.99	1.71	2.53	3.11	4.76		
Lipper Category Average	0.74	1.80	2.28	3.71	-		
Morningstar Category Average	-0.50	2.15	2.27	4.31	-		
% Calendar Year Returns	4Q18	YTD	2018	2017	2016	2015	2014
Fund	1.66	2.12	2.12	6.76	5.89	1.91	7.08
Bloomberg Barclays U.S. Mortgage Backed Securities (MBS) Index	2.08	0.99	0.99	2.47	1.67	1.51	6.08
Lipper Category Average	1.51	0.74	0.74	2.83	2.00	1.12	5.50
Morningstar Category Average	0.86	-0.50	-0.50	3.71	3.23	-0.26	5.18

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. Rankings for the fund were more favorable due to these settlements and ratings may also have been positively impacted. Please visit www.morganstanley.com/im for additional details.

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 or call 1-800-548-7786. Investment returns and principal value will fluctuate and fund shares, when redeemed, may be worth more or less than their original cost.

Performance and fund information is as of December 31, 2018, unless otherwise noted. Returns are net of fees and assume the reinvestment of all dividends and income. Returns for less than one year are cumulative (not annualized). Performance of other share classes will vary.

Expense Ratios	Symbol	Cusip	Gross (%)	Net (%)
Class A	MTGAX	616962106	1.34	1.00
Class C	MSMTX	616962502	2.21	1.80
Class I	MTGDGX	616962403	1.05	0.70
Class IS	MORGX	616962700	14.74	0.65

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 Trustees 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 for Class I shares.

Past performance is not indicative of future results. Subject to change daily. Fund information is provided for informational purposes only and should not be deemed as a recommendation to buy or sell any security or securities in the sectors presented.

* Turnover is sourced from the fund's current prospectus.



WINNER OF THE 2018

**THOMSON REUTERS
LIPPER FUND AWARDS
UNITED STATES**

Morgan Stanley Investment Management, Inc.

BEST GROUP OVER 3 YEARS
FIXED INCOME LARGE COMPANY

2018 Best Fixed Income Large Company Group over 3 years

Lipper Fund Awards are based upon risk adjusted return. For additional information refer to the disclosures on page 2.

Morningstar Overall Rating

Class I shares



Out of 876 Funds. Based on Risk Adjusted Return. Class I Shares Fund ratings out of 5 Stars: 3 Yrs. 5 Stars; 5 Yrs. 5 Stars. 10 Yrs. 4 Stars.

Morningstar Rankings - Class I Intermediate-Term Bond Category

	Percentile	Rank/Total in Category
1 Year	2	12/1019
3 Year	2	11/876
5 Year	1	3/767
10 Year	13	66/560

Source: Morningstar, Inc. Rankings are based on total returns, are historical and do not guarantee future results.

Fund Facts

Inception date	July 28, 1997
Total net assets (\$MM)	\$ 143.8
Benchmark	Bloomberg Barclays U.S. Mortgage Backed Securities (MBS) Index
Distribution frequency	Monthly

Portfolio Characteristics

	Fund
Number of holdings	425
Duration (years)	3.60
SEC 30-day yield (class I) subsidized (%)	3.68
SEC 30-day yield (class I) unsubsidized (%)	3.48
Turnover (%)*	370

Risk/Return Statistics (3 Year)

	Fund
Excess Return (%)	3.22
Alpha (%)	3.40
Beta (vs. benchmark)	0.75
Information ratio	1.98
R squared	0.56
Sharpe ratio	1.71
Standard deviation (%)	2.30

Sector Allocation (% of Total Net Assets)

	Fund
US Agency Passthroughs	24.54
US Agency CMOs	7.18
US Non-Agency RMBS	27.53
Non-US RMBS	12.30
US Agency CMBS	0.09
US Non-Agency CMBS	8.25
Non-US CMBS	0.48
US ABS	11.82
Non-US ABS	3.50
Cash / FX	4.30

This material is a general communication, which is not impartial and all information provided has been prepared solely for informational and educational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The information herein has not been based on a consideration of any individual investor circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

PORTFOLIO CHARACTERISTICS DEFINITIONS: **Duration** is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices. **SEC yield** is a measure of the income generated by the portfolio's underlying asset over the trailing 30 days, relative to the asset base of the portfolio itself. The SEC 30-day yield - Subsidized (Sub.) reflects current fee waivers in effect. Absent such fee waivers, the yield would have been lower. The SEC 30-Day yield - Unsubsidized (Unsub.) does not reflect the fee waivers currently in effect. **Quality distribution** refers to the rating given by a Nationally Recognized Statistical Rating Organization ("NRSRO") and is the rating firms' subjective opinion concerning the ability and willingness of an issuer to meet its financial obligations in full and on time. Ratings apply only to portfolio holdings and do not remove the Fund's market risk. Quality distribution data for securities is sourced from Fitch, Moody's and S&P. Where the credit ratings for individual securities differ between the three ratings agencies, the 'highest' rating is applied. The rating of credit default swaps is based on the 'highest' rating of the underlying reference bond. 'Cash' includes investments in short term instruments, including investments in Morgan Stanley liquidity funds.

RISK/RETURN DEFINITIONS: **Excess Return** or value added (positive or negative) is the portfolio's return relative to the return of the benchmark. **Alpha** (Jensen's) is a risk-adjusted performance measure that represents the average return on a portfolio or investment above or below that predicted by the capital asset pricing model (CAPM) given the portfolio's or investment's beta and the average market return. Prior to 6/30/2018 Alpha was calculated as the excess return of the fund versus benchmark. **Beta** is a measure of the relative volatility of a security or portfolio to the market's upward or downward movements. A beta greater than 1.0 identifies an issue or fund that will move more than the market, while a beta less than 1.0 identifies an issue or fund that will move less than the market. The Beta of the Market is always equal to 1. **Information ratio** is the portfolio's alpha or excess return per unit of risk, as measured by tracking error, versus the portfolio's benchmark. **R squared** measures how well an investment's returns correlate to an index. An R squared of 1.00 means the portfolio performance is 100% correlated to the index's, whereas a low r-squared means that the portfolio performance is less correlated to the index's. **Sharpe ratio** is a risk-adjusted measure calculated as the ratio of excess return to standard deviation. The Sharpe ratio determines reward per unit of risk. The higher the Sharpe ratio, the better the historical risk-adjusted performance. **Standard deviation** measures how widely individual performance returns, within a performance series, are dispersed from the average or mean value.

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 the current rising interest-rate environment, bond prices may fall and may result in periods of volatility and increased portfolio redemptions. Longer-term securities may be more sensitive to interest rate changes. In a declining interest-rate environment, the portfolio may generate less income. 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. 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).

Lipper Fund Awards. Source: Lipper Inc. Lipper awards are not intended to predict future results. The Thomson Reuters Lipper Fund Awards, granted annually, highlight funds and fund companies that have excelled in delivering consistently strong risk-adjusted performance relative to their peers. For more information, see www.lipperfundawards.com. The Asset Class fund groups with at least five equity, five bond, or three mixed-asset portfolios in the respective asset classes are eligible for a group award. The lowest average decile rank of the three years' Consistent Return measure of the eligible funds per asset class and group will determine the asset class group award winner over the three-year period. In cases of identical results, the lower average percentile rank will determine the winner. Although Lipper makes reasonable efforts to ensure the accuracy and reliability of the data contained herein, the accuracy is not guaranteed by Lipper. Other share classes may have different performance and expense characteristics.

Morningstar: Rankings and ratings as of December 31, 2018. **Rankings:** The percentile rankings are based on the average annual total returns for the periods stated and do not include any sales charges, but do include reinvestment of dividends and capital gains and Rule 12b-1 fees. The highest (or most favorable) percentile rank is 1 and the lowest (or least favorable) percentile rank is 100. The top-performing fund in a category will always receive a rank of 1. **Ratings:** The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. Ratings do not take into account sales loads. © 2019 Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. **Past performance is no guarantee of future results.** Morningstar information is based on quarter-end data. Please visit morganstanley.com/im for the latest month-end Morningstar information.

OTHER CONSIDERATIONS

¹ The Bloomberg Barclays U.S. Mortgage Backed Securities (MBS) Index (formerly listed as Barclays Mortgage 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). This Index is the Mortgage Backed Securities Fixed Rate component of the Bloomberg Barclays U.S. Aggregate Index. The index is unmanaged and does not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

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.

Morgan Stanley Investment Management (MSIM) is the asset management division of Morgan Stanley.