

Morgan Stanley

Global Real Estate Portfolio

The Portfolio is intended to be a funding vehicle for variable annuity contracts and variable life insurance policies offered by the separate accounts of certain life insurance companies.

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Expense Example (unaudited)

Global Real Estate Portfolio

As a shareholder of the Global Real Estate Portfolio (the “Portfolio”), you incur two types of costs: (1) insurance company charges; and (2) ongoing costs, include advisory fees, administration fees, distribution (12b-1) fees and other Portfolio expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Portfolio and to compare these costs with the ongoing costs of investing in other mutual funds.

This example is based on an investment of \$1,000 invested at the beginning of the six-month period ended December 31, 2016 and held for the entire six-month period.

Actual Expenses

The table below provides information about actual account values and actual expenses. You may use the information in this table, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the table under the heading entitled “Actual Expenses Paid During Period” to estimate the expenses you paid on your account during this period.

Hypothetical Example for Comparison Purposes

The table below provides information about hypothetical account values and hypothetical expenses based on the Portfolio’s actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Portfolio’s actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Portfolio and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any insurance company charges. Therefore, the table below is useful in comparing ongoing costs, but will not help you determine the relative total cost of owning different funds. In addition, if these insurance company charges were included, your costs would have been higher.

	Beginning Account Value 7/1/16	Actual Ending Account Value 12/31/16	Hypothetical Ending Account Value	Actual Expenses Paid During Period*	Hypothetical Expenses Paid During Period*	Net Expense Ratio During Period**
Global Real Estate Portfolio Class II	\$1,000.00	\$966.40	\$1,018.10	\$6.92	\$7.10	1.40%***

* Expenses are calculated using the Portfolio Class’ annualized net expense ratio (as disclosed), multiplied by the average account value over the period, and multiplied by 184/366 (to reflect the most recent one-half year period).

** Annualized.

*** Refer to Note G in the Notes to Financial Statements for discussion of prior period custodian out-of-pocket expenses that were reimbursed in the current period.

Investment Overview (unaudited)

Global Real Estate Portfolio

The Portfolio seeks to provide current income and capital appreciation. The Portfolio's adviser, Morgan Stanley Investment Management Inc. (the "Adviser") and sub-advisers, Morgan Stanley Investment Management Limited ("MSIM Limited") and Morgan Stanley Investment Management Company ("MSIM Company") (the "Sub-Advisers") seek a combination of current income and capital appreciation by investing primarily in equity securities of companies in the real estate industry located throughout the world, including real estate operating companies ("REOCs"), real estate investment trusts ("REITs") and similar entities established outside the U.S. (foreign real estate companies).

Performance

For the fiscal year ended December 31, 2016, the Portfolio's Class II shares had a total return based on net asset value and reinvestment of distributions per share of 3.12%, net of fees. The Portfolio's Class II shares underperformed against the Portfolio's benchmark, the FTSE EPRA/NAREIT Developed Real Estate Index — Net Total Return to U.S. Investors (the "Index"), which returned 4.67%, and underperformed the MSCI World Index, which returned 7.51%.

Factors Affecting Performance

- The global real estate securities market gained 4.7% during the 12-month period ending December 31, 2016, as measured by the Index. North America and Asia outperformed the global average, and Europe significantly underperformed the global average.
- Property stocks in the U.S., measured by the FTSE EPRA/NAREIT U.S. Index, experienced the strongest gains over the period with a U.S. dollar ("USD") return of 7.6%,⁽ⁱ⁾ as the sector has been a beneficiary of the low interest rate environment for most of the year. There was a partial reversal of the lower-for-longer investment theme toward the end of the period following the U.S. election in November, but the sector rallied in December amid building enthusiasm for better economic growth. Property stocks in Asia, measured by the FTSE EPRA/NAREIT Developed Asia Index, gained 6.1% in USD terms,⁽ⁱ⁾ driven by particular strength in the Asian real estate investment trust ("REIT") markets, which benefited from strong investor demand for yield investments. Property stocks in Europe declined 7.3% in USD terms as measured by the FTSE EPRA/NAREIT Developed Europe Index⁽ⁱ⁾ primarily driven by significant weakness in the U.K. due to the outcome of the Brexit vote and resultant prolonged

period of uncertainty, as well as the associated depreciation of the pound.

- The Portfolio underperformed during the year primarily due to performance during the first half of 2016, where there was investor preference for yield-oriented stocks and/or market segments with perceived defensive characteristics, irrespective of underlying valuations (which included the Japan REIT sector, U.S. net lease and health care sectors, German residential sector, Australia and Canada). Investors also appeared to rotate away from segments where cash flows were viewed as more economically sensitive despite trading at what we considered very attractive discounted valuations (which included the U.S. apartment and lodging sectors and Hong Kong, Tokyo and New York office markets). The overweight to the U.K. prior to Brexit was also a significant detractor from full-year performance due to the outcome of the vote.
- The Portfolio outperformed in the second half of 2016 amid a partial reversal of the lower-for-longer investment theme that dominated the market in the first half of 2016, though this was not sufficient to offset the underperformance for the full year.
- Performance within the Asian and European regional portfolios detracted from relative performance. Top-down global allocation modestly contributed, due to the underweight to Europe. In Asia, stock selection in Japan (overweight to Japan real estate operating companies, or REOCs, and underweight to Japan REITs) and Hong Kong detracted from the Portfolio's relative performance. In Europe, the Portfolio benefited from the overweight to Norway and stock selection in Sweden; but this was more than offset by the negative effect of the overweight to the U.K. and underweight to Germany. In the U.S., the Portfolio benefited from the overweight to and stock selection within the hotel sector and stock selection in the health care sector; this was offset by relative losses from the overweight to the mall sector and underweight to the net lease, data center and industrial sectors.

Management Strategies

- The global portfolio is comprised of three regional portfolios with a global allocation which weights each of the three major regions (North America, Europe and Asia) relative to the Index based on our view of the relative attractiveness of each region in terms of underlying real

⁽ⁱ⁾ Source: FTSE

Investment Overview (unaudited) (cont'd)

Global Real Estate Portfolio

estate fundamentals and public market valuations.

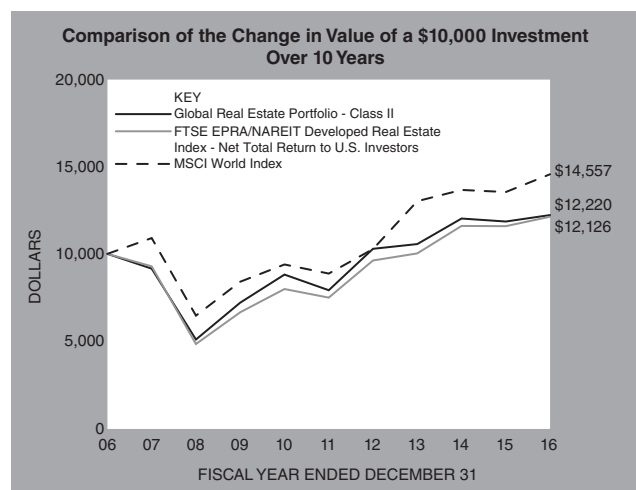
Moreover, each of the regional portfolios reflects our core investment philosophy as a real estate value investor, which results in the ownership of stocks that we believe provide the best valuation relative to their underlying real estate values, while maintaining portfolio diversification. Our company-specific research leads us to specific preferences for sub-segments within each of the property sectors and countries. For the period ended December 31, 2016, the Portfolio was overweight the Asian listed property sector, relatively neutral to the North American listed property sector, and underweight the European listed property sector.

- In Asia, the Hong Kong REOCs continue to represent the most significant overweight, as the stocks offer highly attractive value and trade at the widest discrepancy between private and public valuations among public listed global property markets. The companies traded at an average 46% discount to net asset values (“NAVs”),⁽ⁱⁱ⁾ as share prices continued to reflect the various risks that could potentially impact operating fundamentals and did not reflect the solid recurring cash flows and asset values in the private market. The discounted valuations are further accentuated as the Hong Kong REOCs maintain very modest leverage levels. There has been strength in office market fundamentals, but continued concerns with regard to retail and residential. Commercial asset transaction activity at peak pricing has been elevated. Sentiment, which continues to be a significant driver of share price movements, became even more cautious due to macro concerns regarding China and additional residential tightening measures in Hong Kong. The Japan REOCs ended the period trading at an average 22% discount to NAVs,⁽ⁱⁱ⁾ as currency volatility weighed on sentiment and investors remained cautious after a volatile year of policy changes. In wide contrast, the Japan REITs continued to trade at a premium of 15%,⁽ⁱⁱ⁾ with premium valuations driven by domestic investor attraction to yield, purchases by the Bank of Japan (“BOJ”) and optimism towards the success of quantitative easing measures by the BOJ. As a result, we believe the Japan REOCs offer value versus the Japan REITs and we remain overweight to the REOCs and underweight the REITs within Japan. The Portfolio was underweight Singapore and Australia on relative valuation.
- In Europe, property stocks in the U.K. ended the period trading at an 11% discount to NAVs, with the U.K. Majors trading at a 20% discount and the London office specialists trading at a 16% discount.⁽ⁱⁱ⁾ These discounts appear to be well in excess of expected asset value declines and reflect concerns over a prolonged period of uncertainty in the wake of the Brexit vote. To date, transaction and leasing activity have indicated these declines may be more modest than initially expected. Property stocks on the Continent ended the period trading at a 3% premium to NAVs.⁽ⁱⁱ⁾ Share prices have been supported by monetary easing measures by the European Central Bank (“ECB”) despite lackluster operating fundamentals. The Portfolio remains overweight the U.K., in particular the U.K. Majors and London office specialists, which trade at attractive discounts, and underweight the Continent due to the disparity in valuations.
- With asset values for high-quality assets having fully recovered and now, on average, approximately 20% in excess of peak levels achieved in 2007, the U.S. ended the period trading at around par to NAVs.⁽ⁱⁱ⁾ We see attractive value in several key property sectors with malls and New York City office trading at the most significant discounts to NAVs. However, there is a disparity in valuations as sectors with perceived defensive characteristics and/or providing higher dividends (e.g., health care, net lease) trading at significant premiums to NAVs. Excluding the health care and net lease stocks, the U.S. ended the period trading at a 4% discount to NAVs.⁽ⁱⁱ⁾ Within the U.S., our company-specific research leads us to an overweighting in the Portfolio to a group of companies that are focused in the ownership of high quality malls, primary central business district (“CBD”) office assets, apartments, and a number of out-of-favor companies and an underweighting to companies concentrated in the ownership of net lease, health care, industrial, and secondary CBD/suburban office assets. The Portfolio is underweight Canada given less attractive valuations relative to the quality and cash flow growth prospects of the companies’ portfolios and relative to several key property sectors in the U.S.

⁽ⁱⁱ⁾ Source: Morgan Stanley Investment Management, as of December 31, 2016

Investment Overview (unaudited) (cont'd)

Global Real Estate Portfolio



In accordance with SEC regulations, the Portfolio's performance shown assumes that all recurring fees (including management fees) were deducted and all dividends and distributions were reinvested.

Performance Compared to the FTSE EPRA/NAREIT Developed Real Estate Index – Net Total Return to U.S. Investors⁽¹⁾ and the MSCI World Index⁽²⁾

	Period Ended December 31, 2016			
	Total Returns ⁽³⁾			
	Average Annual			
	One Year	Five Years	Ten Years	Since Inception ⁽⁵⁾
Portfolio – Class II ⁽⁴⁾	3.12%	9.07%	2.03%	3.90%
FTSE EPRA/NAREIT Developed Real Estate Index – Net Total Return to U.S. Investors	4.67	10.10	1.95	4.00
MSCI World Index	7.51	10.41	3.83	4.45

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. Performance assumes that all dividends and distributions, if any, were reinvested. For the most recent month-end performance figures, please contact the issuing insurance company or speak with your financial advisor. Investment return and principal value will fluctuate so that Portfolio shares, when redeemed, may be worth more or less than their original cost. Total returns do not reflect the deduction of taxes that a shareholder would pay on Portfolio distributions or the redemption of Portfolio shares. Performance shown does not reflect fees and expenses imposed by your insurance company's separate account. If performance information included the effect of these additional charges, the total returns would be lower.

- ⁽¹⁾ The FTSE EPRA/NAREIT Developed Real Estate Index — Net Total Return to U.S. Investors is a free float-adjusted market capitalization weighted index designed to reflect the stock performance of companies engaged in specific aspects of the major real estate markets/regions of the developed world. The performance of the Index is listed in U.S. dollars and assumes reinvestment of dividends. "Net Total Return to U.S. Investors" reflects a reduction in total returns after taking into account the withholding tax on dividends by certain foreign countries represented in the Index. The Index is unmanaged and its returns do not include any sales charges or fees. Such costs would lower performance. It is not possible to invest directly in an index.
- ⁽²⁾ The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the global equity market performance of developed markets. The term "free float" represents the portion of shares outstanding that are deemed to be available for purchase in the public equity markets by investors. The MSCI World Index currently consists of 23 developed market country indices. The performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends. The Index is unmanaged and its returns do not include any sales charges or fees. Such costs would lower performance. It is not possible to invest directly in an index.
- ⁽³⁾ Total returns for the Portfolio reflect fees waived and expenses reimbursed, if applicable, by the Adviser. Without such waivers and reimbursements, total returns would have been lower.
- ⁽⁴⁾ Commenced operations on April 28, 2006.
- ⁽⁵⁾ For comparative purposes, average annual since inception returns listed for the Indexes refer to the inception date or initial offering of the respective share class of the Portfolio, not the inception of the Index.

Portfolio of Investments

Global Real Estate Portfolio

	Shares	Value (000)
Common Stocks (98.8%)		
Australia (4.9%)		
Dexus Property Group REIT	31,325	\$ 218
Goodman Group REIT	119,365	614
GPT Group REIT	125,615	456
Investa Office Fund REIT	29,408	100
Mirvac Group REIT	148,806	229
Scentre Group REIT	307,226	1,029
Shopping Centres Australasia Property Group REIT	16,175	26
Stockland REIT	106,919	353
Vicinity Centres REIT	101,124	218
Westfield Corp. REIT	138,269	936
		4,179
Austria (0.2%)		
Atrium European Real Estate Ltd.	19,408	80
BUWOG AG (a)	4,132	96
		176
Brazil (0.0%)		
BR Properties SA	5,269	12
Canada (2.1%)		
Boardwalk REIT	9,194	333
Brookfield Canada Office Properties REIT	10,950	214
Crombie Real Estate Investment Trust REIT	11,168	113
Dream Office Real Estate Investment Trust REIT	5,964	87
Extendicare, Inc.	16,840	124
First Capital Realty, Inc.	22,812	351
H&R Real Estate Investment Trust REIT	2,766	46
RioCan Real Estate Investment Trust REIT	22,877	454
Smart Real Estate Investment Trust REIT	4,025	97
		1,819
China (0.3%)		
China Overseas Land & Investment Ltd. (b)	54,000	143
China Resources Land Ltd. (b)	14,000	32
Global Logistic Properties Ltd.	75,900	115
		290
Finland (0.3%)		
Citycon Oyj	114,983	283
France (3.0%)		
Fonciere Des Regions REIT	1,290	113
Gecina SA REIT	3,084	427
ICADE REIT	4,286	306
Klepierre REIT	11,694	460
Mercialys SA REIT	2,938	59
Unibail-Rodamco SE REIT	5,097	1,216
		2,581
Germany (1.4%)		
ADO Properties SA (c)	3,403	115
Deutsche Wohnen AG	14,224	447
LEG Immobilien AG (a)	760	59
Vonovia SE	19,096	621
		1,242

	Shares	Value (000)
Hong Kong (9.9%)		
Cheung Kong Property Holdings Ltd.	181,500	\$ 1,113
Hang Lung Properties Ltd.	43,000	91
Henderson Land Development Co., Ltd.	72,394	385
Hongkong Land Holdings Ltd.	258,700	1,638
Hysan Development Co., Ltd.	192,921	797
Link REIT	124,664	810
New World Development Co., Ltd.	291,031	308
Sino Land Co., Ltd.	43,085	65
Sun Hung Kai Properties Ltd.	146,893	1,856
Swire Properties Ltd.	352,300	972
Wharf Holdings Ltd. (The)	70,816	471
		8,506
Ireland (0.6%)		
Green REIT PLC	156,982	227
Hibernia REIT PLC	211,651	274
		501
Italy (0.1%)		
Beni Stabili SpA REIT (a)	77,004	44
Japan (11.0%)		
Activia Properties, Inc. REIT	60	283
Advance Residence Investment Corp. REIT	48	127
Daiwa Office Investment Corp. REIT	28	141
GLP J-REIT	161	185
Hulic Co., Ltd.	11,100	99
Invincible Investment Corp. REIT	652	294
Japan Hotel REIT Investment Corp. REIT	137	92
Japan Real Estate Investment Corp. REIT	90	490
Japan Rental Housing Investments, Inc. REIT	61	41
Japan Retail Fund Investment Corp. REIT	128	259
Kenedix Office Investment Corp. REIT	13	75
Mitsubishi Estate Co., Ltd.	110,000	2,191
Mitsui Fudosan Co., Ltd.	89,000	2,060
Mori Hills Investment Corp. REIT	77	104
Mori Trust Sogo Reit, Inc. REIT	148	233
Nippon Building Fund, Inc. REIT	113	626
Nippon Prologis, Inc. REIT	93	190
Nomura Real Estate Master Fund, Inc. REIT	338	511
Orix, Inc. J-REIT	114	180
Sumitomo Realty & Development Co., Ltd.	33,000	877
Tokyu, Inc. REIT	10	13
United Urban Investment Corp. REIT	250	381
		9,452
Malta (0.2%)		
BGP Holdings PLC (a)(d)(e)	5,886,464	189
Netherlands (0.6%)		
Eurocommercial Properties N.V. CVA REIT	7,437	287
Vastned Retail N.V. REIT	1,888	73
Wereldhave N.V. REIT	3,674	165
		525
Norway (0.4%)		
Entra ASA (c)	30,741	305
Norwegian Property ASA	35,401	41
		346

Portfolio of Investments (cont'd)

Global Real Estate Portfolio

	Shares	Value (000)		Shares	Value (000)
Singapore (1.0%)					
Ascendas Real Estate Investment Trust REIT	101,500	\$ 159	Camden Property Trust REIT	13,714	\$ 1,153
CapitaLand Commercial Trust Ltd. REIT	106,700	109	CBL & Associates Properties, Inc. REIT	2,069	24
CapitaLand Ltd.	66,300	138	Chesapeake Lodging Trust REIT	13,607	352
CapitaLand Mall Trust REIT	115,000	150	Columbia Property Trust, Inc. REIT	7,761	168
City Developments Ltd.	2,000	12	Corporate Office Properties Trust REIT	4,123	129
EC World Real Estate Investment Trust Unit	37,800	19	Cousins Properties, Inc. REIT	31,955	272
Mapletree Commercial Trust REIT	59,800	58	CubeSmart REIT	8,939	239
Mapletree Logistics Trust REIT	32,571	23	DCT Industrial Trust, Inc. REIT	2,125	102
Suntec REIT	33,700	38	DDR Corp. REIT	3,008	46
UOL Group Ltd.	34,429	142	Digital Realty Trust, Inc. REIT	3,890	382
		848	Douglas Emmett, Inc. REIT	13,042	477
Spain (0.5%)					
Hispania Activos Inmobiliarios SAU REIT	6,925	82	Duke Realty Corp. REIT	29,041	771
Inmobiliaria Colonial SA	25,185	174	Equity Lifestyle Properties, Inc. REIT	3,544	256
Merlin Properties Socimi SA REIT	17,339	189	Equity One, Inc. REIT	14,700	451
		445	Equity Residential REIT	56,689	3,648
Sweden (0.6%)					
Atrium Ljungberg AB, Class B	7,842	123	Essex Property Trust, Inc. REIT	5,778	1,343
Castellum AB	13,083	179	Federal Realty Investment Trust REIT	1,051	149
Hufvudstaden AB, Class A	14,839	234	Gaming and Leisure Properties, Inc. REIT	9,465	290
Wihlborgs Fastigheter AB	600	11	General Growth Properties, Inc. REIT	80,658	2,015
		547	Healthcare Realty Trust, Inc. REIT	11,172	339
Switzerland (0.6%)					
PSP Swiss Property AG (Registered)	5,456	471	Hilton Worldwide Holdings, Inc.	28,087	764
Swiss Prime Site AG (Registered) (a)	618	51	Host Hotels & Resorts, Inc. REIT	82,131	1,547
		522	Hudson Pacific Properties, Inc. REIT	22,860	795
United Kingdom (5.7%)					
British Land Co., PLC REIT	132,682	1,029	Kimco Realty Corp. REIT	21,426	539
Capital & Regional PLC REIT	40,932	28	LaSalle Hotel Properties REIT	28,964	883
Derwent London PLC REIT	18,382	628	Liberty Property Trust REIT	6,369	252
Great Portland Estates PLC REIT	68,780	567	Life Storage, Inc. REIT	8,035	685
Hammerson PLC REIT	48,018	339	Mack-Cali Realty Corp. REIT	2,481	72
Intu Properties PLC REIT	47,901	166	MedEquities Realty Trust, Inc. REIT	4,527	50
Kennedy Wilson Europe Real Estate PLC	6,075	72	Mid-America Apartment Communities, Inc. REIT	232	23
Land Securities Group PLC REIT	99,428	1,306	Monogram Residential Trust, Inc. REIT	1,192	13
LXB Retail Properties PLC (a)	137,376	62	National Retail Properties, Inc. REIT	15,824	699
Segro PLC REIT	36,758	207	Paramount Group, Inc. REIT	32,389	518
Shaftesbury PLC REIT	1,521	17	Parkway, Inc. REIT (a)	7,434	165
St. Modwen Properties PLC	50,054	187	ProLogis, Inc. REIT	19,569	1,033
Unite Group PLC	10,520	79	Public Storage REIT	11,372	2,542
Urban & Civic PLC	67,563	188	QTS Realty Trust, Inc., Class A REIT	9,420	468
Workspace Group PLC REIT	6,446	63	Regency Centers Corp. REIT	23,986	1,654
		4,938	Rexford Industrial Realty, Inc. REIT	13,105	304
United States (55.4%)					
Acadia Realty Trust REIT	4,761	156	Senior Housing Properties Trust REIT	16,264	308
American Homes 4 Rent, Class A REIT	4,350	91	Simon Property Group, Inc. REIT	36,140	6,421
Apartment Investment & Management Co., Class A REIT	9,615	437	SL Green Realty Corp. REIT	2,140	230
AvalonBay Communities, Inc. REIT	15,260	2,703	Spirit Realty Capital, Inc. REIT	9,250	100
Boston Properties, Inc. REIT	21,499	2,704	STORE Capital Corp. REIT	12,826	317
Brixmor Property Group, Inc. REIT	10,981	268	Tanger Factory Outlet Centers, Inc. REIT	27,385	980
			Taubman Centers, Inc. REIT	3,372	249
			Ventas, Inc. REIT	27,375	1,711
			Vornado Realty Trust REIT	35,719	3,728
			Welltower, Inc. REIT	23,530	1,575
			Xenia Hotels & Resorts, Inc. REIT	11,518	224
					47,814
			Total Common Stocks (Cost \$64,517)		85,259

Portfolio of Investments (cont'd)

Global Real Estate Portfolio

	Shares	Value (000)
Short-Term Investment (0.9%)		
Investment Company (0.9%)		
Morgan Stanley Institutional Liquidity Funds — Treasury Portfolio — Institutional Class (See Note H)		
(Cost \$747)	747,426	\$ 747
Total Investments (99.7%) (Cost \$65,264) (f)		86,006
Other Assets in Excess of Liabilities (0.3%)		241
Net Assets (100.0%)		\$86,247

Country assignments and aggregations are based generally on third party vendor classifications and information, and may be different from the assignments and aggregations under the policies set forth in the Portfolio's prospectus and/or statement of additional information relating to geographic classifications.

- (a) Non-income producing security.
- (b) Security trades on the Hong Kong exchange.
- (c) 144A security — Certain conditions for public sale may exist. Unless otherwise noted, these securities are deemed to be liquid.
- (d) Security has been deemed illiquid at December 31, 2016.
- (e) At December 31, 2016, the Portfolio held a fair valued security valued at \$189,000, representing 0.2% of net assets. This security has been fair valued as determined in good faith under procedures established by and under the general supervision of the Fund's Directors.
- (f) At December 31, 2016, the aggregate cost for federal income tax purposes is approximately \$71,941,000. The aggregate gross unrealized appreciation is approximately \$15,647,000 and the aggregate gross unrealized depreciation is approximately \$1,582,000, resulting in net unrealized appreciation of approximately \$14,065,000.
- CVA Certificaten Van Aandelen.
- REIT Real Estate Investment Trust.

Portfolio Composition

Classification	Percentage of Total Investments
Diversified	28.8%
Retail	25.3
Other*	19.0
Residential	13.7
Office	13.2
Total Investments	<u>100.0%</u>

* Industries and/or investment types representing less than 5% of total investments.

Global Real Estate Portfolio

Statement of Assets and Liabilities

December 31, 2016
(000)**Assets:**

Investments in Securities of Unaffiliated Issuers, at Value (Cost \$64,517)	\$ 85,259
Investment in Security of Affiliated Issuer, at Value (Cost \$747)	747
Total Investments in Securities, at Value (Cost \$65,264)	86,006
Foreign Currency, at Value (Cost \$297)	299
Dividends Receivable	291
Receivable for Investments Sold	116
Receivable for Portfolio Shares Sold	57
Tax Reclaim Receivable	20
Receivable from Affiliate	—@
Other Assets	15
Total Assets	86,804

Liabilities:

Payable for Advisory Fees	252
Payable for Portfolio Shares Redeemed	85
Payable for Investments Purchased	84
Payable for Professional Fees	40
Payable for Custodian Fees	31
Payable for Servicing Fees	20
Payable for Distribution Fees — Class II Shares	18
Payable for Administration Fees	6
Payable for Transfer Agency Fees	1
Other Liabilities	20
Total Liabilities	557

NET ASSETS \$ 86,247**Net Assets Consist of:**

Paid-in-Capital	\$163,077
Accumulated Undistributed Net Investment Income	661
Accumulated Net Realized Loss	(98,233)
Unrealized Appreciation (Depreciation) on:	
Investments	20,742
Foreign Currency Translations	(—@)
Net Assets	\$ 86,247

CLASS II:**Net Asset Value, Offering and Redemption Price Per Share** Applicable to 8,322,377 Outstanding

\$0.001 Par Value Shares (Authorized 500,000,000 Shares) \$ 10.36

@ Amount is less than \$500.

Global Real Estate Portfolio

Statement of Operations

Year Ended
December 31, 2016
(000)

Investment Income:

Dividends from Securities of Unaffiliated Issuers (Net of \$108 of Foreign Taxes Withheld)	\$2,659
Dividends from Security of Affiliated Issuer (Note H)	3
Total Investment Income	2,662

Expenses:

Advisory Fees (Note B)	771
Distribution Fees — Class II Shares (Note E)	227
Servicing Fees (Note D)	154
Professional Fees	88
Custodian Fees (Note G)	75
Administration Fees (Note C)	73
Shareholder Reporting Fees	25
Pricing Fees	15
Transfer Agency Fees (Note F)	5
Directors' Fees and Expenses	4
Other Expenses	15
Total Expenses	1,452
Waiver of Advisory Fees (Note B)	(71)
Rebate from Morgan Stanley Affiliate (Note H)	(2)
Reimbursement of Custodian Fees (Note G)	(110)
Net Expenses	1,269

Net Investment Income

1,393

Realized Gain (Loss):

Investments Sold	1,972
Foreign Currency Transactions	(2)
Net Realized Gain	1,970

Change in Unrealized Appreciation (Depreciation):

Investments	(587)
Foreign Currency Translations	2
Net Change in Unrealized Appreciation (Depreciation)	(585)

Net Realized Gain and Change in Unrealized Appreciation (Depreciation)

1,385

Net Increase in Net Assets Resulting from Operations

\$2,778

Global Real Estate Portfolio

Statements of Changes in Net Assets	Year Ended December 31, 2016 (000)	Year Ended December 31, 2015 (000)
Increase (Decrease) in Net Assets:		
Operations:		
Net Investment Income	\$ 1,393	\$ 1,337
Net Realized Gain	1,970	5,064
Net Change in Unrealized Appreciation (Depreciation)	(585)	(7,738)
Net Increase (Decrease) in Net Assets Resulting from Operations	2,778	(1,337)
Distributions from and/or in Excess of:		
Class II:		
Net Investment Income	(1,228)	(2,282)
Capital Share Transactions:⁽¹⁾		
Class II:		
Subscribed	9,168	10,613
Distributions Reinvested	1,228	2,282
Redeemed	(20,583)	(19,388)
Net Decrease in Net Assets Resulting from Capital Share Transactions	(10,187)	(6,493)
Total Decrease in Net Assets	(8,637)	(10,112)
Net Assets:		
Beginning of Period	94,884	104,996
End of Period (Including Accumulated Undistributed Net Investment Income of \$661 and \$226)	\$ 86,247	\$ 94,884
⁽¹⁾ Capital Share Transactions:		
Class II:		
Shares Subscribed	880	1,009
Shares Issued on Distributions Reinvested	115	223
Shares Redeemed	(1,995)	(1,847)
Net Decrease in Class II Shares Outstanding	(1,000)	(615)

Financial Highlights

Global Real Estate Portfolio

Selected Per Share Data and Ratios	Class II				
	Year Ended December 31,				
	2016 ⁽¹⁾	2015	2014	2013	2012
Net Asset Value, Beginning of Period	\$10.18	\$10.57	\$9.35	\$9.46	\$7.32
Income (Loss) from Investment Operations:					
Net Investment Income ⁽²⁾	0.16	0.14	0.16	0.13	0.13
Net Realized and Unrealized Gain (Loss)	0.16	(0.29)	1.13	0.12	2.06
Total from Investment Operations	0.32	(0.15)	1.29	0.25	2.19
Distributions from and/or in Excess of:					
Net Investment Income	(0.14)	(0.24)	(0.07)	(0.36)	(0.05)
Net Asset Value, End of Period	\$10.36	\$10.18	\$10.57	\$9.35	\$9.46
Total Return⁽³⁾	3.12%	(1.42)%	13.85%	2.63%	29.94%
Ratios and Supplemental Data:					
Net Assets, End of Period (Thousands)	\$86,247	\$94,884	\$104,996	\$96,717	\$96,914
Ratio of Expenses to Average Net Assets ⁽⁶⁾	1.40% ⁽⁴⁾	1.40% ⁽⁴⁾	1.40% ⁽⁴⁾	1.40% ⁽⁴⁾	1.40% ⁽⁴⁾
Ratio of Net Investment Income to Average Net Assets ⁽⁶⁾	1.54% ⁽⁴⁾	1.80% ⁽⁴⁾	1.54% ⁽⁴⁾	1.36% ⁽⁴⁾	1.56% ⁽⁴⁾
Ratio of Rebate from Morgan Stanley Affiliates to Average Net Assets	0.00% ⁽⁵⁾	0.00% ⁽⁵⁾	0.00% ⁽⁵⁾	0.00% ⁽⁵⁾	0.00% ⁽⁵⁾
Portfolio Turnover Rate	24%	26%	31%	30%	29%
⁽⁶⁾ Supplemental Information on the Ratios to Average Net Assets:					
Ratios Before Expense Limitation:					
Expenses to Average Net Assets	1.60%	1.67%	1.72%	1.69%	1.71%
Net Investment Income to Average Net Assets	1.34%	1.53%	1.22%	1.07%	1.24%

(1) Refer to Note G in the Notes to Financial Statements for discussion of prior period custodian out-of-pocket expenses that were reimbursed in the current period. The amount of the reimbursement was immaterial on a per share basis and did not impact the total return of Class II shares. The Ratio of Expenses to Average Net Assets and the Ratio of Net Investment Income to Average Net Assets would be unchanged as the reimbursement of custodian fees was offset against current period expense waivers/reimbursements with no impact to net expenses or net investment income.

(2) Per share amount is based on average shares outstanding.

(3) Calculated based on the net asset value as of the last business day of the period. Performance does not reflect fees and expenses imposed by your insurance company's separate account. If performance information included the effect of these additional charges, the total return would be lower.

(4) The Ratios of Expenses and Net Investment Income reflect the rebate of certain Portfolio expenses in connection with the investments in Morgan Stanley affiliates during the period. The effect of the rebate on the ratios is disclosed in the above table as "Ratio of Rebate from Morgan Stanley Affiliates to Average Net Assets."

(5) Amount is less than 0.005%.

Notes to Financial Statements

The Universal Institutional Funds, Inc. (the “Fund”) is registered under the Investment Company Act of 1940, as amended (the “Act”), as an open-end management investment company. The Fund is comprised of eleven separate active, diversified and non-diversified portfolios (individually referred to as a “Portfolio”, collectively as the “Portfolios”). The Fund applies investment company accounting and reporting guidance.

The accompanying financial statements relate to the Global Real Estate Portfolio. The Portfolio seeks to provide current income and capital appreciation. The Portfolio currently offers Class II shares only, although Class I shares may be offered in the future.

The Fund is intended to be the funding vehicle for variable annuity contracts and variable life insurance policies offered by the separate accounts of certain life insurance companies.

A. Significant Accounting Policies: The following significant accounting policies are in conformity with U.S. generally accepted accounting principles (“GAAP”). Such policies are consistently followed by the Fund in the preparation of its financial statements. GAAP may require management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results may differ from those estimates.

1. Security Valuation: (1) An equity portfolio security listed or traded on an exchange is valued at its latest reported sales price (or at the exchange official closing price if such exchange reports an official closing price), and if there were no sales on a given day and if there is no official exchange closing price for that day, the security is valued at the mean between the last reported bid and asked prices if such bid and asked prices are available on the relevant exchanges; (2) all other equity portfolio securities for which over-the-counter (“OTC”) market quotations are readily available are valued at the latest reported sales price (or at the market official closing price if such market reports an official closing price), and if there was no trading in the security on a given day and if there is no official closing price from relevant markets for that day, the security is valued at the mean between the last reported bid and asked prices if such bid and asked prices are available on the relevant markets. Listed equity securities not traded on the valuation date with no reported bid and asked prices available on the exchange are valued at the mean between the current bid and asked prices obtained from one or more reputable brokers or dealers. An unlisted equity security that does not trade on the valuation date and for which bid and asked prices from the relevant markets are unavailable is valued at the mean

between the current bid and asked prices obtained from one or more reputable brokers or dealers. In cases where a security is traded on more than one exchange, the security is valued on the exchange designated as the primary market; (3) certain portfolio securities may be valued by an outside pricing service/vendor approved by the Fund’s Board of Directors (the “Directors”). The pricing service/vendor may employ a pricing model that takes into account, among other things, bids, yield spreads, and/or other market data and specific security characteristics. Alternatively, if a valuation is not available from an outside pricing service/vendor, and the security trades on an exchange, the security may be valued at its latest reported sale price (or at the exchange official closing price if such exchange reports an official closing price), prior to the time when assets are valued. If there are no sales on a given day and if there is no official exchange closing price for that day, the security is valued at the mean between the last reported bid and asked prices if such bid and asked prices are available in the relevant exchanges; (4) when market quotations are not readily available, including circumstances under which Morgan Stanley Investment Management Inc. (the “Adviser”) or Morgan Stanley Investment Management Limited (“MSIM Limited”) and Morgan Stanley Investment Management Company (“MSIM Company”) (together, the “Sub-Advisers”), each a wholly owned subsidiary of Morgan Stanley, determine that the closing price, last sale price or the mean between the last reported bid and asked prices are not reflective of a security’s market value, portfolio securities are valued at their fair value as determined in good faith under procedures established by and under the general supervision of the Directors. Occasionally, developments affecting the closing prices of securities and other assets may occur between the times at which valuations of such securities are determined (that is, close of the foreign market on which the securities trade) and the close of business of the New York Stock Exchange (“NYSE”). If developments occur during such periods that are expected to materially affect the value of such securities, such valuations may be adjusted to reflect the estimated fair value of such securities as of the close of the NYSE, as determined in good faith by the Directors or by the Adviser using a pricing service and/or procedures approved by the Directors; (5) quotations of foreign portfolio securities, other assets and liabilities and forward contracts stated in foreign currency are translated into U.S. dollar equivalents at the prevailing market rates prior to the close of the NYSE; and (6) investments in mutual funds, including the Morgan Stanley Institutional

Notes to Financial Statements (cont'd)

Liquidity Funds, are valued at the net asset value (“NAV”) as of the close of each business day.

The Directors have responsibility for determining in good faith the fair value of the investments, and the Directors may appoint others, such as the Fund’s Adviser or a valuation committee, to assist the Directors in determining fair value and to make the actual calculations pursuant to the fair valuation methodologies previously approved by the Directors. Under procedures approved by the Directors, the Fund’s Adviser has formed a Valuation Committee whose members are approved by the Directors. The Valuation Committee provides administration and oversight of the Fund’s valuation policies and procedures, which are reviewed at least annually by the Directors. These procedures allow the Fund to utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

The Fund has procedures to determine the fair value of securities and other financial instruments for which market prices are not readily available. Under these procedures, the Valuation Committee convenes on a regular and ad hoc basis to review such securities and considers a number of factors, including valuation methodologies and significant unobservable valuation inputs, when arriving at fair value. The Valuation Committee may employ a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed. The Valuation Committee employs various methods for calibrating these valuation approaches including a regular review of valuation methodologies, key inputs and assumptions, transactional back-testing or disposition analysis, and reviews of any related market activity.

The Portfolio invests a significant portion of its assets in securities of real estate investment trusts (“REITs”). The market’s perception of prospective declines in private real estate values and other financial assets may result in increased volatility of market prices that can negatively impact the valuation of certain issuers held by the Portfolio.

2. Fair Value Measurement: Financial Accounting Standards Board (“FASB”) Accounting Standards Codification™ (“ASC”) 820, “Fair Value Measurement” (“ASC 820”), defines fair value as the value that the Fund would receive to sell an investment or pay to transfer a liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal market, the most advantageous market for the investment or liability. ASC 820 establishes a three-tier hierarchy to distinguish between (1) inputs that reflect the assumptions market participants would use in valuing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) inputs that reflect the reporting entity’s own assumptions about the assumptions market participants would use in valuing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to establish classification of fair value measurements for disclosure purposes. Various inputs are used in determining the value of the Fund’s investments. The inputs are summarized in the three broad levels listed below.

- Level 1 – unadjusted quoted prices in active markets for identical investments
- Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 – significant unobservable inputs including the Fund’s own assumptions in determining the fair value of investments. Factors considered in making this determination may include, but are not limited to, information obtained by contacting the issuer, analysts, or the appropriate stock exchange (for exchange-traded securities), analysis of the issuer’s financial statements or other available documents and, if necessary, available information concerning other securities in similar circumstances

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities and the determination of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to each security.

Notes to Financial Statements (cont'd)

The following is a summary of the inputs used to value the Portfolio's investments as of December 31, 2016.

Investment Type	Level 1 Unadjusted quoted prices (000)	Level 2 Other significant observable inputs (000)	Level 3 Significant unobservable inputs (000)	Total (000)
Assets:				
Common Stocks				
Diversified	\$ 24,601	\$—	\$ 189	\$ 24,790
Health Care	4,107	—	—	4,107
Industrial	2,951	—	—	2,951
Lodging/Resorts	3,862	—	—	3,862
Mixed Industrial/Office	1,253	—	—	1,253
Office	11,341	—	—	11,341
Residential	11,760	—	—	11,760
Retail	21,729	—	—	21,729
Self Storage	3,466	—	—	3,466
Total Common Stocks	85,070	—	189	85,259
Short-Term Investment				
Investment Company	747	—	—	747
Total Assets	\$85,817	\$—	\$189	\$86,006

Transfers between investment levels may occur as the markets fluctuate and/or the availability of data used in an investment's valuation changes. The Portfolio recognizes transfers between the levels as of the end of the period. As of December 31, 2016, securities with a total value of approximately \$33,931,000 transferred from

Level 2 to Level 1. Securities that were valued using other significant observable inputs at December 31, 2015 were valued using unadjusted quoted prices at December 31, 2016. At December 31, 2015, the fair value of certain securities were adjusted due to developments which occurred between the time of the close of the foreign markets on which they trade and the close of business on the NYSE which resulted in their Level 2 classification.

Following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value.

	Common Stock (000)
Beginning Balance	\$ —†
Purchases	—
Sales	—
Amortization of discount	—
Transfers in	—
Transfers out	—
Corporate actions	—
Change in unrealized appreciation (depreciation)	189
Realized gains (losses)	—
Ending Balance	\$189
Net change in unrealized appreciation (depreciation) from investments still held as of December 31, 2016	\$189

† Includes one security which is valued at zero.

The following table presents additional information about valuation techniques and inputs used for investments that are measured at fair value and categorized within Level 3 as of December 31, 2016.

	Fair Value at December 31, 2016 (000)	Valuation Technique	Unobservable Input	Range		Selected Value	Impact to Valuation from an Increase in Input
Diversified							
Common Stock	\$189	Market Transaction Method	Transaction Valuation Discount for Lack of Marketability	\$0.03	\$0.03	\$0.03	Increase
				50.0%	50.0%	50.0%	Decrease

3. Foreign Currency Translation and Foreign Investments:

The books and records of the Portfolio are maintained in U.S. dollars. Foreign currency amounts are translated into U.S. dollars as follows:

- investments, other assets and liabilities at the prevailing rate of exchange on the valuation date;
- investment transactions and investment income at the prevailing rates of exchange on the dates of such transactions.

Although the net assets of the Portfolio are presented at the foreign exchange rates and market values at the close of the period, the Portfolio does not isolate that portion of the results of operations arising as a result of changes in the foreign exchange rates from the fluctuations arising from changes in the market prices of securities held at period end. Similarly, the Portfolio does not isolate the effect of changes in foreign exchange rates from the fluctuations arising from changes in the market prices of securities sold during the period. Accordingly, realized and

Notes to Financial Statements (cont'd)

unrealized foreign currency gains (losses) on investments in securities are included in the reported net realized and unrealized gains (losses) on investment transactions and balances. However, pursuant to U.S. federal income tax regulations, gains and losses from certain foreign currency transactions and the foreign currency portion of gains and losses realized on sales and maturities of foreign denominated debt securities are treated as ordinary income for U.S. federal income tax purposes.

Net realized gains (losses) on foreign currency transactions represent net foreign exchange gains (losses) from foreign currency forward exchange contracts, disposition of foreign currencies, currency gains (losses) realized between the trade and settlement dates on securities transactions, and the difference between the amount of investment income and foreign withholding taxes recorded on the Portfolio's books and the U.S. dollar equivalent amounts actually received or paid. Net unrealized currency gains (losses) from valuing foreign currency denominated assets and liabilities at period end exchange rates are reflected as a component of unrealized appreciation (depreciation) in the Statement of Assets and Liabilities. The change in unrealized currency gains (losses) on foreign currency translations for the period is reflected in the Statement of Operations.

Foreign security and currency transactions may involve certain considerations and risks not typically associated with those of U.S. dollar denominated transactions as a result of, among other factors, fluctuations of exchange rates in relation to the U.S. dollar, the possibility of lower levels of governmental supervision and regulation of foreign securities markets and the possibility of political or economic instability.

Governmental approval for foreign investments may be required in advance of making an investment under certain circumstances in some countries, and the extent of foreign investments in domestic companies may be subject to limitation in other countries. Foreign ownership limitations also may be imposed by the charters of individual companies to prevent, among other concerns, violations of foreign investment limitations. As a result, an additional class of shares (identified as "Foreign" in the Portfolio of Investments) may be created and offered for investment. The "local" and "foreign shares" market values may differ. In the absence of trading of the foreign shares in such markets, the Portfolio values the foreign shares at the closing exchange price of the local shares.

- 4. Indemnifications:** The Fund enters into contracts that contain a variety of indemnifications. The Fund's

maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

- 5. Security Transactions, Income and Expenses:**

Security transactions are accounted for on the trade date (date the order to buy or sell is executed). Realized gains and losses on the sale of investment securities are determined on the specific identified cost method. Dividend income and other distributions are recorded on the ex-dividend date (except for certain foreign dividends which may be recorded as soon as the Portfolio is informed of such dividends) net of applicable withholding taxes. Interest income is recognized on the accrual basis except where collection is in doubt. Discounts are accreted and premiums are amortized over the life of the respective securities. Most expenses of the Fund can be directly attributed to a particular Portfolio. Expenses which cannot be directly attributed are apportioned among the Portfolios based upon relative net assets or other appropriate methods. Income, expenses (other than class specific expenses) and realized and unrealized gains or losses are allocated to each class of shares based upon their relative net assets.

The Portfolio owns shares of REITs which report information on the source of their distributions annually in the following calendar year. A portion of distributions received from REITs during the year is estimated to be a return of capital and is recorded as a reduction of their cost.

Settlement and registration of foreign securities transactions may be subject to significant risks not normally associated with investments in the United States. In certain markets, ownership of shares is defined according to entries in the issuer's share register. It is possible that a Portfolio holding these securities could lose its share registration through fraud, negligence or even mere oversight. In addition, shares being delivered for sales and cash being paid for purchases may be delivered before the exchange is complete. This may subject the Portfolio to further risk of loss in the event of a failure to complete the transaction by the counterparty.

- 6. Dividends and Distributions to Shareholders:**

Dividend income and distributions to shareholders are recorded on the ex-dividend date. Dividends from net investment income, if any, are declared and paid annually. Net realized capital gains, if any, are distributed at least annually.

B. Advisory/Sub-Advisory Fees: The Adviser, a wholly-owned subsidiary of Morgan Stanley, provides the Portfolio

Notes to Financial Statements (cont'd)

with advisory services under the terms of an Investment Advisory Agreement, paid quarterly, at an annual rate of 0.85% of the daily net assets of the Portfolio.

The Adviser has agreed to reduce its advisory fee and/or reimburse the Portfolio so that the total annual portfolio operating expenses, excluding certain investment related expenses, taxes, interest, and other extraordinary expenses (including litigation), will not exceed 1.40% for Class II shares. The fee waivers and/or expense reimbursements will continue for at least one year from the date of the Portfolio's prospectus or until such time as the Directors act to discontinue all or a portion of such waivers and/or reimbursements when they deem such action is appropriate. For the year ended December 31, 2016, approximately \$71,000 of advisory fees were waived pursuant to this arrangement.

The Adviser has entered into a Sub-Advisory Agreement with the Sub-Advisers, each a wholly-owned subsidiary of Morgan Stanley. The Sub-Advisers provide the Portfolio with advisory services subject to the overall supervision of the Adviser and the Fund's Officers and Directors. The Adviser pays the Sub-Advisers on a monthly basis a portion of the net advisory fees the Adviser receives from the Portfolio.

C. Administration Fees: The Adviser also serves as Administrator to the Fund and provides administrative services pursuant to an Administration Agreement for an annual fee, accrued daily and paid monthly, of 0.08% of the Portfolio's average daily net assets.

Under a Sub-Administration Agreement between the Administrator and State Street Bank and Trust Company ("State Street"), State Street provides certain administrative services to the Fund. For such services, the Administrator pays State Street a portion of the fee the Administrator receives from the Portfolio.

D. Servicing Fees: The Fund accrues daily and pays quarterly a servicing fee of up to 0.17% of the average daily value of shares of the Portfolio held in an insurance company's account. Certain insurance companies have entered into a servicing agreement with the Fund to provide administrative and other contract-owner related services on behalf of the Portfolio.

E. Distribution Fees: Morgan Stanley Distribution, Inc. ("MSDI" or the "Distributor"), a wholly-owned subsidiary of the Adviser and Sub-Advisers and an indirect subsidiary of Morgan Stanley, serves as the Distributor of the Portfolio and provides the Portfolio's Class II shareholders with distribution services pursuant to a Distribution Plan (the "Plan") in accordance with Rule 12b-1 under the Act. Under the Plan, the Portfolio is authorized to pay the Distributor a distribution fee, which is accrued daily and paid monthly, at an annual

rate of 0.25% of the Portfolio's average daily net assets attributable to Class II shares.

F. Dividend Disbursing and Transfer Agent: The Fund's dividend disbursing and transfer agent is Boston Financial Data Services, Inc. ("BFDS"). Pursuant to a Transfer Agency Agreement, the Fund pays BFDS a fee based on the number of classes, accounts and transactions relating to the Portfolios of the Fund.

G. Custodian Fees: State Street (the "Custodian") serves as Custodian for the Fund in accordance with a Custodian Agreement. The Custodian holds cash, securities, and other assets of the Fund as required by the Act. Custody fees are payable monthly based on assets held in custody, investment purchases and sales activity and account maintenance fees, plus reimbursement for certain out-of-pocket expenses.

In December 2015, the Fund's Custodian announced that it had identified inconsistencies in the way in which clients were invoiced for out-of-pocket expenses from 1998 until November 2015. The dollar amount difference between what was charged and what should have been charged, plus interest, was paid back to the Portfolio in September 2016 as a reimbursement. The Custodian reimbursed the Portfolio directly, which was recognized as a change in accounting estimate and was reflected as "Reimbursement of Custodian Fees" in the Statement of Operations. Pursuant to the expense limitations described in Note B, the Portfolio has experienced waiver of advisory fees during the current period. Accordingly, the reimbursement of out-of-pocket custodian expenses in the current period resulted in the reduction in the current period waiver of advisory fees.

H. Security Transactions and Transactions with Affiliates: For the year ended December 31, 2016, purchases and sales of investment securities for the Portfolio, other than long-term U.S. Government securities and short-term investments, were approximately \$21,821,000 and \$30,455,000, respectively. There were no purchases and sales of long-term U.S. Government securities for the year ended December 31, 2016.

The Portfolio invests in the Institutional Class of the Morgan Stanley Institutional Liquidity Funds — Treasury Portfolio (the "Liquidity Funds"), an open-end management investment company managed by the Adviser. Advisory fees paid by the Portfolio are reduced by an amount equal to its pro-rata share of the advisory and administration fees paid by the Portfolio due to its investment in the Liquidity Funds. For the year ended December 31, 2016, advisory fees paid were reduced by approximately \$2,000 relating to the Portfolio's investment in the Liquidity Funds.

Notes to Financial Statements (cont'd)

A summary of the Portfolio's transactions in shares of the Liquidity Funds during the year ended December 31, 2016 is as follows:

Value December 31, 2015 (000)	Purchases at Cost (000)	Sales (000)	Dividend Income (000)	Value December 31, 2016 (000)
\$1,008	\$12,192	\$12,453	\$3	\$747

During the year ended December 31, 2016, the Portfolio incurred less than \$500 in brokerage commissions with Morgan Stanley & Co., LLC, an affiliate of the Adviser/Administrator and Distributor, for portfolio transactions executed on behalf of the Portfolio.

The Portfolio is permitted to purchase and sell securities ("cross-trade") from and to other Morgan Stanley Funds as well as other funds and client accounts for which the Adviser or an affiliate of the Adviser serves as investment adviser, pursuant to procedures approved by the Directors in compliance with Rule 17a-7 under the Act (the "Rule"). Each cross-trade is executed at the current market price in compliance with provisions of the Rule. For the year ended December 31, 2016, the Portfolio engaged in cross-trade purchases of approximately \$10,000.

The Portfolio has an unfunded Deferred Compensation Plan (the "Compensation Plan"), which allows each independent Director to defer payment of all, or a portion, of the fees he or she receives for serving on the Board of Directors. Each eligible Director generally may elect to have the deferred amounts credited with a return equal to the total return on one or more of the Morgan Stanley funds that are offered as investment options under the Compensation Plan. Appreciation/depreciation and distributions received from these investments are recorded with an offsetting increase/decrease in the deferred compensation obligation and do not affect the NAV of the Portfolio.

I. Federal Income Taxes: It is the Portfolio's intention to continue to qualify as a regulated investment company and distribute all of its taxable and tax-exempt income. Accordingly, no provision for federal income taxes is required in the financial statements.

The Portfolio may be subject to taxes imposed by countries in which it invests. Such taxes are generally based on income and/or capital gains earned or repatriated. Taxes are accrued based on net investment income, net realized gains and net unrealized appreciation as such income and/or gains are earned. Taxes may also be based on transactions in foreign currency and are accrued based on the value of investments denominated in such currency.

FASB ASC 740-10, "Income Taxes — Overall", sets forth a minimum threshold for financial statement recognition of the

benefit of a tax position taken or expected to be taken in a tax return. Management has concluded there are no significant uncertain tax positions that would require recognition in the financial statements. If applicable, the Portfolio recognizes interest accrued related to unrecognized tax benefits in "Interest Expense" and penalties in "Other Expenses" in the Statement of Operations. The Portfolio files tax returns with the U.S. Internal Revenue Service, New York and various states. Each of the tax years in the four-year period ended December 31, 2016, remains subject to examination by taxing authorities.

The tax character of distributions paid may differ from the character of distributions shown in the Statements of Changes in Net Assets due to short-term capital gains being treated as ordinary income for tax purposes. The tax character of distributions paid during fiscal years 2016 and 2015 was as follows:

2016 Distributions Paid From:		2015 Distributions Paid From:	
Ordinary Income (000)	Long-Term Capital Gain (000)	Ordinary Income (000)	Long-Term Capital Gain (000)
\$1,228	\$—	\$2,282	\$—

The amount and character of income and gains to be distributed are determined in accordance with income tax regulations which may differ from GAAP. These book/tax differences are either considered temporary or permanent in nature.

Temporary differences are attributable to differing book and tax treatments for the timing of the recognition of gains (losses) on certain investment transactions and the timing of the deductibility of certain expenses.

Permanent differences, primarily due to differing treatments of gains (losses) related to foreign currency transactions, character differences on distributions from real estate investment trust securities and gains and basis adjustments on certain equity securities designated as issued by passive foreign investment companies, resulted in the following reclassifications among the components of net assets at December 31, 2016:

Accumulated Undistributed Net Investment Income (000)	Accumulated Net Realized Loss (000)	Paid-in- Capital (000)
\$270	\$(274)	\$4

At December 31, 2016, the components of distributable earnings for the Portfolio on a tax basis were as follows:

Undistributed Ordinary Income (000)	Undistributed Long-Term Capital Gain (000)
\$2,009	\$—

Notes to Financial Statements (cont'd)

At December 31, 2016, the Portfolio had available for federal income tax purposes unused capital losses which will expire on the indicated dates:

Amount (000)	Expiration
\$92,966	December 31, 2017

To the extent that capital loss carryforwards are used to offset any future capital gains realized during the carryover period as provided by U.S. federal income tax regulations, no capital gains tax liability will be incurred by the Portfolio for gains realized and not distributed. To the extent that capital gains are offset, such gains will not be distributed to the shareholders. During the year ended December 31, 2016, the Portfolio utilized capital loss carryforwards for U.S. federal income tax purposes of approximately \$771,000.

J. Credit Facility: As of April 4, 2016, the Fund and other Morgan Stanley funds participated in a \$150,000,000 committed, unsecured revolving line of credit facility (the “facility”) with State Street. This facility is to be used for temporary emergency purposes or funding of shareholder redemption requests. The interest rate on borrowings is based on the federal funds rate or one month libor rate plus a spread. The facility also has a commitment fee of 0.25% per annum based on the unused portion of the facility. During the year ended December 31, 2016, the Portfolio did not have any borrowings under the facility.

K. Other: At December 31, 2016, the Portfolio had record owners of 10% or greater. Investment activities of these shareholders could have a material impact on the Portfolio. The aggregate percentage of such owners was 87.4%.

L. Accounting Pronouncements: In December 2016, FASB issued Accounting Standards update 2016-19 — Technical Corrections and Improvements (“ASU 2016-19”), which is effective for interim periods for all entities beginning after December 15, 2016. ASU 2016-19 includes an amendment to Topic 820, Fair Value Measurement, which clarifies the difference between a valuation approach and a valuation technique when applying the guidance in that Topic. That amendment also requires an entity to disclose when there has been a change in either or both a valuation approach and/or a valuation technique. The transition guidance for the amendment must be applied prospectively because it could potentially involve the use of hindsight that includes fair value measurements. Although still evaluating the potential impacts of ASU 2016-19 to the Portfolio, management expects that the impact of the Portfolio’s adoption will be limited to additional financial statement disclosures.

In October 2016, the Securities and Exchange Commission (“SEC”) issued a new rule, Investment Company Reporting Modernization, which, among other provisions, amends Regulation S-X to require standardized, enhanced disclosures, particularly related to derivatives, in investment company financial statements. Compliance with the guidance is effective for financial statements filed with the SEC on or after August 1, 2017; adoption will have no effect on the Portfolio’s net assets or results of operations. Although still evaluating the potential impacts of the Investment Company Reporting Modernization to the Portfolio, management expects that the impact of the fund’s adoption will be limited to additional financial statement disclosures.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of
The Universal Institutional Funds, Inc. —
Global Real Estate Portfolio

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments, of Global Real Estate Portfolio (one of the portfolios constituting The Universal Institutional Funds, Inc.) (the “Portfolio”) as of December 31, 2016, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Portfolio’s management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Portfolio’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Portfolio’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2016, by correspondence with the custodian and others or by other appropriate auditing procedures where replies from others were not received. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Global Real Estate Portfolio (one of the portfolios constituting The Universal Institutional Funds, Inc.) at December 31, 2016, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Boston, Massachusetts
February 17, 2017

Federal Tax Notice (unaudited)

For federal income tax purposes, the following information is furnished with respect to the distributions paid by the Portfolio during its taxable year ended December 31, 2016. For corporate shareholders 2.83% of the dividends qualified for the dividends received deduction.

In January, the Portfolio provides tax information to shareholders for the preceding calendar year.

Director and Officer Information (unaudited)

Independent Directors:

Name, Age and Address of Independent Director	Position(s) Held with Registrant	Length of Time Served*	Principal Occupation(s) During Past 5 Years and Other Relevant Professional Experience	Number of Portfolios in Fund Complex Overseen by Independent Director**	Other Directorships Held by Independent Director***
Frank L. Bowman (72) c/o Perkins Coie LLP Counsel to the Independent Directors 30 Rockefeller Plaza New York, NY 10112	Director	Since August 2006	President, Strategic Decisions, LLC (consulting) (since February 2009); Director or Trustee of various Morgan Stanley Funds (since August 2006); Chairperson of the Compliance and Insurance Committee (since October 2015); formerly, Chairperson of the Insurance Sub-Committee of the Compliance and Insurance Committee (2007-2015); served as President and Chief Executive Officer of the Nuclear Energy Institute (policy organization) (February 2005-November 2008); retired as Admiral, U.S. Navy after serving over 38 years on active duty including 8 years as Director of the Naval Nuclear Propulsion Program in the Department of the Navy and the U.S. Department of Energy (1996-2004); served as Chief of Naval Personnel (July 1994-September 1996) and on the Joint Staff as Director of Political Military Affairs (June 1992-July 1994); knighted as Honorary Knight Commander of the Most Excellent Order of the British Empire; awarded the Officier de l'Ordre National du Mérite by the French Government; elected to the National Academy of Engineering (2009).	90	Director of BP p.l.c.; Director of Naval and Nuclear Technologies LLP; Director Emeritus of the Armed Services YMCA; Director of the U.S. Naval Submarine League; Member of the National Security Advisory Council of the Center for U.S. Global Engagement and a member of the CNA Military Advisory Board; Chairman of the charity J Street Cup Golf; Trustee of Fairhaven United Methodist Church; and Director of other various non-profit organizations.
Kathleen A. Dennis (63) c/o Perkins Coie LLP Counsel to the Independent Directors 30 Rockefeller Plaza New York, NY 10112	Director	Since August 2006	President, Cedarwood Associates (mutual fund and investment management consulting) (since July 2006); Chairperson of the Liquidity and Alternatives Sub-Committee of the Investment Committee (since October 2006) and Director or Trustee of various Morgan Stanley Funds (since August 2006); formerly, Senior Managing Director of Victory Capital Management (1993-2006).	91	Director of various non-profit organizations.
Nancy C. Everett (61) c/o Perkins Coie LLP Counsel to the Independent Directors 30 Rockefeller Plaza New York, NY 10112	Director	Since January 2015	Chief Executive Officer, Virginia Commonwealth University Investment Company (since November 2015); Owner, OBIR, LLC (institutional investment management consulting) (since June 2014); formerly, Managing Director, BlackRock Inc. (February 2011-December 2013); and Chief Executive Officer, General Motors Asset Management (a/k/a Promark Global Advisors, Inc.) (June 2005-May 2010).	91	Member of Virginia Commonwealth University School of Business Foundation; formerly, Member of Virginia Commonwealth University Board of Visitors (2013-2015); Member of Committee on Directors for Emerging Markets Growth Fund, Inc. (2007-2010); Chairperson of Performance Equity Management, LLC (2006-2010); and Chairperson, GMAM Absolute Return Strategies Fund, LLC (2006-2010).
Jakki L. Haussler (59) c/o Perkins Coie LLP Counsel to the Independent Directors 30 Rockefeller Plaza New York, NY 10112	Director	Since January 2015	Chairman and Chief Executive Officer, Opus Capital Group (since January 1996); formerly, Director, Capvest Venture Fund, LP (May 2000-December 2011); Partner, Adena Ventures, LP (July 1999-December 2010); Director, The Victory Funds (February 2005-July 2008).	91	Director of Cincinnati Bell Inc. and Member, Audit Committee and Compensation Committee; Director of Northern Kentucky University Foundation and Member, Investment Committee; Member of Chase College of Law Transactional Law Practice Center Board of Advisors; Director of Best Transport; Director of Chase College of Law Board of Visitors; formerly, Member, University of Cincinnati Foundation Investment Committee; Member, Miami University Board of Visitors (2008-2011); Trustee of Victory Funds (2005-2008) and Chairman, Investment Committee (2007-2008) and Member, Service Provider Committee (2005-2008).

Director and Officer Information (unaudited) (cont'd)

Independent Directors (cont'd):

Name, Age and Address of Independent Director	Position(s) Held with Registrant	Length of Time Served*	Principal Occupation(s) During Past 5 Years and Other Relevant Professional Experience	Number of Portfolios in Fund Complex Overseen by Independent Director**	Other Directorships Held by Independent Director***
Dr. Manuel H. Johnson (67) c/o Johnson Smick International, Inc. 220 I Street, N.E. — Suite 200 Washington, D.C. 20002	Director	Since July 1991	Senior Partner, Johnson Smick International, Inc. (consulting firm); Chairperson of the Investment Committee (since October 2006) and Director or Trustee of various Morgan Stanley Funds (since July 1991); Co-Chairman and a founder of the Group of Seven Council (G7C) (international economic commission); formerly, Chairperson of the Audit Committee (July 1991-September 2006), Vice Chairman of the Board of Governors of the Federal Reserve System and Assistant Secretary of the U.S. Treasury.	91	Director of NVR, Inc. (home construction).
Joseph J. Kearns (74) c/o Kearns & Associates LLC 46 E Peninsula Center #385 Rolling Hills Estates, CA 90274-3712	Director	Since August 1994	President, Kearns & Associates LLC (investment consulting); Chairperson of the Audit Committee (since October 2006) and Director or Trustee of various Morgan Stanley Funds (since August 1994); formerly, Deputy Chairperson of the Audit Committee (July 2003-September 2006) and Chairperson of the Audit Committee of various Morgan Stanley Funds (since August 1994); CFO of the J. Paul Getty Trust.	93	Director of Electro Rent Corporation (equipment leasing). Prior to December 31, 2013, Director of The Ford Family Foundation.
Michael F. Klein (58) c/o Perkins Coie LLP Counsel to the Independent Directors 30 Rockefeller Plaza New York, NY 10112	Director	Since August 2006	Managing Director, Aetos Capital, LLC (since March 2000); Co-President, Aetos Alternatives Management, LLC (since January 2004) and Co-Chief Executive Officer of Aetos Capital LLC (since August 2013); Chairperson of the Fixed Income Sub-Committee of the Investment Committee (since October 2006) and Director or Trustee of various Morgan Stanley Funds (since August 2006); formerly, Managing Director, Morgan Stanley & Co. Inc. and Morgan Stanley Dean Witter Investment Management, President, various Morgan Stanley Funds (June 1998-March 2000) and Principal, Morgan Stanley & Co. Inc. and Morgan Stanley Dean Witter Investment Management (August 1997-December 1999).	90	Director of certain investment funds managed or sponsored by Aetos Capital, LLC; Director of Sanitized AG and Sanitized Marketing AG (specialty chemicals).
Patricia Maleski (56) c/o Perkins Coie LLP Counsel to the Independent Directors 30 Rockefeller Plaza New York, NY 10112	Director	Since January 2017	Management Director, JPMorgan Asset Management (2013-2016); President, JPMorgan Funds (2010-2013), Chief Administrative Officer, JPMorgan Funds (2004-2010), Treasurer, JPMorgan Funds (2003-2004, 2008-2010), and Vice President and Board Liaison, JPMorgan Funds (2001-2004); Managing Director, J.P. Morgan Investment Management Inc. (2001-2013); Vice President of Finance, Pierpont Group (1996-2001); Vice President, Bank of New York (1995-1996); Senior Audit Manager, Price Waterhouse, LLP (1982-1995).	91	None
Michael E. Nugent (80) 522 Fifth Avenue New York, NY 10036	Chair of the Board and Director	Chair of the Boards since July 2006 and Director since July 1991	Chair of the Boards of various Morgan Stanley Funds (since July 2006); Chairperson of the Closed-End Fund Committee (since June 2012) and Director or Trustee of various Morgan Stanley Funds (since July 1991); formerly, Chairperson of the Insurance Committee (until July 2006); General Partner, Triumph Capital, L.P. (private investment partnership) (1988-2013).	92	None.

Director and Officer Information (unaudited) (cont'd)

Independent Directors (cont'd):

Name, Age and Address of Independent Director	Position(s) Held with Registrant	Length of Time Served*	Principal Occupation(s) During Past 5 Years and Other Relevant Professional Experience	Number of Portfolios in Fund Complex Overseen by Independent Director**	Other Directorships Held by Independent Director***
W. Allen Reed (69) c/o Perkins Coie LLP Counsel to the Independent Directors 30 Rockefeller Plaza New York, NY 10112	Director	Since August 2006	Chairperson of the Equity Sub-Committee of the Investment Committee (since October 2006) and Director or Trustee of various Morgan Stanley Funds (since August 2006); formerly, President and CEO of General Motors Asset Management; Chairman and Chief Executive Officer of the GM Trust Bank and Corporate Vice President of General Motors Corporation (August 1994-December 2005).	91	Director of Legg Mason, Inc.; formerly, Director of the Auburn University Foundation (2010-2015).
Fergus Reid (84) c/o Joe Pietryka, Inc. 85 Charles Colman Blvd. Pawling, NY 12564	Director	Since June 1992	Chairman, Joe Pietryka, Inc.; Chairperson of the Governance Committee and Director or Trustee of various Morgan Stanley Funds (since June 1992).	92	Formerly, Trustee and Director of certain investment companies in the JP Morgan Fund Complex managed by JP Morgan Investment Management Inc. (1987-2012).

* This is the earliest date the Director began serving the Morgan Stanley Funds. Each Director serves an indefinite term, until his or her successor is elected.

** The Fund Complex includes (as of December 31, 2016) all open-end and closed-end funds (including all of their portfolios) advised by Morgan Stanley Investment Management Inc. (the "Adviser") and any funds that have an adviser that is an affiliated person of the Adviser (including, but not limited to, Morgan Stanley AIP GP LP).

*** This includes any directorships at public companies and registered investment companies held by the Director at any time during the past five years.

Executive Officers:

Name, Age and Address of Executive Officer	Position(s) Held with Registrant	Length of Time Served****	Principal Occupation(s) During Past 5 Years
John H. Gernon (53) 522 Fifth Avenue New York, NY 10036	President and Principal Executive Officer	Since September 2013	President and Principal Executive Officer of the Equity and Fixed Income Funds and the Morgan Stanley AIP Funds (since September 2013) and the Liquidity Funds and various money market funds (since May 2014) in the Fund Complex; Managing Director of the Adviser; Head of Product (since 2006).
Timothy J. Knierim (58) 522 Fifth Avenue New York, NY 10036	Chief Compliance Officer	Since December 2016	Managing Director of the Adviser and various entities affiliated with the Adviser; Chief Compliance Officer of various Morgan Stanley Funds and the Adviser (since December 2016) and Chief Compliance Officer of Morgan Stanley AIP GP LP (since 2014). Formerly, Managing Director and Deputy Chief Compliance Officer of the Adviser (2014-2016); and formerly, Chief Compliance Officer of Prudential Investment Management, Inc. (2007-2014).
Francis J. Smith (51) 522 Fifth Avenue New York, NY 10036	Treasurer and Principal Financial Officer	Treasurer since July 2003 and Principal Financial Officer since September 2002	Managing Director of the Adviser and various entities affiliated with the Adviser; Treasurer (since July 2003) and Principal Financial Officer of various Morgan Stanley Funds (since September 2002).
Mary E. Mullin (49) 522 Fifth Avenue New York, NY 10036	Secretary	Since June 1999	Executive Director of the Adviser; Secretary of various Morgan Stanley Funds (since June 1999).

**** This is the earliest date the officer began serving the Morgan Stanley Funds. Each officer serves a one-year term, until his or her successor is elected and qualifies.

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New York, New York 10036

Sub-Advisers

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Morgan Stanley Investment Management Company
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16-01 Capital Square, Singapore 049481

Distributor

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522 Fifth Avenue
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Dividend Disbursing and Transfer Agent

Boston Financial Data Services, Inc.
2000 Crown Colony Drive
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Custodian

State Street Bank and Trust Company
One Lincoln Street
Boston, Massachusetts 02111

Legal Counsel

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1095 Avenue of the Americas
New York, New York 10036

Counsel to the Independent Directors

Perkins Coie LLP
30 Rockefeller Plaza
New York, New York 10112

Independent Registered Public Accounting Firm

Ernst & Young LLP
200 Clarendon Street
Boston, Massachusetts 02116

Reporting to Shareholders

Each Morgan Stanley fund provides a complete schedule of portfolio holdings in its semi-annual and annual reports within 60 days of the end of the fund's second and fourth fiscal quarters. The semi-annual and annual reports are filed electronically with the Securities and Exchange Commission (SEC) on Form N-CSRS and Form N-CSR, respectively. Morgan Stanley also delivers the semi-annual and annual reports to fund shareholders and makes these reports available on its public website, www.morganstanley.com/im. Each Morgan Stanley fund also files a complete schedule of portfolio holdings with the SEC for the fund's first and third fiscal quarters on Form N-Q. Morgan Stanley does not deliver the reports for the first and third fiscal quarters to shareholders, nor are the reports posted to the Morgan Stanley public website. You may, however, obtain the Form N-Q filings (as well as the Form N-CSR and N-CSRS filings) by accessing the SEC's website, www.sec.gov. You may also review and copy them at the SEC's Public Reference Room in Washington, DC. Information on the operation of the SEC's Public Reference Room may be obtained by calling the SEC toll free at 1 (800) SEC-0330. You can also request copies of these materials, upon payment of a duplicating fee, by electronic request at the SEC's email address (publicinfo@sec.gov) or by writing the Public Reference Room of the SEC, 100 F Street, NE, Washington, DC 20549-0102.

Proxy Voting Policies and Procedures and Proxy Voting Record

You may obtain a copy of the Fund's Proxy Voting Policy and Procedures and information regarding how the Fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30, without charge, upon request, by calling toll free 1 (800) 548-7786 or by visiting our website at www.morganstanley.com/im. This information is also available on the SEC's website at www.sec.gov.

This report is submitted for the general information of the shareholders of the Portfolio. For more detailed information about the Portfolio, its fees and expenses and other pertinent information, please read its Prospectus. The Fund's Statement of Additional Information contains additional information about the Portfolio, including its Directors. It is available, without charge, by calling 1 (800) 548-7786.

This report is not authorized for distribution to prospective investors in the Portfolio unless preceded or accompanied by an effective Prospectus. Read the Prospectus carefully before investing.