Morgan Stanley

The Universal Institutional Funds, Inc.

Semi-Annual Report – June 30, 2016

U.S. 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)

U.S. Real Estate Portfolio

As a shareholder of the U.S. Real Estate Portfolio (the "Portfolio"), you incur two types of costs: (1) insurance company charges; and (2) ongoing costs, which may 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 June 30, 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 1/1/16	Actual Ending Account Value 6/30/16	Hypothetical Ending Account Value	Actual Expenses Paid During Period*	Hypothetical Expenses Paid During Period*	Net Expense Ratio During Period**
U.S. Real Estate Portfolio Class I	$1,000.00	$1,097.10	$1,019.94	$5.16	$4.97	0.99%
U.S. Real Estate Portfolio Class II	1,000.00	1,095.50	1,018.70	6.46	6.22	1.24

* Expenses are calculated using each Portfolio Class' annualized net expense ratio (as disclosed), multiplied by the average account value over the period, and multiplied by 182/366 (to reflect the most recent one-half year period).

** Annualized.

Portfolio of Investments

U.S. Real Estate Portfolio

	Shares	Value (000)
Common Stocks (91.6%)		
Apartments (16.9%)		
Apartment Investment & Management Co., Class A REIT	180,976	$ 7,992
AvalonBay Communities, Inc. REIT	123,832	22,338
Camden Property Trust REIT	164,658	14,559
Equity Residential REIT	505,794	34,839
Essex Property Trust, Inc. REIT	48,854	11,143
Post Properties, Inc. REIT	18,557	1,133
		92,004
Data Centers (0.5%)		
QTS Realty Trust, Inc., Class A REIT	48,534	2,717
Diversified (6.8%)		
Lexington Realty Trust REIT	24,611	249
Vornado Realty Trust REIT	366,821	36,726
		36,975
Health Care (7.0%)		
HCP, Inc. REIT	38,501	1,362
Healthcare Realty Trust, Inc. REIT	91,801	3,212
Omega Healthcare Investors, Inc. REIT	102,607	3,483
Senior Housing Properties Trust REIT	143,073	2,980
Ventas, Inc. REIT	192,813	14,041
Welltower, Inc. REIT	172,586	13,146
		38,224
Industrial (5.1%)		
Cabot Industrial Value Fund II, LP REIT (a)(b)(c)(d)(See Note A-3)	11,760	7,061
DCT Industrial Trust, Inc. REIT	19,088	917
Duke Realty Corp. REIT	177,219	4,725
Liberty Property Trust REIT	110,992	4,409
ProLogis, Inc. REIT	178,668	8,762
Rexford Industrial Realty, Inc. REIT	93,420	1,970
		27,844
Lodging/Resorts (9.5%)		
Chesapeake Lodging Trust REIT	166,654	3,875
Hilton Worldwide Holdings, Inc.	333,056	7,504
Host Hotels & Resorts, Inc. REIT	1,589,659	25,768
LaSalle Hotel Properties REIT	438,495	10,340
Sunstone Hotel Investors, Inc. REIT	153,024	1,847
Xenia Hotels & Resorts, Inc. REIT	131,668	2,209
		51,543
Manufactured Homes (0.6%)		
Equity Lifestyle Properties, Inc. REIT	42,530	3,404
Office (10.6%)		
Boston Properties, Inc. REIT	195,778	25,823
BRCP REIT I, LP (a)(b)(c)(d)(See Note A-3)	2,928,671	179
BRCP REIT II, LP (a)(b)(c)(d)(See Note A-3)	7,155,500	3,707
Corporate Office Properties Trust REIT	36,541	1,080
Cousins Properties, Inc. REIT	382,895	3,982
Douglas Emmett, Inc. REIT	252,070	8,953
Hudson Pacific Properties, Inc. REIT	327,990	9,571
Mack-Cali Realty Corp. REIT	99,324	$ 2,682
Paramount Group, Inc. REIT	114,779	1,830
		57,807
Regional Malls (17.8%)		
CBL & Associates Properties, Inc. REIT	19,824	184
General Growth Properties, Inc. REIT	704,647	21,013
Simon Property Group, Inc. REIT	329,242	71,413
Taubman Centers, Inc. REIT	53,668	3,982
WP GLIMCHER, Inc. REIT	24,860	278
		96,870
Retail Free Standing (2.0%)		
National Retail Properties, Inc. REIT	118,797	6,144
Realty Income Corp. REIT	4,166	289
Spirit Realty Capital, Inc. REIT	84,540	1,080
STORE Capital Corp. REIT	119,373	3,515
		11,028
Self Storage (5.1%)		
CubeSmart REIT	82,956	2,562
Public Storage REIT	78,646	20,101
Sovran Self Storage, Inc. REIT	46,954	4,926
		27,589
Shopping Centers (9.0%)		
Acadia Realty Trust REIT	47,151	1,675
Brixmor Property Group, Inc. REIT	99,219	2,625
DDR Corp. REIT	53,083	963
Equity One, Inc. REIT	54,980	1,769
Federal Realty Investment Trust REIT	5,618	930
Kimco Realty Corp. REIT	343,663	10,784
Regency Centers Corp. REIT	206,932	17,327
Tanger Factory Outlet Centers, Inc. REIT	317,936	12,775
		48,848
Single Family Homes (0.2%)		
American Homes 4 Rent, Class A REIT	41,740	855
Specialty (0.5%)		
Gaming and Leisure Properties, Inc. REIT	85,752	2,957
Total Common Stocks (Cost $302,155)		498,665
Short-Term Investment (8.3%)		
Investment Company (8.3%)		
Morgan Stanley Institutional Liquidity Funds — Treasury Portfolio — Institutional Class (See Note H) **(Cost $45,216)**	45,215,633	45,216
Total Investments (99.9%) (Cost $347,371) (e)		543,881
Other Assets in Excess of Liabilities (0.1%)		628
Net Assets (100.0%)		$544,509

(a) At June 30, 2016, the Portfolio held fair valued securities valued at approximately $10,947,000, representing 2.0% of net assets. These securities have been fair valued as determined in good faith under procedures established by and under the general supervision of the Fund's Directors.

Portfolio of Investments (cont'd)

U.S. Real Estate Portfolio

(b) Security has been deemed illiquid at June 30, 2016.

(c) Non-income producing security.

(d) Restricted security valued at fair value and not registered under the Securities Act of 1933, BRCP REIT I, LP was acquired between 12/04 – 5/08 and has a current cost basis of approximately $93,000. BRCP REIT II, LP was acquired between 1/07 – 4/11 and has a current cost basis of approximately $5,728,000. Cabot Industrial Value Fund II, LP was acquired between 3/07 – 5/09 and has a current cost basis of approximately $5,880,000. At June 30, 2016, these securities had an aggregate market value of approximately $10,947,000 representing 2.0% of net assets.

(e) At June 30, 2016, the aggregate cost for Federal income tax purposes approximates the aggregate cost for book purposes. The aggregate gross unrealized appreciation is approximately $201,534,000 and the aggregate gross unrealized depreciation is approximately $5,024,000 resulting in net unrealized appreciation of approximately $196,510,000.

REIT Real Estate Investment Trust.

Portfolio Composition

Classification	Percentage of Total Investments
Regional Malls	17.8%
Apartments	16.9
Office	10.6
Lodging/Resorts	9.5
Shopping Centers	9.0
Short-Term Investments	8.3
Health Care	7.0
Diversified	6.8
Industrial	5.1
Self Storage	5.1
Other*	3.9
Total Investments	100.0%

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

The accompanying notes are an integral part of the financial statements.

U.S. Real Estate Portfolio

Statement of Assets and Liabilities

	June 30, 2016 (000)
Assets:	
Investments in Securities of Unaffiliated Issuers, at Value (Cost $302,155)	$ 498,665
Investment in Security of Affiliated Issuer, at Value (Cost $45,216)	45,216
Total Investments in Securities, at Value (Cost $347,371)	543,881
Foreign Currency, at Value (Cost —@)	—@
Dividends Receivable	1,660
Receivable for Portfolio Shares Sold	1,455
Receivable for Investments Sold	1,346
Receivable from Affiliate	8
Other Assets	30
Total Assets	548,380
Liabilities:	
Payable for Investments Purchased	1,380
Payable for Portfolio Shares Redeemed	1,259
Payable for Advisory Fees	895
Payable for Servicing Fees	168
Payable for Distribution Fees — Class II Shares	59
Payable for Administration Fees	33
Payable for Professional Fees	22
Payable for Custodian Fees	12
Payable for Directors' Fees and Expenses	6
Payable for Transfer Agency Fees	3
Other Liabilities	34
Total Liabilities	3,871
NET ASSETS	$ 544,509
Net Assets Consist of:	
Paid-in-Capital	$ 465,922
Accumulated Undistributed Net Investment Income	9,963
Accumulated Net Realized Loss	(127,886)
Unrealized Appreciation (Depreciation) on:	
Investments	196,510
Foreign Currency Translations	(—@)
Net Assets	$ 544,509
CLASS I:	
Net Assets	$ 242,354
Net Asset Value, Offering and Redemption Price Per Share Applicable to 11,032,498 Outstanding $0.001 Par Value Shares (Authorized 500,000,000 Shares)	$ 21.97
CLASS II:	
Net Assets	$ 302,155
Net Asset Value, Offering and Redemption Price Per Share Applicable to 13,822,658 Outstanding $0.001 Par Value Shares (Authorized 500,000,000 Shares)	$ 21.86

@ Amount is less than $500.

U.S. Real Estate Portfolio

Statement of Operations

	Six Months Ended June 30, 2016 (000)
Investment Income:	
Dividends from Securities of Unaffiliated Issuers	$11,763
Dividends from Security of Affiliated Issuer (Note H)	19
Total Investment Income	11,782
Expenses:	
Advisory Fees (Note B)	1,880
Distribution Fees — Class II Shares (Note E)	347
Servicing Fees (Note D)	321
Administration Fees (Note C)	188
Professional Fees	44
Shareholder Reporting Fees	21
Custodian Fees (Note G)	12
Transfer Agency Fees (Note F)	7
Directors' Fees and Expenses	6
Pricing Fees	2
Other Expenses	11
Total Expenses	2,839
Waiver of Advisory Fees (Note B)	(140)
Rebate from Morgan Stanley Affiliate (Note H)	(14)
Net Expenses	2,685
Net Investment Income	9,097
Realized Gain:	
Investments Sold	5,617
Change in Unrealized Appreciation (Depreciation):	
Investments	31,037
Foreign Currency Translations	—@
Net Change in Unrealized Appreciation (Depreciation)	31,037
Net Realized Gain and Change in Unrealized Appreciation (Depreciation)	36,654
Net Increase in Net Assets Resulting from Operations	$45,751

@ Amount is less than $500.

 The accompanying notes are an integral part of the financial statements.

U.S. Real Estate Portfolio

Statements of Changes in Net Assets

	Six Months Ended June 30, 2016 (unaudited) (000)	Year Ended December 31, 2015 (000)
Increase (Decrease) in Net Assets:		
Operations:		
Net Investment Income	$ 9,097	$ 6,622
Net Realized Gain	5,617	38,492
Net Change in Unrealized Appreciation (Depreciation)	31,037	(37,448)
Net Increase in Net Assets Resulting from Operations	45,751	7,666
Distributions from and/or in Excess of:		
Class I:		
Net Investment Income	(3,025)	(2,568)
Class II:		
Net Investment Income	(3,099)	(3,425)
Total Distributions	(6,124)	(5,993)
Capital Share Transactions:[(1)]		
Class I:		
Subscribed	51,396	32,454
Distributions Reinvested	3,025	2,568
Redeemed	(19,750)	(49,726)
Class II:		
Subscribed	19,884	65,559
Distributions Reinvested	3,099	3,425
Redeemed	(25,016)	(67,754)
Net Increase (Decrease) in Net Assets Resulting from Capital Share Transactions	32,638	(13,474)
Total Increase (Decrease) in Net Assets	72,265	(11,801)
Net Assets:		
Beginning of Period	472,244	484,045
End of Period (Including Accumulated Undistributed Net Investment Income of $9,963 and $6,990)	$544,509	$472,244
(1) **Capital Share Transactions:**		
Class I:		
Shares Subscribed	2,432	1,601
Shares Issued on Distributions Reinvested	138	134
Shares Redeemed	(966)	(2,480)
Net Increase (Decrease) in Class I Shares Outstanding	1,604	(745)
Class II:		
Shares Subscribed	965	3,232
Shares Issued on Distributions Reinvested	142	180
Shares Redeemed	(1,228)	(3,422)
Net Decrease in Class II Shares Outstanding	(121)	(10)

Financial Highlights

U.S. Real Estate Portfolio

	Class I					
	Six Months Ended June 30, 2016	Year Ended December 31,				
Selected Per Share Data and Ratios	**(unaudited)**	**2015**	**2014**	**2013**	**2012**	**2011**
Net Asset Value, Beginning of Period	$ 20.28	$ 20.13	$ 15.74	$ 15.59	$ 13.57	$ 12.91
Income from Investment Operations:						
Net Investment Income†	0.41	0.30	0.27	0.22	0.18	0.08
Net Realized and Unrealized Gain	1.56	0.12	4.38	0.11	1.97	0.69
Total from Investment Operations	1.97	0.42	4.65	0.33	2.15	0.77
Distributions from and/or in Excess of:						
Net Investment Income	(0.28)	(0.27)	(0.26)	(0.18)	(0.13)	(0.11)
Net Asset Value, End of Period	$ 21.97	$ 20.28	$ 20.13	$ 15.74	$ 15.59	$ 13.57
Total Return++	9.71%#	2.17%	29.72%	2.05%	15.84%	5.92%
Ratios and Supplemental Data:						
Net Assets, End of Period (Thousands)	$242,354	$191,188	$204,740	$289,874	$305,099	$277,481
Ratio of Expenses to Average Net Assets (1)	0.99%+*	1.00%+	1.06%+^	1.10%+	1.10%+	1.09%+
Ratio of Expenses to Average Net Assets Excluding Non Operating Expenses	N/A	1.00%+	1.05%+	1.08%+	1.08%+	1.07%+
Ratio of Net Investment Income to Average Net Assets (1)	4.02%+*	2.36%+	1.52%+	1.36%+	1.19%+	0.64%+
Ratio of Rebate from Morgan Stanley Affiliates to Average Net Assets	0.01%*	0.00%§	0.00%§	0.00%§	0.00%§	0.00%§
Portfolio Turnover Rate	13%#	26%	25%	17%	17%	18%
(1) Supplemental Information on the Ratios to Average Net Assets:						
Ratios Before Expense Limitation:						
Expenses to Average Net Assets	1.06%*	1.07%	1.11%	N/A	N/A	N/A
Net Investment Income to Average Net Assets	3.95%*	2.29%	1.47%	N/A	N/A	N/A

† Per share amount is based on average shares outstanding.

++ 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.

+ 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."

^ Effective July 1, 2014, the Adviser has agreed to limit the ratio of expenses to average net assets to the maximum ratio of 1.00% for Class I shares. Prior to July 1, 2014, the maximum ratio was 1.10% for Class I shares.

§ Amount is less than 0.005%.

Not Annualized.

* Annualized.

The accompanying notes are an integral part of the financial statements.

Financial Highlights

U.S. Real Estate Portfolio

	Class II					
	Six Months Ended June 30, 2016	Year Ended December 31,				
Selected Per Share Data and Ratios	**(unaudited)**	**2015**	**2014**	**2013**	**2012**	**2011**
Net Asset Value, Beginning of Period	$ 20.16	$ 20.02	$ 15.66	$ 15.52	$ 13.50	$ 12.84
Income from Investment Operations:						
Net Investment Income†	0.38	0.25	0.23	0.18	0.14	0.05
Net Realized and Unrealized Gain	1.55	0.12	4.35	0.10	1.97	0.68
Total from Investment Operations	1.93	0.37	4.58	0.28	2.11	0.73
Distributions from and/or in Excess of:						
Net Investment Income	(0.23)	(0.23)	(0.22)	(0.14)	(0.09)	(0.07)
Net Asset Value, End of Period	$ 21.86	$ 20.16	$ 20.02	$ 15.66	$ 15.52	$ 13.50
Total Return++	9.55%#	1.92%	29.43%	1.75%	15.62%	5.66%
Ratios and Supplemental Data:						
Net Assets, End of Period (Thousands)	$302,155	$281,056	$279,305	$185,999	$177,358	$178,082
Ratio of Expenses to Average Net Assets(1)	1.24%+*	1.25%+	1.31%+^	1.35%+	1.35%+	1.34%+
Ratio of Expenses to Average Net Assets Excluding Non Operating Expenses	N/A	1.25%+	1.30%+	1.33%+	1.33%+	1.32%+
Ratio of Net Investment Income to Average Net Assets(1)	3.77%+*	2.11%+	1.27%+	1.11%+	0.94%+	0.39%+
Ratio of Rebate from Morgan Stanley Affiliates to Average Net Assets	0.01%*	0.00%§	0.00%§	0.00%§	0.00%§	0.00%§
Portfolio Turnover Rate	13%#	26%	25%	17%	17%	18%
(1) Supplemental Information on the Ratios to Average Net Assets:						
Ratios Before Expense Limitation:						
Expenses to Average Net Assets	1.31%*	1.35%	1.46%	1.45%	1.45%	1.44%
Net Investment Income to Average Net Assets	3.70%*	2.01%	1.12%	1.01%	0.84%	0.29%

† Per share amount is based on average shares outstanding.

++ 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.

\+ 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."

^ Effective July 1, 2014, the Adviser has agreed to limit the ratio of expenses to average net assets to the maximum ratio of 1.25% for Class II shares. Prior to July 1, 2014, the maximum ratio was 1.35% for Class II shares.

§ Amount is less than 0.005%.

Not Annualized.

* Annualized.

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 U.S. Real Estate Portfolio. The Portfolio seeks to provide above average current income and long-term capital appreciation by investing primarily in equity securities of companies in the U.S. real estate industry, including real estate investment trusts ("REITs"). The Portfolio has capital subscription commitments to certain investee companies for this same purpose, the details of which are disclosed in the Unfunded Commitments note. The Portfolio offers two classes of shares – Class I and Class II. Both classes of shares have identical voting rights (except that shareholders of a Class have exclusive voting rights regarding any matter relating solely to that Class of shares), dividend, liquidation and other rights.

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) when market quotations are not readily available, including circumstances under which Morgan Stanley Investment Management Inc. (the "Adviser") determines 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 Fund's Board of Directors (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; (4) investments in mutual funds, including the Morgan Stanley Institutional Liquidity Funds, are valued at the net asset value ("NAV") as of the close of each business day; and (5) short-term debt securities with remaining maturities of 60 days or less at the time of purchase may be valued at amortized cost, unless the Adviser determines such valuation does not reflect the securities' market value, in which case these securities will be valued at their fair market value determined by the Adviser.

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

Notes to Financial Statements (cont'd)

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 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.

The following is a summary of the inputs used to value the Portfolio's investments as of June 30, 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				
Apartments	$ 92,004	$—	$ —	$ 92,004
Data Centers	2,717	—	—	2,717
Diversified	36,975	—	—	36,975
Health Care	38,224	—	—	38,224
Industrial	20,783	—	7,061	27,844
Lodging/Resorts	51,543	—	—	51,543
Manufactured Homes	3,404	—	—	3,404
Office	53,921	—	3,886	57,807
Regional Malls	96,870	—	—	96,870

Notes to Financial Statements (cont'd)

Investment Type	Level 1 Unadjusted quoted prices (000)	Level 2 Other significant observable inputs (000)	Level 3 Significant unobservable inputs (000)	Total (000)
Common Stocks (cont'd)				
Retail Free Standing	$ 11,028	$—	$ —	$ 11,028
Self Storage	27,589	—	—	27,589
Shopping Centers	48,848	—	—	48,848
Single Family Homes	855	—	—	855
Specialty	2,957	—	—	2,957
Total Common Stocks	**487,718**	**—**	**10,947**	**498,665**
Short-Term Investment				
Investment Company	45,216	—	—	45,216
Total Assets	**$532,934**	**$—**	**$10,947**	**$543,881**

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 June 30, 2016, the Portfolio did not have any investments transfer between investment levels.

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

	Common Stocks (000)
Beginning Balance	$10,977
Purchases	—
Sales	—
Amortization of discount	—
Transfers in	—
Transfers out	—
Corporate actions	(919)
Change in unrealized appreciation (depreciation)	889
Realized gains (losses)	—
Ending Balance	$10,947
Net change in unrealized appreciation (depreciation) from investments still held as of June 30, 2016	$ 889

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 June 30, 2016.

	Fair Value at June 30, 2016 (000)	Valuation Technique	Unobservable Input
Industrial			
Common Stock	$7,061	Reported Capital Balance, Adjusted for Subsequent Capital Calls, Return of Capital and Significant Market Changes between last Capital Statement and Valuation Date, as applicable	Adjusted Capital Balance
Office			
Common Stocks	$3,886	Reported Capital Balance, Adjusted for Subsequent Capital Calls, Return of Capital and Significant Market Changes between last Capital Statement and Valuation Date, as applicable	Adjusted Capital Balance

3. **Unfunded Commitments:** Subject to the terms of a Subscription Agreement between the Portfolio and BRCP REIT I, LP, the Portfolio has made a subscription commitment of $3,360,000 for which it will receive 3,360,000 shares of common stock. As of June 30, 2016, BRCP REIT I, LP has drawn down approximately $2,929,000, which represents 87.2% of the commitment.

Subject to the terms of a Subscription Agreement between the Portfolio and BRCP REIT II, LP, the Portfolio has made a subscription commitment of $7,700,000 for which it will receive 7,700,000 shares of common stock. As of June 30, 2016, BRCP REIT II, LP has drawn down approximately $7,156,000, which represents 92.9% of the commitment.

Subject to the terms of a Subscription Agreement between the Portfolio and Cabot Industrial Value Fund II, LP REIT, the Portfolio has made a subscription commitment of $6,300,000 for which it will receive 12,600 shares of common stock. As of June 30, 2016, Cabot Industrial Value Fund II, LP REIT has drawn down approximately $5,880,000 which represents 93.3% of the commitment.

Notes to Financial Statements (cont'd)

4. **Restricted Securities:** The Portfolio invests in unregistered or otherwise restricted securities. The term "restricted securities" refers to securities that are unregistered or are held by control persons of the issuer and securities that are subject to contractual restrictions on their resale. As a result, restricted securities may be more difficult to value and the Portfolio may have difficulty disposing of such assets either in a timely manner or for a reasonable price. In order to dispose of an unregistered security, the Portfolio, where it has contractual rights to do so, may have to cause such security to be registered. A considerable period may elapse between the time the decision is made to sell the security and the time the security is registered so that the Portfolio could sell it. Contractual restrictions on the resale of securities vary in length and scope and are generally the result of a negotiation between the issuer and acquirer of the securities. The Portfolio would, in either case, bear market risks during that period. Restricted securities are identified in the Portfolio of Investments.

5. **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.

6. **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.

7. **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 Fees: The Adviser, a wholly-owned subsidiary of Morgan Stanley, provides the Portfolio with advisory services under the terms of an Investment Advisory Agreement, paid quarterly, at the annual rate based on the daily net assets as follows:

First $500 million	Next $500 million	Over $1 billion
0.80%	0.75%	0.70%

For the six months ended June 30, 2016, the advisory fee rate (net of waivers/rebate) was equivalent to an annual effective rate of 0.73% of the Portfolio's average daily net assets.

The Adviser has agreed to reduce its advisory fee and/or reimburse the Portfolio so that total annual portfolio operating expenses, excluding certain investment related expenses, taxes, interest and other extraordinary expenses (including litigation), will not exceed 1.00% for Class I shares and 1.25% for Class II shares. Effective July 1, 2016, the Adviser has agreed to reduce its advisory fee and/or reimburse the Portfolio so that total annual portfolio operating expenses will not exceed 0.95% for Class I shares and 1.20% 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 six months ended June 30, 2016, approximately $140,000 of advisory fees were waived pursuant to this arrangement.

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

Notes to Financial Statements (cont'd)

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 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.

H. Security Transactions and Transactions with Affiliates: For the six months ended June 30, 2016, purchases and sales of investment securities for the Portfolio, other than long-term U.S. Government securities and short-term investments, were approximately $62,088,000 and $66,211,000, respectively. There were no purchases and sales of long-term U.S. Government securities for the six months ended June 30, 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 six months ended June 30, 2016, advisory fees paid were reduced by approximately $14,000 relating to the Portfolio's investment in the Liquidity Funds.

A summary of the Portfolio's transactions in shares of the Liquidity Funds during the six months ended June 30, 2016 is as follows:

Value December 31, 2015 (000)	Purchases at Cost (000)	Sales (000)	Dividend Income (000)	Value June 30, 2016 (000)
$4,879	$66,270	$25,933	$19	$45,216

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 six months ended June 30, 2016, the Portfolio did not engage in any cross-trade transactions.

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 that 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

Notes to Financial Statements (cont'd)

"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, 2015, 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 2015 and 2014 was as follows:

2015 Distributions Paid From:		2014 Distributions Paid From:	
Ordinary Income (000)	Long-Term Capital Gain (000)	Ordinary Income (000)	Long-Term Capital Gain (000)
$5,993	$—	$5,698	$—

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 in 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 REIT basis adjustments, securities sold with return of capital basis adjustment and nondeductible expenses, resulted in the following reclassifications among the components of net assets at December 31, 2015:

Accumulated Undistributed Net Investment Income (000)	Accumulated Net Realized Loss (000)	Paid-in-Capital (000)
$(362)	$361	$1

At December 31, 2015, 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)
$6,422	$—

At December 31, 2015, the Portfolio had available for Federal income tax purposes unused capital losses which will expire on the indicated dates:

Amount (000)	Expiration
$118,316	December 31, 2017

To the extent that capital loss carryforwards are used to offset any future capital gains realized, 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, 2015, the Portfolio utilized capital loss carryforwards for U.S. Federal income tax purposes of approximately $37,230,000.

J. Credit Facility: As of April 4, 2016, the Fund and other Morgan Stanley funds participate 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 period ended June 30, 2016, the Fund did not have any borrowings under the facility.

K. Other: At June 30, 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 56.2%.

Investment Advisory Agreement Approval (unaudited)

Nature, Extent and Quality of Services

The Board reviewed and considered the nature and extent of the investment advisory services provided by the Adviser (as defined herein) under the advisory agreement, including portfolio management, investment research and equity and fixed income securities trading. The Board also reviewed and considered the nature and extent of the non-advisory, administrative services provided by the Adviser under the administration agreement, including accounting, operations, clerical, bookkeeping, compliance, business management and planning, legal services and the provision of supplies, office space and utilities at the Adviser's expense. The Board also considered the Adviser's investment in personnel and infrastructure that benefits the Portfolio. (The advisory and administration agreements together are referred to as the "Management Agreement.") The Board also considered that the Adviser serves a variety of other investment advisory clients and has experience overseeing service providers. The Board also compared the nature of the services provided by the Adviser with similar services provided by non-affiliated advisers as reported to the Board by Broadridge Financial Solutions, Inc. ("Broadridge").

The Board reviewed and considered the qualifications of the portfolio managers, the senior administrative managers and other key personnel of the Adviser who provide the administrative and advisory services to the Portfolio. The Board determined that the Adviser's portfolio managers and key personnel are well qualified by education and/or training and experience to perform the services in an efficient and professional manner. The Board concluded that the nature and extent of the advisory and administrative services provided were necessary and appropriate for the conduct of the business and investment activities of the Portfolio and supported its decision to approve the Management Agreement.

Performance, Fees and Expenses of the Portfolio

The Board reviewed the performance, fees and expenses of the Portfolio compared to its peers, as determined by Broadridge, and to appropriate benchmarks where applicable. The Board discussed with the Adviser the performance goals and the actual results achieved in managing the Portfolio. When considering a fund's performance, the Board and the Adviser place emphasis on trends and longer-term returns (focusing on one-year, three-year and five-year performance, as of December 31, 2015, or since inception, as applicable). When a fund underperforms its benchmark and/or its peer group average, the Board and the Adviser discuss the causes of such underperformance and, where necessary, they discuss specific changes to investment strategy or investment personnel. The Board noted that the Portfolio's performance was below its peer group average for the one-, three- and five-year periods. The Board discussed with the Adviser the level of the advisory and administration fees (together, the "management fee") for this Portfolio relative to comparable funds and/or other accounts advised by the Adviser and/or compared to its peers as determined by Broadridge. In addition to the management fee, the Board also reviewed the Portfolio's total expense ratio. When a fund's management fee and/or its total expense ratio are higher than its peers, the Board and the Adviser discuss the reasons for this and, where appropriate, they discuss possible waivers and/or caps. The Board noted that the Portfolio's management fee and total expense ratio were higher than its peer group averages. After discussion, the Board concluded that the Portfolio's (i) performance was acceptable; and (ii) management fee and total expense ratio were acceptable.

Economies of Scale

The Board considered the size and growth prospects of the Portfolio and how that relates to the Portfolio's total expense ratio and particularly the Portfolio's management fee rate, which includes breakpoints. In conjunction with its review of the Adviser's profitability, the Board discussed with the Adviser how a change in assets can affect the efficiency or effectiveness of managing the Portfolio and whether the management fee level is appropriate relative to current and projected asset levels and/or whether the management fee structure reflects economies of scale as asset levels change. The Board has determined that its review of the actual and/or potential economies of scale of the Portfolio supports its decision to approve the Management Agreement.

Profitability of the Adviser and Affiliates

The Board considered information concerning the costs incurred and profits realized by the Adviser and its affiliates during the last year from their relationship with the Portfolio and during the last two years from their relationship with the Morgan Stanley Fund Complex and reviewed with the Adviser the cost allocation methodology used to determine the profitability of the Adviser

Investment Advisory Agreement Approval (unaudited) (cont'd)

and affiliates. The Board has determined that its review of the analysis of the Adviser's expenses and profitability supports its decision to approve the Management Agreement.

Other Benefits of the Relationship

The Board considered other direct and indirect benefits to the Adviser and/or its affiliates derived from their relationship with the Portfolio and other funds advised by the Adviser. These benefits may include, among other things, fees for trading, distribution and/or shareholder servicing and for transaction processing and reporting platforms used by securities lending agents, and research received by the Adviser generated from commission dollars spent on funds' portfolio trading. The Board reviewed with the Adviser these arrangements and the reasonableness of the Adviser's costs relative to the services performed. The Board has determined that its review of the other benefits received by the Adviser or its affiliates supports its decision to approve the Management Agreement.

Resources of the Adviser and Historical Relationship Between the Portfolio and the Adviser

The Board considered whether the Adviser is financially sound and has the resources necessary to perform its obligations under the Management Agreement. The Board also reviewed and considered the historical relationship between the Portfolio and the Adviser, including the organizational structure of the Adviser, the policies and procedures formulated and adopted by the Adviser for managing the Portfolio's operations and the Board's confidence in the competence and integrity of the senior managers and key personnel of the Adviser. The Board concluded that the Adviser has the financial resources necessary to fulfill its obligations under the Management Agreement and that it is beneficial for the Portfolio to continue its relationship with the Adviser.

Other Factors and Current Trends

The Board considered the controls and procedures adopted and implemented by the Adviser and monitored by the Fund's Chief Compliance Officer and concluded that the conduct of business by the Adviser indicates a good faith effort on its part to adhere to high ethical standards in the conduct of the Portfolio's business.

General Conclusion

After considering and weighing all of the above factors, with various written materials and verbal information presented by the Adviser, the Board concluded that it would be in the best interest of the Portfolio and its shareholders to approve renewal of the Management Agreement for another year. In reaching this conclusion the Board did not give particular weight to any single piece of information or factor referenced above. The Board considered these factors and information over the course of the year and in numerous meetings, some of which were in executive session with only the independent Board members and their counsel present. It is possible that individual Board members may have weighed these factors, and the information presented, differently in reaching their individual decisions to approve the Management Agreement.

Director and Officer Information

Directors
Frank L. Bowman
Kathleen A. Dennis
Nancy C. Everett
Jakki L. Haussler
James F. Higgins
Dr. Manuel H. Johnson
Joseph J. Kearns
Michael F. Klein
Michael E. Nugent, *Chair of the Board*
W. Allen Reed
Fergus Reid

Officers
John H. Gernon
President and Principal Executive Officer
Stefanie V. Chang Yu
Chief Compliance Officer
Joseph C. Benedetti
Vice President
Mary E. Mullin
Secretary
Francis J. Smith
Treasurer and Principal Financial Officer

Adviser and Administrator
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Distributor
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Custodian
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Legal Counsel
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Counsel to the Independent Directors
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Independent Registered Public Accounting Firm
Ernst & Young LLP
200 Clarendon Street
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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, 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.

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