Morgan Stanley

Morgan Stanley Variable Insurance Fund, Inc.

Semi-Annual Report – June 30, 2020

Growth Portfolio

The Fund 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.

Table of Contents

Expense Example

Growth Portfolio

As a shareholder of the Growth Portfolio (the "Fund"), 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 Fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund 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, 2020 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 Fund's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund'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 Fund 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 1/1/20	Actual Ending Account Value 6/30/20	Hypothetical Ending Account Value	Actual Expenses Paid During Period*	Hypothetical Expenses Paid During Period*	Net Expense Ratio During Period**
Growth Portfolio Class I	$1,000.00	$1,520.70	$1,022.03	$3.57	$2.87	0.57%
Growth Portfolio Class II	1,000.00	1,518.90	1,020.79	5.14	4.12	0.82

* Expenses are calculated using each Fund 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

Growth Portfolio

	Shares	Value (000)
Common Stocks (96.4%)		
Biotechnology (1.3%)		
Alnylam Pharmaceuticals, Inc. (a)	30,348	$ 4,495
Moderna, Inc. (a)	97,084	6,234
		10,729
Entertainment (6.8%)		
Netflix, Inc. (a)	24,567	11,179
Spotify Technology SA (a)	183,209	47,303
		58,482
Health Care Equipment & Supplies (6.9%)		
DexCom, Inc. (a)	78,538	31,839
Intuitive Surgical, Inc. (a)	48,548	27,664
		59,503
Health Care Providers & Services (1.7%)		
Covetrus, Inc. (a)	195,017	3,489
Guardant Health, Inc. (a)	136,001	11,034
		14,523
Health Care Technology (4.9%)		
Agilon Health Topco, Inc. (a)(b)(c) (acquisition cost — $1,272; acquired 11/7/18)	3,363	1,539
Veeva Systems, Inc., Class A (a)	171,578	40,221
		41,760
Information Technology Services (26.3%)		
Adyen N.V. (Netherlands) (a)	11,783	17,168
MongoDB, Inc. (a)	97,452	22,057
Okta, Inc. (a)	191,869	38,418
Shopify, Inc., Class A (Canada) (a)	66,542	63,162
Square, Inc., Class A (a)	441,184	46,298
Twilio, Inc., Class A (a)	177,369	38,918
		226,021
Interactive Media & Services (5.5%)		
Snap, Inc., Class A (a)	621,074	14,589
Twitter, Inc. (a)	684,557	20,393
Zillow Group, Inc., Class C (a)	216,177	12,454
		47,436
Internet & Direct Marketing Retail (10.9%)		
Amazon.com, Inc. (a)	17,733	48,922
Chewy, Inc., Class A (a)	397,968	17,785
Farfetch Ltd., Class A (a)	470,063	8,118
Wayfair, Inc., Class A (a)	92,683	18,315
		93,140
Life Sciences Tools & Services (4.8%)		
10X Genomics, Inc., Class A (a)	143,132	12,783
Illumina, Inc. (a)	77,832	28,825
		41,608
Metals & Mining (0.2%)		
Royal Gold, Inc.	12,201	1,517
Oil, Gas & Consumable Fuels (0.2%)		
Texas Pacific Land Trust	3,086	1,835
Road & Rail (3.8%)		
Uber Technologies, Inc. (a)	1,038,006	$ 32,261
Semiconductors & Semiconductor Equipment (1.4%)		
NVIDIA Corp.	31,863	12,105
Software (19.0%)		
Atlassian Corp., PLC, Class A (United Kingdom) (a)	64,202	11,574
Coupa Software, Inc. (a)	111,408	30,864
Datadog, Inc., Class A (a)	160,396	13,946
Slack Technologies, Inc., Class A (a)	1,074,879	33,418
Trade Desk, Inc. (The), Class A (a)	64,046	26,035
Zoom Video Communications, Inc., Class A (a)	188,022	47,671
		163,508
Specialty Retail (2.7%)		
Carvana Co. (a)	191,188	22,981
Total Common Stocks (Cost $444,413)		827,409
Preferred Stocks (0.7%)		
Electronic Equipment, Instruments & Components (0.0%)		
Magic Leap Series C (a)(b)(c) (acquisition cost — $1,526; acquired 12/22/15)	66,235	—
Internet & Direct Marketing Retail (0.7%)		
Airbnb, Inc. Series D (a)(b)(c) (acquisition cost — $3,074; acquired 4/16/14)	75,501	6,042
Software (0.0%)		
Lookout, Inc. Series F (a)(b)(c) (acquisition cost — $1,618; acquired 6/17/14)	141,612	360
Total Preferred Stocks (Cost $6,218)		6,402
Short-Term Investment (3.2%)		
Investment Company (3.2%)		
Morgan Stanley Institutional Liquidity Funds — Treasury Securities Portfolio — Institutional Class (See Note H) **(Cost $27,495)**	27,494,963	27,495
Total Investments Excluding Purchased Options (100.3%) (Cost $478,126)		861,306
Total Purchased Options Outstanding (0.1%) (Cost $1,977)		646
Total Investments (100.4%) (Cost $480,103) (d)(e)		861,952
Liabilities in Excess of Other Assets (-0.4%)		(3,508)
Net Assets (100.0%)		$858,444

(a) Non-income producing security.

(b) Security cannot be offered for public resale without first being registered under the Securities Act of 1933 and related rules ("restricted security"). Acquisition date represents the day on which an enforceable right to acquire such security is obtained and is presented along with related cost in the security description. The Fund has registration rights for certain restricted securities. Any costs related to such registration are borne by the issuer. The aggregate value of restricted securities (excluding 144A holdings) at June 30, 2020 amounts to approximately $7,941,000 and represents 0.9% of net assets.

Portfolio of Investments (cont'd)

Growth Portfolio

(c) At June 30, 2020, the Fund held fair valued securities valued at approximately $7,941,000, representing 0.9% 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 Company's (as defined herein) Directors.

(d) The approximate fair value and percentage of net assets, $17,168,000 and 2.0%, respectively, represent the securities that have been fair valued under the fair valuation policy for international investments as described in Note A-1 within the Notes to the Financial Statements.

(e) At June 30, 2020, the aggregate cost for federal income tax purposes approximates the aggregate cost for book purposes. The aggregate gross unrealized appreciation is approximately $391,145,000 and the aggregate gross unrealized depreciation is approximately $9,296,000, resulting in net unrealized appreciation of approximately $381,849,000.

Call Options Purchased:

The Fund had the following call options purchased open at June 30, 2020:

Counterparty	Description	Strike Price	Expiration Date	Number of Contracts	Notional Amount (000)	Value (000)	Premiums Paid (000)	Unrealized Depreciation (000)
Royal Bank of Scotland	USD/CNH	CNH 7.75	Jan-21	142,018,241	$142,018	$363	$ 620	$ (257)
Royal Bank of Scotland	USD/CNH	CNH 8.09	Sep-20	111,384,445	111,384	18	601	(583)
Royal Bank of Scotland	USD/CNH	CNH 8.48	May-21	121,053,871	121,054	265	756	(491)
						$646	$1,977	$(1,331)

CNH — Chinese Yuan Renminbi Offshore
USD — United States Dollar

Portfolio Composition

Classification	Percentage of Total Investments
Information Technology Services	26.3%
Other*	24.0
Software	19.0
Internet & Direct Marketing Retail	11.5
Health Care Equipment & Supplies	6.9
Entertainment	6.8
Interactive Media & Services	5.5
Total Investments	100.0%

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

Growth Portfolio

Statement of Assets and Liabilities

	June 30, 2020 (000)
Assets:	
Investments in Securities of Unaffiliated Issuers, at Value (Cost $452,608)	$834,457
Investment in Security of Affiliated Issuer, at Value (Cost $27,495)	27,495
Total Investments in Securities, at Value (Cost $480,103)	861,952
Foreign Currency, at Value (Cost $1)	1
Receivable for Fund Shares Sold	87
Tax Reclaim Receivable	20
Receivable from Affiliate	1
Other Assets	42
Total Assets	862,103
Liabilities:	
Payable for Fund Shares Redeemed	1,866
Due to Broker	721
Payable for Advisory Fees	562
Payable for Servicing Fees	267
Payable for Distribution Fees — Class II Shares	61
Payable for Administration Fees	54
Payable for Reorganization Expense	51
Payable for Professional Fees	27
Payable for Directors' Fees and Expenses	10
Payable for Custodian Fees	6
Payable for Transfer Agency Fees	3
Other Liabilities	31
Total Liabilities	3,659
NET ASSETS	$858,444
Net Assets Consist of:	
Paid-in-Capital	$329,718
Total Distributable Earnings	528,726
Net Assets	$858,444
CLASS I:	
Net Assets	$549,941
Net Asset Value, Offering and Redemption Price Per Share Applicable to 10,101,182 Outstanding $0.001 Par Value Shares (Authorized 500,000,000 Shares)	$ 54.44
CLASS II:	
Net Assets	$308,503
Net Asset Value, Offering and Redemption Price Per Share Applicable to 6,061,482 Outstanding $0.001 Par Value Shares (Authorized 500,000,000 Shares)	$ 50.90

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

Growth Portfolio

Statement of Operations

	Six Months Ended June 30, 2020 (000)
Investment Income:	
Dividends from Security of Affiliated Issuer (Note H)	$ 40
Dividends from Securities of Unaffiliated Issuers	2
Total Investment Income	42
Expenses:	
Advisory Fees (Note B)	1,656
Servicing Fees (Note D)	445
Distribution Fees — Class II Shares (Note E)	297
Administration Fees (Note C)	265
Professional Fees	61
Shareholder Reporting Fees	14
Custodian Fees (Note G)	12
Directors' Fees and Expenses	8
Transfer Agency Fees (Note F)	6
Pricing Fees	2
Other Expenses	15
Total Expenses	2,781
Waiver of Advisory Fees (Note B)	(597)
Rebate from Morgan Stanley Affiliate (Note H)	(13)
Net Expenses	2,171
Net Investment Loss	(2,129)
Realized Gain:	
Investments Sold	65,389
Foreign Currency Translation	—@
Net Realized Gain	65,389
Change in Unrealized Appreciation (Depreciation):	
Investments	235,361
Foreign Currency Translation	—@
Net Change in Unrealized Appreciation (Depreciation)	235,361
Net Realized Gain and Change in Unrealized Appreciation (Depreciation)	300,750
Net Increase in Net Assets Resulting from Operations	$298,621

@ Amount is less than $500.

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

Growth Portfolio

Statements of Changes in Net Assets

	Six Months Ended June 30, 2020 (unaudited) (000)	Year Ended December 31, 2019 (000)
Increase (Decrease) in Net Assets:		
Operations:		
Net Investment Loss	$ (2,129)	$ (2,479)
Net Realized Gain	65,389	100,790
Net Change in Unrealized Appreciation (Depreciation)	235,361	189
Net Increase in Net Assets Resulting from Operations	298,621	98,500
Dividends and Distributions to Shareholders:		
Class I	—	(20,830)
Class II	—	(12,370)
Total Dividends and Distributions to Shareholders	—	(33,200)
Capital Share Transactions:[1]		
Class I:		
Subscribed	8,324	10,618
Issued due to a Tax-free Reorganization	—	245,109
Distributions Reinvested	—	20,830
Redeemed	(36,362)	(49,722)
Class II:		
Subscribed	32,580	28,971
Issued due to a Tax-free Reorganization	—	61,369
Distributions Reinvested	—	12,370
Redeemed	(45,199)	(60,606)
Net Increase (Decrease) in Net Assets Resulting from Capital Share Transactions	(40,657)	268,939
Total Increase in Net Assets	257,964	334,239
Net Assets:		
Beginning of Period	600,480	266,241
End of Period	$858,444	$600,480
[1] **Capital Share Transactions:**		
Class I:		
Shares Subscribed	201	308
Shares Issued due to a Tax-free Reorganization	—	6,914
Shares Issued on Distributions Reinvested	—	585
Shares Redeemed	(903)	(1,439)
Net Increase (Decrease) in Class I Shares Outstanding	(702)	6,368
Class II:		
Shares Subscribed	834	913
Shares Issued due to a Tax-free Reorganization	—	1,840
Shares Issued on Distributions Reinvested	—	370
Shares Redeemed	(1,152)	(1,912)
Net Increase (Decrease) in Class II Shares Outstanding	(318)	1,211

Financial Highlights

Growth Portfolio

	Class I					
	Six Months Ended June 30, 2020	Year Ended December 31,				
Selected Per Share Data and Ratios	**(unaudited)**	**2019**	**2018**	**2017**	**2016[1]**	**2015**
Net Asset Value, Beginning of Period	$35.80	$28.62	$32.38	$24.65	$29.93	$30.73
Income (Loss) from Investment Operations:						
Net Investment Loss[2]	(0.11)	(0.14)	(0.14)	(0.13)	(0.03)	(0.11)
Net Realized and Unrealized Gain (Loss)	18.75	9.23	3.34	10.44	(0.57)	3.76
Total from Investment Operations	18.64	9.09	3.20	10.31	(0.60)	3.65
Distributions from and/or in Excess of:						
Net Realized Gain	—	(1.91)	(6.96)	(2.58)	(4.68)	(4.45)
Net Asset Value, End of Period	$54.44	$35.80	$28.62	$32.38	$24.65	$29.93
Total Return[3]	52.07%[7]	31.81%	7.54%	43.15%	(1.64)%	12.24%
Ratios to Average Net Assets and Supplemental Data:						
Net Assets, End of Period (Thousands)	$549,941	$386,720	$126,941	$133,745	$104,504	$119,883
Ratio of Expenses Before Expense Limitation	0.75%[8]	0.78%	N/A	0.81%	0.79%	0.81%
Ratio of Expenses After Expense Limitation	0.57%[4][8]	0.61%[4][5]	0.79%[4]	0.79%[4]	0.76%[4]	0.80%[4]
Ratio of Net Investment Loss	(0.56)%[4][8]	(0.41)%[4]	(0.39)%[4]	(0.43)%[4]	(0.11)%[4]	(0.37)%[4]
Ratio of Rebate from Morgan Stanley Affiliates	0.00%[6][8]	0.01%	0.00%[6]	0.01%	0.00%[6]	0.00%[6]
Portfolio Turnover Rate	23%[7]	95%	56%	54%	39%	33%

(1) Reflects prior period custodian out-of-pocket expenses that were reimbursed in September 2016. The amount of the reimbursement was immaterial on a per share basis and did not impact the total return of Class I shares. The Ratio of Expenses After Expense Limitation would have been 0.03% higher and the Ratio of Net Investment Loss would have been 0.03% lower had the custodian not reimbursed the Fund.

(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 Ratio of Expenses After Expense Limitation and Ratio of Net Investment Loss reflect the rebate of certain Fund 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."

(5) Effective April 29, 2019, the Adviser has agreed to limit the ratio of expenses to average net assets to the maximum ratio of 0.57% for Class I shares. Prior to April 29, 2019, the maximum ratio was 0.80% for Class I shares.

(6) Amount is less than 0.005%.

(7) Not annualized.

(8) Annualized.

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

Financial Highlights

Growth Portfolio

	Class II					
	Six Months Ended June 30, 2020	Year Ended December 31,				
Selected Per Share Data and Ratios	**(unaudited)**	**2019**	**2018**	**2017**	**2016[1]**	**2015**
Net Asset Value, Beginning of Period	$33.51	$26.95	$30.89	$23.66	$29.00	$29.97
Income (Loss) from Investment Operations:						
Net Investment Loss[2]	(0.15)	(0.21)	(0.21)	(0.19)	(0.09)	(0.18)
Net Realized and Unrealized Gain (Loss)	17.54	8.68	3.23	10.00	(0.57)	3.66
Total from Investment Operations	17.39	8.47	3.02	9.81	(0.66)	3.48
Distributions from and/or in Excess of:						
Net Realized Gain	—	(1.91)	(6.96)	(2.58)	(4.68)	(4.45)
Net Asset Value, End of Period	$50.90	$33.51	$26.95	$30.89	$23.66	$29.00
Total Return[3]	51.89%[7]	31.47%	7.30%	42.82%	(1.92)%	11.97%
Ratios to Average Net Assets and Supplemental Data:						
Net Assets, End of Period (Thousands)	$308,503	$213,760	$139,300	$124,268	$80,081	$89,398
Ratio of Expenses Before Expense Limitation	1.00%[8]	1.03%	N/A	1.06%	1.04%	1.09%
Ratio of Expenses After Expense Limitation	0.82%[4][8]	0.86%[4][5]	1.04%[4]	1.04%[4]	1.01%[4]	1.05%[4]
Ratio of Net Investment Loss	(0.81)%[4][8]	(0.66)%[4]	(0.64)%[4]	(0.68)%[4]	(0.36)%[4]	(0.62)%[4]
Ratio of Rebate from Morgan Stanley Affiliates	0.00%[6][8]	0.01%	0.00%[6]	0.01%	0.00%[6]	0.00%[6]
Portfolio Turnover Rate	23%[7]	95%	56%	54%	39%	33%

(1) Reflects prior period custodian out-of-pocket expenses that were reimbursed in September 2016. 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 After Expense Limitation would have been 0.03% higher and the Ratio of Net Investment Loss would have been 0.03% lower had the custodian not reimbursed the Fund.

(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 Ratio of Expenses After Expense Limitation and Ratio of Net Investment Loss reflect the rebate of certain Fund 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."

(5) Effective April 29, 2019, the Adviser has agreed to limit the ratio of expenses to average net assets to the maximum ratio of 0.82% for Class II shares. Prior to April 29, 2019, the maximum ratio was 1.05% for Class II shares.

(6) Amount is less than 0.005%.

(7) Not annualized.

(8) Annualized.

Notes to Financial Statements

Morgan Stanley Variable Insurance Fund, Inc. (the "Company") is registered under the Investment Company Act of 1940, as amended (the "Act"), as an open-end management investment company. The Company is comprised of ten separate active, diversified and non-diversified funds (individually referred to as a "Fund," collectively as the "Funds"). The Company applies investment company accounting and reporting guidance.

The accompanying financial statements relate to the Growth Portfolio. The Fund seeks long-term capital appreciation by investing primarily in growth-oriented equity securities of large capitalization companies. The Fund 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 Company 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.

On April 26, 2019, the Fund acquired the net assets of Morgan Stanley Variable Investment Series Multi Cap Growth ("Multi Cap Growth"), an open-end investment company, based on the respective valuations as of the close of business on April 26, 2019, pursuant to a Plan of Reorganization approved by the shareholders of Multi Cap Growth on February 6, 2019 ("Reorganization"). The purpose of the transaction was to combine two portfolios managed by Morgan Stanley Investment Management Inc., (the "Adviser") with comparable investment objectives and strategies. The acquisition was accomplished by a tax-free exchange of 6,914,222 Class I shares of the Fund at a net asset value ("NAV") of $35.45 for 6,427,253 Class X shares of Multi Cap Growth; 1,840,161 Class II shares of the Fund at a NAV of $33.35 for 1,745,017 Class Y shares of Multi Cap Growth. The net assets of Multi Cap Growth before the Reorganization were approximately $306,479,000, including unrealized appreciation (depreciation) of approximately $84,991,000 at April 26, 2019. The investment portfolio of Multi Cap Growth, with a fair value of approximately $306,245,000 and identified cost of approximately $221,254,000, on April 26, 2019, was the principal asset acquired by the Fund. For financial reporting purposes, assets received and shares issued by the Fund were recorded at fair value; however, the cost basis of the investments received from Multi Cap Growth was carried forward to align ongoing reporting of the Fund's realized and unrealized gains and losses with amounts distributable to shareholders for tax purposes. Immediately prior to the Reorganization, the net assets of the Fund were approximately $309,573,000. Immediately after the Reorganization, the net assets of the Fund were approximately $616,052,000.

Upon closing of the Reorganization, shareholders of Multi Cap Growth received shares of the Fund as follows:

Multi Cap Growth	Growth Portfolio
Class X	Class I
Class Y	Class II

Assuming the acquisition had been completed on January 1, 2019, the beginning of the annual reporting period of the Fund, the Fund's pro-forma results of operations for the period ended December 31, 2019, are approximately as follows:

Net investment loss(1)	$ (1,530,000)
Net realized gain and unrealized gain(2)	$217,538,000
Net increase in net assets resulting from operations	$216,008,000

(1) Approximately $(2,479,000) as reported, plus approximately $388,000 from Multi Cap Growth prior to the Reorganization, plus approximately $561,000 of estimated pro-forma eliminated expenses.

(2) Approximately $100,979,000 as reported, plus approximately $116,559,000 from Multi Cap Growth prior to the Reorganization.

Because the combined investment portfolios have been managed as a single integrated portfolio since the acquisition was completed, it is not practicable to separate the amounts of revenue and earnings of Multi Cap Growth that have been included in the Fund's Statement of Operations since April 26, 2019.

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 Company 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.

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-13, Fair Value Measurement (Topic 820) — Disclosures Framework — Changes to Disclosure Requirements of Fair Value Measurement ("ASU 2018-13") which introduces new fair value disclosure requirements as well as eliminates and modifies certain existing fair value disclosure requirements. ASU 2018-13 would be effective for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years. The impact of the Fund's adoption was limited to changes in the Fund's financial statement disclosures regarding fair value, primarily those disclosures related to transfers between levels of the fair value hierarchy and disclosure of the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements, when applicable.

Notes to Financial Statements (cont'd)

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. If only bid prices are available then the latest bid price may be used. 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. In cases where a security is traded on more than one exchange, the security is valued on the exchange designated as the primary market; (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. 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; (3) listed options are valued at the last reported sales price on the exchange on which they are listed (or at the exchange official closing price if such exchange reports an official closing price). If an official closing price or last reported sales price is unavailable, the listed option should be fair valued at the mean between its latest bid and ask prices. Unlisted options are valued at the mean between their latest bid and ask prices from a broker/dealer or valued by a pricing service/vendor; (4) certain portfolio securities may be valued by an outside pricing service/vendor approved by the Company'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. If only bid prices are available then the latest bid price may be used. If the Adviser, a wholly-owned subsidiary of Morgan Stanley, determines that the price provided by the outside pricing service/vendor or exchange does not reflect the security's fair value or is unable to provide a price, prices from brokers or dealers may also be utilized. In these circumstances, the value of the security will be the mean of bid and asked prices obtained from brokers or dealers; (5) when market quotations are not readily available, including circumstances under which 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 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; (6) 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 (7) 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.

   The Directors have responsibility for determining in good faith the fair value of the investments, and the Directors may appoint others, such as the Company'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 Company's Adviser has formed a Valuation Committee whose members are approved by the Directors. The Valuation Committee provides administration and oversight of the Company's

Notes to Financial Statements (cont'd)

valuation policies and procedures, which are reviewed at least annually by the Directors. These procedures allow the Company to utilize independent pricing services, quotations from securities and financial instrument dealers and other market sources to determine fair value.

2. **Fair Value Measurement:** 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 Fund's investments as of June 30, 2020:

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				
Biotechnology	$ 10,729	$ —	$ —	$ 10,729
Entertainment	58,482	—	—	58,482
Health Care Equipment & Supplies	59,503	—	—	59,503
Health Care Providers & Services	14,523	—	—	14,523
Health Care Technology	40,221	—	1,539	41,760
Information Technology Services	208,853	17,168	—	226,021
Interactive Media & Services	47,436	—	—	47,436
Internet & Direct Marketing Retail	93,140	—	—	93,140
Life Sciences Tools & Services	41,608	—	—	41,608
Metals & Mining	1,517	—	—	1,517
Oil, Gas & Consumable Fuels	1,835	—	—	1,835
Road & Rail	32,261	—	—	32,261
Semiconductors & Semiconductor Equipment	12,105	—	—	12,105
Software	163,508	—	—	163,508
Specialty Retail	22,981	—	—	22,981
Total Common Stocks	**808,702**	**17,168**	**1,539**	**827,409**
Preferred Stocks				
Electronic Equipment, Instruments & Components	—	—	—†	—†
Internet & Direct Marketing Retail	—	—	6,042	6,042
Software	—	—	360	360
Total Preferred Stocks	**—**	**—**	**6,402†**	**6,402†**
Call Options Purchased	—	646	—	646
Short-Term Investment				
Investment Company	27,495	—	—	27,495
Total Assets	**$836,197**	**$17,814**	**$7,941†**	**$861,952†**

† Includes one security valued at zero.

Transfers between investment levels may occur as the markets fluctuate and/or the availability of data used in an investment's valuation changes.

Notes to Financial Statements (cont'd)

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

	Common Stock (000)	Preferred Stocks (000)
Beginning Balance	$1,511	$11,897
Purchases	—	—
Sales	—	—
Amortization of discount	—	—
Transfers in	—	—
Transfers out	—	—
Corporate actions	—	—
Change in unrealized appreciation (depreciation)	28	(5,495)
Realized gains (losses)	—	—
Ending Balance	$1,539	$ 6,402†
Net change in unrealized appreciation (depreciation) from investments still held as of June 30, 2020	$ 28	$ (5,495)

† Includes one security 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 June 30, 2020. Various valuation techniques were used in the valuation of certain investments and weighted based on the level of significance. The Fund calculated the weighted averages of the unobservable inputs relative to each investment's fair value as of June 30, 2020.

	Fair Value at June 30, 2020 (000)	Valuation Technique	Unobservable Input	Amount or Range/ Weighted Average*	Impact to Valuation from an Increase in Input**
Common Stock	$1,539	Discounted Cash Flow	Weighted Average Cost of Capital	13.0%	Decrease
			Perpetual Growth Rate	3.5%	Increase
		Market Comparable Companies	Enterprise Value/ Revenue	1.4x	Increase
			Discount for Lack of Marketability	12.0%	Decrease
Preferred Stocks	$6,402	Market Transaction Method	Precedent Transaction	$8.41	Increase
		Discounted Cash Flow	Weighted Average Cost of Capital	14.0%–19.0%/15.2%	Decrease
			Perpetual Growth Rate	3.0%–4.0%/3.5%	Increase
		Market Comparable Companies	Enterprise Value/ Revenue	1.5x–27.1x/5.6x	Increase
			Discount for Lack of Marketability	16.5%–17.0%/16.5%	Decrease
		Comparable Transactions	Enterprise Value/ Revenue	3.5x	Increase

* Amount is indicative of the weighted average.

** Represents the expected directional change in the fair value of the Level 3 investments that would result from an increase in the corresponding input. A decrease to the unobservable input would have the opposite effect. Significant changes in these inputs could result in significantly higher or lower fair value measurements.

Notes to Financial Statements (cont'd)

3. **Foreign Currency Translation and Foreign Investments:** The books and records of the Fund 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 Fund are presented at the foreign exchange rates and market values at the close of the period, the Fund 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 Fund 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 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 Fund's books and the U.S. dollar equivalent amounts actually received or paid. The change in unrealized currency gains (losses) on foreign currency transactions 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 Fund values the foreign shares at the closing exchange price of the local shares.

4. **Derivatives:** The Fund may, but is not required to, use derivative instruments for a variety of purposes, including hedging, risk management, portfolio management or to earn income. Derivatives are financial instruments whose value is based, in part, on the value of an underlying asset, interest rate, index or financial instrument. Prevailing interest rates and volatility levels, among other things, also affect the value of derivative instruments. A derivative instrument often has risks similar to its underlying asset and may have additional risks, including imperfect correlation between the value of the derivative and the underlying asset, risks of default by the counterparty to certain transactions, magnification of losses incurred due to changes in the market value of the securities, instruments, indices or interest rates to which the derivative instrument relates, risks that the transactions may not be liquid and risks arising from margin requirements. The use of derivatives involves risks that are different from, and possibly greater than, the risks associated with other portfolio investments. Derivatives may involve the use of highly specialized instruments that require investment techniques and risk analyses different from those associated with other portfolio investments. All of the Fund's holdings, including derivative instruments, are marked-to-market each day with the change in value reflected in unrealized appreciation (depreciation). Upon disposition, a realized gain or loss is recognized.

Certain derivative transactions may give rise to a form of leverage. Leverage magnifies the potential for gain and the risk of loss. Leverage associated with derivative transactions may cause the Fund to liquidate portfolio positions when it may not be advantageous to do so to satisfy its obligations or to meet earmarking or segregation requirements, pursuant to applicable Securities and Exchange Commission ("SEC") rules and regulations, or may cause the Fund to be more volatile than if the Fund

Notes to Financial Statements (cont'd)

had not been leveraged. Although the Adviser seeks to use derivatives to further the Fund's investment objectives, there is no assurance that the use of derivatives will achieve this result.

Following is a description of the derivative instruments and techniques that the Fund used during the period and their associated risks:

Options: With respect to options, the Fund is subject to equity risk, interest rate risk and foreign currency exchange risk in the normal course of pursuing its investment objectives. If the Fund buys an option, it buys a legal contract giving it the right to buy or sell a specific amount of the underlying instrument or foreign currency, or futures contract on the underlying instrument or foreign currency, at an agreed-upon price during a period of time or on a specified date typically in exchange for a premiums paid by the Fund. The Fund may purchase and/or sell put and call options. Purchasing call options tends to increase the Fund's exposure to the underlying (or similar) instrument. Purchasing put options tends to decrease the Fund's exposure to the underlying (or similar) instrument. When entering into purchased option contracts, the Fund bears the risk of interest or exchange rates or securities prices moving unexpectedly, in which case, the Fund may not achieve the anticipated benefits of the purchased option contracts; however the risk of loss is limited to the premium paid. Purchased options are reported as part of "Total Investments in Securities" in the Statement of Assets and Liabilities. Premiums paid for purchasing options which expired are treated as realized losses. If the Fund sells an option, it sells to another party the right to buy from or sell to the Fund a specific amount of the underlying instrument or foreign currency, or futures contract on the underlying instrument or foreign currency, at an agreed-upon price during a period of time or on a specified date typically in exchange for a premium received by the Fund. When options are purchased OTC, the Fund bears the risk that the counterparty that wrote the option will be unable or unwilling to perform its obligations under the option contract. Options may also be illiquid and the Fund may have difficulty closing out its position. A decision as to whether, when and how to use options involves the exercise of skill and judgment and even a well-conceived option transaction may be unsuccessful because of market behavior or unexpected events. The prices of options can be highly volatile and the use of options can lower total returns.

FASB ASC 815, "Derivatives and Hedging" ("ASC 815"), is intended to improve financial reporting about derivative instruments by requiring enhanced disclosures to enable investors to better understand how and why the Fund uses derivative instruments, how these derivative instruments are accounted for and their effects on the Fund's financial position and results of operations.

The following table sets forth the fair value of the Fund's derivative contracts by primary risk exposure as of June 30, 2020:

	Asset Derivatives Statement of Assets and Liabilities Location	Primary Risk Exposure	Value (000)
Purchased Options	Investments, at Value (Purchased Options)	Currency Risk	$646(a)

(a) Amounts are included in Investments in Securities in the Statement of Assets and Liabilities.

The following tables set forth by primary risk exposure the Fund's realized gains (losses) and change in unrealized appreciation (depreciation) by type of derivative contract for the six months ended June 30, 2020 in accordance with ASC 815:

Realized Gain (Loss)

Primary Risk Exposure	Derivative Type	Value (000)
Currency Risk	Investments (Purchased Options)	$(1,179)(b)

(b) Amounts are included in Investments Sold in the Statement of Operations.

Change in Unrealized Appreciation (Depreciation)

Primary Risk Exposure	Derivative Type	Value (000)
Currency Risk	Investments (Purchased Options)	$245(c)

(c) Amounts are included in Investments in the Statement of Operations.

At June 30, 2020, the Fund's derivative assets and liabilities are as follows:

Gross Amounts of Assets and Liabilities Presented in the Statement of Assets and Liabilities

Derivatives	Assets(d) (000)	Liabilities(d) (000)
Purchased Options	$646(a)	$—

(a) Amounts are included in Investments in Securities in the Statement of Assets and Liabilities.

(d) Absent an event of default or early termination, OTC derivative assets and liabilities are presented gross and not offset in the Statement of Assets and Liabilities.

The Fund typically enters into International Swaps and Derivatives Association, Inc. Master Agreements ("ISDA Master Agreements") or similar master agreements (collectively, "Master Agreements") with its contract counterparties for certain OTC derivatives in order to, among other things, reduce its credit risk to counterparties. ISDA Master Agreements include provisions for general

Notes to Financial Statements (cont'd)

obligations, representations, collateral and events of default or termination. Under an ISDA Master Agreement, the Fund typically may offset with the counterparty certain OTC derivative financial instruments' payables and/or receivables with collateral held and/or posted and create one single net payment (close-out netting) in the event of default, termination and/or potential deterioration in the credit quality of the counterparty. Various Master Agreements govern the terms of certain transactions with counterparties, including transactions such as swap, forward, repurchase and reverse repurchase agreements. These Master Agreements typically attempt to reduce the counterparty risk associated with such transactions by specifying credit protection mechanisms and providing standardization that improves legal certainty. Cross-termination provisions under Master Agreements typically provide that a default in connection with one transaction between the Fund and a counterparty gives the non-defaulting party the right to terminate any other transactions in place with the defaulting party to create one single net payment due to/due from the defaulting party and may be a feature in certain Master Agreements. In the event the Fund exercises its right to terminate a Master Agreement after a counterparty experiences a termination event as defined in the Master Agreement, the return of collateral with market value in excess of the Fund's net liability may be delayed or denied.

The following table presents derivative financial instruments that are subject to enforceable netting arrangements as of June 30, 2020:

		Gross Amounts Not Offset in the Statement of Assets and Liabilities		
Counterparty	Gross Asset Derivatives Presented in the Statement of Assets and Liabilities(a) (000)	Financial Instrument (000)	Collateral Received(e) (000)	Net Amount (not less than $0) (000)
Royal Bank of Scotland	$646	$—	$(646)	$0

(a) Amounts are included in Investments in Securities in the Statement of Assets and Liabilities.

(e) In some instances, the actual collateral received may be more than the amount shown here due to overcollateralization.

For the six months ended June 30, 2020, the approximate average monthly amount outstanding for each derivative type is as follows:

Purchased Options:

Average monthly notional amount 395,976,000

5. **Restricted Securities:** The Fund 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 Fund 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 Fund, 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 Fund can 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 the acquirer of the securities. The Fund would, in either case, bear market risks during that period. Restricted securities are identified in the Portfolio of Investments.

6. **Indemnifications:** The Company enters into contracts that contain a variety of indemnifications. The Company's maximum exposure under these arrangements is unknown. However, the Company has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

7. **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 Fund 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 Company can be directly attributed to a particular Fund. Expenses which cannot be directly attributed are apportioned among the Funds 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.

8. **Dividends and Distributions to Shareholders:** Dividends 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.

Notes to Financial Statements (cont'd)

B. Advisory Fees: The Adviser, a wholly-owned subsidiary of Morgan Stanley, provides the Fund 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 $1 billion	Next $1 billion	Next $1 billion	Over $3 billion
0.50%	0.45%	0.40%	0.35%

For the six months ended June 30, 2020, the advisory fee rate (net of waiver/rebate) was equivalent to an annual effective rate of 0.32% of the Fund's average daily net assets.

The Adviser has agreed to reduce its advisory fee and/or reimburse the Fund so that total annual Fund operating expenses, excluding certain investment related expenses, taxes, interest and other extraordinary expenses (including litigation), will not exceed 0.57% for Class I shares and 0.82% for Class II shares. The fee waivers and/or expense reimbursements will continue for at least one year from the date of the Fund'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, 2020, approximately $597,000 of advisory fees were waived pursuant to this arrangement.

C. Administration Fees: The Adviser also serves as Administrator to the Company and provides administrative services pursuant to an Administration Agreement for an annual fee, accrued daily and paid monthly, of 0.08% of the Fund'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 Company. For such services, the Administrator pays State Street a portion of the fee the Administrator receives from the Fund.

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

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 Fund and provides the Fund'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 Fund 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 Fund's average daily net assets attributable to Class II shares.

F. Dividend Disbursing and Transfer Agent: The Company's dividend disbursing and transfer agent is DST Asset Manager Solutions, Inc. ("DST"). Pursuant to a Transfer Agency Agreement, the Company pays DST a fee based on the number of classes, accounts and transactions relating to the Funds of the Company.

G. Custodian Fees: State Street (the "Custodian") also serves as Custodian for the Company in accordance with a Custodian Agreement. The Custodian holds cash, securities and other assets of the Company 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, 2020, purchases and sales of investment securities for the Fund, other than long-term U.S. Government securities and short-term investments were approximately $151,560,000 and $218,996,000, respectively. There were no purchases and sales of long-term U.S. Government securities for the six months ended June 30, 2020.

The Fund invests in the Institutional Class of the Morgan Stanley Institutional Liquidity Funds — Treasury Securities Portfolio (the "Liquidity Funds"), an open-end management investment company managed by the Adviser. Advisory fees paid by the Fund are reduced by an amount equal to its pro-rata share of the advisory and administration fees paid by the Fund due to its investment in the Liquidity Funds. For the six months ended June 30, 2020, advisory fees paid were reduced by approximately $13,000 relating to the Fund's investment in the Liquidity Funds.

A summary of the Fund's transactions in shares of affiliated investments during the six months ended June 30, 2020 is as follows:

Affiliated Investment Company	Value December 31, 2019 (000)	Purchases at Cost (000)	Proceeds from Sales (000)	Dividend Income (000)
Liquidity Funds	$5,219	$139,956	$117,680	$40

Affiliated Investment Company (cont'd)	Realized Gain (Loss) (000)	Change in Unrealized Appreciation (Depreciation) (000)	Value June 30, 2020 (000)
Liquidity Funds	$—	$—	$27,495

Notes to Financial Statements (cont'd)

The Fund 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, 2020, the Fund engaged in cross-trade sales of approximately $25,191,000, which resulted in net realized gains of approximately $24,031,000.

The Fund 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 Fund.

I. Federal Income Taxes: It is the Fund'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 Fund 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 Fund recognizes interest accrued related to unrecognized tax benefits in "Interest Expense" and penalties in "Other Expenses" in the Statement of Operations. The Fund files tax returns with the U.S. Internal Revenue Service, New York and various states. Generally, each of the tax years in the four-year period ended December 31, 2019 remains subject to examination by taxing authorities.

The tax character of distributions paid may differ from the character of distributions shown for GAAP purposes due to short-term capital gains being treated as ordinary income for tax purposes. The tax character of distributions paid during fiscal years 2019 and 2018 was as follows:

2019 Distributions Paid From:		2018 Distributions Paid From:	
Ordinary Income (000)	Long-Term Capital Gain (000)	Ordinary Income (000)	Long-Term Capital Gain (000)
$—	$33,200	$4,769	$51,255

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 equalization debits and tax adjustments related to the Reorganization, resulted in the following reclassifications among the components of net assets at December 31, 2019:

Total Distributable Earnings (000)	Paid-in-Capital (000)
$(13,581)	$13,581

At December 31, 2019, the components of distributable earnings for the Fund on a tax basis were as follows:

Undistributed Ordinary Income (000)	Undistributed Long-Term Capital Gain (000)
$13,028	$77,000

J. Credit Facility: The Company and other Morgan Stanley funds participated in a $300,000,000 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 1 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 six months ended June 30, 2020, the Fund did not have any borrowings under the Facility.

K. Other: At June 30, 2020, the Fund had record owners of 10% or greater. Investment activities of these shareholders could have a material impact on the Fund. The aggregate percentage of such owners was 69.6%.

Notes to Financial Statements (cont'd)

L. Subsequent Event: Certain impacts to public health conditions particular to the coronavirus (COVID-19) outbreak could impact the operations and financial performance of certain of the Fund's investments. The extent of the impact to the financial performance of the Fund's Investments will depend on future developments, including (i) the duration and spread of the outbreak, (ii) the restrictions and advisories, (iii) the effects on the financial markets, and (iv) the effects on the economy overall, all of which are highly uncertain and cannot be predicted. If the financial performance of the Fund's Investments is impacted because of these factors for an extended period, the Fund's investment results may be adversely affected.

Investment Advisory Agreement Approval

Nature, Extent and Quality of Services

The Board reviewed and considered the nature and extent of the investment advisory services provided by the Adviser 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 Administrator 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 Fund. (The Adviser and Administrator together are referred to as the "Adviser" and 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 prepared 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 advisory and administrative services to the Fund. 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 Fund and supported its decision to approve the Management Agreement.

Performance, Fees and Expenses of the Fund

The Board reviewed the performance, fees and expenses of the Fund compared to its peers, as prepared 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 Fund. 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, 2019, 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 Fund's performance was below its peer group average for the one-year period but better than its peer group average for the 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 Fund relative to comparable funds and/or other accounts advised by the Adviser and/or compared to its peers as prepared by Broadridge. In addition to the management fee, the Board also reviewed the Fund's total expense ratio. The Board noted that the Fund's management fee and total expense ratio were lower than its peer group averages. After discussion, the Board concluded that the Fund's performance, management fee and total expense ratio were competitive with its peer group averages.

Economies of Scale

The Board considered the size and growth prospects of the Fund and how that relates to the Fund's total expense ratio and particularly the Fund'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 Fund 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 Fund 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 Fund 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 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.

Investment Advisory Agreement Approval (cont'd)

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 Fund 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 Fund 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 Fund and the Adviser, including the organizational structure of the Adviser, the policies and procedures formulated and adopted by the Adviser for managing the Fund'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 Fund 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 Fund's business.

As part of the Board's review, the Board received information from management on the impact of COVID-19 on the firm generally and the Adviser and the Fund in particular including, among other information, the pandemic's current and expected impact on the Fund's performance and operations.

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 Fund 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.

Liquidity Risk Management Program

In compliance with Rule 22e-4 under the Investment Company Act of 1940, as amended (the "Liquidity Rule"), the Fund has adopted and implemented a liquidity risk management program (the "Program"), which is reasonably designed to assess and manage the risk that the Fund could not meet requests to redeem shares issued by the Fund without significant dilution of remaining investors' interests in the Fund (i.e., liquidity risk). The Fund's Board of Directors (the "Board") previously approved the designation of the Liquidity Risk Subcommittee (the "LRS") as Program administrator. The LRS is comprised of representatives from various divisions within Morgan Stanley Investment Management.

At a meeting held on April 22-23, 2020, the Board reviewed a written report prepared by the LRS that addressed the Program's operation and assessed its adequacy, and effectiveness of implementation for the period from December 1, 2018, through December 31, 2019, as required under the Liquidity Rule. The report concluded that the Program operated effectively and was adequately and effectively implemented in all material aspects, and that the relevant controls and safeguards were appropriately designed to enable the LRS to administer the Program in compliance with the Liquidity Rule.

In accordance with the Program, the LRS assessed each Fund's liquidity risk no less frequently than annually taking into consideration certain factors, as applicable, such as (i) investment strategy and liquidity of portfolio investments, (ii) short-term and long-term cash flow projections and (iii) holdings of cash and cash equivalents and borrowing arrangements and other funding sources. Certain factors are considered under both normal and reasonably foreseeable stressed conditions.

Each Fund portfolio investment is classified into one of four liquidity categories, which classification is assessed at least monthly by the LRS. The classification is based on a determination of the number of days it is reasonably expected to take to convert the investment into cash, or sell or dispose of the investment, in current market conditions without significantly changing the market value of the investment. Liquidity classification determinations take into account various market, trading and investment-specific considerations, as well as market depth, and in some cases utilize third-party vendor data.

The Liquidity Rule limits a fund's investments in illiquid investments to 15% of its net assets and requires funds that do not primarily hold assets that are highly liquid investments to determine and maintain a minimum percentage of the fund's net assets to be invested in highly liquid investments (highly liquid investment minimum or "HLIM"). The LRS believes that the Program includes provisions reasonably designed to review, monitor and comply with the 15% limit on illiquid investments and for determining, periodically reviewing and complying with the HLIM requirement, as applicable.

There can be no assurance that the Program will achieve its objectives under all circumstances in the future. Please refer to the Fund's prospectus for more information regarding the Fund's exposure to liquidity risk and other risks to which it may be subject.

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Director and Officer Information

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

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Timothy J. Knierim
Chief Compliance Officer

Mary E. Mullin
Secretary

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Reporting to Shareholders

Each Morgan Stanley fund provides a complete schedule of portfolio holdings in its Semi-Annual and the 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/shareholderreports. Each Morgan Stanley non-money market fund also files a complete schedule of portfolio holdings with the SEC for the fund's first and third fiscal quarters as an attachment to Form N-PORT. 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. However, the holdings for each money market fund are posted to the Morgan Stanley public website. You may obtain the Form N-PORT filings (as well as the Form N-CSR and N-CSRS filings) by accessing the SEC's website, www.sec.gov. 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).

Proxy Voting Policies and Procedures and Proxy Voting Record

You may obtain a copy of the Company's Proxy Voting Policy and Procedures and information regarding how the Company 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/shareholderreports. 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 Fund. For more detailed information about the Fund, its fees and expenses and other pertinent information, please read its Prospectus. The Company's Statement of Additional Information contains additional information about the Fund, 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 Fund unless preceded or accompanied by an effective Prospectus. Read the Prospectus carefully before investing.

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