

Morgan Stanley

Emerging Markets Equity 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.

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Expense Example

Emerging Markets Equity Portfolio

As a shareholder of the Emerging Markets Equity 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, 2023 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 1/1/23	Actual Ending Account Value 6/30/23	Hypothetical Ending Account Value	Actual Expenses Paid During Period*	Hypothetical Expenses Paid During Period*	Net Expense Ratio During Period**
Emerging Markets Equity Portfolio Class I	\$1,000.00	\$1,065.40	\$1,018.60	\$6.40	\$6.26	1.25%
Emerging Markets Equity Portfolio Class II	1,000.00	1,065.70	1,018.35	6.66	6.51	1.30

* 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 181/365 (to reflect the most recent one-half year period).

** Annualized.

Portfolio of Investments

Emerging Markets Equity Portfolio

	Shares	Value (000)
Common Stocks (99.3%)		
Brazil (8.5%)		
Banco BTG Pactual SA (Units) (a)	294,171	\$ 1,932
Cia Brasileira de Aluminio	17,577	19
Itau Unibanco Holding SA (Preference)	485,586	2,882
Localiza Rent a Car SA	180,637	2,584
Lojas Renner SA	550,015	2,298
Petroleo Brasileiro SA (Preference)	414,570	2,557
Raia Drogasil SA	281,682	1,741
		14,013
China (19.4%)		
Alibaba Group Holding Ltd. (b)(c)	220,500	2,295
BYD Co. Ltd., H Shares (b)	86,000	2,757
China Construction Bank Corp., H Shares (b)(c)	6,010,230	3,891
China Mengniu Dairy Co. Ltd. (b)(c)	481,000	1,818
China Merchants Bank Co. Ltd., H Shares (b)	375,500	1,713
China Resources Beer Holdings Co. Ltd. (b)	198,000	1,308
China Tourism Group Duty Free Corp. Ltd. (b)(c)(d)	39,700	539
JD.com, Inc., Class A (b)	33,280	568
Jiangsu Hengrui Pharmaceuticals Co. Ltd., Class A	165,809	1,095
Kweichow Moutai Co. Ltd., Class A	6,791	1,583
Li Ning Co. Ltd. (b)	181,000	977
Meituan, Class B (b)(c)	63,280	992
NARI Technology Co. Ltd., Class A	321,600	1,024
Postal Savings Bank of China Co. Ltd. (b)(d)	2,856,000	1,761
Proya Cosmetics Co. Ltd., Class A	67,048	1,039
Shenzhen International Group Holdings Ltd. (b)	220,000	2,113
Sungrow Power Supply Co. Ltd., Class A	81,698	1,316
Tencent Holdings Ltd. (b)	121,500	5,152
		31,941
India (23.1%)		
Axis Bank Ltd.	98,684	1,191
Bajaj Auto Ltd.	38,602	2,212
Bajaj Finance Ltd.	19,899	1,743
Delhivery Ltd. (c)	193,282	899
HDFC Asset Management Co. Ltd.	34,048	955
HDFC Bank Ltd.	111,754	2,319
Hindalco Industries Ltd.	360,868	1,861
Housing Development Finance Corp. Ltd.	24,583	848
ICICI Bank Ltd.	343,529	3,933
ICICI Prudential Life Insurance Co. Ltd. (c)	187,348	1,310
Infosys Ltd.	114,018	1,857
Infosys Ltd. ADR	53,583	861
Larsen & Toubro Ltd.	50,151	1,516
Macrotech Developers Ltd. (c)	167,150	1,388
Mahindra & Mahindra Financial Services Ltd.	39,723	163
Mahindra & Mahindra Ltd.	118,993	2,114
MakeMyTrip Ltd. (c)	25,665	692
Max Healthcare Institute Ltd. (c)	372,261	2,724
Pidilite Industries Ltd.	34,790	1,104
Reliance Industries Ltd.	132,152	4,119

	Shares	Value (000)
Star Health & Allied Insurance Co. Ltd. (c)	150,844	\$ 1,078
State Bank of India	354,173	2,481
United Breweries Ltd.	36,547	675
		38,043
Indonesia (4.4%)		
Bank Central Asia Tbk PT	3,730,000	2,288
Bank Mandiri Persero Tbk PT	6,801,900	2,367
Bank Rakyat Indonesia Persero Tbk PT	5,210,000	1,902
Cisarua Mountain Dairy PT TBK	2,602,700	728
		7,285
Korea, Republic of (10.1%)		
KB Financial Group, Inc.	27,182	987
Kia Corp.	15,891	1,070
Korea Zinc Co. Ltd.	2,940	1,092
LG Chem Ltd.	849	432
Samsung Electronics Co. Ltd.	162,662	8,957
Samsung SDI Co. Ltd.	2,379	1,215
SK Hynix, Inc.	32,173	2,827
		16,580
Mexico (5.9%)		
Gruma SAB de CV, Class B	154,704	2,484
Grupo Financiero Banorte SAB de CV Series O	280,074	2,310
Qualitas Controladora SAB de CV	211,151	1,562
Wal-Mart de Mexico SAB de CV	826,433	3,278
		9,634
Poland (2.0%)		
LPP SA (c)	936	3,227
Portugal (1.6%)		
Galp Energia SGPS SA	228,903	2,675
Saudi Arabia (0.9%)		
Alinma Bank	152,910	1,374
South Africa (5.5%)		
Anglo American Platinum Ltd.	26,057	1,178
Anglo American PLC	115,542	3,294
AVI Ltd.	432,312	1,561
Bidvest Group Ltd.	87,895	1,223
Capitec Bank Holdings Ltd.	20,826	1,735
		8,991
Taiwan (13.9%)		
Airtac International Group	33,901	1,120
Chailease Holding Co. Ltd. (c)	254,000	1,670
CTBC Financial Holding Co. Ltd.	2,000,000	1,599
Delta Electronics, Inc.	224,000	2,482
MediaTek, Inc.	49,000	1,085
Taiwan Semiconductor Manufacturing Co. Ltd.	523,000	9,662
Taiwan Semiconductor Manufacturing Co. Ltd. ADR	45,537	4,596
Voltronic Power Technology Corp.	10,000	632
		22,846

Portfolio of Investments (cont'd)

Emerging Markets Equity Portfolio

	Shares	Value (000)
Thailand (1.1%)		
Kasikornbank PCL	234,100	\$ 857
Tisco Financial Group PCL	351,500	962
		1,819
United Kingdom (2.9%)		
Antofagasta PLC	128,359	2,387
Mondi PLC	159,170	2,433
		4,820
Total Common Stocks (Cost \$137,940)		163,248
Short-Term Investments (1.2%)		
Investment Company (1.2%)		
Morgan Stanley Institutional Liquidity Funds — Government Portfolio — Institutional Class (See Note H) (Cost \$1,965)	1,965,034	1,965
Securities held as Collateral on Loaned Securities (0.0%)‡		
Investment Company (0.0%)‡		
Morgan Stanley Institutional Liquidity Funds — Government Portfolio — Institutional Class (See Note H) (Cost \$28)	28,341	28
Total Short-Term Investments (Cost \$1,993)		1,993
Total Investments (100.5%) (Cost \$139,933)		
Including \$2,206 of Securities Loaned (e)(f)		165,241
Liabilities in Excess of Other Assets (–0.5%)		(784)
Net Assets (100.0%)		\$164,457

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

- ‡ Amount is less than 0.05%.
- (a) Consists of one or more classes of securities traded together as a unit; stocks with attached warrants.
- (b) Security trades on the Hong Kong exchange.
- (c) Non-income producing security.
- (d) All or a portion of this security was on loan at June 30, 2023.
- (e) The approximate fair value and percentage of net assets, \$131,633,000 and 80.0%, 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 Financial Statements.
- (f) At June 30, 2023, the aggregate cost for federal income tax purposes approximates the aggregate cost for book purposes. The aggregate gross unrealized appreciation is approximately \$35,753,000 and the aggregate gross unrealized depreciation is approximately \$10,465,000, resulting in net unrealized appreciation of approximately \$25,288,000.
- ADR American Depositary Receipt.

Futures Contract:

The Fund had the following futures contract open at June 30, 2023:

	Number of Contracts	Expiration Date	Notional Amount (000)	Value (000)	Unrealized Depreciation (000)
Long:					
MSCI Emerging Market Index (United States)	33	Sep-23	\$2	\$1,647	<u>\$ (20)</u>

Portfolio Composition

Classification	Percentage of Total Investments
Other*	49.8%
Banks	22.1
Semiconductors & Semiconductor Equipment	11.0
Metals & Mining	6.0
Oil, Gas & Consumable Fuels	5.7
Tech Hardware, Storage & Peripherals	5.4
Total Investments	<u>100.0%**</u>

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

** Does not include open long futures contract with a value of approximately \$1,647,000 and unrealized depreciation of approximately \$20,000.

Emerging Markets Equity Portfolio

Statement of Assets and Liabilities

June 30, 2023
(000)**Assets:**

Investments in Securities of Unaffiliated Issuers, at Value ⁽¹⁾ (Cost \$137,940)	\$163,248
Investment in Security of Affiliated Issuer, at Value (Cost \$1,993)	1,993
Total Investments in Securities, at Value (Cost \$139,933)	165,241
Foreign Currency, at Value (Cost \$150)	151
Dividends Receivable	832
Receivable for Variation Margin on Futures Contracts	72
Receivable for Investments Sold	48
Tax Reclaim Receivable	27
Receivable for Fund Shares Sold	26
Receivable from Affiliate	12
Receivable from Securities Lending Income	1
Other Assets	24
Total Assets	166,434

Liabilities:

Deferred Capital Gain Country Tax	1,357
Payable for Advisory Fees	302
Payable for Fund Shares Redeemed	115
Payable for Professional Fees	65
Payable for Servicing Fees	56
Collateral on Securities Loaned, at Value	28
Payable for Administration Fees	11
Payable for Custodian Fees	10
Payable for Transfer Agency Fees	1
Payable for Investments Purchased	—@
Payable for Distribution Fees — Class II Shares	—@
Other Liabilities	32
Total Liabilities	1,977

NET ASSETS

\$164,457

Net Assets Consist of:

Paid-in-Capital	\$136,217
Total Distributable Earnings	28,240
Net Assets	\$164,457

CLASS I:**Net Assets**

\$114,687

Net Asset Value, Offering and Redemption Price Per Share Applicable to 9,030,134 Outstanding

\$0.001 Par Value Shares (Authorized 500,000,000 Shares)	\$ 12.70
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CLASS II:**Net Assets**

\$ 49,770

Net Asset Value, Offering and Redemption Price Per Share Applicable to 3,935,521 Outstanding

\$0.001 Par Value Shares (Authorized 500,000,000 Shares)	\$ 12.65
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⁽¹⁾ **Including:**

Securities on Loan, at Value:	\$ 2,206
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@ Amount is less than \$500.

Emerging Markets Equity Portfolio

Statement of Operations

Six Months Ended
June 30, 2023
(000)**Investment Income:**

Dividends from Securities of Unaffiliated Issuers (Net of \$310 of Foreign Taxes Withheld)	\$ 2,460
Dividends from Security of Affiliated Issuer (Note H)	79
Income from Securities Loaned — Net	6
Total Investment Income	2,545

Expenses:

Advisory Fees (Note B)	662
Servicing Fees (Note D)	130
Professional Fees	87
Administration Fees (Note C)	65
Distribution Fees — Class II Shares (Note E)	62
Custodian Fees (Note G)	61
Shareholder Reporting Fees	15
Transfer Agency Fees (Note F)	8
Pricing Fees	3
Directors' Fees and Expenses	2
Other Expenses	11
Total Expenses	1,106
Waiver of Distribution Fees — Class II Shares (Note E)	(49)
Waiver of Advisory Fees (Note B)	(29)
Rebate from Morgan Stanley Affiliate (Note H)	(3)
Net Expenses	1,025

Net Investment Income	1,520
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Realized Gain (Loss):

Investments Sold (Net of \$118 of Capital Gain Country Tax)	(2,269)
Foreign Currency Translation	(39)
Futures Contracts	229
Net Realized Loss	(2,079)

Change in Unrealized Appreciation (Depreciation):

Investments (Net of Increase in Deferred Capital Gain Country Tax of \$505)	10,900
Foreign Currency Translation	10
Futures Contracts	(30)
Net Change in Unrealized Appreciation (Depreciation)	10,880

Net Realized Loss and Change in Unrealized Appreciation (Depreciation)	8,801
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Net Increase in Net Assets Resulting from Operations	\$10,321
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Emerging Markets Equity Portfolio

	Six Months Ended June 30, 2023 (unaudited) (000)	Year Ended December 31, 2022 (000)
Statements of Changes in Net Assets		
Increase (Decrease) in Net Assets:		
Operations:		
Net Investment Income	\$ 1,520	\$ 2,470
Net Realized Gain (Loss)	(2,079)	3,053
Net Change in Unrealized Appreciation (Depreciation)	10,880	(62,007)
Net Increase (Decrease) in Net Assets Resulting from Operations	10,321	(56,484)
Dividends and Distributions to Shareholders:		
Class I	—	(13,481)
Class II	—	(5,774)
Total Dividends and Distributions to Shareholders	—	(19,255)
Capital Share Transactions:⁽¹⁾		
Class I:		
Subscribed	4,970	7,561
Distributions Reinvested	—	13,481
Redeemed	(8,509)	(17,620)
Class II:		
Subscribed	1,917	5,705
Distributions Reinvested	—	5,774
Redeemed	(4,001)	(7,364)
Net Increase (Decrease) in Net Assets Resulting from Capital Share Transactions	(5,623)	7,537
Total Increase (Decrease) in Net Assets	4,698	(68,202)
Net Assets:		
Beginning of Period	159,759	227,961
End of Period	\$164,457	\$159,759
⁽¹⁾ Capital Share Transactions:		
Class I:		
Shares Subscribed	398	543
Shares Issued on Distributions Reinvested	—	1,186
Shares Redeemed	(688)	(1,280)
Net Increase (Decrease) in Class I Shares Outstanding	(290)	449
Class II:		
Shares Subscribed	154	409
Shares Issued on Distributions Reinvested	—	510
Shares Redeemed	(323)	(545)
Net Increase (Decrease) in Class II Shares Outstanding	(169)	374

Financial Highlights

Emerging Markets Equity Portfolio

Selected Per Share Data and Ratios	Class I					
	Six Months Ended June 30, 2023 (unaudited)	Year Ended December 31,				
		2022	2021	2020	2019	2018
Net Asset Value, Beginning of Period	\$11.92	\$18.11	\$17.73	\$15.99	\$14.48	\$17.65
Income (Loss) from Investment Operations:						
Net Investment Income ⁽¹⁾	0.12	0.19	0.08	0.05	0.20	0.14
Net Realized and Unrealized Gain (Loss)	0.66	(4.81)	0.46	2.15	2.56	(3.23)
Total from Investment Operations	0.78	(4.62)	0.54	2.20	2.76	(3.09)
Distributions from and/or in Excess of:						
Net Investment Income	—	(0.06)	(0.16)	(0.21)	(0.17)	(0.08)
Net Realized Gain	—	(1.51)	—	(0.25)	(1.08)	—
Total Distributions	—	(1.57)	(0.16)	(0.46)	(1.25)	(0.08)
Net Asset Value, End of Period	\$12.70	\$11.92	\$18.11	\$17.73	\$15.99	\$14.48
Total Return⁽²⁾	6.54% ⁽³⁾	(25.08)%	2.99%	14.44%	19.59%	(17.47)%
Ratios to Average Net Assets and Supplemental Data:						
Net Assets, End of Period (Thousands)	\$114,687	\$111,050	\$160,661	\$166,989	\$163,794	\$175,300
Ratio of Expenses Before Expense Limitation	1.29% ⁽⁴⁾	1.32%	1.25%	1.30%	1.27%	N/A
Ratio of Expenses After Expense Limitation	1.25% ⁽⁴⁾⁽⁵⁾	1.25% ⁽⁵⁾	1.25% ⁽⁵⁾	1.25% ⁽⁵⁾	1.25% ⁽⁵⁾	1.22% ⁽⁵⁾
Ratio of Expenses After Expense Limitation Excluding Interest Expenses	N/A	1.25% ⁽⁵⁾	N/A	1.25% ⁽⁵⁾	1.25% ⁽⁵⁾	1.22% ⁽⁵⁾
Ratio of Net Investment Income	1.89% ⁽⁴⁾⁽⁵⁾	1.41% ⁽⁵⁾	0.44% ⁽⁵⁾	0.35% ⁽⁵⁾	1.33% ⁽⁵⁾	0.86% ⁽⁵⁾
Ratio of Rebate from Morgan Stanley Affiliates	0.00% ⁽⁴⁾⁽⁶⁾	0.00% ⁽⁶⁾	0.00% ⁽⁶⁾	0.00% ⁽⁶⁾	0.00% ⁽⁶⁾	0.01%
Portfolio Turnover Rate	22% ⁽³⁾	38%	39%	52%	36%	42%

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

(2) 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.

(3) Not annualized.

(4) Annualized.

(5) The Ratio of Expenses After Expense Limitation and Ratio of Net Investment Income 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."

(6) Amount is less than 0.005%.

Financial Highlights

Emerging Markets Equity Portfolio

Selected Per Share Data and Ratios	Class II					
	Six Months Ended June 30, 2023 (unaudited)	Year Ended December 31,				
		2022	2021	2020	2019	2018
Net Asset Value, Beginning of Period	\$11.87	\$18.04	\$17.66	\$15.93	\$14.44	\$17.59
Income (Loss) from Investment Operations:						
Net Investment Income ⁽¹⁾	0.11	0.18	0.07	0.04	0.19	0.13
Net Realized and Unrealized Gain (Loss)	0.67	(4.79)	0.46	2.14	2.54	(3.21)
Total from Investment Operations	0.78	(4.61)	0.53	2.18	2.73	(3.08)
Distributions from and/or in Excess of:						
Net Investment Income	—	(0.05)	(0.15)	(0.20)	(0.16)	(0.07)
Net Realized Gain	—	(1.51)	—	(0.25)	(1.08)	—
Total Distributions	—	(1.56)	(0.15)	(0.45)	(1.24)	(0.07)
Net Asset Value, End of Period	\$12.65	\$11.87	\$18.04	\$17.66	\$15.93	\$14.44
Total Return⁽²⁾	6.57% ⁽³⁾	(25.13)%	2.95%	14.36%	19.51%	(17.51)%
Ratios to Average Net Assets and Supplemental Data:						
Net Assets, End of Period (Thousands)	\$49,770	\$48,709	\$67,300	\$73,286	\$71,662	\$68,404
Ratio of Expenses Before Expense Limitation	1.54% ⁽⁴⁾	1.57%	1.50%	1.55%	1.52%	1.48%
Ratio of Expenses After Expense Limitation	1.30% ⁽⁴⁾⁽⁵⁾	1.30% ⁽⁵⁾	1.30% ⁽⁵⁾	1.30% ⁽⁵⁾	1.30% ⁽⁵⁾	1.27% ⁽⁵⁾
Ratio of Expenses After Expense Limitation Excluding Interest Expenses	N/A	1.30% ⁽⁵⁾	N/A	1.30% ⁽⁵⁾	1.30% ⁽⁵⁾	1.27% ⁽⁵⁾
Ratio of Net Investment Income	1.84% ⁽⁴⁾⁽⁵⁾	1.36% ⁽⁵⁾	0.39% ⁽⁵⁾	0.30% ⁽⁵⁾	1.28% ⁽⁵⁾	0.81% ⁽⁵⁾
Ratio of Rebate from Morgan Stanley Affiliates	0.00% ⁽⁴⁾⁽⁶⁾	0.00% ⁽⁶⁾	0.00% ⁽⁶⁾	0.00% ⁽⁶⁾	0.00% ⁽⁶⁾	0.01%
Portfolio Turnover Rate	22% ⁽³⁾	38%	39%	52%	36%	42%

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

(2) 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.

(3) Not annualized.

(4) Annualized.

(5) The Ratio of Expenses After Expense Limitation and Ratio of Net Investment Income 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."

(6) Amount is less than 0.005%.

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 Accounting Standards Codification (“ASC”) Topic 946.

The accompanying financial statements relate to the Emerging Markets Equity Portfolio. The Fund seeks long-term capital appreciation by investing primarily in growth-oriented equity securities of issuers in emerging market countries. 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.

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.

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/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/dealers; (3) fixed income 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. If Morgan Stanley Investment Management Inc. (the “Adviser”) or Morgan Stanley Investment Management Company (“MSIM Company”) (the “Sub-Adviser”), each a wholly-owned subsidiary of Morgan Stanley, determines that the price provided by the outside pricing service/vendor does not reflect the security’s fair value or is unable to provide a price, prices from brokers/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/dealers; (4) when market quotations are not readily available, as defined by Rule 2a-5 under the Act, including circumstances under which the Adviser or the Sub-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 approved by and under the general supervision of the Directors. Occasionally, developments affecting the closing prices of securities and other assets may occur between the times at which valuations of such securities are determined (that is, close of the foreign market on which the securities trade) and the close of business of the New York Stock Exchange (“NYSE”). If developments occur during such periods that are expected to materially affect the value of such securities, such valuations may be adjusted to reflect the estimated fair value of such securities as of the close of the NYSE, as determined in good faith by the Directors or by the Adviser using a pricing service and/or procedures approved by the Directors; (5) futures are valued at the settlement price on the exchange on which they trade or, if a settlement price is unavailable, at the last sale price on the exchange; (6) foreign exchange transactions (“spot contracts”) and foreign exchange forward

Notes to Financial Statements (cont'd)

contracts (“forward contracts”) are valued daily using an independent pricing vendor at the spot and forward rates, respectively, as of 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.

In connection with Rule 2a-5 of the Act, the Directors have designated the Company’s Adviser as its valuation designee. The valuation designee has responsibility for 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, as valuation designee, has formed a Valuation Committee whose members are approved by the Directors. The Valuation Committee provides administration and oversight of the Company’s 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: Financial Accounting Standards Board (“FASB”) ASC 820, “Fair Value Measurement” (“ASC 820”), defines fair value as the price that would be received to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. 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, 2023:

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				
Air Freight & Logistics	\$ —	\$ 899	\$—	\$ 899
Automobiles	—	8,154	—	8,154
Banks	4,130	32,423	—	36,553
Beverages	—	3,566	—	3,566
Broadline Retail	—	2,863	—	2,863
Capital Markets	—	2,887	—	2,887
Chemicals	—	1,536	—	1,536
Construction & Engineering	—	1,516	—	1,516
Consumer Finance	—	1,906	—	1,906
Consumer Staples				
Distribution & Retail	3,278	1,741	—	5,019
Electrical Equipment	—	2,973	—	2,973
Electronic Equipment, Instruments & Components	—	3,697	—	3,697
Financial Services	—	2,518	—	2,518
Food Products	2,484	4,107	—	6,591
Ground Transportation	2,584	—	—	2,584
Health Care				
Providers & Services	—	2,724	—	2,724
Hotels, Restaurants & Leisure	693	992	—	1,685
Industrial Conglomerates	—	1,223	—	1,223
Information Technology				
Services	861	1,857	—	2,718
Insurance	1,562	2,387	—	3,949
Interactive Media & Services	—	5,152	—	5,152
Machinery	—	1,120	—	1,120
Metals & Mining	—	9,830	—	9,830
Oil, Gas & Consumable Fuels	—	9,351	—	9,351

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)				
Paper & Forest Products \$	—	\$ 2,433	\$—	\$ 2,433
Personal Care Products	—	1,039	—	1,039
Pharmaceuticals	—	1,095	—	1,095
Real Estate				
Management & Development	—	1,388	—	1,388
Semiconductors & Semiconductor Equipment	4,596	13,573	—	18,169
Specialty Retail	—	2,836	—	2,836
Tech Hardware, Storage & Peripherals	—	8,957	—	8,957
Textiles, Apparel & Luxury Goods	—	6,317	—	6,317
Total Common Stocks	20,188	143,060	—	163,248
Short-Term Investments				
Investment Company	1,993	—	—	1,993
Total Assets	22,181	143,060	—	165,241
Liabilities:				
Futures Contract	(20)	—	—	(20)
Total	\$22,161	\$143,060	\$—	\$165,221

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

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 U.S. 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. Derivative instruments used by the Fund will be counted towards the Fund's exposure in the types of securities listed herein to the extent they have economic characteristics similar to such securities. Derivatives

Notes to Financial Statements (cont'd)

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, risks arising from margin and payment requirements, risks arising from mispricing or valuation complexity and operational and legal risks. 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 may cause the Fund to be more volatile than if the Fund 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:

Futures: A futures contract is a standardized, exchange-traded agreement to buy or sell a specific quantity of an underlying asset, reference rate or index at a specific price at a specific future time. The value of a futures contract tends to increase and decrease in tandem with the value of the underlying instrument. Depending on the terms of the particular contract, futures contracts are settled through either physical delivery of the underlying instrument on the settlement date or by payment of a cash settlement amount on the settlement date. During the period the futures contract is open, payments are received from or made to the broker based upon changes in the

value of the contract (the variation margin). A decision as to whether, when and how to use futures contracts involves the exercise of skill and judgment and even a well-conceived futures transaction may be unsuccessful because of market behavior or unexpected events. In addition to the derivatives risks discussed above, the prices of futures contracts can be highly volatile, using futures contracts can lower total return and the potential loss from futures contracts can exceed the Fund's initial investment in such contracts. No assurance can be given that a liquid market will exist for any particular futures contract at any particular time.

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, 2023:

	Liability Derivatives Statement of Assets and Liabilities Location	Primary Risk Exposure	Value (000)
Futures Contract	Variation Margin on Futures Contract	Equity Risk	\$(20)(a)

(a) This amount represents the cumulative appreciation (depreciation) as reported in the Portfolio of Investments. The Statement of Assets and Liabilities only reflects the current day's net variation margin.

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, 2023 in accordance with ASC 815:

Realized Gain (Loss)		
Primary Risk Exposure	Derivative Type	Value (000)
Equity Risk	Futures Contracts	\$229

Change in Unrealized Appreciation (Depreciation)		
Primary Risk Exposure	Derivative Type	Value (000)
Equity Risk	Futures Contracts	\$(30)

For the six months ended June 30, 2023, the approximate average monthly amount outstanding for each derivative type is as follows:

Futures Contracts:		
Average monthly notional value	\$5,129,000

Notes to Financial Statements (cont'd)

5. Securities Lending: The Fund lends securities to qualified financial institutions, such as broker/dealers, to earn additional income. Any increase or decrease in the fair value of the securities loaned that might occur and any interest earned or dividends declared on those securities during the term of the loan would remain in the Fund. The Fund would receive cash or securities as collateral in an amount equal to or exceeding 100% of the current fair value of the loaned securities. The collateral is marked-to-market daily by State Street Bank and Trust Company ("State Street"), the securities lending agent, to ensure that a minimum of 100% collateral coverage is maintained.

Based on pre-established guidelines, the securities lending agent invests any cash collateral that is received in an affiliated money market portfolio and repurchase agreements. Securities lending income is generated from the earnings on the invested collateral and borrowing fees, less any rebates owed to the borrowers and compensation to the lending agent, and is recorded as "Income from Securities Loaned — Net" in the Fund's Statement of Operations. Risks in securities lending transactions are that a borrower may not provide additional collateral when required or return the securities when due, and that the value of the short-term investments will be less than the amount of cash collateral plus any rebate that is required to be returned to the borrower.

The Fund has the right under the securities lending agreement to recover the securities from the borrower on demand.

The following table presents financial instruments that are subject to enforceable netting arrangements as of June 30, 2023:

Gross Amounts Not Offset in the Statement of Assets and Liabilities

Gross Asset Amount Presented in the Statement of Assets and Liabilities (000)	Financial Instrument (000)	Collateral Received (000)	Net Amount (not less than \$0) (000)
\$2,206(a)	\$—	\$(2,206)(b)(c)	\$0

(a) Represents market value of loaned securities at period end.

(b) The Fund received cash collateral of approximately \$28,000, which was subsequently invested in Morgan Stanley Institutional Liquidity Funds as reported in the Portfolio of Investments. In addition, the Fund received non-cash collateral of approximately \$2,307,000 in the form of U.S. Government obligations, which the Fund cannot sell or repledge, and accordingly are not reflected in the Portfolio of Investments.

(c) The actual collateral received is greater than the amount shown here due to overcollateralization.

FASB ASC 860, "Transfers & Servicing: Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures", is intended to provide increased transparency about the types of collateral pledged in securities lending transactions and other similar transactions that are accounted for as secured borrowings.

The following table displays a breakdown of transactions accounted for as secured borrowings, the gross obligations by class of collateral pledged and the remaining contractual maturity of those transactions as of June 30, 2023:

	Remaining Contractual Maturity of the Agreements				Total (000)
	Overnight and Continuous (000)	<30 days (000)	Between 30 & 90 days (000)	>90 days (000)	
Securities Lending Transactions					
Common Stocks	\$28	\$—	\$—	\$—	\$28
Total Borrowings	\$28	\$—	\$—	\$—	\$28
Gross amount of recognized liabilities for securities lending transactions					\$28

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. Non-cash dividends received in the form of stock, if any, are recognized on the ex-dividend date and recorded as non-cash dividend income at fair value. Interest income is recognized on the accrual basis (except where collection is in doubt) net of applicable withholding taxes. 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

Notes to Financial Statements (cont'd)

losses are allocated to each class of shares based upon their relative net assets.

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

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.

B. Advisory/Sub-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 \$500 million	Next \$500 million	Next \$1.5 billion	Over \$2.5 billion
0.85%	0.75%	0.70%	0.65%

Effective April 28, 2023, the Adviser 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 \$1.5 billion	Over \$2.5 billion
0.75%	0.70%	0.65%

For the six months ended June 30, 2023, the advisory fee rate (net of waiver/rebate) was equivalent to an annual effective rate of 0.78% 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 1.25% for Class I shares and 1.30% 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, 2023, approximately \$29,000 of advisory fees were waived pursuant to this arrangement.

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

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, 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. The Distributor has agreed to waive 0.20% of the 0.25% distribution fee that it may receive. This fee waiver 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 waiver when they deem such action is appropriate. For the six months ended June 30, 2023, this waiver amounted to approximately \$49,000.

F. Dividend Disbursing and Transfer/Co-Transfer

Agent: The Company's dividend disbursing and transfer agent is SS&C Global Investor & Distribution Solutions, Inc. ("SS&C GIDS, Inc."). Pursuant to a Transfer Agency Agreement, the Company pays SS&C GIDS, Inc. a fee based on the number of classes, accounts and transactions relating to the Funds of the Company.

Notes to Financial Statements (cont'd)

Eaton Vance Management (“EVM”), an affiliate of Morgan Stanley, provides co-transfer agency and related services to the Fund pursuant to a Co-Transfer Agency Services Agreement. For the six months ended June 30, 2023, co-transfer agency fees and expenses incurred to EVM, included in “Transfer Agency Fees” in the Statement of Operations, amounted to less than \$500.

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, 2023, purchases and sales of investment securities for the Fund, other than long-term U.S. Government securities and short-term investments were approximately \$34,540,000 and \$36,879,000, respectively. There were no purchases and sales of long-term U.S. Government securities for the six months ended June 30, 2023.

The Fund invests in the Institutional Class of the Morgan Stanley Institutional Liquidity Funds — Government Portfolio (the “Liquidity Funds”), an open-end management investment company managed by the Adviser, both directly and as a portion of the securities held as collateral on loaned securities. 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, 2023, advisory fees paid were reduced by approximately \$3,000 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, 2023 is as follows:

Affiliated Investment Company	Value December 31, 2022 (000)	Purchases at Cost (000)	Proceeds from Sales (000)	Dividend Income (000)
Liquidity Funds	\$3,271	\$21,013	\$22,291	\$79

Affiliated Investment Company (cont'd)	Realized Gain (Loss) (000)	Change in Unrealized Appreciation (Depreciation) (000)	Value June 30, 2023 (000)
Liquidity Funds	\$—	\$—	\$1,993

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, 2023, the Fund did not engage in any cross-trade transactions.

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, 2022 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

Notes to Financial Statements (cont'd)

tax purposes. The tax character of distributions paid during fiscal years 2022 and 2021 was as follows:

2022 Distributions Paid From:		2021 Distributions Paid From:	
Ordinary Income (000)	Long-Term Capital Gain (000)	Ordinary Income (000)	Long-Term Capital Gain (000)
\$731	\$18,524	\$2,003	\$—

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.

The Fund had no permanent differences causing reclassifications among the components of net assets for the year ended December 31, 2022.

At December 31, 2022, 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)
\$2,595	\$2,837

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. Effective April 17, 2023, the committed line amount increased to \$500,000,000. This Facility is to be used for temporary emergency purposes or funding of shareholder redemption requests. The interest rate for any funds drawn will be based on the federal funds rate or overnight bank funding rate plus a spread. The Facility also has a commitment fee of 0.25% per annum based on the unused portion of the Facility, which is allocated among participating funds based on relative net assets. During the six months ended June 30, 2023, the Fund did not have any borrowings under the Facility.

K. Other: At June 30, 2023, 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 66.5%.

L. Market Risk: An investment in the Fund is based on the values of the Fund’s investments, which may change due to economic and other events that affect markets generally, as well as those that affect particular regions, countries, industries, companies or governments. Social, political, economic and other conditions and events, such as war, natural disasters,

health emergencies (e.g., epidemics and pandemics), terrorism, conflicts, social unrest, recessions, inflation, rapid interest rate changes and supply chain disruptions, may occur and could significantly impact issuers, industries, governments and other systems, including the financial markets and global economy. It is difficult to predict when events affecting the U.S. or global financial markets and economies may occur, the effects that such events may have and the duration of those effects (which may last for extended periods). These events may be sudden and significant and may negatively impact broad segments of businesses and populations and have a significant and rapid negative impact on the performance of and/or income or yield from the Fund’s investments and exacerbate pre-existing risks to the Fund. The occurrence, duration and extent of these or other types of adverse economic and market conditions and uncertainty over the long term cannot be reasonably projected or estimated at this time. The ultimate impact of public health emergencies or other adverse economic or market developments and the extent to which the associated conditions impact the Fund and its investments will also depend on other future developments, which are highly uncertain, difficult to accurately predict and subject to change at any time. The financial performance of the Fund’s investments (and, in turn, the Fund’s investment results) as well as their liquidity may be adversely affected because of these and similar types of factors and developments.

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 reviewed similar information and factors regarding the Sub-Adviser, to the extent applicable. 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, Sub-Adviser and Administrator together are referred to as the "Adviser" and the advisory, sub-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, 2022, 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-, 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 (i) performance was acceptable and (ii) 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

Investment Advisory Agreement Approval (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 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.

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 March 1-2, 2023, 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 January 1, 2022, through December 31, 2022, 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.

Directors and Officers Information

Directors

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

Adviser and Administrator

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Sub-Adviser

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Distributor

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Dividend Disbursing and Transfer Agent

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Co-Transfer Agent

Eaton Vance Management
Two International Place
Boston, Massachusetts 02110

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 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, but makes the complete schedule of portfolio holdings for the fund's first and third fiscal quarters available on its public website. The holdings for each money market fund are also 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) 869-6397 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) 869-6397.

Householding Notice

To reduce printing and mailing costs, the Fund attempts to eliminate duplicate mailings to the same address. The Fund delivers a single copy of certain shareholder documents, including shareholder reports, prospectuses and proxy materials, to investors with the same last name who reside at the same address. Your participation in this program will continue for an unlimited period of time unless you instruct us otherwise. You can request multiple copies of these documents by calling 1 (800) 869-6397, 8:00 a.m. to 6:00 p.m., ET. Once our Customer Service Center has received your instructions, we will begin sending individual copies for each account within 30 days.

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.

Officers

John H. Gernon
President and Principal Executive Officer

Deidre A. Downes
Chief Compliance Officer

Francis J. Smith
Treasurer and Principal Financial Officer

Mary E. Mullin
Secretary

Michael J. Key
Vice President

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