Morgan Stanley

Morgan Stanley Variable Insurance Fund, Inc.

Annual Report – December 31, 2018

U.S. Real Estate 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 (unaudited)

U.S. Real Estate Portfolio

As a shareholder of the U.S. Real Estate 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 December 31, 2018 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 7/1/18	Actual Ending Account Value 12/31/18	Hypothetical Ending Account Value	Actual Expenses Paid During Period*	Hypothetical Expenses Paid During Period*	Net Expense Ratio During Period**
U.S. Real Estate Portfolio Class I	$1,000.00	$919.50	$1,021.07	$3.97	$4.18	0.82%
U.S. Real Estate Portfolio Class II	1,000.00	918.20	1,019.81	5.17	5.45	1.07

* 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 184/365 (to reflect the most recent one-half year period).

** Annualized.

Investment Overview (unaudited)

U.S. Real Estate Portfolio

The Fund seeks to provide above average current income and long-term capital appreciation by investing primarily in equity securities of companies in the U.S. real estate industry, including real estate investment trusts ("REITs").

Performance

For the fiscal year ended December 31, 2018, the Fund's Class I shares had a total return based on net asset value and reinvestment of distributions per share of –7.71%, net of fees, and –7.97%, net of fees, for Class II shares. The Fund's Class I and Class II shares underperformed against the Fund's benchmark, the FTSE Nareit (National Association of Real Estate Investment Trusts) Equity REITs Index (the "Index"), which returned –4.62%, and underperformed against the S&P 500® Index, which returned –4.38%.

Factors Affecting Performance

- The REIT market declined 4.62% in the 12-month period ending December 31, 2018, as measured by the Index. There was significant volatility over the period. REITs experienced a sell-off in the first quarter on rising interest rates, but recovered in the second quarter on the emergence of several REIT take-private announcements aggregating nearly $30 billion.[i] The REIT sector then experienced a sell-off in the fourth quarter, which coincided with the sell-off in the broader equity market driven by a variety of macro concerns including a prospective economic slowdown, impact of higher interest rates and U.S.-Sino trade tension. It is notable that the 10-year U.S. Treasury bond yield fell to 2.7% after starting the fourth quarter above 3.0%. However, this movement was unable to support REIT share prices in most sectors, aside from those being viewed as defensive.

- Within real estate, there exists an enormous disparity in relative valuations among market segments with significant negative sentiment and share price weakness towards key market segments resulting in very wide discounts to net asset values (NAVs), which included NYC office, high-quality retail and central business district (CBD) office and hotels, while market segments trading at premiums due to being viewed as defensive (e.g., health care and net lease assets) experienced share gains for the period.

- Among the major sectors, the apartment sector outperformed the Index, while the office and retail sectors underperformed. The apartment sector outperformed the Index as it appeared to be viewed as a more defensive sector in a negative environment. The retail sector lagged as both the shopping centers and malls underperformed in the period. In the office sector, both the primary CBD and secondary CBD/suburban REITs underperformed the Index. The health care REITs outperformed the Index for the full year, posting positive returns. The strength appeared to be due to an investor perception that it serves as a more defensive sector in a weaker economic environment, despite the companies facing supply challenges in the senior housing business. The net lease sector also outperformed due to being viewed as more defensive. The data center sector underperformed the Index as its performance appeared to be negatively impacted by the weakness in technology stocks in the latter part of the year. The hotel sector underperformed as investors' expectations for a weakening economy in the latter part of the year weighed significantly on the stocks.

- The Fund underperformed the Index for the period due to top-down sector allocation. From a bottom-up perspective, the Fund achieved favorable stock selection in the diversified, hotel and shopping center sectors; this was partially offset by less favorable stock selection in the primary CBD office and health care sectors. From a top-down perspective, the underweight to the data center and diversified sectors contributed to relative performance. This was more than offset by the overweight to the primary CBD office sector, which is facing significant negative investor sentiment, and the underweight to the net lease and health care sectors, which benefited from investor preference for sectors viewed as defensive.

Management Strategies

- We have maintained our core investment philosophy as a real estate value investor. This results in the ownership of stocks whose share prices provide real estate exposure at the best valuation relative to their underlying asset values. We continue to focus on relative implied valuations as a key metric. Our company-specific research leads us to an overweighting in the Fund to a group of companies that are focused in the ownership of NYC office assets as well as high-quality retail and CBD office assets and a number of out-of-favor companies, and an underweighting to companies concentrated in the ownership of health care, data center and net lease assets.

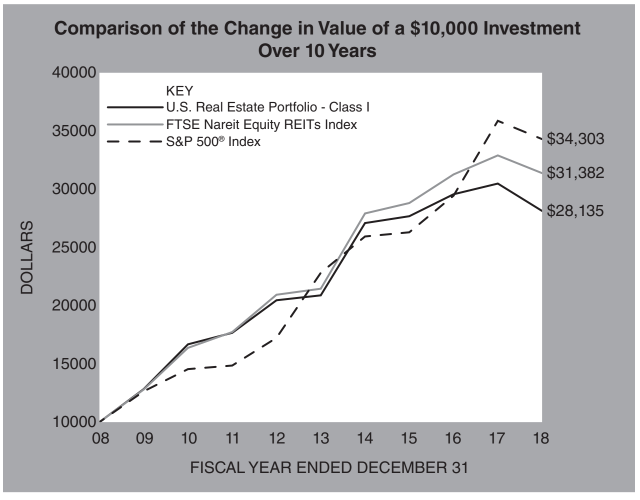
- Our outlook for the REIT market is based on two key factors: private market pricing for underlying real estate assets and public market pricing for the securities. The overall REIT market ended the year trading at a 5% discount to NAVs; however, there exists an enormous disparity in valuations among the sectors with various

Investment Overview (unaudited) (cont'd)

U.S. Real Estate Portfolio

segments trading at significant discounted valuations.[i] We see the most attractive value in the owners of NYC office assets. We also see attractive value in high-quality retail, CBD office, hotel and apartment stocks. These companies provide exposure to high-quality core assets at significant discounted valuations.

[i] Source: Morgan Stanley Investment Management as of December 31, 2018



In accordance with SEC regulations, the Fund's performance shown assumes that all recurring fees (including management fees) were deducted and all dividends and distributions were reinvested. The performance of Class II shares will vary from the performance of Class I shares based upon its different inception date and will be negatively impacted by additional fees assessed to that class.

Performance Compared to the FTSE Nareit Equity REITs Index[1] and the S&P 500® Index[2]

	Period Ended December 31, 2018			
	Total Returns[3]			
		Average Annual		
	One Year	Five Years	Ten Years	Since Inception[6]
Fund – Class I[4]	–7.71%	6.14%	10.90%	8.88%
FTSE Nareit Equity REITs Index	–4.62	7.90	12.12	8.81
S&P 500® Index	–4.38	8.49	13.12	7.40
Fund – Class II[5]	–7.97	5.88	10.66	9.53
FTSE Nareit Equity REITs Index	–4.62	7.90	12.12	9.96
S&P 500® Index	–4.38	8.49	13.12	8.64

Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. Performance assumes that all dividends and distributions, if any, were reinvested. For the most recent month-end performance figures, please contact the issuing insurance company or speak with your financial advisor. Investment return and principal value will fluctuate so that Fund shares, when redeemed, may be worth more or less than their original cost. Total returns do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. Performance shown does not reflect fees and expenses imposed by your insurance company's separate account. If performance information included the effect of these additional charges, the total returns would be lower.

[1] The FTSE Nareit (National Association of Real Estate Investment Trusts) Equity REITs Index is free float-adjusted market capitalization weighted index of tax-qualified REITs listed on the New York Stock Exchange, NYSE Amex and the NASDAQ National Market Systems. The Index is unmanaged and its returns do not include any sales charges or fees. Such costs would lower performance. It is not possible to invest directly in an index.

[2] The Standard and Poor's 500® Index (S&P 500® Index) measures the performance of the large cap segment of the U.S. equities market, covering approximately 80% of the U.S. equities market. The Index includes 500 leading companies in leading industries of the U.S. economy. The Index is unmanaged and its returns do not include any sales charges or fees. Such costs would lower performance. It is not possible to invest directly in an index.

[3] Total returns for the Fund reflect fees waived and expenses reimbursed, if applicable, by Morgan Stanley Investment Management Inc. (the "Adviser"). Without such waivers and reimbursements, total returns would have been lower.

[4] Commenced operations on March 3, 1997.

[5] Commenced offering on November 5, 2002.

[6] For comparative purposes, average annual since inception returns listed for the Indexes refer to the inception date or initial offering of the respective share class of the Fund, not the inception of the Index.

Portfolio of Investments

U.S. Real Estate Portfolio

	Shares	Value (000)
Common Stocks (99.5%)		
Apartments (15.9%)		
American Campus Communities, Inc. REIT	91,310	$ 3,779
Apartment Investment & Management Co., Class A REIT	98,398	4,318
AvalonBay Communities, Inc. REIT	104,131	18,124
Camden Property Trust REIT	98,115	8,639
Equity Residential REIT	224,667	14,830
Essex Property Trust, Inc. REIT	24,341	5,969
Mid-America Apartment Communities, Inc. REIT	53,644	5,134
UDR, Inc. REIT	87,746	3,476
		64,269
Data Centers (2.6%)		
Digital Realty Trust, Inc. REIT	57,745	6,153
QTS Realty Trust, Inc., Class A REIT	115,558	4,281
		10,434
Diversified (4.5%)		
JBG SMITH Properties REIT	82,698	2,879
Lexington Realty Trust REIT	174,810	1,435
Vornado Realty Trust REIT	222,819	13,821
		18,135
Health Care (6.6%)		
HCP, Inc. REIT	88,546	2,473
Healthcare Realty Trust, Inc. REIT	354,558	10,084
Healthcare Trust of America, Inc., Class A REIT	128,972	3,264
Ventas, Inc. REIT	68,089	3,989
Welltower, Inc. REIT	98,315	6,824
		26,634
Industrial (6.5%)		
Duke Realty Corp. REIT	72,459	1,877
ProLogis, Inc. REIT	415,773	24,414
		26,291
Lodging/Resorts (9.8%)		
Chesapeake Lodging Trust REIT	159,229	3,877
DiamondRock Hospitality Co. REIT	351,455	3,191
Host Hotels & Resorts, Inc. REIT	1,238,750	20,650
RLJ Lodging Trust REIT	556,975	9,135
Sunstone Hotel Investors, Inc. REIT	196,830	2,561
		39,414
Office (23.5%)		
Alexandria Real Estate Equities, Inc. REIT	42,523	4,900
Boston Properties, Inc. REIT	205,848	23,168
Brandywine Realty Trust REIT	211,550	2,723
Columbia Property Trust, Inc. REIT	273,186	5,286
Corporate Office Properties Trust REIT	97,435	2,049
Cousins Properties, Inc. REIT	294,885	2,330
Empire State Realty Trust, Inc., Class A REIT	100,560	1,431
Hudson Pacific Properties, Inc. REIT	256,933	7,466
Kilroy Realty Corp. REIT	41,118	2,585
Mack-Cali Realty Corp. REIT	362,385	7,099
Paramount Group, Inc. REIT	706,100	8,869
SL Green Realty Corp. REIT	316,055	$ 24,994
Tier REIT, Inc. REIT	98,004	2,022
		94,922
Regional Malls (14.5%)		
Macerich Co. (The) REIT	336,209	14,551
Simon Property Group, Inc. REIT	260,582	43,775
		58,326
Self Storage (5.2%)		
CubeSmart REIT	211,616	6,071
Extra Space Storage, Inc. REIT	42,250	3,823
Life Storage, Inc. REIT	19,681	1,830
Public Storage REIT	46,332	9,378
		21,102
Shopping Centers (6.5%)		
Brixmor Property Group, Inc. REIT	758,140	11,137
Kimco Realty Corp. REIT	113,922	1,669
Regency Centers Corp. REIT	224,295	13,162
		25,968
Single Family Homes (3.1%)		
American Homes 4 Rent, Class A REIT	376,475	7,473
Invitation Homes, Inc. REIT	256,972	5,160
		12,633
Specialty (0.8%)		
Gaming and Leisure Properties, Inc. REIT	100,415	3,245
Total Common Stocks (Cost $335,483)		401,373
Short-Term Investment (0.4%)		
Investment Company (0.4%)		
Morgan Stanley Institutional Liquidity Funds — Treasury Portfolio — Institutional Class (See Note H) **(Cost $1,802)**	1,801,784	1,802
Total Investments (99.9%) (Cost $337,285) (a)		403,175
Other Assets in Excess of Liabilities (0.1%)		306
Net Assets (100.0%)		$403,481

(a) At December 31, 2018, the aggregate cost for federal income tax purposes is approximately $345,562,000. The aggregate gross unrealized appreciation is approximately $80,336,000 and the aggregate gross unrealized depreciation is approximately $22,723,000, resulting in net unrealized appreciation of approximately $57,613,000.

REIT Real Estate Investment Trust.

Portfolio of Investments (cont'd)

U.S. Real Estate Portfolio

Portfolio Composition

Classification	Percentage of Total Investments
Office	23.6%
Apartments	15.9
Regional Malls	14.5
Other*	11.5
Lodging/Resorts	9.8
Health Care	6.6
Industrial	6.5
Shopping Centers	6.4
Self Storage	5.2
Total Investments	100.0%

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

U.S. Real Estate Portfolio

Statement of Assets and Liabilities

	December 31, 2018 (000)
Assets:	
Investments in Securities of Unaffiliated Issuers, at Value (Cost $335,483)	$401,373
Investment in Security of Affiliated Issuer, at Value (Cost $1,802)	1,802
Total Investments in Securities, at Value (Cost $337,285)	403,175
Dividends Receivable	2,104
Receivable for Investments Sold	289
Receivable for Fund Shares Sold	234
Receivable from Affiliate	4
Other Assets	22
Total Assets	405,828
Liabilities:	
Payable for Fund Shares Redeemed	1,015
Payable for Advisory Fees	580
Payable for Investments Purchased	389
Payable for Servicing Fees	159
Payable for Professional Fees	63
Payable for Distribution Fees — Class II Shares	49
Payable for Administration Fees	29
Payable for Directors' Fees and Expenses	9
Payable for Custodian Fees	7
Payable for Transfer Agency Fees	4
Other Liabilities	43
Total Liabilities	2,347
NET ASSETS	$403,481
Net Assets Consist of:	
Paid-in-Capital	$322,154
Total Distributable Earnings	81,327
Net Assets	$403,481
CLASS I:	
Net Assets	$185,191
Net Asset Value, Offering and Redemption Price Per Share Applicable to 9,485,856 Outstanding $0.001 Par Value Shares (Authorized 500,000,000 Shares)	$ 19.52
CLASS II:	
Net Assets	$218,290
Net Asset Value, Offering and Redemption Price Per Share Applicable to 11,250,469 Outstanding $0.001 Par Value Shares (Authorized 500,000,000 Shares)	$ 19.40

U.S. Real Estate Portfolio

Statement of Operations

	Year Ended December 31, 2018 (000)
Investment Income:	
Dividends from Securities of Unaffiliated Issuers	$ 15,410
Dividends from Security of Affiliated Issuer (Note H)	61
Total Investment Income	15,471
Expenses:	
Advisory Fees (Note B)	3,482
Servicing Fees (Note D)	660
Distribution Fees — Class II Shares (Note E)	632
Administration Fees (Note C)	371
Professional Fees	124
Shareholder Reporting Fees	53
Custodian Fees (Note G)	23
Directors' Fees and Expenses	16
Transfer Agency Fees (Note F)	14
Pricing Fees	4
Other Expenses	23
Total Expenses	5,402
Waiver of Advisory Fees (Note B)	(778)
Rebate from Morgan Stanley Affiliate (Note H)	(7)
Net Expenses	4,617
Net Investment Income	10,854
Realized Gain (Loss):	
Investments Sold	19,764
Foreign Currency Translation	(—@)
Net Realized Gain	19,764
Change in Unrealized Appreciation (Depreciation):	
Investments	(66,144)
Foreign Currency Translation	—@
Net Change in Unrealized Appreciation (Depreciation)	(66,144)
Net Realized Gain and Change in Unrealized Appreciation (Depreciation)	(46,380)
Net Decrease in Net Assets Resulting from Operations	$(35,526)

@ Amount is less than $500.

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

U.S. Real Estate Portfolio

Statements of Changes in Net Assets

	Year Ended December 31, 2018 (000)	Year Ended December 31, 2017 (000)
Increase (Decrease) in Net Assets:		
Operations:		
Net Investment Income	$ 10,854	$ 10,411
Net Realized Gain	19,764	43,212
Net Change in Unrealized Appreciation (Depreciation)	(66,144)	(38,742)
Net Increase (Decrease) in Net Assets Resulting from Operations	(35,526)	14,881
Dividends and Distributions to Shareholders:		
Class I	(5,844)	(3,525)*
Class II	(6,234)	(3,676)*
Total Dividends and Distributions to Shareholders	(12,078)	(7,201)
Capital Share Transactions:(1)		
Class I:		
Subscribed	18,268	22,972
Distributions Reinvested	5,844	3,525
Redeemed	(45,700)	(53,089)
Class II:		
Subscribed	14,374	24,087
Distributions Reinvested	6,234	3,676
Redeemed	(59,903)	(46,654)
Net Decrease in Net Assets Resulting from Capital Share Transactions	(60,883)	(45,483)
Total Decrease in Net Assets	(108,487)	(37,803)
Net Assets:		
Beginning of Period	511,968	549,771
End of Period	$ 403,481	$511,968†
(1) **Capital Share Transactions:**		
Class I:		
Shares Subscribed	884	1,086
Shares Issued on Distributions Reinvested	272	169
Shares Redeemed	(2,188)	(2,495)
Net Decrease in Class I Shares Outstanding	(1,032)	(1,240)
Class II:		
Shares Subscribed	710	1,145
Shares Issued on Distributions Reinvested	292	177
Shares Redeemed	(2,883)	(2,219)
Net Decrease in Class II Shares Outstanding	(1,881)	(897)

The following information was previously reported in the December 31, 2017 financial statements. The distribution information for the year ended December 31, 2017 presented on the Statements of Changes in Net Assets is presented for comparative purposes to the December 31, 2018 financial statements, which conform to the SEC Final Rule on Disclosure Update and Simplification which was effective November 5, 2018.

* Dividends and Distributions to Shareholders for the year ended December 31, 2017 were as follows:

Class I:	
Net Investment Income	$ (3,525)
Class II:	
Net Investment Income	$ (3,676)

† Accumulated Undistributed Net Investment Income for the year ended December 31, 2017 was $10,458.

Financial Highlights

U.S. Real Estate Portfolio

Selected Per Share Data and Ratios	Class I Year Ended December 31, 2018	2017	2016(1)	2015	2014
Net Asset Value, Beginning of Period	$21.72	$21.39	$20.28	$20.13	$15.74
Income (Loss) from Investment Operations:					
Net Investment Income(2)	0.51	0.45	0.35	0.30	0.27
Net Realized and Unrealized Gain (Loss)	(2.13)	0.20	1.04	0.12	4.38
Total from Investment Operations	(1.62)	0.65	1.39	0.42	4.65
Distributions from and/or in Excess of:					
Net Investment Income	(0.58)	(0.32)	(0.28)	(0.27)	(0.26)
Net Asset Value, End of Period	$19.52	$21.72	$21.39	$20.28	$20.13
Total Return(3)	(7.71)%	3.11%	6.81%	2.17%	29.72%
Ratios and Supplemental Data:					
Net Assets, End of Period (Thousands)	$185,191	$228,487	$251,517	$191,188	$204,740
Ratio of Expenses to Average Net Assets(10)	0.86%(4)(5)	0.92%(4)(6)	0.97%(4)(7)	1.00%(4)	1.06%(4)(8)
Ratio of Expenses to Average Net Assets Excluding Non Operating Expenses	N/A	N/A	N/A	1.00%(4)	1.05%(4)(7)
Ratio of Net Investment Income to Average Net Assets(10)	2.47%(4)	2.13%(4)	1.66%(4)	2.36%(4)	1.52%(4)
Ratio of Rebate from Morgan Stanley Affiliates to Average Net Assets	0.00%(9)	0.00%(9)	0.01%	0.00%(9)	0.00%(9)
Portfolio Turnover Rate	40%	44%	21%	26%	25%
(10) Supplemental Information on the Ratios to Average Net Assets:					
Ratios Before Expense Limitation:					
Expenses to Average Net Assets	1.03%	1.07%	1.06%	1.07%	1.11%
Net Investment Income to Average Net Assets	2.30%	1.98%	1.57%	2.29%	1.47%

(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 to Average Net Assets and the Ratio of Net Investment Income to Average Net Assets would be unchanged as the reimbursement of Custodian fees was offset against expense waivers/reimbursements with no impact to net expenses or net investment income.

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

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

(4) The Ratios of Expenses and Net Investment Income reflect the rebate of certain 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 to Average Net Assets."

(5) Effective July 1, 2018, the Adviser has agreed to limit the ratio of expenses to average net assets to the maximum ratio of 0.82% for Class I shares. Prior to July 1, 2018, the maximum ratio was 0.90% for Class I shares.

(6) Effective July 1, 2017, the Adviser has agreed to limit the ratio of expenses to average net assets to the maximum ratio of 0.90% for Class I shares. Prior to July 1, 2017, the maximum ratio was 0.95% for Class I shares.

(7) Effective July 1, 2016, the Adviser has agreed to limit the ratio of expenses to average net assets to the maximum ratio of 0.95% for Class I share. Prior to July 1, 2016, the maximum ratio was 1.00% for Class I shares.

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

(9) Amount is less than 0.005%.

Financial Highlights

U.S. Real Estate Portfolio

	Class II				
	Year Ended December 31,				
Selected Per Share Data and Ratios	**2018**	**2017**	**2016[1]**	**2015**	**2014**
Net Asset Value, Beginning of Period	$21.59	$21.26	$20.16	$20.02	$15.66
Income (Loss) from Investment Operations:					
Net Investment Income[2]	0.46	0.40	0.29	0.25	0.23
Net Realized and Unrealized Gain (Loss)	(2.13)	0.20	1.04	0.12	4.35
Total from Investment Operations	(1.67)	0.60	1.33	0.37	4.58
Distributions from and/or in Excess of:					
Net Investment Income	(0.52)	(0.27)	(0.23)	(0.23)	(0.22)
Net Asset Value, End of Period	$19.40	$21.59	$21.26	$20.16	$20.02
Total Return[3]	(7.97)%	2.87%	6.55%	1.92%	29.43%
Ratios and Supplemental Data:					
Net Assets, End of Period (Thousands)	$218,290	$283,481	$298,254	$281,056	$279,305
Ratio of Expenses to Average Net Assets[10]	1.11%[4][5]	1.17%[4][6]	1.22%[4][7]	1.25%[4]	1.31%[4][8]
Ratio of Expenses to Average Net Assets Excluding Non Operating Expenses	N/A	N/A	N/A	1.25%[4]	1.30%[4][8]
Ratio of Net Investment Income to Average Net Assets[10]	2.22%[4]	1.88%[4]	1.41%[4]	2.11%[4]	1.27%[4]
Ratio of Rebate from Morgan Stanley Affiliates to Average Net Assets	0.00%[9]	0.00%[9]	0.01%	0.00%[9]	0.00%[9]
Portfolio Turnover Rate	40%	44%	21%	26%	25%
[10] Supplemental Information on the Ratios to Average Net Assets:					
Ratios Before Expense Limitation:					
Expenses to Average Net Assets	1.28%	1.32%	1.31%	1.35%	1.46%
Net Investment Income to Average Net Assets	2.05%	1.73%	1.32%	2.01%	1.12%

(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 to Average Net Assets and the Ratio of Net Investment Income to Average Net Assets would be unchanged as the reimbursement of Custodian fees was offset against expense waivers/reimbursements with no impact to net expenses or net investment income.

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

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

(4) The Ratios of Expenses and Net Investment Income reflect the rebate of certain 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 to Average Net Assets."

(5) Effective July 1, 2018, the Adviser has agreed to limit the ratio of expenses to average net assets to the maximum ratio of 1.07% for Class II shares. Prior to July 1, 2018, the maximum ratio was 1.15% for Class II shares.

(6) Effective July 1, 2017, the Adviser has agreed to limit the ratio of expenses to average net assets to the maximum ratio of 1.15% for Class II shares. Prior to July 1, 2017, the maximum ratio was 1.20% for Class II shares.

(7) Effective July 1, 2016, the Adviser has agreed to limit the ratio of expenses to average net assets to the maximum ratio of 1.20% for Class II shares. Prior to July 1, 2016, the maximum ratio was 1.25% for Class II shares.

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

(9) 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.

The accompanying financial statements relate to the U.S. Real Estate Portfolio. The Fund seeks to provide above average current income and long-term capital appreciation by investing primarily in equity securities of companies in the U.S. real estate industry, including real estate investment trusts ("REITs"). The 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.

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; however, management has elected to early adopt ASU 2018-13 effective with the current reporting period as permitted by the standard. 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.

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. 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) 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; (4) when market quotations are not readily available, including circumstances under which Morgan Stanley Investment Management Inc. (the "Adviser") determines that the closing price, last sale price or the mean between the last reported bid and asked prices are not reflective of a security's market value, portfolio securities are valued at their fair value as determined in good faith under procedures established by and under the general supervision of the Directors. Occasionally, developments

Notes to Financial Statements (cont'd)

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; and (5) 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 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.

The Fund invests a significant portion of its assets in securities of REITs. The market's perception of prospective declines in private real estate values and other financial assets may result in increased volatility of market prices that can negatively impact the valuation of certain issuers held by the Fund.

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 December 31, 2018:

Investment Type	Level 1 Unadjusted quoted prices (000)	Level 2 Other significant observable inputs (000)	Level 3 Significant unobservable inputs (000)	Total (000)
Assets:				
Common Stocks				
Apartments	$ 64,269	$—	$—	$ 64,269
Data Centers	10,434	—	—	10,434
Diversified	18,135	—	—	18,135
Health Care	26,634	—	—	26,634
Industrial	26,291	—	—	26,291
Lodging/Resorts	39,414	—	—	39,414

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)				
Office	$ 94,922	$—	$—	$ 94,922
Regional Malls	58,326	—	—	58,326
Self Storage	21,102	—	—	21,102
Shopping Centers	25,968	—	—	25,968
Single Family Homes	12,633	—	—	12,633
Specialty	3,245	—	—	3,245
Total Common Stocks	**401,373**	**—**	**—**	**401,373**
Short-Term Investment				
Investment Company	1,802	—	—	1,802
Total Assets	**$403,175**	**$—**	**$—**	**$403,175**

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

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

U.S. Real Estate	Common Stock (000)
Beginning Balance	$ 651
Purchases	—
Sales	(762)
Amortization of discount	—
Transfers in	—
Transfers out	—
Corporate actions	—
Change in unrealized appreciation (depreciation)	1,483
Realized gains (losses)	(1,372)
Ending Balance	$ —
Net change in unrealized appreciation (depreciation) from investments still held as of December 31, 2018	$ —

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. Net unrealized currency gains (losses) from valuing foreign currency denominated assets and liabilities at period end exchange rates are reflected as a component of unrealized appreciation (depreciation) in the Statement of Assets and Liabilities. The change in unrealized currency gains (losses) on foreign currency translations for the period is reflected in the Statement of Operations.

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

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

Notes to Financial Statements (cont'd)

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. **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.

5. **Security Transactions, Income and Expenses:** Security transactions are accounted for on the trade date (date the order to buy or sell is executed). Realized gains and losses on the sale of investment securities are determined on the specific identified cost method. Dividend income and other distributions are recorded on the ex-dividend date (except for certain foreign dividends which may be recorded as soon as the 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.

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

6. **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 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	Over $1 billion
0.80%	0.75%	0.70%

Effective July 1, 2018, the Fund's annual rate based on the daily net assets is as follows:

First $500 million	Next $500 million	Over $1 billion
0.70%	0.65%	0.60%

For the year ended December 31, 2018, the advisory fee rate (net of waiver/rebate) was equivalent to an annual effective rate of 0.58% 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 portfolio operating expenses, excluding certain investment related expenses, taxes, interest and other extraordinary expenses (including litigation), will not exceed 0.90% for Class I shares and 1.15% for Class II shares. Effective July 1, 2018, the Adviser has agreed to reduce its advisory fee and/or reimburse the Fund so that total annual portfolio operating expenses will not exceed 0.82% for Class I shares and 1.07% 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 year ended December 31, 2018, approximately $778,000 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

Notes to Financial Statements (cont'd)

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 year ended December 31, 2018, purchases and sales of investment securities for the Fund, other than long-term U.S. Government securities and short-term investments, were approximately $184,134,000 and $232,341,000, respectively. There were no purchases and sales of long-term U.S. Government securities for the year ended December 31, 2018.

The Fund invests in the Institutional Class of the Morgan Stanley Institutional Liquidity Funds — Treasury Portfolio (the "Liquidity Funds"), an open-end management investment company managed by the Adviser. Advisory fees paid by the 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 year ended December 31, 2018, advisory fees paid were reduced by approximately $7,000 relating to the Fund's investment in the Liquidity Funds.

A summary of the Fund's transactions in shares of affiliated investments during the year ended December 31, 2018 is as follows:

Affiliated Investment Company	Value December 31, 2017 (000)	Purchases at Cost (000)	Proceeds from Sales (000)	Dividend Income (000)
Liquidity Funds	$7,095	$87,983	$93,276	$61

Affiliated Investment Company (cont'd)	Realized Gain (Loss) (000)	Change in Unrealized Appreciation (Depreciation) (000)	Value December 31, 2018 (000)
Liquidity Funds	$—	$—	$1,802

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 year ended December 31, 2018, 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. Each of the tax years in the four-year period ended December 31, 2018 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 2018 and 2017 was as follows:

2018 Distributions Paid From:		2017 Distributions Paid From:	
Ordinary Income (000)	Long-Term Capital Gain (000)	Ordinary Income (000)	Long-Term Capital Gain (000)
$12,078	$—	$7,201	$—

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

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

Permanent differences, primarily due to differing treatments of gains (losses) related to REIT basis adjustments and basis adjustments on partnership securities sold, resulted in the following reclassifications among the components of net assets at December 31, 2018:

Total Distributable Earnings (000)	Paid-in Capital (000)
$(206)	$206

At December 31, 2018, 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)
$8,743	$14,986

J. Credit Facility: The Company and other Morgan Stanley funds participated in a $150,000,000 committed, unsecured revolving line of credit facility (the "Facility") with State Street. This Facility is to be used for temporary emergency purposes or funding of shareholder redemption requests. The interest rate on borrowings is based on the federal funds rate or 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 year ended December 31, 2018, the Fund did not have any borrowings under the Facility.

K. Other: At December 31, 2018, 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 59.7%.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of
Morgan Stanley Variable Insurance Fund, Inc. —
U.S. Real Estate Portfolio

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities of U.S. Real Estate Portfolio (the "Fund") (one of the funds constituting Morgan Stanley Variable Insurance Fund, Inc. (the "Company")), including the portfolio of investments, as of December 31, 2018, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, the financial highlights for each of the five years in the period then ended and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of U.S. Real Estate Portfolio (one of the funds constituting Morgan Stanley Variable Insurance Fund, Inc.) at December 31, 2018, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and its financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities law and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of the Company's internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2018 by correspondence with the custodian and others or by other appropriate auditing procedures where replies from others were not received. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Ernst & Young LLP

We have served as the auditor of one or more Morgan Stanley investment companies since 2000.
Boston, Massachusetts
February 20, 2019

Director and Officer Information (unaudited)

Independent Directors:

Name, Age and Address of Independent Director	Position(s) Held with Registrant	Length of Time Served*	Principal Occupation(s) During Past 5 Years and Other Relevant Professional Experience	Number of Portfolios in Fund Complex Overseen by Independent Director**	Other Directorships Held by Independent Director***
Frank L. Bowman (74) c/o Perkins Coie LLP Counsel to the Independent Directors 30 Rockefeller Plaza New York, NY 10112	Director	Since August 2006	President, Strategic Decisions, LLC (consulting) (since February 2009); Director or Trustee of various Morgan Stanley Funds (since August 2006); Chairperson of the Compliance and Insurance Committee (since October 2015); formerly, Chairperson of the Insurance Sub-Committee of the Compliance and Insurance Committee (2007-2015); served as President and Chief Executive Officer of the Nuclear Energy Institute (policy organization) (February 2005-November 2008); retired as Admiral, U.S. Navy after serving over 38 years on active duty including 8 years as Director of the Naval Nuclear Propulsion Program in the Department of the Navy and the U.S. Department of Energy (1996-2004); served as Chief of Naval Personnel (July 1994-September 1996) and on the Joint Staff as Director of Political Military Affairs (June 1992-July 1994); knighted as Honorary Knight Commander of the Most Excellent Order of the British Empire; awarded the Officier de l'Orde National du Mérite by the French Government; elected to the National Academy of Engineering (2009).	82	Director of BP p.l.c.; Director of Naval and Nuclear Technologies LLP; Director Emeritus of the Armed Services YMCA; Member of the National Security Advisory Council of the Center for U.S. Global Engagement and a member of the CNA Military Advisory Board; Trustee of Fairhaven United Methodist Church; Member of the Board of Advisors of the Dolphin Scholarship Foundation; and Director of other various non-profit organizations.
Kathleen A. Dennis (65) c/o Perkins Coie LLP Counsel to the Independent Directors 30 Rockefeller Plaza New York, NY 10112	Director	Since August 2006	President, Cedarwood Associates (mutual fund and investment management consulting) (since July 2006); Chairperson of the Liquidity and Alternatives Sub-Committee of the Investment Committee (since October 2006) and Director or Trustee of various Morgan Stanley Funds (since August 2006); formerly, Senior Managing Director of Victory Capital Management (1993-2006).	82	Director of various non-profit organizations.
Nancy C. Everett (63) c/o Perkins Coie LLP Counsel to the Independent Directors 30 Rockefeller Plaza New York, NY 10112	Director	Since January 2015	Chief Executive Officer, Virginia Commonwealth University Investment Company (since November 2015); Owner, OBIR, LLC (institutional investment management consulting) (since June 2014); formerly, Managing Director, BlackRock Inc. (February 2011-December 2013); and Chief Executive Officer, General Motors Asset Management (a/k/a Promark Global Advisors, Inc.) (June 2005-May 2010).	83	Formerly, Member of Virginia Commonwealth University School of Business Foundation (2005-2016); Member of Virginia Commonwealth University Board of Visitors (2013-2015); Member of Committee on Directors for Emerging Markets Growth Fund, Inc. (2007-2010); Chairperson of Performance Equity Management, LLC (2006-2010); and Chairperson, GMAM Absolute Return Strategies Fund, LLC (2006-2010).
Jakki L. Haussler (61) c/o Perkins Coie LLP Counsel to the Independent Directors 30 Rockefeller Plaza New York, NY 10112	Director	Since January 2015	Chairman and Chief Executive Officer, Opus Capital Group (since January 1996); formerly, Director, Capvest Venture Fund, LP (May 2000-December 2011); Partner, Adena Ventures, LP (July 1999-December 2010); Director, The Victory Funds (February 2005-July 2008).	83	Director of Service Corporation International and Member, Audit Committee and Investment Committee; Director of Cincinnati Bell Inc. and Member, Audit Committee and Governance and Nominating Committee; Chairman of Northern Kentucky University Member Investment Committee; Member of Chase College of Law Transactional Law Practice Center Board of Advisors; Director of Best Transport; Director of Chase College of Law Board of Visitors; formerly, Member, University of Cincinnati Foundation Investment Committee; Member, Miami University Board of Visitors (2008-2011); Trustee of Victory Funds (2005-2008) and Chairman, Investment Committee (2007-2008) and Member, Service Provider Committee (2005-2008).

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

Independent Directors (cont'd):

Name, Age and Address of Independent Director	Position(s) Held with Registrant	Length of Time Served*	Principal Occupation(s) During Past 5 Years and Other Relevant Professional Experience	Number of Portfolios in Fund Complex Overseen by Independent Director**	Other Directorships Held by Independent Director***
Dr. Manuel H. Johnson (69) c/o Johnson Smick International, Inc. 220 I Street, NE — Suite 200 Washington, D.C. 20002	Director	Since July 1991	Senior Partner, Johnson Smick International, Inc. (consulting firm); Chairperson of the Investment Committee (since October 2006) and Director or Trustee of various Morgan Stanley Funds (since July 1991); Co-Chairman and a founder of the Group of Seven Council (G7C) (international economic commission); formerly, Chairperson of the Audit Committee (July 1991-September 2006), Vice Chairman of the Board of Governors of the Federal Reserve System and Assistant Secretary of the U.S. Treasury.	82	Director of NVR, Inc. (home construction).
Joseph J. Kearns (76) c/o Perkins Coie LLP Counsel to the Independent Directors 30 Rockefeller Plaza New York, NY 10112	Director	Since August 1994	Senior Adviser, Kearns & Associates LLC (investment consulting); Chairperson of the Audit Committee (since October 2006) and Director or Trustee of various Morgan Stanley Funds (since August 1994); formerly, Deputy Chairperson of the Audit Committee (July 2003-September 2006) and Chairperson of the Audit Committee of various Morgan Stanley Funds (since August 1994); CFO of the J. Paul Getty Trust.	83	Prior to August 10, 2016, Director of Electro Rent Corporation (equipment leasing); Prior to December 31, 2013, Director of The Ford Family Foundation.
Michael F. Klein (60) c/o Perkins Coie LLP Counsel to the Independent Directors 30 Rockefeller Plaza New York, NY 10112	Director	Since August 2006	Managing Director, Aetos Alternatives Management, LP (since March 2000); Co-President, Aetos Alternatives Management, LP (since January 2004) and Co-Chief Executive Officer of Aetos Alternatives Management, LP (since August 2013); Chairperson of the Fixed Income Sub-Committee of the Investment Committee (since October 2006) and Director or Trustee of various Morgan Stanley Funds (since August 2006); formerly, Managing Director, Morgan Stanley & Co. Inc. and Morgan Stanley Dean Witter Investment Management and President, various Morgan Stanley Funds (June 1998-March 2000); Principal, Morgan Stanley & Co. Inc. and Morgan Stanley Dean Witter Investment Management (August 1997-December 1999).	82	Director of certain investment funds managed or sponsored by Aetos Alternatives Management, LP; Director of Sanitized AG and Sanitized Marketing AG (specialty chemicals).
Patricia Maleski (58) c/o Perkins Coie LLP Counsel to the Independent Directors 30 Rockefeller Plaza New York, NY 10112	Director	Since January 2017	Managing Director, JPMorgan Asset Management (2004-2016); Oversight and Control Head of Fiduciary and Conflicts of Interest Program (2015-2016); Chief Control Officer-Global Asset Management (2013-2015); President, JPMorgan Funds (2010-2013); Chief Administrative Officer (2004-2013); various other positions including Treasurer and Board Liaison (since 2001).	83	None.
Michael E. Nugent (82) 522 Fifth Avenue New York, NY 10036	Chair of the Board and Director	Chair of the Boards since July 2006 and Director since July 1991	Chair of the Boards of various Morgan Stanley Funds (since July 2006); Chairperson of the Closed-End Fund Committee (since June 2012) Governance Committee (since January 2019) and Director or Trustee of various Morgan Stanley Funds (since July 1991); formerly, Chairperson of the Insurance Committee (until July 2006); General Partner, Triumph Capital, L.P. (private investment partnership) (1988-2013).	82	None.
W. Allen Reed (71) c/o Perkins Coie LLP Counsel to the Independent Directors 30 Rockefeller Plaza New York, NY 10112	Director	Since August 2006	Chairperson of the Equity Sub-Committee of the Investment Committee (since October 2006) and Director or Trustee of various Morgan Stanley Funds (since August 2006); formerly, President and CEO of General Motors Asset Management; Chairman and Chief Executive Officer of the GM Trust Bank and Corporate Vice President of General Motors Corporation (August 1994-December 2005).	82	Director of Legg Mason, Inc.; formerly, Director of the Auburn University Foundation (2010-2015).

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

Independent Directors (cont'd):

Name, Age and Address of Independent Director	Position(s) Held with Registrant	Length of Time Served*	Principal Occupation(s) During Past 5 Years and Other Relevant Professional Experience	Number of Portfolios in Fund Complex Overseen by Independent Director**	Other Directorships Held by Independent Director***
Fergus Reid (86)**** c/o Joe Pietryka, Inc. 85 Charles Colman Blvd. Pawling, NY 12564	Director	Since June 1992	Chairman, Joe Pietryka, Inc.; Chairperson of the Governance Committee and Director or Trustee of various Morgan Stanley Funds (since June 1992).	83	Formerly, Trustee and Director of certain investment companies in the JP Morgan Fund Complex managed by JP Morgan Investment Management Inc. (1987-2012).

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

** The Fund Complex includes (as of December 31, 2018) all open-end and closed-end funds (including all of their portfolios) advised by Morgan Stanley Investment Management Inc. (the "Adviser") and any funds that have an adviser that is an affiliated person of the Adviser (including, but not limited to, Morgan Stanley AIP GP LP).

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

****Effective date of retirement is December 31, 2018.

Executive Officers:

Name, Age and Address of Executive Officer	Position(s) Held with Registrant	Length of Time Served*	Principal Occupation(s) During Past 5 Years
John H. Gernon (55) 522 Fifth Avenue New York, NY 10036	President and Principal Executive Officer	Since September 2013	President and Principal Executive Officer of the Equity and Fixed Income Funds and the Morgan Stanley AIP Funds (since September 2013) and the Liquidity Funds and various money market funds (since May 2014) in the Fund Complex; Managing Director of the Adviser; Head of Product (since 2006).
Timothy J. Knierim (59) 522 Fifth Avenue New York, NY 10036	Chief Compliance Officer	Since December 2016	Managing Director of the Adviser and various entities affiliated with the Adviser; Chief Compliance Officer of various Morgan Stanley Funds and the Adviser (since December 2016) and Chief Compliance Officer of Morgan Stanley AIP GP LP (since 2014). Formerly, Managing Director and Deputy Chief Compliance Officer of the Adviser (2014-2016); and formerly, Chief Compliance Officer of Prudential Investment Management, Inc. (2007-2014).
Francis J. Smith (53) 522 Fifth Avenue New York, NY 10036	Treasurer and Principal Financial Officer	Treasurer since July 2003 and Principal Financial Officer since September 2002	Managing Director of the Adviser and various entities affiliated with the Adviser; Treasurer (since July 2003) and Principal Financial Officer of various Morgan Stanley Funds (since September 2002).
Mary E. Mullin (51) 522 Fifth Avenue New York, NY 10036	Secretary	Since June 1999	Managing Director of the Adviser; Secretary of various Morgan Stanley Funds (since June 1999).
Michael J. Key (39) 522 Fifth Avenue New York, NY 10036	Vice President	Since June 2017	Vice President of the Equity and Fixed Income Funds, Liquidity Funds, various money market funds and the Morgan Stanley AIP Funds in the Fund Complex (since June 2017); Executive Director of the Adviser; Head of Product Development for Equity and Fixed Income Funds (since August 2013).

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

Morgan Stanley Variable Insurance Fund, Inc.

Annual Report – December 31, 2018

Adviser and Administrator
Morgan Stanley Investment Management Inc.
522 Fifth Avenue
New York, New York 10036

Distributor
Morgan Stanley Distribution, Inc.
522 Fifth Avenue
New York, New York 10036

Dividend Disbursing and Transfer Agent
DST Asset Manager Solutions, Inc.
2000 Crown Colony Drive
Quincy, Massachusetts 02169

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

Legal Counsel
Dechert LLP
1095 Avenue of the Americas
New York, New York 10036

Counsel to the Independent Directors
Perkins Coie LLP
30 Rockefeller Plaza
New York, New York 10112

Independent Registered Public Accounting Firm
Ernst & Young LLP
200 Clarendon Street
Boston, Massachusetts 02116

Reporting to Shareholders

Each Morgan Stanley fund provides a complete schedule of portfolio holdings in its semi-annual and 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 fund also files a complete schedule of portfolio holdings with the SEC for the fund's first and third fiscal quarters on Form N-Q. Morgan Stanley does not deliver the reports for the first and third fiscal quarters to shareholders, nor are the reports posted to the Morgan Stanley public website. You may, however, obtain the Form N-Q filings (as well as the Form N-CSR and N-CSRS filings) by accessing the SEC's website, www.sec.gov. You 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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