Morgan Stanley

Morgan Stanley Variable Insurance Fund, Inc.

Annual Report – December 31, 2018

# Core Plus Fixed Income 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 (unaudited)

## Core Plus Fixed Income Portfolio

As a shareholder of the Core Plus Fixed Income 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** |
|---|---|---|---|---|---|---|
| Core Plus Fixed Income Portfolio Class I | $1,000.00 | $1,008.20 | $1,021.78 | $3.44 | $3.47 | 0.68% |
| Core Plus Fixed Income Portfolio Class II | 1,000.00 | 1,006.50 | 1,020.52 | 4.70 | 4.74 | 0.93 |

* 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)

## Core Plus Fixed Income Portfolio

The Fund seeks above-average total return over a market cycle of three to five years by investing primarily in a diversified portfolio of fixed income securities.

### 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 –0.65%, net of fees and –0.91%, net of fees, for Class II shares. The Fund's Class I and Class II shares underperformed the Fund's benchmark, the Bloomberg Barclays U.S. Aggregate Index (the "Index"), which returned 0.01%.

### Factors Affecting Performance

- Over 2018, U.S. Treasury yields rose and the curve flattened. Short maturity yields were driven higher by the four Federal Reserve rate increases. Longer maturities lagged, primarily due to uncertainties about the outlook for global growth and inflation. Over the year, 10-year U.S. Treasury yields rose 28 basis points, ending the year at 2.68%.[i]
- Equity and credit markets underperformed in 2018, with much of the damage occurring in the fourth quarter. Investment grade corporate index spreads widened 60 basis points over the year to levels that at the end of the year were above its post-crisis average.[ii]
- In both the corporate and securitized sectors, higher quality bonds outperformed their lower quality counterparts. The highest quality sectors, such as agency mortgage-backed securities (MBS), taxable municipals and most securitized credit, had performance either similar to or only slightly below similar duration Treasuries.
- The Fund's securitized credit holdings helped performance during the year. The higher quality portions of the non-agency residential (RMBS), commercial (CMBS) and asset-backed (ABS) sectors all performed well. Agency MBS positioning slightly detracted from relative performance due to coupon and security selection.
- The Fund's corporate positioning detracted from relative performance during the year, due to overweights in investment grade financials and BBB-rated corporates, and out-of-index holdings in high yield and convertible bonds.
- An overweight to emerging market debt also hurt relative performance. Though local currency holdings did well, they were more than offset by negative results from positioning in currencies and hard currency bonds.
- Interest rate positioning net positively contributed to relative performance. Both the U.S. short duration exposure and the long duration exposure elsewhere did well. Developed market currency positions, and U.S. Treasury inflation-protected securities and swap spread positions also helped. These exposures were managed, in part, using interest rate futures and swaps, and foreign exchange forwards.

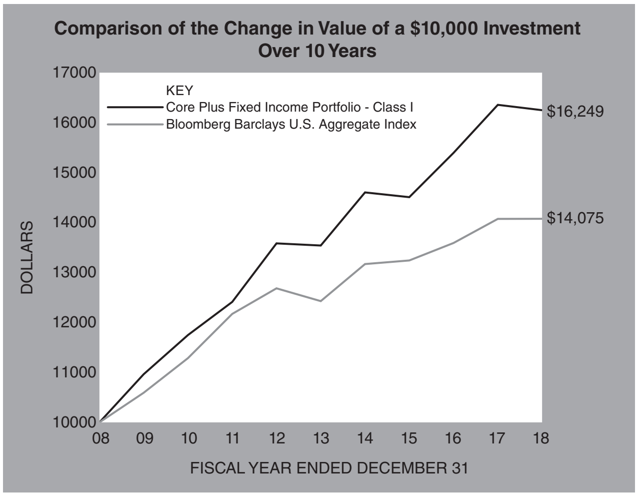
### Management Strategies

- Throughout the period, we maintained an overweight position to spread (non-government) sectors that we believed had strong or improving fundamentals.
- The Fund was positioned with an overweight to investment grade credit and to financials, in particular, as we believe that these companies can continue to reduce risk in light of the regulatory environment.
- The Fund also had allocations to riskier segments of the market such as high yield corporates, non-agency mortgages and asset-backed securities, and convertible bonds.
- With regard to interest rate strategy, the Fund was generally short duration in the U.S. and long duration in peripheral Europe and the emerging markets. It also had a short position in U.S. swap spreads and various currency exposures.

[i] Source: Bloomberg L.P. Data as of December 31, 2018.
[ii] Source: Bloomberg Barclays. Data represented by the Bloomberg Barclays U.S. Corporate Index, as of December 31, 2018.

# Investment Overview (unaudited) (cont'd)

## Core Plus Fixed Income Portfolio




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 Bloomberg Barclays U.S. Aggregate Index[1]

| | Period Ended December 31, 2018 | | | |
|---|---|---|---|---|
| | Total Returns[2] | | | |
| | | Average Annual | | |
| | One Year | Five Years | Ten Years | Since Inception[5] |
| Fund – Class I[3] | –0.65% | 3.72% | 4.97% | 4.73% |
| Bloomberg Barclays U.S. Aggregate Index | 0.01 | 2.52 | 3.48 | 4.98 |
| Fund – Class II[4] | –0.91 | 3.45 | 4.71 | 3.48 |
| Bloomberg Barclays U.S. Aggregate Index | 0.01 | 2.52 | 3.48 | 3.82 |

***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 Bloomberg Barclays U.S. Aggregate Index tracks the performance of U.S. government agency and Treasury securities, investment-grade corporate debt securities, agency mortgage-backed securities, asset-backed securities and commercial mortgage-backed securities. 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] 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.

[3] Commenced operations on January 2, 1997.

[4] Commenced offering on May 1, 2003.

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

# Portfolio of Investments

## Core Plus Fixed Income Portfolio

| | Face Amount (000) | Value (000) |
|---|---|---|
| **Fixed Income Securities (99.1%)** | | |
| **Agency Adjustable Rate Mortgages (0.3%)** | | |
| Federal Home Loan Mortgage Corporation, Conventional Pool: | | |
| 12 Month USD LIBOR + 1.62%, 2.48%, 7/1/45 | $ 354 | $ 353 |
| Federal National Mortgage Association, Conventional Pool: | | |
| 12 Month USD LIBOR + 1.59%, 2.31%, 12/1/45 | 132 | 131 |
| | | 484 |
| **Agency Fixed Rate Mortgages (17.6%)** | | |
| Federal Home Loan Mortgage Corporation, Gold Pools: | | |
| 3.00%, 3/1/47 | 1,673 | 1,633 |
| 3.50%, 1/1/44 | 743 | 749 |
| 4.00%, 12/1/41 - 10/1/44 | 1,003 | 1,026 |
| 5.41%, 7/1/37 - 8/1/37 | 22 | 22 |
| 5.44%, 1/1/37 - 6/1/38 | 63 | 66 |
| 5.46%, 5/1/37 - 1/1/38 | 90 | 95 |
| 5.48%, 8/1/37 - 10/1/37 | 50 | 52 |
| 5.50%, 8/1/37 - 4/1/38 | 86 | 90 |
| 5.52%, 9/1/37 - 10/1/37 | 17 | 19 |
| 5.62%, 12/1/36 - 12/1/37 | 86 | 91 |
| 6.00%, 8/1/37 - 5/1/38 | 24 | 27 |
| 6.50%, 9/1/32 | 17 | 19 |
| 7.50%, 5/1/35 | 39 | 45 |
| 8.00%, 8/1/32 | 25 | 29 |
| 8.50%, 8/1/31 | 30 | 35 |
| Federal National Mortgage Association, Conventional Pools: | | |
| 3.00%, 5/1/30 - 4/1/45 | 1,413 | 1,396 |
| 3.50%, 3/1/46 - 3/1/47 | 2,097 | 2,101 |
| 4.00%, 11/1/41 - 9/1/48 | 2,972 | 3,038 |
| 4.50%, 8/1/40 - 9/1/48 | 2,294 | 2,382 |
| 5.00%, 7/1/40 | 134 | 142 |
| 5.62%, 12/1/36 | 32 | 34 |
| 6.00%, 12/1/38 | 523 | 570 |
| 6.50%, 11/1/27 - 10/1/38 | 27 | 28 |
| 7.00%, 6/1/29 - 2/1/33 | 37 | 38 |
| 7.50%, 8/1/37 | 67 | 78 |
| 8.00%, 4/1/33 | 51 | 60 |
| 8.50%, 10/1/32 | 53 | 64 |
| 9.50%, 4/1/30 | 7 | 8 |
| January TBA: | | |
| 3.00%, 1/1/34 (a) | 1,400 | 1,397 |
| 3.50%, 1/1/49 (a) | 8,406 | 8,405 |
| 4.00%, 1/1/49 (a) | 1,774 | 1,809 |
| 4.50%, 1/1/49 (a) | 1,610 | 1,667 |
| Government National Mortgage Association, Various Pools: | | |
| 3.50%, 11/20/40 - 7/20/46 | 917 | 922 |
| 4.00%, 7/15/44 | 396 | 408 |
| 9.00%, 1/15/25 | 1 | 1 |
| | | 28,546 |

| | Face Amount (000) | Value (000) |
|---|---|---|
| **Asset-Backed Securities (11.6%)** | | |
| Accredited Mortgage Loan Trust, 1 Month USD LIBOR + 0.60%, 3.11%, 4/25/34 (b) | $ 653 | $ 642 |
| American Homes 4 Rent Trust, 6.07%, 10/17/45 (c) | 490 | 538 |
| Avant Loans Funding Trust, 5.00%, 11/17/25 (c) | 150 | 151 |
| Bayview Opportunity Master Fund IIIa Trust, 3.35%, 11/28/32 (c) | 127 | 126 |
| Blackbird Capital Aircraft Lease Securitization Ltd., 5.68%, 12/16/41 (c) | 440 | 462 |
| CAM Mortgage Trust, 3.96%, 12/1/65 (c) | 286 | 289 |
| Finance of America Structured Securities Trust, 6.00%, 11/25/27 (b)(c) | 860 | 837 |
| FREED ABS TRUST, 4.61%, 10/20/25 (c) | 520 | 526 |
| GCAT LLC, 4.09%, 6/26/23 (c) | 448 | 450 |
| Labrador Aviation Finance Ltd., 5.68%, 1/15/42 (c) | 368 | 373 |
| METAL LLC, 4.58%, 10/15/42 (c) | 582 | 588 |
| MFA LLC, 4.16%, 7/25/48 (c) | 542 | 544 |
| MFA Trust, 3.35%, 11/25/47 (c) | 578 | 577 |
| Nationstar HECM Loan Trust, 3.97%, 9/25/27 (b)(c) | 600 | 594 |
| 5.43%, 11/25/28 (b)(c) | 600 | 596 |
| NovaStar Mortgage Funding Trust, 1 Month USD LIBOR + 1.06%, 3.57%, 12/25/33 (b) | 415 | 418 |
| NRZ Excess Spread-Collateralized Notes, 4.37%, 1/25/23 (c) | 390 | 388 |
| 4.59%, 2/25/23 (c) | 523 | 522 |
| Oak Hill Advisors Residential Loan Trust, 3.00%, 7/25/57 (c) | 522 | 513 |
| PNMAC GMSR Issuer Trust, 5.36%, 2/25/23 (b)(c) | 300 | 301 |
| Pretium Mortgage Credit Partners I LLC, 3.25%, 8/27/32 (c) | 744 | 738 |
| 3.33%, 12/30/32 (b)(c) | 467 | 463 |
| Pretium Mortgage Credit Partners LLC, 4.83%, 9/25/58 (c) | 593 | 596 |
| Pretium Mortgage Credit Partners LLC, 4.13%, 8/25/33 (c) | 535 | 534 |
| Progress Residential Trust, 1 Month USD LIBOR + 4.22%, 6.68%, 1/17/34 (b)(c) | 600 | 603 |
| Prosper Marketplace Issuance Trust, 5.50%, 10/15/24 (c) | 646 | 641 |
| PRPM LLC, 4.00%, 8/25/23 (b)(c) | 302 | 301 |
| RCO Mortgage LLC, 3.38%, 8/25/22 (c) | 279 | 278 |

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

# Portfolio of Investments (cont'd)

## Core Plus Fixed Income Portfolio

| | Face Amount (000) | Value (000) |
|---|---|---|
| **Asset-Backed Securities (cont'd)** | | |
| RMF Buyout Issuance Trust, 5.43%, 11/25/28 (b)(c) | $ 700 | $ 697 |
| S-Jets Ltd., 7.02%, 8/15/42 (c) | 833 | 855 |
| Tricon American Homes Trust, 5.10%, 1/17/36 (c) | 400 | 403 |
| 5.15%, 9/17/34 (c) | 300 | 299 |
| 5.77%, 11/17/33 (c) | 460 | 470 |
| Vantage Data Centers Issuer LLC, 4.07%, 2/16/43 (c) | 198 | 199 |
| VOLT LXIV LLC, 3.38%, 10/25/47 (c) | 446 | 443 |
| VOLT LXIX LLC, 4.70%, 8/25/48 (c) | 250 | 251 |
| VOLT LXXII LLC, 4.21%, 10/26/48 (c) | 581 | 582 |
| VOLT LXXIII LLC, 4.46%, 10/25/48 (c) | 350 | 351 |
| VOLT LXXIV LLC, 4.58%, 11/25/48 (c) | 596 | 599 |
| | | 18,738 |
| **Collateralized Mortgage Obligations — Agency Collateral Series (1.1%)** | | |
| Federal Home Loan Mortgage Corporation, 1 Month USD LIBOR + 4.35%, 6.70%, 12/25/26 (b)(c) | 128 | 135 |
| 1 Month USD LIBOR + 5.05%, 7.40%, 7/25/23 (b) | 150 | 156 |
| 1 Month USD LIBOR + 5.25%, 7.60%, 7/25/26 (b)(c) | 131 | 139 |
| IO 0.33%, 11/25/27 (b) | 13,450 | 353 |
| 0.44%, 8/25/27 (b) | 8,374 | 268 |
| IO REMIC 6.00% - 1 Month USD LIBOR, 3.69%, 11/15/43 - 6/15/44(b) | 2,460 | 330 |
| 6.05% - 1 Month USD LIBOR, 3.74%, 4/15/39 (b) | 556 | 34 |
| IO STRIPS 7.50%, 12/15/29 | 4 | 1 |
| Federal National Mortgage Association, IO 6.39% - 1 Month USD LIBOR, 3.88%, 9/25/20 (b) | 2,486 | 94 |
| IO REMIC 6.00%, 5/25/33 - 7/25/33 | 198 | 47 |
| IO STRIPS 6.50%, 12/25/29 (b) | 1 | —@ |
| 7.00%, 11/25/19 (b) | —@ | —@ |
| 8.00%, 4/25/24 | 2 | —@ |
| 8.00%, 6/25/35 (b) | 17 | 3 |
| 9.00%, 11/25/26 | 1 | —@ |
| REMIC 7.00%, 9/25/32 | 35 | 40 |
| Government National Mortgage Association, IO 0.79%, 8/20/58 (b) | 5,132 | 112 |
| 6.10% - 1 Month USD LIBOR, 3.79%, 7/16/33 (b) | $ 780 | $ 17 |
| 5.00%, 2/16/41 | 113 | 27 |
| IO PAC 6.15% - 1 Month USD LIBOR, 3.85%, 10/20/41 (b) | 1,404 | 90 |
| | | 1,846 |
| **Commercial Mortgage-Backed Securities (4.6%)** | | |
| BAMLL Commercial Mortgage Securities Trust, 1 Month USD LIBOR + 4.00%, 4.13%, 12/15/31 (b)(c) | 600 | 589 |
| BXP Trust, 5.46%, 11/15/34 (b)(c) | 650 | 647 |
| Citigroup Commercial Mortgage Trust, IO 0.87%, 11/10/48 (b) | 2,694 | 109 |
| 0.94%, 9/10/58 (b) | 4,688 | 221 |
| COMM Mortgage Trust, 4.90%, 11/10/46 (b)(c) | 985 | 894 |
| 5.27%, 8/10/46 (b)(c) | 740 | 709 |
| IO 0.12%, 7/10/45 (b) | 10,718 | 46 |
| 0.89%, 10/10/47 (b) | 3,970 | 112 |
| 1.15%, 7/15/47 (b) | 3,563 | 130 |
| GS Mortgage Securities Trust, 4.75%, 8/10/46 (b)(c) | 500 | 471 |
| IO 0.80%, 9/10/47 (b) | 5,166 | 166 |
| 1.34%, 10/10/48 (b) | 5,172 | 342 |
| HMH Trust, 6.29%, 7/5/31 (c) | 300 | 292 |
| InTown Hotel Portfolio Trust, 4.51%, 1/15/33 (b)(c) | 346 | 343 |
| JP Morgan Chase Commercial Mortgage Securities Trust, IO 0.51%, 4/15/46 (b) | 6,000 | 129 |
| 0.80%, 12/15/49 (b) | 3,135 | 119 |
| 1.07%, 7/15/47 (b) | 9,281 | 269 |
| JPMBB Commercial Mortgage Securities Trust, 4.66%, 4/15/47 (b)(c) | 704 | 630 |
| IO 1.02%, 8/15/47 (b) | 3,953 | 176 |
| WFRBS Commercial Mortgage Trust, 3.50%, 8/15/47 (c) | 900 | 725 |
| 4.13%, 5/15/45 (b)(c) | 385 | 363 |
| | | 7,482 |
| **Corporate Bonds (40.6%)** | | |
| **Communications (0.2%)** | | |
| Bharti Airtel International Netherlands BV 5.35%, 5/20/24 (c) | 350 | 345 |
| **Energy (0.5%)** | | |
| BP Capital Markets America, Inc., 3.12%, 5/4/26 | 375 | 353 |
| 3.25%, 5/6/22 | 425 | 421 |
| | | 774 |



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

# Portfolio of Investments (cont'd)

## Core Plus Fixed Income Portfolio

| | Face Amount (000) | Value (000) |
|---|---|---|
| **Finance (16.5%)** | | |
| AerCap Ireland Capital DAC/AerCap Global Aviation Trust | | |
| 4.13%, 7/3/23 | $ 575 | $ 561 |
| Alexandria Real Estate Equities, Inc. | | |
| 3.95%, 1/15/27 | 175 | 170 |
| American International Group, Inc., | | |
| 4.50%, 7/16/44 | 300 | 269 |
| 4.88%, 6/1/22 | 275 | 286 |
| AvalonBay Communities, Inc., Series G | | |
| 2.95%, 5/11/26 | 175 | 166 |
| Bank of America Corp., | | |
| 4.24%, 4/24/38 | 250 | 238 |
| MTN | | |
| 4.00%, 1/22/25 | 1,085 | 1,058 |
| Bank of Montreal | | |
| 3.80%, 12/15/32 | 450 | 417 |
| BNP Paribas SA | | |
| 4.40%, 8/14/28 (c) | 525 | 513 |
| Boston Properties LP | | |
| 3.80%, 2/1/24 | 145 | 145 |
| BPCE SA | | |
| 5.15%, 7/21/24 (c) | 550 | 553 |
| Brighthouse Financial, Inc., Series WI | | |
| 3.70%, 6/22/27 | 625 | 529 |
| Brookfield Finance LLC | | |
| 4.00%, 4/1/24 | 525 | 520 |
| Capital One Bank USA NA | | |
| 3.38%, 2/15/23 | 510 | 493 |
| Capital One Financial Corp. | | |
| 3.30%, 10/30/24 | 450 | 426 |
| Cigna Corp. | | |
| 3.75%, 7/15/23 (c) | 350 | 349 |
| Cigna Holding Co. | | |
| 3.88%, 10/15/47 | 200 | 168 |
| Citigroup, Inc., | | |
| 3.89%, 1/10/28 | 300 | 290 |
| 4.45%, 9/29/27 | 175 | 169 |
| 5.50%, 9/13/25 | 250 | 263 |
| Colony Capital, Inc. | | |
| 5.00%, 4/15/23 | 275 | 242 |
| Compass Bank | | |
| 3.50%, 6/11/21 | 425 | 424 |
| Cooperatieve Rabobank UA, | | |
| 3.88%, 2/8/22 | 25 | 25 |
| 3.95%, 11/9/22 | 625 | 623 |
| Credit Agricole SA, | | |
| 3.75%, 4/24/23 (c) | 400 | 392 |
| 3.88%, 4/15/24 (c) | 500 | 503 |
| Deutsche Bank AG, | | |
| 2.70%, 7/13/20 | 425 | 414 |
| 3.95%, 2/27/23 | 425 | 401 |
| Discover Bank | | |
| 7.00%, 4/15/20 | 320 | 333 |
| Discover Financial Services | | |
| 3.95%, 11/6/24 | 275 | 272 |
| Extra Space Storage LP | | |
| 3.13%, 10/1/35 (c) | $ 250 | $ 271 |
| Five Corners Funding Trust | | |
| 4.42%, 11/15/23 (c) | 275 | 283 |
| GE Capital International Funding Co., Unlimited Co. | | |
| 2.34%, 11/15/20 | 468 | 452 |
| Goldman Sachs Group, Inc. (The), | | |
| 4.22%, 5/1/29 | 625 | 603 |
| 6.75%, 10/1/37 | 435 | 492 |
| MTN | | |
| 4.80%, 7/8/44 | 175 | 167 |
| Guardian Life Insurance Co. of America (The) | | |
| 4.85%, 1/24/77 (c) | 175 | 173 |
| Hartford Financial Services Group, Inc. (The) | | |
| 5.50%, 3/30/20 | 365 | 375 |
| Healthcare Trust of America Holdings LP | | |
| 3.70%, 4/15/23 | 325 | 320 |
| HSBC Holdings PLC | | |
| 4.25%, 3/14/24 | 750 | 745 |
| HSBC USA, Inc. | | |
| 3.50%, 6/23/24 | 250 | 246 |
| Humana, Inc. | | |
| 3.95%, 3/15/27 | 225 | 220 |
| ING Bank N.V. | | |
| 5.80%, 9/25/23 (c) | 520 | 544 |
| Intesa Sanpaolo SpA | | |
| 5.25%, 1/12/24 | 300 | 293 |
| iStar, Inc. | | |
| 5.25%, 9/15/22 | 175 | 164 |
| Jefferies Finance LLC/JFIN Co-Issuer Corp. | | |
| 7.38%, 4/1/20 (c) | 295 | 295 |
| JPMorgan Chase & Co., | | |
| 3.90%, 1/23/49 | 500 | 440 |
| 4.13%, 12/15/26 | 550 | 538 |
| LeasePlan Corp. N.V. | | |
| 2.88%, 1/22/19 (c) | 475 | 475 |
| Liberty Mutual Group, Inc. | | |
| 4.85%, 8/1/44 (c) | 125 | 122 |
| Lloyds Banking Group PLC, | | |
| 3.75%, 1/11/27 | 400 | 368 |
| 4.55%, 8/16/28 | 500 | 481 |
| MetLife, Inc. | | |
| 5.70%, 6/15/35 | 150 | 169 |
| MPT Operating Partnership LP/ MPT Finance Corp. | | |
| 5.00%, 10/15/27 | 175 | 160 |
| Nationwide Building Society, | | |
| 4.30%, 3/8/29 (c)(d) | 375 | 353 |
| 4.36%, 8/1/24 (c) | 200 | 196 |
| Prologis LP | | |
| 3.88%, 9/15/28 | 325 | 331 |
| Realty Income Corp., | | |
| 3.25%, 10/15/22 | 350 | 347 |
| 3.65%, 1/15/28 | 325 | 316 |
| REC Ltd. | | |
| 5.25%, 11/13/23 (c) | 430 | 432 |

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

# Portfolio of Investments (cont'd)

## Core Plus Fixed Income Portfolio

| | Face Amount (000) | Value (000) |
|---|---|---|
| **Finance (cont'd)** | | |
| Royal Bank of Scotland Group PLC 3.88%, 9/12/23 | $ 625 | $ 600 |
| Santander UK Group Holdings PLC 3.57%, 1/10/23 | 900 | 862 |
| Spirit Realty Capital, Inc. 3.75%, 5/15/21 | 175 | 172 |
| Standard Chartered PLC 3.05%, 1/15/21 (c)(d) | 375 | 370 |
| Synchrony Financial, 3.70%, 8/4/26 | 100 | 85 |
| 3.95%, 12/1/27 | 350 | 295 |
| Syngenta Finance N.V. 4.89%, 4/24/25 (c) | 550 | 521 |
| TD Ameritrade Holding Corp. 3.63%, 4/1/25 | 475 | 471 |
| Travelers Cos., Inc. (The) 3.75%, 5/15/46 | 200 | 184 |
| UBS Group Funding Switzerland AG 2.95%, 9/24/20 (c) | 525 | 520 |
| UnitedHealth Group, Inc., 2.88%, 3/15/23 | 350 | 345 |
| 3.75%, 7/15/25 | 300 | 304 |
| WEA Finance LLC/Westfield UK & Europe Finance PLC 3.25%, 10/5/20 (c) | 450 | 449 |
| | | 26,761 |
| **Industrials (20.4%)** | | |
| Air Liquide Finance SA 1.75%, 9/27/21 (c) | 225 | 215 |
| Amazon.com, Inc. 2.80%, 8/22/24 | 825 | 802 |
| Andeavor Logistics LP/Tesoro Logistics Finance Corp. 5.20%, 12/1/47 | 250 | 226 |
| Anheuser-Busch Cos. LLC / Anheuser-Busch InBev Worldwide, Inc., 3.65%, 2/1/26 (c) | 350 | 331 |
| 4.90%, 2/1/46 (c) | 425 | 395 |
| Apple, Inc., 2.45%, 8/4/26 | 400 | 370 |
| 4.45%, 5/6/44 | 250 | 259 |
| AT&T, Inc., 4.25%, 3/1/27 | 675 | 662 |
| 4.50%, 3/9/48 | 200 | 172 |
| 4.90%, 8/15/37 | 225 | 210 |
| 5.15%, 2/15/50 | 175 | 163 |
| Bayer US Finance II LLC 4.38%, 12/15/28 (c) | 550 | 526 |
| Becton Dickinson and Co. 2.89%, 6/6/22 | 425 | 412 |
| Booking Holdings, Inc. 0.90%, 9/15/21 | 175 | 194 |
| Cenovus Energy, Inc. 4.25%, 4/15/27 (d) | 350 | 319 |
| Charter Communications Operating LLC/ Charter Communications Operating Capital, 4.20%, 3/15/28 | 275 | 260 |
| 4.91%, 7/23/25 | $ 175 | $ 174 |
| 6.48%, 10/23/45 | 475 | 490 |
| CNH Industrial Capital LLC 4.38%, 11/6/20 | 300 | 302 |
| CNOOC Finance 2013 Ltd. 3.00%, 5/9/23 | 420 | 406 |
| Columbia Pipeline Group, Inc. 4.50%, 6/1/25 | 425 | 429 |
| Comcast Corp., 4.05%, 11/1/52 | 175 | 157 |
| 4.15%, 10/15/28 | 525 | 534 |
| Conagra Brands, Inc., 4.85%, 11/1/28 | 425 | 419 |
| 5.40%, 11/1/48 | 300 | 277 |
| Concho Resources, Inc. 4.85%, 8/15/48 | 300 | 288 |
| Constellation Brands, Inc. 4.40%, 11/15/25 | 425 | 426 |
| Crown Castle International Corp. 3.80%, 2/15/28 | 600 | 569 |
| CSC Holdings LLC 5.50%, 4/15/27 (c) | 250 | 233 |
| CVS Health Corp. 4.30%, 3/25/28 | 575 | 563 |
| Daimler Finance North America LLC 2.25%, 7/31/19 (c) | 465 | 462 |
| Darden Restaurants, Inc. 3.85%, 5/1/27 (d) | 325 | 313 |
| Dell International LLC/EMC Corp. 6.02%, 6/15/26 (c) | 175 | 176 |
| Delta Air Lines, Inc. 2.88%, 3/13/20 | 300 | 298 |
| Deutsche Post AG, Series DPW 0.05%, 6/30/25 | 200 | 219 |
| Dollar Tree, Inc., 3.70%, 5/15/23 | 250 | 246 |
| 4.20%, 5/15/28 | 175 | 166 |
| Dow Chemical Co. (The) 5.55%, 11/30/48 (c) | 350 | 356 |
| Eldorado Gold Corp. 6.13%, 12/15/20 (c) | 295 | 269 |
| Energy Transfer Operating L.P., 5.15%, 3/15/45 | 250 | 217 |
| 5.30%, 4/15/47 | 125 | 111 |
| Exxon Mobil Corp. 4.11%, 3/1/46 | 325 | 331 |
| Ferguson Finance PLC 4.50%, 10/24/28 (c) | 525 | 526 |
| Ford Motor Credit Co., LLC 3.20%, 1/15/21 | 200 | 194 |
| Fortune Brands Home & Security, Inc. 4.00%, 9/21/23 | 350 | 347 |
| General Motors Co. 6.60%, 4/1/36 | 125 | 122 |
| Goldcorp, Inc. 3.70%, 3/15/23 | 436 | 432 |
| Halliburton Co. 5.00%, 11/15/45 | 275 | 271 |



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

# Portfolio of Investments (cont'd)

## Core Plus Fixed Income Portfolio

| | Face Amount (000) | Value (000) |
|---|---|---|
| **Industrials (cont'd)** | | |
| HCA, Inc., | | |
| 4.50%, 2/15/27 | $ 240 | $ 227 |
| 4.75%, 5/1/23 | 190 | 188 |
| Heathrow Funding Ltd. 4.88%, 7/15/23 (c) | 435 | 449 |
| Hilcorp Energy I LP/Hilcorp Finance Co. 6.25%, 11/1/28 (c) | 350 | 309 |
| Home Depot, Inc. (The), | | |
| 4.88%, 2/15/44 | 175 | 187 |
| 5.88%, 12/16/36 | 300 | 361 |
| International Paper Co. 4.35%, 8/15/48 | 250 | 215 |
| Jaguar Land Rover Automotive PLC 4.50%, 10/1/27 (c)(d) | 425 | 319 |
| Keurig Dr. Pepper, Inc. 4.60%, 5/25/28 (c) | 500 | 497 |
| Lowe's Cos., Inc. 2.50%, 4/15/26 | 375 | 334 |
| LyondellBasell Industries N.V. 4.63%, 2/26/55 | 275 | 233 |
| Medtronic, Inc. 4.63%, 3/15/45 | 200 | 210 |
| Microsoft Corp. 3.13%, 11/3/25 | 350 | 346 |
| MPLX LP 5.20%, 3/1/47 | 250 | 231 |
| Newcastle Coal Infrastructure Group Pty Ltd. 4.40%, 9/29/27 (c) | 475 | 430 |
| Newell Brands, Inc. 4.20%, 4/1/26 (d) | 560 | 548 |
| NOVA Chemicals Corp. 5.25%, 8/1/23 (c) | 415 | 394 |
| Novartis Capital Corp. 4.40%, 5/6/44 | 225 | 241 |
| Nuance Communications, Inc. 1.00%, 12/15/35 | 275 | 240 |
| Nucor Corp. 3.95%, 5/1/28 | 300 | 297 |
| Nvent Finance Sarl 3.95%, 4/15/23 | 450 | 447 |
| NXP Semiconductors N.V. 1.00%, 12/1/19 | 250 | 251 |
| Ooredoo International Finance Ltd. 3.25%, 2/21/23 (c) | 350 | 339 |
| Resort at Summerlin LP, Series B 1.00%, 12/31/40 (e)(f)(g)(h)(i) | 299 | — |
| Rockies Express Pipeline LLC 6.88%, 4/15/40 (c) | 300 | 315 |
| Shell International Finance BV 3.25%, 5/11/25 | 400 | 395 |
| Siemens Financieringsmaatschappij N.V. 2.35%, 10/15/26 (c) | 525 | 479 |
| Southern Copper Corp. 5.25%, 11/8/42 | 350 | 334 |
| Sprint Spectrum Co., LLC/Sprint Spectrum Co., II LLC/Sprint Spectrum Co., III LLC 3.36%, 3/20/23 (c) | 729 | 722 |
| Starbucks Corp. 3.80%, 8/15/25 | $ 450 | $ 446 |
| STMicroelectronics NV, Series B 0.25%, 7/3/24 | 200 | 202 |
| Takeda Pharmaceutical Co. Ltd. 5.00%, 11/26/28 (c) | 425 | 435 |
| Telefonica Emisiones SA 4.10%, 3/8/27 | 550 | 529 |
| Telenor East Holding II AS, Series VIP 0.25%, 9/20/19 | 200 | 195 |
| Teva Pharmaceutical Finance Netherlands III BV, | | |
| 2.80%, 7/21/23 | 50 | 43 |
| 6.75%, 3/1/28 | 250 | 243 |
| Thermo Fisher Scientific, Inc. 2.95%, 9/19/26 | 300 | 277 |
| Transurban Finance Co., Pty Ltd. 3.38%, 3/22/27 (c) | 325 | 299 |
| Trimble, Inc. 4.15%, 6/15/23 | 625 | 629 |
| Tyson Foods, Inc. 4.88%, 8/15/34 | 250 | 243 |
| United Airlines Pass-Through Trust, Series A 4.00%, 10/11/27 | 483 | 483 |
| United Technologies Corp. 4.13%, 11/16/28 | 375 | 372 |
| Verint Systems, Inc. 1.50%, 6/1/21 | 200 | 194 |
| Verizon Communications, Inc. 4.67%, 3/15/55 | 177 | 163 |
| Vodafone Group PLC 4.38%, 5/30/28 | 425 | 413 |
| Volkswagen Group of America Finance LLC, | | |
| 2.40%, 5/22/20 (c) | 525 | 517 |
| 4.75%, 11/13/28 (c) | 475 | 461 |
| Walmart, Inc., | | |
| 3.63%, 12/15/47 | 100 | 92 |
| 3.70%, 6/26/28 | 125 | 127 |
| Warner Media LLC 3.80%, 2/15/27 | 275 | 258 |
| Woodside Finance Ltd. 3.70%, 9/15/26 (c) | 500 | 461 |
| Wyndham Destinations, Inc. 5.40%, 4/1/24 | 500 | 479 |
| Zillow Group, Inc. 2.00%, 12/1/21 | 200 | 195 |
| | | 33,133 |
| **Utilities (3.0%)** | | |
| Calpine Corp. 5.25%, 6/1/26 (c) | 175 | 160 |
| Duke Energy Corp. 2.65%, 9/1/26 | 400 | 364 |
| Electricite de France SA 4.50%, 9/21/28 (c) | 275 | 267 |
| Enel Chile SA 4.88%, 6/12/28 | 175 | 175 |

# Portfolio of Investments (cont'd)

## Core Plus Fixed Income Portfolio

| | | Face Amount (000) | Value (000) |
|---|---|---|---|
| **Utilities (cont'd)** | | | |
| Enel Finance International N.V., 3.63%, 5/25/27 (c) | $ | 275 | $ 243 |
| 4.25%, 9/14/23 (c) | | 300 | 294 |
| Entergy Louisiana LLC 3.05%, 6/1/31 | | 400 | 365 |
| ITC Holdings Corp. 3.35%, 11/15/27 | | 450 | 430 |
| Korea Hydro & Nuclear Power Co., Ltd. 3.75%, 7/25/23 (c) | | 710 | 717 |
| Mississippi Power Co. 3.95%, 3/30/28 | | 500 | 494 |
| Oglethorpe Power Corp. 5.05%, 10/1/48 (c) | | 375 | 379 |
| Southern Power Co., Series D 1.95%, 12/15/19 | | 375 | 369 |
| Trans-Allegheny Interstate Line Co. 3.85%, 6/1/25 (c) | | 550 | 549 |
| TransAlta Corp. 4.50%, 11/15/22 | | 47 | 46 |
| | | | 4,852 |
| | | | 65,865 |
| **Mortgages — Other (14.4%)** | | | |
| Alternative Loan Trust, 1 Month USD LIBOR + 0.18%, 2.69%, 5/25/47 (b) | | 141 | 137 |
| 5.50%, 2/25/36 | | 8 | 7 |
| 6.00%, 7/25/37 | | 62 | 53 |
| PAC 5.50%, 2/25/36 | | 4 | 4 |
| 6.00%, 4/25/36 | | 18 | 15 |
| Banc of America Alternative Loan Trust, 1 Month USD LIBOR + 0.65%, 3.16%, 7/25/46 (b) | | 186 | 138 |
| 5.86%, 10/25/36 | | 361 | 202 |
| 6.00%, 4/25/36 | | 49 | 50 |
| Banc of America Funding Trust, 5.25%, 7/25/37 | | 231 | 220 |
| 6.00%, 7/25/37 | | 24 | 21 |
| ChaseFlex Trust, 6.00%, 2/25/37 | | 414 | 290 |
| CSFB Mortgage-Backed Pass-Through Certificates, 6.50%, 11/25/35 | | 822 | 337 |
| Eurosail BV, 3 Month EURIBOR + 1.80%, 1.48%, 10/17/40 (b) | EUR | 300 | 337 |
| Eurosail PLC, 3 Month GBP LIBOR + 0.95%, 1.85%, 6/13/45 (b) | GBP | 508 | 624 |
| Farringdon Mortgages No. 2 PLC, 3 Month GBP LIBOR + 1.50%, 2.31%, 7/15/47 (b) | | 235 | 288 |
| Federal Home Loan Mortgage Corporation, 3.00%, 9/25/45 - 5/25/47 | $ | 1,721 | 1,668 |
| 3.50%, 5/25/45 - 5/25/47 | | 2,167 | 2,148 |
| 3.88%, 5/25/45 (b)(c) | $ | 156 | $ 151 |
| 4.00%, 5/25/45 | | 93 | 93 |
| 4.86%, 4/25/30 (b) | | 700 | 696 |
| 1 Month USD LIBOR + 3.30%, 5.81%, 10/25/27 (b) | | 400 | 434 |
| First Horizon Alternative Mortgage Securities Trust, 6.00%, 8/25/36 | | 12 | 9 |
| Grifonas Finance PLC, 6 Month EURIBOR + 0.28%, 0.01%, 8/28/39 (b) | EUR | 427 | 445 |
| GSR Mortgage Loan Trust, 5.75%, 1/25/37 | $ | 179 | 159 |
| HarborView Mortgage Loan Trust, 1 Month USD LIBOR + 0.19%, 2.66%, 1/19/38 (b) | | 376 | 364 |
| IM Pastor 3 FTH, 3 Month EURIBOR + 0.14%, 0.00%, 3/22/43 (b) | EUR | 503 | 510 |
| JP Morgan Alternative Loan Trust, 6.00%, 12/25/35 - 8/25/36 | $ | 82 | 79 |
| JP Morgan Mortgage Trust, 4.05%, 6/25/37 (b) | | 75 | 70 |
| 6.00%, 6/25/37 | | 77 | 78 |
| Landmark Mortgage Securities No. 1 PLC, 3 Month EURIBOR + 0.60%, 0.29%, 6/17/38 (b) | EUR | 391 | 412 |
| Lehman Mortgage Trust, 5.50%, 11/25/35 | $ | 77 | 72 |
| 6.50%, 9/25/37 | | 828 | 506 |
| NRPL Trust, 4.25%, 7/25/67 (b)(c) | | 594 | 594 |
| Paragon Mortgages No. 13 PLC, 3 Month GBP LIBOR + 0.40%, 1.21%, 1/15/39 (b) | GBP | 300 | 347 |
| Paragon Mortgages No. 15 PLC, 3 Month EURIBOR + 0.54%, 0.23%, 12/15/39 (b) | EUR | 500 | 495 |
| RALI Trust, 5.50%, 12/25/34 | $ | 505 | 500 |
| 6.00%, 4/25/36 - 1/25/37 | | 242 | 216 |
| PAC 6.00%, 4/25/36 | | 17 | 16 |
| Residential Asset Securitization Trust, 6.00%, 7/25/36 | | 27 | 23 |
| RMAC PLC, 2.20%, 6/12/46 | GBP | 250 | 309 |
| Rochester Financing No 2 PLC, 3 Month GBP LIBOR + 2.75%, 3.66%, 6/18/45 (b) | | 350 | 448 |
| Seasoned Credit Risk Transfer Trust, 3.00%, 7/25/56 - 3/25/58 | $ | 3,399 | 3,272 |
| 3.50%, 6/25/57 - 3/25/58 | | 2,378 | 2,354 |
| 4.00%, 7/25/56 (b) | | 300 | 304 |
| 4.00%, 8/25/56 (b)(c) | | 400 | 360 |
| 4.50%, 6/25/57 | | 1,620 | 1,665 |
| 4.75%, 7/25/56 (b) | | 450 | 428 |
| 4.75%, 6/25/57 (b)(c) | | 250 | 243 |



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

# Portfolio of Investments (cont'd)

## Core Plus Fixed Income Portfolio

| | | Face Amount (000) | Value (000) |
|---|---|---|---|
| **Mortgages — Other (cont'd)** | | | |
| Structured Asset Securities Corp. Reverse Mortgage Loan Trust, 1 Month USD LIBOR + 1.85%, 4.36%, 5/25/47 (b)(c) | $ | 787 | $ 677 |
| TDA 27 FTA, 3 Month EURIBOR + 0.19%, 0.00%, 12/28/50 (b) | EUR | 500 | 463 |
| | | | 23,331 |
| **Municipal Bonds (1.1%)** | | | |
| Chicago O'Hare International Airport, IL, O'Hare International Airport Revenue 6.40%, 1/1/40 | | 115 | 147 |
| City of New York, NY, Series G-1 5.97%, 3/1/36 | | 245 | 301 |
| Illinois State Toll Highway Authority, IL, Highway Revenue, Build America Bonds 6.18%, 1/1/34 | | 705 | 861 |
| Municipal Electric Authority of Georgia, GA 6.66%, 4/1/57 | | 434 | 483 |
| | | | 1,792 |
| **Sovereign (7.8%)** | | | |
| Argentine Republic Government International Bond, 7.50%, 4/22/26 | | 834 | 671 |
| Australia Government Bond, 2.75%, 11/21/27 | AUD | 1,867 | 1,363 |
| Brazil Notas do Tesouro Nacional, Series F, 10.00%, 1/1/27 | BRL | 3,800 | 979 |
| Eskom Holdings SOC Ltd., 7.13%, 2/11/25 | $ | 350 | 321 |
| Export-Import Bank of India, 3.88%, 2/1/28 (c) | | 945 | 888 |
| Indonesia Treasury Bond, 6.13%, 5/15/28 | IDR | 6,368,000 | 391 |
| 8.25%, 5/15/29 | | 6,663,000 | 475 |
| KazMunayGas National Co., JSC, 6.38%, 10/24/48 (c) | $ | 425 | 429 |
| Mexico Government International Bond, 3.60%, 1/30/25 | | 500 | 478 |
| New Zealand Government Bond, 4.50%, 4/15/27 | NZD | 1,500 | 1,182 |
| Nigeria Government International Bond, 9.25%, 1/21/49 (c) | $ | 200 | 195 |
| Pertamina Persero PT, 6.50%, 11/7/48 (c) | | 350 | 369 |
| Perusahaan Listrik Negara PT, 6.15%, 5/21/48 (c) | | 260 | 262 |
| Petroleos Mexicanos, 6.38%, 1/23/45 | | 375 | 303 |
| 6.50%, 1/23/29 | | 275 | 257 |
| Republic of Poland Government Bond, 2.25%, 4/25/22 | PLN | 8,500 | 2,302 |
| South Africa Government Bond, 8.00%, 1/31/30 | ZAR | 15,450 | 972 |
| Ukraine Government International Bond, 7.75%, 9/1/26 | $ | 475 | $ 406 |
| 9.75%, 11/1/28 (c) | | 400 | 376 |
| | | | 12,619 |
| **Total Fixed Income Securities (Cost $163,467)** | | | 160,703 |
| | | **Shares** | |
| **Short-Term Investments (8.7%)** | | | |
| **Securities held as Collateral on Loaned Securities (0.7%)** | | | |
| **Investment Company (0.7%)** | | | |
| Morgan Stanley Institutional Liquidity Funds — Government Portfolio — Institutional Class (See Note H) **(Cost $1,130)** | | 1,130,213 | 1,130 |
| **Investment Company (7.5%)** | | | |
| Morgan Stanley Institutional Liquidity Funds — Government Portfolio — Institutional Class (See Note H) **(Cost $12,193)** | | 12,192,597 | 12,193 |
| | | **Face Amount (000)** | |
| **U.S. Treasury Security (0.5%)** | | | |
| U.S. Treasury Bill 2.38%, 3/21/19 (d)(j)(k) **(Cost $829)** | $ | 833 | 829 |
| **Total Short-Term Investments (Cost $14,152)** | | | 14,152 |
| **Total Investments (107.8%) (Cost $177,619) Including $2,472 of Securities Loaned** (l)(m) | | | 174,855 |
| **Liabilities in Excess of Other Assets (–7.8%)** | | | (12,646) |
| **Net Assets (100.0%)** | | | $162,209 |

(a) Security is subject to delayed delivery.

(b) Floating or Variable rate securities: The rates disclosed are as of December 31, 2018. For securities based on a published reference rate and spread, the reference rate and spread are indicated in the description in the Portfolio of Investments. Certain variable rate securities may not be based on a published reference rate and spread but are determined by the issuer or agent and are based on current market conditions. These securities do not indicate a reference rate and spread in their description in the Portfolio of Investments.

(c) 144A security — Certain conditions for public sale may exist. Unless otherwise noted, these securities are deemed to be liquid.

(d) All or a portion of this security was on loan at December 31, 2018.

(e) Security has been deemed illiquid at December 31, 2018.

(f) Non-income producing security; bond in default.

(g) Issuer in bankruptcy.

(h) Acquired through exchange offer.

(i) At December 31, 2018, the Fund held a fair valued security valued at $0, representing 0.0% of net assets. This security has been fair valued as determined in good faith under procedures established by and under the general supervision of the Company's Directors.

(j) Rate shown is the yield to maturity at December 31, 2018.

(k) All or a portion of the security was pledged to cover margin requirements for swap agreements.

(l) Securities are available for collateral in connection with securities purchased on a forward commitment basis, open foreign currency forward exchange contracts, futures contracts and swap agreements.

# Portfolio of Investments (cont'd)

## Core Plus Fixed Income Portfolio

(m) At December 31, 2018, the aggregate cost for federal income tax purposes is approximately $178,217,000. The aggregate gross unrealized appreciation is approximately $2,362,000 and the aggregate gross unrealized depreciation is approximately $5,190,000, resulting in net unrealized depreciation of approximately $2,828,000.

@ Value is less than $500.

EURIBOR Euro Interbank Offered Rate.

IO Interest Only.

LIBOR London Interbank Offered Rate.

MTN Medium Term Note.

PAC Planned Amortization Class.

REMIC Real Estate Mortgage Investment Conduit.

STRIPS Separate Trading of Registered Interest and Principal of Securities.

TBA To Be Announced.

**Foreign Currency Forward Exchange Contracts:**

The Fund had the following foreign currency forward exchange contracts open at December 31, 2018:

| Counterparty | Contracts to Deliver (000) | | In Exchange For (000) | | Delivery Date | Unrealized Appreciation (Depreciation) (000) |
|---|---|---|---|---|---|---|
| Australia and New Zealand Banking Group | NZD | 1,647 | $ | 1,107 | 3/28/19 | $ (1) |
| Bank of America NA | EUR | 2,544 | $ | 2,925 | 3/28/19 | (10) |
| Barclays Bank PLC | $ | 18 | EUR | 16 | 3/28/19 | —@ |
| BNP Paribas SA | IDR | 204,380 | $ | 14 | 3/28/19 | (—@) |
| Citibank NA | AUD | 483 | $ | 344 | 3/28/19 | 3 |
| Citibank NA | PLN | 6,882 | $ | 1,827 | 3/28/19 | (15) |
| JPMorgan Chase Bank NA | BRL | 2,324 | $ | 600 | 3/28/19 | 4 |
| JPMorgan Chase Bank NA | NOK | 27 | $ | 3 | 3/28/19 | (—@) |
| JPMorgan Chase Bank NA | $ | 7 | SEK | 66 | 3/28/19 | —@ |
| ROYAL BANK OF CANADA (UK) | GBP | 1,274 | $ | 1,618 | 3/28/19 | (13) |
| ROYAL BANK OF CANADA (UK) | ZAR | 8,487 | $ | 574 | 3/28/19 | (10) |
| UBS AG | AUD | 1,414 | $ | 1,007 | 3/28/19 | 9 |
| UBS AG | MXN | 3 | $ | —@ | 3/28/19 | (—@) |
| | | | | | | $(33) |

**Futures Contracts:**

The Fund had the following futures contracts open at December 31, 2018:

| | Number of Contracts | Expiration Date | Notional Amount (000) | Value (000) | Unrealized Appreciation (Depreciation) (000) |
|---|---|---|---|---|---|
| **Long:** | | | | | |
| Australian 10 yr. Bond | 12 | Mar-19 | 1,200 | $ 1,122 | $ 12 |
| German Euro BTP | 7 | Mar-19 | 700 | 1,025 | 5 |
| U.S. Treasury 2 yr. Note | 85 | Mar-19 | 17,000 | 18,047 | 117 |
| U.S. Treasury 30 yr. Bond | 27 | Mar-19 | 2,700 | 3,942 | 184 |
| U.S. Treasury 5 yr. Note | 12 | Mar-19 | 1,200 | 1,376 | 10 |
| U.S. Treasury Ultra Bond | 63 | Mar-19 | 6,300 | 10,121 | 448 |
| **Short:** | | | | | |
| U.S. Treasury 10 yr. Note | 46 | Mar-19 | (4,600) | (5,613) | (135) |
| U.S. Treasury 10 yr. Ultra Long Bond | 3 | Mar-19 | (300) | (390) | (3) |
| UK Long Gilt Bond | 14 | Mar-19 | (1,400) | (2,198) | 5 |
| | | | | | $ 643 |

# Portfolio of Investments (cont'd)

## Core Plus Fixed Income Portfolio

**Interest Rate Swap Agreements:**

The Fund had the following interest rate swap agreements open at December 31, 2018:

| Swap Counterparty | Floating Rate Index | Pay/Receive Floating Rate | Fixed Rate | Payment Frequency Paid/ Received | Maturity Date | Notional Amount (000) | Value (000) | Upfront Payment Paid (000) | Unrealized Appreciation (Depreciation) (000) |
|---|---|---|---|---|---|---|---|---|---|
| Morgan Stanley & Co. LLC* | 3 Month LIBOR | Receive | 3.17% | Semi-Annual/Quarterly | 5/18/28 | $ 828 | $ (33) | $— | $ (33) |
| Morgan Stanley & Co. LLC* | 3 Month LIBOR | Receive | 2.26 | Semi-Annual/Quarterly | 12/7/26 | 2,580 | 76 | — | 76 |
| Morgan Stanley & Co. LLC* | 3 Month LIBOR | Receive | 2.48 | Semi-Annual/Quarterly | 12/21/26 | 2,602 | 35 | — | 35 |
| Morgan Stanley & Co. LLC* | 3 Month LIBOR | Receive | 3.21 | Semi-Annual/Quarterly | 12/3/48 | 2,150 | (153) | — | (153) |
| | | | | | | | $ (75) | $— | $ (75) |

| | |
|---|---|
| @ | Value is less than $500. |
| * | Cleared swap agreement, the broker is Morgan Stanley & Co. LLC. |
| LIBOR | London Interbank Offered Rate. |
| AUD | — Australian Dollar |
| BRL | — Brazilian Real |
| EUR | — Euro |
| GBP | — British Pound |
| IDR | — Indonesian Rupiah |
| MXN | — Mexican Peso |
| NOK | — Norwegian Krone |
| NZD | — New Zealand Dollar |
| PLN | — Polish Zloty |
| SEK | — Swedish Krona |
| USD | — United States Dollar |
| ZAR | — South African Rand |

### Portfolio Composition**

| Classification | Percentage of Total Investments |
|---|---|
| Industrials | 19.1% |
| Agency Fixed Rate Mortgages | 16.4 |
| Finance | 15.4 |
| Mortgages — Other | 13.4 |
| Asset-Backed Securities | 10.8 |
| Other*** | 10.1 |
| Short-Term Investments | 7.5 |
| Sovereign | 7.3 |
| Total Investments | 100.0%**** |

** Percentages indicated are based upon total investments (excluding Securities held as Collateral on Loaned Securities) as of December 31, 2018.

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

**** Does not include open long/short futures contracts with a value of approximately $43,834,000 and net unrealized appreciation of approximately $643,000. Does not include open foreign currency forward exchange contracts with net unrealized depreciation of approximately $33,000 and does not include open swap agreements with net unrealized depreciation of approximately $75,000.

## Core Plus Fixed Income Portfolio

# Statement of Assets and Liabilities

| | December 31, 2018 (000) |
|---|---|
| **Assets:** | |
| Investments in Securities of Unaffiliated Issuers, at Value[1] (Cost $164,296) | $161,532 |
| Investment in Security of Affiliated Issuer, at Value (Cost $13,323) | 13,323 |
| Total Investments in Securities, at Value (Cost $177,619) | 174,855 |
| Foreign Currency, at Value (Cost $9) | 9 |
| Cash | 1 |
| Receivable for Investments Sold | 1,758 |
| Interest Receivable | 1,229 |
| Receivable for Variation Margin on Futures Contracts | 468 |
| Receivable from Affiliate | 24 |
| Unrealized Appreciation on Foreign Currency Forward Exchange Contracts | 16 |
| Receivable for Fund Shares Sold | 11 |
| Tax Reclaim Receivable | 7 |
| Receivable from Securities Lending Income | 1 |
| Other Assets | 11 |
| Total Assets | 178,390 |
| **Liabilities:** | |
| Payable for Investments Purchased | 14,143 |
| Collateral on Securities Loaned, at Value | 1,130 |
| Payable for Fund Shares Redeemed | 521 |
| Payable for Advisory Fees | 115 |
| Payable for Professional Fees | 54 |
| Payable for Servicing Fees | 52 |
| Unrealized Depreciation on Foreign Currency Forward Exchange Contracts | 49 |
| Payable for Variation Margin on Swap Agreements | 30 |
| Payable for Distribution Fees — Class II Shares | 19 |
| Payable for Custodian Fees | 13 |
| Payable for Administration Fees | 11 |
| Payable for Directors' Fees and Expenses | 5 |
| Payable for Transfer Agency Fees | 3 |
| Deferred Capital Gain Country Tax | 1 |
| Other Liabilities | 35 |
| Total Liabilities | 16,181 |
| **NET ASSETS** | $162,209 |
| **Net Assets Consist of:** | |
| Paid-in-Capital | $160,415 |
| Total Distributable Earnings | 1,794 |
| **Net Assets** | $162,209 |
| **CLASS I:** | |
| **Net Assets** | $ 70,476 |
| **Net Asset Value, Offering and Redemption Price Per Share** Applicable to 6,631,470 Outstanding $0.001 Par Value Shares (Authorized 500,000,000 Shares) | $ 10.63 |
| **CLASS II:** | |
| **Net Assets** | $ 91,733 |
| **Net Asset Value, Offering and Redemption Price Per Share** Applicable to 8,661,883 Outstanding $0.001 Par Value Shares (Authorized 500,000,000 Shares) | $ 10.59 |
| [1] **Including:** | |
| Securities on Loan, at Value: | $ 2,472 |

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

## Core Plus Fixed Income Portfolio

# Statement of Operations

| | Year Ended December 31, 2018 (000) |
|---|---|
| **Investment Income:** | |
| Interest from Securities of Unaffiliated Issuers (Net of $8 of Foreign Taxes Withheld) | $ 6,500 |
| Dividends from Security of Affiliated Issuer (Note H) | 292 |
| Income from Securities Loaned — Net | 18 |
| Total Investment Income | 6,810 |
| **Expenses:** | |
| Advisory Fees (Note B) | 672 |
| Distribution Fees — Class II Shares (Note E) | 261 |
| Servicing Fees (Note D) | 210 |
| Professional Fees | 156 |
| Administration Fees (Note C) | 143 |
| Custodian Fees (Note G) | 48 |
| Pricing Fees | 42 |
| Shareholder Reporting Fees | 41 |
| Transfer Agency Fees (Note F) | 11 |
| Directors' Fees and Expenses | 8 |
| Other Expenses | 25 |
| Total Expenses | 1,617 |
| Waiver of Advisory Fees (Note B) | (101) |
| Rebate from Morgan Stanley Affiliate (Note H) | (28) |
| Net Expenses | 1,488 |
| **Net Investment Income** | 5,322 |
| **Realized Gain (Loss):** | |
| Investments Sold | (871) |
| Foreign Currency Forward Exchange Contracts | 1,354 |
| Foreign Currency Translation | (79) |
| Futures Contracts | (1,378) |
| Swap Agreements | 263 |
| Net Realized Loss | (711) |
| **Change in Unrealized Appreciation (Depreciation):** | |
| Investments (Net of Decrease in Deferred Capital Gain Country Tax of $8) | (6,864) |
| Foreign Currency Forward Exchange Contracts | (29) |
| Foreign Currency Translation | (6) |
| Futures Contracts | 522 |
| Swap Agreements | 80 |
| Net Change in Unrealized Appreciation (Depreciation) | (6,297) |
| **Net Realized Loss and Change in Unrealized Appreciation (Depreciation)** | (7,008) |
| **Net Decrease in Net Assets Resulting from Operations** | $(1,686) |

## Core Plus Fixed Income 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 | $ 5,322 | $ 5,540 |
| Net Realized Gain (Loss) | (711) | 1,333 |
| Net Change in Unrealized Appreciation (Depreciation) | (6,297) | 4,072 |
| Net Increase (Decrease) in Net Assets Resulting from Operations | (1,686) | 10,945 |
| **Dividends and Distributions to Shareholders:** | | |
| Class I | (1,924) | (2,535)* |
| Class II | (2,404) | (3,067)* |
| Total Dividends and Distributions to Shareholders | (4,328) | (5,602) |
| **Capital Share Transactions:**[(1)] | | |
| Class I: | | |
| Subscribed | 8,660 | 6,683 |
| Distributions Reinvested | 1,924 | 2,535 |
| Redeemed | (17,378) | (14,523) |
| Class II: | | |
| Subscribed | 19,537 | 24,640 |
| Distributions Reinvested | 2,404 | 3,067 |
| Redeemed | (38,261) | (22,893) |
| Net Decrease in Net Assets Resulting from Capital Share Transactions | (23,114) | (491) |
| Total Increase (Decrease) in Net Assets | (29,128) | 4,852 |
| **Net Assets:** | | |
| Beginning of Period | 191,337 | 186,485 |
| End of Period | $162,209 | $191,337† |
| (1) **Capital Share Transactions:** | | |
| Class I: | | |
| Shares Subscribed | 810 | 614 |
| Shares Issued on Distributions Reinvested | 182 | 236 |
| Shares Redeemed | (1,626) | (1,337) |
| Net Decrease in Class I Shares Outstanding | (634) | (487) |
| Class II: | | |
| Shares Subscribed | 1,830 | 2,276 |
| Shares Issued on Distributions Reinvested | 228 | 286 |
| Shares Redeemed | (3,597) | (2,114) |
| Net Increase (Decrease) in Class II Shares Outstanding | (1,539) | 448 |

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 | $ (2,535) |
| **Class II:** | |
| Net Investment Income | $ (3,067) |

† Accumulated Undistributed Net Investment Income for the year ended December 31, 2017 was $3,856.

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

# Financial Highlights

## Core Plus Fixed Income Portfolio

| Selected Per Share Data and Ratios | Class I<br>Year Ended December 31,<br>2018 | 2017 | 2016[1] | 2015 | 2014 |
|---|---|---|---|---|---|
| **Net Asset Value, Beginning of Period** | $10.98 | $10.67 | $10.25 | $10.68 | $10.21 |
| **Income (Loss) from Investment Operations:** | | | | | |
| Net Investment Income[2] | 0.34 | 0.34 | 0.33 | 0.20 | 0.30 |
| Net Realized and Unrealized Gain (Loss) | (0.41) | 0.32 | 0.30 | (0.27) | 0.49 |
| Total from Investment Operations | (0.07) | 0.66 | 0.63 | (0.07) | 0.79 |
| **Distributions from and/or in Excess of:** | | | | | |
| Net Investment Income | (0.28) | (0.35) | (0.21) | (0.36) | (0.32) |
| **Net Asset Value, End of Period** | $10.63 | $10.98 | $10.67 | $10.25 | $10.68 |
| **Total Return[3]** | (0.65)% | 6.24% | 6.11%[4] | (0.65)% | 7.85% |
| **Ratios and Supplemental Data:** | | | | | |
| Net Assets, End of Period (Thousands) | $70,476 | $79,752 | $82,746 | $88,018 | $100,671 |
| Ratio of Expenses to Average Net Assets[6] | 0.68%[5] | 0.68%[5] | 0.61%[5] | 0.69%[5] | 0.65%[5] |
| Ratio of Expenses to Average Net Assets Excluding Non Operating Expenses | N/A | N/A | 0.61%[5] | N/A | 0.68%[5] |
| Ratio of Net Investment Income to Average Net Assets[6] | 3.12%[5] | 3.10%[5] | 3.06%[5] | 1.89%[5] | 2.83%[5] |
| Ratio of Rebate from Morgan Stanley Affiliates to Average Net Assets | 0.02% | 0.02% | 0.02% | 0.01% | 0.02% |
| Portfolio Turnover Rate | 220% | 277% | 376% | 400% | 320% |
| **[6] Supplemental Information on the Ratios to Average Net Assets:** | | | | | |
| Ratios Before Expense Limitation: | | | | | |
| Expenses to Average Net Assets | 0.76% | 0.76% | 0.72% | 0.76% | 0.80% |
| Net Investment Income to Average Net Assets | 3.04% | 3.02% | 2.95% | 1.82% | 2.68% |

(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 would have been 0.07% higher and the Ratio of Net Investment Income to Average Net Assets would have been 0.07% lower had the Custodian not reimbursed the Fund.

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

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

(4) Performance was positively impacted by approximately 1.77% due to the receipt of proceeds from the settlement of class action suits involving the Fund's past holdings. These were one-time settlements, and as a result, the impact on the NAV and consequently the performance will not likely be repeated in the future. Had these settlements not occurred, the total return for Class I shares would have been approximately 4.34%.

(5) 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."

# Financial Highlights

## Core Plus Fixed Income Portfolio

| Selected Per Share Data and Ratios | Class II Year Ended December 31, 2018 | 2017 | 2016[1] | 2015 | 2014 |
|---|---|---|---|---|---|
| **Net Asset Value, Beginning of Period** | $10.94 | $10.64 | $10.22 | $10.65 | $10.19 |
| **Income (Loss) from Investment Operations:** | | | | | |
| Net Investment Income[2] | 0.31 | 0.31 | 0.30 | 0.17 | 0.27 |
| Net Realized and Unrealized Gain (Loss) | (0.41) | 0.31 | 0.30 | (0.26) | 0.49 |
| Total from Investment Operations | (0.10) | 0.62 | 0.60 | (0.09) | 0.76 |
| **Distributions from and/or in Excess of:** | | | | | |
| Net Investment Income | (0.25) | (0.32) | (0.18) | (0.34) | (0.30) |
| **Net Asset Value, End of Period** | $10.59 | $10.94 | $10.64 | $10.22 | $10.65 |
| **Total Return[3]** | (0.91)% | 5.89% | 5.86%[4] | (0.83)% | 7.57% |
| **Ratios and Supplemental Data:** | | | | | |
| Net Assets, End of Period (Thousands) | $91,733 | $111,585 | $103,739 | $104,736 | $104,837 |
| Ratio of Expenses to Average Net Assets[6] | 0.93%[5] | 0.93%[5] | 0.86%[5] | 0.94%[5] | 0.90%[5] |
| Ratio of Expenses to Average Net Assets Excluding Non Operating Expenses | N/A | N/A | 0.86%[5] | N/A | 0.93%[5] |
| Ratio of Net Investment Income to Average Net Assets[6] | 2.87%[5] | 2.85%[5] | 2.81%[5] | 1.64%[5] | 2.58%[5] |
| Ratio of Rebate from Morgan Stanley Affiliates to Average Net Assets | 0.02% | 0.02% | 0.02% | 0.01% | 0.02% |
| Portfolio Turnover Rate | 220% | 277% | 376% | 400% | 320% |
| **[6] Supplemental Information on the Ratios to Average Net Assets:** | | | | | |
| Ratios Before Expense Limitation: | | | | | |
| Expenses to Average Net Assets | 1.01% | 1.01% | 0.97% | 1.04% | 1.15% |
| Net Investment Income to Average Net Assets | 2.79% | 2.77% | 2.70% | 1.54% | 2.33% |

(1) Reflects prior period Custodian out-of-pocket expenses that were reimbursed in September 2016. The amount of the reimbursement was immaterial on a per share basis and did not impact the total return of Class II shares. The Ratio of Expenses to Average Net Assets would have been 0.07% higher and the Ratio of Net Investment Income to Average Net Assets would have been 0.07% lower had the Custodian not reimbursed the Fund.

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

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

(4) Performance was positively impacted by approximately 1.77% due to the receipt of proceeds from the settlement of class action suits involving the Fund's past holdings. These were one-time settlements, and as a result, the impact on the NAV and consequently the performance will not likely be repeated in the future. Had these settlements not occurred, the total return for Class II shares would have been approximately 4.09%.

(5) 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."

# 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 Core Plus Fixed Income Portfolio. The Fund seeks above-average total return over a market cycle of three to five years by investing primarily in a diversified portfolio of fixed income securities. 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) 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; (2) 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; (3) over-the-counter ("OTC") swaps may be valued by an outside pricing service approved by the Directors or quotes from a broker or dealer. Swaps cleared on a clearinghouse or exchange may be valued using the closing price provided by the clearinghouse or exchange; (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 affecting the closing prices of securities and other assets may occur between the times at which valuations of such securities are determined (that is, close of the foreign market on which the securities trade) and the close of business of the New York Stock Exchange ("NYSE"). If developments occur during such periods that are expected to materially affect the value of such securities, such valuations may be adjusted to reflect the estimated fair value of such securities as of the close of the NYSE, as determined in good faith by the Directors or by the Adviser using a pricing service and/or procedures approved by the Directors; (5) quotations of foreign portfolio securities, other assets and liabilities and forward contracts stated in foreign currency are translated into U.S. dollar equivalents at the prevailing market rates prior to the close of the NYSE; and (6) investments in mutual funds, including the Morgan Stanley Institutional 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

# Notes to Financial Statements (cont'd)

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.

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:** | | | | |
| **Fixed Income Securities** | | | | |
| Agency Adjustable Rate Mortgages | $ — | $ 484 | $— | $ 484 |
| Agency Fixed Rate Mortgages | — | 28,546 | — | 28,546 |
| Asset-Backed Securities | — | 18,738 | — | 18,738 |
| Collateralized Mortgage Obligations - Agency Collateral Series | — | 1,846 | — | 1,846 |
| Commercial Mortgage-Backed Securities | — | 7,482 | — | 7,482 |
| Corporate Bonds | — | 65,865 | —† | 65,865 |
| Mortgages - Other | — | 23,331 | — | 23,331 |
| Municipal Bonds | — | 1,792 | — | 1,792 |
| Sovereign | — | 12,619 | — | 12,619 |
| **Total Fixed Income Securities** | **—** | **160,703** | **—†** | **160,703†** |
| **Short-Term Investments** | | | | |
| Investment Company | 13,323 | — | — | 13,323 |
| U.S. Treasury Security | — | 829 | — | 829 |
| **Total Short-Term Investments** | **13,323** | **829** | **—** | **14,152** |
| **Foreign Currency Forward Exchange Contracts** | — | 16 | — | 16 |
| **Futures Contracts** | 781 | — | — | 781 |
| **Interest Rate Swap Agreements** | — | 111 | — | 111 |
| **Total Assets** | **14,104** | **161,659** | **—†** | **175,763†** |

# 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) |
|---|---|---|---|---|
| **Liabilities:** | | | | |
| **Foreign Currency Forward Exchange Contracts** | $ — | $ (49) | $— | $ (49) |
| **Futures Contracts** | (138) | — | — | (138) |
| **Interest Rate Swap Agreements** | — | (186) | — | (186) |
| **Total Liabilities** | **(138)** | **(235)** | **—** | **(373)** |
| **Total** | **$13,966** | **$161,424** | **$—†** | **$175,390†** |

† Includes one security which is valued at zero.

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

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

| | Corporate Bond (000) |
|---|---|
| **Beginning Balance** | $—† |
| Purchases | — |
| Sales | — |
| Amortization of discount | — |
| Transfers in | — |
| Transfers out | — |
| Corporate actions | — |
| Change in unrealized appreciation (depreciation) | — |
| Realized gains (losses) | — |
| **Ending Balance** | $—† |
| Net change in unrealized appreciation (depreciation) from investments still held as of December 31, 2018 | $— |

† Includes one security which is valued at zero.

**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 sales and maturities of 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

# Notes to Financial Statements (cont'd)

values may differ. In the absence of trading of the foreign shares in such markets, the Fund values the foreign shares at the closing exchange price of the local shares.

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

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

**Foreign Currency Forward Exchange Contracts:** In connection with its investments in foreign securities, the Fund also entered into contracts with banks, brokers or dealers to purchase or sell securities or foreign currencies at a future date. A foreign currency forward exchange contract ("currency contract") is a negotiated agreement between the contracting parties to exchange a specified amount of currency at a specified future time at a specified rate. The rate can be higher or lower than the spot rate between the currencies that are the subject of the contract. Currency contracts may be used to protect against uncertainty in the level of future foreign currency exchange rates or to gain or modify exposure to a particular currency. In addition, the Fund may use cross currency hedging or proxy hedging with respect to currencies in which the Fund has or expects to have portfolio or currency exposure. Cross currency hedges involve the sale of one currency against the positive exposure to a different currency and may be used for hedging purposes or to establish an active exposure to the exchange rate between any two currencies. To the extent hedged by the use of currency contracts, the precise matching of the currency contract amounts and the value of the securities involved will not generally be possible because the future value of such securities in foreign currencies will change as a consequence of market movements in the value of those securities between the date on which the contract is entered into and the date it matures. Furthermore, such transactions may reduce or preclude the opportunity for gain if the value of the currency should move in the direction opposite to the position taken. There is additional risk to the extent that currency contracts create exposure to currencies in which the Fund's securities are not denominated. Unanticipated changes in currency prices may result in poorer overall performance for the Fund than if it had not entered into such contracts. The use of currency contracts involves the risk of loss from the insolvency or bankruptcy of the counterparty to the contract or the failure of the counterparty to make payments or otherwise comply with the terms of the contract. A currency contract is marked-to-market daily and the change in market value is recorded by the Fund as unrealized gain or loss. The Fund records realized gains (losses) when the currency contract is closed equal to the difference between the value of the currency contract at the time it was opened and the value at the time it was closed.

**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

# Notes to Financial Statements (cont'd)

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. There is also the risk of loss by the Fund of margin deposits in the event of bankruptcy of a broker with which the Fund has open positions in the futures contract.

**Swaps:** The Fund may enter into OTC swap contracts or cleared swap transactions. A swap contract is an agreement between two parties pursuant to which the parties exchange payments at specified dates on the basis of a specified notional amount, with the payments calculated by reference to specified securities, indices, reference rates, currencies or other instruments. Typically swap agreements provide that when the period payment dates for both parties are the same, the payments are made on a net basis (i.e., the two payment streams are netted out, with only the net amount paid by one party to the other). The Fund's obligations or rights under a swap contract entered into on a net basis will generally be equal only to the net amount to be paid or received under the agreement, based on the relative values of the positions held by each party. Cleared swap transactions may help reduce counterparty credit risk. In a cleared swap, the Fund's ultimate counterparty is a clearinghouse rather than a swap dealer, bank or other financial institution. OTC swap agreements are not entered into or traded on exchanges and often there is no central clearing or guaranty function for OTC swaps. These OTC swaps are often subject to credit risk or the risk of default or non-performance by the counterparty. Both OTC and cleared swaps could result in losses if interest rates, foreign currency exchange rates or other factors are not correctly anticipated by the Fund or if the reference index, security or investments do not perform as expected. During the period swap agreements are open, payments are received from or made to the clearinghouse or counterparty based upon changes in the value of the contract (variation margin). The Dodd-Frank Wall Street Reform and Consumer Protection Act and related regulatory developments require the clearing and exchange-trading of certain standardized swap transactions. Mandatory exchange-trading and clearing is occurring on a phased-in basis.

The Fund's use of swaps during the period included those based on the credit of an underlying security commonly referred to as "credit default swaps." The Fund may be either the buyer or seller in a credit default swap. Where the Fund is the buyer of a credit default swap contract, it would typically be entitled to receive the par (or other agreed-upon) value of a referenced debt obligation from the counterparty to the contract only in the event of a default or similar event by the issuer of the debt obligation. If no default occurs, the Fund would have paid to the counterparty a periodic stream of payments over the term of the contract and received no benefit from the contract. When the Fund is the seller of a credit default swap contract, it typically receives the stream of payments but is obligated to pay an amount equal to the par (or other agreed-upon) value of a referenced debt obligation upon the default or similar event by the issuer of the referenced debt obligation. The use of credit default swaps could result in losses to the Fund if the Adviser fails to correctly evaluate the creditworthiness of the issuer of the referenced debt obligation.

If the Fund is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Fund will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap agreement and take delivery of the referenced obligation, other deliverable obligations or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap agreement less the recovery value of the referenced obligation or underlying securities comprising the referenced index. If the Fund is a buyer of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Fund will either (i) receive from the seller of protection an amount equal to the notional amount of the swap agreement and deliver the referenced obligation, other deliverable obligations or underlying securities comprising the referenced index or (ii) receive a net settlement amount in the form of cash or securities equal to the notional amount of the swap agreement less the recovery value of the referenced obligation or underlying securities

# Notes to Financial Statements (cont'd)

comprising the referenced index. Recovery values are estimated by market makers considering either industry standard recovery rates or entity specific factors and considerations until a credit event occurs. If a credit event has occurred, the recovery value is determined by a facilitated auction whereby a minimum number of allowable broker bids, together with a specified valuation method, are used to calculate the settlement value. The Fund's maximum risk of loss from counterparty risk, either as the protection seller or as the protection buyer, is the fair value of the swap agreement.

The current credit rating of each individual issuer is listed in the table following the Portfolio of Investments and serves as an indicator of the current status of the payment/performance risk of the credit derivative. Alternatively, for credit default swaps on an index of credits, the quoted market prices and current values serve as an indicator of the current status of the payment/performance risk of the credit derivative. Generally, lower credit ratings and increasing market values, in absolute terms, represent a deterioration of the credit and a greater likelihood of an adverse credit event of the issuer.

When the Fund has an unrealized loss on a swap agreement, the Fund has instructed the custodian to pledge cash or liquid securities as collateral with a value approximately equal to the amount of the unrealized loss. Collateral pledges are monitored and subsequently adjusted if and when the swap valuations fluctuate. If applicable, cash collateral is included with "Due from (to) Broker" in the Statement of Assets and Liabilities.

Upfront payments paid or received by the Fund will be reflected as an asset or liability, respectively, in the Statement of Assets and Liabilities.

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 tables set forth the fair value of the Fund's derivative contracts by primary risk exposure as of December 31, 2018:

| | Asset Derivatives Statement of Assets and Liabilities Location | Primary Risk Exposure | Value (000) |
|---|---|---|---|
| Foreign Currency Forward Exchange Contracts | Unrealized Appreciation on Foreign Currency Forward Exchange Contracts | Currency Risk | $ 16 |
| Futures Contracts | Variation Margin on Futures Contracts | Interest Rate Risk | 781(a) |
| Swap Agreements | Variation Margin on Swap Agreements | Interest Rate Risk | 111(a) |
| Total | | | $908 |

| | Liability Derivatives Statement of Assets and Liabilities Location | Primary Risk Exposure | Value (000) |
|---|---|---|---|
| Foreign Currency Forward Exchange Contracts | Unrealized Depreciation on Foreign Currency Forward Exchange Contracts | Currency Risk | $ (49) |
| Futures Contracts | Variation Margin on Futures Contracts | Interest Rate Risk | (138)(a) |
| Swap Agreements | Variation Margin on Swap Agreements | Interest Rate Risk | (186)(a) |
| Total | | | $(373) |

(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 year ended December 31, 2018 in accordance with ASC 815:

**Realized Gain (Loss)**

| Primary Risk Exposure | Derivative Type | Value (000) |
|---|---|---|
| Currency Risk | Foreign Currency Forward Exchange Contracts | $ 1,354 |
| Interest Rate Risk | Futures Contracts | (1,378) |
| Credit Risk | Swap Agreements | (144) |
| Interest Rate Risk | Swap Agreements | 407 |
| Total | | $ 239 |

**Change in Unrealized Appreciation (Depreciation)**

| Primary Risk Exposure | Derivative Type | Value (000) |
|---|---|---|
| Currency Risk | Foreign Currency Forward Exchange Contracts | $ (29) |
| Interest Rate Risk | Futures Contracts | 522 |
| Credit Risk | Swap Agreements | 201 |
| Interest Rate Risk | Swap Agreements | (121) |
| Total | | $ 573 |

# Notes to Financial Statements (cont'd)

At December 31, 2018, the Fund's derivative assets and liabilities are as follows:

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

| Derivatives(b) | Assets(c) (000) | Liabilities(c) (000) |
|---|---|---|
| Foreign Currency Forward Exchange Contracts | $16 | $(49) |

(b) Excludes exchange-traded derivatives.

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

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

The following tables present derivative financial instruments that are subject to enforceable netting arrangements as of December 31, 2018:

| Counterparty | Gross Asset Derivatives Presented in the Statement of Assets and Liabilities (000) | Gross Amounts Not Offset in the Statement of Assets and Liabilities: Financial Instrument (000) | Collateral Received (000) | Net Amount (not less than $0) (000) |
|---|---|---|---|---|
| Barclays Bank PLC | $—@ | $— | $— | $—@ |
| Citibank NA | 3 | (3) | — | 0 |
| JPMorgan Chase Bank NA | 4 | (—@) | — | 4 |
| UBS AG | 9 | (—@) | — | 9 |
| Total | $16 | $ (3) | $— | $13 |

| Counterparty | Gross Liability Derivatives Presented in the Statement of Assets and Liabilities (000) | Gross Amounts Not Offset in the Statement of Assets and Liabilities: Financial Instrument (000) | Collateral Pledged (000) | Net Amount (not less than $0) (000) |
|---|---|---|---|---|
| Australia and New Zealand Banking Group | $ 1 | $— | $— | $ 1 |
| Bank of America NA | 10 | — | — | 10 |
| BNP Paribas SA | —@ | — | — | —@ |
| Citibank NA | 15 | (3) | — | 12 |
| JPMorgan Chase Bank NA | —@ | (—@) | — | 0 |
| Royal Bank of Canada | 23 | — | — | 23 |
| UBS AG | —@ | (—@) | — | 0 |
| Total | $49 | $ (3) | $— | $46 |

@ Amount is less than $500.

For the year ended December 31, 2018, the approximate average monthly amount outstanding for each derivative type is as follows:

**Foreign Currency Forward Exchange Contracts:**

Average monthly principal amount . . . . . . . . . . . . $26,856,000

**Futures Contracts:**

Average monthly notional value . . . . . . . . . . . . . . $56,880,000

**Swap Agreements:**

Average monthly notional amount . . . . . . . . . . . . . $ 8,957,000

# Notes to Financial Statements (cont'd)

5. **When-Issued/Delayed Delivery Securities:** The Fund purchases and sells when-issued and delayed delivery securities. Securities purchased on a when-issued or delayed delivery basis are purchased for delivery beyond the normal settlement date at a stated price and yield, and no income accrues to the Fund on such securities prior to delivery date. Payment and delivery for when-issued and delayed delivery securities can take place a month or more after the date of the transaction. When the Fund enters into a purchase transaction on a when-issued or delayed delivery basis, securities are available for collateral in an amount at least equal in value to the Fund's commitments to purchase such securities. Purchasing securities on a when-issued or delayed delivery basis may involve a risk that the market price at the time of delivery may be lower than the agreed upon purchase price, in which case there could be an unrealized loss at the time of delivery. Purchasing investments on a when-issued or delayed delivery basis may be considered a form of leverage which may increase the impact that gains (losses) may have on the Fund.

6. **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 December 31, 2018:

| Gross Asset Amounts Presented in the Statement of Assets and Liabilities (000) | Gross Amounts Not Offset in the Statement of Assets and Liabilities: Financial Instrument (000) | Collateral Received (000) | Net Amount (not less than $0) (000) |
|---|---|---|---|
| $2,472(d) | $— | $(2,472)(e)(f) | $0 |

(d) Represents market value of loaned securities at year end.

(e) The Fund received cash collateral of approximately $1,130,000, 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 $1,390,000 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.

(f) 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 borrowing.

   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 December 31, 2018:

| | Remaining Contractual Maturity of the Agreements | | | | |
|---|---|---|---|---|---|
| | Overnight and Continuous (000) | <30 days (000) | Between 30 & 90 days (000) | >90 days (000) | Total (000) |
| **Securities Lending Transactions** | | | | | |
| Corporate Bonds | $ 1,130 | $— | $— | $— | $ 1,130 |
| **Total Borrowings** | **$1,130** | **$—** | **$—** | **$—** | **$1,130** |
| **Gross amount of recognized liabilities for securities lending transactions** | | | | | **$1,130** |

7. **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.

8. **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

# Notes to Financial Statements (cont'd)

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 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.

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.

9. **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 $1 billion | Over $1 billion |
|---|---|
| 0.375% | 0.30% |

For the year ended December 31, 2018, the advisory fee rate (net of waiver/rebate) was equivalent to an annual effective rate of 0.30% 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 0.70% for Class I shares and 0.95% 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 $101,000 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, State Street provides certain administrative services to the Company. For such services, the Administrator pays State Street a portion of the fee the Administrator receives from the Fund.

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

**E. Distribution Fees:** Morgan Stanley Distribution, Inc. ("MSDI" or the "Distributor"), a wholly-owned subsidiary of the Adviser and an indirect subsidiary of Morgan Stanley, serves as the Distributor of the Fund and provides the Fund's Class II shareholders with distribution services pursuant to a Distribution Plan (the "Plan") in accordance with Rule 12b-1 under the Act. Under the Plan, the Fund is authorized to pay the Distributor a distribution fee, which is accrued daily and paid monthly, at an annual rate of 0.25% of the Fund's average daily net assets attributable to Class II shares.

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

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

**H. Security Transactions and Transactions with Affiliates:** For the year ended December 31, 2018, purchases and sales of investment securities for the Fund, other than

# Notes to Financial Statements (cont'd)

long-term U.S. Government securities and short-term investments, were approximately $62,428,000 and $78,982,000, respectively. For the year ended December 31, 2018, purchases and sales of long-term U.S. Government securities were approximately $323,268,000 and $333,091,000, respectively.

The Fund invests in the Institutional Class of the Morgan Stanley Institutional Liquidity Funds (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 year ended December 31, 2018, advisory fees paid were reduced by approximately $28,000 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 | $19,488 | $67,461 | $73,626 | $292 |

| Affiliated Investment Company (cont'd) | Realized Gain (Loss) (000) | Change in Unrealized Appreciation (Depreciation) (000) | Value December 31, 2018 (000) |
|---|---|---|---|
| Liquidity Funds | $— | $— | $13,323 |

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 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) |
| $4,328 | $— | $5,602 | $— |

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.

# Notes to Financial Statements (cont'd)

Permanent differences, primarily due to differing treatments of gains (losses) related to foreign currency transactions, swap transactions and paydown adjustments, resulted in the following reclassifications among the components of net assets at December 31, 2018:

| Total Distributable Earnings (000) | Paid-in Capital (000) |
|---|---|
| $(2) | $2 |

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) |
|---|---|
| $6,571 | $— |

At December 31, 2018, the Fund had available for federal income tax purposes unused short-term and long-term capital losses of approximately $1,045,000 and $217,000, respectively, that do not have an expiration date.

To the extent that capital loss carryforwards are used to offset any future capital gains realized, no capital gains tax liability will be incurred by the Fund for gains realized and not distributed. To the extent that capital gains are offset, such gains will not be distributed to the shareholders.

**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 63.1%.

**L. Accounting Pronouncement:** In March 2017, FASB issued an Accounting Standard Update, ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities ("ASU 2017-08") which amends the amortization period for certain purchased callable debt securities held at a premium, shortening such period to the earliest call date. ASU 2017-08 does not require any accounting change for debt securities held at a discount; the discount continues to be accreted to maturity. ASU 2017-08 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. At this time, management is evaluating the implications of these changes on the financial statements.

# Report of Independent Registered Public Accounting Firm

**To the Shareholders and Board of Directors of
Morgan Stanley Variable Insurance Fund, Inc. —
Core Plus Fixed Income Portfolio**

**Opinion on the Financial Statements**

We have audited the accompanying statement of assets and liabilities of Core Plus Fixed Income 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 Core Plus Fixed Income 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)<br>c/o Perkins Coie LLP<br>Counsel to the Independent Directors<br>30 Rockefeller Plaza<br>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)<br>c/o Perkins Coie LLP<br>Counsel to the Independent Directors<br>30 Rockefeller Plaza<br>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)<br>c/o Perkins Coie LLP<br>Counsel to the Independent Directors<br>30 Rockefeller Plaza<br>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)<br>c/o Perkins Coie LLP<br>Counsel to the Independent Directors<br>30 Rockefeller Plaza<br>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)<br>c/o Johnson Smick International, Inc.<br>220 I Street, NE — Suite 200<br>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)<br>c/o Perkins Coie LLP<br>Counsel to the Independent Directors<br>30 Rockefeller Plaza<br>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)<br>c/o Perkins Coie LLP<br>Counsel to the Independent Directors<br>30 Rockefeller Plaza<br>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)<br>c/o Perkins Coie LLP<br>Counsel to the Independent Directors<br>30 Rockefeller Plaza<br>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)<br>522 Fifth Avenue<br>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)<br>c/o Perkins Coie LLP<br>Counsel to the Independent Directors<br>30 Rockefeller Plaza<br>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)****<br>c/o Joe Pietryka, Inc.<br>85 Charles Colman Blvd.<br>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)<br>522 Fifth Avenue<br>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)<br>522 Fifth Avenue<br>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)<br>522 Fifth Avenue<br>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)<br>522 Fifth Avenue<br>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)<br>522 Fifth Avenue<br>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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