

SECURITIES AND EXCHANGE COMMISSION

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FILER

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[LOGO]

Morgan Stanley Competitive Edge Fund
"Best Ideas" Portfolio

A mutual fund that seeks
long-term capital growth

[COVER PHOTO]

Prospectus - July 30, 2001

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THE CONTRARY IS A CRIMINAL OFFENSE.

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THIS PROSPECTUS CONTAINS IMPORTANT INFORMATION ABOUT
THE PORTFOLIO. PLEASE READ
IT CAREFULLY AND KEEP IT FOR FUTURE REFERENCE.

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[Sidebar]

CAPITAL GROWTH

An investment objective having the goal of selecting securities with the potential to rise in price rather than pay out income.

[End Sidebar]

The Portfolio

[ICON] INVESTMENT OBJECTIVE

Morgan Stanley Competitive Edge Fund -- "Best Ideas" Portfolio seeks long-term capital growth.

[ICON] PRINCIPAL INVESTMENT STRATEGIES

The Portfolio will normally invest at least 80% of its assets in common stock (including depositary receipts) of companies included in the "Best Ideas" subgroup of "Global Investing: The Competitive Edge List," a research compilation assembled by Morgan Stanley Equity Research -- or such supplemental companies as selected by the Portfolio's "Investment Manager," Morgan Stanley Investment Advisors Inc.

The Competitive Edge "Best Ideas" List. Morgan Stanley Equity Research is recognized as a world leader in global financial research and provides comprehensive research and in-depth knowledge about general markets and specific companies from around the world. It believes that companies with a sustainable competitive edge in the operations of their businesses are worth more than their weaker competitors. Through its ongoing research and analysis, Morgan Stanley Equity Research has developed and undertaken a comprehensive study which it calls "Global Investing: The Competitive Edge" which represents the list of those companies.

Morgan Stanley Equity Research group's research analysts and strategists presently evaluate approximately 2,100 companies in 21 industry sectors worldwide. An initial comprehensive review was conducted in October 1996 and identified 238 of these companies as having a long-term sustainable competitive

advantage in the global arena (the "Competitive Edge List"). The criteria used to select companies that have a global competitive advantage vary according to industry sector. The Competitive Edge List is currently updated quarterly. From the Competitive Edge List, Morgan Stanley Equity Research then assembles a subgroup of approximately 40 companies which it considers at that time to be the most attractive investment opportunities of the companies identified as having a long-term sustainable competitive advantage in the global arena (the "Competitive Edge 'Best Ideas' List"). The Competitive Edge "Best Ideas" List is updated continuously.

The Investment Manager intends to invest at least 1% and not more than 5% of the Portfolio's net assets in each company on the Competitive Edge "Best Ideas" List. The Portfolio will purchase any security which is added to the Competitive Edge "Best Ideas" List, and generally will sell a security which is eliminated from the Competitive Edge "Best Ideas" List as soon as practicable after the List has been updated. Accordingly, securities may be purchased and sold by the Portfolio when such purchases and sales would not be made under traditional investment criteria.

Substantially all of the orders for transactions in the Portfolio's securities listed on exchanges are expected to be placed with broker-dealers affiliated with the Investment Manager including Morgan Stanley & Co. and Morgan Stanley DW Inc.

In addition to or in replacement of companies on the Competitive Edge "Best Ideas" List, the Investment Manager may at times purchase supplemental securities that are not included on the Competitive Edge "Best Ideas" List but are on the Competitive Edge List or, in the event that the Investment Manager believes that there are no suitable companies on the Competitive Edge List, the Investment Manager may purchase securities of

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companies outside the list. Supplemental companies will be selected from the same or similar industry as the company they are supplementing or replacing. Securities that are not on the Competitive Edge "Best Ideas" List generally will not exceed 35% of the Portfolio's assets.

Common Stock is a share ownership or equity interest in a corporation. It may or may not pay dividends, as some companies reinvest all of their profits back into their businesses, while others pay out some of their profits to shareholders as dividends. A depositary receipt is generally issued by a bank or financial institution and represents an ownership interest in the common stock or other equity securities of a foreign company.

The percentage limitations relating to the composition of the Portfolio apply at the time the Portfolio acquires an investment and refer to the Portfolio's net assets, unless otherwise noted. Subsequent percentage changes that result from market fluctuations will not require the Portfolio to sell any portfolio security. The Portfolio may change its principal investment strategies without shareholder approval; however, you would be notified of any changes.

There is no assurance that the Portfolio will achieve its investment objective. The Portfolio's share price will fluctuate with changes in the market value of its portfolio securities. When you sell Portfolio shares, they may be worth less than what you paid for them and, accordingly, you can lose money investing in this Portfolio.

Common Stock. A principal risk of investing in the Portfolio is associated with its investments in common stock. In particular the prices of common stocks may fluctuate widely in response to activities specific to the company as well as general market, economic and political conditions.

Competitive Edge "Best Ideas" List. The Portfolio invests principally in securities included on the Competitive Edge "Best Ideas" List which currently consists of 40 companies. As a result of the small universe of stocks in which the Portfolio invests, it may be subject to greater risks than would a more diversified company. In addition, performance of the securities included in the List cannot be used to predict the performance of the Portfolio, an actively managed mutual fund.

The Competitive Edge "Best Ideas" List and the Competitive Edge List are not compiled with any particular client or product in mind and are not, and will not be, compiled with the Portfolio in mind. When selecting the companies for the lists, Morgan Stanley Equity Research does not take into account country or currency risks, and country or industry sector diversification concerns. Morgan Stanley publishes other lists of recommended securities that could be appropriate for Portfolio investors but which will not be used by the Investment Manager for choosing securities for the Portfolio. Morgan Stanley Equity Research could at any time cease publishing the Competitive Edge "Best Ideas" List or the Competitive Edge List. In that event the Board of Trustees will make a determination of how to proceed in the best interest of shareholders of the Portfolio consistent with the Portfolio's investment objective.

The activities of affiliates of the Investment Manager, including but not limited to Morgan Stanley DW Inc. or Morgan Stanley & Co. Incorporated, may from time to time limit the Portfolio's ability to purchase or sell securities on the Competitive Edge "Best Ideas" List. In addition, the List is available to other clients of Morgan Stanley and its affiliates, including the Investment Manager, as well as the Portfolio. The list is also subject to

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restrictions related to Morgan Stanley's other businesses, and particular securities may or may not be on the list due to other business concerns of, or legal restrictions applicable to, Morgan Stanley.

As a diversified financial services firm, with three primary businesses -- securities, asset management and credit services, Morgan Stanley provides a wide range of financial services to issuers of securities and investors in securities. Morgan Stanley and others associated with it may create markets or specialize in, have positions in and affect transactions in, securities of

companies included on its research lists and may also perform or seek to perform investment banking services for those companies. Within the last three years, Morgan Stanley may have managed or co-managed public security offerings for companies included on the research lists, and they or their employees may have a long or short position on holdings in the securities, or options on securities, or other related investments of companies included on their research lists.

Foreign Securities. The Portfolio may invest a substantial portion of its assets in foreign securities. Foreign securities involve risks in addition to the risks associated with domestic securities. One additional risk is currency risk. While the price of Portfolio shares is quoted in U.S. dollars, the Portfolio generally converts U.S. dollars to a foreign market's local currency to purchase a security in that market. If the value of that local currency falls relative to the U.S. dollar, the U.S. dollar value of the foreign security will decrease. This is true even if the foreign security's local price remains unchanged.

Foreign securities also have risks related to economic and political developments abroad, including expropriations, confiscatory taxation, exchange control regulation, limitations on the use or transfer of Portfolio assets and any effects of foreign social, economic or political instability. In particular, adverse political or economic developments in a geographic region or a particular country in which the Portfolio invests could cause a substantial decline in value of the portfolio. Foreign companies, in general, are not subject to the regulatory requirements of U.S. companies and, as such, there may be less publicly available information about these companies. Moreover, foreign accounting, auditing and financial reporting standards generally are different from those applicable to U.S. companies. Finally, in the event of a default of any foreign debt obligations, it may be more difficult for the Portfolio to obtain or enforce a judgment against the issuers of the securities.

Securities of foreign issuers may be less liquid than comparable securities of U.S. issuers and, as such, their price changes may be more volatile. Furthermore, foreign exchanges and broker-dealers are generally subject to less government and exchange scrutiny and regulation than their U.S. counterparts. In addition, differences in clearance and settlement procedures in foreign markets may occasion delays in settlements of the Portfolio's trades effected in those markets could result in losses in the Portfolio due to subsequent declines in the value of the securities subject to the trades.

The foreign securities in which the Portfolio may invest may be issued by companies located in emerging market countries. Compared to the United States and other developed countries, emerging market countries may have relatively unstable governments, economies based on only a few industries and securities markets that trade a small number of securities. Prices of these securities tend to be especially volatile and, in the past, securities in these countries have offered greater potential loss (as well as gain) than securities of companies located in developed countries.

Depositary receipts involve substantially identical risks to those associated with direct investment in foreign securities. In addition, the underlying issuers of certain depositary receipts, particularly unsponsored or unregistered depositary receipts, are under no obligation to distribute shareholder

communications to the holders of such receipts, or to pass through to them any voting rights with respect to the deposited securities.

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[Sidebar]

ANNUAL TOTAL RETURNS

This chart shows how the performance of the Portfolio's Class B shares has varied from year to year over the past 2 calendar years.

AVERAGE ANNUAL TOTAL RETURNS

This table compares the Portfolio's average annual total returns with those of a broad measure of market performance over time. The Portfolio's returns include the maximum applicable sales charge for each Class and assume you sold your shares at the end of each period.

[End Sidebar]

Other Risks. The performance of the Portfolio also will depend on whether or not the Investment Manager is successful in applying the Portfolio's investment strategies.

Shares of the Portfolio are not bank deposits and are not guaranteed or insured by the FDIC or any other government agency.

[ICON] PAST PERFORMANCE

The bar chart and table below provide some indication of the risks of investing in the Portfolio. The Portfolio's past performance does not indicate how the Portfolio will perform in the future.

ANNUAL TOTAL RETURNS -- Calendar Years

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

<Table>

<S> <C>

1999 28.30%

2000 -18.63%

</Table>

THE BAR CHART REFLECTS THE PERFORMANCE OF CLASS B SHARES; THE PERFORMANCE OF THE OTHER CLASSES WILL DIFFER BECAUSE THE CLASSES HAVE DIFFERENT ONGOING FEES. THE PERFORMANCE INFORMATION IN THE BAR CHART DOES NOT REFLECT THE DEDUCTION OF SALES CHARGES; IF THESE AMOUNTS WERE REFLECTED, RETURNS WOULD BE LESS THAN SHOWN. YEAR-TO-DATE TOTAL RETURN AS OF JUNE 30, 2001 WAS -16.35%.

During the period shown in the bar chart, the highest return for a calendar quarter was 19.18% (quarter ended December 31, 1999) and the lowest return for a

calendar quarter was -12.44% (quarter ended December 31, 2000).

AVERAGE ANNUAL TOTAL RETURNS (as of December 31, 2000)

<Table>
<Caption>

	Past 1 Year	Life of the Portfolio (Since 2/25/98)
<S>	<C>	<C>
Class A	-22.41%	2.04%
Class B	-22.19%	2.29%
Class C	-19.45%	3.30%
Class D	-17.91%	4.21%
MSCI World Index(1)	-13.18%	7.56%(2)

</Table>

- 1 THE MORGAN STANLEY CAPITAL INTERNATIONAL (MSCI) WORLD INDEX MEASURES PERFORMANCE FROM A DIVERSE RANGE OF GLOBAL STOCK MARKETS INCLUDING SECURITIES REPRESENTATIVE OF THE MARKET STRUCTURE OF 22 DEVELOPED MARKET COUNTRIES IN NORTH AMERICA, EUROPE, AND THE ASIA/PACIFIC REGION. THE PERFORMANCE OF THE INDEX IS LISTED IN U.S. DOLLARS AND ASSUMES REINVESTMENT OF NET DIVIDENDS. "NET DIVIDENDS" REFLECTS A REDUCTION IN DIVIDENDS AFTER TAKING INTO ACCOUNT WITHHOLDING OF TAXES BY CERTAIN FOREIGN COUNTRIES REPRESENTED IN THE INDEX. THE INDEX DOES NOT INCLUDE ANY EXPENSES, FEES OR CHARGES. THE INDEX IS UNMANAGED AND SHOULD NOT BE CONSIDERED AN INVESTMENT.
- 2 FOR THE PERIOD FEBRUARY 28, 1998 TO DECEMBER 31, 2000.

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[SIDEBAR]

SHAREHOLDER FEES

These fees are paid directly from your investment.

ANNUAL FUND

OPERATING EXPENSES

These expenses are deducted from the Portfolio's assets and are based on

expenses paid for the fiscal year ended May 31, 2001.

[End Sidebar]

[ICON] FEES AND EXPENSES

The table below briefly describes the fees and expenses that you may pay if you buy and hold shares of the Portfolio. The Portfolio offers four Classes of shares: Classes A, B, C and D. Each Class has a different combination of fees, expenses and other features. The Portfolio does not charge account or exchange fees. See the "Share Class Arrangements" section for further fee and expense information.

<Table>

<Caption>

			Class A	Class
B	Class C	Class D	<C>	<C>

SHAREHOLDER FEES

Maximum sales charge (load) imposed on purchases (as a percentage of offering price)			5.25% (1)	None
None	None			

Maximum deferred sales charge (load) (as a percentage based on the lesser of the offering price or net asset value at redemption)			None (2)	
5.00% (3)	1.00% (4)	None		

ANNUAL PORTFOLIO OPERATING EXPENSES

Management fee			0.65%	0.65%
0.65%	0.65%			

Distribution and service (12b-1) fees			0.23%	1.00%
0.99%	None			

Other expenses			0.17%	0.17%
0.17%	0.17%			

Total annual Fund operating expenses			1.05%	1.82%
1.81%	0.82%			

</Table>

- 1 REDUCED FOR PURCHASES OF \$25,000 AND OVER.
- 2 INVESTMENTS THAT ARE NOT SUBJECT TO ANY SALES CHARGE AT THE TIME OF PURCHASE ARE SUBJECT TO A CONTINGENT DEFERRED SALES CHARGE ("CDSC") OF 1.00% THAT WILL BE IMPOSED IF YOU SELL YOUR SHARES WITHIN ONE YEAR AFTER PURCHASE, EXCEPT FOR CERTAIN SPECIFIC CIRCUMSTANCES.
- 3 THE CDSC IS SCALED DOWN TO 1.00% DURING THE SIXTH YEAR, REACHING ZERO THEREAFTER. SEE "SHARE CLASS ARRANGEMENTS" FOR A COMPLETE DISCUSSION OF THE CDSC.
- 4 ONLY APPLICABLE IF YOU SELL YOUR SHARES WITHIN ONE YEAR AFTER PURCHASE.

Example

This example is intended to help you compare the cost of investing in the Portfolio with the cost of investing in other mutual funds.

The example assumes that you invest \$10,000 in the Portfolio, your investment has a 5% return each year, and the Portfolio's operating expenses remain the same. Although your actual costs may be higher or lower, the tables below show your costs at the end of each period based on these assumptions depending upon whether or not you sell your shares at the end of each period.

<Table>

<Caption>

	If You SOLD Your Shares:				If You HELD Your		
Shares:	1 Year	3 Years	5 Years	10 Years	1 Year	3 Years	5 Years
10 Years							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
<C>							
Class A	\$626	\$842	\$1,074	\$1,740	\$626	\$842	\$1,074
\$1,740							
Class B	\$685	\$873	\$1,185	\$2,137	\$185	\$573	\$ 985
\$2,137							
Class C	\$284	\$569	\$ 980	\$2,127	\$184	\$569	\$ 980
\$2,127							
Class D	\$ 84	\$262	\$ 455	\$1,014	\$ 84	\$262	\$ 455
\$1,014							

</Table>

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[Sidebar]

MORGAN STANLEY INVESTMENT ADVISORS INC.

The Investment Manager is widely recognized as a leader in the mutual fund industry and together with Morgan Stanley Services Company Inc., its wholly-owned subsidiary, had approximately \$140 billion in assets under management as of June 30, 2001.

[End Sidebar]

[ICON] ADDITIONAL INVESTMENT STRATEGY INFORMATION

This section provides additional information relating to the Portfolio's principal investment strategies.

Defensive Investing. The Portfolio may take temporary "defensive" positions in attempting to respond to adverse market conditions. The Portfolio may invest any amount of its assets in cash or money market instruments in a defensive posture when the Investment Manager believes it is advisable to do so. Although taking a defensive posture is designed to protect the Portfolio from an anticipated market downturn, it could have the effect of reducing the benefit from any upswing in the market. When the Portfolio takes a defensive position, it may not achieve its investment objective.

[ICON] MANAGEMENT OF THE PORTFOLIO

The Portfolio has retained the Investment Manager -- Morgan Stanley Investment Advisors Inc. -- to provide administrative services, manage its business affairs and invest its assets, including the placing of orders for the purchase and sale of portfolio securities. The Investment Manager is a wholly-owned subsidiary of Morgan Stanley Dean Witter & Co., a preeminent global financial services firm that maintains leading market positions in each of its three primary businesses: securities, asset management and credit services. Its main business office is located at Two World Trade Center, New York, NY 10048.

The Fund is managed by the Competitive Edge -- Best Ideas team of the Sector Fund Equity Group. Current members of the team include Mark Bavoso, a Managing Director of the Investment Manager, and Robert Rossetti, a Vice President of the Investment Manager.

The Portfolio pays the Investment Manager a monthly management fee as full compensation for the services and facilities furnished to the Portfolio, and for Portfolio expenses assumed by the Investment Manager. The fee is based on the

Portfolio's average daily net assets. For the fiscal year ended May 31, 2001, the Portfolio accrued total compensation to the Investment Manager amounting to 0.65% of the Portfolio's average daily net assets.

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[Sidebar]

CONTACTING A
FINANCIAL ADVISOR

If you are new to the Morgan Stanley Family of Funds and would like to contact a Financial Advisor, call toll-free 1-866-MORGAN8 for the telephone number of the Morgan Stanley office nearest you. You may also access our office locator on our Internet site at:

www.morganstanley.com/funds

[End Sidebar]

Shareholder Information

[ICON] PRICING PORTFOLIO SHARES

The price of shares of the Portfolio (excluding sales charges), called "net asset value," is based on the value of its portfolio securities. While the assets of each Class are invested in a single portfolio of securities, the net asset value of each Class will differ because the Classes have different ongoing distribution fees.

The net asset value per share of the Portfolio is determined once daily at 4:00 p.m. Eastern time on each day that the New York Stock Exchange is open (or, on days when the New York Stock Exchange closes prior to 4:00 p.m. at such earlier time). Shares will not be priced on days that the New York Stock Exchange is closed.

The value of the Portfolio's securities is based on the securities' market price when available. When a market price is not readily available, including circumstances under which the Investment Manager determines that a security's market price is not accurate, a portfolio security is valued at its fair value, as determined under procedures established by the Fund's Board of Trustees. In these cases, the Portfolio's net asset value will reflect certain portfolio securities' fair value rather than their market price. With respect to securities that are primarily listed on foreign exchanges, the value of its portfolio securities may change on days when you will not be able to purchase or sell your shares.

An exception to the Portfolio's general policy of using market prices concerns its short-term debt portfolio securities. Debt securities with remaining maturities of sixty days or less at the time of purchase are valued at amortized cost. However, if the cost does not reflect the securities' market value, these securities will be valued at their fair value.

[ICON] HOW TO BUY SHARES

You may open a new account to buy Portfolio shares or buy additional Portfolio

shares for an existing account by contacting your Morgan Stanley Financial Advisor or other authorized financial representative. Your Financial Advisor will assist you, step-by-step, with the procedures to invest in the Portfolio. You may also purchase shares directly by calling the Portfolio's transfer agent and requesting an application.

Because every investor has different immediate financial needs and long-term investment goals, the Portfolio offers investors four Classes of shares: Classes A, B, C and D. Class D shares are only offered to a limited group of investors. Each Class of shares offers a distinct structure of sales charges, distribution and service fees, and other features that are designed to address a variety of needs. Your Financial Advisor or other authorized financial representative can help you decide which Class may be most appropriate for you. When purchasing Portfolio shares, you must specify which Class of shares you wish to purchase.

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[Sidebar]

EASYINVEST-SM-

A purchase plan that allows you to transfer money automatically from your checking or savings account or from a Money Market Fund on a semi-monthly, monthly or quarterly basis. Contact your Morgan Stanley Financial Advisor for further information about this service.

[End Sidebar]

When you buy Portfolio shares, the shares are purchased at the next share price calculated (less any applicable front-end sales charge for Class A shares) after we receive your purchase order. Your payment is due on the third business day after you place your purchase order. We reserve the right to reject any order for the purchase of Portfolio shares.

<Table>
<Caption>

MINIMUM INVESTMENT AMOUNTS

-----		Minimum
Investment		

Investment Options		Initial
Additional		
<S>	<C>	<C>
<C>		

Regular Accounts \$1,000
\$100

Individual Retirement
Accounts: Regular IRAs \$1,000
\$100
Education IRAs \$ 500
\$100

EASYINVEST-SM-
(Automatically from your
checking or savings account or
Money Market Fund) \$ 100*
\$100*

</Table>

* PROVIDED YOUR SCHEDULE OF INVESTMENTS
TOTALS \$1,000 IN TWELVE MONTHS.

There is no minimum investment amount if you purchase Portfolio shares through:
(1) the Investment Manager's mutual fund asset allocation plan, (2) a program,
approved by the Portfolio's distributor, in which you pay an asset-based fee for
advisory, administrative and/or brokerage services, (3) the following programs
approved by the Portfolio's distributor: (i) qualified state tuition plans
described in Section 529 of the Internal Revenue Code and (ii) certain other
investment programs that do not charge an asset-based fee, or
(4) employer-sponsored employee benefit plan accounts.

Investment Options for Certain Institutional and Other Investors/Class D
Shares. To be eligible to purchase Class D shares, you must qualify under one of
the investor categories specified in the "Share Class Arrangements" section of
this PROSPECTUS.

Subsequent Investments Sent Directly to the Fund. In addition to buying
additional Portfolio shares for an existing account by contacting your Morgan
Stanley Financial Advisor, you may send a check directly to the Portfolio. To
buy additional shares in this manner:

- Write a "letter of instruction" to the Portfolio specifying the name(s) on the
account, the account number, the social security or tax identification number,
the Class of shares you wish to purchase and the investment amount (which
would include any applicable front-end sales charge). The letter must be
signed by the account owner(s).

- Make out a check for the total amount payable to: Morgan Stanley Competitive Edge Fund -- "Best Ideas" Portfolio.
- Mail the letter and check to Morgan Stanley Dean Witter Trust FSB at P.O. Box 1040, Jersey City, NJ 07303.

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[ICON] HOW TO EXCHANGE SHARES

Permissible Fund Exchanges. You may exchange shares of any Class of the Portfolio for the same Class of any other continuously offered Multi-Class Fund, or for shares of a No-Load Fund, a Money Market Fund, North American Government Income Trust or Short-Term U.S. Treasury Trust, without the imposition of an exchange fee. In addition, Class A shares of the Portfolio may be exchanged for shares of an FSC fund (subject to a front-end sales charge). See the inside back cover of this PROSPECTUS for each Morgan Stanley Fund's designation as a Multi-Class Fund, No-Load Fund, Money Market Fund or FSC Fund. If a Morgan Stanley Fund is not listed, consult the inside back cover of that fund's current prospectus for its designation.

Exchanges may be made after shares of the Portfolio acquired by purchase have been held for thirty days. There is no waiting period for exchanges of shares acquired by exchange or dividend reinvestment. The current prospectus for each fund describes its investment objective(s), policies and investment minimums, and should be read before investment. Since exchanges are available only into continuously offered Morgan Stanley Funds, exchanges are not available into any new Morgan Stanley Fund during its initial offering period, or when shares of a particular Morgan Stanley Fund are not being offered for purchase.

Exchange Procedures. You can process an exchange by contacting your Morgan Stanley Financial Advisor or other authorized financial representative. Otherwise, you must forward an exchange privilege authorization form to the Portfolio's transfer agent -- Morgan Stanley Dean Witter Trust FSB -- and then write the transfer agent or call (800) 869-NEWS to place an exchange order. You can obtain an exchange privilege authorization form by contacting your Financial Advisor or other authorized financial representative or by calling (800) 869-NEWS. If you hold share certificates, no exchanges may be processed until we have received all applicable share certificates.

An exchange to any Morgan Stanley Fund (except a Money Market Fund) is made on the basis of the next calculated net asset values of the funds involved after the exchange instructions are accepted. When exchanging into a Money Market Fund, the Portfolio's shares are sold at their next calculated net asset value and the Money Market Fund's shares are purchased at their net asset value on the following business day.

The Portfolio may terminate or revise the exchange privilege upon required notice. The check writing privilege is not available for Money Market Fund shares you acquire in an exchange.

Telephone Exchanges. For your protection when calling Morgan Stanley Dean Witter Trust FSB, we will employ reasonable procedures to confirm that exchange instructions communicated over the telephone are genuine. These procedures may include requiring various forms of personal identification such as name, mailing address, social security or other tax identification number. Telephone instructions also may be recorded.

Telephone instructions will be accepted if received by the Portfolio's transfer agent between 9:00 a.m. and 4:00 p.m. Eastern time on any day the New York Stock Exchange is open for business. During periods of drastic economic or market changes, it is possible that the telephone exchange procedures may be difficult to implement, although this has not been the case with the Portfolio in the past.

Margin Accounts. If you have pledged your Portfolio shares in a margin account, contact your Morgan Stanley Financial Advisor or other authorized financial representative regarding restrictions on the sale of such shares.

Tax Considerations of Exchanges. If you exchange shares of the Portfolio for shares of another Morgan Stanley Fund, there are important tax considerations. For tax purposes, the exchange out of the Portfolio is considered a sale of Fund shares -- and the exchange into the other fund is considered a purchase. As a result, you may realize a capital gain or loss.

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You should review the "Tax Consequences" section and consult your own tax professional about the tax consequences of an exchange.

Limitations on Exchanges. Certain patterns of past exchanges and/or purchase or sale transactions involving the Portfolio or other Morgan Stanley Funds may result in the Portfolio limiting or prohibiting, at its discretion, additional purchases and/or exchanges. Determinations in this regard may be made based on the frequency or dollar amount of the previous exchanges or purchase or sale transactions. You will be notified in advance of limitations on your exchange privileges.

CDSC Calculations on Exchanges. See the "Share Class Arrangements" section of this PROSPECTUS for a discussion of how applicable contingent deferred sales charges (CDSCs) are calculated for shares of one Morgan Stanley Fund that are exchanged for shares of another.

For further information regarding exchange privileges, you should contact your Morgan Stanley Financial Advisor or call (800) 869-NEWS.

[ICON] HOW TO SELL SHARES

You can sell some or all of your Portfolio shares at any time. If you sell Class A, Class B or Class C shares, your net sale proceeds are reduced by the amount of any applicable CDSC. Your shares will be sold at the next share price calculated after we receive your order to sell as described below.

<Table>
<Caption>
OPTIONS
<S>

PROCEDURES
<C>

Contact your Financial Advisor To sell your shares, simply call your Morgan Stanley Financial Advisor or other authorized financial representative.

Payment will be sent to the address to which the account is registered or deposited in your brokerage account.

[ICON]

By Letter

You can also sell your shares by writing a "letter of instruction" that includes:

- your account number;
- the name of the Portfolio;
- the dollar amount or the number of shares you wish to sell;
- the Class of shares you wish to sell; and
- the signature of each owner as it appears on the account.

[ICON]

If you are requesting payment to anyone other than the registered owner(s) or that payment be sent to any address other than the address of the registered owner(s) or pre-designated bank account, you will need a signature guarantee. You can obtain a signature guarantee from an eligible guarantor acceptable to Morgan Stanley Dean Witter Trust FSB. (You should contact Morgan Stanley Dean Witter Trust FSB at (800) 869-NEWS for a determination as to whether a particular institution is an eligible guarantor.) A notary public CANNOT provide a signature guarantee. Additional documentation may be required for shares held by a corporation, partnership, trustee or executor.

Mail the letter to Morgan Stanley Dean Witter Trust FSB at P.O. Box 983, Jersey City, NJ 07303. If you hold share certificates, you must return the certificates, along with the letter and any required additional documentation.

A check will be mailed to the name(s) and address in which the account is registered, or otherwise according to your instructions.

</Table>

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<Table>
<Caption>
OPTIONS

PROCEDURES

<S>
Systematic
Withdrawal Plan

<C>
If your investment in all of the Morgan Stanley Family of Funds has a total market value of at least \$10,000, you may elect to withdraw amounts of \$25 or more, or in any whole percentage of a fund's balance (provided the amount is at least \$25), on a monthly, quarterly, semi-annual or annual basis, from any fund with a balance of at least \$1,000. Each time you add a fund to the plan, you must meet the plan requirements.

[ICON]

Amounts withdrawn are subject to any applicable CDSC. A CDSC may be waived under certain circumstances. See the Class B waiver categories listed in the "Share Class Arrangements" section of this PROSPECTUS.

To sign up for the Systematic Withdrawal Plan, contact your Morgan Stanley Financial Advisor or call (800) 869-NEWS. You may terminate or suspend your plan at any time. Please remember that withdrawals from the plan are sales of shares, not "distributions," and ultimately may exhaust your account balance. The Portfolio may terminate or revise the plan at any time.

</Table>

Payment for Sold Shares. After we receive your complete instructions to sell, as described above, a check will be mailed to you within seven days, although we will attempt to make payment within one business day. Payment may also be sent to your brokerage account.

Payment may be postponed or the right to sell your shares suspended under unusual circumstances. If you request to sell shares that were recently purchased by check, your sale will not be effected until it has been verified that the check has been honored.

Tax Considerations. Normally, your sale of Portfolio shares is subject to federal and state income tax. You should review the "Tax Consequences" section of this PROSPECTUS and consult your own tax professional about the tax consequences of a sale.

Reinstatement Privilege. If you sell Portfolio shares and have not previously exercised the reinstatement privilege, you may, within 35 days after the date of sale, invest any portion of the proceeds in the same Class of Portfolio shares at their net asset value and receive a pro rata credit for any CDSC paid in connection with the sale.

Involuntary Sales. The Portfolio reserves the right, on sixty days' notice, to sell the shares of any shareholder (other than shares held in an IRA or 403(b) Custodial Account) whose shares, due to sales by the shareholder, have a value below \$100, or in the case of an account opened through EASYINVEST -SM-, if after 12 months the shareholder has invested less than \$1,000 in the account.

However, before the Portfolio sells your shares in this manner, we will notify you and allow you sixty days to make an additional investment in an amount that will increase the value of your account to at least the required amount before the sale is processed. No CDSC will be imposed on any involuntary sale.

Margin Accounts. If you have pledged your Portfolio shares in a margin account, contact your Morgan Stanley Financial Advisor or other authorized financial representative regarding restrictions on the sale of such shares.

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[Sidebar]

TARGETED DIVIDENDS-SM-

You may select to have your Portfolio distributions automatically invested in other Classes of Portfolio shares or Classes of another Morgan Stanley Fund that you own. Contact your Morgan Stanley Financial Advisor for further information about this service.

[End Sidebar]

[ICON] DISTRIBUTIONS

The Portfolio passes substantially all of its earnings from income and capital gains along to its investors as "distributions." The Portfolio earns income from stocks and interest from fixed-income investments. These amounts are passed along to Portfolio shareholders as "income dividend distributions." The Portfolio realizes capital gains whenever it sells securities for a higher price than it paid for them. These amounts may be passed along as "capital gain distributions."

The Portfolio declares income dividends separately for each Class. Distributions paid on Class A and Class D shares will usually be higher than for Class B and Class C because distribution fees that Class B and Class C pay are higher. Normally, income dividends are distributed to shareholders annually. Capital gains, if any, are usually distributed in December. The Portfolio, however, may retain and reinvest any long-term capital gains. The Portfolio may at times make payments from sources other than income or capital gains that represent a return of a portion of your investment.

Distributions are reinvested automatically in additional shares of the same Class and automatically credited to your account, unless you request in writing that all distributions be paid in cash. If you elect the cash option, the Portfolio will mail a check to you no later than seven business days after the distribution is declared. However, if you purchase Portfolio shares through a Financial Advisor within three business days prior to the record date for the distribution, the distribution will automatically be paid to you in cash, even if you did not request to receive all distributions in cash. No interest will accrue on uncashed checks. If you wish to change how your distributions are paid, your request should be received by the Portfolio's transfer agent, Morgan Stanley Dean Witter Trust FSB, at least five business days prior to the record date of the distributions.

[ICON] TAX CONSEQUENCES

As with any investment, you should consider how your investment in the Portfolio will be taxed. The tax information in this PROSPECTUS is provided as general information. You should consult your own tax professional about the tax consequences of an investment in the Portfolio.

Unless your investment in the Portfolio is through a tax-deferred retirement account, such as a 401(k) plan or IRA, you need to be aware of the possible tax consequences when:

- The Portfolio makes distributions; and
- You sell Portfolio shares, including an exchange to another Morgan Stanley Fund.

Taxes on Distributions. Your distributions are normally subject to federal and state income tax when they are paid, whether you take them in cash or reinvest them in Portfolio shares. A distribution also may be subject to local income tax. Any income dividend distributions and any short-term capital gain distributions are taxable to you as ordinary income. Any long-term capital gain distributions are taxable as long-term capital gains, no matter how long you have owned shares in the Portfolio.

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If more than 50% of the Portfolio's assets are invested in foreign securities at the end of any fiscal year, the Portfolio may elect to permit shareholders to take a credit or deduction on their federal income tax return for foreign taxes paid by the Portfolio.

Every January, you will be sent a statement (IRS Form 1099-DIV) showing the taxable distributions paid to you in the previous year. The statement provides information on your dividends and capital gains for tax purposes.

Taxes on Sales. Your sale of Portfolio shares normally is subject to federal and state income tax and may result in a taxable gain or loss to you. A sale also may be subject to local income tax. Your exchange of Portfolio shares for shares of another Morgan Stanley Fund is treated for tax purposes like a sale of your original shares and a purchase of your new shares. Thus, the exchange may, like a sale, result in a taxable gain or loss to you and will give you a new tax basis for your new shares.

When you open your Portfolio account, you should provide your social security or tax identification number on your investment application. By providing this information, you will avoid being subject to a federal backup withholding tax (approximately 31% currently) on taxable distributions and redemption proceeds. Any withheld amount would be sent to the IRS as an advance tax payment.

[ICON] SHARE CLASS ARRANGEMENTS

The Portfolio offers several Classes of shares having different distribution arrangements designed to provide you with different purchase options according to your investment needs. Your Morgan Stanley Financial Advisor or other authorized financial representative can help you decide which Class may be appropriate for you.

The general public is offered three Classes: Class A shares, Class B shares and Class C shares, which differ principally in terms of sales charges and ongoing expenses. A fourth Class, Class D shares, is offered only to a limited category of investors. Shares that you acquire through reinvested distributions will not be subject to any front-end sales charge or CDSC -- contingent deferred sales charge.

Sales personnel may receive different compensation for selling each Class of shares. The sales charges applicable to each Class provide for the distribution financing of shares of that Class.

The chart below compares the sales charge and annual 12b-1 fee applicable to each Class:

Class	Sales Charge	Maximum Annual 12b-1 Fee
<S>	<C>	<C>
A	Maximum 5.25% initial sales charge reduced for purchase of \$25,000 or more; shares sold without an initial sales charge are generally subject to a 1.0% CDSC during the first year	0.25%
B	Maximum 5.0% CDSC during the first year decreasing to 0% after six years	1.00%
C	1.0% CDSC during the first year	1.00%
D	None	None

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[Sidebar]

FRONT-END SALES CHARGE OR FSC

An initial sales charge you pay when purchasing Class A shares that is based on a percentage of the offering price. The percentage declines based upon the dollar value of Class A shares you purchase. We offer three ways to reduce your Class A sales charges -- the Combined Purchase Privilege, Right of Accumulation and Letter of Intent.

[End Sidebar]

CLASS A SHARES Class A shares are sold at net asset value plus an initial sales

charge of up to 5.25%. The initial sales charge is reduced for purchases of \$25,000 or more according to the schedule below. Investments of \$1 million or more are not subject to an initial sales charge, but are generally subject to a contingent deferred sales charge, or CDSC, of 1.0% on sales made within one year after the last day of the month of purchase. The CDSC will be assessed in the same manner and with the same CDSC waivers as with Class B shares. Class A shares are also subject to a distribution (12b-1) fee of up to 0.25% of the average daily net assets of the Class.

The offering price of Class A shares includes a sales charge (expressed as a percentage of the offering price) on a single transaction as shown in the following table:

<Table>

<Caption>

Front-End Sales Charge		
Amount of Percentage Single Transaction Invested	Percentage of Public Offering Price	Approximate of Net Amount
<S>	<C>	<C>
Less than \$25,000 5.54%	5.25%	
\$25,000 but less than \$50,000 4.99%	4.75%	
\$50,000 but less than \$100,000 4.17%	4.00%	
\$100,000 but less than \$250,000 3.09%	3.00%	
\$250,000 but less than \$1 million 2.04%	2.00%	
\$1 million and over 0.00%	0.00%	

</Table>

The reduced sales charge schedule is applicable to purchases of Class A shares

in a single transaction by:

- A single account (including an individual, trust or fiduciary account).
- Family member accounts (limited to husband, wife and children under the age of 21).
- Pension, profit sharing or other employee benefit plans of companies and their affiliates.
- Tax-exempt organizations.
- Groups organized for a purpose other than to buy mutual fund shares.

Combined Purchase Privilege. You also will have the benefit of reduced sales charges by combining purchases of Class A shares of the Portfolio in a single transaction with purchases of Class A shares of other Multi-Class Funds and shares of FSC Funds.

Right of Accumulation. You also may benefit from a reduction of sales charges if the cumulative net asset value of Class A shares of the Portfolio purchased in a single transaction, together with shares of other funds you currently own which were previously purchased at a price including a front-end sales charge (or Class A shares purchased at \$1 million or more), and shares acquired through reinvestment of distributions, amounts to \$25,000 or more. Also, if you have a cumulative net asset value of all your Class A and Class D shares equal to at

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least \$5 million (or \$25 million for certain employee benefit plans), you are eligible to purchase Class D shares of any fund subject to the fund's minimum initial investment requirement.

You must notify your Morgan Stanley Financial Advisor or other authorized financial representative (or Morgan Stanley Dean Witter Trust FSB if you purchase directly through the Morgan Stanley Competitive Edge Fund -- "Best Ideas" Portfolio), at the time a purchase order is placed, that the purchase qualifies for the reduced sales charge under the Right of Accumulation. Similar notification must be made in writing when an order is placed by mail. The reduced sales charge will not be granted if: (i) notification is not furnished at the time of the order; or (ii) a review of the records of Morgan Stanley DW Inc. ("Morgan Stanley DW") or other authorized dealer of Portfolio shares or the Portfolio's transfer agent does not confirm your represented holdings.

Letter of Intent. The schedule of reduced sales charges for larger purchases also will be available to you if you enter into a written "Letter of Intent." A Letter of Intent provides for the purchase of Class A shares of the Portfolio or other Multi-Class Funds or shares of FSC Funds within a thirteen-month period. The initial purchase under a Letter of Intent must be at least 5% of the stated investment goal. To determine the applicable sales charge reduction, you may also include: (1) the cost of shares of other Morgan Stanley Funds which were previously purchased at a price including a front-end sales charge during the

90-day period prior to the distributor receiving the Letter of Intent, and (2) the cost of shares of other funds you currently own acquired in exchange for shares of funds purchased during that period at a price including a front-end sales charge. You can obtain a Letter of Intent by contacting your Morgan Stanley Financial Advisor or other authorized financial representative or by calling (800) 869-NEWS. If you do not achieve the stated investment goal within the thirteen-month period, you are required to pay the difference between the sales charges otherwise applicable and sales charges actually paid, which may be deducted from your investment.

Other Sales Charge Waivers. In addition to investments of \$1 million or more, your purchase of Class A shares is not subject to a front-end sales charge (or CDSC upon sale) if your account qualifies under one of the following categories:

- A trust for which Morgan Stanley Dean Witter Trust FSB provides discretionary trustee services.
- Persons participating in a fee-based investment program (subject to all of its terms and conditions, including termination fees, and mandatory sale or transfer restrictions on termination) approved by the Portfolio's distributor pursuant to which they pay an asset-based fee for investment advisory, administrative and/or brokerage services.
- Qualified state tuition plans described in Section 529 of the Internal Revenue Code and donor-advised charitable gift funds (subject to all applicable terms and conditions) and certain other investment programs that do not charge an asset-based fee and have been approved by the Portfolio distributor.
- Employer-sponsored employee benefit plans, whether or not qualified under the Internal Revenue Code, for which (i) Morgan Stanley Dean Witter Trust FSB serves as trustee, (ii) Morgan Stanley's Retirement Plan Services serves as recordkeeper under a written Recordkeeping Services Agreement, or (iii) an entity independent from Morgan Stanley serves as recordkeeper under an alliance or similar agreement with Morgan Stanley's Retirement Plan Services (together, "Morgan Stanley Eligible Plans"), provided that, in the case of (i) and (ii) above, any such plan has at least 200 eligible employees.

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[Sidebar]

CONTINGENT DEFERRED SALES CHARGE OR CDSC

A fee you pay when you sell shares of certain Morgan Stanley Funds purchased without an initial sales charge. This fee declines the longer you hold your shares as set forth in the table.

[End Sidebar]

- A Morgan Stanley Eligible Plan whose Class B shares have converted to Class A shares, regardless of the plan's asset size or number of eligible employees.
- A client of a Morgan Stanley Financial Advisor who joined us from another investment firm within six months prior to the date of purchase of Portfolio

shares, and you used the proceeds from the sale of shares of a proprietary mutual fund of that Financial Advisor's previous firm that imposed either a front-end or deferred sales charge to purchase Class A shares, provided that: (1) you sold the shares not more than 60 days prior to the purchase of Portfolio shares, and (2) the sale proceeds were maintained in the interim in cash or a money market fund.

- Current or retired Directors or Trustees of the Morgan Stanley Funds, such persons' spouses and children under the age of 21, and trust accounts for which any of such persons is a beneficiary.
- Current or retired directors, officers and employees of Morgan Stanley Dean Witter & Co. and any of its subsidiaries, such persons' spouses and children under the age of 21, and trust accounts for which any of such persons is a beneficiary.

CLASS B SHARES Class B shares are offered at net asset value with no initial sales charge but are subject to a contingent deferred sales charge, or CDSC, as set forth in the table below. For the purpose of calculating the CDSC, shares are deemed to have been purchased on the last day of the month during which they were purchased.

<Table>

<Caption>

Year Since Purchase Payment Made <S>	CDSC as a Percentage of Amount Redeemed <C>
First	5.0%
Second	4.0%
Third	3.0%
Fourth	2.0%
Fifth	2.0%
Sixth	1.0%
Seventh and thereafter	None

</Table>

Each time you place an order to sell or exchange shares, shares with no CDSC will be sold or exchanged first, then shares with the lowest CDSC will be sold or exchanged next. For any shares subject to a CDSC, the CDSC will be assessed on an amount equal to the lesser of the current market value or the cost of the shares being sold.

CDSC Waivers. A CDSC, if otherwise applicable, will be waived in the case of:

- Sales of shares held at the time you die or become disabled (within the definition in Section 72(m)(7) of the Internal Revenue Code which relates to the ability to engage in gainful employment), if the shares are:
 - (i) registered either in your name (not a trust) or in the names of you and your spouse as joint tenants with right of survivorship; or (ii) held in a qualified corporate or self-employed retirement plan, IRA or

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403(b) Custodial Account, provided in either case that the sale is requested within one year of your death or initial determination of disability.

- Sales in connection with the following retirement plan "distributions":
 - (i) lump-sum or other distributions from a qualified corporate or self-employed retirement plan following retirement (or, in the case of a "key employee" of a "top heavy" plan, following attainment of age 59 1/2);
 - (ii) distributions from an IRA or 403(b) Custodial Account following attainment of age 59 1/2; or (iii) a tax-free return of an excess IRA contribution (a "distribution" does not include a direct transfer of IRA, 403(b) Custodial Account or retirement plan assets to a successor custodian or trustee).
- Sales of shares held for you as a participant in a Morgan Stanley Eligible Plan.
- Sales of shares in connection with the Systematic Withdrawal Plan of up to 12% annually of the value of each fund from which plan sales are made. The percentage is determined on the date you establish the Systematic Withdrawal Plan and based on the next calculated share price. You may have this CDSC waiver applied in amounts up to 1% per month, 3% per quarter, 6% semi-annually or 12% annually. Shares with no CDSC will be sold first, followed by those with the lowest CDSC. As such, the waiver benefit will be reduced by the amount of your shares that are not subject to a CDSC. If you suspend your participation in the plan, you may later resume plan payments without requiring a new determination of the account value for the 12% CDSC waiver.
- Sales of shares if you simultaneously invest the proceeds in the Investment Manager's mutual fund asset allocation program, pursuant to which investors pay an asset-based fee. Any shares you acquire in connection with the Investment Manager's mutual fund asset allocation program are subject to all of the terms and conditions of that program, including termination fees and mandatory sale or transfer restrictions on termination.

All waivers will be granted only following the Fund's distributor receiving confirmation of your entitlement. If you believe you are eligible for a CDSC waiver, please contact your Financial Advisor or call (800) 869-NEWS.

Distribution Fee. Class B shares are subject to an annual 12b-1 fee of 1.0% of the average daily net assets of Class B.

Conversion Feature. After ten (10) years, Class B shares will convert

automatically to Class A shares of the Portfolio with no initial sales charge. The ten year period runs from the last day of the month in which the shares were purchased, or in the case of Class B shares acquired through an exchange, from the last day of the month in which the original Class B shares were purchased; the shares will convert to Class A shares based on their relative net asset values in the month following the ten year period. At the same time, an equal proportion of Class B shares acquired through automatically reinvested distributions will convert to Class A shares on the same basis. (Class B shares acquired in exchange for shares of another Morgan Stanley Fund originally purchased before May 1, 1997, however, will convert to Class A shares in May 2007.)

In the case of Class B shares held in a Morgan Stanley Eligible Plan, the plan is treated as a single investor and all Class B shares will convert to Class A shares on the conversion date of the Class B shares of a Morgan Stanley Fund purchased by that plan.

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Currently, the Class B share conversion is not a taxable event; the conversion feature may be cancelled if it is deemed a taxable event in the future by the Internal Revenue Service.

If you exchange your Class B shares for shares of a Money Market Fund, a No-Load Fund, North American Government Income Trust or Short-Term U.S. Treasury Trust, the holding period for conversion is frozen as of the last day of the month of the exchange and resumes on the last day of the month you exchange back into Class B shares.

Exchanging Shares Subject to a CDSC. There are special considerations when you exchange Portfolio shares that are subject to a CDSC. When determining the length of time you held the shares and the corresponding CDSC rate, any period (starting at the end of the month) during which you held shares of a fund that does NOT charge a CDSC WILL NOT BE COUNTED. Thus, in effect the "holding period" for purposes of calculating the CDSC is frozen upon exchanging into a fund that does not charge a CDSC.

For example, if you held Class B shares of the Portfolio for one year, exchanged to Class B of another Morgan Stanley Multi-Class Fund for another year, then sold your shares, a CDSC rate of 4% would be imposed on the shares based on a two year holding period -- one year for each fund. However, if you had exchanged the shares of the Portfolio for a Money Market Fund (which does not charge a CDSC) instead of the Multi-Class Fund, then sold your shares, a CDSC rate of 5% would be imposed on the shares based on a one year holding period. The one year in the Money Market Fund would not be counted. Nevertheless, if shares subject to a CDSC are exchanged for a fund that does not charge a CDSC, you will receive a credit when you sell the shares equal to the distribution (12b-1) fees, if any, you paid on those shares while in that fund up to the amount of any applicable CDSC.

In addition, shares that are exchanged into or from a Morgan Stanley Fund subject to a higher CDSC rate will be subject to the higher rate, even if the

shares are re-exchanged into a fund with a lower CDSC rate.

CLASS C SHARES Class C shares are sold at net asset value with no initial sales charge but are subject to a CDSC of 1.0% on sales made within one year after the last day of the month of purchase. The CDSC will be assessed in the same manner and with the same CDSC waivers as with Class B shares.

Distribution Fee. Class C shares are subject to an annual distribution (12b-1) fee of up to 1.0% of the average daily net assets of that Class. The Class C shares' distribution fee may cause that Class to have higher expenses and pay lower dividends than Class A or Class D shares. Unlike Class B shares, Class C shares have no conversion feature and, accordingly, an investor that purchases Class C shares may be subject to distribution (12b-1) fees applicable to Class C shares for an indefinite period.

CLASS D SHARES Class D shares are offered without any sales charge on purchases or sales and without any distribution (12b-1) fee. Class D shares are offered only to investors meeting an initial investment minimum of \$5 million (\$25 million for Morgan Stanley Eligible Plans) and the following investor categories:

- Investors participating in the Investment Manager's mutual fund asset allocation program (subject to all of its terms and conditions, including termination fees and mandatory sale or transfer restrictions on termination) pursuant to which they pay an asset-based fee.

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- Persons participating in a fee-based investment program (subject to all of its terms and conditions, including termination fees and mandatory sale or transfer restrictions on termination) approved by the Portfolio's distributor pursuant to which they pay an asset-based fee for investment advisory, administrative and/or brokerage services. With respect to Class D shares held through the Morgan Stanley Choice Program, at such time as those Portfolio shares are no longer held through the program, the shares will be automatically converted into Class A shares (which are subject to higher expenses than Class D shares) based on the then current relative net asset values of the two classes.
- Certain investment programs that do not charge an asset-based fee and have been approved by the Portfolio distributor. However, Class D shares are not offered for investments made through Section 529 plans or donor-advised charitable gift funds (regardless of the size of the investment).
- Employee benefit plans maintained by Morgan Stanley Dean Witter & Co. or any of its subsidiaries for the benefit of certain employees of Morgan Stanley Dean Witter & Co. and its subsidiaries.
- Certain unit investment trusts sponsored by Morgan Stanley DW.
- Certain other open-end investment companies whose shares are distributed by the Portfolio's distributor.

- Investors who were shareholders of the Dean Witter Retirement Series on September 11, 1998 for additional purchases for their former Dean Witter Retirement Series accounts.

Meeting Class D Eligibility Minimums. To meet the \$5 million (\$25 million for Morgan Stanley Eligible Plans) initial investment to qualify to purchase Class D shares you may combine: (1) purchases in a single transaction of Class D shares of the Portfolio and other Morgan Stanley Multi-Class Funds; and/or (2) previous purchases of Class A and Class D shares of Multi-Class Funds and shares of FSC Funds you currently own, along with shares of Morgan Stanley Funds you currently own that you acquired in exchange for those shares.

NO SALES CHARGES FOR REINVESTED CASH DISTRIBUTIONS If you receive a cash payment representing an income dividend or capital gain and you reinvest that amount in the applicable Class of shares by returning the check within 30 days of the payment date, the purchased shares would not be subject to an initial sales charge or CDSC.

PLAN OF DISTRIBUTION (RULE 12b-1 FEES) The Portfolio has adopted a Plan of Distribution in accordance with Rule 12b-1 under the Investment Company Act of 1940 with respect to the distribution of Class A, Class B and Class C shares of the Portfolio. The Plan allows the Portfolio to pay distribution fees for the sale and distribution of these shares. It also allows the Portfolio to pay for services to shareholders of Class A, Class B and Class C shares. Because these fees are paid out of the Portfolio's assets on an ongoing basis, over time these fees will increase the cost of your investment in these Classes and may cost you more than paying other types of sales charges.

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Financial Highlights

The financial highlights table is intended to help you understand the Portfolio's financial performance for the periods indicated. Certain information reflects financial results for a single Portfolio share. The total return in the table represents the rate an investor would have earned or lost on an investment in the Portfolio (assuming reinvestment of all dividends and distributions).

This information for the fiscal year ended May 31, 2001 has been audited by Deloitte & Touche LLP, independent auditors, whose report, along with the Portfolio's financial statements, is included in the annual report, which is available upon request. The financial highlights for prior fiscal periods have been audited by other independent accountants.

Class A Shares++

<Table>

<Caption>

For the year ended May

31,

-----		For the Period February 25,	
1998*			
		2001	2000
1999	through May 31, 1998		
<S>		<C>	<C>
<C>	<C>		

Selected Per Share Data:

Net asset value, beginning of period		\$12.71	\$10.84
\$10.37	\$10.00		

INCOME (LOSS) FROM INVESTMENT OPERATIONS:

Net investment income (loss)		-	(0.01)
0.02	0.05		

Net realized and unrealized gain (loss)		(2.61)	1.88
0.49	0.32		

Total income (loss) from investment operations		(2.61)	1.87
0.51	0.37		

LESS DIVIDENDS AND DISTRIBUTIONS FROM:

Net investment income		-	-
(0.04)	-		

Net realized gain		(1.40)	-
-	-		

Total dividends and distributions		(1.40)	-
(0.04)	-		

Net asset value, end of period		\$ 8.70	\$12.71
\$10.84	\$10.37		

Total Return+		(21.87)%	17.25%
5.01%	3.70% (1)		

Ratios to Average Net Assets:			

Expenses		1.05% (3)	1.07% (3)
1.10% (3)	1.13% (2)		

Net investment income (loss)		0.02% (3)	(0.10)% (3)
0.18% (3)	1.66% (2)		

Supplemental Data:			

Net assets, end of period, in thousands		\$58,478	\$97,057
\$98,784	\$117,750		

Portfolio turnover rate		51%	75%
97%	19% (1)		

</Table>

* COMMENCEMENT OF OPERATIONS.
++ THE PER SHARE AMOUNTS WERE COMPUTED USING AN AVERAGE NUMBER OF SHARES OUTSTANDING DURING THE PERIOD.
+ DOES NOT REFLECT THE DEDUCTION OF SALES CHARGE. CALCULATED BASED ON THE NET ASSET VALUE AS OF THE LAST BUSINESS DAY OF THE PERIOD.
(1) NOT ANNUALIZED.
(2) ANNUALIZED.
(3) REFLECTS OVERALL PORTFOLIO RATIOS FOR INVESTMENT INCOME AND NON-CLASS SPECIFIC EXPENSES.

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<Page>
Class B Shares++

<Table>
<Caption>

		For the year ended May
31,		

1998*		For the Period February 25,
		2001
1999	through May 31, 1998	2000

<S> <C> <C>
<C> <C>

Selected Per Share Data:

Net asset value, beginning of period \$12.52 \$10.76
\$10.35 \$10.00

INCOME (LOSS) FROM INVESTMENT OPERATIONS:

Net investment income (loss) (0.08) (0.11)
(0.06) 0.03

Net realized and unrealized gain
(loss) (2.56) 1.87
0.50 0.32

Total income (loss) from investment
operations (2.64) 1.76
0.44 0.35

LESS DIVIDENDS AND DISTRIBUTIONS FROM:

Net investment income - -
(0.03) -

Net realized gain (1.40) -
- -

Total dividends and distributions (1.40) -
(0.03) -

Net asset value, end of period \$ 8.48 \$12.52
\$10.76 \$10.35

Total Return+ (22.48)% 16.36%
4.27% 3.50%(1)

Ratios to Average Net Assets:

Expenses		1.82% (3)	1.83% (3)
1.86% (3)	1.88% (2)		
Net investment income (loss)		(0.75)% (3)	(0.86)% (3)
(0.58)% (3)	0.92% (2)		

Supplemental Data:

Net assets, end of period, in thousands	\$1,082,667	\$1,688,392
\$1,614,229	\$1,711,433	

Portfolio turnover rate	51%	75%
97%	19% (1)	

</Table>

* COMMENCEMENT OF OPERATIONS.

++ THE PER SHARE AMOUNTS WERE COMPUTED USING AN AVERAGE NUMBER OF SHARES OUTSTANDING DURING THE PERIOD.

+ DOES NOT REFLECT THE DEDUCTION OF SALES CHARGE. CALCULATED BASED ON THE NET ASSET VALUE AS OF THE LAST BUSINESS DAY OF THE PERIOD.

(1) NOT ANNUALIZED.

(2) ANNUALIZED.

(3) REFLECTS OVERALL PORTFOLIO RATIOS FOR INVESTMENT INCOME AND NON-CLASS SPECIFIC EXPENSES.

<Page>

Class C Shares++

<Table>

<Caption>

		For the year ended May	
31,			
1998*		For the Period February 25,	
		2001	2000
1999	through May 31, 1998		
<S>		<C>	<C>
<C>	<C>		

 Selected Per Share Data:

Net asset value, beginning of period	\$12.55	\$10.78
\$10.35	\$10.00	

 INCOME (LOSS) FROM INVESTMENT OPERATIONS:

Net investment income (loss)	(0.08)	(0.11)
(0.04)	0.03	

Net realized and unrealized gain (loss)	(2.57)	1.88
0.50	0.32	

Total income (loss) from investment operations	(2.65)	1.77
0.46	0.35	

 LESS DIVIDENDS AND DISTRIBUTIONS FROM:

Net investment income	-	-
(0.03)	-	

Net realized gain	(1.40)	-
-	-	

Total dividends and distributions	(1.40)	-
(0.03)	-	

Net asset value, end of period	\$ 8.50	\$12.55
\$10.78	\$10.35	

Total Return+	(22.51)%	16.42%
4.44%	3.50%(1)	

 Ratios to Average Net Assets:

Expenses		1.81% (3)	1.83% (3)
1.69% (3)	1.88% (2)		
Net investment income (loss)		(0.74)% (3)	(0.86)% (3)
(0.41)% (3)	0.91% (2)		

Supplemental Data:

Net assets, end of period, in thousands		\$89,912	\$138,694
\$142,048	\$176,497		
Portfolio turnover rate		51%	75%
97%	19% (1)		

</Table>

* COMMENCEMENT OF OPERATIONS.

++ THE PER SHARE AMOUNTS WERE COMPUTED USING AN AVERAGE NUMBER OF SHARES OUTSTANDING DURING THE PERIOD.

+ DOES NOT REFLECT THE DEDUCTION OF SALES CHARGE. CALCULATED BASED ON THE NET ASSET VALUE AS OF THE LAST BUSINESS DAY OF THE PERIOD.

(1) NOT ANNUALIZED.

(2) ANNUALIZED.

(3) REFLECTS OVERALL PORTFOLIO RATIOS FOR INVESTMENT INCOME AND NON-CLASS SPECIFIC EXPENSES.

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Class D Shares++

<Table>

<Caption>

		For the year ended May	
31,			
		For the Period February 25,	
1998*		2001	2000
1999	through May 31, 1998		
<S>		<C>	<C>
<C>	<C>		

Selected Per Share Data:

Net asset value, beginning of period	\$12.77	\$10.87
\$10.38	\$10.00	

INCOME (LOSS) FROM INVESTMENT OPERATIONS:

Net investment income	0.05	-
0.03	0.08	

Net realized and unrealized gain (loss)	(2.66)	1.90
0.51	0.30	

Total income (loss) from investment operations	(2.61)	1.90
0.54	0.38	

LESS DIVIDENDS AND DISTRIBUTIONS FROM:

Net investment income	-	-
(0.05)	-	

Net realized gain	(1.40)	-
-	-	

Total dividends and distributions	(1.40)	-
(0.05)	-	

Net asset value, end of period	\$ 8.76	\$12.77
\$10.87	\$10.38	

Total Return+	(21.76)%	17.48%
5.26%	3.80% (1)	

Ratios to Average Net Assets:

Expenses		0.82% (3)	0.83% (3)
0.86% (3)	0.92% (2)		

Net investment income		0.25% (3)	0.14% (3)
0.42% (3)	2.94% (2)		

Supplemental Data:

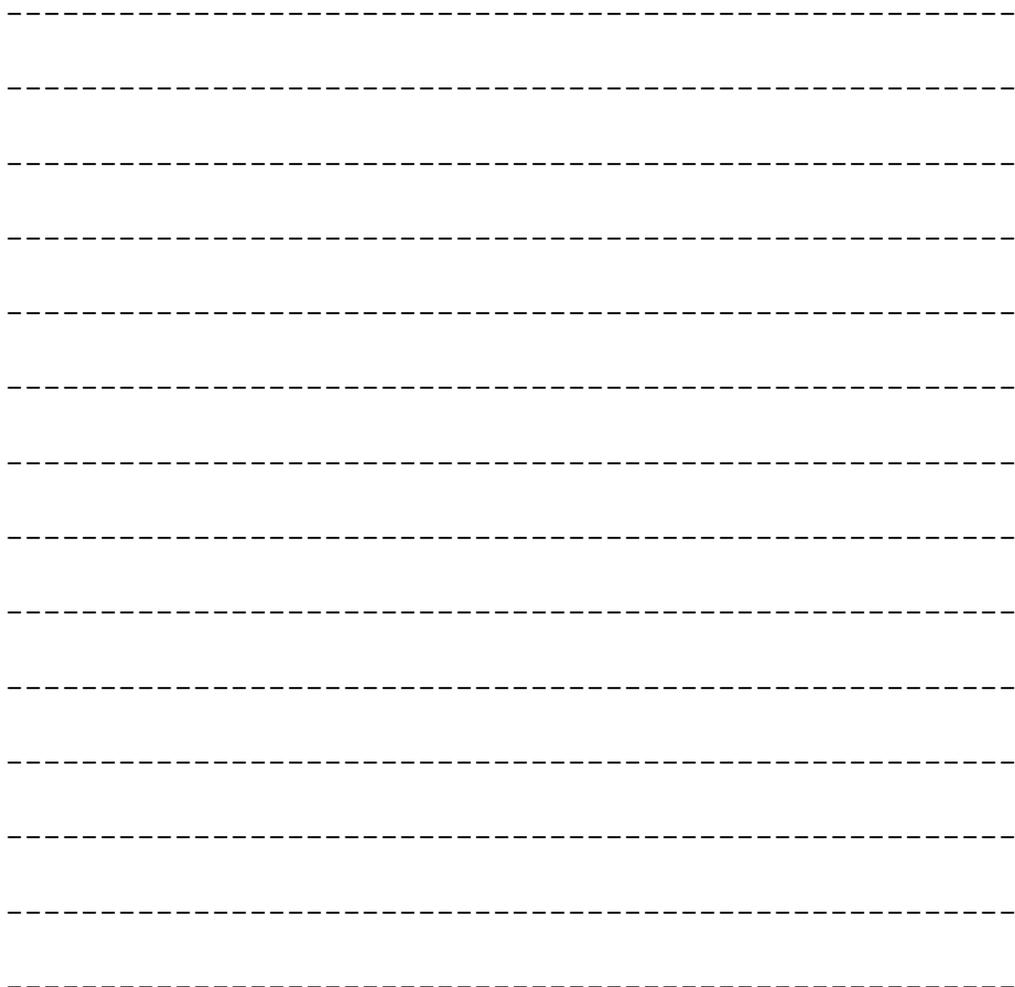
Net assets, end of period, in thousands		\$ 1,986	\$1,247
\$3,411	\$5,407		

Portfolio turnover rate		51%	75%
97%	19% (1)		

</Table>

* COMMENCEMENT OF OPERATIONS.
 ++ THE PER SHARE AMOUNTS WERE COMPUTED USING AN AVERAGE NUMBER OF SHARES OUTSTANDING DURING THE PERIOD.
 + CALCULATED BASED ON THE NET ASSET VALUE AS OF THE LAST BUSINESS DAY OF THE PERIOD.
 (1) NOT ANNUALIZED.
 (2) ANNUALIZED.
 (3) REFLECTS OVERALL PORTFOLIO RATIOS FOR INVESTMENT INCOME AND NON-CLASS SPECIFIC EXPENSES.

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 Notes



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Morgan Stanley Funds



- GLOBAL/INTERNATIONAL FUNDS

- Competitive Edge Fund - "Best Ideas" Portfolio
- European Growth Fund
- Fund of Funds - International Portfolio
- Global Dividend Growth Securities
- Global Utilities Fund
- International Fund
- International SmallCap Fund
- International Value Equity Fund
- Japan Fund
- Latin American Growth Fund
- Pacific Growth Fund

- GROWTH FUNDS

- 21st Century Trend Fund
- Aggressive Equity Fund
- All Star Growth Fund
- American Opportunities Fund
- Capital Growth Securities

Developing Growth Securities Trust
Financial Services Trust
Growth Fund
Health Sciences Trust
Information Fund
KLD Social Index Fund

Market Leader Trust
Mid-Cap Equity Trust
Nasdaq-100 Index Fund
Natural Resource Development Securities
New Discoveries Fund
Next Generation Trust
Small Cap Growth Fund
Special Value Fund
Tax-Managed Growth Fund
Technology Fund

- GROWTH + INCOME FUNDS

Balanced Growth Fund
Balanced Income Fund
Convertible Securities Trust
Dividend Growth Securities
Equity Fund
Fund of Funds - Domestic Portfolio
Income Builder Fund
Real Estate Fund
S&P 500 Index Fund
S&P 500 Select Fund
Strategist Fund
Total Market Index Fund
Total Return Trust
Utilities Fund
Value Fund
Value-Added Market Series/ Equity Portfolio

- INCOME FUNDS

Diversified Income Trust
Federal Securities Trust
High Yield Securities
Intermediate Income Securities
Liquid Asset Fund (MM)
North American Government Income Trust
Short-Term Bond Fund (NL)
Short-Term U.S. Treasury Trust
U.S. Government Money Market Trust (MM)
U.S. Government Securities Trust

- TAX-FREE INCOME FUNDS

California Tax-Free Daily Income Trust (MM)
California Tax-Free Income Fund
Hawaii Municipal Trust (FSC)

Limited Term Municipal Trust (NL)
Multi-State Municipal Series Trust (FSC)
New York Municipal Money Market Trust (MM)
New York Tax-Free Income Fund
Tax-Exempt Securities Trust
Tax-Free Daily Income Trust (MM)]

THERE MAY BE FUNDS CREATED AFTER THIS PROSPECTUS WAS PUBLISHED. PLEASE CONSULT THE INSIDE BACK COVER OF A NEW FUND'S PROSPECTUS FOR ITS DESIGNATION, E.G., MULTI-CLASS FUND OR MONEY MARKET FUND.

UNLESS OTHERWISE NOTED, EACH LISTED MORGAN STANLEY FUND, EXCEPT FOR NORTH AMERICAN GOVERNMENT INCOME TRUST AND SHORT-TERM U.S. TREASURY TRUST, IS A MULTI-CLASS FUND. A MULTI-CLASS FUND IS A MUTUAL FUND OFFERING MULTIPLE CLASSES OF SHARES. THE OTHER TYPES OF FUNDS ARE: NL - NO-LOAD (MUTUAL) FUND; MM - MONEY MARKET FUND; FSC - A MUTUAL FUND SOLD WITH A FRONT-END SALES CHARGE AND A DISTRIBUTION (12b-1) FEE.

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[PHOTO]

Additional information about the Portfolio's investments is available in the Portfolio's ANNUAL and SEMI-ANNUAL REPORTS TO SHAREHOLDERS. In the Portfolio's ANNUAL REPORT, you will find a discussion of the market conditions and investment strategies that significantly affected the Portfolio's performance during its last fiscal year. The Portfolio's STATEMENT OF ADDITIONAL INFORMATION also provides additional information about the Portfolio. The STATEMENT OF ADDITIONAL INFORMATION is incorporated herein by reference (legally is part of this PROSPECTUS). For a free copy of any of these documents, to request other information about the Portfolio, or to make shareholder inquiries, please call:

(800) 869-NEWS

You also may obtain information about the Portfolio by calling your Morgan Stanley Financial Advisor or by visiting our Internet site at:

www.morganstanley.com/funds

Information about the Portfolio (including the STATEMENT OF ADDITIONAL INFORMATION) can be viewed and copied at the Securities and Exchange Commission's Public Reference Room in Washington, DC. Information about the Reference Room's operations may be obtained by calling the SEC at (202) 942-8090. Reports and other information about the Portfolio are available on the EDGAR Database on the SEC's Internet site (www.sec.gov), and copies of this information may be obtained, after paying a duplicating fee, by electronic request at the following E-mail address: publicinfo@sec.gov, or by writing the Public Reference Section of the SEC, Washington, DC 20549-0102.

TICKER SYMBOLS:

Class A: EDGAX Class C: EDGCX

Class B: EDGBX Class D: EDGDY

Morgan Stanley Competitive Edge Fund
"Best Ideas" Portfolio

[COVER PHOTO]

A MUTUAL FUND THAT SEEKS
LONG-TERM CAPITAL GROWTH

JULY 30, 2001

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STATEMENT OF ADDITIONAL INFORMATION
JULY 30, 2001
FUND
</Table>

<C>
MORGAN STANLEY
COMPETITIVE EDGE

This STATEMENT OF ADDITIONAL INFORMATION is not a prospectus. The PROSPECTUS (dated July 30, 2001) for the Morgan Stanley Competitive Edge Fund may be obtained without charge from the Fund at its address or telephone number listed below or from Morgan Stanley DW Inc. at any of its branch offices.

This STATEMENT OF ADDITIONAL INFORMATION relates to the "Best Ideas" Portfolio of the Fund which is currently the only Portfolio offered by the Fund.

Morgan Stanley
Competitive Edge Fund
Two World Trade Center
New York, NY 10048
(800) 869-NEWS

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GLOSSARY OF SELECTED DEFINED TERMS

The terms defined in this glossary are frequently used in this STATEMENT OF ADDITIONAL INFORMATION (other terms used occasionally are defined in the text of the document).

"CUSTODIAN"--The Bank of New York.

"DISTRIBUTOR"--Morgan Stanley Distributors Inc., a wholly-owned broker-dealer subsidiary of Morgan Stanley.

"FINANCIAL ADVISORS"--Morgan Stanley authorized financial services representatives.

"FUND"--Morgan Stanley Competitive Edge Fund, a registered open-end investment company.

"INDEPENDENT TRUSTEES"--Trustees who are not "interested persons" (as defined by the Investment Company Act) of the Fund.

"INVESTMENT MANAGER"--Morgan Stanley Investment Advisors Inc., a wholly-owned investment advisor subsidiary of Morgan Stanley.

"MORGAN STANLEY"--Morgan Stanley Dean Witter & Co., a preeminent global financial services firm.

"MORGAN STANLEY & CO."--Morgan Stanley & Co. Incorporated, a wholly-owned broker-dealer subsidiary of Morgan Stanley.

"MORGAN STANLEY DW"--Morgan Stanley DW Inc., a wholly-owned broker-dealer subsidiary of Morgan Stanley.

"MORGAN STANLEY FUNDS"--Registered investment companies (i) for which the Investment Manager serves as the investment advisor and (ii) that hold themselves out to investors as related companies for investment and investor services.

"MORGAN STANLEY SERVICES"--Morgan Stanley Services Company Inc., a wholly-owned fund services subsidiary of the Investment Manager.

"PORTFOLIO"--"Best Ideas" Portfolio of the Fund.

"TRANSFER AGENT"--Morgan Stanley Dean Witter Trust FSB, a wholly-owned transfer agent subsidiary of Morgan Stanley.

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I. FUND HISTORY

The Fund was organized as a Massachusetts business trust under a Declaration of Trust on October 16, 1997 under the name Dean Witter Competitive Edge Fund. Effective December 18, 1997, the Fund's name was changed to Morgan Stanley Dean Witter Competitive Edge Fund. Effective June 18, 2001, the Fund's name was changed to Morgan Stanley Competitive Edge Fund.

II. DESCRIPTION OF THE PORTFOLIO AND ITS INVESTMENTS AND RISKS

A. CLASSIFICATION

The Portfolio is an open-end, diversified management investment company whose investment objective is to seek long-term capital growth.

B. INVESTMENT STRATEGIES AND RISKS

The following discussion of the Portfolio's investment strategies and risks should be read with the sections of its PROSPECTUS titled "Principal Investment Strategies," "Principal Risks" and "Additional Investment Strategy Information."

FORWARD FOREIGN CURRENCY EXCHANGE CONTRACTS. The Portfolio may enter into forward U.S. dollar and foreign currency exchange contracts ("forward contracts") as a hedge against fluctuations in future foreign exchange rates. The Portfolio may conduct its currency exchange transactions either on a spot (i.e., cash) basis at the spot rate prevailing in the foreign currency exchange market, or through entering into forward contracts to purchase or sell foreign currencies. A forward contract involves an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days from the date of the contract agreed upon by the parties, at a price set at the time of the contract. These contracts are traded in the interbank market conducted directly between currency traders (usually large, commercial and investment banks) and their customers. Forward contracts only will be entered into with United States banks and their foreign branches, insurance companies and other dealers whose assets total \$1 billion or more, or foreign banks whose assets total \$1 billion or more. A forward contract generally has no deposit requirement, and no commissions are charged at any stage for trades.

The Portfolio may enter into forward contracts under various circumstances. The typical use of a forward contract is to "lock in" the price of a security in U.S. dollars or some other foreign currency which the Portfolio is holding in its portfolio. By entering into a forward contract for the purchase or sale, for a fixed amount of dollars or other currency, of the amount of foreign currency involved in the underlying security transactions, the Portfolio may be able to protect itself against a possible loss resulting from an adverse change in the relationship between the U.S. dollar or other currency which is being used for

the security purchase and the foreign currency in which the security is denominated during the period between the date on which the security is purchased or sold and the date on which payment is made or received.

The Investment Manager also may from time to time utilize forward contracts for other purposes. For example, they may be used to hedge a foreign security held in the portfolio or a security which pays out principal tied to an exchange rate between the U.S. dollar and a foreign currency, against a decline in value of the applicable foreign currency. They also may be used to lock in the current exchange rate of the currency in which those securities anticipated to be purchased are denominated. At times, the Portfolio may enter into "cross-currency" hedging transactions involving currencies other than those in which securities are held or proposed to be purchased are denominated.

The Portfolio will not enter into forward currency contracts or maintain a net exposure to these contracts where the consummation of the contracts would obligate the Portfolio to deliver an amount of currency in excess of the value of the Portfolio's portfolio securities.

When required by law, the Portfolio will cause its custodian bank to place cash, U.S. government securities or other appropriate liquid portfolio securities in a segregated account of the Portfolio in an

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amount equal to the value of the Portfolio's total assets committed to the consummation of forward contracts entered into under the circumstances set forth above. If the value of the securities placed in the segregated account declines, additional cash or securities will be placed in the account on a daily basis so that the value of the account will equal the amount of the Portfolio's commitments with respect to such contracts.

Although the Portfolio values its assets daily in terms of U.S. dollars, it does not intend to convert its holdings of foreign currencies into U.S. dollars on a daily basis. It will, however, do so from time to time, and investors should be aware of the costs of currency conversion. Although foreign exchange dealers do not charge a fee for conversion, they do realize a profit based on the spread between the prices at which they are buying and selling various currencies. Thus, a dealer may offer to sell a foreign currency to the Portfolio at one rate, while offering a lesser rate of exchange should the Portfolio desire to resell that currency to the dealer.

The Portfolio may be limited in its ability to enter into hedging transactions involving forward contracts by the Internal Revenue Code requirements relating to qualification as a regulated investment company.

Forward currency contracts may limit gains on portfolio securities that could otherwise be realized had they not been utilized and could result in losses. The contracts also may increase the Portfolio's volatility and may involve a significant amount of risk relative to the investment of cash.

OPTION AND FUTURES TRANSACTIONS. The Portfolio may engage in transactions

in listed and OTC options. Listed options are issued or guaranteed by the exchange on which they are traded or by a clearing corporation such as the Options Clearing Corporation ("OCC"). Ownership of a listed call option gives the Portfolio the right to buy from the OCC (in the U.S.) or other clearing corporation or exchange, the underlying security or currency covered by the option at the stated exercise price (the price per unit of the underlying security) by filing an exercise notice prior to the expiration date of the option. The writer (seller) of the option would then have the obligation to sell to the OCC (in the U.S.) or other clearing corporation or exchange, the underlying security or currency at that exercise price prior to the expiration date of the option, regardless of its then current market price. Ownership of a listed put option would give the Portfolio the right to sell the underlying security or currency to the OCC (in the U.S.) or other clearing corporation or exchange, at the stated exercise price. Upon notice of exercise of the put option, the writer of the put would have the obligation to purchase the underlying security or currency from the OCC (in the U.S.) or other clearing corporation or exchange, at the exercise price.

COVERED CALL WRITING. The Portfolio is permitted to write covered call options on portfolio securities and the U.S. dollar and foreign currencies, without limit. The Portfolio will receive from the purchaser, in return for a call it has written, a "premium;" i.e., the price of the option. Receipt of these premiums may better enable the Portfolio to earn a higher level of current income than it would earn from holding the underlying securities (or currencies) alone. Moreover, the premium received will offset a portion of the potential loss incurred by the Portfolio if the securities underlying the option decline in value.

The Portfolio may be required, at any time during the option period, to deliver the underlying security (or currency) against payment of the exercise price on any calls it has written. This obligation is terminated upon the expiration of the option period or at such earlier time when the writer effects a closing purchase transaction. A closing purchase transaction is accomplished by purchasing an option of the same series as the option previously written. However, once the Portfolio has been assigned an exercise notice, the Portfolio will be unable to effect a closing purchase transaction.

A call option is "covered" if the Portfolio owns the underlying security subject to the option or has an absolute and immediate right to acquire that security without additional cash consideration (or for additional consideration (in cash, Treasury bills or other liquid portfolio securities) held in a segregated account on the Portfolio's books) upon conversion or exchange of other securities held in its portfolio. A call option is also covered if the Portfolio holds a call on the same security as the call written where the

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exercise price of the call held is (i) equal to or less than the exercise price of the call written or (ii) greater than the exercise price of the call written if the difference is maintained by the Portfolio in cash, Treasury bills or other liquid portfolio securities in a segregated account on the Portfolio's books.

Options written by the Portfolio normally have expiration dates of from up to eighteen months from the date written. The exercise price of a call option may be below, equal to or above the current market value of the underlying security (or currency) at the time the option is written.

COVERED PUT WRITING. A writer of a covered put option incurs an obligation to buy the security underlying the option from the purchaser of the put, at the option's exercise price at any time during the option period, at the purchaser's election. Through the writing of a put option, the Portfolio would receive income from the premium paid by purchasers. The potential gain on a covered put option is limited to the premium received on the option (less the commissions paid on the transaction). During the option period, the Portfolio may be required, at any time, to make payment of the exercise price against delivery of the underlying security. A put option is "covered" if the Portfolio maintains cash, Treasury bills or other liquid portfolio securities with a value equal to the exercise price in a segregated account on the Portfolio's books, or holds a put on the same security as the put written where the exercise price of the put held is equal to or greater than the exercise price of the put written. The operation of and limitations on covered put options in other respects are substantially identical to those of call options.

PURCHASING CALL AND PUT OPTIONS. The Portfolio may purchase listed and OTC call and put options in amounts equaling up to 5% of its total assets. The purchase of a call option would enable the Portfolio, in return for the premium paid to lock in a purchase price for a security or currency during the term of the option. The purchase of a put option would enable the Portfolio, in return for a premium paid, to lock in a price at which it may sell a security or currency during the term of the option.

OPTIONS ON FOREIGN CURRENCIES. The Portfolio may purchase and write options on foreign currencies for purposes similar to those involved with investing in forward foreign currency exchange contracts.

OTC OPTIONS. OTC options are purchased from or sold (written) to dealers or financial institutions which have entered into direct agreements with the Portfolio. With OTC options, such variables as expiration date, exercise price and premium will be agreed upon between the Portfolio and the transacting dealer, without the intermediation of a third party such as the OCC. The Portfolio will engage in OTC option transactions only with member banks of the Federal Reserve Bank System or primary dealers in U.S. Government securities or with affiliates of such banks or dealers.

RISKS OF OPTIONS TRANSACTIONS. The successful use of options depends on the ability of the Investment Manager to forecast correctly interest rates and/or market movements. If the market value of the portfolio securities (or currencies) upon which call options have been written increases, the Portfolio may receive a lower total return from the portion of its portfolio upon which calls have been written than it would have had such calls not been written. During the option period, the covered call writer has, in return for the premium on the option, given up the opportunity for capital appreciation above the exercise price should the market price of the underlying security (or currency)

increase, but has retained the risk of loss should the price of the underlying security (or currency) decline. The covered put writer also retains the risk of loss should the market value of the underlying security (or currency) decline below the exercise price of the option less the premium received on the sale of the option. In both cases, the writer has no control over the time when it may be required to fulfill its obligation as a writer of the option. Prior to exercise or expiration, an option position can only be terminated by entering into a closing purchase or sale transaction. Once an option writer has received an exercise notice, it cannot effect a closing purchase transaction in order to terminate its obligation under the option and must deliver or receive the underlying securities (or currencies) at the exercise price.

The Portfolio's ability to close out its position as a writer of an option is dependent upon the existence of a liquid secondary market on option exchanges. There is no assurance that such a market will exist for a particular option at any specific time, particularly in the case of OTC options.

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In the event of the bankruptcy of a broker through which the Portfolio engages in transactions in options, the Portfolio could experience delays and/or losses in liquidating open positions purchased or sold through the broker and/or incur a loss of all or part of its margin deposits with the broker. In the case of OTC options, if the transacting dealer fails to make or take delivery of the securities (or currencies) underlying an option it has written, in accordance with the terms of that option, due to insolvency or otherwise, the Portfolio would lose the premium paid for the option as well as any anticipated benefit of the transaction.

Each of the exchanges has established limitations governing the maximum number of call or put options on the same underlying security which may be written by a single investor, whether acting alone or in concert with others (regardless of whether such options are written on the same or different exchanges or are held or written on one or more accounts or through one or more brokers). An exchange may order the liquidation of positions found to be in violation of these limits and it may impose other sanctions or restrictions. These position limits may restrict the number of listed options which the Portfolio may write.

The hours of trading for options may not conform to the hours during which the underlying securities are traded. To the extent that the option markets close before the markets for the underlying securities, significant price and rate movements can take place in the underlying markets that cannot be reflected in the option markets.

The markets in foreign currency options are relatively new and the Portfolio's ability to establish and close out positions on such options is subject to the maintenance of a liquid secondary market. There can be no assurance that a liquid secondary market will exist for a particular option at any specific time.

The value of a foreign currency option depends upon the value of the

underlying currency relative to the U.S. dollar. As a result, the price of the option position may vary with changes in the value of either or both currencies and have no relationship to the investment merits of a foreign security. Because foreign currency transactions occurring in the interbank market involve substantially larger amounts than those that may be involved in the use of foreign currency options, investors may be disadvantaged by having to deal in an odd lot market (generally consisting of transactions of less than \$1 million) for the underlying foreign currencies at prices that are less favorable than for round lots.

There is no systematic reporting of last sale information for foreign currencies or any regulatory requirement that quotations available through dealers or other market sources be firm or revised on a timely basis. Quotation information available is generally representative of very large transactions in the interbank market and thus may not reflect relatively smaller transactions (i.e., less than \$1 million) where rates may be less favorable. The interbank market in foreign currencies is a global, around-the-clock market. To the extent that the U.S. options markets are closed while the markets for the underlying currencies remain open, significant price and rate movements may take place in the underlying markets that are not reflected in the options market.

STOCK INDEX OPTIONS. The Portfolio may invest in options on broadly based indexes. Options on stock indexes are similar to options on stock except that, rather than the right to take or make delivery of stock at a specified price, an option on a stock index gives the holder the right to receive, upon exercise of the option, an amount of cash if the closing level of the stock index upon which the option is based is greater than, in the case of a call, or less than, in the case of a put, the exercise price of the option. This amount of cash is equal to such difference between the closing price of the index and the exercise price of the option expressed in dollars times a specified multiple. The writer of the option is obligated, in return for the premium received, to make delivery of this amount.

RISKS OF OPTIONS ON INDEXES. Because exercises of stock index options are settled in cash, the Portfolio could not, if it wrote a call option, provide in advance for its potential settlement obligations by acquiring and holding the underlying securities. A call writer can offset some of the risk of its writing position by holding a diversified portfolio of stocks similar to those on which the underlying index is based. However, most investors cannot, as a practical matter, acquire and hold a portfolio containing

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exactly the same stocks as the underlying index, and, as a result, bear a risk that the value of the securities held will vary from the value of the index. Even if an index call writer could assemble a stock portfolio that exactly reproduced the composition of the underlying index, the writer still would not be fully covered from a risk standpoint because of the "timing risk" inherent in writing index options.

When an index option is exercised, the amount of cash that the holder is entitled to receive is determined by the difference between the exercise price

and the closing index level on the date when the option is exercised. As with other kinds of options, the writer will not learn that it had been assigned until the next business day, at the earliest. The time lag between exercise and notice of assignment poses no risk for the writer of a covered call on a specific underlying security, such as a common stock, because there the writer's obligation is to deliver the underlying security, not to pay its value as of a fixed time in the past. So long as the writer already owns the underlying security, it can satisfy its settlement obligations by simply delivering it, and the risk that its value may have declined since the exercise date is borne by the exercising holder. In contrast, even if the writer of an index call holds stocks that exactly match the composition of the underlying index, it will not be able to satisfy its assignment obligations by delivering those stocks against payment of the exercise price. Instead, it will be required to pay cash in an amount based on the closing index value on the exercise date; and by the time it learns that it has been assigned, the index may have declined, with a corresponding decrease in the value of its stock portfolio. This "timing risk" is an inherent limitation on the ability of index call writers to cover their risk exposure by holding stock positions.

A holder of an index option who exercises it before the closing index value for that day is available runs the risk that the level of the underlying index may subsequently change. If a change causes the exercised option to fall out-of-the-money, the exercising holder will be required to pay the difference between the closing index value and the exercise price of the option (times the applicable multiplier) to the assigned writer.

If dissemination of the current level of an underlying index is interrupted, or if trading is interrupted in stocks accounting for a substantial portion of the value of an index, the trading of options on that index will ordinarily be halted. If the trading of options on an underlying index is halted, an exchange may impose restrictions prohibiting the exercise of such options.

FUTURES CONTRACTS. The Portfolio may purchase and sell interest rate and index futures contracts that are traded on U.S. and foreign commodity exchanges on such underlying securities as U.S. Treasury bonds, notes, bills and GNMA Certificates and/or any foreign government fixed-income security, on the U.S. dollar and foreign currencies, and on such indexes of U.S. and foreign securities as may exist or come into existence.

A futures contract purchaser incurs an obligation to take delivery of a specified amount of the obligation underlying the contract at a specified time in the future for a specified price. A seller of a futures contract incurs an obligation to deliver the specified amount of the underlying obligation at a specified time in return for an agreed upon price. The purchase of a futures contract enables the Portfolio, during the term of the contract, to lock in a price at which it may purchase a security and protect against a rise in prices pending purchase of portfolio securities. The sale of a futures contract enables the Portfolio to lock in a price at which it may sell a security and protect against declines in the value of portfolio securities.

Although most futures contracts call for actual delivery or acceptance of securities, the contracts usually are closed out before the settlement date

without the making or taking of delivery. Index futures contracts provide for the delivery of an amount of cash equal to a specified dollar amount times the difference between the index value at the open or close of the last trading day of the contract and the futures contract price. A futures contract sale is closed out by effecting a futures contract purchase for the same aggregate amount of the specific type of security (currency) and the same delivery date. If the sale price exceeds the offsetting purchase price, the seller would be paid the difference and would realize a gain. If the offsetting purchase price exceeds the sale price, the seller would pay the difference and would realize a loss. Similarly, a futures contract purchase is closed out by effecting a futures

<Page>

contract sale for the same aggregate amount of the specific type of security (currency) and the same delivery date. If the offsetting sale price exceeds the purchase price, the purchaser would realize a gain, whereas if the purchase price exceeds the offsetting sale price, the purchaser would realize a loss. There is no assurance that the Portfolio will be able to enter into a closing transaction.

MARGIN. If the Portfolio enters into a futures contract, it is initially required to deposit an "initial margin" of cash, U.S. government securities or other liquid portfolio securities ranging from approximately 2% to 5% of the contract amount. Initial margin requirements are established by the exchanges on which futures contracts trade and may, from time to time, change. In addition, brokers may establish margin deposit requirements in excess of those required by the exchanges.

Initial margin in futures transactions is different from margin in securities transactions in that initial margin does not involve the borrowing of funds by a broker's client but is, rather, a good faith deposit on the futures contract which will be returned to the Portfolio upon the proper termination of the futures contract. The margin deposits made are marked to market daily and the Portfolio may be required to make subsequent deposits of cash, U.S. government securities, or other liquid portfolio securities, called "variation margin," which are reflective of price fluctuations in the futures contract.

OPTIONS ON FUTURES CONTRACTS. The Portfolio may purchase and write call and put options on futures contracts and enter into closing transactions with respect to such options to terminate an existing position. An option on a futures contract gives the purchaser the right (in return for the premium paid), and the writer the obligation, to assume a position in a futures contract (a long position if the option is a call and a short position if the option is a put) at a specified exercise price at any time during the term of the option. Upon exercise of the option, the delivery of the futures position by the writer of the option to the holder of the option is accompanied by delivery of the accumulated balance in the writer's futures margin account, which represents the amount by which the market price of the futures contract at the time of exercise exceeds, in the case of a call, or is less than, in the case of a put, the exercise price of the option on the futures contract.

The writer of an option on a futures contract is required to deposit initial and variation margin pursuant to requirements similar to those applicable to futures contracts. Premiums received from the writing of an option on a futures contract are included in initial margin deposits.

LIMITATIONS ON FUTURES CONTRACTS AND OPTIONS ON FUTURES. The Portfolio may not enter into futures contracts or purchase related options thereon if, immediately thereafter, the amount committed to margin plus the amount paid for premiums for unexpired options on futures contracts exceeds 5% of the value of the Portfolio's total assets, after taking into account unrealized gains and unrealized losses on such contracts it has entered into, provided, however, that in the case of an option that is in-the-money (the exercise price of the call (put) option is less (more) than the market price of the underlying security) at the time of purchase, the in-the-money amount may be excluded in calculating the 5%. However, there is no overall limitation on the percentage of the Portfolio's net assets which may be subject to a hedge position.

RISKS OF TRANSACTIONS IN FUTURES CONTRACTS AND RELATED OPTIONS. The prices of securities and indexes subject to futures contracts (and thereby the futures contract prices) may correlate imperfectly with the behavior of the cash prices of the Portfolio's portfolio securities. Also, prices of futures contracts may not move in tandem with the changes in prevailing interest rates and/or market movements against which the Portfolio seeks a hedge. A correlation may also be distorted (a) temporarily, by short-term traders' seeking to profit from the difference between a contract or security price objective and their cost of borrowed funds; (b) by investors in futures contracts electing to close out their contracts through offsetting transactions rather than meet margin deposit requirements; (c) by investors in futures contracts opting to make or take delivery of underlying securities rather than engage in closing transactions, thereby reducing liquidity of the futures market; and (d) temporarily, by speculators who view the deposit requirements in the futures markets as less onerous than margin requirements in the cash market. Due to the possibility of price distortion in the futures market and because of the possible imperfect correla-

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tion between movements in the prices of securities and movements in the prices of futures contracts, a correct forecast of interest rate, currency exchange rate and/or market movement trends by the Investment Manager may still not result in a successful hedging transaction.

There is no assurance that a liquid secondary market will exist for futures contracts and related options in which the Portfolio may invest. In the event a liquid market does not exist, it may not be possible to close out a futures position and, in the event of adverse price movements, the Portfolio would continue to be required to make daily cash payments of variation margin. The absence of a liquid market in futures contracts might cause the Portfolio to make or take delivery of the underlying securities at a time when it may be disadvantageous to do so.

Exchanges also limit the amount by which the price of a futures contract may

move on any day. If the price moves equal the daily limit on successive days, then it may prove impossible to liquidate a futures position until the daily limit moves have ceased. In the event of adverse price movements, the Portfolio would continue to be required to make daily cash payments of variation margin on open futures positions. In these situations, if the Portfolio has insufficient cash, it may have to sell portfolio securities to meet daily variation margin requirements at a time when it may be disadvantageous to do so. In addition, the Portfolio may be required to take or make delivery of the instruments underlying interest rate futures contracts it holds at a time when it is disadvantageous to do so. The inability to close out options and futures positions could also have an adverse impact on the Portfolio's ability to effectively hedge its portfolio.

Futures contracts and options thereon which are purchased or sold on foreign commodities exchanges may have greater price volatility than their U.S. counterparts. Furthermore, foreign commodities exchanges may be less regulated and under less governmental scrutiny than U.S. exchanges. Brokerage commissions, clearing costs and other transaction costs may be higher on foreign exchanges. Greater margin requirements may limit the Portfolio's ability to enter into certain commodity transactions on foreign exchanges. Moreover, differences in clearance and delivery requirements on foreign exchanges may occasion delays in the settlement of the Portfolio's transactions effected on foreign exchanges.

In the event of the bankruptcy of a broker through which the Portfolio engages in transactions in futures or options thereon, the Portfolio could experience delays and/or losses in liquidating open positions purchased or sold through the broker and/or incur a loss of all or part of its margin deposits with the broker.

If the Portfolio maintains a short position in a futures contract or has sold a call option in a futures contract, it will cover this position by holding, in a segregated account maintained on the books of the Portfolio, cash, U.S. government securities or other liquid portfolio securities equal in value (when added to any initial or variation margin on deposit) to the market value of the securities underlying the futures contract or the exercise price of the option. Such a position may also be covered by owning the securities underlying the futures contract (in the case of a stock index futures contract a portfolio of securities substantially replicating the relevant index), or by holding a call option permitting the Portfolio to purchase the same contract at a price no higher than the price at which the short position was established.

In addition, if the Portfolio holds a long position in a futures contract or has sold a put option on a futures contract, it will hold cash, U.S. government securities or other liquid portfolio securities equal to the purchase price of the contract or the exercise price of the put option (less the amount of initial or variation margin on deposit) in a segregated account maintained on the books of the Portfolio. Alternatively, the Portfolio could cover its long position by purchasing a put option on the same futures contract with an exercise price as high or higher than the price of the contract held by the Portfolio.

MONEY MARKET SECURITIES. The Portfolio may invest in various money market securities for cash management purposes or when assuming a temporary defensive position, which among others may

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include commercial paper, bank acceptances, bank obligations, corporate debt securities certificates of deposit, U.S. government securities and obligations of savings institutions. Such securities are limited to:

U.S. GOVERNMENT SECURITIES. Obligations issued or guaranteed as to principal and interest by the United States or its agencies (such as the Export-Import Bank of the United States, Federal Housing Administration and Government National Mortgage Association) or its instrumentalities (such as the Federal Home Loan Bank), including Treasury bills, notes and bonds;

BANK OBLIGATIONS. Obligations (including certificates of deposit, time deposits and bankers' acceptances) of banks subject to regulation by the U.S. Government and having total assets of \$1 billion or more, and instruments secured by such obligations, not including obligations of foreign branches of domestic banks except to the extent below;

EURODOLLAR CERTIFICATES OF DEPOSIT. Eurodollar certificates of deposit issued by foreign branches of domestic banks having total assets of \$1 billion or more;

OBLIGATIONS OF SAVINGS INSTITUTIONS. Certificates of deposit of savings banks and savings and loan associations, having total assets of \$1 billion or more;

FULLY INSURED CERTIFICATES OF DEPOSIT. Certificates of deposit of banks and savings institutions, having total assets of less than \$1 billion. If the principal amount of the obligation is federally insured by the Bank Insurance Fund or the Savings Association Insurance Fund (each of which is administered by the FDIC), limited to \$100,000 principal amount per certificate and to 10% or less of the Portfolio's total assets in all such obligations and in all illiquid assets, in the aggregate;

COMMERCIAL PAPER. Commercial paper rated within the two highest grades by Standard & Poor's Corporation ("S&P") or by Moody's Investors Service, Inc. ("Moody's") or, if not rated, issued by a company having an outstanding debt issue rated at least AA by S&P or Aa by Moody's; and

REPURCHASE AGREEMENTS. The Portfolio may invest in repurchase agreements. When cash may be available for only a few days, it may be invested by the Portfolio in repurchase agreements until such time as it may otherwise be invested or used for payments of obligations of the Portfolio. These agreements, which may be viewed as a type of secured lending by the Portfolio, typically involve the acquisition by the Portfolio of debt securities from a selling financial institution such as a bank, savings and loan association or broker-dealer. The agreement provides that the Portfolio will sell back to the institution, and that the institution will repurchase, the underlying security serving as collateral at a specified price and at a fixed time in the future, usually not more than seven days from the date of purchase. The collateral will be marked-to-market daily to determine that the value of the collateral, as

specified in the agreement, does not decrease below the purchase price plus accrued interest. If such decrease occurs, additional collateral will be requested and, when received, added to the account to maintain full collateralization. The Portfolio will accrue interest from the institution until the time when the repurchase is to occur. Although this date is deemed by the Portfolio to be the maturity date of a repurchase agreement, the maturities of securities subject to repurchase agreements are not subject to any limits.

While repurchase agreements involve certain risks not associated with direct investments in debt securities, the Portfolio follows procedures approved by the Trustees designed to minimize such risks. These procedures include effecting repurchase transactions only with large, well-capitalized and well-established financial institutions whose financial condition will be continually monitored by the Investment Manager. In addition, as described above, the value of the collateral underlying the repurchase agreement will be at least equal to the repurchase price, including any accrued interest earned on the repurchase agreement. In the event of a default or bankruptcy by a selling financial institution, the Portfolio will seek to liquidate such collateral. However, the exercising of the Portfolio's right to liquidate such collateral could involve certain costs or delays and, to the extent that proceeds from any sale upon a default of the obligation to repurchase were less than the repurchase price, the Portfolio could suffer a loss.

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LENDING PORTFOLIO SECURITIES. The Portfolio may lend its portfolio securities to brokers, dealers and other financial institutions, provided that the loans are callable at any time by the Portfolio, and are at all times secured by cash or cash equivalents, which are maintained in a segregated account pursuant to applicable regulations and that are equal to at least 100% of the market value, determined daily, of the loaned securities. The advantage of these loans is that the Portfolio continues to receive the income on the loaned securities while at the same time earning interest on the cash amounts deposited as collateral, which will be invested in short-term obligations. The Portfolio will not lend more than 25% of the value of its total assets.

As with any extensions of credit, there are risks of delay in recovery and, in some cases, even loss of rights in the collateral should the borrower of the securities fail financially. However, these loans of portfolio securities will only be made to firms deemed by the Portfolio's management to be creditworthy and when the income which can be earned from such loans justifies the attendant risks. Upon termination of the loan, the borrower is required to return the securities to the Portfolio. Any gain or loss in the market price during the loan period would inure to the Portfolio.

When voting or consent rights which accompany loaned securities pass to the borrower, the Portfolio will follow the policy of calling the loaned securities, to be delivered within one day after notice, to permit the exercise of the rights if the matters involved would have a material effect on the Portfolio's investment in the loaned securities. The Portfolio will pay reasonable finder's, administrative and custodial fees in connection with a loan of its securities.

PRIVATE PLACEMENTS. The Portfolio may invest up to 15% of its net assets in securities which are subject to restrictions on resale because they have not been registered under the Securities Act of 1933 (the "Securities Act"), or which are otherwise not readily marketable. (Securities eligible for resale pursuant to Rule 144A under the Securities Act, and determined to be liquid pursuant to the procedures discussed in the following paragraph, are not subject to the foregoing restriction.) These securities are generally referred to as private placements or restricted securities. Limitations on the resale of these securities may have an adverse effect on their marketability, and may prevent the Portfolio from disposing of them promptly at reasonable prices. The Portfolio may have to bear the expense of registering the securities for resale and the risk of substantial delays in effecting the registration.

Rule 144A permits the Portfolio to sell restricted securities to qualified institutional buyers without limitation. The Investment Manager, pursuant to procedures adopted by the Trustees, will make a determination as to the liquidity of each restricted security purchased by the Portfolio. If a restricted security is determined to be "liquid," the security will not be included within the category "illiquid securities," which may not exceed 15% of the Portfolio's net assets. However, investing in Rule 144A securities could have the effect of increasing the level of Fund illiquidity to the extent the Fund, at a particular point in time, may be unable to find qualified institutional buyers interested in purchasing such securities.

WARRANTS AND SUBSCRIPTION RIGHTS. The Portfolio may acquire warrants and subscription rights. A warrant is, in effect, an option to purchase equity securities at a specific price, generally valid for a specific period of time, and has no voting rights, pays no dividends and has no rights with respect to the corporation issuing it.

A subscription right is a privilege granted to existing shareholders of a corporation to subscribe to shares of a new issue of common stock before it is offered to the public. A subscription right normally has a life of two to four weeks and a subscription price lower than the current market value of the common stock.

NEW INSTRUMENTS. New financial products and various combinations thereof continue to be developed. The Fund may invest in any such products as may be developed, to the extent consistent with its investment objective and applicable regulatory requirements.

C. PORTFOLIO POLICIES/INVESTMENT RESTRICTIONS

The investment objective, policies and restrictions listed below have been adopted by the Portfolio as fundamental policies. Under the Investment Company Act of 1940, as amended (the "Investment Company Act"), a fundamental policy may not be changed with respect to the Portfolio without the vote

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of a majority of the outstanding voting securities of the Portfolio. The Investment Company Act defines a majority as the lesser of (a) 67% or more of

the shares present at a meeting of shareholders, if the holders of 50% of the outstanding shares of the Portfolio are present or represented by proxy; or (b) more than 50% of the outstanding shares of the Portfolio. For purposes of the following restrictions: (i) all percentage limitations apply immediately after a purchase or initial investment; and (ii) any subsequent change in any applicable percentage resulting from market fluctuations or other changes in total or net assets does not require elimination of any security from the portfolio.

The Portfolio will:

1. Seek long-term capital growth.

The Portfolio MAY NOT:

1. As to 75% of its total assets, invest more than 5% of the value of its total assets in the securities of any one issuer (other than obligations issued or guaranteed by the United States government, its agencies or instrumentalities), except that the Portfolio may invest all or substantially all of its assets in another registered investment company having the same investment objective and policies and substantially the same investment restrictions as the Portfolio (a "Qualifying Portfolio").

2. As to 75% of its total assets, purchase more than 10% of all outstanding voting securities or any class of securities of any one issuer, except that the Portfolio may invest all or substantially all of its assets in a Qualifying Portfolio.

3. Invest 25% or more of the value of its total assets in securities of issuers in any one industry. This restriction does not apply to obligations issued or guaranteed by the United States government, its agencies or instrumentalities.

4. Purchase or sell real estate or interests therein (including limited partnership interests), although the Portfolio may purchase securities of issuers which engage in real estate operations and securities secured by real estate or interests therein.

5. Borrow money, except that the Portfolio may borrow from a bank for temporary or emergency purposes in an amount not exceeding 5% (taken at the lower of cost or current value) of its total assets (not including the amount borrowed).

6. Pledge its assets or assign or otherwise encumber them except to secure permitted borrowings. For the purpose of this restriction, collateral arrangements with respect to the writing of options by the Portfolio and collateral arrangements with respect to initial or variation margin for futures by the Portfolio are not deemed to be pledges of assets.

7. Issue senior securities as defined in the Investment Company Act, except for permitted borrowings and except insofar as the Portfolio may be deemed to have issued a senior security by reason of entering into repurchase agreements.

8. Make loans of money or securities, except by investment in repurchase agreements. For the purpose of this restriction, lending of Portfolio securities by the Portfolio are not deemed to be loans.

9. Make short sales of securities.

10. Purchase securities on margin, except for such short-term loans as are necessary for the clearance of portfolio securities. The deposit or payment by the Portfolio of initial or variation margin in connection with futures contracts or related options thereon is not considered the purchase of a security on margin.

11. Engage in the underwriting of securities, except insofar as the Portfolio may be deemed an underwriter under the Securities Act in disposing of a portfolio security.

12. Invest for the purpose of exercising control or management of any one issuer.

13. Purchase or sell commodities or commodities contracts except that the Portfolio may purchase or write interest rate, currency and stock and bond index futures contracts and related options thereon.

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III. MANAGEMENT OF THE FUND

A. BOARD OF TRUSTEES

The Board of Trustees of the Fund oversees the management of the Portfolio but does not itself manage the Portfolio. The Trustees review various services provided by or under the direction of the Investment Manager to ensure that the Portfolio's general investment policies and programs are properly carried out. The Trustees also conduct their review to ensure that administrative services are provided to the Portfolio of the Fund in a satisfactory manner.

Under state law, the duties of the Trustees are generally characterized as a duty of loyalty and a duty of care. The duty of loyalty requires a Trustee to exercise his or her powers in the interest of the Portfolio of the Fund and not the Trustee's own interest or the interest of another person or organization. A Trustee satisfies his or her duty of care by acting in good faith with the care of an ordinarily prudent person and in a manner the Trustee reasonably believes to be in the best interest of the Portfolio and its shareholders.

B. MANAGEMENT INFORMATION

TRUSTEES AND OFFICERS. The Board of the Fund consists of nine (9) Trustees. These same individuals also serve as directors or trustees for all of the Morgan Stanley Funds. Six Trustees (67% of the total number) have no affiliation or business connection with the Investment Manager or any of its affiliated persons

and do not own any stock or other securities issued by the Investment Manager's parent company, Morgan Stanley. These are the "non-interested" or "independent" Trustees. The other three Trustees (the "management Trustees") are affiliated with the Investment Manager.

The Trustees and executive officers of the Fund, their principal business occupations during the last five years and their affiliations, if any, with the Investment Manager, and with the Morgan Stanley Funds (there were 97 such Funds as of the calendar year ended December 31, 2000).

<Table>

<Caption>

NAME, AGE, POSITION WITH FUND AND ADDRESS LAST FIVE YEARS	PRINCIPAL OCCUPATIONS DURING
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<S>	<C>
Michael Bozic (60) the Morgan Trustee Chairman of Kmart c/o Mayer, Brown & Platt 1998-October 2000), Counsel to the Independent Trustees Officer of Levitz 1675 Broadway 1995-November New York, New York Executive Officer 1991-July Chairman, Chief Chief the Sears Roebuck and Co.; Corporation.	Retired; Director or Trustee of Stanley Funds; formerly Vice Corporation (December Chairman and Chief Executive Furniture Corporation (November 1998) and President and Chief of Hills Department Stores (May 1995); formerly variously Executive Officer, President and Operating Officer (1987-1991) of Merchandise Group of Sears, Director of Weirton Steel
Charles A. Fiumefreddo* (68) Chief Chairman of the Board Stanley Funds; Chief Executive Officer and Trustee Executive Officer and Two World Trade Center Manager, the New York, New York Services,	Chairman, Director or Trustee and Executive Officer of the Morgan formerly Chairman, Chief Director of the Investment Distributor and Morgan Stanley Executive Vice President and

Director of Morgan
of the
and/or officer of
subsidiaries (until June

Stanley DW, Chairman and Director
Transfer Agent, and Director
various Morgan Stanley
1998).

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NAME, AGE, POSITION WITH FUND AND ADDRESS
LAST FIVE YEARS

PRINCIPAL OCCUPATIONS DURING

<S>

Edwin J. Garn (68)
Stanley
Trustee
Senator (R-Utah)
c/o Summit Ventures LLC
Banking
1 Utah Center
Mayor of Salt
201 S. Main Street
formerly
Salt Lake City, Utah
Discovery

Chairman, Huntsman

Director of

systems), BMW

(industrial loan

Alliance (joint

and the Boeing

(multilevel

Regional

member of the

charitable

<C>

Director or Trustee of the Morgan
Funds; formerly United States
(1974-1992) and Chairman, Senate
Committee (1980-1986); formerly
Lake City, Utah (1971-1974);
Astronaut, Space Shuttle
(April 12-19, 1985); Vice
Corporation (chemical company);
Franklin Covey (time management
Bank of North America, Inc.
corporation), United Space
venture between Lockheed Martin
Company) and Nuskin Asia Pacific
marketing); member of the Utah
Advisory Board of Pacific Corp.;
board of various civic and

<p>Wayne E. Hedien (67)</p> <p>the Morgan Trustee PMI Group, Inc. c/o Mayer, Brown & Platt Trustee and Vice Counsel to the Independent Trustees Natural 1675 Broadway the Allstate New York, New York recently as Corporation (March and Chief wholly-owned subsidi- (July various other organizations. James F. Higgins* (53)</p> <p>Group of Morgan Trustee Director of the Two World Trade Center Realty Inc.; New York, New York Stanley Funds President and Private Client 1999-August 2000), Officer of Stanley President and Chief Securities of 1997), and Stanley DW. Dr. Manuel H. Johnson (52)</p>	<p>Retired; Director or Trustee of Stanley Funds; Director of The (private mortgage insurance); Chairman of The Field Museum of History; formerly associated with Companies (1966-1994), most Chairman of The Allstate 1993-December 1994) and Chairman Executive Officer of its ary, Allstate Insurance Company 1989-December 1994); director of business and charitable Chairman of the Private Client Stanley (since August 2000); Transfer Agent and Dean Witter Director or Trustee of the Morgan (since June 2000); previously Chief Operating Officer of the Group of Morgan Stanley (May President and Chief Operating Individual Securities of Morgan (February 1997-May 1999), Operating Officer of Dean Witter Morgan Stanley (1995-February Director (1985-1997) of Morgan Senior Partner, Johnson Smick</p>
--	--

Trustee
 firm;
 c/o Johnson Smick International, Inc.
 Group of Seven
 1133 Connecticut Avenue, N.W.
 economic
 Washington, D.C.
 Committee and

 Stanley

 Standards Board

 governing

 NVR, Inc. (home

 Trustee of the

 (oversight

 Accounting

 Chairman of the

 Reserve

 the U.S.

 </Table>

International, Inc., a consulting
 Co-Chairman and a founder of the
 Council (G7C), an international
 commission; Chairman of the Audit
 Director or Trustee of the Morgan
 Funds; Director of Independence
 (private sector organization
 independence of auditors) and
 construction); Chairman and
 Financial Accounting Foundation
 organization of the Financial
 Standards Board); formerly Vice
 Board of Governors of the Federal
 System and Assistant Secretary of
 Treasury.

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NAME, AGE, POSITION WITH FUND AND ADDRESS
 LAST FIVE YEARS

PRINCIPAL OCCUPATIONS DURING

<S>

Michael E. Nugent (65)
 L.P., a
 Trustee
 Chairman of the
 c/o Triumph Capital, L.P.
 or Trustee of
 237 Park Avenue
 formerly Vice
 New York, New York
 and BT Capital

<C>

General Partner, Triumph Capital,
 private investment partnership;
 Insurance Committee and Director
 the Morgan Stanley Funds;
 President, Bankers Trust Company
 Corporation; director of various

business

Philip J. Purcell* (57)
Directors and Chief
Trustee
Stanley, Morgan
1585 Broadway
Services Inc.;
New York, New York
Director or

Funds; Director

its parent com-

and/or officer

subsidiaries.

John L. Schroeder (70)
Derivatives Committee
Trustee
Morgan Stanley
c/o Mayer, Brown & Platt
Communications
Counsel to the Independent Trustees
company); formerly
1675 Broadway
Chief Investment
New York, New York
Company (August

Mitchell M. Merin (47)
Officer of Morgan
President
(since December
Two World Trade Center
(since April
New York, New York
(since June

and Morgan

Executive

Distributor (since

Executive

Director (since

organizations.

Chairman of the Board of

Executive Officer of Morgan

Stanley DW and Novus Credit

Director of the Distributor;

Trustee of the Morgan Stanley

of American Airlines, Inc. and

pany, AMR corporation; Director

of various Morgan Stanley

Retired; Chairman of the

and Director or Trustee of the

Funds; Director of Citizens

Company (telecommunications

Executive Vice President and

Officer of the Home Insurance

1991-September 1995).

President and Chief Operating

Stanley Investment Management

1998); President and Director

1997) and Chief Executive Officer

1998) of the Investment Manager

Stanley Services; Chairman, Chief

Officer and Director of the

June 1998); Chairman and Chief

Officer (since June 1998) and

Agent; Director
 subsidiaries;
 Funds (since
 Kampen
 December 1999);
 Officer of the
 Stanley Services
 the Dis-
 Vice President
 1997-April
 President of Dean

January 1998) of the Transfer
 of various Morgan Stanley
 President of the Morgan Stanley
 May 1999); Trustee of various Van
 investment companies (since
 previously Chief Strategic
 Investment Manager and Morgan
 and Executive Vice President of
 tributor (April 1997-June 1998),
 of the Morgan Stanley Funds (May
 1999), and Executive Vice
 Witter, Discover & Co.

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<Caption>

NAME, AGE, POSITION WITH FUND AND ADDRESS
 LAST FIVE YEARS

PRINCIPAL OCCUPATIONS DURING

<S>

Barry Fink (46)
 and Managing
 Vice President,
 Morgan
 Secretary and General Counsel
 Managing
 Two World Trade Center
 and Secretary
 New York, New York
 February 1997) and
 Investment
 Services; Vice
 Counsel of the

<C>

General Counsel (since May 2000)
 Director (since December 2000) of
 Stanley Investment Management;
 Director (since December 2000)
 and General Counsel (since
 Director (since July 1998) of the
 Manager and Morgan Stanley
 President, Secretary and General
 Morgan Stanley Funds (since

February 1997);

the
Vice President
Vice
and Assistant
Manager and

Mark Bavoso (40)
Investment Manager;
Vice President
Morgan Stanley
Two World Trade Center
New York, New York
Thomas F. Caloia (55)
Assistant Treasurer of
Treasurer
Distributor and
Two World Trade Center
Treasurer of the
New York, New York
</Table>

Vice President and Secretary of
Distributor; previously, Senior
(March 1997-December 1999), First
President, Assistant Secretary
General Counsel of the Investment
Morgan Stanley Services.
Managing Director of the
Vice President of several of the
Funds.
First Vice President and
the Investment Manager, the
Morgan Stanley Services;
Morgan Stanley Funds.

* Denotes Trustees who are "interested persons" of the Fund as defined by the
Investment Company Act.

RONALD E. ROBISON, Executive Vice President, Chief Administrative Officer
and Director of the Investment Manager and Morgan Stanley Services and Chief
Executive Officer and Director of the Transfer Agent, ROBERT S. GIAMBRONE,
Executive Director of the Investment Manager, Morgan Stanley Services, the
Distributor and the Transfer Agent and Director of the Transfer Agent, JOSEPH J.
MCALINDEN, Managing Director and Chief Investment Officer of the Investment
Manager and Director of the Transfer Agent, KENTON J. HINCHLIFFE, Executive
Director of the Investment Manager, GUY G. RUTHERFORD, JR., Managing Director of
the Investment Manager, and ROBERT ROSSETTI, Vice President of the Investment
Manager, are Vice Presidents of the Fund.

In addition, LOU ANNE D. MCINNIS, CARSTEN OTTO and RUTH ROSSI, Executive
Directors and Assistant General Counsels of the Investment Manager and Morgan
Stanley Services, MARILYN K. CRANNEY and TODD LEBO, First Vice Presidents and
Assistant General Counsels of the Investment Manager and Morgan Stanley
Services, and NATASHA KASSIAN and GEORGE SILFEN, Vice Presidents and Assistant
General Counsels of the Investment Manager and Morgan Stanley Services, are
Assistant Secretaries of the Fund.

INDEPENDENT DIRECTORS/TRUSTEES AND THE COMMITTEES. Law and regulation
establish both general guidelines and specific duties for the independent

directors/trustees. The Morgan Stanley Funds seek as independent directors/trustees individuals of distinction and experience in business and finance, government service or academia; these are people whose advice and counsel are in demand by others and for whom there is often competition. To accept a position on the funds' boards, such individuals may reject other attractive assignments because the funds make substantial demands on their time. All of the independent directors/trustees serve as members of the Audit Committee. In addition, three of the directors/trustees, including two independent directors/trustees, serve as members of the Derivatives Committee and the Insurance Committee.

The independent directors/trustees are charged with recommending to the full board approval of management, advisory and administration contracts, Rule 12b-1 plans and distribution and underwriting agreements; continually reviewing Fund performance; checking on the pricing of portfolio securities, brokerage commissions, transfer agent costs and performance, and trading among funds in the same

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complex; and approving fidelity bond and related insurance coverage and allocations, as well as other matters that arise from time to time. The independent directors/trustees are required to select and nominate individuals to fill any independent director/trustee vacancy on the board of any Fund that has a Rule 12b-1 plan of distribution. Most of the Morgan Stanley Funds have a Rule 12b-1 plan.

The Audit Committee is charged with recommending to the full board the engagement or discharge of the Fund's independent auditors; directing investigations into matters within the scope of the independent auditors' duties, including the power to retain outside specialists; reviewing with the independent auditors the audit plan and results of the auditing engagement; approving professional services provided by the independent auditors and other accounting firms prior to the performance of the services; reviewing the independence of the independent auditors; considering the range of audit and non-audit fees; reviewing the adequacy of the Fund's system of internal controls; and preparing and submitting Committee meeting minutes to the full board.

The board of each fund has a Derivatives Committee to approve parameters for and monitor the activities of the Fund with respect to derivative investments, if any, made by the Fund.

Finally, the board of each fund has formed an Insurance Committee to review and monitor the insurance coverage maintained by the Fund.

ADVANTAGES OF HAVING SAME INDIVIDUALS AS INDEPENDENT DIRECTORS/TRUSTEES FOR ALL MORGAN STANLEY FUNDS. The independent directors/trustees and the Funds' management believe that having the same independent directors/trustees for each of the Morgan Stanley Funds avoids the duplication of effort that would arise from having different groups of individuals serving as independent trustees for each of the funds or even of sub-groups of funds. They believe that having the

same individuals serve as independent directors/trustees of all the funds tends to increase their knowledge and expertise regarding matters which affect the fund complex generally and enhances their ability to negotiate on behalf of each fund with the fund's service providers. This arrangement also precludes the possibility of separate groups of independent directors/trustees arriving at conflicting decisions regarding operations and management of the funds and avoids the cost and confusion that would likely ensue. Finally, having the same independent directors/trustees serve on all fund boards enhances the ability of each fund to obtain, at modest cost to each separate fund, the services of independent directors/trustees, of the caliber, experience and business acumen of the individuals who serve as independent directors/trustees of the Morgan Stanley Funds.

TRUSTEE AND OFFICER INDEMNIFICATION. The Fund's Declaration of Trust provides that no Trustee, officer, employee or agent of the Fund is liable to the Fund or to a shareholder, nor is any trustee, officer, employee or agent liable to any third persons in connection with the affairs of the Fund, except as such liability may arise from his/her or its own bad faith, willful misfeasance, gross negligence or reckless disregard of his/her or its duties. It also provides that all third persons shall look solely to the Fund property for satisfaction of claims arising in connection with the affairs of the Fund. With the exceptions stated, the Declaration of Trust provides that a Trustee, officer, employee or agent is entitled to be indemnified against all liability in connection with the affairs of the Fund.

C. COMPENSATION

The Fund pays each Independent Trustee an annual fee of \$800 plus a per meeting fee of \$50 for meetings of the Board of Trustees, the Independent Trustees or Committees of the Board of Trustees attended by the Trustee (the Fund pays the Chairman of the Audit Committee an additional annual fee of \$750, and the Chairmen of the Derivatives and Insurance Committees additional annual fees of \$500). If a Board meeting and a meeting of the Independent Trustees or a Committee meeting, or a meeting of the Independent Trustees and/or more than one Committee meeting, take place on a single day, the Trustees are paid a single meeting fee by the Fund. The Fund also reimburses such Trustees for travel and other out-of-pocket expenses incurred by them in connection with attending such meetings. Trustees and officers of the Fund who are or have been employed by the Investment Manager or an affiliated company receive no compensation or expense reimbursement from the Fund for their services as Trustee.

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The following table illustrates the compensation that the Fund paid to its Independent Trustees for the fiscal year ended May 31, 2001.

FUND COMPENSATION

<Table>

<Caption>

NAME OF INDEPENDENT TRUSTEE	AGGREGATE COMPENSATION FROM THE FUND
-----------------------------	--

<S>	<C>
Michael Bozic.....	\$1,600
Edwin J. Garn.....	1,650
Wayne E. Hedien.....	1,650
Dr. Manuel H. Johnson.....	2,400
Michael E. Nugent.....	2,150
John L. Schroeder.....	2,150

The following table illustrates the compensation paid to the Fund's Independent Trustees for the calendar year ended December 31, 2000 for services to the 97 Morgan Stanley Funds that were in operation at December 31, 2000.

CASH COMPENSATION FROM MORGAN STANLEY FUNDS

<Table>
<Caption>

NAME OF INDEPENDENT TRUSTEE	TOTAL CASH COMPENSATION FOR SERVICES TO 97 MORGAN STANLEY FUNDS
Michael Bozic.....	\$146,917
Edwin J. Garn.....	151,717
Wayne E. Hedien.....	151,567
Dr. Manuel H. Johnson.....	223,655
Michael E. Nugent.....	199,759
John L. Schroeder.....	194,809

As of the date of this STATEMENT OF ADDITIONAL INFORMATION, 53 of the Morgan Stanley Funds, not including the Fund, have adopted a retirement program under which an independent director/trustee who retires after serving for at least five years (or such lesser period as may be determined by the Board) as an independent director/trustee of any Morgan Stanley Fund that has adopted the retirement program (each such Fund referred to as an "Adopting Fund" and each such director/trustee referred to as an "Eligible Trustee") is entitled to retirement payments upon reaching the eligible retirement age (normally, after attaining age 72). Annual payments are based upon length of service.

Currently, upon retirement, each Eligible Trustee is entitled to receive from the Adopting Fund, commencing as of his or her retirement date and continuing for the remainder of his or her life, an annual retirement benefit (the "Regular Benefit") equal to 30.22% of his or her Eligible Compensation plus 0.5036667% of such Eligible Compensation for each full month of service as an independent director/ trustee of any Adopting Fund in excess of five years up to a maximum of 60.44% after ten years of service. The foregoing percentages may be changed by the Board. (1) "Eligible Compensation" is one-fifth of the total compensation earned by such Eligible Trustee for service to the Adopting Fund in the five year period prior to the date of the Eligible Trustee's retirement. Benefits under the retirement program are accrued as expenses on the books of

the Adopting Funds. Such benefits are not secured or funded by the Adopting Funds.

(1) An Eligible Trustee may elect alternative payments of his or her retirement benefits based upon the combined life expectancy of the Eligible Trustee and his or her spouse on the date of such Eligible Trustee's retirement. In addition, the Eligible Trustee may elect that the surviving spouse's periodic payment of benefits will be equal to a lower percentage of the periodic amount when both spouses were alive. The amount estimated to be payable under this method, through the remainder of the later of the lives of the Eligible Trustee and spouse, will be the actuarial equivalent of the Regular Benefit.

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The following table illustrates the retirement benefits accrued to the Independent Trustees by the 53 Morgan Stanley Funds for the calendar year ended December 31, 2000, and the estimated retirement benefits for the Independent Trustees, to commence upon their retirement, from the 53 Morgan Stanley Funds as of the calendar year ended December 31, 2000.

RETIREMENT BENEFITS FROM ALL MORGAN STANLEY FUNDS

<Table>

<Caption>

RETIREMENT BENEFITS ACCRUED AS EXPENSES BY ALL ADOPTING NAME OF INDEPENDENT FUNDS	ESTIMATED ANNUAL BENEFITS UPON RETIREMENT (2) FROM ALL ADOPTING FUNDS	FOR ALL ADOPTING FUNDS	
		ESTIMATED CREDITED YEARS OF SERVICE AT RETIREMENT (MAXIMUM 10)	ESTIMATED PERCENTAGE OF ELIGIBLE COMPENSATION
<S>	<C>	<C>	<C>
Michael Bozic.....	\$20,001	10	60.44%
	\$52,885		
Edwin J. Garn.....	29,348	10	60.44
	52,817		
Wayne E. Hedien.....	37,886	9	51.37
	44,952		
Dr. Manuel H. Johnson.....	21,187	10	60.44
	77,817		

Michael E. Nugent.....	10	60.44
36,202	69,506	
John L. Schroeder.....	8	50.37
65,337	53,677	

(2) Based on current levels of compensation. Amount of annual benefits also varies depending on the Trustee's elections described in Footnote 1 on page 19.

IV. CONTROL PERSONS AND PRINCIPAL HOLDERS OF SECURITIES

The following owned more than 5% of the outstanding shares of Class D of the Portfolio on July 10, 2001: Peninsula Security Building Co Ltd PFT SHR Trust DTD 3/15/76 ATTN: Luther Izmirian, 229 S. Railroad Avenue, San Mateo, CA 94401-3339--17.831%.

As of the date of this STATEMENT OF ADDITIONAL INFORMATION, the aggregate number of shares of beneficial interest of the Portfolio owned by the Portfolio's officers and Trustees as a group was less than 1% of the Portfolio's shares of beneficial interest outstanding.

V. INVESTMENT MANAGEMENT AND OTHER SERVICES

A. INVESTMENT MANAGER

The Investment Manager to the Portfolio is Morgan Stanley Investment Advisors Inc., a Delaware corporation, whose address is Two World Trade Center, New York, NY 10048. The Investment Manager is a wholly-owned subsidiary of Morgan Stanley, a Delaware corporation. Morgan Stanley is a preeminent global financial services firm that maintains leading market positions in each of its three primary businesses: securities, asset management and credit services.

Pursuant to an Investment Management Agreement (the "Management Agreement") with the Investment Manager, the Portfolio has retained the Investment Manager to provide administrative services, manage its business affairs and supervise the investment of the Portfolio's assets. The Portfolio pays the Investment Manager monthly compensation calculated daily by applying the following annual rates to the net assets of the Portfolio determined as of the close of each business day: 0.65% of the portion of such daily net assets not exceeding \$1.5 billion; and 0.625% of the portion of such daily net assets exceeding \$1.5 billion. The management fee is allocated among the Classes pro rata based on the net assets of the Portfolio attributable to each Class. The Portfolio accrued total compensation to the Investment Manager of \$12,794,605, \$12,777,878 and \$10,706,531 during the fiscal years ended May 31, 1999, 2000 and 2001, respectively.

The Investment Manager has retained its wholly-owned subsidiary, Morgan

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B. PRINCIPAL UNDERWRITER

The Fund's principal underwriter is the Distributor (which has the same address as the Investment Manager). In this capacity, the shares of the Portfolio are distributed by the Distributor. The Distributor has entered into a selected dealer agreement with Morgan Stanley DW, which through its own sales organization sells shares of the Portfolio. In addition, the Distributor may enter into similar agreements with other selected broker-dealers. The Distributor, a Delaware corporation, is a wholly-owned subsidiary of Morgan Stanley.

The Distributor bears all expenses it may incur in providing services under the Distribution Agreement. These expenses include the payment of commissions for sales of the Portfolio's shares and incentive compensation to Financial Advisors, the cost of educational and/or business related trips, and educational and/or promotional and business-related expenses. The Distributor also pays certain expenses in connection with the distribution of the Portfolio's shares, including the costs of preparing, printing and distributing advertising or promotional materials, and the costs of printing and distributing prospectuses and supplements thereto used in connection with the offering and sale of the Portfolio's shares. The Portfolio bears the costs of initial typesetting, printing and distribution of prospectuses and supplements thereto to shareholders. The Portfolio also bears the costs of registering the Portfolio and its shares under federal and state securities laws and pays filing fees in accordance with state securities laws.

The Fund and the Distributor have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act. Under the Distribution Agreement, the Distributor uses its best efforts in rendering services to the Portfolio of the Fund, but in the absence of willful misfeasance, bad faith, gross negligence or reckless disregard of its obligations, the Distributor is not liable to the Fund or any of the Portfolio's shareholders for any error of judgment or mistake of law or for any act or omission or for any losses sustained by the Fund or the Portfolio's shareholders.

C. SERVICES PROVIDED BY THE INVESTMENT MANAGER

The Investment Manager supervises the investment of the Portfolio's assets. The Investment Manager obtains and evaluates the information and advice relating to the economy, securities markets, and specific securities as it considers necessary or useful to continuously oversee the management of the assets of the Portfolio in a manner consistent with its investment objective.

Under the terms of the Management Agreement, the Investment Manager also maintains certain of the Portfolio's books and records and furnishes, at its own expense, the office space, facilities, equipment, clerical help, bookkeeping and certain legal services as the Portfolio may reasonably require in the conduct of

its business, including the preparation of prospectuses, proxy statements and reports required to be filed with federal and state securities commissions (except insofar as the participation or assistance of independent auditors and attorneys is, in the opinion of the Investment Manager, necessary or desirable). The Investment Manager also bears the cost of telephone service, heat, light, power and other utilities provided to the Portfolio.

Expenses not expressly assumed by the Investment Manager under the Management Agreement or by the Distributor, will be paid by the Portfolio. These expenses will be allocated among the four Classes of shares pro rata based on the net assets of the Portfolio attributable to each Class, except as described below. Such expenses include, but are not limited to: expenses of the Plan of Distribution pursuant to Rule 12b-1; charges and expenses of any registrar, custodian, stock transfer and dividend disbursing agent; brokerage commissions; taxes; engraving and printing share certificates; registration costs of the Portfolio and its shares under federal and state securities laws; the cost and expense of printing, including typesetting, and distributing prospectuses of the Portfolio and supplements thereto to the Portfolio's shareholders; all expenses of shareholders' and Trustees' meetings and of preparing, printing and mailing of proxy statements and reports to shareholders; fees and travel expenses of Trustees or members of any advisory board or committee who are not employees of the Investment Manager or any corporate affiliate of the Investment Manager; all expenses incident to any dividend, withdrawal or redemption options; charges and expenses of any outside service used for pricing of the Portfolio's

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shares; fees and expenses of legal counsel, including counsel to the Trustees who are not interested persons of the Fund or of the Investment Manager (not including compensation or expenses of attorneys who are employees of the Investment Manager); fees and expenses of the Portfolio's independent auditors; membership dues of industry associations; interest on Portfolio borrowings; postage; insurance premiums on property or personnel (including officers and Trustees) of the Fund which inure to its benefit; extraordinary expenses (including, but not limited to, legal claims and liabilities and litigation costs and any indemnification relating thereto); and all other costs of the Portfolio's operation. The 12b-1 fees relating to a particular Class will be allocated directly to that Class. In addition, other expenses associated with a particular Class (except advisory or custodial fees) may be allocated directly to that Class, provided that such expenses are reasonably identified as specifically attributable to that Class and the direct allocation to that Class is approved by the Trustees.

The Management Agreement provides that in the absence of willful misfeasance, bad faith, gross negligence or reckless disregard of its obligations thereunder, the Investment Manager is not liable to the Fund or any of the Portfolio's investors for any act or omission by the Investment Manager or for any losses sustained by the Fund or the Portfolio's investors.

The Management Agreement will remain in effect from year to year provided continuance of the Management Agreement is approved at least annually by the vote of the holders of a majority, as defined in the Investment Company Act, of

the outstanding shares of the Portfolio, or by the Trustees; provided that in either event such continuance is approved annually by the vote of a majority of the Trustees, including a majority of the Independent Trustees.

D. DEALER REALLOWANCES

Upon notice to selected broker-dealers, the Distributor may reallocate up to the full applicable front-end sales charge during periods specified in such notice. During periods when 90% or more of the sales charge is reallocated, such selected broker-dealers may be deemed to be underwriters as that term is defined in the Securities Act.

E. RULE 12b-1 PLAN

The Fund has adopted a Plan of Distribution pursuant to Rule 12b-1 under the Investment Company Act (the "Plan") pursuant to which each Class of the Portfolio, other than Class D, pays the Distributor compensation accrued daily and payable monthly at the following maximum annual rates: 0.25%, 1.0% and 1.0% of the average daily net assets of Class A, Class B and Class C, respectively.

The Distributor also receives the proceeds of front-end sales charges ("FSCs") and of contingent deferred sales charges ("CDSCs") imposed on certain redemptions of shares, which are separate and apart from payments made pursuant to the Plan. The Distributor has informed the Fund that it and/or Morgan Stanley DW received the proceeds of CDSCs and FSCs, for the last three fiscal years ended May 31, in approximate amounts as provided in the table below (the Distributor did not retain any of these amounts).

<Table>

<Caption>

	2001		2000	
1999				
Class A.....	FSCs (1)	\$ 66,880	FSCs: (1)	\$ 112,583
FSCs: (1) \$ 285,119				
CDSCs: \$ 31,943	CDSCs	\$ 289	CDSCs:	\$ 748
Class B.....	CDSCs	\$3,467,299	CDSCs:	\$5,206,675
CDSCs: \$7,118,234				
Class C.....	CDSCs	\$ 10,062	CDSCs:	\$ 18,903
CDSCs: \$ 316,659				

(1) FSCs apply to Class A only.

The Distributor has informed the Fund that the entire fee payable by Class A and a portion of the fees payable by each of Class B and Class C each year pursuant to the Plan equal to 0.25% of such Class' average daily net assets are

currently each characterized as a "service fee" under the Rules of the National Association of Securities Dealers, Inc. (of which the Distributor is a member). The "service fee" is a payment made for personal service and/or the maintenance of shareholder accounts. The remaining portion of the Plan fees payable by a Class, if any, is characterized as an "asset-based sales charge" as such is defined by the Rules of the Association.

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Under the Plan and as required by Rule 12b-1, the Trustees receive and review promptly after the end of each calendar quarter a written report provided by the Distributor of the amounts expended under the Plan and the purpose for which such expenditures were made. For the fiscal year ended May 31, 2001, Class A, Class B and Class C shares of the Portfolio accrued payments under the Plan amounting to \$183,713, \$14,528,893 and \$1,189,949, respectively, which amounts are equal to 0.23%, 1.00% and 0.99% of the average daily net assets of Class A, Class B and Class C, respectively, for the fiscal year.

The Plan was adopted in order to permit the implementation of the Portfolio's method of distribution. Under this distribution method the Portfolio offers four Classes, each with a different distribution arrangement.

With respect to Class A shares, Morgan Stanley DW compensates its Financial Advisors by paying them, from proceeds of the FSC, commissions for the sale of Class A shares, currently a gross sales credit of up to 5.0% of the amount sold (except as provided in the following sentence) and an annual residual commission, currently a residual of up to 0.25% of the current value of the respective accounts for which they are the Financial Advisors or dealers of record in all cases. On orders of \$1 million or more (for which no sales charge was paid) or net asset value purchases by employer-sponsored employee benefit plans, whether or not qualified under the Internal Revenue Code, for which (i) the Transfer Agent serves as Trustee, (ii) Morgan Stanley's Retirement Plan Services serves as recordkeeper pursuant to a written Recordkeeping Services Agreement or (iii) an entity independent from Morgan Stanley serves as recordkeeper under an alliance or similar agreement with Morgan Stanley's Retirement Plan Services ("Morgan Stanley Eligible Plans"), the Investment Manager compensates Financial Advisors by paying them, from its own funds, a gross sales credit of 1.0% of the amount sold.

With respect to Class B shares, Morgan Stanley DW compensates its Financial Advisors by paying them, from its own funds, commissions for the sale of Class B shares, currently a gross sales credit of up to 5.0% of the amount sold (except as provided in the following sentence) and an annual residual commission, currently a residual of up to 0.25% of the current value (not including reinvested dividends or distributions) of the amount sold in all cases. In the case of Class B shares purchased by Morgan Stanley Eligible Plans, Morgan Stanley DW compensates its Financial Advisors by paying them, from its own funds, a gross sales credit of 3.0% of the amount sold.

With respect to Class C shares, Morgan Stanley DW compensates its Financial Advisors by paying them, from its own funds, commissions for the sale of Class C shares, currently a gross sales credit of up to 1.0% of the amount sold

and an annual residual commission, currently up to 1.0% of the current value of the respective accounts for which they are the Financial Advisors of record.

With respect to Class D shares other than shares held by participants in the Investment Manager's mutual fund asset allocation program and in the Morgan Stanley Choice program, the Investment Manager compensates Morgan Stanley DW's Financial Advisors by paying them, from its own funds, commissions for the sale of Class D shares, currently a gross sales credit of up to 1.0% of the amount sold. There is a chargeback of 100% of the amount paid if the Class D shares are redeemed in the first year and a chargeback of 50% of the amount paid if the Class D shares are redeemed in the second year after purchase. The Investment Manager also compensates Morgan Stanley DW's Financial Advisors by paying them, from its own funds, an annual residual commission, currently up to 0.10% of the current value of the respective accounts for which they are the Financial Advisors of record (not including accounts of participants in the Investment Manager's mutual fund asset allocation program and the Morgan Stanley Choice program).

The gross sales credit is a charge which reflects commissions paid by Morgan Stanley DW to its Financial Advisors and Morgan Stanley DW's Fund-associated distribution-related expenses, including sales compensation, and overhead and other branch office distribution-related expenses including (a) the expenses operating Morgan Stanley DW's branch offices in connection with the sale of shares of the Portfolio, including lease costs, the salaries and employee benefits of operations and sales support personnel, utility costs, communications costs and the costs of stationery and supplies, (b) the costs of client sales seminars, (c) travel expenses of mutual fund sales coordinators to promote the sale of shares of the Portfolio, and (d) other expenses relating to branch promotion of Portfolio sales.

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The Investment Manager pays a retention fee to Financial Advisors at an annual rate of 0.05% of the value of shares of the Fund held for a least one year. Shares purchased through the reinvestment of dividends will be eligible for a retention fee, provided that such dividends were earned on shares otherwise eligible for a retention fee payment. Shares owned in variable annuities, closed-end fund shares and shares held in 401(k) plans where the Transfer Agent or Morgan Stanley's Retirement Plan Services is either recordkeeper or trustee are not eligible for a retention fee.

The retention fees are paid by the Investment Manager from its own assets, which may include profits from investment management fees payable under the Management Agreement, as well as from borrowed funds.

The distribution fee that the Distributor receives from the Portfolio under the Plan, in effect, offsets distribution expenses incurred under the Plan on behalf of the Portfolio and, in the case of Class B shares, opportunity costs, such as the gross sales credit and an assumed interest charge thereon ("carrying charge"). These expenses may include the cost of Portfolio-related educational and/or business-related trips or payment of Portfolio-related educational and/or promotional expenses of Financial Advisors. For example, the Distributor has

implemented a compensation program available only to Financial Advisors meeting specified criteria under which certain marketing and/or promotional expenses of those Financial Advisors are paid by the Distributor out of compensation it receives under the Plan. In the Distributor's reporting of the distribution expenses to the Portfolio, in the case of Class B shares, such assumed interest (computed at the "broker's call rate") has been calculated on the gross credit as it is reduced by amounts received by the Distributor under the Plan and any contingent deferred sales charges received by the Distributor upon redemption of shares of the Portfolio. No other interest charge is included as a distribution expense in the Distributor's calculation of its distribution costs for this purpose. The broker's call rate is the interest rate charged to securities brokers on loans secured by exchange-listed securities.

The Portfolio is authorized to reimburse expenses incurred or to be incurred in promoting the distribution of the Portfolio's Class A and Class C shares and in servicing shareholder accounts. Reimbursement will be made through payments at the end of each month. The amount of each monthly payment may in no event exceed an amount equal to a payment at the annual rate of 0.25%, in the case of Class A, and 1.0%, in the case of Class C, of the average net assets of the respective Class of the Portfolio during the month. No interest or other financing charges, if any, incurred on any distribution expenses on behalf of Class A and Class C will be reimbursable under the Plan. With respect to Class A, in the case of all expenses other than expenses representing the service fee, and, with respect to Class C, in the case of all expenses other than expenses representing a gross sales credit or a residual to Financial Advisors and other authorized financial representatives, such amounts shall be determined at the beginning of each calendar quarter by the Trustees, including, a majority of the Independent Trustees. Expenses representing the service fee (for Class A) or a gross sales credit or a residual to Financial Advisors and other authorized financial representatives (for Class C) may be reimbursed without prior determination. In the event that the Distributor proposes that monies shall be reimbursed for other than such expenses, then in making quarterly determinations of the amounts that may be reimbursed by the Portfolio, the Distributor will provide and the Trustees will review a quarterly budget of projected distribution expenses to be incurred on behalf of the Portfolio, together with a report explaining the purposes and anticipated benefits of incurring such expenses. The Trustees will determine which particular expenses, and the portions thereof, that may be borne by the Portfolio, and in making such a determination shall consider the scope of the Distributor's commitment to promoting the distribution of the Portfolio's Class A and Class C shares.

Each Class of the Portfolio paid 100% of the amounts accrued under the Plan with respect to that Class for the fiscal year ended May 31, 2001 to the Distributor. The Distributor and Morgan Stanley DW estimate that they have spent, pursuant to the Plan, \$134,785,754 on behalf of Class B since the inception of the Portfolio. It is estimated that this amount was spent in approximately the following ways: (i) 5.14% (\$6,926,436) advertising and promotional expenses; (ii) 0.37% (\$502,294)--printing of prospectuses for distribution to other than current shareholders; and (iii) 94.49% (\$127,357,024)--other expenses, including the gross sales credit and the carrying charge, of which 9.93% (\$12,646,462)

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represents carrying charges, 37.29% (\$47,490,173) represents commission credits to Morgan Stanley DW's branch offices and other selected broker-dealers for payments of commissions to Financial Advisors and other selected broker-dealer representatives, and 52.78% (\$67,220,389) represents overhead and other branch office distribution-related expenses. The amounts accrued by Class A and a portion of the amounts accrued by Class C under the Plan were service fees during the fiscal year ended May 31, 2001. The remainder of the amounts accrued by Class C were for expenses which relate to compensation of sales personnel and associated overhead expenses.

In the case of Class B shares, at any given time, the expenses of distributing shares of the Portfolio may be more or less than the total of (i) the payments made by the Portfolio pursuant to the Plan; and (ii) the proceeds of CDSCs paid by investors upon redemption of shares. For example, if \$1 million in expenses in distributing Class B shares of the Portfolio had been incurred and \$750,000 had been received as described in (i) and (ii) above, the excess expense would amount to \$250,000. The Distributor has advised the Portfolio that in the case of Class B shares the excess distribution expenses, including the carrying charge designed to approximate the opportunity costs incurred by Morgan Stanley DW which arise from it having advanced monies without having received the amount of any sales charges imposed at the time of sale of the Portfolio's Class B shares, totaled \$65,539,211 as of May 31, 2001 (the end of the Portfolio's fiscal year), which was equal to 6.05% of the net assets of Class B on such date. Because there is no requirement under the Plan that the Distributor be reimbursed for all distribution expenses with respect to Class B shares or any requirement that the Plan be continued from year to year, this excess amount does not constitute a liability of the Portfolio. Although there is no legal obligation for the Portfolio to pay expenses incurred in excess of payments made to the Distributor under the Plan and the proceeds of CDSCs paid by investors upon redemption of shares, if for any reason the Plan is terminated, the Trustees will consider at that time the manner in which to treat such expenses. Any cumulative expenses incurred, but not yet recovered through distribution fees or CDSCs, may or may not be recovered through future distribution fees or CDSCs.

In the case of Class A and Class C shares, expenses incurred pursuant to the Plan in any calendar year in excess of 0.25% or 1.0% of the average daily net assets of Class A or Class C, respectively, will not be reimbursed by the Portfolio through payments in any subsequent year, except that expenses representing a gross sales commission credited to Morgan Stanley Financial Advisors and other authorized broker-dealer representatives at the time of sale may be reimbursed in the subsequent calendar year. The Distributor has advised that there were no such expenses that may be reimbursed in the subsequent year in the case of Class A and Class C at December 31, 2000. No interest or other financing charges will be incurred on any Class A or Class C distribution expenses incurred by the Distributor under the Plan or on any unreimbursed expenses due to the Distributor pursuant to the Plan.

No interested person of the Fund nor any Independent Trustee has any direct financial interest in the operation of the Plan except to the extent that the

Distributor, the Investment Manager, Morgan Stanley DW, Morgan Stanley Services or certain of their employees may be deemed to have such an interest as a result of benefits derived from the successful operation of the Plan or as a result of receiving a portion of the amounts expended thereunder by the Portfolio.

On an annual basis, the Trustees, including a majority of the Independent Trustees, consider whether the Plan should be continued. Prior to approving the last continuation of the Plan, the Trustees requested and received from the Distributor and reviewed all the information which they deemed necessary to arrive at an informed determination. In making their determination to continue the Plan, the Trustees considered: (1) the Portfolio's experience under the Plan and whether such experience indicates that the Plan is operating as anticipated; (2) the benefits the Portfolio had obtained, was obtaining and would be likely to obtain under the Plan, including that: (a) the Plan is essential in order to give Portfolio investors a choice of alternatives for payment of distribution and service charges and to enable the Portfolio to continue to grow and avoid a pattern of net redemptions which, in turn, are essential for effective investment management; and (b) without the compensation to individual brokers and the reimbursement of distribution and account maintenance expenses of Morgan Stanley DW's branch offices made possible by the 12b-1 fees, Morgan Stanley DW could not establish and maintain an effective system for distribution, servicing of Portfolio shareholders and maintenance of shareholder

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accounts; and (3) what services had been provided and were continuing to be provided under the Plan to the Portfolio and its shareholders. Based upon their review, the Trustees, including each of the Independent Trustees, determined that continuation of the Plan would be in the best interest of the Portfolio and would have a reasonable likelihood of continuing to benefit the Portfolio and its shareholders. In the Trustees' quarterly review of the Plan, they will consider its continued appropriateness and the level of compensation provided therein.

The Plan may not be amended to increase materially the amount to be spent for the services described therein without approval by the shareholders of the affected Class or Classes of the Portfolio, and all material amendments to the Plan must also be approved by the Trustees in the manner described above. The Plan may be terminated at any time, without payment of any penalty, by vote of a majority of the Independent Trustees or by a vote of a majority of the outstanding voting securities of the Portfolio (as defined in the Investment Company Act) on not more than thirty days' written notice to any other party to the Plan. So long as the Plan is in effect, the election and nomination of Independent Trustees shall be committed to the discretion of the Independent Trustees.

F. OTHER SERVICE PROVIDERS

(1) TRANSFER AGENT/DIVIDEND-PAYING AGENT

Morgan Stanley Dean Witter Trust FSB is the Transfer Agent for the Portfolio's shares and the Dividend Disbursing Agent for payment of dividends

and distributions on Portfolio shares and Agent for shareholders under various investment plans. The principal business address of the Transfer Agent is Harborside Financial Center, Plaza Two, 2nd Floor, Jersey City, NJ 07311.

(2) CUSTODIAN AND INDEPENDENT AUDITORS

The Bank of New York, 100 Church Street, New York, NY 10007 is the Custodian of the Portfolio's assets. The Custodian has contracted with various foreign banks and depositaries to hold portfolio securities of non-U.S. issuers on behalf of the Portfolio. Any of the Portfolio's cash balances with the Custodian in excess of \$100,000 are unprotected by federal deposit insurance. These balances may, at times, be substantial.

Deloitte & Touche LLP, Two World Financial Center, New York, NY 10281, serve as the independent auditors of the Portfolio. The independent auditors are responsible for auditing the annual financial statements of the Portfolio.

(3) AFFILIATED PERSONS

The Transfer Agent is an affiliate of the Investment Manager and the Distributor. As Transfer Agent and Dividend Disbursing Agent, the Transfer Agent's responsibilities include maintaining shareholder accounts, disbursing cash dividends and reinvesting dividends, processing account registration changes, handling purchase and redemption transactions, mailing prospectuses and reports, mailing and tabulating proxies, processing share certificate transactions, and maintaining shareholder records and lists. For these services, the Transfer Agent receives a per shareholder account fee from the Portfolio and is reimbursed for its out-of-pocket expenses in connection with such services.

G. CODES OF ETHICS

The Fund, the Investment Manager and the Distributor have each adopted a Code of Ethics pursuant to Rule 17j-1 under the Investment Company Act. The Codes of Ethics are designed to detect and prevent improper personal trading. The Codes of Ethics permit personnel subject to the Codes to invest in securities, including securities that may be purchased, sold or held by the Portfolio, subject to a number of restrictions and controls including prohibitions against purchases of securities in an Initial Public Offering and a preclearance requirement with respect to personal securities transactions.

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VI. BROKERAGE ALLOCATION AND OTHER PRACTICES

A. BROKERAGE TRANSACTIONS

Subject to the general supervision of the Trustees, the Investment Manager is responsible for decisions to buy and sell securities for the Portfolio, the selection of brokers and dealers to effect the transactions, and the negotiation of brokerage commissions, if any. Purchases and sales of securities on a stock exchange are effected through brokers who charge a commission for their

services. In the over-the-counter market, securities are generally traded on a "net" basis with non-affiliated dealers acting as principal for their own accounts without a stated commission, although the price of the security usually includes a profit to the dealer. The Portfolio also expects that securities will be purchased at times in underwritten offerings where the price includes a fixed amount of compensation, generally referred to as the underwriter's concession or discount. Options and futures transactions will usually be effected through a broker and a commission will be charged. On occasion, the Portfolio may also purchase certain money market instruments directly from an issuer, in which case no commissions or discounts are paid.

For the fiscal years ended May 31, 1999, 2000 and 2001, the Portfolio paid a total of \$3,219,595, \$3,160,865 and \$1,350,037, respectively, in brokerage commissions.

B. COMMISSIONS

Pursuant to an order of the SEC, the Fund may effect principal transactions in certain money market instruments with Morgan Stanley DW. The Fund will limit its transactions with Morgan Stanley DW to U.S. government and government agency securities, bank money instruments (i.e., certificates of deposit and bankers' acceptances) and commercial paper. The transactions will be effected with Morgan Stanley DW only when the price available from Morgan Stanley DW is better than that available from other dealers.

For the fiscal years ended May 31, 1999, 2000 and 2001, the Portfolio did not effect any principal transactions with Morgan Stanley DW.

Brokerage transactions in securities listed on exchanges or admitted to unlisted trading privileges are expected to be effected through Morgan Stanley DW, Morgan Stanley & Co. and other affiliated brokers and dealers. In order for an affiliated broker or dealer to effect any portfolio transactions on an exchange for the Portfolio, the commissions, fees or other remuneration received by the affiliated broker or dealer must be reasonable and fair compared to the commissions, fees or other remuneration paid to other brokers in connection with comparable transactions involving similar securities being purchased or sold on an exchange during a comparable period of time. This standard would allow the affiliated broker or dealer to receive no more than the remuneration which would be expected to be received by an unaffiliated broker in a commensurate arm's-length transaction. Furthermore, the Trustees, including the Independent Trustees, have adopted procedures which are reasonably designed to provide that any commissions, fees or other remuneration paid to an affiliated broker or dealer are consistent with the foregoing standard. The Portfolio does not reduce the management fee it pays to the Investment Manager by any amount of the brokerage commissions it may pay to an affiliated broker or dealer.

During the fiscal years ended May 31, 1999, 2000 and 2001, the Portfolio did not pay any brokerage commissions to Morgan Stanley DW.

During the fiscal years ended May 31, 1999, 2000 and 2001, the Portfolio paid a total of \$2,226,782, \$2,490,578 and \$1,059,769, respectively, in brokerage commissions to Morgan Stanley & Co. During the fiscal year ended

May 31, 2001, the brokerage commissions paid to Morgan Stanley & Co. represented approximately 78.50% of the total brokerage commissions paid by the Portfolio for this period and were paid on account of transactions having an aggregate dollar value equal to approximately 88.94% of the aggregate dollar value of all portfolio transactions of the Portfolio during the year for which commissions were paid.

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C. BROKERAGE SELECTION

The policy of the Fund regarding purchases and sales of securities for the Portfolio is that primary consideration will be given to obtaining the most favorable prices and efficient executions of transactions. Consistent with this policy, when securities transactions are effected on a stock exchange, the Portfolio's policy is to pay commissions which are considered fair and reasonable without necessarily determining that the lowest possible commissions are paid in all circumstances. The Fund believes that a requirement always to seek the lowest possible commission cost could impede effective portfolio management and preclude the Portfolio and the Investment Manager from obtaining a high quality of brokerage and research services. In seeking to determine the reasonableness of brokerage commissions paid in any transaction, the Investment Manager relies upon its experience and knowledge regarding commissions generally charged by various brokers and on its judgment in evaluating the brokerage and research services received from the broker effecting the transaction. These determinations are necessarily subjective and imprecise, as in most cases an exact dollar value for those services is not ascertainable. The Portfolio anticipates that certain of its transactions involving foreign securities will be effected on foreign securities exchanges. Fixed commissions on such transactions are generally higher than negotiated commissions on domestic transactions. There is also generally less government supervision and regulation of foreign securities exchanges and brokers than in the United States.

In seeking to implement the Fund's policies, the Investment Manager effects transactions with those brokers and dealers who the Investment Manager believes provide the most favorable prices and are capable of providing efficient executions. If the Investment Manager believes the prices and executions are obtainable from more than one broker or dealer, it may give consideration to placing portfolio transactions with those brokers and dealers who also furnish research and other services to the Fund or the Investment Manager. The services may include, but are not limited to, any one or more of the following: information as to the availability of securities for purchase or sale; statistical or factual information or opinions pertaining to investment; wire services; and appraisals or evaluations of portfolio securities. The information and services received by the Investment Manager from brokers and dealers may be utilized by the Investment Manager and any of its asset management affiliates in the management of accounts of some of their other clients and may not in all cases benefit the Fund directly.

The Investment Manager and certain of its affiliates currently serves as advisor to a number of clients, including other investment companies, and may in the future act as investment manager or advisor to others. It is the practice of

the Investment Manager and its affiliates to cause purchase and sale transactions to be allocated among clients whose assets they manage, including the Portfolio, in such manner they deem equitable. In making such allocations among the Portfolio and other client accounts, various factors may be considered, including the respective investment objectives, the relative size of portfolio holdings of the same or comparable securities, the availability of cash for investment, the size of investment commitments generally held and the opinions of the persons responsible for managing the Portfolio and other client accounts. The Investment Manager and its affiliates may operate one or more order placement facilities and each facility will implement order allocation in accordance with the procedures described above. From time to time, each facility may transact in a security at the same time as other facilities are trading in that security.

D. DIRECTED BROKERAGE

During the fiscal year ended May 31, 2001, the Portfolio paid \$270,472 in brokerage commissions in connection with transactions in the aggregate amount of \$131,840,068 to brokers because of research services provided.

E. REGULAR BROKER-DEALERS

During the fiscal year ended May 31, 2001, the Portfolio purchased securities issued by The Bank of New York, which issuer was among the ten brokers or the ten dealers which executed transactions for or with the Portfolio in the largest dollar amounts during the year. At May 31, 2001, the Portfolio held securities issued by The Bank of New York with a market value of \$34,677,350.

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VII. CAPITAL STOCK AND OTHER SECURITIES

The shareholders of the Portfolio are entitled to a full vote for each full share of beneficial interest held. The Fund is authorized to issue an unlimited number of shares of beneficial interest. All shares of beneficial interest of the Portfolio are of \$0.01 par value and are equal as to earnings, assets and voting privileges except that each Class will have exclusive voting privileges with respect to matters relating to distribution expenses borne solely by such Class or any other matter in which the interests of one Class differ from the interests of any other Class. In addition, Class B shareholders will have the right to vote on any proposed material increase in Class A's expenses, if such proposal is submitted separately to Class A shareholders. Also, Class A, Class B and Class C bear expenses related to the distribution of their respective shares.

The Fund's Declaration of Trust permits the Trustees to authorize the creation of additional series of shares (the proceeds of which would be invested in separate, independently managed portfolios) and additional Classes of shares within any series. The Trustees have not presently authorized any such additional series or Classes of shares other than as set forth in the

The Fund is not required to hold annual meetings of shareholders and in ordinary circumstances the Fund does not intend to hold such meetings. The Trustees may call special meetings of shareholders for action by shareholder vote as may be required by the Investment Company Act or the Declaration of Trust. Under certain circumstances the Trustees may be removed by the actions of the Trustees. In addition, under certain circumstances, the shareholders may call a meeting to remove Trustees and the Fund is required to provide assistance in communicating with shareholders about such a meeting. The voting rights of shareholders are not cumulative, so that holders of more than 50 percent of the shares voting can, if they choose, elect all Trustees being selected, while the holders of the remaining share would be unable to elect any Trustees.

Under Massachusetts law, shareholders of a business trust may, under certain limited circumstances, be held personally liable as partners for the obligations of the Fund. However, the Declaration of Trust contains an express disclaimer of shareholder liability for acts or obligations of the Fund, requires that notice of such Fund obligations include such disclaimer, and provides for indemnification out of the Fund's property for any shareholder held personally liable for the obligations of the Fund. Thus, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances in which the Fund itself would be unable to meet its obligations. Given the above limitations on shareholder personal liability, and the nature of the Fund's assets and operations, the possibility of the Fund being unable to meet its obligations is remote and thus, in the opinion of Massachusetts counsel to the Fund, the risk to Portfolio shareholders of personal liability is remote.

All of the Trustees, except for James F. Higgins, have been elected by the shareholders of the Fund. The Trustees themselves have the power to alter the number and the terms of office of the Trustees (as provided for in the Declaration of Trust), and they may at any time lengthen or shorten their own terms or make their terms of unlimited duration and appoint their own successors, provided that always at least a majority of the Trustees has been elected by the shareholders of the Portfolio.

VIII. PURCHASE, REDEMPTION AND PRICING OF SHARES

A. PURCHASE/REDEMPTION OF SHARES

Information concerning how Portfolio shares are offered to the public (and how they are redeemed and exchanged) is provided in the Portfolio's PROSPECTUS.

TRANSFER AGENT AS AGENT. With respect to the redemption or repurchase of Fund shares, the application of proceeds to the purchase of new shares in the Fund or any other Morgan Stanley Funds and the general administration of the exchange privilege, the Transfer Agent acts as agent for the Distributor and for the shareholder's authorized broker-dealer, if any, in the performance of such functions. With respect to exchanges, redemptions or repurchases, the Transfer Agent is liable for its own

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negligence and not for the default or negligence of its correspondents or for losses in transit. The Fund is not liable for any default or negligence of the Transfer Agent, the Distributor or any authorized broker-dealer.

The Distributor and any authorized broker-dealer have appointed the Transfer Agent to act as their agent in connection with the application of proceeds of any redemption of Fund shares to the purchase of shares of any other Morgan Stanley Fund and the general administration of the exchange privilege. No commission or discounts will be paid to the Distributor or any authorized broker-dealer for any transaction pursuant to the exchange privilege.

TRANSFERS OF SHARES. In the event a shareholder requests a transfer of Portfolio shares to a new registration, the shares will be transferred without sales charge at the time of transfer. With regard to the status of shares which are either subject to the CDSC or free of such charge (and with regard to the length of time shares subject to the charge have been held), any transfer involving less than all of the shares in an account will be made on a pro rata basis (that is, by transferring shares in the same proportion that the transferred shares bear to the total shares in the account immediately prior to the transfer). The transferred shares will continue to be subject to any applicable CDSC as if they had not been so transferred.

OUTSIDE BROKERAGE ACCOUNTS. If a shareholder wishes to maintain his or her fund account through a brokerage company other than Morgan Stanley DW, he or she may do so only if the Distributor has entered into a selected dealer agreement with that brokerage company. Accounts maintained through a brokerage company other than Morgan Stanley DW may be subject to certain restrictions on subsequent purchases and exchanges. Please contact your brokerage company or the Transfer Agent for more information.

B. OFFERING PRICE

The Portfolio's Class B, Class C and Class D shares are offered at net asset value per share and the Class A shares are offered at net asset value per share plus any applicable FSC which is distributed among the Portfolio's Distributor, Morgan Stanley DW, and other authorized dealers as described in Section "V. Investment Management and Other Services -- E. Rule 12b-1 Plan." The price of Portfolio shares, called "net asset value," is based on the value of the Portfolio's securities. Net asset value per share of each Class is calculated by dividing the value of the portion of the Portfolio's securities and other assets attributable to that Class, less the liabilities attributable to that Class, by the number of shares of that Class outstanding. The assets of each Class of shares are invested in a single portfolio. The net asset value of each Class, however, will differ because the Classes have different ongoing fees.

In the calculation of the Portfolio's net asset value: (1) an equity portfolio security listed or traded on the New York or American Stock Exchange, Nasdaq, or other exchange is valued at its latest sale price, prior to the time when assets are valued; if there were no sales that day, the security is valued at the latest bid price (in cases where a security is traded on more than one

exchange, the security is valued on the exchange designated as the primary market pursuant to procedures adopted by the Trustees), and (2) all other portfolio securities for which over-the-counter market quotations are readily available are valued at the latest bid price. When market quotations are not readily available, including circumstances under which it is determined by the Investment Manager that sale or bid 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 Portfolio's Trustees. For valuation purposes, 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 New York Stock Exchange.

Short-term debt securities with remaining maturities of sixty days or less at the time of purchase are valued at amortized cost, unless the Trustees determine such does not reflect the securities' market value, in which case these securities will be valued at their fair value as determined by the Trustees.

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Futures are valued at the latest sale price on the commodities exchange on which they trade unless the Trustees determine such price does not reflect their market value, in which case they will be valued at their fair value as determined in good faith under procedures established by and under the supervision of the Trustees.

Generally, trading in foreign securities, as well as corporate bonds, U.S. government securities and money market instruments, is substantially completed each day at various times prior to the close of the New York Stock Exchange. The values of such securities used in computing the net asset value of the Portfolio's shares are determined as of such times. Foreign currency exchange rates are also generally determined prior to the close of the New York Stock Exchange. Occasionally, events which may affect the values of such securities and such exchange rates may occur between the times at which they are determined and the close of the New York Stock Exchange and will therefore not be reflected in the computation of the Portfolio's net asset value. If events that may affect the value of such securities occur during such period, then these securities may be valued at their fair value as determined in good faith under procedures established by and under the supervision of the Trustees.

IX. TAXATION OF THE PORTFOLIO AND SHAREHOLDERS

The Portfolio generally will make two basic types of distributions: ordinary dividends and long-term capital gain distributions. These two types of distributions are reported differently on a shareholder's income tax return and they are also subject to different rates of tax. The tax treatment of the investment activities of the Portfolio will affect the amount, timing and character of the distributions made by the Portfolio. Tax issues relating to the Portfolio are not generally a consideration for shareholders such as tax-exempt entities and tax-advantaged retirement vehicles such as an IRA or 401(k) plan.

Shareholders are urged to consult their own tax professionals regarding specific questions as to federal, state or local taxes.

INVESTMENT COMPANY TAXATION. The Portfolio intends to remain qualified as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986. As such, the Portfolio will not be subject to federal income tax on its net investment income and capital gains, if any, to the extent that it distributes such income and capital gains to its shareholders.

The Portfolio generally intends to distribute sufficient income and gains so that the Portfolio will not pay corporate income tax on its earnings. The Portfolio also generally intends to distribute to its shareholders in each calendar year a sufficient amount of ordinary income and capital gains to avoid the imposition of a 4% excise tax. However, the Portfolio may instead determine to retain all or part of any net long-term capital gains in any year for reinvestment. In such event, the Portfolio will pay federal income tax (and possibly excise tax) on such retained gains.

Gains or losses on sales of securities by the Portfolio will be long-term capital gains or losses if the securities have a tax holding period of more than one year at the time of such sale. Gains or losses on the sale of securities with a tax holding period of one year or less will be short-term capital gains or losses. Special tax rules may change the normal treatment of gains and losses recognized by the Portfolio when the Portfolio invests in forward foreign currency exchange contracts, options, futures transactions, and non-U.S. corporations classified as "passive foreign investment companies." Those special tax rules can, among other things, affect the treatment of capital gain or loss as long-term or short-term and may result in ordinary income or loss rather than capital gain or loss. The application of these special rules would therefore also affect the character of distributions made by the Portfolio.

Under certain tax rules, the Portfolio may be required to accrue a portion of any discount at which certain securities are purchased as income each year even though the Portfolio receives no payments in cash on the security during the year. To the extent that the Portfolio invests in such securities, it would be required to pay out such income as an income distribution in each year in order to avoid taxation at the Portfolio level. Such distributions will be made from the available cash of the Portfolio or by liquidation of portfolio securities if necessary. If a distribution of cash necessitates the liquidation of portfolio securities,

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the Investment Manager will select which securities to sell. The Portfolio may realize a gain or loss from such sales. In the event the Portfolio realizes net capital gains from such transactions, its shareholders may receive a larger capital gain distribution, if any, than they would in the absence of such transactions.

TAXATION OF DIVIDENDS AND DISTRIBUTIONS. Shareholders normally will have to pay federal income taxes, and any state and/or local income taxes, on the dividends and other distributions they receive from the Portfolio. Such

dividends and distributions, to the extent that they are derived from net investment income or short-term capital gains, are taxable to the shareholder as ordinary income regardless of whether the shareholder receives such payments in additional shares or in cash.

Distributions of net long-term capital gains, if any, are taxable to shareholders as long-term capital gains regardless of how long a shareholder has held the Portfolio's shares and regardless of whether the distribution is received in additional shares or in cash. Under current law, the maximum tax rate on long-term capital gains realized by non-corporate shareholders generally is 20%. A special lower tax rate of 18% on long-term capital gains is available to non-corporate shareholders to the extent the distributions of long-term capital gains are derived from securities which the Fund purchased after December 31, 2000, and held for more than five years.

Shareholders are generally taxed on any ordinary dividend or capital gain distributions from the Portfolio in the year they are actually distributed. However, if any such dividends or distributions are declared in October, November or December and paid in January then such amounts will be treated for tax purposes as received by the shareholders on December 31, to shareholders of record of such month.

Subject to certain exceptions, a corporate shareholder may be eligible for a 70% dividends received deduction to the extent that the Fund earns and distributes qualifying dividends from its investments. Distributions of net capital gains by the Fund will not be eligible for the dividends received deduction.

Shareholders who are not citizens or residents of the United States and certain foreign entities may be subject to withholding of United States tax on distributions made by the Portfolio of investment income and short-term capital gains.

After the end of each calendar year, shareholders will be sent information on their dividends and capital gain distributions for tax purposes, including the portion taxable as ordinary income, the portion taxable as long-term capital gains, and the amount of any dividends eligible for the federal dividends received deduction for corporations.

PURCHASES AND REDEMPTIONS AND EXCHANGES OF PORTFOLIO SHARES. Any dividend or capital gains distribution received by a shareholder from any investment company will have the effect of reducing the net asset value of the shareholder's stock in that company by the exact amount of the dividend or capital gains distribution. Furthermore, such dividends and capital gains distributions are subject to federal income taxes. If the net asset value of the shares should be reduced below a shareholder's cost as a result of the payment of dividends or the distribution of realized long-term capital gains, such payment or distribution would be in part a return of the shareholder's investment but nonetheless would be taxable to the shareholder. Therefore, an investor should consider the tax implications of purchasing Portfolio shares immediately prior to a distribution record date.

In general, a sale of shares results in capital gain or loss, and for individual shareholders, is taxable at a federal rate dependent upon the length of time the shares were held. A redemption of a shareholder's Portfolio shares is normally treated as a sale for tax purposes. Portfolio shares held for a period of one year or less at the time of such sale or redemption will, for tax purposes, generally result in short-term capital gains or losses and those held for more than one year generally will result in long-term capital gains or losses. Under current law, the maximum tax rate on long-term capital gains realized by non-corporate shareholders generally is 20%. A special lower tax rate of 18% on long-term capital gains is available for non-corporate shareholders who purchased shares after December 31, 2000, and held such shares for more than five years. This special lower tax rate of 18% for five-year property does not apply to non-corporate shareholders holding Fund shares which were purchased on or prior to December 31, 2000, unless such shareholders make an election to treat the Fund shares as being sold and

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reacquired on January 1, 2001. A shareholder making such election may realize capital gains. Any loss realized by shareholders upon a sale or redemption of shares within six months of the date of their purchase will be treated as a long-term capital loss to the extent of any distributions of net long-term capital gains with respect to such shares during the six-month period.

Gain or loss on the sale or redemption of shares in the Portfolio is measured by the difference between the amount received and the tax basis of the shares. Shareholders should keep records of investments made (including shares acquired through reinvestment of dividends and distributions) so they can compute the tax basis of their shares. Under certain circumstances a shareholder may compute and use an average cost basis in determining the gain or loss on the sale or redemption of shares.

Exchanges of Portfolio shares for shares of another fund, including shares of other Morgan Stanley Funds, are also subject to similar tax treatment. Such an exchange is treated for tax purposes as a sale of the original shares in the first fund, followed by the purchase of shares in the second fund.

If a shareholder realizes a loss on the redemption or exchange of a fund's shares and reinvests in that fund's shares within 30 days before or after the redemption or exchange, the transactions may be subject to the "wash sale" rules, resulting in a postponement of the recognition of such loss for tax purposes.

X. UNDERWRITERS

The Portfolio's shares are offered to the public on a continuous basis. The Distributor, as the principal underwriter of the shares, has certain obligations under the Distribution Agreement concerning the distribution of the shares. These obligations and the compensation the Distributor receives are described above in the sections titled "Principal Underwriter" and "Rule 12b-1 Plan."

XI. CALCULATION OF PERFORMANCE DATA

From time to time, the Portfolio may quote its "total return" in advertisements and sales literature. These figures are computed separately for Class A, Class B, Class C and Class D shares. The Portfolio's "average annual total return" represents an annualization of the Portfolio's total return over a particular period and is computed by finding the annual percentage rate which will result in the ending redeemable value of a hypothetical \$1,000 investment made at the beginning of a one, five or ten year period, or for the period from the date of commencement of operations, if shorter than any of the foregoing. The ending redeemable value is reduced by any contingent deferred sales charge ("CDSC") at the end of the one, five, ten year or other period. For the purpose of this calculation, it is assumed that all dividends and distributions are reinvested. The formula for computing the average annual total return involves a percentage obtained by dividing the ending redeemable value by the amount of the initial investment (which in the case of Class A shares is reduced by the Class A initial sales charge), taking a root of the quotient (where the root is equivalent to the number of years in the period) and subtracting 1 from the result. The average annual total returns of Class A, Class B, Class C and Class D for the one year period ended May 31, 2001 and for the period February 25, 1998 (commencement of operations) through May 31, 2001 were as follows: Class A: -25.97% and -1.72%, respectively; Class B: -25.86% and -1.35%, respectively; Class C: -23.19% and -0.77%, respectively; and Class D: -21.76% and 0.13%, respectively.

In addition, the Portfolio may advertise its total return for each Class over different periods of time by means of aggregate, average, year-by-year or other types of total return figures. These calculations may or may not reflect the imposition of the maximum front-end sales charge for Class A or the deduction of the CDSC for each of Class B and Class C which, if reflected, would reduce the performance quoted. For example, the average annual total return of the Portfolio may be calculated in the manner described above, but without deduction for any applicable sales charge. Based on this calculation, the average annual total returns of Class A, Class B, Class C and Class D for the one year period ended May 31, 2001 and for the period February 25, 1998 (commencement of operations) through May 31, 2001 were as follows: Class A: -21.87% and -0.08%, respectively; Class B: -22.48% and -0.82%, respectively; Class C: -22.51% and -0.77%, respectively; and Class D: -21.76% and 0.13%, respectively.

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In addition, the Portfolio may compute its aggregate total return for each Class for specified periods by determining the aggregate percentage rate which will result in the ending value of a hypothetical \$1,000 investment made at the beginning of the period. For the purpose of this calculation, it is assumed that all dividends and distributions are reinvested. The formula for computing aggregate total return involves a percentage obtained by dividing the ending value (without reduction for any sales charge) by the initial \$1,000 investment and subtracting 1 from the result. Based on the foregoing calculation, the total returns of Class A, Class B, Class C and Class D for the one year period ended

May 31, 2001 and for the period February 25, 1998 (commencement of operations) through May 31, 2001 were as follows: Class A: -21.87% and -0.25%, respectively; Class B: -22.48% and -2.65%, respectively; Class C: -22.51% and -2.48%, respectively; and Class D: -21.76% and 0.43%, respectively.

The Portfolio may also advertise the growth of hypothetical investments of \$10,000, \$50,000 and \$100,000 in each Class of shares of the Portfolio by adding 1 to the Portfolio's aggregate total return to date (expressed as a decimal and without taking into account the effect of any applicable CDSC) and multiplying by \$9,475, \$48,000 and \$97,000 in the case of Class A (investments of \$10,000, \$50,000 and \$100,000 adjusted for the initial sales charge) or by \$10,000, \$50,000 and \$100,000 in the case of each of Class B, Class C and Class D, as the case may be. Investments of \$10,000, \$50,000 and \$100,000 in each Class at inception of the Class would have grown/declined to the following amounts at May 31, 2001:

<Table>
<Caption>

INCEPTION OF:		INVESTMENT AT		
		INCEPTION		
CLASS		DATE:	\$10,000	
\$50,000	\$100,000			
<S>		<C>	<C>	<C>
<C>				
Class A.....		2/25/98	\$ 9,451	\$
47,880	\$ 96,758			
Class B.....		2/25/98	9,735	
48,675	97,350			
Class C.....		2/25/98	9,752	
48,760	97,520			
Class D.....		2/25/98	10,043	
50,215	100,430			

The Portfolio from time to time may also advertise its performance relative to certain performance rankings and indexes compiled by recognized organizations.

XII. FINANCIAL STATEMENTS

EXPERTS. The financial statements of the Portfolio for the fiscal year ended May 31, 2001 included in this STATEMENT OF ADDITIONAL INFORMATION and incorporated by reference in the PROSPECTUS have been so included and incorporated in reliance on the report of Deloitte & Touche LLP, independent auditors, given on the authority of said firm as experts in auditing and accounting.

This STATEMENT OF ADDITIONAL INFORMATION and the PROSPECTUS do not contain all of the information set forth in the REGISTRATION STATEMENT the Portfolio has filed with the SEC. The complete REGISTRATION STATEMENT may be obtained from the SEC.

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Morgan Stanley Competitive Edge Fund - "Best Ideas" Portfolio
Portfolio of Investments / / May 31, 2001

<Table>

<Caption>

NUMBER OF SHARES		VALUE
<C>	<S>	<C>

	Common and Preferred Stocks (99.8%)	
	Australia (2.6%)	
	MEDIA CONGLOMERATES	
4,150,000	News Corporation Ltd. (Pref.).....	\$ 31,788,327

	Finland (2.8%)	
	PULP & PAPER	
1,090,000	UPM-Kymmene Oyj.....	34,525,979

	France (10.2%)	
	ENGINEERING & CONSTRUCTION	
1,025,000	Suez.....	31,210,020

	FOOD: MAJOR DIVERSIFIED	
235,000	Groupe Danone.....	30,609,502

	MULTI-LINE INSURANCE	
1,040,000	AXA.....	29,467,672

	OIL REFINING/MARKETING	
238,000	Total Fina Elf.....	34,603,539

	Total France.....	125,890,733

	Germany (2.5%)	
	MOTOR VEHICLES	
930,000	Bayerische Motoren Werke (BMW) AG.....	31,070,463

	Japan (5.6%)	
	ELECTRONIC EQUIPMENT/ INSTRUMENTS	
1,840,000	Matsushita Electric Industrial Co., Ltd.....	33,670,780

<C>	<S>	VALUE <C>
	ELECTRONICS/APPLIANCES	
455,000	Sony Corp.....	35,023,503
	Total Japan.....	68,694,283
	Netherlands (2.4%)	
	BEVERAGES: ALCOHOLIC	
741,250	Heineken NV.....	29,936,827
<Caption>		
NUMBER OF		
SHARES		
<C>	<S>	<C>
	Sweden (2.0%)	
	LIFE/HEALTH INSURANCE	
2,275,000	Skandia Forsakrings AB.....	\$ 24,033,917
	Switzerland (2.3%)	
	PHARMACEUTICALS: MAJOR	
750,000	Novartis AG.....	28,484,975
	United Kingdom (5.4%)	
	BEVERAGES: ALCOHOLIC	
3,100,000	Diageo PLC.....	33,401,012
	INTEGRATED OIL	
620,000	BP Amoco PLC (ADR).....	33,101,800
	Total United Kingdom.....	66,502,812
	United States (64.0%)	
	AIR FREIGHT/COURIERS	
775,000	FedEx Corp.*.....	31,000,000
	BEVERAGES: NON-ALCOHOLIC	
500,000	PepsiCo, Inc.....	22,380,000
	BROADCASTING	
565,000	Clear Channel Communications, Inc.*.....	34,448,050
	COMPUTER COMMUNICATIONS	
1,500,000	Cisco Systems, Inc.*.....	28,890,000
	COMPUTER PERIPHERALS	
800,000	EMC Corp.*.....	25,280,000
	DATA PROCESSING SERVICES	

AGGREGATE COST FOR BOOK PURPOSES. THE AGGREGATE GROSS UNREALIZED APPRECIATION IS \$185,915,391 AND THE AGGREGATE GROSS UNREALIZED DEPRECIATION IS \$194,545,131, RESULTING IN NET UNREALIZED DEPRECIATION OF \$8,629,740.

SEE NOTES TO FINANCIAL STATEMENTS

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<Page>

Morgan Stanley Competitive Edge Fund - "Best Ideas" Portfolio
Summary of Investments / / May 31, 2001

<Table>

<Caption>

INDUSTRY	VALUE	PERCENT OF NET ASSETS
<S>	<C>	<C>

Air Freight/Couriers.....	\$ 31,000,000	2.5%
Beverages: Alcoholic.....	63,337,838	5.1
Beverages: Non-Alcoholic.....	22,380,000	1.8
Broadcasting.....	34,448,050	2.8
Computer Communications.....	28,890,000	2.3
Computer Peripherals.....	25,280,000	2.1
Data Processing Services.....	29,288,300	2.4
Discount Stores.....	33,637,500	2.7
Electrical Products.....	31,823,700	2.6
Electronic Equipment/ Instruments.....	33,670,780	2.7
Electronics/Appliances.....	35,023,504	2.8
Engineering & Construction.....	31,210,020	2.5
Financial Conglomerates.....	58,291,704	4.7
Food: Major Diversified.....	30,609,502	2.5
Industrial Conglomerates.....	71,691,400	5.8
Integrated Oil.....	33,101,800	2.7
Internet Software/Services.....	18,239,000	1.5
Life/Health Insurance.....	24,033,917	2.0
Major Banks.....	34,677,350	2.8
Media Conglomerates.....	67,827,027	5.5

<Caption>

INDUSTRY	VALUE	PERCENT OF NET ASSETS
<S>	<C>	<C>

Medical Specialties.....	\$ 28,796,600	2.3%
Motor Vehicles.....	31,070,463	2.5
Multi-Line Insurance.....	29,467,672	2.4
Oil & Gas Pipelines.....	24,359,764	2.0
Oil Refining/Marketing.....	34,603,539	2.8

Oilfield Services/Equipment.....	65,234,742	5.3
Packaged Software.....	35,281,800	2.9
Pharmaceuticals: Major.....	124,554,075	10.1
Pulp & Paper.....	34,525,979	2.8
Restaurants.....	32,702,400	2.7
Telecommunication Equipment.....	51,430,600	4.2
	-----	-----
	\$1,230,489,026	99.8%
	=====	=====

<Caption>

TYPE OF INVESTMENT	VALUE	PERCENT OF
<S>	<C>	NET ASSETS
		<C>
-----	-----	-----
Common Stocks.....	\$1,198,700,699	97.2%
Preferred Stocks.....	31,788,327	2.6
	-----	-----
	\$1,230,489,026	99.8%
	=====	=====

</Table>

SEE NOTES TO FINANCIAL STATEMENTS

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<Page>

Morgan Stanley Competitive Edge Fund - "Best Ideas" Portfolio
Financial Statements

Statement of Assets and Liabilities
MAY 31, 2001

<Table>

<S>	<C>
Assets:	
Investments in securities, at value (cost \$1,239,118,766).....	\$1,230,489,026
Receivable for:	
Investments sold.....	4,232,226
Foreign withholding taxes reclaimed.....	1,323,061
Dividends.....	952,967
Shares of beneficial interest sold.....	522,423
Deferred organizational expenses.....	48,844
Prepaid expenses and other assets.....	55,632

Total Assets.....	1,237,624,179

Liabilities:	
Payable for:	
Shares of beneficial interest repurchased.....	1,558,751
Plan of distribution fee.....	1,041,428

Investment management fee.....	702,819
Payable to bank.....	1,106,004
Accrued expenses and other payables.....	171,824

Total Liabilities.....	4,580,826

Net Assets.....	\$1,233,043,353
	=====
Composition of Net Assets:	
Paid-in-capital.....	\$1,402,942,254
Net unrealized depreciation.....	(8,769,386)
Accumulated net investment loss.....	(71,170)
Accumulated net realized loss.....	(161,058,345)

Net Assets.....	\$1,233,043,353
	=====
Class A Shares:	
Net Assets.....	\$ 58,477,908
Shares Outstanding (unlimited authorized, \$.01 par value).....	6,720,557
Net Asset Value Per Share.....	\$ 8.70
	=====
Maximum Offering Price Per Share, (net asset value plus 5.54% of net asset value).....	\$ 9.18
	=====
Class B Shares:	
Net Assets.....	\$1,082,667,327
Shares Outstanding (unlimited authorized, \$.01 par value).....	127,728,938
Net Asset Value Per Share.....	\$ 8.48
	=====
Class C Shares:	
Net Assets.....	\$ 89,911,771
Shares Outstanding (unlimited authorized, \$.01 par value).....	10,578,224
Net Asset Value Per Share.....	\$ 8.50
	=====
Class D Shares:	
Net Assets.....	\$ 1,986,347
Shares Outstanding (unlimited authorized, \$.01 par value).....	226,809
Net Asset Value Per Share.....	\$ 8.76
	=====

</Table>

Statement of Operations
FOR THE YEAR ENDED MAY 31, 2001

<Table>

<S> <C>

Net Investment Loss:

Income	
Dividends (net of \$1,312,926 foreign withholding tax).....	\$ 16,209,405
Interest.....	1,642,917

Total Income.....	17,852,322

Expenses	
Plan of distribution fee (Class A shares).....	183,713
Plan of distribution fee (Class B shares).....	14,528,893
Plan of distribution fee (Class C shares).....	1,189,949
Investment management fee.....	10,706,531
Transfer agent fees and expenses.....	2,284,257
Custodian fees.....	308,661
Shareholder reports and notices.....	133,094
Registration fees.....	77,931
Professional fees.....	62,873
Organizational expenses.....	28,076
Trustees' fees and expenses.....	12,063
Other.....	33,428

Total Expenses.....	29,549,469

Net Investment Loss.....	(11,697,147)

Net Realized and Unrealized Loss:	
Net realized loss on:	
Investments.....	(148,949,002)
Foreign exchange transactions.....	(196,408)

Net Loss.....	(149,145,410)

Net change in unrealized appreciation/ depreciation on:	
Investments.....	(241,583,495)
Translation of forward foreign currency contracts, other assets and liabilities denominated in foreign currencies.....	1,938

Net Depreciation.....	(241,581,557)

Net Loss.....	(390,726,967)

Net Decrease.....	\$ (402,424,114)
	=====

</Table>

SEE NOTES TO FINANCIAL STATEMENTS

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<Page>

Morgan Stanley Competitive Edge Fund - "Best Ideas" Portfolio
Financial Statements, CONTINUED

Statement of Changes in Net Assets

<Table>

<Caption>

	FOR THE YEAR ENDED MAY 31, 2001	FOR THE YEAR ENDED MAY 31, 2000
	-----	-----
<S>	<C>	<C>
Increase (Decrease) in Net Assets:		
Operations:		
Net investment loss.....	\$ (11,697,147)	\$ (16,393,088)
Net realized gain (loss).....	(149,145,410)	283,026,386
Net change in unrealized appreciation/depreciation.....	(241,581,557)	30,377,498
	-----	-----
Net Increase (Decrease).....	(402,424,114)	297,010,796
	-----	-----
Distributions to Shareholders From Net Realized Gain:		
Class A shares.....	(9,583,498)	--
Class B shares.....	(178,900,236)	--
Class C shares.....	(14,693,470)	--
Class D shares.....	(264,288)	--
	-----	-----
Total Distributions.....	(203,441,492)	--
	-----	-----
Net decrease from transactions in shares of beneficial interest.....	(86,480,293)	(230,294,351)
	-----	-----
Net Increase (Decrease).....	(692,345,899)	66,716,445
Net Assets:		
Beginning of period.....	1,925,389,252	1,858,672,807
	-----	-----
End of Period (Including accumulated net investment losses of \$71,170 and \$137,957, respectively).....	\$1,233,043,353	\$1,925,389,252
	=====	=====

</Table>

SEE NOTES TO FINANCIAL STATEMENTS

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Morgan Stanley Competitive Edge Fund - "Best Ideas" Portfolio
Notes to Financial Statements / / May 31, 2001

1. Organization and Accounting Policies

Morgan Stanley Competitive Edge Fund, formerly Morgan Stanley Dean Witter Competitive Edge Fund, is registered under the Investment Company Act of 1940, as amended (the "Act"), as a diversified, open-end management investment company, which currently consists of two separate portfolios. The information contained in this report is for the "Best Ideas" Portfolio (the "Portfolio"). The Portfolio's investment objective is to provide long term capital growth. The Portfolio seeks to achieve its objective by investing at least 80% of its net assets in common stocks of U.S. and non-U.S. companies included on the "Best Ideas" list, a research compilation assembled and maintained by Morgan Stanley Equity Research. The Portfolio was organized as a Massachusetts business trust on October 16, 1997 and commenced operations on February 25, 1998.

The Portfolio offers Class A shares, Class B shares, Class C shares and Class D shares. The four classes are substantially the same except that most Class A shares are subject to a sales charge imposed at the time of purchase and some Class A shares, and most Class B shares and Class C shares are subject to a contingent deferred sales charge imposed on shares redeemed within one year, six years and one year, respectively. Class D shares are not subject to a sales charge. Additionally, Class A shares, Class B shares and Class C shares incur distribution expenses.

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

The following is a summary of significant accounting policies:

A. Valuation of Investments -- (1) an equity security listed or traded on the New York or American Stock Exchange, NASDAQ, or other exchange is valued at its latest sale price, prior to the time when assets are valued; if there were no sales that day, the security is valued at the latest bid price (in cases where a security is traded on more than one exchange, the security is valued on the exchange designated as the primary market pursuant to procedures adopted by the Trustees); (2) all other portfolio securities for which over-the-counter market quotations are readily available are valued at the latest available bid price; (3) when market quotations are not readily available, including circumstances under which it is determined by Morgan Stanley Investment Advisors Inc. (the "Investment Manager"), formerly Morgan Stanley Dean Witter Advisors Inc., that sale or bid 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 Trustees; and (4) short-term debt securities having a maturity date of more than sixty days at time of purchase are valued on a mark-to-market basis until sixty days prior to maturity and thereafter at amortized cost based on their value on the 61st day. Short-term debt securities having a maturity date of sixty days or less at the time of purchase are valued at amortized cost.

B. Accounting for Investments -- Security transactions are accounted for on the trade date (date the order to buy or sell is executed). Realized gains and losses on security transactions are determined by the identified cost method. Dividend income and other distributions are recorded on the ex-dividend date. Discounts are accreted over the respective life of the securities. Interest income is accrued daily.

C. Joint Repurchase Agreement Account -- Pursuant to an Exemptive Order issued by the Securities and Exchange Commission, the Portfolio, along with other affiliated entities managed by the Investment Manager, may transfer uninvested cash balances into one or more joint repurchase agreement accounts. These balances are invested in one or more repurchase agreements and are collateralized by cash, or U.S. Treasury or Federal Agency obligations.

D. Multiple Class Allocations -- Investment income, expenses (other than distribution fees), and realized and unrealized gains and losses are allocated to each class of shares based upon the relative net asset value on the date such items are recognized. Distribution fees are charged directly to the respective class.

E. Foreign Currency Translation -- The books and records of the Portfolio are maintained in U.S. dollars as follows: (1) the foreign currency market value of investment securities, other assets and liabilities and forward foreign currency contracts ("forward contracts") are translated at the exchange rates prevailing at the end of the period; and (2) purchases, sales, income and expenses are translated at the exchange rates prevailing on the respective dates of such transactions. The resultant exchange gains and losses are included in the Statement of Operations as realized and unrealized gain/loss on foreign exchange transactions. Pursuant to U.S. Federal income tax regulations, certain foreign exchange gains/losses included in realized and unrealized gain/loss are included in or are a reduction of ordinary income for federal income tax purposes. The Portfolio does not isolate that portion of the results of operations arising as a result of changes in the foreign exchange rates from the changes in the market prices of the securities.

F. Forward Currency Contracts -- The Portfolio may enter into forward contracts which are valued daily at the appropriate exchange rates. The resultant unrealized exchange gains and losses are included in the Statement of Operations as unrealized gain/loss on foreign exchange transactions and in the Statement of Assets and Liabilities as part of the related foreign currency denominated asset or liability. The Portfolio records realized gains or losses on delivery of the currency or at the time the forward contract is extinguished (compensated) by entering into a closing transaction prior to delivery.

<Page>

Morgan Stanley Competitive Edge Fund - "Best Ideas" Portfolio
Notes to Financial Statements / / May 31, 2001 CONTINUED

G. Federal Income Tax Status -- It is the Portfolio's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment

companies and to distribute all of its taxable income to its shareholders. Accordingly, no federal income tax provision is required.

H. Dividends and Distributions to Shareholders -- The Portfolio records dividends and distributions to its shareholders on the record date. The amount of dividends and distributions from net investment income and net realized capital gains are determined in accordance with federal income tax regulations which may differ from generally accepted accounting principles. These "book/tax" differences are either considered temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their federal tax-basis treatment; temporary differences do not require reclassification. Dividends and distributions which exceed net investment income and net realized capital gains for tax purposes are reported as distributions of paid-in-capital.

I. Organizational Expenses -- The Investment Manager incurred the organizational expenses of the Portfolio in the amount of approximately \$140,000 which have been reimbursed for the full amount thereof. Such expenses have been deferred and are being amortized on the straight-line method over a period not to exceed five years from the commencement of operations.

2. Investment Management Agreement

Pursuant to an Investment Management Agreement, the Portfolio pays the Investment Manager a management fee, accrued daily and payable monthly, by applying the following annual rates to the net assets of the Portfolio determined as of the close of each business day: 0.65% to the portion of the daily net assets not exceeding \$1.5 billion and 0.625% to the portion of daily net assets exceeding \$1.5 billion.

3. Plan of Distribution

Shares of the Portfolio are distributed by Morgan Stanley Distributors Inc. (the "Distributor"), an affiliate of the Investment Manager. The Portfolio has adopted a Plan of Distribution (the "Plan") pursuant to Rule 12b-1 under the Act. The Plan provides that the Portfolio will pay the Distributor a fee which is accrued daily and paid monthly at the following annual rates:

- (i) Class A -- up to 0.25% of the average daily net assets of Class A;
- (ii) Class B -- 1.0% of the average daily net assets of Class B; and
- (iii) Class C -- up to 1.0% of the average daily net assets of Class C.

<Page>

Morgan Stanley Competitive Edge Fund - "Best Ideas" Portfolio
Notes to Financial Statements / / May 31, 2001 CONTINUED

In the case of Class B shares, provided that the Plan continues in effect, any cumulative expenses incurred by the Distributor but not yet recovered may be recovered through the payment of future distribution fees from the Portfolio pursuant to the Plan and contingent deferred sales charges paid by investors upon redemption of Class B shares. Although there is no legal obligation for the Portfolio to pay expenses incurred in excess of payments made to the Distributor under the Plan and the proceeds of contingent deferred sales charges paid by investors upon redemption of shares, if for any reason the Plan is terminated,

the Trustees will consider at that time the manner in which to treat such expenses. The Distributor has advised the Portfolio that such excess amounts, totaled \$65,539,211 at May 31, 2001.

In the case of Class A shares and Class C shares, expenses incurred pursuant to the Plan in any calendar year in excess of 0.25% or 1.0% of the average daily net assets of Class A or Class C, respectively, will not be reimbursed by the Portfolio through payments in any subsequent year, except that expenses representing a gross sales credit to Morgan Stanley Financial Advisors or other selected broker-dealer representatives may be reimbursed in the subsequent calendar year. For the year ended May 31, 2001, the distribution fee was accrued for Class A shares and Class C shares at the annual rate of 0.23% and 0.99%, respectively.

The Distributor has informed the Portfolio that for the year ended May 31, 2001, it received contingent deferred sales charges from certain redemptions of the Portfolio's Class A shares, Class B shares and Class C shares of \$289, \$3,467,299 and \$10,062, respectively and received \$66,880 in front-end sales charges from sales of the Portfolio's Class A shares. The respective shareholders pay such charges which are not an expense of the Portfolio.

4. Security Transactions and Transactions with Affiliates

The cost of purchases and proceeds from sales of portfolio securities, excluding short-term investments, for the year ended May 31, 2001 aggregated \$830,461,262 and \$1,087,200,312, respectively.

For the year ended May 31, 2001, the Portfolio incurred brokerage commissions of \$1,059,769 with Morgan Stanley & Co., Inc., an affiliate of the Investment Manager and Distributor, for portfolio transactions executed on behalf of the Portfolio. At May 31, 2001, the Portfolio's receivable for investments sold included unsettled trades with Morgan Stanley & Co., Inc. of \$3,544,149.

Morgan Stanley Dean Witter Trust FSB, an affiliate of the Investment Manager and Distributor, is the Portfolio's transfer agent. At May 31, 2001, the Portfolio had transfer agent fees and expenses payable of approximately \$31,500.

<Page>

Morgan Stanley Competitive Edge Fund - "Best Ideas" Portfolio
Notes to Financial Statements / / May 31, 2001 CONTINUED

5. Shares of Beneficial Interest

Transactions in shares of beneficial interest were as follows:

<Table>

<Caption>

FOR THE YEAR ENDED MAY 31, 2001	FOR THE YEAR ENDED MAY 31, 2000
---------------------------------------	---------------------------------------

SHARES AMOUNT SHARES

AMOUNT

	<C>	<C>	<C>	<C>

<S>				
CLASS A SHARES				
Sold.....	4,269,292	\$ 41,623,047	743,094	\$
9,595,947				
Reinvestment of distributions.....	850,688	8,447,328	--	--
Redeemed.....	(6,033,732)	(60,478,971)	(2,219,598)	
(26,833,356)				

Net decrease -- Class A.....	(913,752)	(10,408,596)	(1,476,504)	
(17,237,409)				

CLASS B SHARES				
Sold.....	9,839,889	109,369,971	14,763,805	
184,903,996				
Reinvestment of distributions.....	17,228,838	167,292,029	--	--
Redeemed.....	(34,210,990)	(349,369,381)	(29,961,159)	
(369,974,658)				

Net decrease -- Class B.....	(7,142,263)	(72,707,381)	(15,197,354)	
(185,070,662)				

CLASS C SHARES				
Sold.....	665,261	7,830,260	1,275,517	
16,066,500				
Reinvestment of distributions.....	1,456,926	14,190,460	--	--
Redeemed.....	(2,598,071)	(26,828,240)	(3,397,382)	
(41,282,432)				

Net decrease -- Class C.....	(475,884)	(4,807,520)	(2,121,865)	
(25,215,932)				

CLASS D SHARES				
Sold.....	576,448	7,424,898	926,984	
11,956,808				
Reinvestment of distributions.....	24,932	249,075	--	--
Redeemed.....	(472,202)	(6,230,769)	(1,161,675)	
(14,727,156)				

Net increase (decrease) --			
Class D.....	129,178	1,443,204	(234,691)
(2,770,348)			
	-----	-----	-----
Net decrease in Portfolio.....	(8,402,721)	\$ (86,480,293)	(19,030,414)
\$ (230,294,351)			
	=====	=====	=====

</Table>

6. Federal Income Tax Status

At May 31, 2001, the Portfolio had a net capital loss carryover of approximately \$52,550,000 which will be available through May 31, 2009 to offset future capital gains to the extent provided by regulations.

Capital and foreign currency losses incurred after October 31 ("post-October" losses) within the taxable year are deemed to arise on the first business day of the Portfolio's next taxable year. The Portfolio incurred and will elect to defer net capital and foreign currency losses of approximately \$76,502,000 and \$71,000, respectively during fiscal 2001.

As of May 31, 2001, the Portfolio had temporary book/tax differences primarily attributable to post-October losses and capital loss deferrals on wash sales and permanent book/tax differences primarily attributable to foreign currency losses and a net operating loss. To reflect reclassifications arising from the permanent differences, paid-in-capital was charged \$11,960,444, accumulated net investment loss was credited \$11,763,934, and accumulated net realized loss was credited \$196,510.

<Page>

Morgan Stanley Competitive Edge Fund - "Best Ideas" Portfolio
Notes to Financial Statements / / May 31, 2001 CONTINUED

7. Purposes of and Risks Relating to Certain Financial Instruments

The Portfolio may enter into forward contracts to facilitate settlement of foreign currency denominated portfolio transactions or to manage foreign currency exposure associated with foreign currency denominated securities.

Forward contracts involve elements of market risk in excess of the amounts reflected in the Statement of Assets and Liabilities. The Portfolio bears the risk of an unfavorable change in the foreign exchange rates underlying the forward contracts. Risks may also arise upon entering into these contracts from the potential inability of the counterparties to meet the terms of their contracts.

At May 31, 2001, there were no outstanding forward contracts.

<Page>

Morgan Stanley Competitive Edge Fund - "Best Ideas" Portfolio

Financial Highlights

Selected ratios and per share data for a share of beneficial interest outstanding throughout each period:

<Table>
<Caption>

FOR THE PERIOD FEBRUARY 25, 1998*	FOR THE YEAR ENDED MAY 31,		
THROUGH MAY 31, 1998	2001	2000	1999
-----	-----	-----	-----
<S>	<C>	<C>	<C>
<C>			
Class A Shares++			
Selected per Share Data:			
Net asset value, beginning of period.....	\$ 12.71	\$ 10.84	\$ 10.37
\$ 10.00	-----	-----	-----

Income (loss) from investment operations:			
Net investment income (loss).....	-	(0.01)	0.02
0.05			
Net realized and unrealized gain (loss).....	(2.61)	1.88	0.49
0.32	-----	-----	-----

Total income (loss) from investment operations.....	(2.61)	1.87	0.51
0.37	-----	-----	-----

Less dividends and distributions from:			
Net investment income.....	-	-	(0.04)
-			
Net realized gain.....	(1.40)	-	-
-	-----	-----	-----

Total dividends and distributions.....	(1.40)	-	(0.04)
-			

Net asset value, end of period.....	\$ 8.70	\$ 12.71	\$ 10.84
\$ 10.37			
Total Return+.....	(21.87) %	17.25%	5.01%
3.70% (1)			
Ratios to Average Net Assets:			
Expenses.....	1.05% (3)	1.07% (3)	
1.10% (3) 1.13% (2)			
Net investment income (loss).....	0.02% (3)	(0.10) % (3)	
0.18% (3) 1.66% (2)			
Supplemental Data:			
Net assets, end of period, in thousands.....	\$58,478	\$97,057	\$98,784
\$117,750			
Portfolio turnover rate.....	51%	75%	97%
19% (1)			

</Table>

- * COMMENCEMENT OF OPERATIONS.
- ++ THE PER SHARE AMOUNTS WERE COMPUTED USING AN AVERAGE NUMBER OF SHARES OUTSTANDING DURING THE PERIOD.
- + DOES NOT REFLECT THE DEDUCTION OF SALES CHARGE. CALCULATED BASED ON THE NET ASSET VALUE AS OF THE LAST BUSINESS DAY OF THE PERIOD.
- (1) NOT ANNUALIZED.
- (2) ANNUALIZED.
- (3) REFLECTS OVERALL PORTFOLIO RATIOS FOR INVESTMENT INCOME AND NON-CLASS SPECIFIC EXPENSES.

SEE NOTES TO FINANCIAL STATEMENTS

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<Page>

Morgan Stanley Competitive Edge Fund - "Best Ideas" Portfolio
Financial Highlights CONTINUED

<Table>

<Caption>

FOR THE PERIOD
FEBRUARY 25, 1998*

FOR THE YEAR ENDED MAY 31,

THROUGH
MAY 31, 1998

2001

2000

1999

<S>	<C>	<C>	<C>

<C>			
Class B Shares++			
Selected per Share Data:			
Net asset value, beginning of period.....	\$ 12.52	\$ 10.76	\$ 10.35
\$ 10.00	-----	-----	-----

Income (loss) from investment operations:			
Net investment income (loss).....	(0.08)	(0.11)	(0.06)
0.03			
Net realized and unrealized gain (loss).....	(2.56)	1.87	0.50
0.32	-----	-----	-----

Total income (loss) from investment operations.....	(2.64)	1.76	0.44
0.35	-----	-----	-----

Less dividends and distributions from:			
Net investment income.....	-	-	(0.03)
-			
Net realized gain.....	(1.40)	-	-
-	-----	-----	-----

Total dividends and distributions.....	(1.40)	-	(0.03)
-	-----	-----	-----

Net asset value, end of period.....	\$ 8.48	\$ 12.52	\$ 10.76
\$ 10.35	=====	=====	=====
=====			
Total Return+.....	(22.48) %	16.36%	4.27%
3.50% (1)			
Ratios to Average Net Assets:			
Expenses.....	1.82% (3)	1.83% (3)	
1.86% (3) 1.88% (2)			
Net investment income (loss).....	(0.75) % (3)	(0.86) % (3)	
(0.58) % (3) 0.92% (2)			
Supplemental Data:			

Net assets, end of period, in thousands.....	\$1,082,667	\$1,688,392	\$1,614,229
\$1,711,433			
Portfolio turnover rate.....	51%	75%	97%
19%(1)			

</Table>

-
- * COMMENCEMENT OF OPERATIONS.
 - ++ THE PER SHARE AMOUNTS WERE COMPUTED USING AN AVERAGE NUMBER OF SHARES OUTSTANDING DURING THE PERIOD.
 - + DOES NOT REFLECT THE DEDUCTION OF SALES CHARGE. CALCULATED BASED ON THE NET ASSET VALUE AS OF THE LAST BUSINESS DAY OF THE PERIOD.
 - (1) NOT ANNUALIZED.
 - (2) ANNUALIZED.
 - (3) REFLECTS OVERALL PORTFOLIO RATIOS FOR INVESTMENT INCOME AND NON-CLASS SPECIFIC EXPENSES.

SEE NOTES TO FINANCIAL STATEMENTS

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<Page>

Morgan Stanley Competitive Edge Fund - "Best Ideas" Portfolio
Financial Highlights CONTINUED

<Table>

<Caption>

FOR THE PERIOD	FOR THE YEAR ENDED MAY 31,		
FEBRUARY 25, 1998*	2001	2000	1999
THROUGH	-----		
MAY 31, 1998	-----	-----	-----
-----	-----	-----	-----
<S>	<C>	<C>	<C>
<C>			
Class C Shares++			
Selected per Share Data:			
Net asset value, beginning of period.....	\$ 12.55	\$ 10.78	\$ 10.35
\$ 10.00	-----	-----	-----

Income (loss) from investment operations:			
Net investment income (loss).....	(0.08)	(0.11)	(0.04)
0.03			
Net realized and unrealized			

gain (loss).....	(2.57)	1.88	0.50
0.32			

Total income (loss) from investment operations.....	(2.65)	1.77	0.46
0.35			

Less dividends and distributions from:			
Net investment income.....	-	-	(0.03)
-			
Net realized gain.....	(1.40)	-	-
-			

Total dividends and distributions.....	(1.40)	-	(0.03)
-			

Net asset value, end of period.....	\$ 8.50	\$ 12.55	\$ 10.78
\$ 10.35			
=====			
Total Return+.....	(22.51) %	16.42%	4.44%
3.50% (1)			
Ratios to Average Net Assets:			
Expenses.....	1.81% (3)	1.83% (3)	
1.69% (3) 1.88% (2)			
Net investment income (loss).....	(0.74) % (3)	(0.86) % (3)	
(0.41) % (3) 0.91% (2)			
Supplemental Data:			
Net assets, end of period, in thousands.....	\$89,912	\$138,694	\$142,048
\$176,497			
Portfolio turnover rate.....	51%	75%	97%
19% (1)			

</Table>

* COMMENCEMENT OF OPERATIONS.

++ THE PER SHARE AMOUNTS WERE COMPUTED USING AN AVERAGE NUMBER OF SHARES OUTSTANDING DURING THE PERIOD.

+ DOES NOT REFLECT THE DEDUCTION OF SALES CHARGE. CALCULATED BASED ON THE NET ASSET VALUE AS OF THE LAST BUSINESS DAY OF THE PERIOD.

(1) NOT ANNUALIZED.

(2) ANNUALIZED.

(3) REFLECTS OVERALL PORTFOLIO RATIOS FOR INVESTMENT INCOME AND NON-CLASS SPECIFIC EXPENSES.

SEE NOTES TO FINANCIAL STATEMENTS

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Morgan Stanley Competitive Edge Fund - "Best Ideas" Portfolio
Financial Highlights CONTINUED

<Table>

<Caption>

FOR THE PERIOD	FOR THE YEAR ENDED MAY 31,		
FEBRUARY 25, 1998*	2001	2000	1999
THROUGH			
MAY 31, 1998			
-----	-----	-----	-----
<S>	<C>	<C>	<C>
<C>			
Class D Shares++			
Selected per Share Data:			
Net asset value, beginning of period.....	\$ 12.77	\$ 10.87	\$ 10.38
\$ 10.00	-----	-----	-----

Income (loss) from investment operations:			
Net investment income.....	0.05	-	0.03
0.08			
Net realized and unrealized gain (loss).....	(2.66)	1.90	0.51
0.30	-----	-----	-----

Total income (loss) from investment operations.....	(2.61)	1.90	0.54
0.38	-----	-----	-----

Less dividends and distributions from:			
Net investment income.....	-	-	(0.05)
-			
Net realized gain.....	(1.40)	-	-
-	-----	-----	-----

Total dividends and distributions.....	(1.40)	-	(0.05)
-			

Net asset value, end of period.....	\$ 8.76	\$ 12.77	\$ 10.87
\$ 10.38			
=====			
Total Return+.....	(21.76)%	17.48%	5.26%
3.80%(1)			
Ratios to Average Net Assets:			
Expenses.....	0.82%(3)	0.83%(3)	
0.86%(3) 0.92%(2)			
Net investment income.....	0.25%(3)	0.14%(3)	
0.42%(3) 2.94%(2)			
Supplemental Data:			
Net assets, end of period, in thousands.....	\$1,986	\$1,247	\$3,611
\$5,407			
Portfolio turnover rate.....	51%	75%	97%
19%(1)			

</Table>

-
- * COMMENCEMENT OF OPERATIONS.
 - ++ THE PER SHARE AMOUNTS WERE COMPUTED USING AN AVERAGE NUMBER OF SHARES OUTSTANDING DURING THE PERIOD.
 - + CALCULATED BASED ON THE NET ASSET VALUE AS OF THE LAST BUSINESS DAY OF THE PERIOD.
 - (1) NOT ANNUALIZED.
 - (2) ANNUALIZED.
 - (3) REFLECTS OVERALL PORTFOLIO RATIOS FOR INVESTMENT INCOME AND NON-CLASS SPECIFIC EXPENSES.

SEE NOTES TO FINANCIAL STATEMENTS

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Morgan Stanley Competitive Edge Fund - "Best Ideas" Portfolio
Independent Auditors' Report

To the Shareholders and Board of Trustees of
Morgan Stanley Competitive Edge Fund -- "Best Ideas" Portfolio:

We have audited the accompanying statement of assets and liabilities of Morgan Stanley Competitive Edge Fund -- "Best Ideas" Portfolio (the "Portfolio"), formerly Morgan Stanley Dean Witter Competitive Edge Fund -- "Best Ideas" Portfolio, including the portfolio of investments, as of May 31, 2001, and the related statements of operations and changes in net assets, and the financial highlights for the year then ended. These financial statements and financial

highlights are the responsibility of the Portfolio's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audit. The statement of changes in net assets for the year ended May 31, 2000 and the financial highlights for each of the respective stated periods ended May 31, 2000 were audited by other independent accountants whose report, dated June 30, 2000, expressed an unqualified opinion on that statement and financial highlights.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of May 31, 2001, by correspondence with the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Morgan Stanley Competitive Edge Fund -- "Best Ideas" Portfolio as of May 31, 2001, the results of its operations, the changes in its net assets, and the financial highlights for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP
NEW YORK, NEW YORK
JULY 11, 2001

2001 FEDERAL TAX NOTICE (UNAUDITED)

During the fiscal year ended May 31, 2001, the Portfolio paid to its shareholders \$1.18 per share from long-term capital gains.

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Morgan Stanley Competitive Edge Fund - "Best Ideas" Portfolio
Report of Independent Accountants

To the Shareholders and Board of Trustees of
Morgan Stanley Competitive Edge -- "Best Ideas" Portfolio:

In our opinion, the statement of changes in net assets and the financial highlights of Morgan Stanley Competitive Edge -- "Best Ideas" Portfolio (not presented separately herein) present fairly, in all material respects, the changes in its nets assets for the year ended May 31, 2000 and the financial highlights for each of the years in the period ended May 31, 2000, in conformity with accounting principles generally accepted in the United States. This financial statement and financial highlights (hereafter referred to as

"financial statements") are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above. We have not audited the financial statements or financial highlights of the Fund for any period subsequent to May 31, 2000.

PricewaterhouseCoopers LLP
1177 AVENUE OF THE AMERICAS
NEW YORK, NEW YORK 10036
JUNE 30, 2000