

**Institutional Class  
Institutional Select Class  
Administrative Class  
Advisory Class  
Investor Class  
Participant Class  
Cash Management Class  
Prospectus Supplement**

**March 1, 2011**

## Morgan Stanley Institutional Liquidity Funds

Supplement dated March 1, 2011 to each Morgan Stanley Institutional Liquidity Funds Prospectus dated February 28, 2011, relating to the Treasury Securities Portfolio of each of the:

Morgan Stanley Institutional Liquidity Funds is not currently offering shares of any Class of the Treasury Securities Portfolio to investors.

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**Institutional Class**

**Institutional Select Class**

**Administrative Class**

**Advisory Class**

**Investor Class**

**Participant Class**

**Cash Management Class**

**(each, a "Class")**

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**Please retain this supplement for future reference.**

LFMULTICLSSPT 3/11

# Morgan Stanley

## Institutional Liquidity Funds

### Institutional Class Portfolios

Money Market Portfolio  
 Prime Portfolio  
 Government Portfolio  
 Government Securities Portfolio  
 Treasury Portfolio  
 Treasury Securities Portfolio  
 Tax-Exempt Portfolio

<b>Fund</b>	<b>Ticker Symbol</b>
Money Market Portfolio	MPUXX
Prime Portfolio	MPFXX
Government Portfolio	MVRXX
Government Securities Portfolio	MUIXX
Treasury Portfolio	MISXX
Treasury Securities Portfolio	MSUXX
Tax-Exempt Portfolio	MTXXX

### Prospectus

February 28, 2011

The Securities and Exchange Commission has not approved or disapproved these securities or passed upon the adequacy of this Prospectus. Any representation to the contrary is a criminal offense.

## Table of Contents

	Page
<b>Portfolio Summary</b>	
Money Market Portfolio	1
Prime Portfolio	3
Government Portfolio	5
Government Securities Portfolio	7
Treasury Portfolio	9
Treasury Securities Portfolio	11
Tax-Exempt Portfolio	13
<b>Details of the Portfolios</b>	15
Money Market Portfolio	15
Prime Portfolio	16
Government Portfolio	17
Government Securities Portfolio	18
Treasury Portfolio	19
Treasury Securities Portfolio	20
Tax-Exempt Portfolio	21
<b>Additional Information about the Portfolios' Investment Strategies and Related Risks</b>	22
<b>Portfolio Holdings</b>	25
<b>Purchasing Shares</b>	25
<b>Redeeming Shares</b>	27
<b>General Shareholder Information</b>	29
<b>Investment Adviser</b>	31
<b>Financial Highlights</b>	32

# Portfolio Summary

## Money Market Portfolio

### Objective

The Money Market Portfolio seeks preservation of capital, daily liquidity and maximum current income.

### Fees and Expenses

The table below describes the expenses that you may pay if you buy and hold Institutional Class shares of the Portfolio. The Portfolio does not charge any sales loads or other fees when you purchase or redeem shares.

#### Annual Portfolio Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class
Advisory Fee	0.15%
Distribution and/or Service (12b-1) Fee	N/A
Other Expenses	0.07%
Total Annual Operating Expenses	0.22%
Fee Waiver and/or Expense Reimbursement*	0.02%
Total Annual Operating Expenses After Fee Waiver and/or Expense Reimbursement*	0.20%

### Example

The example below is intended to help you compare the cost of investing in the Portfolio's Institutional Class with the cost of investing in other mutual funds.

The example assumes that you invest \$10,000 in the Portfolio's Institutional Class, your investment has a 5% return each year and that the Portfolio's operating expenses remain the same. Although your actual costs may be higher or lower, the table below shows your costs at the end of each period based on these assumptions.

	1 Year	3 Years	5 Years	10 Years
Institutional Class	\$20	\$64	\$113	\$255

\* The Portfolio's Adviser and Administrator, Morgan Stanley Investment Management Inc., has agreed to reduce the advisory fee and/or administration fee, as applicable, and/or reimburse expenses of the Portfolio's Institutional Class so that total annual operating expenses after fee waiver and/or expense reimbursement (excluding interest expense on borrowing) will not exceed 0.20%. This fee waiver and/or expense reimbursement is expected to continue until such time as the Fund's Board of Trustees acts to discontinue all or a portion of such waiver and/or expense reimbursement when it deems that such action is appropriate. As a result of further fee waivers and/or expense reimbursements by the Portfolio's Adviser and/or Administrator, for the fiscal year ended October 31, 2010, total annual operating expenses for the Portfolio's Institutional Class were 0.16%.

### Principal Investment Strategies

The Portfolio seeks to maintain a stable net asset value of \$1.00 per share by investing in liquid, high quality U.S. dollar-denominated money market instruments of U.S. and foreign financial and non-financial corporations. The Portfolio also invests in obligations of foreign governments and in obligations issued or guaranteed by the U.S. government and its agencies and instrumentalities, including securities guaranteed under the Federal Deposit Insurance Corporation ("FDIC") Temporary Liquidity Guarantee Program or other similar programs. The Portfolio's money market investments may include commercial paper, corporate debt obligations, debt obligations (including certificates of deposit and promissory notes) of U.S. banks or foreign banks, or of U.S. branches of foreign banks, or foreign branches of U.S. banks (such as Yankee obligations), certificates of deposit of savings banks and savings and loan organizations, short-term taxable municipal obligations, variable rate master demand notes (including tax-exempt variable rate demand notes), asset-backed securities and repurchase agreements.

The Portfolio may also invest in U.S. dollar-denominated foreign securities and money market instruments.

### Principal Risks

There can be no assurance that the Portfolio will achieve its investment objective. An investment in the Portfolio is not a deposit of any bank or other insured depository institution and is not insured or guaranteed by the FDIC or any other government agency. Although the Portfolio seeks to preserve the value of your investment at \$1.00 per share, it is possible for an investor to lose money by investing in the Portfolio.

The Portfolio's principal investment strategies are subject to the following principal risks:

- **Credit and Interest Rate Risk.** Credit risk refers to the possibility that the issuer of a security will be unable to make interest payments and/or repay the principal on its debt. Interest rate risk refers to fluctuations in the value of a debt security resulting from changes in the general level of interest rates.
- **Bank Obligations.** The activities of U.S. and most foreign banks are subject to comprehensive regulations. The enactment of new legislation or regulations, as well as changes in interpretation and enforcement of current laws, may affect the manner of operations and profitability of domestic and foreign banks. In addition, banks may be particularly susceptible to certain economic factors.
- **U.S. Government Securities.** With respect to U.S. government securities that are not backed by the full faith and credit of the U.S. Government, there is the risk that the U.S. Government will not provide financial support to such U.S. government agencies, instrumentalities or sponsored enterprises if it is not obligated to do so by law.
- **Asset-Backed Securities Risk.** Asset-backed securities involve the risk that various federal and state consumer laws and other legal and

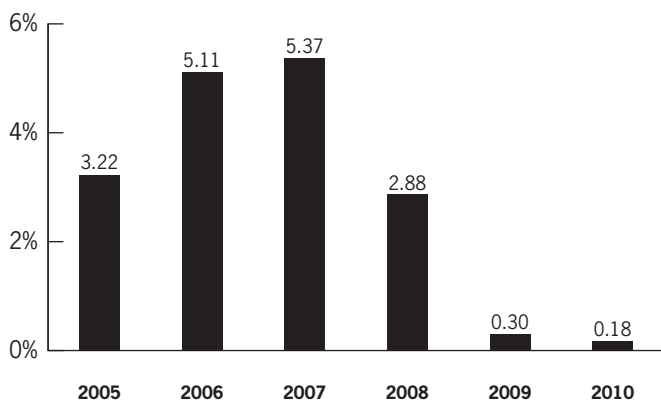
economic factors may result in the collateral backing the securities being insufficient to support payment on the securities. Some asset-backed securities entail prepayment risk, which may vary depending on the type of asset.

- **Repurchase Agreements.** Repurchase agreements are subject to risks associated with the possibility of default by the seller at a time when the collateral has declined in value, or insolvency of the seller, which may affect the Portfolio's right to control the collateral and result in certain costs and delays.
- **Foreign Money Market Securities.** Investing in money market securities of foreign issuers involves some additional risks, including higher cost of investing and the possibility of adverse political, economic or other developments affecting the issuers of these securities.

## Performance Information

The bar chart and table below provide some indication of the risks of investing in the Portfolio by showing changes in the performance of the Portfolio's Institutional Class shares from year-to-year and by showing the average annual returns of the Portfolio's Institutional Class shares for the one and five year periods and since inception. The Portfolio's past performance is not necessarily an indication of how the Portfolio will perform in the future. Updated performance information is available online at [www.morganstanley.com/im](http://www.morganstanley.com/im).

### Annual Total Returns—Calendar Years



<b>High Quarter</b>	9/30/07	1.36%
<b>Low Quarter</b>	3/31/10	0.03%

### Average Annual Total Returns for Periods Ended December 31, 2010

	Past One Year	Past Five Years	Since Inception 02/02/04
Money Market Portfolio	0.18%	2.74%	2.63%

You may obtain the Portfolio's 7-day current yield by calling 1-888-378-1630.

## Investment Adviser

Morgan Stanley Investment Management Inc.

## Purchase and Sale of Fund Shares

Institutional Class Shares of the Portfolio are available to investors who at the time of initial purchase make a minimum investment of \$10,000,000. You may not be subject to the minimum investment requirement under certain circumstances. For more information, please refer to the "Purchasing Shares" section beginning on page 25 of this *Prospectus*.

Fund shares will be sold at the net asset value per share ("NAV") next determined after your redemption request is received in good order. NAV is determined on each business day.

You may redeem shares of the Portfolio by mail, or, if authorized, by telephone or Internet, at no charge.

Fund shares may be purchased or sold directly through Morgan Stanley Institutional Liquidity Funds (the "Fund") or by contacting your financial intermediary. To purchase and sell Fund shares directly through the Fund, provide a completed Account Registration Form to Morgan Stanley Institutional Liquidity Funds, c/o Morgan Stanley Services Company Inc., P.O. Box 219804, Kansas City, MO 64121-9804. You may obtain an Account Registration Form by calling Morgan Stanley Services Company Inc. ("Morgan Stanley Services"), the Fund's transfer agent, at 1-888-378-1630. You may sell Fund shares by mailing the required documentation to the address listed above or, if authorized, by calling the telephone number listed above. You may also purchase Fund shares by wiring Federal Funds to State Street Bank and Trust Company (the "Custodian"). You may purchase and redeem shares online through Morgan Stanley's ClientLink service at [www.morganstanley.com](http://www.morganstanley.com), provided you have a pre-established Internet trading account. For more information, please refer to the "Purchasing Shares" and "Redeeming Shares" sections beginning on pages 25 and 27, respectively, of this *Prospectus*. Selected accounts that utilize the Portfolio as their sweep vehicle will be reviewed on each business day and shares will automatically be purchased or sold to cover any credits or debits incurred that day.

## Tax Information

The Portfolio intends to make distributions that may be taxed as ordinary income or capital gains.

## Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Portfolio through a broker-dealer or other financial intermediary (such as a bank), the Adviser and/or the Portfolio's distributor may pay the intermediary for the sale of Portfolio shares and related services. These payments, which may be significant in amount, may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Portfolio over another investment. Ask your salesperson or visit your financial intermediary's web site for more information.

# Portfolio Summary

## Prime Portfolio

### Objective

The Prime Portfolio seeks preservation of capital, daily liquidity and maximum current income.

### Fees and Expenses

The table below describes the expenses that you may pay if you buy and hold Institutional Class shares of the Portfolio. The Portfolio does not charge any sales loads or other fees when you purchase or redeem shares.

#### Annual Portfolio Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class
Advisory Fee	0.15%
Distribution and/or Service (12b-1) Fee	N/A
Other Expenses	0.06%
Total Annual Operating Expenses	0.21%
Fee Waiver and/or Expense Reimbursement*	0.01%
Total Annual Operating Expenses After Fee Waiver and/or Expense Reimbursement*	0.20%

### Example

The example below is intended to help you compare the cost of investing in the Portfolio's Institutional Class with the cost of investing in other mutual funds.

The example assumes that you invest \$10,000 in the Portfolio's Institutional Class, your investment has a 5% return each year and that the Portfolio's operating expenses remain the same. Although your actual costs may be higher or lower, the table below shows your costs at the end of each period based on these assumptions.

	1 Year	3 Years	5 Years	10 Years
Institutional Class	\$20	\$64	\$113	\$255

\* The Portfolio's Adviser and Administrator, Morgan Stanley Investment Management Inc., has agreed to reduce the advisory fee and/or administration fee, as applicable, and/or reimburse expenses of the Portfolio's Institutional Class so that total annual operating expenses after fee waiver and/or expense reimbursement (excluding interest expense on borrowing) will not exceed 0.20%. This fee waiver and/or expense reimbursement is expected to continue until such time as the Fund's Board of Trustees acts to discontinue all or a portion of such waiver and/or expense reimbursement when it deems that such action is appropriate. As a result of further fee waivers and/or expense reimbursements by the Portfolio's Adviser and/or Administrator, for the fiscal year ended October 31, 2010, total annual operating expenses for the Portfolio's Institutional Class were 0.16%.

### Principal Investment Strategies

The Portfolio seeks to maintain a stable net asset value of \$1.00 per share by investing in liquid, high quality U.S. dollar-denominated money market instruments of U.S. and foreign financial corporations and U.S. non-financial corporations. The Portfolio also invests in obligations issued or guaranteed by the U.S. government and its agencies and instrumentalities, including securities guaranteed under the Federal Deposit Insurance Corporation ("FDIC") Temporary Liquidity Guarantee Program or other similar programs. The Portfolio's money market investments may include commercial paper, corporate debt obligations, debt obligations (including certificates of deposit and promissory notes) of U.S. banks or foreign banks, or of U.S. branches of foreign banks, or foreign branches of U.S. banks (such as Yankee obligations), certificates of deposit of savings banks and savings and loan organizations, short-term taxable municipal obligations, variable rate master demand notes (including tax-exempt variable rate demand notes), asset-backed securities and repurchase agreements.

The Portfolio may also invest in U.S. dollar-denominated foreign securities and money market instruments.

### Principal Risks

There can be no assurance that the Portfolio will achieve its investment objective. An investment in the Portfolio is not a deposit of any bank or other insured depository institution and is not insured or guaranteed by the FDIC or any other government agency. Although the Portfolio seeks to preserve the value of your investment at \$1.00 per share, it is possible for an investor to lose money by investing in the Portfolio.

The Portfolio's principal investment strategies are subject to the following principal risks:

- **Credit and Interest Rate Risk.** Credit risk refers to the possibility that the issuer of a security will be unable to make interest payments and/or repay the principal on its debt. Interest rate risk refers to fluctuations in the value of a debt security resulting from changes in the general level of interest rates.
- **Bank Obligations.** The activities of U.S. and most foreign banks are subject to comprehensive regulations. The enactment of new legislation or regulations, as well as changes in interpretation and enforcement of current laws, may affect the manner of operations and profitability of domestic and foreign banks. In addition, banks may be particularly susceptible to certain economic factors.
- **U.S. Government Securities.** With respect to U.S. government securities that are not backed by the full faith and credit of the U.S. Government, there is the risk that the U.S. Government will not provide financial support to such U.S. government agencies, instrumentalities or sponsored enterprises if it is not obligated to do so by law.
- **Asset-Backed Securities Risk.** Asset-backed securities involve the risk that various federal and state consumer laws and other legal and

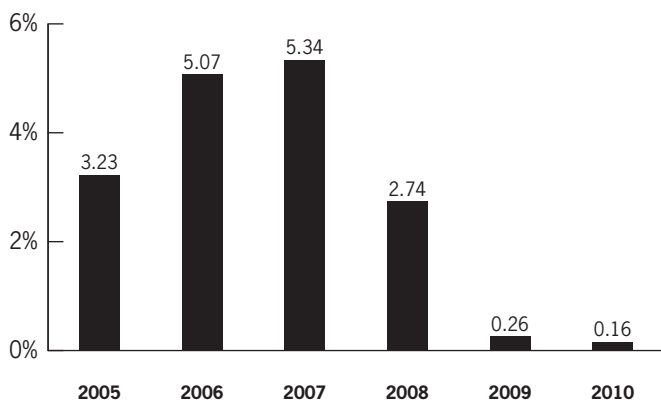
economic factors may result in the collateral backing the securities being insufficient to support payment on the securities. Some asset-backed securities entail prepayment risk, which may vary depending on the type of asset.

- **Repurchase Agreements.** Repurchase agreements are subject to risks associated with the possibility of default by the seller at a time when the collateral has declined in value, or insolvency of the seller, which may affect the Portfolio's right to control the collateral and result in certain costs and delays.
- **Foreign Money Market Securities.** Investing in money market securities of foreign issuers involves some additional risks, including higher cost of investing and the possibility of adverse political, economic or other developments affecting the issuers of these securities.

## Performance Information

The bar chart and table below provide some indication of the risks of investing in the Portfolio by showing changes in the performance of the Portfolio's Institutional Class shares from year-to-year and by showing the average annual returns of the Portfolio's Institutional Class shares for the one and five year periods and since inception. The Portfolio's past performance is not necessarily an indication of how the Portfolio will perform in the future. Updated performance information is available online at [www.morganstanley.com/im](http://www.morganstanley.com/im).

### Annual Total Returns—Calendar Years



<b>High Quarter</b>	9/30/07	1.34%
<b>Low Quarter</b>	3/31/10	0.02%

### Average Annual Total Returns for Periods Ended December 31, 2010

	Past One Year	Past Five Years	Since Inception 02/02/04
Prime Portfolio	0.16%	2.69%	2.60%

You may obtain the Portfolio's 7-day current yield by calling 1-888-378-1630.

## Investment Adviser

Morgan Stanley Investment Management Inc.

## Purchase and Sale of Fund Shares

Institutional Class Shares of the Portfolio are available to investors who at the time of initial purchase make a minimum investment of \$10,000,000. You may not be subject to the minimum investment requirement under certain circumstances. For more information, please refer to the "Purchasing Shares" section beginning on page 25 of this *Prospectus*.

Fund shares will be sold at the net asset value per share ("NAV") next determined after your redemption request is received in good order. NAV is determined on each business day.

You may redeem shares of the Portfolio by mail, or, if authorized, by telephone or Internet, at no charge.

Fund shares may be purchased or sold directly through Morgan Stanley Institutional Liquidity Funds (the "Fund") or by contacting your financial intermediary. To purchase and sell Fund shares directly through the Fund, provide a completed Account Registration Form to Morgan Stanley Institutional Liquidity Funds, c/o Morgan Stanley Services Company Inc., P.O. Box 219804, Kansas City, MO 64121-9804. You may obtain an Account Registration Form by calling Morgan Stanley Services Company Inc. ("Morgan Stanley Services"), the Fund's transfer agent, at 1-888-378-1630. You may sell Fund shares by mailing the required documentation to the address listed above or, if authorized, by calling the telephone number listed above. You may also purchase Fund shares by wiring Federal Funds to State Street Bank and Trust Company (the "Custodian"). You may purchase and redeem shares online through Morgan Stanley's ClientLink service at [www.morganstanley.com](http://www.morganstanley.com), provided you have a pre-established Internet trading account. For more information, please refer to the "Purchasing Shares" and "Redeeming Shares" sections beginning on pages 25 and 27, respectively, of this *Prospectus*. Selected accounts that utilize the Portfolio as their sweep vehicle will be reviewed on each business day and shares will automatically be purchased or sold to cover any credits or debits incurred that day.

## Tax Information

The Portfolio intends to make distributions that may be taxed as ordinary income or capital gains.

## Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Portfolio through a broker-dealer or other financial intermediary (such as a bank), the Adviser and/or the Portfolio's distributor may pay the intermediary for the sale of Portfolio shares and related services. These payments, which may be significant in amount, may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Portfolio over another investment. Ask your salesperson or visit your financial intermediary's web site for more information.

# Portfolio Summary

## Government Portfolio

### Objective

The Government Portfolio seeks preservation of capital, daily liquidity and maximum current income.

### Fees and Expenses

The table below describes the expenses that you may pay if you buy and hold Institutional Class shares of the Portfolio. The Portfolio does not charge any sales loads or other fees when you purchase or redeem shares.

#### Annual Portfolio Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class
Advisory Fee	0.15%
Distribution and/or Service (12b-1) Fee	N/A
Other Expenses	0.06%
Total Annual Operating Expenses	0.21%
Fee Waiver and/or Expense Reimbursement*	0.01%
Total Annual Operating Expenses After Fee Waiver and/or Expense Reimbursement*	0.20%

### Example

The example below is intended to help you compare the cost of investing in the Portfolio's Institutional Class with the cost of investing in other mutual funds.

The example assumes that you invest \$10,000 in the Portfolio's Institutional Class, your investment has a 5% return each year and that the Portfolio's operating expenses remain the same. Although your actual costs may be higher or lower, the table below shows your costs at the end of each period based on these assumptions.

	1 Year	3 Years	5 Years	10 Years
Institutional Class	\$20	\$64	\$113	\$255

\* The Portfolio's Adviser and Administrator, Morgan Stanley Investment Management Inc., has agreed to reduce the advisory fee and/or administration fee, as applicable, and/or reimburse expenses of the Portfolio's Institutional Class so that total annual operating expenses after fee waiver and/or expense reimbursement (excluding interest expense on borrowing) will not exceed 0.20%. This fee waiver and/or expense reimbursement is expected to continue until such time as the Fund's Board of Trustees acts to discontinue all or a portion of such waiver and/or expense reimbursement when it deems that such action is appropriate. As a result of further fee waivers and/or expense reimbursements by the Portfolio's Adviser and/or Administrator, for the fiscal year ended October 31, 2010, total annual operating expenses for the Portfolio's Institutional Class were 0.15%.

### Principal Investment Strategies

The Portfolio seeks to maintain a stable net asset value of \$1.00 per share by investing exclusively in obligations issued or guaranteed by the U.S. government and its agencies and instrumentalities and in repurchase agreements collateralized by such securities.

### Principal Risks

There can be no assurance that the Portfolio will achieve its investment objective. An investment in the Portfolio is not a deposit of any bank or other insured depository institution and is not insured or guaranteed by the FDIC or any other government agency. Although the Portfolio seeks to preserve the value of your investment at \$1.00 per share, it is possible for an investor to lose money by investing in the Portfolio.

The Portfolio's principal investment strategies are subject to the following principal risks:

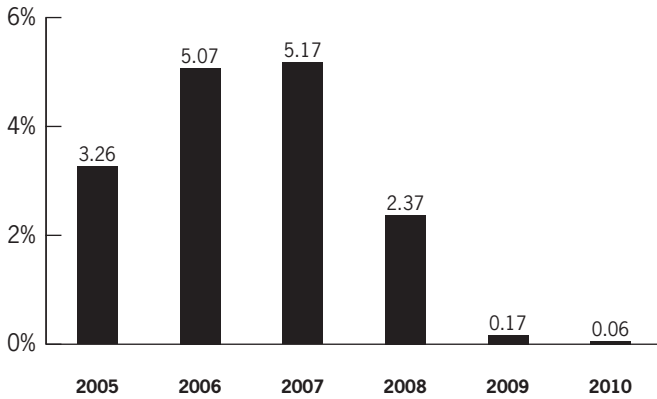
- **Credit and Interest Rate Risk.** Credit risk refers to the possibility that the issuer of a security will be unable to make interest payments and/or repay the principal on its debt. Interest rate risk refers to fluctuations in the value of a debt security resulting from changes in the general level of interest rates.
- **U.S. Government Securities.** With respect to U.S. government securities that are not backed by the full faith and credit of the U.S. Government, there is the risk that the U.S. Government will not provide financial support to such U.S. government agencies, instrumentalities or sponsored enterprises if it is not obligated to do so by law.
- **Repurchase Agreements.** Repurchase agreements are subject to risks associated with the possibility of default by the seller at a time when the collateral has declined in value, or insolvency of the seller, which may affect the Portfolio's right to control the collateral and result in certain costs and delays.

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## Performance Information

The bar chart and table below provide some indication of the risks of investing in the Portfolio by showing changes in the performance of the Portfolio's Institutional Class shares from year-to-year and by showing the average annual returns of the Portfolio's Institutional Class shares for the one and five year periods and since inception. The Portfolio's past performance is not necessarily an indication of how the Portfolio will perform in the future. Updated performance information is available online at [www.morganstanley.com/im](http://www.morganstanley.com/im).

### Annual Total Returns—Calendar Years



High Quarter	12/31/06	1.33%
Low Quarter	3/31/10	0.00%

### Average Annual Total Returns for Periods Ended December 31, 2010

	Past One Year	Past Five Years	Since Inception 08/09/04
Government Portfolio	0.06%	2.54%	2.61%

You may obtain the Portfolio's 7-day current yield by calling 1-888-378-1630.

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## Investment Adviser

Morgan Stanley Investment Management Inc.

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## Purchase and Sale of Fund Shares

Institutional Class Shares of the Portfolio are available to investors who at the time of initial purchase make a minimum investment of \$10,000,000. You may not be subject to the minimum investment requirement under certain circumstances. For more information, please refer to the "Purchasing Shares" section beginning on page 25 of this *Prospectus*.

Fund shares will be sold at the net asset value per share ("NAV") next determined after your redemption request is received in good order. NAV is determined on each business day.

You may redeem shares of the Portfolio by mail, or, if authorized, by telephone or Internet, at no charge.

Fund shares may be purchased or sold directly through Morgan Stanley Institutional Liquidity Funds (the "Fund") or by contacting your financial intermediary. To purchase and sell Fund shares directly through the Fund, provide a completed Account Registration Form to Morgan Stanley Institutional Liquidity Funds, c/o Morgan Stanley Services Company Inc., P.O. Box 219804, Kansas City, MO 64121-9804. You may obtain an Account Registration Form by calling Morgan Stanley Services Company Inc. ("Morgan Stanley Services"), the Fund's transfer agent, at 1-888-378-1630. You may sell Fund shares by mailing the required documentation to the address listed above or, if authorized, by calling the telephone number listed above. You may also purchase Fund shares by wiring Federal Funds to State Street Bank and Trust Company (the "Custodian"). You may purchase and redeem shares online through Morgan Stanley's ClientLink service at [www.morganstanley.com](http://www.morganstanley.com), provided you have a pre-established Internet trading account. For more information, please refer to the "Purchasing Shares" and "Redeeming Shares" sections beginning on pages 25 and 27, respectively, of this *Prospectus*. Selected accounts that utilize the Portfolio as their sweep vehicle will be reviewed on each business day and shares will automatically be purchased or sold to cover any credits or debits incurred that day.

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## Tax Information

The Portfolio intends to make distributions that may be taxed as ordinary income or capital gains.

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## Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Portfolio through a broker-dealer or other financial intermediary (such as a bank), the Adviser and/or the Portfolio's distributor may pay the intermediary for the sale of Portfolio shares and related services. These payments, which may be significant in amount, may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Portfolio over another investment. Ask your salesperson or visit your financial intermediary's web site for more information.

# Portfolio Summary

## Government Securities Portfolio

### Objective

The Government Securities Portfolio seeks preservation of capital, daily liquidity and maximum current income.

### Fees and Expenses

The table below describes the expenses that you may pay if you buy and hold Institutional Class shares of the Portfolio. The Portfolio does not charge any sales loads or other fees when you purchase or redeem shares.

#### Annual Portfolio Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class
Advisory Fee	0.15%
Distribution and/or Service (12b-1) Fee	N/A
Other Expenses	0.09%
Total Annual Operating Expenses	0.24%
Fee Waiver and/or Expense Reimbursement*	0.04%
Total Annual Operating Expenses After Fee Waiver and/or Expense Reimbursement*	0.20%

### Example

The example below is intended to help you compare the cost of investing in the Portfolio's Institutional Class with the cost of investing in other mutual funds.

The example assumes that you invest \$10,000 in the Portfolio's Institutional Class, your investment has a 5% return each year and that the Portfolio's operating expenses remain the same. Although your actual costs may be higher or lower, the table below shows your costs at the end of each period based on these assumptions.

	1 Year	3 Years	5 Years	10 Years
Institutional Class	\$20	\$64	\$113	\$255

\* The Portfolio's Adviser and Administrator, Morgan Stanley Investment Management Inc., has agreed to reduce the advisory fee and/or administration fee, as applicable, and/or reimburse expenses of the Portfolio's Institutional Class so that total annual operating expenses after fee waiver and/or expense reimbursement (excluding interest expense on borrowing) will not exceed 0.20%. This fee waiver and/or expense reimbursement is expected to continue until such time as the Fund's Board of Trustees acts to discontinue all or a portion of such waiver and/or expense reimbursement when it deems that such action is appropriate. As a result of further fee waivers and/or expense reimbursements by the Portfolio's Adviser and/or Administrator, for the fiscal year ended October 31, 2010, total annual operating expenses for the Portfolio's Institutional Class were 0.14%.

### Principal Investment Strategies

The Portfolio seeks to maintain a stable net asset value of \$1.00 per share by investing substantially all of its assets in U.S. Treasury obligations and certain U.S. government securities, the interest from which is generally exempt from state income taxation. These securities may include those issued or guaranteed either by the U.S. Treasury or certain agencies, authorities or instrumentalities of the U.S. government.

### Principal Risks

There can be no assurance that the Portfolio will achieve its investment objective. An investment in the Portfolio is not a deposit of any bank or other insured depository institution and is not insured or guaranteed by the FDIC or any other government agency. Although the Portfolio seeks to preserve the value of your investment at \$1.00 per share, it is possible for an investor to lose money by investing in the Portfolio.

The Portfolio's principal investment strategies are subject to the following principal risks:

- **Credit and Interest Rate Risk.** Credit risk refers to the possibility that the issuer of a security will be unable to make interest payments and/or repay the principal on its debt. Interest rate risk refers to fluctuations in the value of a debt security resulting from changes in the general level of interest rates.
- **U.S. Government Securities.** With respect to U.S. government securities that are not backed by the full faith and credit of the U.S. Government, there is the risk that the U.S. Government will not provide financial support to such U.S. government agencies, instrumentalities or sponsored enterprises if it is not obligated to do so by law.

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## Performance Information

The bar chart and table below provide some indication of the risks of investing in the Portfolio by showing changes in the performance of the Portfolio's Institutional Class shares from year-to-year and by showing the average annual returns of the Portfolio's Institutional Class shares for the past year and since inception. The Portfolio's past performance is not necessarily an indication of how the Portfolio will perform in the future. Updated performance information is available online at [www.morganstanley.com/im](http://www.morganstanley.com/im).

### Annual Total Returns—Calendar Years



High Quarter	3/31/09	0.03%
Low Quarter	3/31/10	0.00%

### Average Annual Total Returns for Periods Ended December 31, 2010

	Past One Year	Since Inception 03/19/08
Government Securities Portfolio	0.03%	0.51%

You may obtain the Portfolio's 7-day current yield by calling 1-888-378-1630.

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## Investment Adviser

Morgan Stanley Investment Management Inc.

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## Purchase and Sale of Fund Shares

Institutional Class Shares of the Portfolio are available to investors who at the time of initial purchase make a minimum investment of \$10,000,000. You may not be subject to the minimum investment requirement under certain circumstances. For more information, please refer to the "Purchasing Shares" section beginning on page 25 of this *Prospectus*.

Fund shares will be sold at the net asset value per share ("NAV") next determined after your redemption request is received in good order. NAV is determined on each business day.

You may redeem shares of the Portfolio by mail, or, if authorized, by telephone or Internet, at no charge.

Fund shares may be purchased or sold directly through Morgan Stanley Institutional Liquidity Funds (the "Fund") or by contacting your financial intermediary. To purchase and sell Fund shares directly through the Fund, provide a completed Account Registration Form to Morgan Stanley Institutional Liquidity Funds, c/o Morgan Stanley Services Company Inc., P.O. Box 219804, Kansas City, MO 64121-9804. You may obtain an Account Registration Form by calling Morgan Stanley Services Company Inc. ("Morgan Stanley Services"), the Fund's transfer agent, at 1-888-378-1630. You may sell Fund shares by mailing the required documentation to the address listed above or, if authorized, by calling the telephone number listed above. You may also purchase Fund shares by wiring Federal Funds to State Street Bank and Trust Company (the "Custodian"). You may purchase and redeem shares online through Morgan Stanley's ClientLink service at [www.morganstanley.com](http://www.morganstanley.com), provided you have a pre-established Internet trading account. For more information, please refer to the "Purchasing Shares" and "Redeeming Shares" sections beginning on pages 25 and 27, respectively, of this *Prospectus*. Selected accounts that utilize the Portfolio as their sweep vehicle will be reviewed on each business day and shares will automatically be purchased or sold to cover any credits or debits incurred that day.

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## Tax Information

The Portfolio intends to make distributions that may be taxed as ordinary income or capital gains.

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## Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Portfolio through a broker-dealer or other financial intermediary (such as a bank), the Adviser and/or the Portfolio's distributor may pay the intermediary for the sale of Portfolio shares and related services. These payments, which may be significant in amount, may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Portfolio over another investment. Ask your salesperson or visit your financial intermediary's web site for more information.

# Portfolio Summary

## Treasury Portfolio

### Objective

The Treasury Portfolio seeks preservation of capital, daily liquidity and maximum current income.

### Fees and Expenses

The table below describes the expenses that you may pay if you buy and hold Institutional Class shares of the Portfolio. The Portfolio does not charge any sales loads or other fees when you purchase or redeem shares.

#### Annual Portfolio Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class
Advisory Fee	0.15%
Distribution and/or Service (12b-1) Fee	N/A
Other Expenses	0.06%
Total Annual Operating Expenses	0.21%
Fee Waiver and/or Expense Reimbursement*	0.01%
Total Annual Operating Expenses After Fee Waiver and/or Expense Reimbursement*	0.20%

### Example

The example below is intended to help you compare the cost of investing in the Portfolio's Institutional Class with the cost of investing in other mutual funds.

The example assumes that you invest \$10,000 in the Portfolio's Institutional Class, your investment has a 5% return each year and that the Portfolio's operating expenses remain the same. Although your actual costs may be higher or lower, the table below shows your costs at the end of each period based on these assumptions.

	1 Year	3 Years	5 Years	10 Years
Institutional Class	\$20	\$64	\$113	\$255

\* The Portfolio's Adviser and Administrator, Morgan Stanley Investment Management Inc., has agreed to reduce the advisory fee and/or administration fee, as applicable, and/or reimburse expenses of the Portfolio's Institutional Class so that total annual operating expenses after fee waiver and/or expense reimbursement (excluding interest expense on borrowing) will not exceed 0.20%. This fee waiver and/or expense reimbursement is expected to continue until such time as the Fund's Board of Trustees acts to discontinue all or a portion of such waiver and/or expense reimbursement when it deems that such action is appropriate. As a result of further fee waivers and/or expense reimbursements by the Portfolio's Adviser and/or Administrator, for the fiscal year ended October 31, 2010, total annual operating expenses for the Portfolio's Institutional Class were 0.15%.

### Principal Investment Strategies

The Portfolio seeks to maintain a stable net asset value of \$1.00 per share by investing exclusively in U.S. Treasury obligations, which are backed by the full faith and credit of the U.S. government, and repurchase agreements collateralized by such securities.

### Principal Risks

There can be no assurance that the Portfolio will achieve its investment objective. An investment in the Portfolio is not a deposit of any bank or other insured depository institution and is not insured or guaranteed by the FDIC or any other government agency. Although the Portfolio seeks to preserve the value of your investment at \$1.00 per share, it is possible for an investor to lose money by investing in the Portfolio.

The Portfolio's principal investment strategies are subject to the following principal risks:

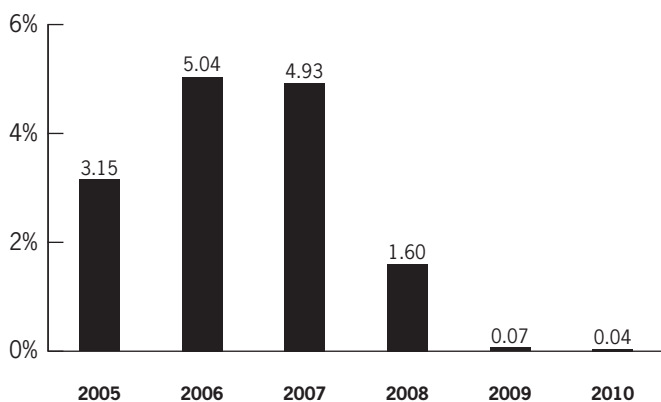
- **Credit and Interest Rate Risk.** Credit risk refers to the possibility that the issuer of a security will be unable to make interest payments and/or repay the principal on its debt. Interest rate risk refers to fluctuations in the value of a debt security resulting from changes in the general level of interest rates.
- **Repurchase Agreements.** Repurchase agreements are subject to risks associated with the possibility of default by the seller at a time when the collateral has declined in value, or insolvency of the seller, which may affect the Portfolio's right to control the collateral and result in certain costs and delays.

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## Performance Information

The bar chart and table below provide some indication of the risks of investing in the Portfolio by showing changes in the performance of the Portfolio's Institutional Class shares from year-to-year and by showing the average annual returns of the Portfolio's Institutional Class shares for the one and five year periods and since inception. The Portfolio's past performance is not necessarily an indication of how the Portfolio will perform in the future. Updated performance information is available online at [www.morganstanley.com/im](http://www.morganstanley.com/im).

### Annual Total Returns—Calendar Years



High Quarter	12/31/06	1.33%
Low Quarter	3/31/10	0.00%

### Average Annual Total Returns for Periods Ended December 31, 2010

	Past One Year	Past Five Years	Since Inception 08/09/04
Treasury Portfolio	0.04%	2.31%	2.41%

You may obtain the Portfolio's 7-day current yield by calling 1-888-378-1630.

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## Investment Adviser

Morgan Stanley Investment Management Inc.

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## Purchase and Sale of Fund Shares

Institutional Class Shares of the Portfolio are available to investors who at the time of initial purchase make a minimum investment of \$10,000,000. You may not be subject to the minimum investment requirement under certain circumstances. For more information, please refer to the "Purchasing Shares" section beginning on page 25 of this *Prospectus*.

Fund shares will be sold at the net asset value per share ("NAV") next determined after your redemption request is received in good order. NAV is determined on each business day.

You may redeem shares of the Portfolio by mail, or, if authorized, by telephone or Internet, at no charge.

Fund shares may be purchased or sold directly through Morgan Stanley Institutional Liquidity Funds (the "Fund") or by contacting your financial intermediary. To purchase and sell Fund shares directly through the Fund, provide a completed Account Registration Form to Morgan Stanley Institutional Liquidity Funds, c/o Morgan Stanley Services Company Inc., P.O. Box 219804, Kansas City, MO 64121-9804. You may obtain an Account Registration Form by calling Morgan Stanley Services Company Inc. ("Morgan Stanley Services"), the Fund's transfer agent, at 1-888-378-1630. You may sell Fund shares by mailing the required documentation to the address listed above or, if authorized, by calling the telephone number listed above. You may also purchase Fund shares by wiring Federal Funds to State Street Bank and Trust Company (the "Custodian"). You may purchase and redeem shares online through Morgan Stanley's ClientLink service at [www.morganstanley.com](http://www.morganstanley.com), provided you have a pre-established Internet trading account. For more information, please refer to the "Purchasing Shares" and "Redeeming Shares" sections beginning on pages 25 and 27, respectively, of this *Prospectus*. Selected accounts that utilize the Portfolio as their sweep vehicle will be reviewed on each business day and shares will automatically be purchased or sold to cover any credits or debits incurred that day.

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## Tax Information

The Portfolio intends to make distributions that may be taxed as ordinary income or capital gains.

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## Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Portfolio through a broker-dealer or other financial intermediary (such as a bank), the Adviser and/or the Portfolio's distributor may pay the intermediary for the sale of Portfolio shares and related services. These payments, which may be significant in amount, may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Portfolio over another investment. Ask your salesperson or visit your financial intermediary's web site for more information.

# Portfolio Summary

## Treasury Securities Portfolio

### Objective

The Treasury Securities Portfolio seeks preservation of capital, daily liquidity and maximum current income.

### Fees and Expenses

The table below describes the expenses that you may pay if you buy and hold Institutional Class shares of the Portfolio. The Portfolio does not charge any sales loads or other fees when you purchase or redeem shares.

#### Annual Portfolio Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class
Advisory Fee	0.15%
Distribution and/or Service (12b-1) Fee	N/A
Other Expenses	0.63%
Total Annual Operating Expenses	0.78%
Fee Waiver and/or Expense Reimbursement*	0.58%
Total Annual Operating Expenses After Fee Waiver and/or Expense Reimbursement*	0.20%

### Example

The example below is intended to help you compare the cost of investing in the Portfolio's Institutional Class with the cost of investing in other mutual funds.

The example assumes that you invest \$10,000 in the Portfolio's Institutional Class, your investment has a 5% return each year and that the Portfolio's operating expenses remain the same. Although your actual costs may be higher or lower, the table below shows your costs at the end of each period based on these assumptions.

	1 Year	3 Years	5 Years	10 Years
Institutional Class	\$20	\$64	\$113	\$225

\* The Portfolio's Adviser and Administrator, Morgan Stanley Investment Management Inc., has agreed to reduce the advisory fee and/or administration fee, as applicable, and/or reimburse expenses of the Portfolio's Institutional Class so that total annual operating expenses after fee waiver and/or expense reimbursement (excluding interest expense on borrowing) will not exceed 0.20%. This fee waiver and/or expense reimbursement is expected to continue until such time as the Fund's Board of Trustees acts to discontinue all or a portion of such waiver and/or expense reimbursement when it deems that such action is appropriate. As a result of further fee waivers and/or expense reimbursements by the Portfolio's Adviser and/or Administrator, for the fiscal year ended October 31, 2010, total annual operating expenses for the Portfolio's Institutional Class were 0.13%.

### Principal Investment Strategies

The Portfolio seeks to maintain a stable net asset value of \$1.00 per share investing exclusively in U.S. Treasury obligations, which are backed by the full faith and credit of the U.S. government.

### Principal Risks

There can be no assurance that the Portfolio will achieve its investment objective. An investment in the Portfolio is not a deposit of any bank or other insured depository institution and is not insured or guaranteed by the FDIC or any other government agency. Although the Portfolio seeks to preserve the value of your investment at \$1.00 per share, it is possible for an investor to lose money by investing in the Portfolio.

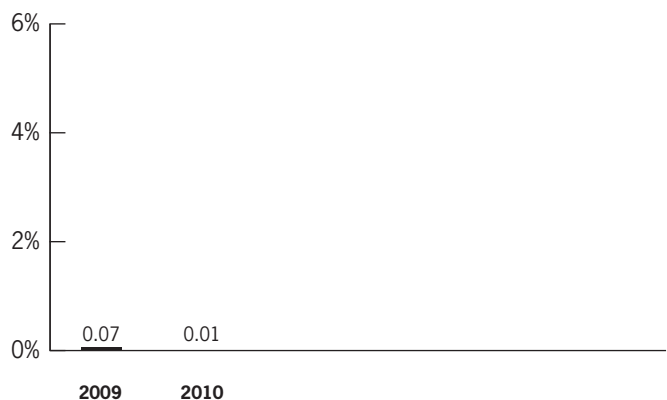
The Portfolio's principal investment strategies are subject to the following principal risks:

- **Credit and Interest Rate Risk.** Credit risk refers to the possibility that the issuer of a security will be unable to make interest payments and/or repay the principal on its debt. Interest rate risk refers to fluctuations in the value of a debt security resulting from changes in the general level of interest rates.

### Performance Information

The bar chart and table below provide some indication of the risks of investing in the Portfolio by showing changes in the performance of the Portfolio's Institutional Class shares from year-to-year and by showing the average annual returns of the Portfolio's Institutional Class shares for the past year and since inception. The Portfolio's past performance is not necessarily an indication of how the Portfolio will perform in the future. Updated performance information is available online at [www.morganstanley.com/im](http://www.morganstanley.com/im).

#### Annual Total Returns—Calendar Years



High Quarter	12/31/09	0.04%
Low Quarter	6/30/10	0.00%

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**Average Annual Total Returns for Periods Ended December 31, 2010**

	<b>Past One Year</b>	<b>Since Inception 10/07/08</b>
Treasury Securities Portfolio	0.01%	0.04%

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You may obtain the Portfolio's 7-day current yield by calling 1-888-378-1630.

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**Investment Adviser**

Morgan Stanley Investment Management Inc.

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**Purchase and Sale of Fund Shares**

Institutional Class Shares of the Portfolio are available to investors who at the time of initial purchase make a minimum investment of \$10,000,000. You may not be subject to the minimum investment requirement under certain circumstances. For more information, please refer to the "Purchasing Shares" section beginning on page 25 of this *Prospectus*.

Fund shares will be sold at the net asset value per share ("NAV") next determined after your redemption request is received in good order. NAV is determined on each business day.

You may redeem shares of the Portfolio by mail, or, if authorized, by telephone or Internet, at no charge.

Fund shares may be purchased or sold directly through Morgan Stanley Institutional Liquidity Funds (the "Fund") or by contacting your financial intermediary. To purchase and sell Fund shares directly through the Fund, provide a completed Account Registration Form to Morgan Stanley Institutional Liquidity Funds, c/o Morgan Stanley Services Company Inc., P.O. Box 219804, Kansas City, MO 64121-9804. You may obtain an Account Registration Form by calling Morgan Stanley Services Company Inc. ("Morgan Stanley Services"), the Fund's transfer agent, at 1-888-378-1630. You may sell Fund shares by mailing the required documentation to the address listed above or, if authorized, by calling the telephone number listed above. You may also purchase Fund shares by wiring Federal Funds to State Street Bank and Trust Company (the "Custodian"). You may purchase and redeem shares online through Morgan Stanley's ClientLink service at [www.morganstanley.com](http://www.morganstanley.com), provided you have a pre-established Internet trading account. For more information, please refer to the "Purchasing Shares" and "Redeeming Shares" sections beginning on pages 25 and 27, respectively, of this *Prospectus*. Selected accounts that utilize the Portfolio as their sweep vehicle will be reviewed on each business day and shares will automatically be purchased or sold to cover any credits or debits incurred that day.

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**Tax Information**

The Portfolio intends to make distributions that may be taxed as ordinary income or capital gains.

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**Payments to Broker-Dealers and Other Financial Intermediaries**

If you purchase the Portfolio through a broker-dealer or other financial intermediary (such as a bank), the Adviser and/or the Portfolio's distributor may pay the intermediary for the sale of Portfolio shares and related services. These payments, which may be significant in amount, may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Portfolio over another investment. Ask your salesperson or visit your financial intermediary's web site for more information.

# Portfolio Summary

## Tax-Exempt Portfolio

### Objective

The Tax-Exempt Portfolio seeks to maximize current income exempt from federal income tax to the extent consistent with preservation of capital and maintenance of liquidity.

### Fees and Expenses

The table below describes the expenses that you may pay if you buy and hold Institutional Class shares of the Portfolio. The Portfolio does not charge any sales loads or other fees when you purchase or redeem shares.

#### Annual Portfolio Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class
Advisory Fee	0.15%
Distribution and/or Service (12b-1) Fee	N/A
Other Expenses	0.07%
Total Annual Operating Expenses	0.22%
Fee Waiver and/or Expense Reimbursement*	0.02%
Total Annual Operating Expenses After Fee Waiver and/or Expense Reimbursement*	0.20%

### Example

The example below is intended to help you compare the cost of investing in the Portfolio's Institutional Class with the cost of investing in other mutual funds.

The example assumes that you invest \$10,000 in the Portfolio's Institutional Class, your investment has a 5% return each year and that the Portfolio's operating expenses remain the same. Although your actual costs may be higher or lower, the table below shows your costs at the end of each period based on these assumptions.

	1 Year	3 Years	5 Years	10 Years
Institutional Class	\$20	\$64	\$113	\$255

\* The Portfolio's Adviser and Administrator, Morgan Stanley Investment Management Inc., has agreed to reduce the advisory fee and/or administration fee, as applicable, and/or reimburse expenses of the Portfolio's Institutional Class so that total annual operating expenses after fee waiver and/or expense reimbursement (excluding interest expense on borrowing) will not exceed 0.20%. This fee waiver and/or expense reimbursement is expected to continue until such time as the Fund's Board of Trustees acts to discontinue all or a portion of such waiver and/or expense reimbursement when it deems that such action is appropriate. As a result of further fee waivers and/or expense reimbursements by the Portfolio's Adviser and/or Administrator, for the fiscal year ended October 31, 2010, total annual operating expenses for the Portfolio's Institutional Class were 0.18%.

### Principal Investment Strategies

The Portfolio seeks to maintain a stable net asset value of \$1.00 per share by investing at least 80% of its assets in high quality short-term municipal obligations, the interest of which is exempt from federal income taxes and is not subject to the federal alternative minimum tax. This policy is fundamental and may not be changed without shareholder approval. The Portfolio may also invest in variable and floating rate demand instruments, tender option bonds, custodial receipts and investments in other investment companies, including money market funds.

The Portfolio may invest up to 20% of its assets in taxable money market securities or in municipal obligations that pay interest income that may be subject to the alternative minimum tax; however, it is currently intended that the Portfolio will be managed so that income generated by the Portfolio will not be subject to the alternative minimum tax. In addition, the Portfolio may temporarily invest more than 20% of its assets in taxable money market securities for defensive purposes in attempting to respond to adverse market conditions.

### Principal Risks

There can be no assurance that the Portfolio will achieve its investment objective. An investment in the Portfolio is not a deposit of any bank or other insured depository institution and is not insured or guaranteed by the FDIC or any other government agency. Although the Portfolio seeks to preserve the value of your investment at \$1.00 per share, it is possible for an investor to lose money by investing in the Portfolio

The Portfolio's principal investment strategies are subject to the following principal risks:

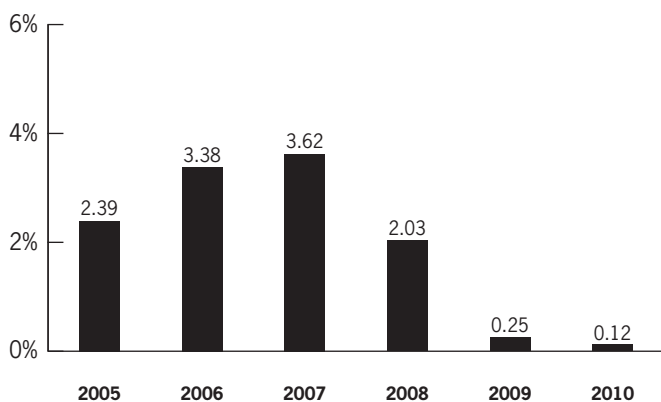
- **Credit and Interest Rate Risk.** Credit risk refers to the possibility that the issuer of a security will be unable to make interest payments and/or repay the principal on its debt. Interest rate risk refers to fluctuations in the value of a debt security resulting from changes in the general level of interest rates.

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## Performance Information

The bar chart and table below provide some indication of the risks of investing in the Portfolio by showing changes in the performance of the Portfolio's Institutional Class shares from year-to-year and by showing the average annual returns of the Portfolio's Institutional Class shares for the one and five year periods and since inception. The Portfolio's past performance is not necessarily an indication of how the Portfolio will perform in the future. Updated performance information is available online at [www.morganstanley.com/im](http://www.morganstanley.com/im).

### Annual Total Returns—Calendar Years



High Quarter	6/30/07	0.92%
Low Quarter	3/31/10	0.03%

### Average Annual Total Returns for Periods Ended December 31, 2010

	Past One Year	Past Five Years	Since Inception 02/02/04
Tax-Exempt Portfolio	0.12%	1.87%	1.86%

You may obtain the Portfolio's 7-day current yield by calling 1-888-378-1630.

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## Investment Adviser

Morgan Stanley Investment Management Inc.

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## Purchase and Sale of Fund Shares

Institutional Class Shares of the Portfolio are available to investors who at the time of initial purchase make a minimum investment of \$10,000,000. You may not be subject to the minimum investment requirement under certain circumstances. For more information, please refer to the "Purchasing Shares" section beginning on page 25 of this *Prospectus*.

Fund shares will be sold at the net asset value per share ("NAV") next determined after your redemption request is received in good order. NAV is determined on each business day.

You may redeem shares of the Portfolio by mail, or, if authorized, by telephone or Internet, at no charge.

Fund shares may be purchased or sold directly through Morgan Stanley Institutional Liquidity Funds (the "Fund") or by contacting your financial intermediary. To purchase and sell Fund shares directly through the Fund, provide a completed Account Registration Form to Morgan Stanley Institutional Liquidity Funds, c/o Morgan Stanley Services Company Inc., P.O. Box 219804, Kansas City, MO 64121-9804. You may obtain an Account Registration Form by calling Morgan Stanley Services Company Inc. ("Morgan Stanley Services"), the Fund's transfer agent, at 1-888-378-1630. You may sell Fund shares by mailing the required documentation to the address listed above or, if authorized, by calling the telephone number listed above. You may also purchase Fund shares by wiring Federal Funds to State Street Bank and Trust Company (the "Custodian"). You may purchase and redeem shares online through Morgan Stanley's ClientLink service at [www.morganstanley.com](http://www.morganstanley.com), provided you have a pre-established Internet trading account. For more information, please refer to the "Purchasing Shares" and "Redeeming Shares" sections beginning on pages 25 and 27, respectively, of this *Prospectus*. Selected accounts that utilize the Portfolio as their sweep vehicle will be reviewed on each business day and shares will automatically be purchased or sold to cover any credits or debits incurred that day.

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## Tax Information

The Portfolio intends to make distributions that may be taxed as ordinary income or capital gains.

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## Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Portfolio through a broker-dealer or other financial intermediary (such as a bank), the Adviser and/or the Portfolio's distributor may pay the intermediary for the sale of Portfolio shares and related services. These payments, which may be significant in amount, may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Portfolio over another investment. Ask your salesperson or visit your financial intermediary's web site for more information.

## Details of the Portfolios

### Money Market Portfolio

**Objective**

*The Money Market Portfolio seeks preservation of capital, daily liquidity and maximum current income.*

**Approach**

The Portfolio seeks to maintain a stable net asset value of \$1.00 per share by investing in liquid, high quality U.S. dollar-denominated money market instruments of U.S. and foreign financial and non-financial corporations. The Portfolio also invests in obligations of foreign governments and in obligations issued or guaranteed by the U.S. government and its agencies and instrumentalities, including securities guaranteed under the FDIC Temporary Liquidity Guarantee Program or other similar programs. The Portfolio's money market investments may include commercial paper, corporate debt obligations, debt obligations (including certificates of deposit and promissory notes) of U.S. banks or foreign banks, or of U.S. branches of foreign banks, or foreign branches of U.S. banks (such as Yankee obligations), certificates of deposit of savings banks and savings and loan organizations, short-term taxable municipal obligations, variable rate master demand notes (including tax-exempt variable rate demand notes), asset-backed securities and repurchase agreements.

**Process**

The Adviser follows a multi-pronged investment process with respect to credit risk, interest rate risk and liquidity. Securities are reviewed on an ongoing basis to maintain or improve creditworthiness taking into consideration factors such as cash flow, asset quality, debt service coverage ratios and economic developments. Additionally, exposure to guarantors and liquidity providers is monitored separately as are the various diversification requirements.

The Adviser actively manages the Portfolio's assets in an attempt to reduce the risk of losing any principal investment as a result of credit or interest rate risks. The Portfolio's assets are reviewed to maintain or improve creditworthiness. In addition, federal regulations require money market funds to invest only in debt obligations of high quality and short-term maturities.

**Principal Risks**

*The Portfolio's principal investment strategies are subject to the following principal risks:*

There is no assurance that the Portfolio will achieve its investment objective. Although the Portfolio seeks to preserve the value of your investment at \$1.00 per share, it is possible for an investor to lose money by investing in the Portfolio. Shares of the Portfolio are not bank deposits and are not insured or guaranteed by the FDIC or any other government agency.

A principal risk of investing in the Portfolio is associated with its debt obligation investments. All debt obligations, such as bonds, are subject to two types of risk: credit risk and interest rate risk. Credit risk refers to the possibility that the issuer of a security will be unable to make interest payments and/or repay the principal on its debt. Interest rate risk refers to fluctuations in the value of a debt security resulting from changes in the general level of interest rates. Repurchase agreements are subject to additional risks associated with the possibility of default by the seller at a time when the collateral has declined in value, or insolvency of the seller, which may affect the Portfolio's right to control the collateral and result in certain costs and delays. Asset-backed securities raise certain risk considerations including prepayment risk and the risk of inadequate recovery on repossessed collateral. Because the Portfolio may concentrate its investments in bank securities, an adverse development in the banking industry may affect the value of the Portfolio's investments more than if the Portfolio were not so concentrated.

The Portfolio may invest in U.S. dollar-denominated foreign securities and money market instruments. Although the Portfolio will invest in these securities only if the Adviser determines they are of comparable quality to the Portfolio's U.S. investments, investing in securities of foreign issuers involves some additional risks. These risks may include higher costs of foreign investing, and the possibility of adverse political, economic or other developments affecting the issuers of these securities.

# Prime Portfolio

## **Objective**

*The Prime Portfolio seeks preservation of capital, daily liquidity and maximum current income.*

## **Approach**

The Portfolio seeks to maintain a stable net asset value of \$1.00 per share by investing in liquid, high quality U.S. dollar-denominated money market instruments of U.S. and foreign financial corporations and U.S. non-financial corporations. The Portfolio also invests in obligations issued or guaranteed by the U.S. government and its agencies and instrumentalities, including securities guaranteed under the FDIC Temporary Liquidity Guarantee Program or other similar programs. The Portfolio's money market investments may include commercial paper, corporate debt obligations, debt obligations (including certificates of deposit and promissory notes) of U.S. banks or foreign banks, or of U.S. branches of foreign banks, or foreign branches of U.S. banks (such as Yankee obligations), certificates of deposit of savings banks and savings and loan organizations, short-term taxable municipal obligations, variable rate master demand notes (including tax-exempt variable rate demand notes), asset-backed securities and repurchase agreements.

## **Process**

The Adviser follows a multi-pronged investment process with respect to credit risk, interest rate risk and liquidity. Securities are reviewed on an ongoing basis to maintain or improve creditworthiness taking into consideration factors such as cash flow, asset quality, debt service coverage ratios and economic developments. Additionally, exposure to guarantors and liquidity providers is monitored separately as are the various diversification requirements.

The Adviser actively manages the Portfolio's assets in an attempt to reduce the risk of losing any principal investment as a result of credit or interest rate risks. The Portfolio's assets are reviewed to maintain or improve creditworthiness. In addition, federal regulations require money market funds to invest only in debt obligations of high quality and short-term maturities.

## **Principal Risks**

*The Portfolio's principal investment strategies are subject to the following principal risks:*

There is no assurance that the Portfolio will achieve its investment objective. Although the Portfolio seeks to preserve the value of your investment at \$1.00 per share, it is possible for an investor to lose money by investing in the Portfolio. Shares of the Portfolio are not bank deposits and are not insured or guaranteed by the FDIC or any other government agency.

A principal risk of investing in the Portfolio is associated with its debt obligation investments. All debt obligations, such as bonds, are subject to two types of risk: credit risk and interest rate risk. Credit risk refers to the possibility that the issuer of a security will be unable to make interest payments and/or repay the principal on its debt. Interest rate risk refers to fluctuations in the value of a debt security resulting from changes in the general level of interest rates. Repurchase agreements are subject to additional risks associated with the possibility of default by the seller at a time when the collateral has declined in value, or insolvency of the seller, which may affect the Portfolio's right to control the collateral and result in certain costs and delays. Asset-backed securities raise certain risk considerations, including prepayment risk and the risk of inadequate recovery on repossessed collateral. Because the Portfolio may concentrate its investments in bank securities, an adverse development in the banking industry may affect the value of the Portfolio's investments more than if the Portfolio's investments were not so concentrated.

The Portfolio may invest in U.S. dollar-denominated foreign securities and money market instruments. Although the Portfolio will invest in these securities only if the Adviser determines they are of comparable quality to the Portfolio's U.S. investments, investing in securities of foreign issuers involves some additional risks. These risks may include higher costs of foreign investing, and the possibility of adverse political, economic or other developments affecting the issuers of these securities.

## Government Portfolio

### Objective

*The Government Portfolio seeks preservation of capital, daily liquidity and maximum current income.*

### Approach

The Portfolio seeks to maintain a stable net asset value of \$1.00 per share by investing exclusively in obligations issued or guaranteed by the U.S. government and its agencies and instrumentalities and in repurchase agreements collateralized by such securities. The Portfolio may change its principal investment strategies; however you would be notified of any changes.

The U.S. government securities that the Portfolio may purchase include:

- U.S. treasury bills, notes and bonds, all of which are direct obligations of the U.S. government.
- Securities issued by agencies and instrumentalities of the U.S. government which are backed by the full faith and credit of the United States. Among the agencies and instrumentalities issuing these obligations are the Government National Mortgage Association (“Ginnie Mae”) and the Federal Housing Administration.
- Securities issued by agencies and instrumentalities which are not backed by the full faith and credit of the United States, but whose issuing agency or instrumentality has the right to borrow, to meet its obligations, from the U.S. Treasury. Among these agencies and instrumentalities are the Federal National Mortgage Association (“Fannie Mae”), the Federal Home Loan Mortgage Corporation (“Freddie Mac”) and the Federal Home Loan Banks.
- Securities issued by agencies and instrumentalities which are backed solely by the credit of the issuing agency or instrumentality. Among these agencies and instrumentalities is the Federal Farm Credit System.
- Securities guaranteed under the FDIC Temporary Liquidity Guarantee Program or other similar programs. The FDIC guarantee of these securities is subject to the full faith and credit of the U.S. government.

### Process

The Adviser follows an investment process that seeks to select maturities based on the shape of the money market yield curve and based on the expectations as to future shifts in the level and shape of the curve, taking into consideration such factors as current short-term interest rates, Federal Reserve policy regarding interest rates and U.S. economic activity.

The Adviser actively manages the Portfolio’s assets in an attempt to reduce the risk of losing any principal investment as a result of credit or interest rate risks. The Portfolio’s assets are reviewed to maintain or improve creditworthiness. In addition, federal regulations require money market funds to invest only in debt obligations of high quality and short-term maturities.

### Principal Risks

*The Portfolio’s principal investment strategies are subject to the following principal risks:*

There is no assurance that the Portfolio will achieve its investment objective. Although the Portfolio seeks to preserve the value of your investment at \$1.00 per share, it is possible for an investor to lose money by investing in the Portfolio. Shares of the Portfolio are not bank deposits and are not insured or guaranteed by the FDIC or any other government agency.

A principal risk of investing in the Portfolio is associated with its debt obligation investments. All debt obligations, such as bonds, are subject to two types of risk: credit risk and interest rate risk. Credit risk refers to the possibility that the issuer of a security will be unable to make interest payments and/or repay the principal on its debt. Interest rate risk refers to fluctuations in the value of a debt security resulting from changes in the general level of interest rates. Repurchase agreements are subject to additional risks associated with the possibility of default by the seller at a time when the collateral has declined in value, or insolvency of the seller, which may affect the Portfolio’s right to control the collateral and result in certain costs and delays.

# Government Securities Portfolio

## **Objective**

*The Government Securities Portfolio seeks preservation of capital, daily liquidity and maximum current income.*

## **Approach**

The Portfolio seeks to maintain a stable net asset value of \$1.00 per share by investing substantially all of its assets in U.S. Treasury obligations and certain U.S. government securities, the interest from which is generally exempt from state income taxation. These securities may include those issued or guaranteed either by the U.S. Treasury or certain agencies, authorities or instrumentalities of the U.S. government. The Portfolio may change its principal investment strategies; however you would be notified of any changes. The Portfolio may also invest in repurchase agreements, however, under normal circumstances it does not intend to do so.

Shareholders should consult their individual tax adviser to determine whether the Portfolio's distributions derived from interest on the Treasury obligations and U.S. government securities referred to above are exempt from state taxation in their own state.

## **Process**

The Adviser follows an investment process that seeks to select maturities based on the shape of the money market yield curve and based on the expectations as to future shifts in the level and shape of the curve, taking into consideration such factors as current short-term interest rates, Federal Reserve policy regarding interest rates and U.S. economic activity.

The Adviser actively manages the Portfolio's assets in an attempt to reduce the risk of losing any principal investment as a result of credit or interest rate risks. The Portfolio's assets are reviewed to maintain or improve creditworthiness. In addition, federal regulations require money market funds to invest only in debt obligations of high quality and short-term maturities.

## **Principal Risks**

*The Portfolio's principal investment strategies are subject to the following principal risks:*

There is no assurance that the Portfolio will achieve its investment objective. Although the Portfolio seeks to preserve the value of your investment at \$1.00 per share, it is possible for an investor to lose money by investing in the Portfolio. Shares of the Portfolio are not bank deposits and are not insured or guaranteed by the FDIC or any other government agency.

A principal risk of investing in the Portfolio is associated with its debt obligation investments. All debt obligations, such as bonds, are subject to two types of risk: credit risk and interest rate risk. Credit risk refers to the possibility that the issuer of a security will be unable to make interest payments and/or repay the principal on its debt. Interest rate risk refers to fluctuations in the value of a debt security resulting from changes in the general level of interest rates. Repurchase agreements are subject to additional risks associated with the possibility of default by the seller at a time when the collateral has declined in value, or insolvency of the seller, which may affect the Portfolio's right to control the collateral and result in certain costs and delays.

## Treasury Portfolio

**Objective**

*The Treasury Portfolio seeks preservation of capital, daily liquidity and maximum current income.*

**Approach**

The Portfolio seeks to maintain a stable net asset value of \$1.00 per share by investing exclusively in U.S. Treasury obligations, which are backed by the full faith and credit of the U.S. government, and repurchase agreements collateralized by such securities. The Portfolio may change its principal investment strategies; however you would be notified of any changes.

**Process**

The Adviser follows an investment process that seeks to select maturities based on the shape of the money market yield curve and based on the expectations as to future shifts in the level and shape of the curve, taking into consideration such factors as current short-term interest rates, Federal Reserve policy regarding interest rates and U.S. economic activity.

The Adviser actively manages the Portfolio's assets in an attempt to reduce the risk of losing any principal investment as a result of credit or interest rate risks. The Portfolio's assets are reviewed to maintain or improve creditworthiness. In addition, federal regulations require money market funds to invest only in debt obligations of high quality and short-term maturities.

**Principal Risks**

*The Portfolio's principal investment strategies are subject to the following principal risks:*

There is no assurance that the Portfolio will achieve its investment objective. Although the Portfolio seeks to preserve the value of your investment at \$1.00 per share, it is possible for an investor to lose money by investing in the Portfolio. Shares of the Portfolio are not bank deposits and are not insured or guaranteed by the FDIC or any other government agency.

A principal risk of investing in the Portfolio is associated with its debt obligation investments. All debt obligations, such as bonds, are subject to two types of risk: credit risk and interest rate risk. Credit risk refers to the possibility that the issuer of a security will be unable to make interest payments and/or repay the principal on its debt. Interest rate risk refers to fluctuations in the value of a debt security resulting from changes in the general level of interest rates. Repurchase agreements are subject to additional risks associated with the possibility of default by the seller at a time when the collateral has declined in value, or insolvency of the seller, which may affect the Portfolio's right to control the collateral and result in certain costs and delays.

# Treasury Securities Portfolio

## **Objective**

*The Treasury Securities Portfolio seeks preservation of capital, daily liquidity and maximum current income.*

## **Approach**

The Portfolio seeks to maintain a stable net asset value of \$1.00 per share by investing exclusively in U.S. Treasury obligations. Such obligations are backed by the full faith and credit of the U.S. government. The Portfolio may change its principal investment strategies; however you would be notified of any changes.

## **Process**

The Adviser follows an investment process that seeks to select maturities based on the shape of the money market yield curve and based on the expectations as to future shifts in the level and shape of the curve, taking into consideration such factors as current short-term interest rates, Federal Reserve policy regarding interest rates and U.S. economic activity.

The Adviser actively manages the Portfolio's assets in an attempt to reduce the risk of losing any principal investment as a result of credit or interest rate risks. The Portfolio's assets are reviewed to maintain or improve creditworthiness. In addition, federal regulations require money market funds to invest only in debt obligations of high quality and short-term maturities.

## **Principal Risks**

*The Portfolio's principal investment strategies are subject to the following principal risks:*

There is no assurance that the Portfolio will achieve its investment objective. Although the Portfolio seeks to preserve the value of your investment at \$1.00 per share, it is possible for an investor to lose money by investing in the Portfolio. Shares of the Portfolio are not bank deposits and are not insured or guaranteed by the FDIC or any other government agency.

A principal risk of investing in the Portfolio is associated with its debt obligation investments. All debt obligations, such as bonds, are subject to two types of risk: credit risk and interest rate risk. Credit risk refers to the possibility that the issuer of a security will be unable to make interest payments and/or repay the principal on its debt. Interest rate risk refers to fluctuations in the value of a debt security resulting from changes in the general level of interest rates.

## Tax-Exempt Portfolio

### Objective

*The Tax-Exempt Portfolio seeks to maximize current income exempt from federal income tax to the extent consistent with preservation of capital and maintenance of liquidity.*

### Approach

The Portfolio seeks to maintain a stable net asset value of \$1.00 per share by investing at least 80% of its assets in high quality short-term municipal obligations, the interest of which is exempt from federal income taxes and is not subject to the federal alternative minimum tax. This policy is fundamental and may not be changed without shareholder approval. Municipal obligations are securities issued by state and local governments and their agencies and typically are either general obligation or revenue bonds, notes or commercial paper. General obligation securities are secured by the issuer's faith and credit including its taxing power for payment of principal and interest. Revenue bonds, however, are generally payable from a specific revenue source. They are issued for a wide variety of projects such as financing public utilities, hospitals, housing, airports, highways and educational facilities. Included within the revenue bonds category are participations in lease obligations and installment purchase contracts of municipalities. Additionally, the Portfolio's investments may include variable and floating rate demand instruments, tender option bonds, custodial receipts and investments in other investment companies, including money market funds.

The Portfolio may invest up to 20% of its assets in taxable money market securities or in municipal obligations that pay interest income that may be subject to the alternative minimum tax. However, it is currently intended that the Portfolio will be managed so that income generated by the Portfolio will not be subject to the alternative minimum tax.

While at least 80% of the Portfolio's assets typically will be invested in municipal obligations, the interest of which is exempt from federal income taxes and is not subject to the federal alternative minimum tax, the Portfolio may temporarily invest more than 20% of its assets in taxable money market securities for defensive purposes in attempting to respond to adverse market conditions.

### Process

The Adviser follows a multi-pronged investment process with respect to credit risk, interest rate risk and liquidity. Securities are reviewed on an ongoing basis taking into consideration factors such as economic developments, budgetary trends, cash flow, debt service coverage ratios and tax-law changes. Exposure to guarantors and liquidity providers is monitored separately. Weighted average maturity is shifted in response to expectations as to the future course of money market interest rates, the shape of the money market yield curve and the Portfolio's recent cash flow experience.

The Adviser actively manages the Portfolio's assets in an attempt to reduce the risk of losing any principal investment as a result of credit or interest rate risks. The Portfolio's assets are reviewed to maintain or improve creditworthiness. In addition, federal regulations require money market funds to invest only in debt obligations of high quality and short-term maturities.

### Principal Risks

*The Portfolio's principal investment strategies are subject to the following principal risks:*

There is no assurance that the Portfolio will achieve its investment objective. Although the Portfolio seeks to preserve the value of your investment at \$1.00 per share, it is possible for an investor to lose money by investing in the Portfolio. Shares of the Portfolio are not bank deposits and are not insured or guaranteed by the FDIC or any other government agency.

A principal risk of investing in the Portfolio is associated with its debt obligation investments. All debt obligations, such as bonds, are subject to two types of risk: credit risk and interest rate risk. Credit risk refers to the possibility that the issuer of a security will be unable to make interest payments and/or repay the principal on its debt. Interest rate risk refers to fluctuations in the value of a debt security resulting from changes in the general level of interest rates.

## Additional Information about the Portfolios' Investment Strategies and Related Risks

*This section discusses additional information relating to the Portfolios' investment strategies, other types of investments that the Portfolios may make and related risk factors. The Portfolios' investment practices and limitations are also described in more detail in the Statement of Additional Information ("SAI"), which is incorporated by reference and legally is a part of this Prospectus. For details on how to obtain a copy of the SAI and other reports and information, see the back cover of this Prospectus.*

**Bank Obligations.** Bank obligations include certificates of deposit, commercial paper, unsecured bank promissory notes, bankers' acceptances, time deposits and other debt obligations. Certain Portfolios may invest in obligations issued or backed by U.S. banks when a bank has more than \$1 billion in total assets at the time of purchase or is a branch or subsidiary of such a bank. In addition, certain Portfolios may invest in U.S. dollar-denominated obligations issued or guaranteed by foreign banks that have more than \$1 billion in total assets at the time of purchase, U.S. branches of such foreign banks (Yankee obligations), foreign branches of such foreign banks and foreign branches of U.S. banks having more than \$1 billion in total assets at the time of purchase. Bank obligations may be general obligations of the parent bank or may be limited to the issuing branch by the terms of the specific obligation or by U.S. government regulation.

If a Portfolio invests more than 25% of its total assets in bank obligations (whether foreign or domestic), it may be especially affected by favorable and adverse developments in or related to the banking industry. The activities of U.S. and most foreign banks are subject to comprehensive regulations, which, in the case of U.S. regulations, have undergone substantial changes in the past decade. The enactment of new legislation or regulations, as well as changes in interpretation and enforcement of current laws, may affect the manner of operations and profitability of domestic and foreign banks. Significant developments in the U.S. banking industry have included increased competition from other types of financial institutions, increased acquisition activity and geographic expansion. Banks may be particularly susceptible to certain economic factors, such as interest rate changes and adverse developments in the

real estate markets. Fiscal and monetary policy and general economic cycles can affect the availability and cost of funds, loan demand and asset quality and thereby impact the earnings and financial conditions of banks. Obligations of foreign banks, including Yankee obligations, are subject to the same risks that pertain to domestic issuers, notably credit risk and market risk, but are also subject to certain additional risks such as adverse foreign political and economic developments, the extent and quality of foreign government regulation of the financial markets and institutions, foreign withholding taxes and other sovereign action such as nationalization or expropriation.

**U.S. Government Securities.** The U.S. government securities that certain Portfolios may purchase include U.S. Treasury bills, notes and bonds, all of which are direct obligations of the U.S. government. In addition, certain Portfolios may purchase securities issued by agencies and instrumentalities of the U.S. government which are backed by the full faith and credit of the United States. Among the agencies and instrumentalities issuing these obligations are the Ginnie Mae and the Federal Housing Administration. Certain of the Portfolios may also purchase securities issued by agencies and instrumentalities which are not backed by the full faith and credit of the United States, but whose issuing agency or instrumentality has the right to borrow, to meet its obligations, from the U.S. Treasury. Among these agencies and instrumentalities are Fannie Mae, Freddie Mac and the Federal Home Loan Banks. In September 2008, the U.S. Treasury Department announced that the U.S. government would be taking over Fannie Mae and Freddie Mac and placing the companies into a conservatorship. In addition, the U.S. Treasury announced additional steps that it intended to take with respect to the debt and mortgage-backed securities issued by Fannie Mae and Freddie Mac in order to support the conservatorship. No assurance can be given that these initiatives will be successful. Further, certain Portfolios may purchase securities issued by agencies and instrumentalities which are backed solely by the credit of the issuing agency or instrumentality. Among these agencies and instrumentalities is the Federal Farm Credit System. Because these securities are not backed by the full faith and credit of the

United States, there is a risk that the U.S. government will not provide financial support to these agencies if it is not obligated to do so by law. The maximum potential liability of the issuers of some U.S. government securities held by the Fund may greatly exceed their current resources, including their legal right to support from the U.S. Treasury. It is possible that these issuers will not have the funds to meet their payment obligations in the future.

Under the FDIC Temporary Liquidity Guarantee Program, the FDIC guarantees the payment of principal and interest on the newly issued senior secured debt of banks, thrift institutions and certain holding companies. The FDIC guarantee of such debt is subject to the full faith and credit of the U.S. government and expires no later than December 31, 2012. Therefore, a Portfolio will not invest in any FDIC guaranteed debt with a maturity date later than December 31, 2012. The interest from U.S. government securities generally is not subject to state and local taxation. However, the interest on securities guaranteed under the Temporary Liquidity Guarantee Program may be subject to state and local income taxes and therefore may cause additional state and local tax consequences for shareholders of any fund that purchases such securities.

*Foreign Securities.* Certain Portfolios may invest in U.S. dollar-denominated securities issued by foreign governmental or corporate issuers, including Eurodollar and Yankee obligations. While these securities are subject to the same type of risks that pertain to domestic issuers, namely credit risk and interest rate risk, they are also subject to other additional risks. Foreign issuers generally are subject to different accounting, auditing and financial reporting standards than U.S. issuers. There may be less information available to the public about foreign issuers. Securities of foreign issuers can be less liquid and experience greater price movements. In some foreign countries, there is also the risk of government expropriation, excessive taxation, political or social instability, the imposition of currency controls, or diplomatic developments that could affect a Portfolio's investment. There also can be difficulty obtaining and enforcing judgments against issuers in foreign countries.

Foreign stock exchanges, broker-dealers, and listed issuers may be subject to less government regulation and oversight. The cost of investing in foreign securities, including brokerage commissions and custodial expenses, can be higher than in the United States.

*Custodial Receipts.* Certain Portfolios may invest in custodial receipts representing interests in U.S. government securities, municipal obligations or other debt instruments held by a custodian or trustee. Custodial receipts evidence ownership of future interest payments, principal payments or both on notes or bonds issued or guaranteed as to principal or interest by the U.S. government, its agencies, instrumentalities, political subdivisions or authorities, or by a state or local governmental body or authority, or by other types of issuers. For certain securities law purposes, custodial receipts are not considered obligations of the underlying issuers. In addition, if for tax purposes a Portfolio is not considered to be the owner of the underlying securities held in the custodial account, the Portfolio may suffer adverse tax consequences. As a holder of custodial receipts, a Portfolio will bear its proportionate share of the fees and expenses charged to the custodial account.

*Tender Option Bonds.* A tender option bond is a municipal obligation (generally held pursuant to a custodial arrangement) having a relatively long maturity and bearing interest at a fixed rate substantially higher than prevailing short-term, tax-exempt rates. The bond is typically issued in conjunction with the agreement of a third party, such as a bank, broker-dealer or other financial institution, pursuant to which the institution grants the security holder the option, at periodic intervals, to tender its securities to the institution. As consideration for providing the option, the financial institution receives periodic fees equal to the difference between the bond's fixed coupon rate and the rate, as determined by a remarketing or similar agent, that would cause the securities, coupled with the tender option, to trade at par on the date of such determination. Thus, after payment of this fee, the security holder effectively holds a demand obligation that bears interest at the prevailing short-term, tax-exempt rate. An institution will normally not be obligated to accept tendered bonds in the event of certain defaults

or significant downgrading in the credit rating assigned to the issuer of the bond. The tender option will be taken into account in determining the maturity of the tender option bonds and a Portfolio's average portfolio maturity. There is a risk that a Portfolio will not be considered the owner of a tender option bond for federal income tax purposes, and thus will not be entitled to treat such interest as exempt from federal income tax. Certain tender option bonds may be illiquid or may become illiquid as a result of a credit rating downgrade, a payment default or a disqualification from tax-exempt status.

*Corporate Debt Obligations.* Corporate debt obligations are fixed income securities issued by private corporations. Debtholders, as creditors, have a prior legal claim over common and preferred stockholders of the corporation as to both income and assets for the principal and interest due to the bondholder. Certain Portfolios will buy corporate debt obligations subject to any quality constraints set forth under Rule 2a-7 under the Investment Company Act of 1940, as amended (the "1940 Act").

*Asset-Backed Securities.* Asset-backed securities represent an interest in a pool of assets such as automobile loans, credit card receivables or mortgage or home equity loans that have been securitized in pass through structures. These types of pass through securities provide for monthly payments that are a "pass through" of the monthly interest and principal payments made by the individual borrowers on the pooled receivables. Such securities also may be debt instruments, which are also known as collateralized obligations and are generally issued as the debt of a special purpose entity, such as a trust, organized solely for the purpose of owning such assets and issuing such debt. Credit support for asset-backed securities may be based on the underlying assets and/or provided by a third party through credit enhancements. Credit enhancement techniques include letters of credit, insurance bonds, limited guarantees (which are generally provided by the issuer), senior-subordinated structures and over-collateralization.

Asset-backed securities are not issued or guaranteed by the U.S. government or its agencies or instrumentalities; however, the payment of principal

and interest on such obligations may be guaranteed up to certain amounts for a certain period by a letter of credit issued by a financial institution (such as a bank or insurance company) unaffiliated with the issuers of such securities. The purchase of asset-backed securities raises risk considerations peculiar to the financing of the instruments underlying such securities. For example, there is a risk that another party could acquire an interest in the obligations superior to that of the holders of the asset-backed securities. Asset-backed securities entail prepayment risk, which may vary depending on the type of asset. Securities subject to prepayment risk generally offer less potential for gains when interest rates decline, and may offer a greater potential for loss when interest rates rise. In addition, rising interest rates may cause prepayments to occur at a slower than expected rate, thereby effectively lengthening the maturity of the security and making the security more sensitive to interest rate changes. Other factors, such as changes in credit card use and payment patterns, may also influence prepayment rates. Asset-backed securities also involve the risk that various federal and state consumer laws and other legal and economic factors such as defaults on the underlying loans may result in the collateral backing the securities being insufficient to support payment on the securities. The risk of such defaults is generally higher in the case of mortgage pools that include subprime mortgages. There is also the possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on those securities.

*Repurchase Agreements.* Repurchase agreements are fixed-income securities in the form of agreements backed by collateral. These agreements typically involve the acquisition by the Portfolios of securities from the selling institution (such as a bank or a broker-dealer), coupled with the agreement that the selling institution will repurchase the underlying securities at a specified price and at a fixed time in the future (or on demand). The underlying securities which serve as collateral for the repurchase agreements entered into by the Portfolios may include U.S. government securities, corporate debt obligations, convertible securities, and common and preferred stock and may be of below investment grade quality. These securities are marked-to market

daily in order to maintain full collateralization (typically purchase price plus accrued interest). The use of repurchase agreements involves certain risks. For example, if the selling institution defaults on its obligation to repurchase the underlying securities at a time when the value of the securities has declined, the Portfolios may incur a loss upon disposition of them. In the event of an insolvency or bankruptcy by the selling institution, the Portfolios' right to control the collateral could be affected and result in certain costs and delays. Additionally, if the proceeds from the liquidation of such collateral after an insolvency were less than the repurchase price, the Portfolios could suffer a loss. The Portfolios follow procedures that are designed to minimize such risks.

*Investment Companies.* The Portfolios may invest in investment companies, including money market funds and may invest all or some of their short-term cash investments in any money market fund advised

or managed by the Investment Adviser or its affiliates. An investment in an investment company is subject to the underlying risks of that investment company's portfolio securities. In addition to the Portfolio's fees and expenses, the Portfolio generally would bear its share of the investment company's fees and expenses.

*Promissory Notes.* Promissory notes are generally debt obligations of the issuing entity and are subject to the risks of investing in the banking industry. Certain Portfolios may invest up to 5% of their net assets in illiquid securities, including unsecured bank promissory notes.

*Tax-Exempt Variable Rate Demand Notes.* Tax-exempt variable rate demand notes are variable rate tax-exempt debt obligations that give investors the right to demand principal repayment.

## Portfolio Holdings

A description of the policies and procedures of the Fund with respect to the disclosure of each Portfolio's securities is available in the Fund's SAI.

## Purchasing Shares

The Fund is designed for institutional investors seeking maximum current income, a stable NAV and convenient liquidation privileges. The Portfolios are particularly suitable for banks, corporations and other financial institutions that seek investment of short-term funds for their own accounts or for the accounts of their customers. Shares of the Government Portfolio and Government Securities Portfolio are intended to qualify as eligible investments for federally chartered credit unions pursuant to the applicable provisions of the Federal Credit Union Act and the National Credit Union Administration. Shares of the Government Portfolio and Government Securities Portfolio, however, may not qualify as eligible investments for particular state-chartered credit unions. A state-chartered credit union should consult qualified legal counsel to determine whether

these Portfolios are permissible investments under the law applicable to it.

Institutional Class Shares are available to investors who at the time of initial purchase make a minimum investment of \$10,000,000, or to clients of Morgan Stanley & Co. and its broker-dealer affiliates. The Fund, in its sole discretion, may waive the minimum initial investment amount in certain cases including, but not limited to, shares of the Portfolio purchased through a financial intermediary or when the Adviser anticipates the combined value of a client's investments will meet or exceed the minimum.

This *Prospectus* offers Institutional Class shares of each Portfolio. The Fund also offers other classes of shares through separate prospectuses. For information regarding other share classes, contact the Fund or your financial intermediary.

Institutional Class Shares of the Portfolios may be purchased directly from the Fund or through a financial intermediary (also referred to as a service organization). Investors purchasing shares through a financial intermediary may be charged a transaction-based or other fee by the financial intermediary for its services. If you are purchasing Institutional Class Shares through a financial intermediary, please consult your intermediary for purchase instructions. Customers of a financial intermediary will normally give their purchase instructions to the financial intermediary, who, in turn, will place purchase orders with the Fund. The financial intermediary will establish times by which such purchase orders and payments from customers must be received by the financial intermediary. Financial intermediaries are responsible for transmitting purchase orders and payments to the Fund and the Fund's custodian in a timely fashion. Purchase orders placed with a financial intermediary and transmitted through a trading platform utilized by the financial intermediary may be transmitted by the trading platform after the deadlines established by the Fund for receipt of purchase orders, as set forth below; in such case, the purchase orders will receive a trade date of the next business day.

Institutional Class Shares of the Portfolios may be purchased at the NAV next determined after the Fund receives your purchase order and the Custodian receives monies credited by a Federal Reserve Bank ("Federal Funds") prior to the close of the Fed wire. You begin earning dividends the same day your Institutional Class Shares are purchased provided the Fund receives your purchase amount in Federal Funds that day as set forth above. Orders to purchase shares of a Portfolio must be received by the Fund prior to the following times: for the Prime Portfolio, Money Market Portfolio, Government Portfolio and Treasury Portfolio—5:00 p.m. Eastern time; for the Government Securities Portfolio and Treasury Securities Portfolio—3:00 p.m. Eastern time; and for the Tax-Exempt Portfolio—2:00 p.m. Eastern time. On any business day that the New York Stock Exchange ("NYSE") closes early, or when The Securities Industry and Financial Markets Association recommends that the securities markets close early, the Fund may close early and purchase orders received after such earlier closing times will be processed the

following business day. The Fund may elect to remain open on days when the NYSE is closed or closes early but the primary securities markets on which the Portfolios' securities trade are open. Purchase orders received by the Fund and not funded by 6:00 p.m. on the trade date may be subject to an overdraft charge.

#### **Purchase by Wire**

You may open an account, subject to acceptance by Morgan Stanley Institutional Liquidity Funds, by completing and signing an Account Registration Form provided by Morgan Stanley Services, the Fund's transfer agent, which you can obtain by calling Morgan Stanley Services at 1-888-378-1630 and mailing it to Morgan Stanley Institutional Liquidity Funds, c/o Morgan Stanley Services Company Inc., P.O. Box 219804, Kansas City, MO 64121-9804 and indicating the name of the Portfolio you wish to purchase.

Upon approval of the application, you may purchase Institutional Class Shares of the Portfolios by wiring Federal Funds to the Custodian.

*You should forward a completed Account Registration Form to Morgan Stanley Services in advance of the wire.* See the section below entitled "Valuation of Shares." Instruct your bank to send a Federal Funds (monies credited by a Federal Reserve Bank) wire in a specified amount to the Custodian using the following wire instructions:

#### **State Street Bank and Trust Company**

One Lincoln Street  
Boston, MA 02111-2101  
ABA #011000028  
DDA #00575399  
Attn: Morgan Stanley Institutional Liquidity Funds  
Trust Subscription Account  
Ref: (Portfolio Name, Account Number, Account Name)

If notification of your order is received prior to the time required by each respective Portfolio, as set forth above, and the Custodian receives the funds the same day prior to the close of the Fed wire, then your purchase will become effective and begin to earn income on that day. Otherwise, your purchase will be effective on the next business day.

**Purchase by Internet**

If you have properly authorized the Internet Trading Option on your Account Registration Form and completed, signed and returned to the Fund an Electronic Transactions Agreement, you may place a purchase order for additional shares online through Morgan Stanley's ClientLink service at [www.morganstanley.com](http://www.morganstanley.com). For more information, call Shareholder Services at 1-888-378-1630.

You are responsible for transmitting payments for shares purchased via the Internet in a timely fashion, as set forth above.

**Automatic Purchases**

Selected accounts that utilize the Portfolios as their sweep vehicle will be reviewed on each business day to determine whether the account has a positive balance as a result of credits incurred that day. If an account has a positive (credit) balance, shares of the respective Portfolio will automatically be purchased. Any positive (credit) balance will be reduced by any debits to the account on that day and shares of the Portfolio will automatically be sold.

**Additional Investments**

You may make additional investments of Institutional Class Shares at the NAV next determined after the request is received in good order or by wiring Federal Funds to the Custodian as outlined above. State Street Bank and Trust Company must receive

notification of receipt of your Federal Funds wire by the time required by each respective Portfolio, as set forth above under "Purchasing Shares."

**Other Purchase Information**

The Fund may suspend the offering of shares, or any class of shares, of the Portfolios or reject any purchase or exchange orders when we think it is in the best interest of the Fund.

Purchases of a Portfolio's shares will be made in full and fractional shares of the Portfolio calculated to three decimal places.

To help the government fight the funding of terrorism and money laundering activities, federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account. What this means to you: When you open an account, we will ask your name, address, date of birth, and other information that will allow us to identify you. If we are unable to verify your identity, we reserve the right to restrict additional transactions and/or liquidate your account at the next calculated net asset value after your account is closed (less any applicable sales/account charges and/or tax penalties) or take any other action required by law. In accordance with federal law requirements, the Fund has implemented an anti-money laundering compliance program, which includes the designation of an anti-money laundering compliance officer.

## Redeeming Shares

You may redeem shares of the Portfolios by mail, or, if authorized, by telephone at no charge. The value of shares redeemed may be more or less than the purchase price, depending on the NAV at the time of redemption. The Portfolios will redeem shares at the NAV next determined after the request is received in good order.

**By Mail**

Requests should be addressed to Morgan Stanley Institutional Liquidity Funds, c/o Morgan Stanley Services Company Inc., P.O. Box 219804, Kansas City, MO 64121-9804.

To be in good order, redemption requests must include the following documentation:

- (a) A letter of instruction, if required, or a stock assignment specifying the number of shares or dollar amount to be redeemed, signed by all registered owners of the shares in the exact names in which the shares are registered;
- (b) Any required signature guarantees; and
- (c) Other supporting legal documents, if required, in the case of estates, trusts, guardianships, custodianship, corporations, pension and profit sharing plans and other organizations.

**By Telephone**

You automatically have telephone redemption and exchange privileges unless you indicate otherwise by checking the applicable box on the new account application form or calling Morgan Stanley Services to opt out of such privileges. You may request redemption of shares by calling the Fund at 1-888-378-1630 and requesting that the redemption proceeds be wired to you. Telephone redemptions and exchanges may not be available if you cannot reach Morgan Stanley Services by telephone, whether because all telephone lines are busy or for any other reason; in such case, a shareholder would have to use the Fund's other redemption and exchange procedures described in this prospectus. To opt out of telephone privileges, please contact Morgan Stanley Services at 1-888-378-1630

If we determine that it is in the best interest of other shareholders not to pay redemption proceeds in cash, we may pay you in part by distributing to you readily marketable securities held by the Portfolio from which you are redeeming. You may incur brokerage charges when you sell those securities.

**By Internet**

You may redeem shares online through Morgan Stanley's ClientLink service at [www.morganstanley.com](http://www.morganstanley.com), provided you have a pre-established Internet trading account, as set forth above under "Purchasing Shares." For more information, call Shareholder Services at 1-888-378-1630.

**Automatic Redemptions**

Selected accounts that utilize the Portfolios as their sweep vehicle will be reviewed on each business day to determine whether the account has any debits that were incurred that day and shares of the Portfolios will automatically be redeemed to cover the debits if such debits have not been reduced by any credits which may have accrued to the account on the same day.

**All Sales**

You will not earn a dividend on the day your shares are sold. Orders to sell shares (redemption requests) will be processed on the day on which they are received, provided they are received prior to the following times: for the Prime Portfolio, Money Market Portfolio, Government Portfolio and Treasury Portfolio—5:00 p.m. Eastern time; for the Government Securities Portfolio and Treasury Securities Portfolio—3:00 p.m. Eastern time; and for the Tax-Exempt Portfolio—1:00 p.m. Eastern time. On any business day that the NYSE closes early, the Fund may close early and redemption requests received after such earlier closing times will be processed the following business day. The Fund may elect to remain open on days when the NYSE is closed or closes early but the primary securities markets on which the Portfolios' securities trade are open. Generally, payment for Fund shares sold will be made on the day on which the order is processed, but under certain circumstances may not be made until the next business day. Redemption requests or payments may be postponed or suspended as permitted pursuant to Section 22(e) of the 1940 Act. Generally, under that section, redemption requests or payments may be postponed or suspended if the NYSE is closed for trading, or trading is restricted, an emergency exists which makes the disposal of securities owned by a Fund or the fair determination of the value of the Fund's net assets not reasonably practicable, or the Securities and Exchange Commission, by order, permits the suspension of the right of redemption. Redemption payments may also be delayed in the event of the closing of the Federal Reserve wire payment system. In addition, when The Securities Industry and Financial Markets Association recommends that the securities markets close early, payments with respect to redemption requests received subsequent to the recommended close will be made the next business day.

## General Shareholder Information

### Valuation of Shares

The price of each Portfolio's shares is based on the amortized cost of the Portfolio's securities. The amortized cost valuation method involves valuing a debt obligation in reference to its cost rather than market forces.

The NAV per share of each Portfolio is determined once daily, normally at the times set forth below, on each day that the NYSE is open. Shares will not be priced on days that the NYSE is closed. The Fund may, however, elect to remain open and price shares of each Portfolio on days where the NYSE is closed but the primary securities markets on which the Portfolios' securities trade remain open.

Prime Portfolio	As of 5:00 p.m.
Money Market Portfolio	Eastern time
Government Portfolio	
Treasury Portfolio	
Government Securities Portfolio	As of 3:00 p.m.
Treasury Securities Portfolio	Eastern time
Tax-Exempt Portfolio	As of 2:00 p.m.
	Eastern time

### Exchange Privilege

You may exchange a Portfolio's Institutional Class Shares for Institutional Class Shares of other available Portfolios of the Fund based on their respective NAVs. We charge no fee for exchanges. If you purchased Portfolio shares through a financial intermediary, certain Portfolios of the Fund may be unavailable for exchange. Contact your financial intermediary to determine which Portfolios are available for exchange. See also "Other Purchase Information" for certain limitations relating to exchanges.

You can process your exchange by contacting your financial intermediary or online through Morgan Stanley's ClientLink service at [www.morganstanley.com](http://www.morganstanley.com) provided you have a pre-established Internet trading account, as set forth above under "Purchasing Shares." Contact Shareholder Services for additional information. Exchange requests can also be made by calling 1-888-378-1630. See the section above entitled "Redeeming Shares—By Telephone."

When you exchange your shares for shares of another Portfolio, your transaction will be treated the same as an initial purchase. You will be subject to the same minimum initial investment and account size as an initial purchase. The Fund, in its sole discretion, may waive the minimum initial investment amounts in certain cases including, but not limited to, exchanges involving Portfolio shares purchased through a financial intermediary or when the Adviser anticipates the combined value of a client's investments will meet or exceed the minimum.

### Frequent Purchases and Redemptions of Fund Shares

Because, as a money market fund, the Portfolios' principal investment strategy is to maintain a stable share price, the policies and procedures adopted by the Board of Trustees/Directors applicable to other funds in the Morgan Stanley family of funds are generally not applicable with respect to frequent purchases and redemptions of Portfolio shares. Therefore, reasonably frequent purchases and redemptions of Portfolio shares by Portfolio shareholders do not present risks for other shareholders of a Portfolio. We expect the Portfolios to be used by shareholders for short-term investing and by certain selected accounts utilizing the Portfolios as a sweep vehicle. However, frequent trading by shareholders can disrupt management of the Portfolios and raise their respective expenses. Therefore, we may not accept any request for a purchase or exchange when we think it is being used as a tool for market-timing, and we may bar a shareholder who trades excessively from making further purchases for an indefinite period.

### Telephone/Internet Transactions

For your protection, we will employ reasonable procedures to confirm that transaction instructions communicated over the telephone/Internet are genuine. These procedures may include requiring various forms of personal identification such as name, mailing address, social security number or other tax identification information and password/authorization codes, including PIN (Personal Information Number). Telephone instructions also may be recorded. During periods of drastic economic or market changes, it is possible that the telephone/Internet orders may be difficult to

implement, although this has not been the case with the Fund in the past.

### **Distributions**

The Portfolios pass substantially all of their earnings along to their investors as “distributions.” The Portfolios earn interest from fixed-income investments. These amounts are passed along to Portfolio shareholders as “income dividend distributions.” Each 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 Adviser does not anticipate that there will be significant capital gains distributions.

The Portfolios declare income dividends daily on each business day and pay them monthly to shareholders. Dividends are based on estimates of income, expenses and shareholder activity for the Portfolios. Actual income, expenses and shareholder activity may differ from estimates and differences, if any, will be included in the calculation of subsequent dividends. Short-term capital gains, if any, are distributed periodically. Long-term capital gains, if any, are distributed at least annually. The Portfolios automatically reinvest all dividends and distributions in additional shares. However, you may elect to receive distributions in cash by giving written notice to your Financial Intermediary or by checking the appropriate box in the Distribution Option section on the Account Registration Form.

### **Taxes**

The tax information provided in this *Prospectus* is provided as general information. You should consult your own tax professional about the tax consequences of an investment in a particular Portfolio.

It is each Portfolio’s intention to qualify as a regulated investment company and distribute all or substantially all of its taxable and tax-exempt income.

Except as noted below, dividends you receive will generally be taxable as ordinary income, whether you receive them in cash or in additional shares.

With respect to the Government Securities Portfolio, while the Portfolio intends to limit its investments to certain U.S. Treasury Obligations and U.S.

government securities, the interest of which is generally exempt from state income taxation, you should consult your own tax adviser to determine whether distributions from the Government Securities Portfolio are exempt from state taxation in your own state.

With respect to the Tax-Exempt Portfolio, your income dividend distributions are normally exempt from federal income tax to the extent they are derived from municipal obligations. Income derived from other portfolio securities may be subject to federal, state and/or local income taxes. The income derived from some municipal securities is subject to the federal “alternative minimum tax.” Certain tax-exempt securities whose proceeds are used to finance private, for-profit organizations are subject to this special tax system that ensures that individuals pay at least some federal taxes. Although interest on these securities is generally exempt from federal income tax, some taxpayers who have many tax deductions or exemptions nevertheless may have to pay tax on the income.

Shareholders who are not citizens or residents of the United States and certain foreign entities may be subject to withholding of U.S. tax on distributions made by a Portfolio of investment income and short-term capital gains. Capital gain distributions may be taxable at different rates depending on the length of time the Portfolio holds its assets. With respect to taxable years of regulated investment companies beginning before January 1, 2012 (or later date if extended by the U.S. Congress), dividends paid by a Portfolio to shareholders who are nonresident aliens or foreign entities that are derived from short-term capital gains and qualifying U.S. source net interest income (including income from original issue discount and market discount), if such dividends are designated by the Portfolio as “interest-related dividends” or “short-term capital gain dividends,” will generally not be subject to U.S. withholding tax, provided that the income would not be subject to U.S. federal income tax if earned directly by the foreign shareholder.

You will be sent a statement (IRS Form 1099-DIV) by February of each year showing the taxable distributions paid to you in the previous year. The statement provides information on your dividends and any capital gains for tax purposes.

Sales, exchanges and redemptions of shares in a Portfolio are taxable events and may result in a taxable gain or loss to you.

When you open your account, you should provide your social security or tax identification number on your investment application. By providing this

information, you generally will avoid being subject to federal backup withholding on taxable distributions and redemption proceeds (as of the date of this *Prospectus*, this rate is 28% and is scheduled to increase to 31% after 2012). Any withheld amount would be sent to the IRS as an advance payment of taxes due on your income for such year.

## Investment Adviser

### Adviser

Morgan Stanley Investment Management Inc., the investment adviser, with principal offices at 522 Fifth Avenue, New York, NY 10036, conducts a worldwide portfolio management business and provides a broad range of portfolio management services to customers in the United States and abroad. Morgan Stanley is the direct parent of the Adviser and Morgan Stanley Distribution, Inc. (the "Distributor"), the Fund's distributor. Morgan Stanley is a preeminent global financial services firm engaged in securities trading and brokerage activities, as well as providing investment banking, research and analysis, financing and financial advisory services. As of December 31, 2010, the Adviser, together with its affiliated asset

management companies, had approximately \$272.2 billion in assets under management or supervision.

The Adviser makes investment decisions for the Portfolios. Each Portfolio, in turn, pays the Adviser a monthly advisory fee calculated daily by applying an annual rate to each Portfolio's daily net assets. The table below shows the Adviser's actual rates of compensation for the Fund's 2010 fiscal year.

A discussion regarding the basis for the Board of Trustees approving the Fund's Investment Advisory Agreement is available in the Fund's annual report to shareholders for the fiscal year ended October 31, 2010.

### Adviser's Rates of Compensation

Portfolio	FY 2010 Actual Compensation Rate
Money Market Portfolio	0.09%
Prime Portfolio	0.10%
Government Portfolio	0.09%
Government Securities Portfolio	0.05%
Treasury Portfolio	0.09%
Treasury Securities Portfolio	0.00%
Tax-Exempt Portfolio	0.11%

### Distributor

Shares of the Fund are distributed exclusively through Morgan Stanley Distribution, Inc., a wholly-owned subsidiary of Morgan Stanley. The Distributor has entered into arrangements with certain financial intermediaries (also referred to as service organizations) who may accept purchase and redemption orders for shares of the Portfolios on its behalf.

The Adviser and/or the Distributor may pay additional compensation (out of their own funds and

not as an expense of the Fund) to selected affiliated or unaffiliated brokers or other service providers in connection with the sale, distribution, retention and/or servicing of Fund shares. Such compensation may be significant in amount and the prospect of receiving any such additional compensation may provide affiliated or unaffiliated entities with an incentive to favor sales of shares of the Fund over other investment options. Any such payments will not change the net asset value or the price of Fund shares. For more information, please see the Fund's SAI.

## Financial Highlights

The following financial highlights tables are intended to help you understand the financial performance of each Portfolio for the life of the Portfolio or Class. Certain information reflects financial results for a single Portfolio share. The total returns in the tables represent the rate that an investor would have earned (or lost) on an investment in each Portfolio (assuming reinvestment of all dividends and distributions).

The ratio of expenses to average net assets listed in the tables below for each Portfolio are based on the average net assets of the Portfolio for each of the periods listed in the tables. To the extent that a Portfolio's average net assets decrease over the Portfolio's next fiscal year, such expense ratios can be expected to increase, potentially significantly, because certain fixed costs will be spread over a smaller amount of assets.

Year Ended October 31,	Net Asset Value, Beginning of Period	Net Investment Income	Net Realized and Unrealized Gain (Loss) on Investments	Distributions From Net Investment Income	Distributions From Net Realized Gain	Net Asset Value, End of Period
<b>Money Market Portfolio</b>						
2010	\$1.000	\$0.002††	\$0.000 <sup>^</sup>	\$(0.002)	\$ —	\$1.000
2009	1.000	0.005	(0.000) <sup>^</sup>	(0.005)	—	1.000
2008	1.000	0.034	(0.000) <sup>^</sup>	(0.034)	—	1.000
2007	1.000	0.053	0.000 <sup>^</sup>	(0.053)	—	1.000
2006	1.000	0.048	0.000 <sup>^</sup>	(0.048)	(0.000) <sup>^</sup>	1.000
<b>Prime Portfolio</b>						
2010	\$1.000	\$0.002††	\$0.000 <sup>^</sup>	\$(0.002)	\$ —	\$1.000
2009	1.000	0.005	0.000 <sup>^</sup>	(0.005)	—	1.000
2008	1.000	0.033	(0.000) <sup>^</sup>	(0.033)	—	1.000
2007	1.000	0.053	(0.000) <sup>^</sup>	(0.053)	(0.000) <sup>^</sup>	1.000
2006	1.000	0.047	0.000 <sup>^</sup>	(0.047)	(0.000) <sup>^</sup>	1.000
<b>Government Portfolio</b>						
2010	\$1.000	\$0.001††	\$0.000 <sup>^</sup>	\$(0.001)	\$ —	\$1.000
2009	1.000	0.003	(0.000) <sup>^</sup>	(0.003)	—	1.000
2008	1.000	0.029	0.000 <sup>^</sup>	(0.029)	—	1.000
2007	1.000	0.052	0.000 <sup>^</sup>	(0.052)	—	1.000
2006	1.000	0.048	—	(0.048)	—	1.000
<b>Government Securities Portfolio</b>						
2010	\$1.000	\$0.000 <sup>^</sup> ††	\$0.000 <sup>^</sup>	\$(0.000) <sup>^</sup>	\$ —	\$1.000
2009	1.000	0.001	0.000 <sup>^</sup>	(0.001)	—	1.000
3/19/08** through 10/31/08	1.000	0.013	0.000 <sup>^</sup>	(0.013)	—	1.000
<b>Treasury Portfolio</b>						
2010	\$1.000	\$0.000 <sup>^</sup> ††	\$0.000 <sup>^</sup>	\$(0.000) <sup>^</sup>	\$ —	\$1.000
2009	1.000	0.001	(0.000) <sup>^</sup>	(0.001)	—	1.000
2008	1.000	0.022	0.000 <sup>^</sup>	(0.022)	—	1.000
2007	1.000	0.050	0.000 <sup>^</sup>	(0.050)	(0.000) <sup>^</sup>	1.000
2006	1.000	0.047	—	(0.047)	—	1.000
<b>Treasury Securities Portfolio</b>						
2010	\$1.000	\$(0.000) <sup>^</sup> ††	\$0.000 <sup>^</sup>	\$(0.000) <sup>^</sup>	\$(0.000) <sup>^</sup>	\$1.000
2009	1.000	0.000 <sup>^</sup>	0.000 <sup>^</sup>	(0.000) <sup>^</sup>	—	1.000
10/7/08** through 10/31/08	1.000	0.000 <sup>^</sup>	0.000 <sup>^</sup>	(0.000) <sup>^</sup>	—	1.000
<b>Tax-Exempt Portfolio</b>						
2010	\$1.000	\$0.001††	\$0.000 <sup>^</sup>	\$(0.001)	\$(0.000) <sup>^</sup>	\$1.000
2009	1.000	0.004	0.000 <sup>^</sup>	(0.004)	—	1.000
2008	1.000	0.024	(0.000) <sup>^</sup>	(0.024)	—	1.000
2007	1.000	0.036	—	(0.036)	—	1.000
2006	1.000	0.032	—	(0.032)	—	1.000

The information has been audited by Ernst & Young LLP, the Fund's independent registered public accounting firm. Ernst & Young LLP's unqualified report appears in the Fund's *Annual Report to Shareholders* and is incorporated by reference in the SAI. The *Annual Report to Shareholders* and each Portfolio's financial statements, as well as the SAI, are available at no cost from the Fund at the toll free number noted on the back cover to this *Prospectus*.

Total Return	Net Assets, End of Period (000)	Ratio of Expenses to Average Net Assets	Ratio of Expenses to Average Net Assets Excluding Mutual Fund Insurance	Ratio of Expenses to Average Net Assets (Before Waivers/Reimbursement)	Ratio of Net Investment Income (Loss) to Average Net Assets	Ratio of Net Investment Income (Loss) to Average Net Assets (Before Waivers/Reimbursement)	Ratio of Rebate from Morgan Stanley Affiliates to Average Net Assets
0.18%^^	\$ 3,069,495	0.16%□	N/A	0.22%□	0.16%□	0.10%□	N/A
0.53^^	4,438,771	0.22	0.16%	0.27	0.56	0.51	N/A
3.46#	4,655,771	0.12	0.12	0.21	3.41	3.32	N/A
5.42##	10,013,524	0.12	N/A	0.21	5.28	5.19	N/A
4.89	5,546,418	0.09	N/A	0.22	4.89	4.77	N/A
0.16%^^	\$14,068,183	0.16%□	N/A	0.21%□	0.15%□	0.10%□	N/A
0.45^^	11,996,876	0.21	0.16%	0.26	0.47	0.42	N/A
3.37#	11,719,680	0.12	0.12	0.21	3.30	3.21	N/A
5.40##	23,535,446	0.12	N/A	0.21	5.26	5.17	N/A
4.86	17,542,077	0.12	N/A	0.21	4.75	4.66	N/A
0.06%	\$ 6,717,236	0.15%□	N/A	0.21%□	0.07%□	0.01%□	N/A
0.31	8,395,247	0.19	0.16%	0.25	0.36	0.30	N/A
2.98	15,198,786	0.13	0.13	0.21	2.77	2.69	N/A
5.30	6,928,113	0.12	N/A	0.22	5.12	5.02	N/A
4.87	2,265,613	0.09	N/A	0.21	4.76	4.64	N/A
0.02%	\$ 561,488	0.14%□	N/A	0.24%□	0.02%□	(0.08)%□	N/A
0.13	637,586	0.19	0.16%	0.26	0.13	0.06	N/A
1.27‡	553,062	0.14*	0.12*	0.26*	1.89*	1.77*	N/A
0.04%	\$ 4,792,695	0.15%□	N/A	0.21%□	0.04%	(0.02)%□	N/A
0.08	4,629,315	0.21	0.15%	0.27	0.10	0.04	N/A
2.25	8,805,663	0.13	0.13	0.21	1.96	1.88	N/A
5.16	2,836,089	0.10	N/A	0.23	4.50	4.37	N/A
4.82	2,189	0.05	N/A	0.52	4.29	3.82	N/A
0.05%	\$ 3,195	0.13%□	N/A	0.78%□	(0.01)%□	(0.66)%□	N/A
0.04	33,422	0.11	N/A	0.29	0.04	(0.14)	N/A
0.00§‡	282,625	0.06*	N/A	0.49*	0.05*	(0.37)*	N/A
0.12%	\$ 986,806	0.18%□	N/A	0.22%□	0.12%□	0.08%□	N/A
0.39	1,459,441	0.19+	0.15%+	0.25+	0.41+	0.35+	0.01%
2.44	1,836,397	0.12+	0.12+	0.21+	2.35+	2.25+	0.00§
3.66	2,191,307	0.11	N/A	0.23	3.60	3.47	N/A
3.27	672,514	0.10	N/A	0.23	3.14	3.01	N/A

### Notes to Financial Highlights

†† Per share amount is based on average shares outstanding.

\* Annualized.

‡ Not Annualized.

^ Amount is less than \$0.0005 per share.

□ Reflects overall Portfolio ratios for investment income and non-class specific expenses.

# The Adviser fully reimbursed the Portfolios for losses incurred resulting from the disposal of investments. The impact of this reimbursement is reflected in the total returns shown above for the Money Market and Prime Portfolios. Without this reimbursement, the total returns for the Money Market and Prime Portfolios' Institutional Class were 3.34% and 3.21%, respectively.

## The Adviser fully reimbursed the Portfolios for losses incurred resulting from the disposal of investments. The impact of this reimbursement is reflected in the total returns shown above for the Money Market and Prime Portfolios. Without this reimbursement, the total returns for the Money Market and Prime Portfolios' Institutional Class were 5.35% and 5.24%, respectively.

+ The Ratio of Expenses and Net Investment Income reflect the rebate of certain Portfolio expenses in connection with the investments in Morgan Stanley affiliates during the period. The effect of the rebate on the ratios is disclosed in the above table as "Ratios of Rebate from Morgan Stanley Affiliates to Average Net Assets".

^^ The Adviser contributed non recourse voluntary capital contributions to the Money Market and Prime Portfolios. The effect of these contributions are reflected in the Portfolios' total returns above. Without these capital contributions, the impact was less than 0.005% to the total returns for the Money Market and Prime Portfolios.

§ Amount is less than 0.005%.

\*\* Commencement of Operations.

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## Where to Find Additional Information

In addition to this *Prospectus*, the Fund has a *Statement of Additional Information*, dated February 28, 2011, which contains additional, more detailed information about the Fund and the Portfolios. The *Statement of Additional Information* is incorporated by reference into this *Prospectus* and, therefore, legally forms a part of this *Prospectus*.

The Fund publishes *Annual* and *Semi-Annual Reports to Shareholders* ("Shareholder Reports") that contain additional information about each Portfolio's investments. For additional Fund information, including information regarding a Portfolio's investments, please call the toll-free number below.

You may obtain the *Statement of Additional Information* and Shareholder Reports, without charge, by contacting the Fund at the toll-free number below. If you purchased shares through a financial intermediary, you may also obtain these documents, without charge, by contacting your financial intermediary.

Information about the Fund, including the *Statement of Additional Information* and Shareholder Reports, may be obtained from the Securities and Exchange Commission (the "Commission") in any of the following ways. (1) In person: you may review and

copy documents in the Commission Public Reference Room in Washington D.C. (for information on the operation of the Public Reference Room call 1-202-551-8090); (2) On-line: you may retrieve information from the Commission's web site at <http://www.sec.gov>; (3) By mail: you may request documents, upon payment of a duplicating fee, by writing to Securities and Exchange Commission, Public Reference Section, Washington, D.C. 20549-1520; or (4) By e-mail: you may request documents, upon payment of a duplicating fee, by e-mailing the Commission at the following address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov). To aid you in obtaining this information, the Fund's Investment Company Act registration number is 811-21339.

**Morgan Stanley Institutional Liquidity Funds  
c/o Morgan Stanley Services Company Inc.  
P.O. Box 219804  
Kansas City, MO 64121-9804**

**For Shareholder Inquiries,  
call 1-888-378-1630.**

**Prices and Investment Results are available at  
[www.morganstanley.com/im](http://www.morganstanley.com/im).**