Investor who's beating the market by 30% with timely Amazon and Zoom buys is not celebrating yet

By Jesse Pound
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KEY POINTS

- **Morgan Stanley's** Insight Fund has consistently beaten the market over the last decade, and that has continued in dramatic fashion during the volatile start to 2020.
- The fund had sizable positions in Amazon and Zoom Video at the beginning of the year.
- **"In some way, when you're an investor, it's always a beginning," said Dennis Lynch, the head of Counterpoint Global at Morgan Stanley Investment Management. "I think you need a long time to pass in order to judge whether or not you had a successful strategy or a successful period of decision marking."**

Dennis Lynch steers a mutual fund whose bets on Amazon and Zoom Video have helped it beat the market by more than 30% so far this year, but he isn't ready to celebrate just yet.

The **Morgan Stanley** Insight Fund was one of the top 10 large cap growth funds last decade, according to Morningstar, with an annualized return of 17.11%. That success has continued so far in 2020 in dramatic fashion, with the fund rising by more than a third year-to-date, according to Morningstar.

Lynch described the fund's performance so far this year as "relatively fortunate." It ended last December with large positions in what proved to be hot stocks during the downturn, but there could still be challenges ahead, Lynch said.

“Times like these are just so unpredictable … it’s not over yet. Just because the market went down and went up doesn’t mean there’s a beginning and an end,” Lynch said. “In some way, when you’re an investor, it’s always a beginning. I think you need a long time to pass in order to judge whether or not you had a successful strategy or a successful period of decision marking.”

‘It’s not all one bet’

Lynch is the head of Counterpoint Global at **Morgan Stanley** Investment Management, which contains many funds. He said the Insight Fund serves as the “sort of our best ideas” product, and his team’s goal is to “collect what we think are highly unique companies.”

The fund, which has more than $3 billion in assets under management, is tech and software heavy, with Amazon and Slack holding the two biggest weights as of March 31, according to the fund’s website. Lynch said his investment team has a few main areas of expertise, such as tech and health care, but that a main focus is on identifying upcoming trends.

“We think, in general, that markets are complex, adaptive systems. They’re constantly evolving. It’s partly our job to continue to adapt to try to figure out what other people are missing and identify big ideas before the rest of the world does,” Lynch said.

The portfolio had a 93% turnover rate during its most recent fiscal year, but Lynch said that stocks that are removed from Insight are often still held by the other funds he manages. The fund also has a 0.65% management fee, a minimum investment of $1,000 and measures itself against the Russell 3000 Growth Index.

Though many of the biggest holdings are software names, Lynch said he believes the fund is well diversified within the sector.

“Within software, I think there can be different end markets, demands and exposures. It’s not all one bet,” Lynch said.

One of those software bets is on the pharmaceutical industry, in the form of Veeva Systems. The software stock is up nearly 40% year-to-date and has been a long-time holding of the fund.

“At a larger level we see it as a hub for best practices and (customer relationship management) and drug development and data management for pharmaceutical companies,” Lynch said. “And once you can become the company that does that well it sort of can be kind of self-fulfilling, in part. When you have all the large pharmaceutical companies already on your platform, it enables you to learn from their experiences and improve your service to them constantly.”

Investing in a crisis

A significant portion of the fund’s gains this year came before the pandemic hit and during the past month, when the broader market was rising. However, over the past three months — which includes the entire sell-off in the broader market — the fund has risen 14%.

Lynch, who has more than two decades of investing experience, said that in extremely volatile markets like what was seen in February and March, he has found it best to restrain himself from making quick decisions.

“Generally in a period like this we try not to be too active because it is often your emotional snap judgement that isn’t necessarily right. In fact, we’ve already seen that a little bit in two cases where companies that you would have thought might have weaker fundamentals as a response to this pandemic in a few cases have actually had the opposite,” Lynch said.

An example in the recent sell-off was Shopify, which has a heavy exposure to small businesses. But when the company reported its quarterly earnings, Lynch said, the results showed that the boost from the shift to e-commerce was offsetting the hit from small business struggles.

“It would have been very easy if you were in snap judgement mode to say ‘you know, I should sell some of this’ because of the obvious first-order exposure to small-medium business, and you might have missed the next part,” Lynch said.

Morgan Stanley

INVESTMENT MANAGEMENT

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Morgan Stanley Insight Fund – Class I Shares

Top Ten Holdings (% of Total Net Assets)	**Fund**	**Russell 3000 Growth Index**
Amazon.com Inc.	5.68	5.91
Slack Technologies Inc.	5.33	-
Veeva Systems Inc.	5.09	0.15
Shopify Inc.	5.04	-
Zoom Video Communications Inc.	4.92	-
Uber Technologies Inc.	4.85	0.02
MongoDB Inc.	4.64	0.04
Coupa Software Inc.	4.56	0.06
Okta Inc.	4.48	0.09
Spotify Technology S.A.	4.24	0.11
Sector Allocation (% of Total Net Assets)	**Fund**	**Russell 3000 Growth Index**
Information Technology	43.24	38.52
Health Care	25.26	16.18
Consumer Discretionary	11.66	13.81
Communication Services	10.35	11.12
Industrials	4.85	8.56
Other	0.23	--
Cash	5.32	--

As of March 31, 2020. Subject to change daily and are provided for informational purposes only and should not be deemed as a recommendation to buy or sell the securities shown or securities within sectors shown above. Index data displayed is calculated using MSIM and/or other third-party methodologies and may differ from data published by the vendor.

Average Annual Total Returns as of March 31, 2020 – Class I Shares	**YTD**	**1 year**	**5 Year**	**10 Year**	**Since Inception (7/28/1997)**
CPODX (%)	-4.17	1.99	16.33	16.35	10.38
Russell 3000 Growth Index (%)	-14.85	-0.44	9.74	12.68	6.69

Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. For the most recent month-end performance figures, please visit morganstanley.com/im or call 1-800-548-7786. Investment returns and principal value will fluctuate and fund shares, when redeemed, may be worth more or less than their original cost.

The minimum initial investment is $5,000,000 for Class I shares and $1,000 for Class A shares.

The gross expense ratio for the Insight Fund (Class I shares) is 0.91% and the net expense ratio is 0.91%. Where the net expense ratio is lower than the gross expense ratio, certain fees have been waived and/or expenses reimbursed. These waivers and/or reimbursements will continue for at least one year from the date of the applicable fund's current prospectus (unless otherwise noted in the applicable prospectus) or until such time as the fund's Board of Directors acts to discontinue all or a portion of such waivers and/or reimbursements. Absent such waivers and/or reimbursements, returns would have been lower. Expenses are based on the fund's current prospectus.

Returns are net of fees and assume the reinvestment of all dividends and income. Returns for less than one year are cumulative (not annualized). Performance of other share classes will vary.

Morningstar: Rankings as of March 31, 2020 for Class I shares in the Large Growth Category. Percentile rank/absolute rank/total in category: 1yr: 12/158/1358; 5yr: 1/4/1086; 10yr: 1/1/812. Rankings: The percentile rankings are based on the average annual total returns for the periods stated and do not include any sales charges, but do include reinvestment of dividends and capital gains and Rule 12b-1 fees. The highest (or most favorable) percentile rank is 1 and the lowest (or least favorable) percentile rank is 100. The top-performing fund in a category will always receive a rank of 1.

The Russell 3000 Growth Index measures the performance of the broad growth segment of the U.S. equity universe. It includes those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 3000 Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market. **The Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000® Index is an index of approximately 1,000 of the largest U.S. companies based on a combination of market capitalization and current index membership.

The indexes are unmanaged and do not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

Please consider the investment objective, risks, charges and expenses of the Fund carefully before investing. The prospectus contains this and other information about the Fund. To obtain a prospectus, download one at morganstanley.com/im or call 1-800-548-7786. Please read the prospectus carefully before investing.

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