

MUTUAL FUNDS

Amazon, Zoom Fueled Morgan Stanley Fund To Rank Among The Best Growth Stock Mutual Funds

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Amazon (AMZN) and Zoom Video (ZM) were among pandemic stocks that helped Morgan Stanley Institutional Growth (MSEQX) secure a spot as one of the best growth stock mutual funds. In doing so it earned three Investor's Business Daily 2021 Best Mutual Funds Awards.

"In 2020, more than our fair share of investments in companies benefited from e-commerce, people working from home, and streaming entertainment — all trends that were gaining traction but ultimately were accelerated by the pandemic," Dennis Lynch, head of Counterpoint Global at Morgan Stanley Investment Management, told Investor's Business Daily.

Last year's market-beating performance wasn't just an anomaly. The \$19.2 billion fund ranks among the best growth mutual funds in the 2021 Best Mutual Funds Awards, which reflects performance data at the end of 2020. To make the cut, funds had to be at least 10 years old and beat their benchmark for four periods: one year and three, five and 10 years.

MSEQX made the top five in three categories — Best U.S. Diversified Stock Funds, Best Growth Funds and Best Large Cap Funds. It rallied 115.6% last year and boasts average annual returns of 41.9%, 32.2% and 23.1% over the past three, five and 10 years.

Those returns easily outpaced the broader market's returns as tracked by the S&P 500, which ended the year with an 18.4% gain. Over the past three, five and 10 years, the benchmark index's average returns were 14.2%, 15.2% and 13.9%.

So how do the fund managers of one of the best growth mutual funds decide which stocks to own? A sustainable competitive advantage, strong balance sheets and attractive risk/reward are just a few of the traits they seek.

Long-Term Growth Outlook

"In addition to looking at what the company has from a competitive advantage standpoint, execution is always important and we focus on the incentive system and leadership team," Lynch said. "We like to own the companies that we think are the best-in-class for the next five and 10 years and that have significant upside from here."

The Counterpoint Global (CG) team includes Lynch, Sam Chainani, David Cohen, Armistead Nash and Alexander Norton. Each team member has between 21 and 33 years of investment experience.

CG focuses on how big a company can become relative to its competitive advantage, and how much it can grow over time vs. the market's expectations.

"One way we think about sustainable competitive advantages is in terms of disruption

— if a company benefits from disruption, if there's something permanent about it that will insulate it from disruption, or if the company is vulnerable to it," Lynch said.

The fund's biggest sector weight as of Dec. 31 was information technology, at 35% of assets. Communications was next at 21%, while health care and consumer discretionary accounted for 15% each. Industrials and consumer staples were 5% and 1%. Energy, materials, utilities and cash made up the rest.

Compared with the Russell 1000 Growth Index, the Morgan Stanley fund was overweight in communications and health care, and underweight in other sectors. The Russell 1000 also held a 2% position in real estate and financials vs. none for the mutual fund.

Top 10 holdings at the end of the year totaled just over 46% of the 41-stock portfolio. Amazon was the biggest holding at about 7.5%. Square (SQ), Shopify (SHOP), Spotify Technologies (SPOT) and Uber Technologies (UBER) rounded out the top five.

Zoom, Intuitive Surgical (ISRG), Twitter (TWTR), Snap (SNAP) and Veeva Systems (VEEV) made up about 4% each.

"While the pandemic obviously had an impact on our portfolios, we will still take a more balanced approach in our decision-making process," Lynch said. "We prioritize long-term thinking over knee-jerk reactions, especially during a

period of turmoil and crisis like last year."

Five of the top 10 holdings in this best growth mutual fund racked up triple-digit gains last year. Zoom Video zoomed nearly 400% higher last year as people around the world hunkered down at home amid the coronavirus pandemic. Workers, students, families and friends continue to rely on Zoom's videoconferencing platform for socially distanced classes and meetings.

On March 1 after the stock market close, Zoom reported earnings of \$1.22 a share on \$882.5 million in revenue. That's a 713% surge in EPS and a 369% jump in sales on a year-over-year basis. It also marked a fourth straight quarter of triple-digit or higher growth on both the top and bottom lines.

Square Snared Triple-Digit Return

Square was next with a 248% gain in 2020. IBD Stock Check-up assigns the mobile payments company a 97 Composite Rating, which gives investors a quick way to gauge a stock's key growth traits. That puts Square at the top of IBD's 34-stock credit card/payment processing group, which includes PayPal (PYPL) and Visa (V).

Square's 95 Earnings Per Share Rating, part of the overall Composite Rating, also ranks among the group's leaders. Its five-year compound earnings growth rate is 80%. Analysts expect EPS to grow 45% this year

and 55% the next.

Snap, Shopify and Spotify rallied 207%, 185% and 110%, respectively, last year. Amazon, Intuitive Surgical, Twitter, Uber and Veeva's gains ranged from 38% to 94%.

But after running up record highs earlier this year, can the market keep going?

"A lot of market returns have

been pulled forward and, as a result, future stock market returns could be a lot lower. CG's own expectations are much lower," Lynch said. "We continue to own nearly all the companies that contributed to last year's success; however, our portfolios are less concentrated than they were at the end of 2019 when we had very strong belief in that smaller group

of companies that primarily drove last year's success."

Morgan Stanley Institutional Growth's stablemate, Morgan Stanley Institutional Insight (CPODX) also placed among the top five award winners in three categories: Best U.S. Diversified Funds, Best Growth Funds and Best Large Cap Funds. The two funds share the same managers,

most of the same stock holdings as of Dec. 31 and very similar 10-year average annual returns. But their calendar year returns have varied by as much as 10 percentage points in the past 10 years.

Morgan Stanley Institutional Growth's benchmark is the Russell 1000 index, while Morgan Stanley Institutional Insight's is the broader Russell 3000 index.

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Please keep in mind that double and triple-digit returns are highly unusual and cannot be sustained. Investors should also be aware that these returns were primarily achieved during favorable market conditions. The minimum initial investment is \$5,000,000 for Class I shares.

To view the most recent standardized performance, holdings, assets under management and important fund disclosures please click on the following links for the [Growth Portfolio](#) and [Insight Fund](#).

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