

BUSINESS INSIDER

Dennis Lynch shares his secret weapon for unlocking massive investment opportunities and crushing the market

Author: Joe Ciolli

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- **Dennis Lynch is the Head of the Counterpoint Global team at Morgan Stanley Investment Management**
- **In an exclusive interview with Business Insider, he shares what's long served as his secret weapon when analyzing companies and industries.**

Sometimes being an expert on a topic can be a detriment — at least when large changes are afoot.

This may seem like a surprising statement, but the logic is pretty straightforward: You get so used to one set of circumstances that when the status quo is altered, it can be difficult to recalibrate your point of view.

It's for this reason that so many seemingly entrenched ideas have found themselves uprooted over time, often to the chagrin of those tasked with predicting and avoiding those very shifts.

Dennis Lynch realized this early in what's shaped up to be an immensely successful investment career, and made a move that's informed many of his biggest decisions ever since — he hired a "disruptive change researcher" to insulate his portfolios from this phenomenon.

It was 2004, and the recruit's name was Stan DeLaney, who'd just finished up his MBA at Stanford. Lynch, who serves as head of growth investing at Morgan Stanley Investment Management, where he's lead manager of six funds and directly oversees \$27 billion, remembers the inaugural topic he assigned to DeLaney. It was about 15 years ago, when Lynch needed a pair of fresh eyes to analyze the radio industry.

On the surface, radio looked to be fine. Stations were local monopolies with regulatory advantages, and there were plenty of reasons to think revenue would continue to grow going forward. And if you asked executives and analysts, they delivered the same rosy message.

It was DeLaney's express purpose to challenge these comfortable, insulated opinions and recognize elements of change. In this case, that disruptive force was the internet, and you know what happened next — music migrated online, and radio stations became a shell of their old selves.

And Lynch was right on top of it not just because he saw it coming, but because he was willing to challenge conventional thinking around a legacy business. DeLaney still works with Lynch a full 13 years later, having worked his way from associate to managing director — and their partnership is as formidable as ever.

"When you spend a lot of your career developing expertise, it then becomes hard for an individual to jettison all they've learned and realize they might need to learn a whole new set of

ideas or details," Lynch told Business Insider by phone. "When things start getting disrupted, experts can actually become a liability."

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The elimination of bias is crucial for beating the market

The use of a disruptive change researcher makes total sense when you consider that one of Lynch's core investment tenets is the elimination of bias. As Lynch told Business Insider for a previous article, part of being a good decision-maker is being self-aware and understanding why you're making certain decisions.

Disruption as a core investment tenet

Part of understanding what makes Lynch tick as an investor is realizing that he eschews the traditional growth-versus-value model. Sure, he's looking for sustainable long-term growth stories, but he's not keen to limit his universe using such artificial constructs.

Instead, Lynch looks at disruption — and that can mean that a company is either responsible for creating it, or insulated from it. In the end, it serves as the connective tissue between all of his investment ideas.

“It's not always obvious what a cheap price is”

And while Lynch wants to buy stocks at attraction valuations, he doesn't subscribe to traditional ideas of what "cheap" is, which once again informs his decision to shun value investing. In order for Lynch to see if a company is attractively priced, long-term growth potential must be considered to an extent not normally reflected by valuation multiples.

"When companies are highly unique and have long-term growth potential, it's not always obvious what a cheap price is," he said. "Instead of bucketing or thinking about high- or low-growth, our first step is to ask whether 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."

He notes that when he first bought Amazon for his Morgan Stanley portfolios, about 13 years ago, the company dealt with the same valuation skepticism that still surrounds it now, roughly 4,500% later.

Ultimately, Lynch's approach makes it so he can comfortably buy and hold stocks with high conviction. And it's his diligence and steadfast approach — largely informed by disruption research — that allows him to sleep easy at night, even during volatile market spells.

"Investing is not a game of perfection — it's a game of being approximately right," he said. "We're trying to collect these unique companies and then own them as they grow into much larger businesses."

Disclaimer Below

IMPORTANT DISCLOSURES

The opinions are those of the Business Insider and Dennis Lynch as of the date presented and are subject to change at any time due to changes in market or economic conditions. The comments should not be construed as a recommendation of individual holdings or market sectors but as an illustration of broader themes. The material does not purport to address the financial objectives, situation or specific needs of any individual reader. The use of this article is not a solicitation, or an offer to buy or sell, any security or investment product. Moreover, the opinions expressed in this article are not necessarily those of Morgan Stanley or its employees. The reference to the "top large cap portfolio manager" refers to the best out of all large-company stock funds tracked by Kiplinger for the Multi-Cap Growth Trust.

This is a general communications which is not impartial and has been prepared solely for information and educational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The material contained herein has not been based on a consideration of any individual client circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

Information, including performance and holdings, herein are provided by Business Insider and no representation or warranty can be given with respect to the accuracy or completeness of the information. **Past performance is no guarantee of future results. The A share returns referenced in the article is without the maximum front end sales charge. Had fees been included, returns would be lower.**

Morgan Stanley Multi Cap Growth Trust Class A – Average Annual Total Returns as of March 31, 2018

	1 Year	3 Years	5 Years	10 Years	Since Inception
CPOAX	38.76	16.97	19.81	13.11	9.91
Russell 3000 Growth Index (%)	21.06	12.57	15.32	11.31	6.79

Inception returns reflect the inception date of the fund. **Performance and fund information is as of March 31, 2018**, unless otherwise noted. 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.

Please keep in mind that double-digit returns are highly unusual and cannot be sustained. Investors should also be aware that these returns were primarily achieved during favorable market conditions.

Class A shares include maximum front-end sales charge of 5.25% 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.

Expense Ratio	Symbol	CUSIP	GROSS (%)	NET (%)
Class A	CPOAX	61747T106	1.26	1.24
Class C	MSCMX	61762C202	2.13	2.02
Class I	CPODX	61747T403	0.95	0.92
Class IS	MCRTX	61762C103	17.07	0.85

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.

Morgan Stanley Institutional Fund Growth Portfolio Class A – Average Annual Total Returns as of March 31, 2018

	1 Year	3 Years	5 Years	10 Years	Since Inception
MSEGX	35.81	17.72	20.92	13.29	11.30
Russell 1000 Growth Index	21.25	12.90	15.53	11.34	9.29

Inception returns reflect the inception date of the fund. **Performance and fund information is as of March 31, 2018**, unless otherwise noted. 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.

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Expense Ratio	Symbol	CUSIP	GROSS (%)	NET (%)
Class A	MSEGX	61744J564	0.92	0.92
Class C	MSGUX	61760X414	1.70	1.70
Class I	MSEQX	61744J861	0.63	0.63
Class IS	MGRPX	61760X711	0.54	0.54

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Please visit www.morganstanley.com/im for more information including the complete history of the portfolio

RISK CONSIDERATIONS

There is no assurance that a Portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by the Portfolio will decline and that the value of Portfolio shares may therefore be less than what you paid for them. Accordingly, you can lose money investing in this Portfolio. Please be aware that this Portfolio may be subject to certain additional risks. In general, **equities securities'** values also fluctuate in response to activities specific to a company. Investments in **foreign markets** entail special risks such as currency, political, economic, market and liquidity risks. The risks of investing in **emerging market** countries are greater than risks associated with investments in foreign developed countries. **Privately placed and restricted securities** may be subject to resale restrictions as well as a lack of publicly available information, which will increase their illiquidity and could adversely affect the ability to value and sell them (liquidity risk).

OTHER CONSIDERATIONS

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

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 index is unmanaged and does 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 funds. To obtain a prospectus download one at morganstanley.com/im or call 1800-548-7786. Please read the prospectus carefully before you invest or send money.

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Morgan Stanley Multi Cap Growth Trust

3Q18

FACTSHEET

Investment Approach

We seek high-quality established and emerging companies with sustainable competitive advantages, strong free-cash-flow yields and favorable returns on invested capital trends. We focus on long-term growth rather than short-term events, with our stock selection informed by rigorous fundamental analysis.

Objective

Seeks long-term capital appreciation.

Lipper Category

Multi-Cap Growth

Morningstar Category

Large Growth

Investment Team

	Joined Firm	Years of Investment Experience
Dennis Lynch, Managing Director	1998	24
Sam Chainani, Managing Director	1996	22
Jason Yeung, Managing Director	2002	21
Armistead Nash, Managing Director	2002	18
David Cohen, Managing Director	1993	30
Alexander Norton, Executive Director	2000	23

Investment Performance - Class I (% net of fees)

% Average Annual Total Returns	1 Year	3 Year	5 Year	10 Year	Inception†		
Fund	47.42	27.22	19.92	17.58	10.77		
Russell 3000 Growth Index ¹	25.89	20.36	16.23	14.18	7.34		
Lipper Category Average	22.92	17.11	13.17	12.54	–		
Morningstar Category Average	23.18	17.68	14.02	12.60	–		
% Calendar Year Returns	3Q18	YTD	2017	2016	2015	2014	2013
Fund	9.60	33.67	48.24	(3.60)	8.31	5.25	50.03
Russell 3000 Growth Index	8.88	16.99	29.59	7.39	5.09	12.44	34.23
Lipper Category Average	7.40	15.87	28.04	2.81	2.51	9.10	35.39
Morningstar Category Average	7.54	15.64	27.67	3.23	3.60	10.00	33.92

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Morningstar Overall Rating

Class I shares



Out of 1258 Funds. Based on Risk Adjusted Return.

Class I Shares Fund ratings out of 5 Stars: 3 Yrs. 5 Stars; 5 Yrs. 5 Stars. 10 Yrs. 5 Stars.

Morningstar Rankings - Class I Large Growth Category

	Percentile	Rank/ Total in Category
1 Year	1	12/1430
3 Year	1	7/1258
5 Year	1	3/1129
10 Year	2	6/818

Source: Morningstar, Inc. Rankings are based on total returns, are historical and do not guarantee future results.

Fund Facts

Inception date	July 28, 1997
Team inception date	September 30, 2002
Total net assets (\$MM)	\$ 968.7
Benchmark	Russell 3000 Growth Index
Distribution frequency	Semiannually

Portfolio Characteristics

	Fund	Index
Number of holdings	41	1795
Return on capital (%)	4.56	22.46
5 year EPS growth (%)	33.62	14.89
Sales growth (%)	25.35	13.84
Weighted median market capitalization (\$B)	32.51	103.00
D/E weighted median (%)	42.47	88.37
Turnover (%)*	69	—

Risk/Return Statistics (3 Year)

	Fund	Index
Active share (%)	90.27	—
Excess Return (%)	6.86	—
Alpha (%)	3.41	—
Beta (vs. benchmark)	1.18	1.00
Information ratio	0.73	—
R squared	0.63	1.00
Sharpe ratio	1.75	1.92
Standard deviation (%)	15.12	10.17
Tracking error (%)	9.42	—

Sector Allocation (% of Total Net Assets)

	Fund	Index
Information Technology	39.23	40.20
Health Care	32.34	14.83
Consumer Discretionary	19.84	17.76
Industrials	5.06	12.45
Cash	3.42	—

Top Holdings (% of Total Net Assets)

	Fund	Index
Amazon.com Inc	9.15	5.42
Veeva Systems Inc	5.86	0.09
Illumina Inc	5.62	0.36
Coupa Software Inc	5.21	0.03
Union Pacific Corp	5.06	0.74
Salesforce.com Inc	4.92	0.75
Intuitive Surgical Inc	4.92	0.43
HealthEquity Inc	4.81	0.03
Workday Inc	4.72	0.14
ServiceNow Inc	4.71	0.23
Total	54.98	—

This material is a general communication, which is not impartial and all information provided has been prepared solely for informational and educational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The information herein has not been based on a consideration of any individual investor circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

Past performance is not indicative of future results. Subject to change daily. Fund information is provided for informational purposes only and should not be deemed as a recommendation to buy or sell any security or securities in the sectors presented.

The index data displayed under characteristics and allocations are calculated using MSIM and other third-party methodologies and may differ from data published by the vendor.

PORTFOLIO CHARACTERISTICS DEFINITIONS

Return on capital is a measure of a company's efficiency at allocating the capital under its control to profitable investments, calculated by dividing net income minus dividends by total capital. **Earnings per share (EPS) growth** is the weighted average of earnings per share growth for all securities in the portfolio projected for the past five fiscal years. Earnings per share for a company is defined as total earnings divided by shares outstanding. **Weighted median market capitalization** is the point at which half of the market value of a portfolio is invested in stocks with a greater market cap, and consequently the other half is invested in stocks with a lower market cap. **Debt/equity (D/E)** is a measure of a company's financial leverage calculated by dividing its total liabilities by stockholders' equity. **Sales growth** is the increase in sales over a specific period of time, often but not necessarily annually.

RISK/RETURN DEFINITIONS

Active Share is the fraction of the portfolio or fund that is invested differently than its benchmark as of the last day of the reporting period. A portfolio with a high degree of Active Share does not assure a fund's relative outperformance. Active Share calculation may consolidate holdings with the same economic exposure. **Excess Return** or value added (positive or negative) is the portfolio's return relative to the return of the benchmark. **Alpha** (Jensen's) is a risk-adjusted performance measure that represents the average return on a portfolio or investment above or below that predicted by the capital asset pricing model (CAPM) given the portfolio's or investment's beta and the average market return. Prior to 6/30/2018 Alpha was calculated as the excess return of the fund versus benchmark. **Beta** is a measure of the relative volatility of a security or portfolio to the market's upward or downward movements. A beta greater than 1.0 identifies an issue or fund that will move more than the market, while a beta less than 1.0 identifies an issue or fund that will move less than the market. The Beta of the Market is always equal to 1. **Information ratio** is the portfolio's alpha or excess return per unit of risk, as measured by tracking error, versus the portfolio's benchmark. **R squared** measures how well an investment's returns correlate to an index. An R squared of 1.00 means the portfolio performance is 100% correlated to the index's, whereas a low r-squared means that the portfolio performance is less correlated to the index's. **Sharpe ratio** is a risk-adjusted measure calculated as the ratio of excess return to standard deviation. The Sharpe ratio determines reward per unit of risk. The higher the Sharpe ratio, the better the historical risk-adjusted performance. **Standard deviation** measures how widely individual performance returns, within a performance series, are dispersed from the average or mean value. **Tracking error** is the amount by which the performance of the portfolio differs from that of the benchmark.

RISK CONSIDERATIONS

There is no assurance that a mutual fund will achieve its investment objective. Funds are subject to market risk, which is the possibility that the market values of securities owned by the fund will decline and that the value of fund shares may therefore be less than what you paid for them. Accordingly, you can lose money investing in this fund. Please be aware that this fund may be subject to certain additional risks. In general, **equities securities'** values also fluctuate in response to activities specific to a company. Investments in **foreign markets** entail special risks such as currency, political, economic, market and liquidity risks. The risks of investing in **emerging market** countries are greater than risks associated with investments in foreign developed countries. **Privately placed and restricted securities** may be subject to resale restrictions as well as a lack of publicly available information, which will increase their illiquidity and could adversely affect the ability to value and sell them (**liquidity risk**). Stocks of **small-and medium-capitalization companies** entail special risks, such as limited product lines, markets and financial resources, and greater market volatility than securities of larger, more established companies. **Derivative instruments** may disproportionately increase losses and have a significant impact on performance. They also may be subject to counterparty, liquidity, valuation, correlation and market risks.

Morningstar: Rankings and ratings as of September 30, 2018. **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. **Ratings:** The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. Ratings do not take into account sales loads.

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OTHER CONSIDERATIONS

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

* Turnover is sourced from the fund's current prospectus.

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Morgan Stanley Institutional Fund Growth Portfolio

3Q18

FACTSHEET

Investment Approach

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Objective

Seeks long-term capital appreciation by investing primarily in growth-oriented equity securities of large capitalization companies.

Lipper Category

Multi-Cap Growth

Morningstar Category

Large Growth

Investment Team

	Joined Firm	Years of Investment Experience
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Investment Performance - Class I (% net of fees)

% Average Annual Total Returns	1 Year	3 Year	5 Year	10 Year	Inception [†]
Fund	38.22	25.70	19.53	17.53	11.73
Russell 1000 Growth Index ¹	26.30	20.55	16.58	14.31	9.69
Lipper Category Average	22.92	17.11	13.17	12.54	—
Morningstar Category Average	23.18	17.68	14.02	12.60	—

% Calendar Year Returns	3Q18	YTD	2017	2016	2015	2014	2013
Fund	7.72	28.69	43.83	(1.91)	11.91	6.42	48.60
Russell 1000 Growth Index	9.17	17.09	30.21	7.08	5.67	13.05	33.48
Lipper Category Average	7.40	15.87	29.58	1.80	5.26	10.49	34.19
Morningstar Category Average	7.54	15.64	27.67	3.23	3.60	10.00	33.92

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Morningstar Analyst Rating

Morningstar Analysts have rated the fund a bronze medal (effective 5/2/2017). Fewer than 12% of the U.S. Open End funds have a medalist rating (effective 3/31/18).[^]

Morningstar Overall Rating

Class I shares



Out of 1258 Funds. Based on Risk Adjusted Return.

Class I Shares Fund ratings out of 5 Stars: 3 Yrs. 5 Stars; 5 Yrs. 5 Stars; 10 Yrs. 5 Stars.

Morningstar Rankings - Class I Large Growth Category

	Percentile	Rank/Total in Category
1 Year	2	23/1430
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5 Year	1	9/1129
10 Year	2	7/818

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Fund Facts

Inception date	April 02, 1991
Team inception date	August 05, 2004
Total net assets (\$MM)	\$ 6,282.3
Benchmark	Russell 1000 Growth Index
Distribution frequency	At least annually

Portfolio Characteristics

	Fund	Index
Number of holdings	39	542
Return on capital (%)	10.71	23.59
5 year EPS growth (%)	32.19	14.88
Sales growth (%)	21.81	13.68
Weighted median market capitalization (\$B)	63.42	113.69
D/E weighted median (%)	42.47	96.12
Turnover (%) [*]	55	—

Risk/Return Statistics (3 Year)

	Fund	Index
Active share (%)	80.54	—
Excess Return (%)	5.15	—
Alpha (%)	2.59	—
Beta (vs. benchmark)	1.13	1.00
Information ratio	0.58	—
R squared	0.63	1.00
Sharpe ratio	1.73	1.94
Standard deviation (%)	14.41	10.17
Tracking error (%)	8.81	—

Sector Allocation (% of Total Net Assets)

	Fund	Index
Information Technology	43.35	41.92
Health Care	25.13	13.79
Consumer Discretionary	20.96	17.97
Industrials	5.27	12.00
Materials	2.22	1.65
Cash	3.09	—

Top Holdings (% of Total Net Assets)

	Fund	Index
Amazon.com Inc	9.69	5.88
Veeva Systems Inc	6.56	0.09
Illumina Inc	6.00	0.39
Salesforce.com Inc	5.38	0.81
Union Pacific Corp	5.27	0.80
Intuitive Surgical Inc	5.12	0.47
Activision Blizzard Inc	4.89	0.45
ServiceNow Inc	4.82	0.25
Workday Inc	4.76	0.15
Starbucks Corp	4.43	0.54
Total	56.92	—

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Past performance is not indicative of future results. Subject to change daily. Fund information is provided for informational purposes only and should not be deemed as a recommendation to buy or sell any security or securities in the sectors presented.

The index data displayed under characteristics and allocations are calculated using MSIM and other third-party methodologies and may differ from data published by the vendor.

PORTFOLIO CHARACTERISTICS DEFINITIONS

Return on capital is a measure of a company's efficiency at allocating the capital under its control to profitable investments, calculated by dividing net income minus dividends by total capital. **Earnings per share (EPS) growth** is the weighted average of earnings per share growth for all securities in the portfolio projected for the past five fiscal years. Earnings per share for a company is defined as total earnings divided by shares outstanding. **Weighted median market capitalization** is the point at which half of the market value of a portfolio is invested in stocks with a greater market cap, and consequently the other half is invested in stocks with a lower market cap. **Debt/equity (D/E)** is a measure of a company's financial leverage calculated by dividing its total liabilities by stockholders' equity. **Sales growth** is the increase in sales over a specific period of time, often but not necessarily annually.

RISK/RETURN DEFINITIONS

Active Share is the fraction of the portfolio or fund that is invested differently than its benchmark as of the last day of the reporting period. A portfolio with a high degree of Active Share does not assure a fund's relative outperformance. Active Share calculation may consolidate holdings with the same economic exposure. **Excess Return** or value added (positive or negative) is the portfolio's return relative to the return of the benchmark.

Alpha (Jensen's) is a risk-adjusted performance measure that represents the average return on a portfolio or investment above or below that predicted by the capital asset pricing model (CAPM) given the portfolio's or investment's beta and the average market return. Prior to 6/30/2018 Alpha was calculated as the excess return of the fund versus benchmark. **Beta** is a measure of the relative volatility of a security or portfolio to the market's upward or downward movements. A beta greater than 1.0 identifies an issue or fund that will move more than the market, while a beta less than 1.0 identifies an issue or fund that will move less than the market. The Beta of the Market is always equal to 1. **Information ratio** is the portfolio's alpha or excess return per unit of risk, as measured by tracking error, versus the portfolio's benchmark. **R squared** measures how well an investment's returns correlate to an index. An R squared of 1.00 means the portfolio performance is 100% correlated to the index's, whereas a low R-squared means that the portfolio performance is less correlated to the index's. **Sharpe ratio** is a risk-adjusted measure calculated as the ratio of excess return to standard deviation. The Sharpe ratio determines reward per unit of risk. The higher the Sharpe ratio, the better the historical risk-adjusted performance. **Standard deviation** measures how widely individual performance returns, within a performance series, are dispersed from the average or mean value. **Tracking error** is the amount by which the performance of the portfolio differs from that of the benchmark.

RISK CONSIDERATIONS

There is no assurance that a Portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by the Portfolio will decline and that the value of Portfolio shares may therefore be less than what you paid for them. Accordingly, you can lose money investing in this Portfolio. Please be aware that this Portfolio may be subject to certain additional risks. In general, **equities securities** values also fluctuate in response to activities specific to a company. Investments in **foreign markets** entail special risks such as currency, political, economic, market and liquidity risks. The risks of investing in **emerging market** countries are greater than risks associated with investments in foreign developed countries. **Privately placed and restricted securities** may be subject to resale restrictions as well as a lack of publicly available information, which will increase their illiquidity and could adversely affect the ability to value and sell them (liquidity risk). **Derivative instruments** may disproportionately increase losses and have a significant impact on performance. They also may be subject to counterparty, liquidity, valuation, correlation and market risks. **Illiquid securities** may be more difficult to sell and value than public traded securities (liquidity risk).

^ **Morningstar Analyst Ratings:** A high rating should not be construed as a guarantee

for relatively strong performance. The Morningstar Analyst Rating is not a credit or risk rating. It is a subjective evaluation performed by Morningstar's Manager Research Group ("MRG"). The MRG evaluates funds based on five key pillars, which are process, performance, people, parent, and price. The MRG uses this five pillar evaluation to determine how they believe funds are likely to perform relative to a benchmark over the long term on a risk-adjusted basis. They consider quantitative and qualitative factors in their research, and the weight of each pillar may vary. The Analyst Rating scale is Gold, Silver, Bronze, Neutral, and Negative. A Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the MRG's conviction in a fund's prospects for outperformance. Analyst Ratings ultimately reflect the MRG's overall assessment, are overseen by an Analyst Rating Committee, and are continuously monitored and reevaluated at least every 14 months. For more detailed information about Morningstar's Analyst Rating, including its methodology, please go to global.morningstar.com/managerdisclosures.

The Morningstar Analyst Rating (i) should not be used as the sole basis in evaluating a fund, (ii) involves unknown risks and uncertainties which may cause Analyst expectations not to occur or to differ significantly from what they expected, and (iii) should not be considered an offer or solicitation to buy or sell the fund.

Morningstar: Rankings and ratings as of September 30, 2018. **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. **Ratings:** The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. Ratings do not take into account sales loads.

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OTHER CONSIDERATIONS

¹ 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 index is unmanaged and does not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

* Turnover is based on the fund's current prospectus as of .

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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