

BEST MUTUAL FUNDS AWARDS

These 2 Hot Sectors Help Morgan Stanley Stay Among Top Mutual Funds

BY NANCY GONDO
INVESTOR'S BUSINESS DAILY

Morgan Stanley Institutional Fund Growth Portfolio is making the grade as not just one of last year's top mutual funds, but as the top-performing fund in three categories.

The fund was named an award winner in IBD's Best Mutual Funds Awards lists for these categories: U.S. Diversified Stock, Growth Stock and Large-Cap Funds. To win an award, the top mutual funds had to beat the broader market, as tracked by the S&P 500, in the past one, three, five and 10 years.

In order to be considered for the top mutual funds list, they also had to have a 10-year track record and at least \$100 million in assets under management.

Morgan Stanley Institutional Fund Growth Portfolio^{MSEXQ}, which carries a 0.89% expense ratio, met all those requirements. It launched April 2, 1991, which makes it 26 years old, and held \$6.8 billion in assets through March 19. The fund returned 7.7% last year, far outpacing the S&P 500, which fell 4.4%.

A three-year average annual return of 15% beat the benchmark index's 9.3% gain. The Morgan Stanley fund posted five- and 10-year average annual returns of 12.6% and 19.7%, respectively, vs. 8.5% and 13.1% for the S&P 500.

That 19.7% return over the past 10 years is the best of the more than 1,000 top mutual funds in the overall U.S. Diversified Stock Fund

category. Morgan Stanley Institutional Fund Growth Portfolio also led the Growth and Large-Cap categories, based on its 10-year performance. And the fund is a repeat award winner from last year.

The fund is helmed by six portfolio managers, all of whom have been with Morgan Stanley since at least 2002. Each has more than 18 years of investment experience. Three of them — Dennis Lynch, Sam Chainani and David Cohen — have managed the fund since 2004. Alexander Norton, Jason Yeung and Armistead Nash have been on the fund team since 2005, 2007 and 2008, respectively.

Lynch also heads up Counterpoint Global, a team within Morgan Stanley Investment Management that makes long-term investments in unique companies whose market value can increase significantly for underlying fundamental reasons. The team looks for high-quality established and emerging companies with sustainable competitive advantages as well as strong free-cash-flow yields.

"We invest in companies that we believe have strong sustainable competitive advantages and large endgame potential," Lynch told IBD. "We combine both fundamental analysis and broader disruptive change research to identify companies that we believe either benefit from disruption or that are relatively insulated from it. Importantly, our (portfolio managers) have significant personal



Morgan Stanley

Dennis Lynch, Head of Morgan Stanley Investment Management Counterpoint Global

investments in our fund."

He and the managers have found health care and information technology stock sectors to be potentially fruitful areas for some time now. At the end of last year, health care accounted for the fund's biggest sector weighting, at nearly 28% of assets. Information technology was next at about 26%, consumer discretionary 22% and communications services 20%. Industrials and less than 1% cash made up the rest.

The fund has had significant exposure to the two biggest sectors, health care and IT, over the last 10 years, Lynch says. The investment team has been able to find "high-quality businesses with strong competitive advantages and

large endgame potential."

"In information technology we have generally favored businesses that use the cloud and/or internet as a platform to disrupt different end markets, and have largely avoided investments in traditional hardware and software," he explained. "We have also generally seen some outperformance in companies that we own that use the internet as a platform to create superior solutions and services for consumers and businesses."

Software stocks in the fund's top 10 holdings as of Feb. 28 included **Vevea Systems**^{VEEV}, **ServiceNow**^{NOW} and **Workday**^{WDAY}. The three stocks rallied a respective 62%, 37% and 57% last year. All three are leading cloud-based software

stocks.

“Cloud-based software generally offers greater flexibility, scalability, and ease of use relative to legacy license-based, on-premise software solutions, which tend to have a greater upfront cost and can require downtime for periodic updates to the newest version,” he noted. “As a result, there has been a secular shift toward SaaS as companies broadly are embarking on digital transformation projects to modernize their software

and IT infrastructure, improve their efficiency, enhance agility in responding to new business opportunities, and harness data to try to make more informed business decisions.”

Health care holdings in the fund's top 10 included **Illumina**^{ILMN} and **Intuitive Surgical**^{ISRG}, which rose 37% and 31% respectively, last year. Illumina makes equipment that helps analyze DNA. Intuitive Surgical develops robots for minimally invasive surgery.

Its da Vinci system was one of the first robotics-assisted, minimally invasive systems approved by the U.S. Food and Drug Administration.

“In health care, we have focused our investments in companies that are employing new technologies such as genetic sequencing, robotics-assisted surgery and blood glucose monitoring,” Lynch said. “Each is generally delivering greater efficiency, cost savings, and outcomes to their customers, producing

strong fundamental results.”

Lynch and his team focus on company-specific fundamentals and avoid having strong overall market and macro views. Counterpoint Global seeks unique companies with underlying reasons to drive a significant increase in market value, he says.

“We believe that our long-term ownership mindset, unique perspective and willingness to be different have helped us to add value for our clients over the long term,” he said.

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Returns are for the Class I shares as of December 31, 2018. Please refer to the enclosed fund fact card for performance relative to its benchmark. Furthermore, not all holdings held within the portfolio performed well and/or contributed to the fund's performance. Holdings are subject to change. Information should not be construed as a recommendation or solicitation for any securities or securities within the sectors referenced.

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.

Morgan Stanley Investment Management is the asset management division of Morgan Stanley.

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INVESTMENT MANAGEMENT

Morgan Stanley Institutional Fund

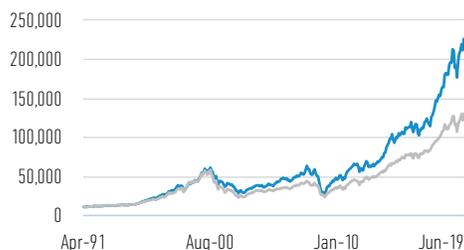
Growth Portfolio

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

Investment Approach: We seek to invest primarily in 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.

Class I Shares (% net of fees) vs. Index

Performance of 10,000 USD Invested Since Inception (Cash Value (\$))



— Class I Shares
— Russell 1000 Growth Index

Investment Performance (% net of fees) in USD

	Cumulative (%)			Annualized (% p.a.)			
	2Q19	YTD	1 YR	3 YR	5 YR	10 YR	INCEPTION ¹
Class I Shares	7.24	28.12	15.45	26.56	17.65	19.96	11.68
Russell 1000 Growth Index	4.64	21.49	11.56	18.07	13.39	16.28	9.50

Calendar Year Returns (%)

	2018	2017	2016	2015	2014	2013	2012
Class I Shares	7.66	43.83	-1.91	11.91	6.42	48.60	15.66
Russell 1000 Growth Index	-1.51	30.21	7.08	5.67	13.05	33.48	15.26

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.

⁽¹⁾ Inception returns reflect the inception date of the fund.

Performance and fund information is as of June 30, 2019, 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.

Growth of Investment illustration is based on an initial investment of \$10,000 made since fund inception, assumes reinvestment of dividends and capital gains and application of fees, but does not include sales charges. Performance would have been lower if sales charges had been included. Results are hypothetical.

Please keep in mind that high 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.

Expense Ratios

	SYMBOL	CUSIP	GROSS (%)	NET (%)
Class A	MSEGX	61744J564	0.85	0.85
Class C	MSGUX	61760X414	1.58	1.58
Class I	MSEQX	61744J861	0.59	0.59
Class IS	MGRPX	61760X711	0.50	0.50

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. The minimum initial investment is \$5,000,000 for Class I shares.



Morningstar Overall Rating

CLASS I SHARES

Out of 1235 Funds. Based on Risk Adjusted Return. Class I Shares: 3yr. rating 5 Stars; 5yr. rating 5 Stars; 10yr. rating 5 Stars.

Morningstar Category: Large Growth

Lipper Category: Multi-Cap Growth



Morningstar Analyst Rating™

Morningstar Analysts have rated the fund a bronze medal (effective 4/18/2019). Fewer than 18% of the U.S. Open End funds have a medalist rating (effective 2/28/19).^A

Morningstar Rankings - Class I

	PERCENTILE	RANK/TOTAL IN CATEGORY
1 YR	9	134/1383
3 YR	2	21/1235
5 YR	1	7/1100
10 YR	1	3/812

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

Fund Facts

Inception date	April 02, 1991
Team inception date	August 05, 2004
Total net assets	\$ 7.5 billion
Benchmark ²	Russell 1000 Growth Index
Distribution frequency	Annually

Statistics

(3 Year Annualized)

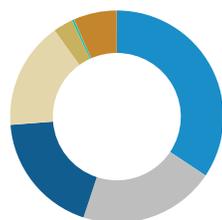
	CLASS I	INDEX
Alpha (%)	7.27	--
Beta (vs. benchmark)	1.07	1.00
Excess return (%)	8.49	--
Information ratio	1.03	--
R squared	0.75	1.00
Sharpe ratio	1.52	1.25
Standard deviation (%)	16.56	13.40
Tracking error (%)	8.27	--
Up-capture ratio (%)	119.25	100.00
Down-capture ratio (%)	79.54	100.00

Characteristics

	FUND	INDEX
Active share (%)	85.21	--
Number of holdings	39	546
Return on capital (%)	1.83	22.02
5 year EPS growth (%)	31.16	18.06
Sales growth (%)	32.38	15.67
Weighted median market capitalization (\$B)	29.77	108.99
D/E weighted median (%)	43.74	91.02
Turnover (%) [*]	41	--

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

Sector Allocation (% of Total Net Assets)#



Sector	FUND	INDEX
Information Technology	34.38	33.55
Health Care	20.68	12.62
Communication Services	18.70	11.99
Consumer Discretionary	16.34	15.22
Industrials	3.00	11.52
Materials	0.31	1.86
Other	0.04	--
Cash & equivalents	6.55	--
Total	100.00	--

Top Holdings (% of Total Net Assets)

Company	FUND	INDEX
Amazon.com Inc	7.63	5.60
Illumina Inc	5.35	0.39
Intuitive Surgical Inc	4.95	0.43
Twilio Inc	4.74	0.09
Shopify Inc.	4.61	--
Veeva Systems Inc	4.60	0.15
Spotify Technology S.A.	4.59	--
Twitter Inc	4.22	0.18
ServiceNow Inc	3.47	0.35
MongoDB Inc	3.44	--
Total	47.60	--

May not sum to 100% due to rounding.

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

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. **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. **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. **Excess return** or value added (positive or negative) is the portfolio's return relative to the return of the benchmark. **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. **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. **Sales growth** is the percentage increase in sales over a 1-year period. **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. **Upside/downside market capture** measures annualized performance in up/down markets relative to the market benchmark. **Weighted median Debt to Equity ratio** is the point at which half of the market value of a portfolio or index is invested in stocks with a greater Debt to Equity ratio, while the other half of the market value is invested in stocks with a lower Debt to Equity ratio. **Debt/equity (D/E)** is a measure of a company's financial leverage calculated by dividing its total liabilities by stockholders' equity. **Weighted median market capitalization** is the point at which half of the market value of a portfolio or index is invested in stocks with a greater market capitalization, and consequently the other half of the market value is invested in stocks with a lower market capitalization.

INDEX INFORMATION: (2) 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.

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Morningstar: Rankings and/or ratings as of June 30, 2019. **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 opened 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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