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, 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 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 Veeva Systems, ServiceNow and Workday. The three stocks rallied a respective 62%, 37% and 57% last year. All three are leading cloud-based software...
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 and Intuitive Surgical, 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.
Morgan Stanley

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.

Investment Team

Dennis Lynch 1998 23 Years
Sam Chainani 1996 23 Years
Jason Yeung 2002 22 Years
Armistead Nash 2002 19 Years
David Cohen 1993 31 Years
Alexander Norton 2000 24 Years

Team members may be subject to change at any time without notice.

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.

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)^.

Morningstar Rankings - Class I

PERCENTILE RANK/TOTAL IN CATEGORY
1 YR 9 134/1383
3 YR 2 21/235
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 Russell 1000 Growth Index
Distribution frequency Annually

Characteristics

Active share (%) 85.21
Number of holdings 39 546
Return on capital (%) 12.32 22.02
5 year EPS growth (%) 31.66 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 (%)^ 4.1 --

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

NOT FDIC INSURED | OFFER NO BANK GUARANTEE | MAY LOSE VALUE | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY | NOT A DEPOSIT

Expense Ratios

<table>
<thead>
<tr>
<th>Class</th>
<th>SYMBOL</th>
<th>CUSIP</th>
<th>GROSS (%)</th>
<th>NET (%)</th>
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<tbody>
<tr>
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Where the net expense ratio is lower than the gross expense ratio, certain fees have been waived 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.
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.

**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 your Portfolio investment may therefore be less than what you paid for the Portfolio shares. Consequently, you could 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. Illiquid securities may be more difficult to sell and value than publicly traded securities (liquidity risk). Focused Investing To the extent that the Fund invests in a limited number of assets, the Fund will be more susceptible to negative events affecting those issuers and a decline in the market value of a particular instrument may cause the Fund’s overall value to decline to a greater degree than if the Fund were invested more widely. Derivative Instruments may also be subject to counterparty, liquidity, valuation, correlation and market risks. Privately placed and restricted securities may be subject to resale restrictions as well as a lack of publicly available information, which will increase their liquidity and could prevent the Fund from selling or buying any particular security. An illiquid security may also be subject to marketing discounts and premiums. The Fund may invest in privately placed and/or restricted securities at the discretion of the Manager. The Manager may also purchase such securities at the time of their original issuance.

May not sum to 100% due to rounding.

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’s 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 and countries that may be presented.

# Top Holdings (% of Total Net Assets)

<table>
<thead>
<tr>
<th>FUND</th>
<th>INDEX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amazon.com Inc</td>
<td>7.63</td>
</tr>
<tr>
<td>Illumina Inc</td>
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<tr>
<td>Intuitive Surgical Inc</td>
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<td>Twilio Inc</td>
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<tr>
<td>Shopify Inc</td>
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<tr>
<td>Veeyva Systems Inc</td>
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<tr>
<td>Spotify Technology S.A</td>
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<tr>
<td>Twitter Inc</td>
<td>4.22</td>
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<tr>
<td>ServiceNow Inc</td>
<td>3.47</td>
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<tr>
<td>MongoDB Inc</td>
<td>3.64</td>
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Total 47.60

# Index Information


CRC 255A335 Exp: 09/30/2020 Lit-Link: MSIAEGFPS