

10 Superb Defensive Stock Funds

These highly rated mutual funds have a fondness for wide-moat stocks.

09-11-19 | by Susan Dziubinski

Even infrequent readers of Morningstar.com probably know that when it comes to stock investing, we're advocates of a wide-moat approach: We favor companies that have established competitive advantages, because they can more effectively fight off challengers than those companies that haven't carved out economic moats. And from a performance standpoint, wide-moat stocks tend to hold up better in market downturns: The Morningstar Wide Moat Focus Index lost less than 20% in 2008, versus a 37% tumble for the S&P 500.

For those investors who dig the moat concept but don't invest in individual stocks, we created Morningstar's average moat rating. A fund's average moat rating marries our Morningstar Economic Moat Ratings for stocks to a mutual fund's portfolio. To receive an average moat rating, funds must have at least 50% of their assets in stocks that earn moat ratings from Morningstar. Those funds with a rating of 4 or higher can be considered wide-moat funds; from 3.5 to 4.0, moderately wide; 2.5 to 3.5, narrow moat; 1.5 to 2.5, minimal; and 0 to 1.5, no moat.

Average moat ratings are available to Premium Members via our Premium Fund Screener. Using that tool, we screened for U.S. equity funds with Morningstar Analyst Ratings of Silver or higher and average moat ratings of 4.0 or better. Twenty-four funds made the cut. Premium Members who'd like to recreate the list can do so as follows:

Fund Category = U.S. Equity
AND Morningstar Analyst Rating >= Silver
AND Distinct Portfolio Only = Yes
AND Average Moat Rating = Wide

Here are some excerpts from our analysts' latest reports.

Morgan Stanley Institutional Advantage (MAPPX)

"Morgan Stanley Institutional Advantage has used its tool kit well, resulting in a Morningstar Analyst Rating of Silver.

"Dennis Lynch has built a long-tenured team that's thoughtfully planning for the future.

"The team has also evolved its thinking to keep up with changing times. It ditched the 'growth' moniker in its name in favor of 'counterpoint global' to reflect that it's not tethered to one section of the Morningstar Style Box. Most of its holdings still fall in the growth bucket and cluster in established growers with competitive advantages. Indeed, all but two of the portfolio's 34 holdings as of December 2018 had wide or narrow Morningstar Economic Moat Ratings.

"The team's focus on steady growth companies has provided ballast, particularly in turbulent times. Indeed, the strategy held up better than the Russell 1000 Growth Index during 2018's fourth-quarter pullback, echoing a trend that's led to it losing just 90% as much as its benchmark in downturns.

"That's not to say the portfolio is stodgy. Indeed, the strategy has benefited from some of the high-growth stocks that are mainstays at the team's other offerings. Of course, letting winners run can introduce risks, even for a strategy that has otherwise provided a relatively smooth ride, but investors remain well positioned here."

--Katie Rushkewicz Reichart, director

IMPORTANT INFORMATION

Source: Morningstar.com as of September 11, 2019.

The **Morningstar Wide Moat Focus Index** consists of the 20 securities in the Morningstar US Market Index with the highest ratios of fair value, as determined by Morningstar, to their stock price, and which have a sustainable competitive advantage (i.e. wide moat).

The **Morningstar Economic Moat Rating** represents a company's sustainable competitive advantage. A company with an economic moat can fend off competition and earn high returns on capital for many years to come.

The **S&P 500 Total Return Index** is an index that consists of 500 stocks chosen for market size, liquidity and industry group representation. The S&P Index is a market value weighted index with each stock's weight proportionate to its market value. The S&P Index is one of the most widely used benchmarks of U.S. equity performance. The performance of the S&P Index does not account for any management fees, incentive compensation, commissions or other expenses that would be incurred pursuing such strategy. Total return provides investors with a price-plus-gross cash dividend return. Gross cash dividends are applied on the ex-date of the dividend.

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 do not include any expenses, fees or sales charges, which would lower performance. The indexes are unmanaged and should not be considered an investment. It is not possible to invest directly in an index.

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The article is being provided by Morgan Stanley Investment Management to highlight recent press concerning Dennis Lynch of the Counterpoint Global Team and its Portfolios. This is not an offer or a solicitation of an offer for any of the funds mentioned in the article.

Please note the reprint was altered from its original format to exclude third party fund references.

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. **Illiquid securities** may be more difficult to sell and value than publicly traded securities (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. **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). To the extent that the Fund invests in a limited number of issuers (**focused investing**), the Fund will be more susceptible to negative events affecting those issuers and a decline in the 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.

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Morgan Stanley Institutional Fund Advantage Portfolio (MAPPX)

Average Annual Total Returns as of September 30, 2019 – Class A Shares	1 Year	3 Years	5 Years	10 Years	Since Inception (5/21/2010)
MAPPX (%) with maximum sales charge	1.15	15.33	13.53	--	15.74
Russell 1000 Growth Index (%)	3.71	16.89	13.39	--	15.41

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

The gross expense ratio for the Advantage Portfolio (Class A shares) is 1.29% and the net expense ratio is 1.20%.

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. 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.

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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