

MORGAN STANLEY INSTITUTIONAL FUND

# Advantage Portfolio

ACTIVE FUNDAMENTAL EQUITY | COUNTERPOINT GLOBAL | COMMENTARY | MARCH 31, 2019

## Performance Review

Counterpoint Global seeks high quality companies, which we define primarily as those with sustainable competitive advantages. We manage concentrated portfolios that are highly differentiated from the benchmark, with securities weighted on our assessment of the quality of the company and our conviction. The value added or detracted in any period of time will result from stock selection, given our philosophy and process. For the quarter, the Advantage Portfolio returned 18.02% while the Russell 1000 Growth Index returned 16.10% and the Lipper Large Cap Growth Index returned 16.21%.

The long term investment horizon and conviction weighted investment approach embraced by the team since 1998 can result in periods of performance deviation from the benchmark and peers. The portfolio outperformed the benchmark this quarter due to favorable stock selection.

Our team continues to focus on stock selection and the long-term outlook for companies owned in the portfolio. Large cap growth stocks, as measured by the Russell 1000 Growth index, advanced during the quarter, with Information Technology the best performing sector. All sectors advanced over the period, however, Health Care was the relative laggard in the index.

Consumer Discretionary was the greatest contributor in the portfolio this quarter, due to favorable stock selection. Latin American ecommerce and payments platform MercadoLibre was the top contributor in the sector and the third greatest across the portfolio. Despite a relatively tough local macro environment, the company posted solid results, characterized by better than expected revenue and profit growth. MercadoLibre also raised additional capital during the quarter, including a strategic investment from digital payments provider PayPal. The company intends to extend its leadership position overall by more aggressively investing in its ecommerce and payments platforms and strengthening its logistics capabilities. Within the sector the strength in MercadoLibre and a diverse set of other holdings was partly offset by underperformance in online travel agent Booking Holdings, which was the fourth greatest detractor across the portfolio. The shares declined in February on mixed quarterly results, characterized by weaker than expected bookings and revenue growth, but better than expected profitability due to greater leverage of advertising spending. Management also provided a weaker than expected outlook, citing softer trends in its business in Europe.

Health Care also aided relative results, largely due to strong stock selection. Intuitive Surgical, a leader in robotics assisted surgical systems, was the top contributor in the sector and the fifth greatest across the portfolio. Its shares advanced on solid reported results characterized by strength in both procedure growth and new system placements, as well as positive sentiment around new product launches. During the quarter, the company received approval from the Food and Drug Administration (FDA) for its next generation ion flexible catheter robotics platform, which enables minimally invasive lung biopsies and can be employed in early lung cancer detection.

Information Technology also contributed, due to favorable stock selection which more than offset the adverse impact of a sector underweight position. Several of the portfolio's holdings in the software-as-a-service area were among the portfolio's top contributors, including ServiceNow, which was the greatest contributor across the portfolio. Software-as-a-service providers have benefited from a generally strong demand environment, as enterprises continue to embark on digital transformation projects and employ cloud-based solutions to modernize their software and technology infrastructure, improve efficiency, enhance agility in responding to new business opportunities, and harness data to make more informed business decisions. ServiceNow, which provides cloud-based software to help enterprises automate their information technology operations and

manage workflows, advanced on better than expected quarterly results characterized by accelerated bookings growth and a strong financial outlook which was ahead of Street expectations.

Stock selection and an underweight in Financials, stock selection in Industrials, and a lack of exposure to Consumer Staples, all contributed to relative performance as well.

Conversely, Communication Services was the greatest detractor in the portfolio this quarter, due to mixed stock selection. Video game publisher Activision Blizzard was the weakest performing holding in the sector, and the second greatest detractor across the portfolio. Concerns about the pace of new gaming content releases continued to weigh on investor sentiment, as did a weaker than expected outlook.

Lastly, Energy, Materials, and Real Estate each had a negligible impact on the portfolio's relative performance this quarter.

## Outlook

As a team, we believe having a market outlook can be an anchor. Our focus is on assessing company prospects over a five year horizon, and owning a portfolio of unique companies whose market value can increase significantly for underlying fundamental reasons.

The views, opinions, forecasts and estimates expressed are those of the portfolio management team at the time of writing and are subject to change at any time due to market, economic, or other conditions, and may not necessarily come to pass. These comments are not representative of the opinions and views of the firm as a whole. Portfolio holdings and sectors are subject to change daily. All information provided is for informational purposes only and should not be deemed as a recommendation to buy or sell the securities mentioned or securities in the sectors referenced. Past performance is no guarantee of future results.

**Performance (%) as of March 31, 2019**

Class I Share at NAV

	MTD	QTD	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
<b>MSIF Advantage Portfolio</b>	3.04	18.02	18.02	16.93	19.71	15.34	20.19
<b>Russell 1000 Growth Index</b>	2.85	16.10	16.10	12.75	16.53	13.50	17.52
<b>Lipper Large Cap Growth Index</b>	2.48	16.21	16.21	12.31	16.99	12.33	16.26

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](http://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.

The gross expense ratio is 1.09% for Class I shares and the net expense ratio is 0.85%. Where the net expense ratio is lower than the gross expense ratio, certain fees have been waived and/or 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.

Returns are net of fees and assume the reinvestment of all dividends and income. They are compared to an unmanaged market index. Returns for less than one year are cumulative (unannualized). Performance for one year or more is based on average annual total returns. The returns are reported for Class I shares. Performance for other share classes will vary.

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.

**Top Ten Holdings** % of Total Net Assets, as of March 31, 2019. Subject to change.

Amazon.com	8.0
Alphabet	5.7
Union Pacific Corporation	4.9
Intuitive Surgical	4.9
Workday	4.9
ServiceNow	4.8
Twitter	4.2
LVMH Moet Hennessy Louis Vuitton	3.7
Constellation Software	3.5
Adobe	3.4
<b>Total</b>	<b>48.0</b>

**Sector Break Down** As of March 31, 2019. Numbers may not add to 100% due to rounding. Subject to change.

	MSIF Advantage Portfolio Weight (%)	Russell 1000 Growth Index Weight (%)	Under/Overweight vs. Russell 1000 Growth (%)
<b>Overweight</b>			
Industrials	20	12	8
Communication Services	18	12	6
Consumer Discretionary	18	15	3
<b>Market Weight</b>			
Health Care	12	13	1
Materials	2	2	0
Financials	3	4	-1
Energy	0	1	-1
<b>Underweight</b>			
Real Estate	0	2	-2
Consumer Staples	0	6	-6
Information Technology	25	33	-8
<b>Cash*</b>	3		

\*Cash is frictional.

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.

Certain information herein is based on data obtained from third party sources believed to be reliable. However, we have not verified this information, and we make no representations whatsoever as to its accuracy or completeness.

**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 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. 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.

The **Russell 1000® Growth Index** measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. The index does not include any expenses, fees or sales charges, which would lower performance. The index is unmanaged and should not be considered an investment. It is not possible to invest directly in an index.

**Please consider the investment objectives, risks, charges and expenses of the fund carefully before investing. The prospectus contains this and other information about the fund. To obtain a prospectus, contact your financial advisor or download one at [morganstanley.com/im](http://morganstanley.com/im). Please read the prospectus carefully before investing.**

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

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