

MORGAN STANLEY INSTITUTIONAL FUND TRUST

# Discovery 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 Portfolio returned 26.48% (net of fees), the Russell Mid Cap Growth returned 19.62% and the Lipper Mid Cap Growth returned 18.75%.

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, which more than offset the overall adverse impact of sector allocations.

Our team continues to focus on stock selection and the long-term outlook for companies owned in the portfolio. Mid cap growth stocks, as measured by the Russell Mid Cap Growth Index, advanced during the quarter. Information Technology was the best performing sector and greatest outperformer within the index. All sectors advanced over the period, however, Consumer Staples was the relative underperformer.

Information Technology and Consumer Discretionary drove the majority of the portfolio's outperformance this quarter, largely due to favorable stock selection. Several of the portfolio's holdings in the software area were among the top contributors in Information Technology, including software-as-a-service provider Coupa Software, which was the third 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. Shares of Coupa, which provides cloud-based software to help enterprises manage and optimize spending, rebounded strongly this quarter after poor performance over the previous quarter. The company's results significantly exceeded expectations, and were characterized by revenue, profit, and billings growth which beat Street estimates. MongoDB, which operates a general purpose database platform worldwide, was the top contributor in the portfolio, due to solid fundamentals. The company's results were characterized by better than expected billings growth, driven by large deal activity, new customer additions, and broader adoption of Atlas, its database as a service product. Profitability and free cash flow generation were also ahead of expectations. Latin American ecommerce and payments platform MercadoLibre was the top contributor in Consumer Discretionary. 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 Consumer Discretionary the strength in MercadoLibre and a diverse set of other holdings was partly offset by weakness in GrubHub, which provides an online and mobile platform for restaurant food orders and was among the top detractors in the portfolio. The company reported solid topline growth, however, concerns around growing competition and greater required marketing spend weighed on its shares.

Stock selection in Health Care also aided relative results. Performance was led by Veeva Systems, which provides cloud-based software solutions to life sciences companies and was the second greatest contributor across the portfolio. The company has been executing well and seeing particular strength in its Vault product,

which provides content and data management applications to aid research and development functions. Veeva is also looking to expand into other verticals outside of life sciences, and this has supported overall positive market sentiment. Within the sector the strength in Veeva and a diverse set of other holdings was partly offset by weakness in biotechnology holding Intrexon, a small position which was a small detractor during the quarter. Its shares were weak on concerns around the slow ramp of product sales and greater cash burn due to stepped up spending.

To a lesser extent, an underweight in Financials and Materials and a lack of exposure to Energy and Consumer Staples contributed to relative performance as well.

Conversely, Communication Services was the top detractor in the portfolio during the quarter, due to a sector overweight position. Video game publisher Take-Two Interactive was one of the weakest performing holdings in the sector, and the fourth greatest detractor across the portfolio. Concerns about competition and a somewhat weaker than expected outlook weighed on investor sentiment. Angi Homeservices, which operates a digital marketplace for home services, also detracted. Angi's quarterly results and outlook missed expectations, due to greater investment spending company is undertaking to support various growth initiatives.

Lastly, Industrials 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.

On February 11, 2019, the MSIFT Mid Cap Growth Portfolio was renamed to the MSIFT Discovery Portfolio and there were no changes made to the investment objective. However, there was an investment policy amendment that provides the team additional flexibility in the future with regards to investing in specific market capitalizations of each specific Portfolio's benchmark.

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>MSIFT Discovery Portfolio</b>	1.56	26.48	26.48	30.87	23.69	10.28	17.38
<b>Russell Mid Cap Growth Index</b>	1.35	19.62	19.62	11.51	15.06	10.89	17.60
<b>Lipper Mid Cap Growth Index</b>	1.21	18.75	18.75	10.96	15.89	10.07	16.23

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 total expense ratio is 0.72% for Class I shares. 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.

MongoDB	7.2
Veeva Systems	7.0
HealthEquity	5.2
Spotify Technology	5.0
Coupa Software	4.9
Twitter	4.4
Shopify	4.1
Twilio	4.0
Dexcom	3.8
Okta	3.6
<b>Total</b>	<b>49.2</b>

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

	MSIFT Discovery Portfolio Weight (%)	Russell Mid Cap Growth Index Weight (%)	Under/Overweight vs. Russell Mid Cap Growth (%)
<b>Overweight</b>			
Information Technology	44	33	11
Health Care	25	14	11
Communication Services	14	4	10
<b>Market Weight</b>			
Energy	0	1	-1
<b>Underweight</b>			
Materials	0	3	-3
Real Estate	0	2	-2
Consumer Staples	0	3	-3
Financials	1	6	-5
Consumer Discretionary	12	16	-4
Industrials	0	16	-16
<b>Cash*</b>	4		

\*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**). Investments in **medium capitalization companies** tend to be more volatile and less liquid than those 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. 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 Mid Cap Growth Index** measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000 Growth Index. The index does not include any expenses, fees or sales charges, which would lower performance. The index is unmanaged and not representative of any Morgan Stanley 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.**

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