

MORGAN STANLEY INSTITUTIONAL FUND

# Growth Portfolio

ACTIVE FUNDAMENTAL EQUITY | COUNTERPOINT GLOBAL | COMMENTARY | JUNE 30, 2020

## 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 typically result from stock selection, given our philosophy and process. For the quarter, the Growth Portfolio returned 58.32% while the Russell 1000 Growth Index returned 27.84% and the Lipper Large Cap Growth Index returned 28.18%.

The long term investment horizon and conviction weighted investment approach embraced by the team can result in periods of performance deviation from the benchmark and peers. The portfolio outperformed the benchmark this quarter due to favorable stock selection; sector allocations also contributed, to a lesser extent.

Large cap growth equities, as measured by the Russell 1000 Growth Index, rebounded strongly over the quarter. All sectors advanced over the period. Energy, Consumer Discretionary, and Information Technology posted the largest gains in the Russell 1000 Growth index, while Utilities and Consumer Staples were the relative laggards. Against this backdrop, our team continued to focus on stock selection and the long-term outlook for companies owned in the portfolio.

Information Technology drove the majority of the portfolio's outperformance this quarter, primarily due to favorable stock selection; a sector overweight position also contributed, to a much lesser extent. Shopify, which operates a cloud-based software and services platform that enables merchants to build an ecommerce presence, was the top contributor in the sector and across the portfolio. Shopify shares advanced on solid fundamentals including accelerating revenue growth and higher profit margins. The company has seen strong demand for its services, as a growing number of merchants of all sizes seek to build or expand their ecommerce capabilities at a time when the global health pandemic has resulted in a sharp reduction in consumer traffic to physical stores. Twilio, which provides a proprietary cloud communications platform allowing software developers to build voice and messaging capabilities into their applications, was the second greatest contributor in the portfolio. Its shares recovered strongly over the period due to healthy reported results which surpassed investor expectations. The company was adversely impacted by weakness among some of its larger customers in the travel, hospitality, and transportation industries, however, this was more than offset by the positive impact of new and expanded use cases for Twilio's product in applications addressing contactless delivery, distance learning, telehealth, and mass notifications. Square, which provides payment, point of sale, capital, and business management solutions to facilitate commerce between businesses and consumers, was the fourth greatest contributor. Square rallied on financial results that were better than feared, and characterized by improvements in its payments business and solid growth in its Cash App business.

Strong stock selection in Consumer Discretionary, Communication Services, and Health Care also contributed, as did an underweight in Industrials, Energy, and Materials, and a lack of exposure to Consumer Staples, Financials, Real Estate and Utilities. Leading audio streaming services platform Spotify was the top contributor among these areas and the third greatest across the portfolio. Spotify shares had languished over the previous quarter on fears that consumer usage may decline near-term in markets where consumers are required to quarantine due to the

pandemic. Its shares rebounded strongly this quarter on solid reported results as well as positive investor sentiment around the company's additional investments in unique podcast content, which has the potential to strengthen its streaming audio leadership position, further expand its large global subscriber base, and increase user engagement. Wayfair, a leading online retailer in home furnishings, was the top contributor in Consumer Discretionary. Concerns about the company's levels of investment spending and the health of the furniture category, considered an area of discretionary consumer spending in a weak economic environment, had weighed on investor sentiment and Wayfair's share price earlier this year. The stock rebounded sharply this quarter on results that beat Street expectations and were characterized by a significant acceleration in demand due to the pandemic and related quarantine, as well as gross margin expansion.

Due to the portfolio's strong performance over the quarter, no sectors detracted overall, and no holdings significantly detracted from relative performance over this period<sup>1</sup>.

## 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 we believe can increase significantly for underlying fundamental reasons.

The views, opinions, forecasts and estimates expressed are those of the investment 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.

<sup>1</sup> Any relative detractors this past quarter had a less than 50 bps negative impact on relative performance.

**Performance (%) as of June 30, 2020**

Class I Share at NAV

	MTD	QTD	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
<b>MSIF Growth Portfolio</b>	10.76	58.32	52.23	46.34	31.50	24.03	22.20
<b>Russell 1000 Growth Index</b>	4.35	27.84	9.81	23.28	18.99	15.89	17.23
<b>Lipper Large Cap Growth Index</b>	3.98	28.18	10.92	21.75	18.37	14.60	15.91

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 0.59% 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.

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.

**Top Ten Holdings** % of Total Net Assets, as of June 30, 2020. Subject to change.

Shopify	7.3
Amazon.com	5.7
Zoom Video Communications	5.5
Spotify Technology	5.5
Square	5.3
Veeva Systems	4.7
Twilio	4.5
Okta	4.5
Slack Technologies	3.9
Uber Technologies	3.7
<b>Total</b>	<b>50.6</b>

<b>Sector Break Down</b> <i>As of June 30, 2020. Numbers may not add to 100% due to rounding.</i>			
	<b>MSIF Growth Portfolio Weight (%)</b>	<b>Russell 1000 Growth Index Weight (%)</b>	<b>Under/Overweight vs. Russell 1000 Growth (%)</b>
<b>Overweight</b>			
Health Care	20	15	5
Information Technology	46	44	2
<b>Market Weight</b>			
Communication Services	12	11	1
Energy*	0	0	0
Utilities*	0	0	0
Consumer Discretionary	14	15	-1
Industrials	4	5	-1
Materials*	0	1	-1
<b>Underweight</b>			
Real Estate	0	2	-2
Financials	0	2	-2
Consumer Staples	0	5	-5
<b>Cash*</b>	4		

\*Cash is frictional. Energy accounted for 0.21% of the portfolio and 0.08% of the Index. Materials accounted for 0.18% of the portfolio. Utilities accounted for 0.02% of the index.

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. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. 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. **Focused Investing** To the extent that the Fund invests in a limited number of issuers, 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.

**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](http://morganstanley.com/im) or call 1.800.548.7786. Please read the prospectus carefully before investing.**

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