

MORGAN STANLEY INSTITUTIONAL FUND

Inception 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 30.56% while the Russell 2000 Growth Index returned 17.14% and the Lipper Small Cap Growth Index returned 18.93%.

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 Russell 2000 Growth Index this quarter primarily due to favorable stock selection; sector allocations had a smaller positive impact.

Our team continues to focus on stock selection and the long-term outlook for companies owned in the portfolio. Small cap growth stocks advanced strongly over the quarter, as measured by the Russell 2000 Growth index, with most sectors posting double digit returns. Information Technology and Energy posted the greatest returns and were the relative outperformers within the index, while Consumer Staples and Utilities were the relative laggards.

Information Technology and Health Care drove the majority of the portfolio's outperformance this quarter, largely due to favorable stock selection. An overweight position in each sector also contributed, to a lesser extent. 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 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 third greatest 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. Guardant Health, a commercial-stage diagnostic testing company that focuses on liquid biopsies, was the top contributor in Health Care and the second greatest contributor across the portfolio. The company reported strong results, characterized by revenue growth and a financial outlook that were both well ahead of consensus expectations. Generally increasing confidence in LUNAR, Guardant's pipeline assets for early cancer detection, also buoyed its shares over the quarter. Within Health Care, the strength in Guardant and a diverse set of other holdings was partly offset by weakness in biotechnology holding Intrexon, a small position which underperformed 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.

Stock selection and sector underweight positions in Consumer Discretionary and Financials also aided relative performance. A diverse set of internet-related holdings were among the best performers in Consumer Discretionary, however, this was partly offset by weakness in Stamps.com, which was the second greatest detractor across the portfolio. Shares of the company, which provides internet-based mailing and shipping solutions, declined sharply in February after the company announced it is ending its exclusive partnership with the U.S. Postal Service, and indicated it will need to establish new deals with other parcel and mail carriers in order to restore business growth.

To a lesser extent, stock selection and underweight positions in Real Estate and Materials, an underweight in Industrials, and a lack of exposure to Consumer Staples and Utilities, also contributed to relative performance.

Conversely, Communication Services was the greatest detractor in the portfolio this quarter, due to mixed stock selection. Eventbrite, which operates a ticketing and event technology platform, was the poorest performing holding in the sector and among the top detractors across the portfolio. The company reported mixed results and a disappointing outlook, as it has been experiencing execution issues related to the migration of customers from Ticketfly, a platform it had acquired, to its Eventbrite Music platform.

Lastly, Energy – a sector the portfolio has no exposure to – had a negligible impact on 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 MSIF Small Company Growth Portfolio was renamed to the MSIF Inception 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
MSIF Inception Portfolio	1.62	30.56	30.56	27.32	19.51	6.41	15.96
Russell 2000 Growth Index	-1.35	17.14	17.14	3.85	14.87	8.41	16.52
Lipper Small Cap Growth Index	-0.36	18.93	18.93	9.71	17.09	9.33	16.27

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.

The gross expense ratio for Class I shares is 1.20%. The net expense ratio is 1.00%. 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. 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	5.8
Coupa Software	4.9
Smartsheet	4.3
HealthEquity	4.2
Inspire Medical Systems	4.0
LiveRamp Holdings	4.0
NanoString Technologies	3.9
Penumbra	3.8
Elastic	3.6
Carvana	3.3
Total	41.8

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

	MSIFT Inception Portfolio Weight (%)	Russell 2000 Growth Index Weight (%)	Under/Overweight vs. Russell 2000 Growth (%)
Overweight			
Information Technology	41	19	22
Health Care	35	27	8
Market Weight			
Real Estate	2	3	-1
Utilities*	0	1	-1
Underweight			
Consumer Discretionary	13	15	-2
Energy	0	2	-2
Communication Services	0	3	-3
Materials	0	3	-3
Consumer Staples	0	3	-3
Financials	3	7	-4
Industrials	3	17	-14
Cash*	3		

*Cash is frictional. Utilities accounted for 0.52% 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. Accordingly, you can lose money investing in this portfolio. Please be aware that this portfolio may be subject to certain additional risks, including those associated with: In general, **equity securities**' values also fluctuate in response to activities specific to a company. Stocks of **small-capitalization companies** carry special risks, such as limited product lines, markets and financial resources, and greater market volatility than securities of larger, more established companies. Investments in **foreign markets** entail special risks such as currency, political, economic, and market risks. The risks of investing in **emerging market** countries are greater than the risks generally 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. **Illiquid securities** may be more difficult to sell and value than public traded securities (liquidity risk).

The **Russell 2000 Growth Index** measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 Index 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 the 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. Please read the prospectus carefully before investing.

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

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