

## MORGAN STANLEY INSTITUTIONAL FUND

# Inception Portfolio

COUNTERPOINT GLOBAL | COMMENTARY | JUNE 30, 2021

## 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 Portfolio returned 11.08% while the Russell 2000 Growth Index returned 3.92% and the Lipper Small Cap Growth Index returned 5.72%.

The long term investment horizon and conviction weighted investment approach embraced by Counterpoint Global 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; sector allocations also contributed modestly.

Small cap growth equities, as measured by the Russell 2000 Growth index, continued to advance over the quarter. Energy posted by far the largest gains in the Russell 2000 Growth index, and was the top outperforming sector. All sectors advanced over the period, with the exception of Industrials, which was the relative laggard in the index. Against this backdrop, Counterpoint Global continued to focus on stock selection and the long-term outlook for companies owned in the portfolio.

Consumer Discretionary was by far the top contributor in the portfolio this quarter, largely due to stock selection. Online retail platform Overstock.com was the top contributor in the sector and across the portfolio. Its shares recovered on the back of healthy quarterly results and increasingly positive sentiment around the company's investment in tZERO, a platform that is seeking to leverage block chain technology to disrupt the prime brokerage industry's securities lending business. Party City, a vertically integrated party goods supplier, was the second greatest contributor in the portfolio. Its shares rose on reported revenue and profitability that beat Street expectations, as well as management's healthy near-term financial outlook. Victoria PLC, a leading vertically integrated designer, manufacturer, and distributor of innovative flooring products, was also among the top contributors in the portfolio. The company provided an upbeat business update indicating strong sales momentum across products and geographies, solid near-term demand, and progress in both negotiating with suppliers and in raising prices to mitigate the adverse effects of higher raw material costs.

Stock selection and sector allocations in Communication Services, Health Care, Industrials, Information Technology, and Materials all contributed as well. Olo, which provides a cloud based software-as-a-service (SaaS) platform that enables multi-location restaurants to manage online orders, was the greatest contributor among these areas and the fourth greatest across the portfolio. The company, which came public in March, reported strong results – its first as a public company – that were characterized by solid growth in active locations and revenue per user, and high levels of revenue retention. Olo continued to capitalize on opportunities to upgrade restaurant operators' in-house technology solutions to its SaaS offering; during the quarter the company secured new deals with a number of restaurant chains, including Bloomin' Brands and Nando's. Within Information Technology, the strength in Olo and a

diverse set of other holdings was partly offset by weakness in Fastly, which was the second greatest detractor across the portfolio. Fastly operates an edge cloud platform for processing, serving, and securing customers' applications. The company reported mixed financial results, characterized by strong revenue growth but lower than expected profitability and disappointing financial guidance which, along with the announcement of the departure of its CFO, weighed on its shares. Axon Enterprise, a leading provider of connected law enforcement technologies, was the top contributor in Industrials, and the fifth greatest across the portfolio. The company reported healthy results reflecting growth across all product lines and exceptionally strong demand for some of its newer products, as well as a solid financial outlook. In Health Care, a range of holdings across the equipment, supplies, providers, services, and life sciences tools areas all contributed. This was however partly offset by underperformance in the Covetrus, Seer, and Sana Biotechnology, all portfolio holdings which were among the top detractors across the portfolio. Covetrus is a leader in the animal health distribution, pharmacy medication fulfillment, and veterinary practice management software industries. Despite solid fundamentals across its animal health and prescription management businesses, as well a raised financial outlook, its shares drifted down over the period, perhaps due to some mean reversion. Seer is a life science tools company engaged in the development of proprietary engineered nanoparticles to provide access across the proteome. Although the company reported continued progress in advancing its commercialization strategy and remains on track to launch its Proteograph product suite early next year, we believe its shares may have underperformed due to the lack of a near-term catalyst. Sana Biotechnology is a preclinical stage company focused on cell engineering that came public earlier this year; we attribute its underperformance as well to the lack of a near-term catalyst and perhaps some general post-IPO volatility.

Conversely, Consumer Staples was the top detractor in the portfolio this quarter, due to unfavorable stock selection. Salty snack maker Utz Brands was the greatest detractor in the sector and across the portfolio. The stock had been a strong performer last year, in part due to pantry loading by consumers during the onset of the global pandemic. While the company has continued to execute against its plans, we believe investor skepticism around Utz's ability to retain the customers it had attracted last year may have weighed on its shares.

Stock selection in Energy, Real Estate, and Financials also weighed on relative results, albeit to a lesser extent.

Lastly, Materials and Utilities 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 we believe can increase significantly for underlying fundamental reasons.

The Portfolio closed to new investors effective April 5, 2021, to preserve the ability of the investment team to manage the Portfolio effectively for current shareholders. For more details, please visit:

[//www.morganstanley.com/im/publication/mutualfund/material/notice\\_mf\\_inception\\_discovery.pdf](https://www.morganstanley.com/im/publication/mutualfund/material/notice_mf_inception_discovery.pdf)

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.

## INVESTMENT MANAGEMENT

## Performance (%) as of June 30, 2021

Class I Share at NAV

|                                      | MTD   | QTD   | YTD   | 1 YEAR | 3 YEAR | 5 YEAR | 10 YEAR |
|--------------------------------------|-------|-------|-------|--------|--------|--------|---------|
| <b>MSIF Inception Portfolio</b>      | 10.73 | 11.08 | 37.32 | 139.52 | 59.67  | 42.30  | 23.01   |
| <b>Russell 2000 Growth Index</b>     | 4.69  | 3.92  | 8.98  | 51.36  | 15.94  | 18.76  | 13.52   |
| <b>Lipper Small Cap Growth Index</b> | 3.68  | 5.72  | 10.41 | 48.87  | 19.21  | 20.87  | 14.03   |

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 for Class I shares is 1.19%. 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.

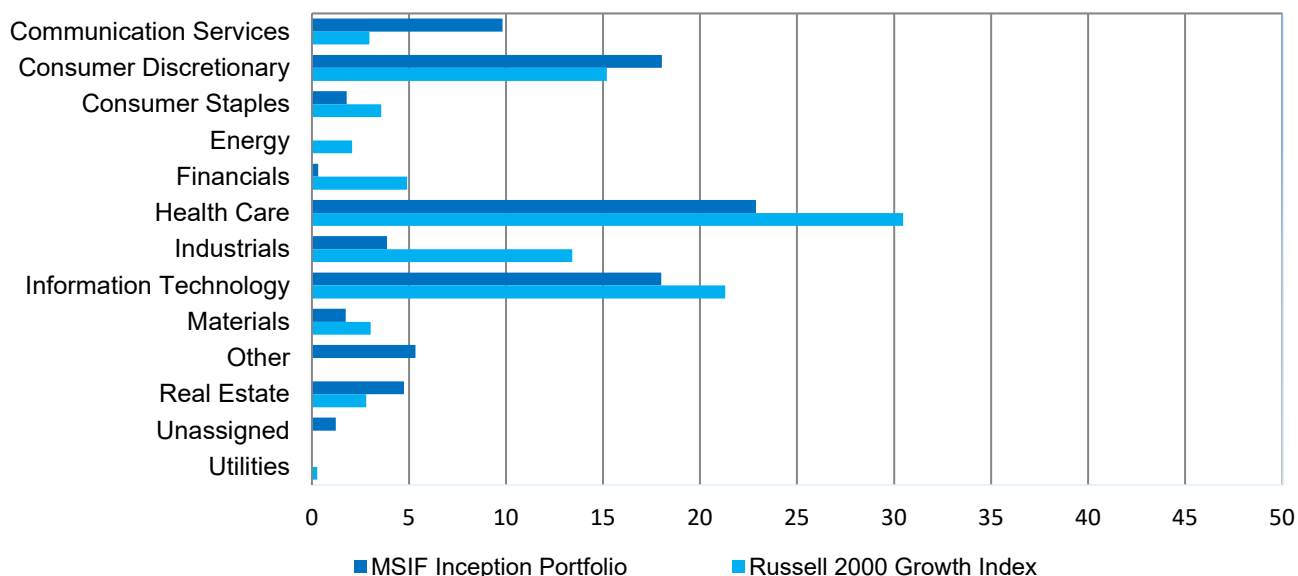
Please keep in mind that high double- and triple-digit returns are highly unusual and cannot be sustained. Investors should also be aware that these returns were primarily achieved during favorable market conditions.

The **Russell 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.

**Top Ten Holdings** % of Total Net Assets, as of June 30, 2021. Subject to change.

|                         |             |
|-------------------------|-------------|
| Redfin Corp.            | 4.8         |
| Fastly                  | 3.8         |
| Skillz                  | 3.7         |
| Overstock.com           | 3.5         |
| Vroom                   | 3.4         |
| Stitch Fix              | 3.3         |
| Victoria                | 2.7         |
| Covetrus                | 2.7         |
| NanoString Technologies | 2.7         |
| AppFolio                | 2.4         |
| <b>Total</b>            | <b>33.0</b> |

**Sector Allocation** As of June 30, 2021.



Source: FactSet Research Systems, Inc. / Morgan Stanley Investment Management. Numbers may not add to 100 due to rounding and the exclusion of cash.

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, 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. **Portfolio Turnover**. Consistent with its investment policies, the Fund will purchase and sell securities without regard to the effect on portfolio turnover. Higher portfolio turnover will cause the Fund to incur additional transaction costs.

**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.**

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

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