

Morgan Stanley Institutional Fund Inception Portfolio

4Q18
FACTSHEET

Investment Approach

We seek high-quality established and emerging companies with sustainable competitive advantages, strong free-cash-flow yields and favorable returns on invested capital trends. We focus on long-term growth rather than short-term events, with our stock selection informed by rigorous fundamental analysis.

Objective

Seeks long-term capital appreciation by investing primarily in growth-oriented equity securities of small-capitalization companies.

Lipper Category

Small-Cap Growth

Morningstar Category

Small Growth

Investment Team

	Joined Firm	Years of Investment Experience
Dennis Lynch, Managing Director	1998	25
Sam Chainani, Managing Director	1996	23
Jason Yeung, Managing Director	2002	22
Armistead Nash, Managing Director	2002	19
David Cohen, Managing Director	1993	31
Alexander Norton, Executive Director	2000	24

Investment Performance - Class I (% net of fees)

% Average Annual Total Returns	1 Year	3 Year	5 Year	10 Year	Inception [†]
Fund	0.29	6.79	-0.11	12.45	10.18
Russell 2000 Growth Index ¹	-9.31	7.24	5.13	13.52	7.54
Lipper Category Average	-4.53	8.78	5.26	13.66	-
Morningstar Category Average	-5.81	8.46	5.13	13.36	-

% Calendar Year Returns	4Q18	YTD	2018	2017	2016	2015	2014
Fund	-20.03	0.29	0.29	21.87	-0.35	-9.58	-9.68
Russell 2000 Growth Index	-21.65	-9.31	-9.31	22.17	11.32	-1.38	5.60
Lipper Category Average	-20.85	-4.53	-4.53	23.16	9.80	-2.18	2.23
Morningstar Category Average	-20.87	-5.81	-5.81	21.50	11.20	-2.41	2.44

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.

[†] Inception returns reflect the inception date of the fund.

Performance and fund information is as of December 31, 2018, unless otherwise noted. Returns are net of fees and assume the reinvestment of all dividends and income. Returns for less than one year are cumulative (not annualized). Performance of other share classes will vary.

Please keep in mind that 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.

Expense Ratios	Symbol	Cusip	Gross (%)	Net (%)
Class A	MSSMX	61744J614	1.51	1.35
Class C	MSCOX	61760X299	21.29	2.10
Class I	MSSGX	61744J309	1.20	1.00
Class IS	MFLFX	61756E149	1.09	0.93

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 for Class I shares.

Shares of the portfolio redeemed within 30 days of purchase will be subject to a 2% redemption fee, payable to the portfolio. The redemption fee is designed to protect the portfolio and its remaining shareholders from the effects of short-term trading.

On February 11, 2019, the Small Company Growth Portfolio was renamed to the 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.

Morningstar Rankings - Class I Small Growth Category

	Percentile	Total in Category	Rank/
1 Year	17		109/676
3 Year	73		431/583
5 Year	98		506/516
10 Year	71		282/391

Source: Morningstar, Inc. Rankings are based on total returns, are historical and do not guarantee future results.

Fund Facts

Inception date	November 01, 1989
Team inception date	December 31, 1998
Total net assets (\$MM)	\$ 208.8
Benchmark	Russell 2000 Growth Index
Distribution frequency	At least annually

Portfolio Characteristics

	Fund	Index
Number of holdings	48	1257
Return on capital (%)	-10.46	5.60
5 year EPS growth (%)	7.13	15.14
Sales growth (%)	34.49	14.50
Weighted median market capitalization (\$B)	2.97	1.98
D/E weighted median (%)	25.24	38.48
Turnover (%)*	97	-

Risk/Return Statistics (3 Year)

	Fund	Index
Active share (%)	95.67	-
Excess Return (%)	-0.45	-
Alpha (%)	0.30	-
Beta (vs. benchmark)	0.88	1.00
Information ratio	-0.05	-
R squared	0.73	1.00
Sharpe ratio	0.34	0.37
Standard deviation (%)	17.19	16.69
Tracking error (%)	9.16	-

Sector Allocation (% of Total Net Assets)

	Fund	Index
Information Technology	40.48	18.49
Health Care	29.18	26.32
Consumer Discretionary	13.42	14.77
Industrials	5.45	17.73
Financials	5.10	7.47
Communication Services	3.86	3.53
Materials	1.33	3.38
Real Estate	1.29	2.96
Cash	0.11	-

Top Holdings (% of Total Net Assets)

	Fund	Index
Coupa Software Inc	7.36	0.37
MongoDB Inc	5.70	–
Athenahealth Inc	5.45	–
HealthEquity Inc	5.17	0.35
Penumbra Inc	4.77	–
Grand Rounds, Inc.	3.96	–
Elastic NV	3.74	–
Guardant Health Inc	3.57	0.05
LiveRamp Holdings Inc	3.24	0.16
Okta Inc	3.03	–
Total	45.99	–

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.

Past performance is not indicative of future results. Subject to change daily. Fund information is provided for informational purposes only and should not be deemed as a recommendation to buy or sell any security or securities in the sectors presented.

The index data displayed under characteristics and allocations are calculated using MSIM and other third-party methodologies and may differ from data published by the vendor.

PORTFOLIO CHARACTERISTICS DEFINITIONS

Return on capital is a measure of a company's efficiency at allocating the capital under its control to profitable investments, calculated by dividing net income minus dividends by total capital. **Earnings per share (EPS) growth** is the weighted average of earnings per share growth for all securities in the portfolio projected for the past five fiscal years. Earnings per share for a company is defined as total earnings divided by shares outstanding. **Weighted median market capitalization** is the point at which half of the market value of a portfolio is invested in stocks with a greater market cap, and consequently the other half is invested in stocks with a lower market cap. **Debt/equity (D/E)** is a measure of a company's financial leverage calculated by dividing its total liabilities by stockholders' equity. **Sales growth** is the increase in sales over a specific period of time, often but not necessarily annually.

RISK/RETURN DEFINITIONS

Active Share is the fraction of the portfolio or fund that is invested differently than its benchmark as of the last day of the reporting period. A portfolio with a high degree of Active Share does not assure a fund's relative outperformance. Active Share calculation may consolidate holdings with the same economic exposure. **Excess Return** or value added (positive or negative) is the portfolio's return relative to the return of the benchmark. **Alpha** (Jensen's) is a risk-adjusted performance measure that represents the average return on a portfolio or investment above or below that predicted by the capital asset pricing model (CAPM) given the portfolio's or investment's beta and the average market return. Prior to 6/30/2018 Alpha was calculated as the excess return of the fund versus benchmark. **Beta** is a measure of the relative volatility of a security or portfolio to the market's upward or downward movements. A beta greater than 1.0 identifies an issue or fund that will move more than the market, while a beta less than 1.0 identifies an issue or fund that will move less than the market. The Beta of the Market is always equal to 1. **Information ratio** is the portfolio's alpha or excess return per unit of risk, as measured by tracking error, versus the portfolio's benchmark. **R squared** measures how well an investment's returns correlate to an index. An R squared of 1.00 means the portfolio performance is 100% correlated to the index's, whereas a low r-squared means that the portfolio performance is less correlated to the index's. **Sharpe ratio** is a risk-adjusted measure calculated as the ratio of excess return to standard deviation. The Sharpe ratio determines reward per unit of risk. The higher the Sharpe ratio, the better the historical risk-adjusted performance. **Standard deviation** measures how widely individual performance returns, within a performance series, are dispersed from the average or mean value. **Tracking error** is the amount by which the performance of the portfolio differs from that of the benchmark.

RISK CONSIDERATIONS

There is no assurance that a Portfolio will achieve its investment objective. Portfolios 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 **small 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.

Morningstar:

Rankings as of December 31, 2018. **Rankings:** The percentile rankings are based on the average annual total returns for the periods stated and do not include any sales charges, but do include reinvestment of dividends and capital gains and Rule 12b-1 fees. The highest (or most favorable) percentile rank is 1 and the lowest (or least favorable) percentile rank is 100. The top-performing fund in a category will always receive a rank of 1.

© 2019 Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. **Past performance is no guarantee of future results.**

Morningstar information is based on quarter-end data. Please visit morganstanley.com/im for the latest month-end Morningstar information.

OTHER CONSIDERATIONS

¹ 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 Russell 2000® Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market capitalization and current index membership. The index is unmanaged and does not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

* Turnover is sourced from the fund's current prospectus.

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 or call 1-800-548-7786. Please read the prospectus carefully before investing.

Morgan Stanley Investment Management (MSIM) is the asset management division of Morgan Stanley.