

# Morgan Stanley Institutional Fund U.S. Real Estate Portfolio

**4Q18**  
FACTSHEET

## Investment Approach

We seek attractive long-term, risk-adjusted returns by investing in publicly traded U.S. real estate securities. We combine a value-oriented, bottom-up-driven investment strategy and a top-down allocation that seeks diversified exposure to all major asset classes with an overweighting to property markets that we believe offer the best relative valuation.

## Objective

Seeks to provide above-average current income and long-term capital appreciation by investing primarily in equity securities of companies in the U.S. real estate industry, including real estate investment trusts.

## Lipper Category

Real Estate

## Morningstar Category

Real Estate

## Portfolio Managers

	Joined Firm	Years of Investment Experience
Ted Bigman, Managing Director	1995	32
Bill Grant, Managing Director	2000	17

## Investment Performance - Class I (% net of fees)

% Average Annual Total Returns	1 Year	3 Year	5 Year	10 Year	Inception
Fund	-8.44	0.34	6.20	11.08	11.00
FTSE Nareit Equity REITs Index <sup>1</sup>	-4.62	2.89	7.90	12.12	10.09
Lipper Category Average	-6.16	2.03	6.77	11.55	-
Morningstar Category Average	-5.96	2.47	6.91	11.50	-

  

% Calendar Year Returns	4Q18	YTD	2018	2017	2016	2015	2014
Fund	-9.41	-8.44	-8.44	3.31	6.79	2.27	30.74
FTSE Nareit Equity REITs Index	-6.73	-4.62	-4.62	5.23	8.52	3.20	30.14
Lipper Category Average	-7.08	-6.16	-6.16	6.02	7.03	2.17	27.64
Morningstar Category Average	-7.18	-5.96	-5.96	6.22	6.89	2.41	28.03

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.

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	MUSDX	61744J457	1.25	1.25
Class C	MSURX	61760X281	2.37	2.00
Class I	MSUSX	61744J671	0.93	0.90
Class IS	MURSX	61760X687	0.84	0.83

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.



## Morningstar Analyst Rating

Morningstar Analysts have rated the fund a bronze medal (effective 5/22/2018). Fewer than 12% of the U.S. Open End funds have a medalist rating (effective 3/31/18).<sup>^</sup>

## Morningstar Rankings - Class I Real Estate Category

	Percentile	Rank/ Total in Category
1 Year	86	219/249
3 Year	90	191/221
5 Year	72	136/191
10 Year	73	95/138

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

## Fund Facts

Inception date	February 24, 1995
Total net assets (\$MM)	\$ 245.3
Benchmark	FTSE Nareit Equity REITs Index
Distribution frequency	Quarterly

## Portfolio Characteristics

	Fund
Number of holdings	51
Weighted average market capitalization (\$B)	16.49
Weighted median market capitalization (\$B)	10.89
Turnover (%)*	43

## Risk/Return Statistics (3 Year)

	Fund
Active share (%)	48.91
Alpha (%)	-2.58
Beta (vs. benchmark)	1.02
Excess Return (%)	-2.55
Information ratio	-0.87
R squared	0.96
Sharpe ratio	-0.05
Standard deviation (%)	14.08
Tracking error (%)	2.93
Up-capture ratio (%)	90.88
Down-capture ratio (%)	104.76

**Sector Allocation (% of Total Net Assets)**

	<b>Fund</b>
Office	25.01
Apartments	14.98
Regional Malls	14.13
Lodging/Resorts	9.68
Shopping Centers	6.53
Health Care	6.41
Industrial	5.65
Self Storage	4.95
Diversified	4.76
Single Family Homes	3.34
Cash	-0.04

**Top Holdings (% of Total Net Assets)**

	<b>Fund</b>
Simon Property Group	10.28
SL Green Realty Corp	7.45
Boston Properties Inc	6.45
Prologis Inc	5.17
Host Hotels & Resorts Inc	4.73
AvalonBay Communities Inc	4.61
Macerich Co.	3.85
Vornado Realty Trust	3.75
Regency Centers Corp	3.54
Equity Residential Properties	3.33
<b>Total</b>	<b>53.16</b>

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**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 and countries presented.

**PORTFOLIO CHARACTERISTICS DEFINITIONS**

**Weighted average market capitalization** is a stock market index weighted by the market capitalization of each stock in the index. In such a weighting scheme, larger companies account for a greater portion of the index. Most indexes are constructed in this manner, with the best example being the S&P 500. **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.

**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. **Upside/downside market capture** measures annualized performance in up/down markets relative to the market 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. **Real estate investments, including real estate investment trusts**, are subject to risks similar to those associated with the direct ownership of real estate and they are sensitive to such factors as management skills and changes in tax laws. **Nondiversified portfolios** often invest in a more limited number of issuers. As such, changes in the financial condition or market value of a single issuer may cause greater volatility. Stocks of **small- and medium-capitalization companies** entail special risks, such as limited product lines, markets and financial resources, and greater market volatility than securities of larger, more established companies. When investing in **value securities** (those believed to be undervalued in comparison to their peers), the market may not have the same value assessment as the manager, and, therefore, the performance of the securities may decline.

**^ Morningstar Analyst Ratings:** A high rating should not be construed as a guarantee for relatively strong performance. The Morningstar Analyst Rating is not a credit or risk rating. It is a subjective evaluation performed by Morningstar's Manager Research Group ("MRG"). The MRG evaluates funds based on five key pillars, which are process,

performance, people, parent, and price. The MRG uses this five pillar evaluation to determine how they believe funds are likely to perform relative to a benchmark over the long term on a risk-adjusted basis. They consider quantitative and qualitative factors in their research, and the weight of each pillar may vary. The Analyst Rating scale is Gold, Silver, Bronze, Neutral, and Negative. A Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the MRG's conviction in a fund's prospects for outperformance. Analyst Ratings ultimately reflect the MRG's overall assessment, are overseen by an Analyst Rating Committee, and are continuously monitored and reevaluated at least every 14 months. For more detailed information about Morningstar's Analyst Rating, including its methodology, please go to [global.morningstar.com/managerdisclosures/](http://global.morningstar.com/managerdisclosures/).

The Morningstar Analyst Rating (i) should not be used as the sole basis in evaluating a fund, (ii) involves unknown risks and uncertainties which may cause Analyst expectations not to occur or to differ significantly from what they expected, and (iii) should not be considered an offer or solicitation to buy or sell the fund.

**Morningstar:** Rankings and ratings 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. **Ratings:** The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. Ratings do not take into account sales loads.

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Morningstar information is based on quarter-end data. Please visit [morganstanley.com/im](http://morganstanley.com/im) for the latest month-end Morningstar information.

**OTHER CONSIDERATIONS**

<sup>1</sup> The FTSE Nareit (National Association of Real Estate Investment Trusts) Equity REITs Index is a free float-adjusted market-capitalization-weighted index of tax qualified REITs listed on the New York Stock Exchange, NYSE Amex and the NASDAQ National Market Systems. The term "free float" represents the portion of shares outstanding that are deemed to be available for purchase in the public equity markets by investors. 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](http://morganstanley.com/im) or call 1-800-548-7786. Please read the prospectus carefully before investing.

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