

## US Core Equity Strategy

SOLUTIONS & MULTI-ASSET | APPLIED EQUITY ADVISORS TEAM | STRATEGY PROFILE | 2017

The Applied US Core Equity Strategy seeks to protect investors from prolonged periods of style-driven underperformance. Their flexible approach combines quantitative models with stock-specific research to identify 30 - 60 companies in the U.S. with exposure to factors expected to drive returns in the current market environment.

### Philosophy: Active global investing, unconstrained by style

#### WE BELIEVE

- 1 **Common market-oriented factors drive the majority of stock returns**
- 2 **Stock selection is additive to alpha generation**
- 3 **Risk management should be integral to the investment process**

#### OUR APPROACH

*Through factor modeling, we can tilt the towards those styles, regions or sectors we deem as being most likely to produce excess returns.*

*We conduct company-specific analysis to determine the stocks most likely to add to the strategy's overall return.*

*We intentionally seek some risks and avoid others*

#### STRATEGY AT A GLANCE

Inception Date	July 2001
Investment Style	Core Equity
Securities	Primarily U.S. equity securities
Typical No. of Holdings	30-60
Target Active Share	85% or more
Target Tracking Error	4.5-5.0%
Benchmark	S&P 500 Index

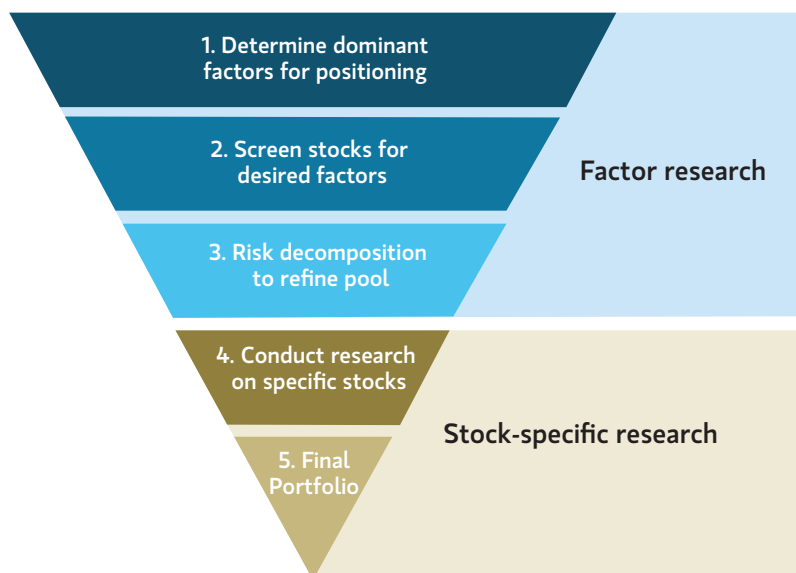
### Process: Blends factor analysis with stock-specific research

Using proprietary quantitative models, the team seeks to identify those factors it believes will dominate markets over the next 6-12 months. Over 40 factors across five categories are ranked based on their momentum strength and cheapness (valuation) to identify potential opportunities.

Stocks are then ranked by their relative exposure to desired factors, which narrows the universe to the top quintile (20%) of stocks. To further refine the pool, each high-scoring stock undergoes risk decomposition analysis to assess its effect on desired and undesired exposures.

Final stock weightings are determined by a stock's exposure to desired factors, the confidence level of its idiosyncratic opportunity and its contribution to reducing intra-stock correlations within the portfolio.

Please refer to the Distribution disclosures at the end for additional information.

**DISPLAY 1****Investment process: From broad market factors to specific stocks**

*This represents how the portfolio management team generally implements its process under normal market conditions.*

**Investment Team: Strong leadership, highly experienced<sup>1</sup>**

Andrew Slimmon is a Managing Director at Morgan Stanley Investment Management where he is the lead Senior Portfolio Manager on all long equity strategies for Applied Equity Advisors. Andrew is also a member of the Morgan Stanley Wealth Management Global Investment Committee. He has more than 30 years of investment management experience. He began his career at Morgan Stanley in 1991 as an Advisor in Private Wealth Management, and later served as the Chief Investment Officer of the Morgan Stanley Trust Company.

Phillip Kim is a Portfolio Manager for Applied Equity Advisors strategies, overseeing the team's quantitative equity research. Previously, he was a Quantitative Research Analyst for Morgan Stanley Smith Barney's alternative investment research. Mr. Kim also worked as a software engineer at Raytheon, where he was responsible for the design of the world's first high-altitude, long-endurance Unmanned Aerial Vehicle (UAV). Mr. Kim also worked at Pricewaterhouse Coopers as a financial model developer.

**Competitive Advantages****UNCONSTRAINED BY STYLE**

Portfolio is positioned to gain exposure to broad market factors the team believes will drive returns in the current market environment.

**STOCK-SPECIFIC IDEAS**

In addition to strategically positioning the portfolio to capitalize on prevailing market factors, the team conducts research on individual stocks to extract alpha from idiosyncratic factors at the company level.

**RISK MANAGEMENT EMBEDDED IN PROCESS**

Every part of the investment process is oriented toward taking intentional, calculated risks and managing those risks over time.

<sup>1</sup> Team members may change without notice from time to time.

## 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 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. 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. Investments in foreign markets entail special risks such as currency, political, economic, market and liquidity risks. **Illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk). **Non-diversified 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.

### DEFINITIONS:

**Weights and holdings provided are a typical range**, not a maximum number. The portfolio may exceed this from time to time due to market conditions and outstanding trades. **Weighted average market capitalization** is a stock market index weighted by the market capitalization of each stock in the index. **Price-earnings ratio (P/E)** is a valuation ratio of a company's current share price compared to its per-share earnings. Calculated as Market Value per Share/Earnings per Share. Portfolio turnover is a measure of how frequently assets within a portfolio are bought and sold by the managers. **Portfolio turnover** is calculated by taking either the total amount of new securities purchased or the amount of securities sold—whichever is less—over a particular period, divided by the total net asset value of the fund. **Dividend yield** is the ratio between how much a company pays out in dividends each year relative to its share price. **Active share** is the fraction of the portfolio 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 portfolio's relative outperformance. The typical active share and the number of holdings represent typical ranges and are not a maximum number. The **targets** presented are typical ranges. There is no assurance that these targets will be attained. The portfolio may exceed these from time to time due to market conditions and outstanding trades. **Alpha** is the excess return or value added (positive or negative) of the portfolio's return relative to the return of the benchmark. **Beta** is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. **Standard deviation** measures how widely individual performance returns, within a performance series, are dispersed from the average or mean value. **Upside capture** is a statistical measure of an investment manager's overall performance in up-markets. **Downside capture** is a statistical measure of an investment manager's overall performance in down-markets. **Tracking error** is the amount by which the performance of the portfolio differs from that of the benchmark. The **S&P 500® Index** measures the performance of the large cap segment of the U.S. equities market, covering approximately 75% of the U.S. equities market. The Index includes 500 leading companies in leading industries of the U.S. economy. The performance of the indices is listed in U.S. dollars and assumes reinvestment of net dividends. The indices do not include any expenses, fees or sales charges, which would lower performance. The indices are unmanaged and should not be considered an investment. It is not possible to invest directly in an index.

### DISTRIBUTION

**This communication is only intended for and will only be distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations.**

**United Kingdom:** Morgan Stanley Investment Management Limited is authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No. 1981121. Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA. **Dubai:** Morgan Stanley Investment Management Limited (Representative Office, Unit Precinct 3-7th Floor-Unit 701 and 702, Level 7, Gate Precinct Building 3, Dubai International Financial Centre, Dubai, 506501, United Arab Emirates. Telephone: +97 (0)14 709 7158). **Germany:** Morgan Stanley Investment Management Limited Niederlassung

Deutschland Junghofstrasse 13-15 60311 Frankfurt Deutschland (Gattung: Zweigniederlassung (FDI) gem. § 53b KWG). **Italy:** Morgan Stanley Investment Management Limited, Milan Branch (Sede Secondaria di Milano) is a branch of Morgan Stanley Investment Management Limited, a company registered in the UK, authorised and regulated by the Financial Conduct Authority (FCA), and whose registered office is at 25 Cabot Square, Canary Wharf, London, E14 4QA. Morgan Stanley Investment Management Limited Milan Branch (Sede Secondaria di Milano) with seat in Palazzo Serbelloni Corso Venezia, 16 20121 Milano, Italy, is registered in Italy with company number and VAT number 08829360968. The **Netherlands:** Morgan Stanley Investment Management, Rembrandt Tower, 11th Floor Amstelplein 11096HA, Netherlands. Telephone: 31 2-0462-1300. Morgan Stanley Investment Management is a branch office of Morgan Stanley Investment Management Limited. Morgan Stanley Investment Management Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom. **Switzerland:** Morgan Stanley & Co. International plc, London, Zurich Branch Authorised and regulated by the Eidgenössische Finanzmarktaufsicht ("FINMA"). Registered with the Register of Commerce Zurich CHE-115.415.770. Registered Office: Beethovenstrasse 33, 8002 Zurich, Switzerland, Telephone +41 (0) 44 588 1000. Facsimile Fax: +41(0) 44 588 1074.

**US:** A separately managed account may not be suitable for all investors. Separate accounts managed according to the Strategy include a number of securities and will not necessarily track the performance of any index. Please consider the investment objectives, risks and fees of the Strategy carefully before investing. A minimum asset level is required. For important information about the investment manager, please refer to Form ADV Part 2.

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

**Hong Kong:** This document has been issued by Morgan Stanley Asia Limited for use in Hong Kong and shall only be made available to "professional investors" as defined under the Securities and Futures Ordinance of Hong Kong (Cap 571). The contents of this document have not been reviewed nor approved by any regulatory authority including the Securities and Futures Commission in Hong Kong. Accordingly, save where an exemption is available under the relevant law, this document shall not be issued, circulated, distributed, directed at, or made available to, the public in Hong Kong. **Singapore:** This document should not be considered to be the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor under section 304 of the Securities and Futures Act, Chapter 289 of Singapore ("SFA"), (ii) to a "relevant person" (which includes an accredited investor) pursuant to section 305 of the SFA, and such distribution is in accordance with the conditions specified in section 305 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. In particular, for investment funds that are not authorized or recognized by the MAS, units in such funds are not allowed to be offered to the retail public; any written material issued to persons as aforementioned in connection with an offer is not a prospectus as defined in the SFA and, accordingly, statutory liability under the SFA in relation to the content of prospectuses does not apply, and investors should consider carefully whether the investment is suitable for them. **Australia:** This publication is disseminated in Australia

by Morgan Stanley Investment Management (Australia) Pty Limited ACN: 122040037, AFSL No. 314182, which accept responsibility for its contents. This publication, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act.

#### IMPORTANT INFORMATION

**EMEA:** This communication has been issued by Morgan Stanley Investment Management Limited ("MSIM"). Authorised and regulated by the Financial Conduct Authority. Registered in England No. 1981121. Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA.

There is no guarantee that any investment strategy will work under all market conditions, and each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market.

**A separately managed account may not be suitable for all investors. Separate accounts managed according to the Strategy include a number of securities and will not necessarily track the performance of any index. Please consider the investment objectives, risks and fees of the Strategy carefully before investing.**

This material is a general communication, which is not impartial and 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. All investments involve risks, including the possible loss of principal. 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.

Except as otherwise indicated herein, the views and opinions expressed herein are those of the portfolio management team, are based on matters as they exist as of the date of preparation and not as of any future date, and will not be updated or otherwise revised to reflect information that subsequently becomes available or circumstances existing, or changes occurring, after the date hereof. The views expressed do not reflect the opinions of all portfolio managers at Morgan Stanley Investment Management (MSIM) or the views of the firm as a whole, and may not be reflected in all the strategies and products that the Firm offers.

Any weights and/or holdings referenced herein represent typical ranges and are not a maximum number. The portfolio may exceed this from time to time due to market conditions and outstanding trades.

Any index referred to herein is the intellectual property (including registered trademarks) of the applicable licensor. Any product based on an index is in no way sponsored, endorsed, sold or promoted by the applicable licensor and it shall not have any liability with respect thereto.

MSIM has not authorised financial intermediaries to use and to distribute this document, unless such use and distribution is made in accordance with applicable law and regulation. Additionally, financial intermediaries are required to satisfy themselves that the information in this document is suitable for any person to whom they provide this document in view of that person's circumstances and purpose. MSIM shall not be liable for, and accepts no liability for, the use or misuse of this document by any such financial intermediary.

This communication is not a product of Morgan Stanley's Research Department and should not be regarded as a research recommendation. The information contained herein has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

Any portfolio risk management processes discussed include an effort to monitor and manage risk, but should not be confused with and do not imply low risk or the ability to control risk.

Investments selected using **proprietary quantitative models** may perform differently than expected and technical issues in the construction and implementation of the models may occur. If the data used by the models proves to be incorrect or incomplete, the Fund may suffer losses.

Morgan Stanley is a full-service securities firm engaged in a wide range of financial services including, for example, securities trading and brokerage activities, investment banking, research and analysis, financing and financial advisory services.

This document may be translated into other languages. Where such a translation is made this English version remains definitive. If there are any discrepancies between the English version and any version of this document in another language, the English version shall prevail.

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

The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without MSIM's express written consent.

All information contained herein is proprietary and is protected under copyright law.

Explore our site at [www.morganstanley.com/im](http://www.morganstanley.com/im)