DOW JONES

Investing In Funds & ETFs: A Quarterly Analysis --- Winners' Circle: And the No. 1 Stock-Fund Manager Is... --- A Morgan Stanley manager... 2

THE WALL STREET JOURNAL.

Investing In Funds & ETFs: A Quarterly Analysis --- Winners' Circle: And the No. 1 Stock-Fund Manager Is... --- A Morgan Stanley manager posts a 56.2% gain for the 12 months

By Suzanne McGee
1,310 words
6 July 2020
The Wall Street Journal
J
R1
English

After enduring the most volatile market swings in the U.S. stock market in more than three-quarters of a century, even the best-performing mutual-fund managers might be forgiven for wanting to socially distance themselves from anything to do with stocks.

But some have thrived. While the spring's selloff, followed by an almost eerily rapid and dramatic rebound, may have driven some investors into hiding, the active professional managers with the best performances over the past 12 months are riding out the storm. They have stuck with their strategies over the long term.

"We go through periods where we look stupid compared to a lot of other people, or to the market," says No. 1 manager Dennis Lynch, head of the Counterpoint Global team at Morgan Stanley Investment Management and manager of Morgan Stanley Institutional Discovery Portfolio (MPEGX). He's looking smart now: The fund won our latest Winners' Circle contest with a 12-month total return of 56.2%.

For the year to date through June 30, the fund was up 59.3%.

The quarterly Winners' Circle review is based on the trailing 12-month performance of actively managed U.S.-stock funds (those with at least $50 million in assets, a three-year record and that don't employ leverage or rely on quantitative screens to select their holdings). Index funds don't qualify, as this review measures stock-picking prowess.

The long-term focus helped Mr. Lynch and his colleagues identify early some of those businesses that have held up during selloffs, or even profited during the pandemic, like videoconferencing app Zoom Video Communications Inc. Certainly, a combination of skill and luck led to Morgan Stanley growth-stock funds capturing three spots out of the top five in this quarter's collection of winning managers.

The Winners' Circle list was dominated by growth funds -- which focus on companies that promise rapidly increasing profits and revenue -- run by Morgan Stanley and by Zevenbergen Capital. (As always, the Winners' Circle funds aren't investment recommendations, despite their short-term returns. Some funds are reserved for institutional investors, requiring high minimum investments.)

"Our strategy has been to collect a portfolio of unique companies that have a strong competitive position and offer big growth opportunities over the long term. We don't try to make any shorter-term predictions," says Mr. Lynch.

The strong performance of his Discovery fund, as well as Morgan Stanley Insight (CPODX) and Morgan Stanley Institutional Growth (MSEQX) -- which ranked No. 3 and No. 5, with returns of 49.0% and 46.3% -- is the result, Mr. Lynch says, of winnowing through broad indexes in quest of outsize long-term potential. In an environment like this, Mr. Lynch argues that selloffs and rallies grab headlines but don't capture an investor's real opportunities and risks.

"Limited pockets have done very well, some things have not recovered and others have been decimated," he notes.

Both Mr. Lynch and the management team at Zevenbergen are repeat winners and/or runners-up in this quarterly contest, but never before has the list of top-performing funds been dominated by only two fund families. The institutional class of Zevenbergen Growth Fund (ZVNIX) ranked second in terms of its 12-month return, posting a gain of 53.3% for that period and 52.5% for 2020 so far. In fourth place was Virtus Zevenbergen Innovative Growth Fund (SAGAX), which rewarded investors with a 48.8% return for the 12 months, and is ahead 48.7% for the year so far.

Other funds run by the two teams at Morgan Stanley and Zevenbergen also made the list of the 10 best performers, based on data from Morningstar: In all, seven of these top 10 actively managed funds were run by the same two growth-investing teams.

One of the holdings that has made both management teams' winners for this period is Zoom. "The pandemic and the economic shutdown didn't form part of our investment thesis," says Anthony Zackery, one of the portfolio managers who oversees the Zevenbergen funds. But, he adds, the economic shutdown that has accompanied the spread of Covid-19 has benefited many of the team's top investment ideas, as consumers and businesses reinvent how they interact and live their lives.

"Even before this happened, the vast majority of the companies and themes we've been investing in are tied to **digital transformation**," says Joe Dennison, another member of Zevenbergen's management team. "Many of our companies are experiencing growing adoption rates in the midst of this, and that has benefited the portfolio."

Mr. Lynch began accumulating a stake in Zoom when it went public last year and added to his funds' holdings in the final months of 2019. "We thought it had interesting qualities even before all this happened," says Mr. Lynch. "It's hard to call anyone a winner at a time like this, but [Zoom's] CEO and founder has done some pretty incredible things and been impressive in how he has reacted to some of" the firm's problems and growing pains. Specifically, Mr. Lynch points to Zoom's rapid moves to address security by recruiting experienced top talent in that area.

Both investment-management teams emphasize the long-term nature of their strategies. "People spend too much time talking about tactics and timing; about when they are buying versus what they are buying," says Mr. Lynch.

Other holdings in Mr. Lynch's funds that he believes will reward his investors in both the short and longer term include music-streaming service Spotify **Technology** SA and Twilio Inc., which enables consumers to communicate more effectively with newer businesses like ride-sharing and food/merchandise delivery companies. Mr. Lynch says that while Twilio stock lagged behind the market at the height of the pandemic selloff, its fundamentals remain strong and it has had a pickup in usage by new clients including health-care providers. "We could have overreacted and sold it," Mr. Lynch says. Instead, he focused on that long-term potential to expand its reach and market share.

Mr. Dennison's emphasis on the longer term mirrors Mr. Lynch's. "We want to own shares in those companies that will demonstrate the best growth over the next three to five years," Mr. Dennison says. That means being prepared to ride out volatile periods in the markets. "Opportunities are rarely linear" in nature, he says.

In the Zevenbergen funds that own large and midcap stocks, the team has accumulated stakes in businesses like Trade Desk Inc., which specializes in online-advertising **technology**, and Teladoc Health Inc. The funds have owned both stocks for some time, and both are seeing greater growth potential in the pandemic economy as streaming television becomes more common and telemedicine has established itself.

In Zevenbergen Genea Fund (ZVGIX), which ranked No. 7 in this quarter's competition with a 44.5% 12-month return, the managers invest in earlier-stage businesses, many of which are also thriving as consumers direct more of their purchases toward small online merchants. The fund's holdings include Etsy, which has had a surge in transactions as bricks-and-mortar retailers have closed.

"We're not trying to make any short-term predictions about where we go from here," says Mr. Lynch. In this environment, as in any other, "You have to be willing to be different and often be willing to look like a fool, over shorter time periods. You can never have the mind-set that you've won the game."

Ms. McGee is a writer in New England. She can be reached at reports@wsj.com.

Document J000000020200706eg7600002

Search Summary

Text	(technology OR "AI" OR fintech OR "digital banking" OR "cloud computing" OR blockchain OR cybersecurity OR "machine learning" OR "data analytics" OR "big data" OR "predictive analytics" OR "cloud migration" OR "edge computing" OR "5G banking" OR "API banking" OR "open banking" OR "data governance" OR "data monetization" OR "digital transformation" OR "quantum computing" OR "AI-driven banking" OR "AI in compliance" OR "AI-powered fraud detection" OR "AI in customer service" OR "AI in investment banking" OR "conversational AI" OR "generative AI" OR "robo-advisors"

	OR "natural language processing" OR "algorithmic trading" OR "automated risk assessment" OR "AI regulatory challenges" OR "embedded finance" OR neobanks OR "Banking as a Service" OR "BaaS" OR regtech OR suptech OR "decentralized finance" OR DeFi OR "cryptocurrency adoption" OR "Central Bank Digital Currencies" OR CBDCs OR tokenization OR "real-time payments" OR "Buy Now Pay Later" OR BNPL OR "cyber resilience" OR "Zero Trust security" OR "identity verification" OR "fraud detection" OR "insider threats" OR "AI-driven cybersecurity" OR "financial data breaches" OR "data privacy laws" OR GDPR OR CCPA OR "operational risk management" OR "regulatory compliance technology" OR KYC OR "Know Your Customer" OR AML OR "Anti-Money Laundering" OR "hyper-personalization in banking" OR "customer-centric banking" OR "omnichannel banking" OR "digital wallets" OR "contactless payments" OR "voice banking" OR "biometric authentication" OR "wearable banking" OR "banking UX/UI innovations" OR "financial inclusion technology")
Date	07/01/2020 to 09/30/2020
Source	The New York Times Or The Wall Street Journal Or The Economist Or Forbes
Author	All Authors
Company	Morgan Stanley
Subject	All Subjects
Industry	All Industries
Region	All Regions
Language	English
Results Found	1
Timestamp	5 March 2025 3:26 PM GMT

