

## Q&A with Burak Alici

ACTIVE FUNDAMENTAL EQUITY | GROWTH TEAM | Q&A | 2017

Burak Alici, Portfolio Manager for the Morgan Stanley Global Discovery Strategy introduces the latest Strategy in the Growth Team stable.

### How do you approach investing?

**BURAK ALICI (BA):** I believe investing is very much about pattern recognition. It is something that must be worked on, creating your own mental library of patterns. It's a constant learning process—it never stops.

I tend to gravitate towards businesses that can be characterized as secular compounders, innovative disrupters with the potential to be much bigger over time, quality assets at a large discount and early stage ventures.<sup>1</sup> In each case I am looking to identify the moat of the company and its sustainability.

Complexity I avoid, but uncertainty I actively seek out. Uncertainty can be caused by a lack of coverage by analysts. I spend a lot of time researching special situations as well as smaller companies that might be less well understood or followed by the investing community.

I like to focus on industries that tend to have higher quality businesses and easy to understand dynamics. Examples of these could be branded consumer businesses, or industrial businesses with distribution advantages. More importantly, I know what I want to avoid—complex industries. Those I would classify as complex might be sensitive to regulation or might be adversely impacted by disruptive change. As a result, I tend to avoid areas such as automobiles, airlines, utilities, telecommunications and banks.

AUTHOR



**BURAK ALICI**  
*Managing Director  
Morgan Stanley  
Investment Management*

<sup>1</sup>Compounders are defined as securities that exhibit high return on capital and consistent growth.

As a Team we build our benchmark agnostic portfolios on conviction. I read hundreds of annual reports, visit companies, speak with company management, talk to my colleagues on the Team, discuss and debate ideas, all with the goal of building my level of conviction.

**The Growth Team is well established within Morgan Stanley Investment Management (MSIM); can you talk us through your path to becoming a Team member?**

**BA:** I grew up in both Turkey and Germany, and while no one in my family worked in finance—instead mostly in medicine and engineering—my natural interest in finance developed at an early age. I think living through a triple digit interest rate environment, plus two major currency devaluations as a teenager certainly contributed to this interest; you don't need to be taught about the time value of money and compounding when you live it every day.

Whilst studying for my undergraduate degree in engineering I made my first forays into the financial field, working on a bond trading desk. I spent a year at graduate school in Boston before beginning work as a quantitative analyst, building stock selection models for use in market neutral investment strategies. I used the experience I had gained to launch a small market-neutral quantitative fund in Turkey.

It was while I was looking at local single stock investments that I realized that the market is not always efficient. I explored this further, which ultimately changed the way I looked at both risk and concentration. I decided it was time to completely reset my investing framework and headed off to Columbia Business School. Upon completion of my studies, I joined MSIM, conducting research and working increasingly closely with the Growth Team, eventually joining the Team in 2010.

When I first joined MSIM I was more of a dogmatic value investor. Since joining the

Growth Team I have continued to evolve as an investor. Spending time with the Team has led me to appreciate that growth is an important part of the value equation.

**What are the distinctions between your investment process and that of the Growth Team?**

**BA:** I think the big difference is that I use a broader range of mental models, considering what might conventionally be viewed as value type investments that would not be considered for other Growth Team strategies. I also use flows as an opportunity to rebalance the portfolio based on conviction while the Team more typically allocates flows pro rata. There are really more similarities in the process than differences however.

**Can you describe how you fit within the Growth Team, how your different styles mesh?**

**BA:** Our shared culture influences all of the investment decisions we make and reinforces long-term thinking in everything we do. We are encouraged to read and learn about non-investment related subjects and open our minds to a broader level of thinking. Our U.S. Growth Network, a shared reading network with over 150 members from across MSIM and external investment management firms, is a unique source of research, as well as a way of leveraging the differentiated intellectual capital that exists at MSIM.

So while I have some different mental models, the investment decisions I make are founded on the bedrock of the Team culture. I am able to draw upon the expertise of other investors on the Team, for example collaborating with our Disruptive Change Researcher, Stan DeLaney. My discussions with senior investors on the Team are helpful when making portfolio construction decisions. In addition, my research can be utilized by other members of the Team, acting as a catalyst for new investment ideas or to build conviction around existing names.

**Given your background, do you use any quantitative tools or databases to generate ideas or construct your portfolios?**

**BA:** No. I generally don't feel the need to consult databases to find ideas. In-depth research and interactions with our contact network spark ideas and we regularly monitor special situations such as spin-offs and IPOs to find potential opportunities.

When I conduct primary research, I go about it in the same way an entrepreneur starting a business in the sector might, evaluating the landscape and getting to know the business and industry inside and out. I evaluate the management teams, researching their track records and reputations. As a team we conduct hundreds of meetings with company management each year; the knowledge gathered is an important factor in building conviction levels. We use these company visits and research as a way of monitoring our holdings as well, a continuous review and re-assessment of our conviction levels in a stock.

Quantitative models are not used when constructing the portfolio. We do not equate risk with volatility. For a bottom-up investor, investment risk is either being wrong in your analysis or there being a permanent impairment of the underlying business value.

**The Growth Team also manages the Global Opportunity and Global Advantage strategies. Does this strategy overlap these? Where do you see it fitting in an investor's portfolio?**

**BA:** Global Discovery is a concentrated, go anywhere, "best ideas"<sup>2</sup> portfolio with a benchmark agnostic emphasis on actual returns rather than relative, so in that respect we consider it complementary to our other global strategies. As for where it fits, I would say this strategy might suit investors looking for alpha and not for an equity strategy that fits neatly into a box.

<sup>2</sup> There can be no guarantee that the Fund will achieve its investment objectives or that a portfolio consisting of the team's "best ideas" will experience positive performance.

## About Morgan Stanley Investment Management

MSIM, together with its investment advisory affiliates, has 586 investment professionals around the world and approximately \$435 billion<sup>3</sup> in assets under management or supervision as of June 30, 2017. MSIM strives to provide outstanding long-term investment performance, service and a comprehensive suite of investment management solutions to a diverse client base, which includes governments, institutions, corporations and individuals worldwide. For more information, please email us at [info@morganstanley.com](mailto:info@morganstanley.com) or visit our website at [www.morganstanley.com/im](http://www.morganstanley.com/im).

---

<sup>3</sup> Assets under management as of June 30, 2017. MSIM is the asset management division of Morgan Stanley. Assets are managed by teams representing different MSIM legal entities; portfolio management teams are primarily located in New York, Philadelphia, London, Amsterdam, Hong Kong, Singapore, Tokyo and Mumbai offices. Figure represents MSIM's total assets under management/supervision.

#### DISCLOSURES

**Alpha:** A measure of the difference between an investment's actual returns and expected performance, given its level of volatility, measured by beta. A positive alpha indicates an investment has performed better than its beta would predict. **Beta:** A measure of a portfolio's sensitivity to market movements. By definition, the beta of the stock market is 1.00. Therefore, a portfolio with a beta of 1.10 is expected to perform 10% better than the stock market in "up" markets and 10% worse in "down" markets.

#### RISK CONSIDERATIONS:

**Past performance is not a guarantee of future results.** 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). 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. **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. **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.

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.

Except as otherwise indicated herein, the views and opinions expressed herein 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.

**Please consider the investment objectives, risks, charges and expenses of the funds carefully before investing. The prospectuses contain this and other information about the funds. To obtain a prospectus please 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.

**Morgan Stanley Institutional Fund Inc. (MSIF)** is a mutual fund offering various active portfolios, including equity, fixed-income, international, emerging markets, real estate and growth portfolios. **Fund adviser** MSIF is managed by Morgan Stanley Investment Management, Inc.

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