

Fact Sheet

April 2009



FIXED INCOME OVERVIEW

March always remains the month of uncertainty for the Indian fixed income market and the "supply hangover" theme ensured that it is no different this time as well. The Reserve Bank of India decided to cut the benchmark repo and the reverse repo rate by 50bps each to 5.00% and 3.50% respectively. The month saw easy liquidity condition despite tax outflows, followed by progressively lower inflation numbers (WPI). The RBI also bought around INR 40 billion of Government bond via OMO route during the course of the month. These factors would have surely given a sentimental and fundamental boost to the bond curve. Nevertheless, the fear of enormous supply in the following quarter led the market participants to restrict their position build-up. The results were too obvious then; there was a significant hardening and steepening in the yield curve and the outlook remains cautious and uncertain.

The global as well as the domestic economic data coming out continue to print poor readings and expectations of further bailouts/economic stimuli were still running strong. During the month, the FOMC decided to buy back agency (treasuries) debt of another USD 300 billion and mortgage assets worth USD 750 billion, extending Fed's balance sheet by another USD 1.15 trillion.

The domestic trade data weaken further with export in dollar for the month of January 2009 witnessing a sharp 15.9% YoY decline compared with -1.1% YoY in December 2008. The import growth in dollar terms also decelerated on high base effect by 18.2% YoY in January 2009 compared with +8.8% in December. The IIP number maintaining its trend line continues to print negative with a read of -0.5% for the month of January 2009 indicating that the slackness in manufacturing still looms large.

On the prices front, the effect of high base playing out will ensure that the inflation (WPI) settles down gradually to sub zero level. The latest read on WPI is at 0.27% for the week ended on 14th March 2009. The CPI is also mirroring the WPI direction; however, the absolute level on CPI remains quite elevated. The average of major baskets for the month of January 2009 was in excess of 10%. The food inflation and their higher weight in the basket led to CPI ruling high. The international crude prices remained in a range of \$37- \$55 a barrel during the course of the month.

The domestic currency came under stress due to volatility prevailing in the equity market. It went to breach the psychological 52 mark a dollar before recouping a part of the loss to close the month at INR 50.75 to a dollar. The Foreign Exchange reserve closed at around \$253 billion as on 15th March 09.

The sovereign bond yield curve lost heavily during the course of the month. The benchmark 10-year point closed the month at 7.01% against the previous month level at 6.03%. The regular supply of sovereign bonds and the expected upcoming massive borrowing program led to significant weakening in the sovereign curve. The corporate curve reacted in line with the sovereign curve but contrary to expectation, towards the month end the corporate bond spread tightened significantly from the pre-month level. The benchmark AAA 10-year corporate closed at 9.15% against the previous month level of around 9.20%. The shorter end of the curve lost significantly due to typical year-end phenomena, wherein the balance sheet acts as the primary

consideration. However, towards the month end the benign outlook on liquidity led to a rally in the shorter end of the corporate curve.

The auction calendar for the next fiscal was released and the borrowing for the first half of the year constitutes about 2/3rd of the scheduled borrowing for the entire year. However, the RBI also announced to unwind a part of the MSS and conduct OMO purchase during the course of year to conduct the borrowing in a manner, which is least disruptive to the market. The coupon inflow and maturity along with the measures undertaken by RBI may ensure that the first half borrowing of around INR 2.41 trillion sails through smoothly. With liquidity expected to remain comfortable, the yield curve is likely to normalize in some time although volatility is something that cannot be ruled out during the phase.

Key Financial Data

Benchmark	Current Month	Previous Month	Previous Year	Change	Change
	31/03/09	28/02/09	31/03/08	(Monthly)	(Since March)
364 Day T-bill (Primary)	5.50%	4.65%	7.35%	0.85%	-1.85%
5-year Gilt Benchmark	6.76%	5.91%	7.77%	0.85%	-1.01%
10-year Gilt Benchmark	7.01%	6.02%	7.96%	0.99%	-0.95%
30-year Gilt Benchmark	7.80%	7.60%	8.42%	0.20%	-0.62%
91 Day Manufacturing CP(P1+)	9.20%	9.06%	10.03%	0.14%	-0.83%
91 day Bank CD	6.08%	5.68%	9.75%	0.40%	-3.68%
1-yr AAA Spreads	2.36%	2.51%	2.19%	-0.15%	0.16%
5-yr AAA Spreads	1.66%	2.41%	1.54%	-0.75%	0.11%
5-yr OIS	5.61%	4.93%	7.22%	0.69%	-1.61%
CRR	5.00%	5.00%	7.50%	0.00%	-2.50%
RBI LAF- Reverse Repo Rate*	3.50%	4.00%	6.00%	-0.50%	-2.50%
Foreign Exchange Reserve (\$ bn)	253.83	249.28	309.16	4.55	(55.34)
Nymex Crude	49.66	44.76	101.58	4.90	(51.92)
US Fed Funds Rate	0.25%	0.25%	2.25%	0.00%	-2.00%
US 10-yr Gilt	2.66%	3.01%	3.41%	-0.35%	-0.75%
INR/USD	50.73	51.16	40.12	-0.84%	26.45%
USD/Euro	1.33	1.27	1.58	-4.59%	16.08%
USD/ Yen	98.96	97.57	99.69	1.42%	-0.73%

*RBI Repo Rate at 5%

Sources - Internal & Bloomberg

Ritesh Jain

Head of Fixed Income & Lead Portfolio Manager, Fixed Income Boutique

EQUITY OVERVIEW

It is said that the markets have an uncanny habit of surprising everyone and this was demonstrated by the rally in equity markets over the last month. Globally, stocks staged a rally and the Indian markets participated in this global surge. Commodities, including crude oil, too gained on signs of stability returning to the global economy and a somewhat weak dollar. In the United States, a combination of better than expected economic data and announcement on the new stimulus package from the Obama administration, helped stabilize the US equity markets. A lot is dependent on the successful implementation of newly announced Public Private Investment Program for the US financial institutions.

On the domestic front, we are seeing signs of recovery in the economy with continued strong sales volume numbers from sectors such as cement, auto, steel, telecom and others. Accelerated spending on infrastructure sector ahead of general elections and construction activity in rural India helped sectors like cement and steel. Demand in auto sector is driven by lower interest cost and lower fuel costs. The steps announced by the Government and RBI to revive growth in the Indian economy have begun to show desired signs of initial impact. However, the large revenue shortfall on account of economic slowdown and high spending, imply high fiscal deficit and limited maneuverability for the government. Thus, private investment and consumption needs to pickup in a meaningful way for the economy to grow at a higher trajectory. This may not happen unless interest rates are brought down significantly and confidence is restored for the corporates. Early estimates suggest economic growth of around 5-6% for the economy for FY10. We sense that

the growth will be more back ended, with it being significantly slow in the first half. Thus, task for the new administration post the national election has been cut out.

The focus for the Indian equities for the next two months would be on a couple of key events like the corporate results that should start to flow from mid-April and the outcome of the General Election, which should be known by mid-May. The outcome of these two events could have a significant influence on equity markets in the medium term.

Morgan Stanley A.C.E. Fund Outlook

In terms of our portfolio action, our bullish stance helped us in the last few weeks. Our overall sector and stock selection remain largely unchanged. We are maintaining underweight in oil marketing companies, software services, auto and real estate sectors. Our overweight sectors continue to remain private sector banks and materials (including cement). With significant allocation to consumer products and utilities sectors, we continue to monitor macro economic data and corporate results closely.

Jayesh Gandhi

Lead Portfolio Manager, Multi/Mid Cap Equities

Morgan Stanley Growth Fund

(An open-ended Equity Fund)

Details as on 31st March, 2009

Portfolio (✓ Top Ten Holdings)

Industry Classification	Security Description	% of Total Net Assets
Banks		26.48%
	✓ HDFC Bank Limited	9.46%
	✓ State Bank of India	6.29%
	Bank of Baroda	2.57%
	Bank of India	2.54%
	ICICI Bank Limited	2.32%
	Axis Bank Limited	2.18%
	Union Bank of India	1.12%
Software		9.83%
	✓ Infosys Technologies Limited	8.51%
	Geodesic Limited	1.32%
Consumer Non Durables		9.33%
	✓ ITC Limited	4.40%
	✓ Nestle India Limited	3.64%
	Balrampur Chini Mills Limited	1.29%
Petroleum Products		9.02%
	✓ Reliance Industries Limited	6.93%
	Hindustan Petroleum Corporation Limited	2.09%
Industrial Capital Goods		8.86%
	✓ Bharat Heavy Electricals Limited	8.86%
Diversified		6.50%
	✓ Hindustan Unilever Limited	6.50%
Auto		6.20%
	✓ Hero Honda Motors Limited	4.14%
	Maruti Suzuki India Limited	2.06%
Cement		5.17%
	Jaiprakash Associates Limited	2.08%
	Ambuja Cements Limited	2.02%
	The India Cements Limited	1.07%
Telecom - Services		4.10%
	✓ Bharti Airtel Limited	4.10%
Construction Project		3.01%
	Larsen and Toubro Limited	3.01%
Pesticides		2.06%
	United Phosphorus Limited	2.06%
Media & Entertainment		1.81%
	Deccan Chronicle Holdings Limited	1.26%
	Television Eighteen India Limited	0.55%
Construction		1.07%
	The Phoenix Mills Limited	0.76%
	Madhucon Projects Limited	0.31%
Power		0.78%
	Jyoti Structures Limited	0.78%
Industrial Products		0.74%
	Ess Dee Aluminium Limited	0.74%
Cash and other assets		5.04%
Grand Total		100.00%

Performance (in %)

Period	Fund Returns*	BSE 100
Absolute Returns during the trailing year [(+) (-)]	-41.32	-39.97
Compounded Annualised Growth Rate		
(i) Last 3 years	-12.45	-5.75
(ii) Last 5 years	9.06	10.75
(iii) Since the launch of the scheme (18th February 1994)	9.90	6.52

Past performance may or may not be sustained in future. *Performance of the fund (Growth Option) has been calculated based on the assumption that all dividends during the period have been reinvested in the scheme at the then prevailing NAV.

Fund Features:

Investment Objective:

The investment objective of the scheme is to achieve long-term capital appreciation by investing primarily in equity and equity related securities of companies having large market capitalization[#].

Asset Allocation:

Equity and Equity related instruments of companies having large market capitalization[#]: 65 – 100%
Equity and Equity related instruments other than mentioned in above: 0 – 35%
Debt and Money Market Instruments (including Securitised Debt): 0 – 35%

NAV:

Growth Rs. 31.011 per unit
Dividend Rs. 10.104 per unit

Expense Ratio:

1.57% of average daily net assets

Portfolio Turnover:

0.73

Volatility Measures:

(for trailing 3 year period)
Standard Deviation 9.25%
Beta 0.94
Sharpe Ratio¹ -0.60

Benchmark Index:

BSE 100

Options:

Growth Option and Dividend Option.

Minimum Investment Amount:

Lump Sum: Rs. 5,000
SIP: Rs. 1,000 via 6 installments

Load Structure:

Entry Load:

< Rs. 5 crore: 2.25%
≥Rs. 5 crore: Nil

Exit Load:

(a) 1% for < Rs. 5 crore, if redeemed/switched on or before the expiry of one year from the date of allotment; otherwise: Nil.
(b) ≥Rs. 5 crore: Nil.

Date of Inception:

18th February, 1994

Fund Managers:

Sridhar Sivaram
Amay Hattangadi

Fund AUM:

Rs. 1378.48 crore

#For the purpose of this Scheme, any company having a minimum threshold limit of market capitalization which is equal to or more than the market capitalization of the 100th stock in BSE 100, as on the date of investment shall qualify as Large Cap Company.

¹ Risk Free rate is based on 3 month T-Bill rate

Dividend History

Record Date	Date of Declaration	Dividend per unit (Rs.)	Ex-Dividend NAV Date	Ex-Dividend NAV per unit (Rs.)
July 09, 1999	June 23, 1999	0.75	June 25, 1999	12.83
April 29, 2000	April 18, 2000	0.75	April 20, 2000	16.60
June 11, 2001	June 4, 2001	1.00	June 06, 2001	10.72
May 13, 2004	April 28, 2004	1.50	April 29, 2004	21.82
October 27, 2006	October 13, 2006	2.00	October 16, 2006	46.88

Note: Face Value Rs. 10 per unit.

Morgan Stanley A.C.E. Fund

(An open-ended Across Capitalisations Equity Fund)

Details as on 31st March, 2009

Portfolio (✓ Top Ten Holdings)

Industry Classification	Security Description	% of Total Net Assets
Banks		18.45%
	✓ HDFC Bank Limited	5.16%
	✓ ICICI Bank Limited	3.06%
	State Bank of India	2.53%
	AXIS Bank Limited	2.37%
	Punjab National Bank	1.60%
	Kotak Mahindra Bank Limited	1.43%
	Bank of India	1.35%
	Bank of Baroda	0.95%
Petroleum Products		10.40%
	✓ Reliance Industries Limited	9.34%
	Reliance Petroleum Limited	1.06%
Consumer Non Durables		7.89%
	✓ Marico Limited	2.78%
	Dabur India Limited	1.99%
	Shaw Wallace and Company Limited	1.76%
	Britannia Industries Limited	1.36%
Power		7.72%
	✓ GVK Power and Infrastructure Limited	3.02%
	✓ Reliance Infrastructure Limited	2.80%
	CESC Limited	0.95%
	Power Grid Corporation of India Limited	0.95%
Cement		7.08%
	Jaiprakash Associates Limited	2.30%
	Ultra Tech Cement Limited	2.13%
	The India Cements Limited	1.50%
	Shree Cements Limited	1.15%
Telecom - Services		6.40%
	✓ Bharti Airtel Limited	5.35%
	Reliance Communications Limited	1.05%
Software		5.77%
	✓ Infosys Technologies Limited	4.20%
	Mphasis Limited	1.57%
Pharmaceuticals		4.87%
	Sun Pharmaceutical Industries Limited	1.95%
	Cipla Limited	1.90%
	Piramal Healthcare Limited	1.02%
Ferrous Metals		4.02%
	✓ Jindal Steel and Power Limited	4.02%
Oil		3.08%
	✓ Oil and Natural Gas Corporation Limited	3.08%
Construction Projects		2.72%
	Larsen and Toubro Limited	1.54%
	Voltas Limited	1.18%
Finance		2.67%
	Housing Development Finance Corpn. Ltd.	1.53%
	Infrastructure Development Finance Co. Ltd.	1.14%
Industrial Capital Goods		2.67%
	Bharat Heavy Electricals Limited	2.67%
Non - Ferrous Metals		2.54%
	Hindustan Zinc Limited	2.54%
Auto Ancillaries		1.53%
	Exide Industries Limited	1.53%
Diversified		1.35%
	Hindustan Unilever Limited	1.35%
Industrial Products		1.01%
	Sintex Industries Limited	1.01%
Construction		0.98%
	IVRCL Infra and Projects Limited	0.81%
	B L Kashyap and Sons Limited	0.17%
Transportation		0.79%
	IRB Infrastructure Developers Limited	0.79%
Cash and other assets		8.06%
Grand Total		100.00%

Performance (in %)

Period	Fund Returns* BSE 200
Since Inception (3rd April, 2008)	-38.42 -41.52

*Absolute returns of the growth option are computed. "Since Inception" returns are calculated on Rs. 10/- invested at inception. Past performance may or may not be sustained in future.

Fund Features:

Investment Objective:

To generate long-term capital growth from an actively managed portfolio of equity and equity-related securities including equity derivatives.

Asset Allocation:

Equity and Equity Related Instruments: 65% – 100%
Debt and Money Market Instruments (including Securitised Debt): 0 – 35%

NAV:

Growth Rs. 6.158 per unit
Dividend Rs. 6.158 per unit

Expense Ratio:

2.58% of average daily net assets.
The expenses of the fund have exceeded the 2.50% SEBI limit as the average net assets of the fund are calculated from the date of allotment and management fees is accrued from the date of inflows including the NFO period.

Benchmark Index:

BSE 200

Options:

Growth Option and Dividend Option.

Minimum Investment Amount:

Lump Sum: Rs. 5,000
SIP: Rs. 1,000 via 6 installments

Load Structure:

Entry Load:

< Rs. 5 crore: 2.25%
>=Rs. 5 crore: Nil

Exit Load:

(a) 1% for < Rs. 5 crore, if redeemed/switched on or before the expiry of one year from the date of allotment; otherwise: Nil.
(b) >= Rs. 5 crore: Nil.

Date of Inception:

3rd April, 2008

Fund Manager:

Jayesh Gandhi

Fund AUM:

Rs. 74.22 crore

Morgan Stanley Mutual Fund Branch Offices

• Ahmedabad	079 2644 9132	• Bangalore	080 4180 0702
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Statutory Details: Morgan Stanley Mutual Fund has been set up as a Trust under Indian Trusts Act, 1882. **Sponsor:** Morgan Stanley. **Trustee:** Board of Trustees. **Investment Manager:** Morgan Stanley Investment Management Pvt. Ltd. **Risk Factors:** All mutual funds and securities investments are subject to market risks and there can be no assurance that the objectives of the Scheme will be achieved. As with any securities investment, the NAV of the units issued under the Scheme may go up or down, depending upon the factors and forces affecting the capital markets. Past performance of the Sponsors/Investment Manager/Mutual Fund does not, in any manner, indicate the future performance of the Scheme, and may not necessarily provide a basis of comparison with other investments. There is no assurance or guarantee to the unit holders as to the rate of dividend distribution nor that dividends will be paid regularly. Investors in the Scheme are not being offered any guaranteed/assured returns. The liquidity of investments made in the Scheme may be restricted by trading volumes and settlement periods. The Sponsor is not responsible or liable for any loss resulting from the operations of the Scheme beyond their initial contribution of Rs. 5 lac towards setting up of the Mutual Fund and such other accretions and additions to the corpus. **Investors should read the Statement of Additional Information and Scheme Information Document/Key Information Memorandum (available at Investor Service Centres, Distributors, and on the Mutual Fund website www.morganstanley.com/indiamf), carefully before investing.**