

Fact Sheet

August 2009

FIXED INCOME OVERVIEW

Unsurprisingly, the Budget 2009-2010 emphasizes on measures for the welfare of the rural and underprivileged sectors along with a focus on infrastructure development. The Budget forecasts a nominal GDP growth of around 10 percent. The real GDP growth is projected to range between 6.5 and 7.75 percent, the implied inflation for the year is estimated to average around 3 percent. At 6.8 percent and 4.8 percent, the fiscal and revenue deficits are high but justifiable given the economic context. The central government is set to borrow INR 4.51 trillion for the year. Following the presentation of the budget the RBI revised its issuance calendar for first half of FY10. As per the revised calendar, the overall borrowing requirements for first half 2010 have been increased by INR 580 billion to INR 2.9 trillion. The program remains front-loaded with 66% of the borrowing for the year required to be complete by Sep. '09.

RBI's interim credit policy proved to be a non-significant event and the Central Bank decided to maintain status-quo on key policy rates. However, it revised its FY10 GDP forecasts to 6% ('with an upward bias') and its inflation forecast to 5% (previously 4%), while warning that food inflation is something which remains the key concern. RBI also reiterated that it has sufficient headroom to manage the government's borrowing program and that it is ready to reverse its expansionary policy quickly and effectively as and when needed. The Central Bank remains focused on maintaining an accommodative monetary stance until there are definitive and robust signs of economic recovery.

The Indian industrial production growth continues to inch higher, showing its second consecutive positive year-on-year growth rate and the strongest since September last year. The 2.7% growth was significantly higher than the market expectation. After posting the seventh consecutive quarter of deficit, in the final quarter of FY09, current account posted a positive number of USD 4.75 billion. This is primarily due to shrinking oil imports and steep drop in crude price in Q4FY09.

India's merchandise exports saw another hefty fall of 29% YOY in May 2009. Although this was slightly better than the April 09 decline of 33%, it is hardly a cause for celebration as the base effect was very helpful. Imports, meanwhile, showed the biggest contraction in the current cycle, falling more than 39%. The fall partly reflects the impact of lower oil prices (the value of oil imports fell more than 60%), but non-oil imports were also very weak at negative 25%.

The latest read on WPI is at negative 1.54% for the week ended on July 25, 2009. The inflation on the food basket continues to remain firm. During the month, the government raised the domestic retail prices of petrol by 9% (Rs. 4/ltr) and diesel by 6% (Rs. 2/ltr). Although this is still less than current international parity prices, the hike is positive and it bodes well for the reform process and is surely a step towards fiscal consolidation.

After moving in a range, the domestic currency closed at around INR 48.12 to a dollar against the previous month close of INR 47.91 per dollar. The Foreign Exchange reserve closed at around \$266.18 billion as on July 17, '09. The liquidity situation in the market continues to remain benign with system parking more than INR 1 trillion with RBI on a consistent basis through Reverse Repo window.

On the interest rate front, the sovereign bond yield curve turned quite steep after remaining volatile for most part of the month. Reflecting easy liquidity condition the medium/longer segment of the curve lost ground, while the shorter end of the curve remains stable. The new benchmark 10-year point closed the month at 7.00% against the previous month level at 7.01%. The corporate curve remained flat and the benchmark AAA 10-year corporate closed flat at 8.65%.

EQUITY OVERVIEW

The first major policy document of the new government in the form of The Union Budget 2009 was introduced last month. The Finance Minister had a tough act, in terms of maintaining the balance between stimulating growth and containing fiscal deficit. While rising fiscal deficit is a concern, the roll back of stimulus, in-terms of excise duty cuts announced earlier could have hurt the economic recovery that is underway. The thrust of the government remains on infrastructure and rural spending as seen in various announcements made in the budget. The lack of policy action on relaxation of various FDI norms, deregulation of oil sector and disinvestment came in as minor disappointments. Overall, we believe that we are likely to see more pro reform policies as the year progresses. One major area of concern that remains is the fiscal deficit, which is targeted at 6.8% of GDP, up from 5.5% announced in the interim budget. While there exists a high probability of actual fiscal deficit turning out to be lower than budgeted on the back of higher tax collection (with improved economy) and higher disinvestment receipts, the absolute amount is still very high. While the FM has announced his intention to bring down the fiscal deficit in the next two years, the lack of a clear roadmap to achieve this is disappointing.

The June '09 quarterly earnings season has so far been a positive surprise for analysts and market participants. Corporate India has clearly tightened its belt in these challenging and turbulent times and we saw impressive cost cutting across sectors. This resulted in overall earnings growth turning out to be far higher than expected, despite limited revenue growth. This to a great extent has allayed the major concern of negative operating leverage coming into play in a slowing economic growth environment. The lower reset cost structure means

Portfolio review for July 2009

The duration funds added moderate duration and were positioned at the medium end of the curve. The abundance of liquidity in the system assured that the short maturity yields stayed low during the month. The medium duration plan added marginal duration in the portfolio to capture the anticipated spread compression.

Expectations for August 2009

The market is likely to consolidate in a range. With OMO support from RBI and frequent supply of fresh sovereign bond, the curve is likely to remain in a range. The portfolios duration in the bond plan is likely to be moderate and in short-term plan the focus will continue to generate accrual income with marginal duration risk.

Key Financial Data

Benchmark	Current Month	Previous Month	Previous Financial Year	Change	Change
	07/31/09	06/30/09	03/31/09	(Monthly)	(Since March 09)
364 Day T-bill (Primary)	3.80%	3.99%	5.50%	-0.19%	-1.70%
5-year Gilt Benchmark	6.72%	6.49%	6.76%	0.23%	-0.04%
10-year Gilt Benchmark	7.00%	7.01%	7.01%	0.14%	0.14%
30-year Gilt Benchmark	7.83%	7.70%	8.42%	0.13%	-0.59%
91 Day Manufacturing CP(P1+)	4.56%	5.26%	9.20%	-0.70%	-4.64%
91 day Bank CD	3.65%	3.70%	9.75%	-0.05%	-6.10%
1-yr AAA Spreads	1.4%	1.45%	2.36%	0.00%	-0.91%
5-yr AAA Spreads	1.30%	1.40%	1.66%	-0.10%	-0.36%
5-yr OIS	6.36%	6.30%	5.61%	0.06%	0.75%
CRR	5.00%	5.00%	5.00%	0.00%	0.00%
RBI LAF- Reverse Repo Rate*	3.25%	3.25%	3.50%	0.00%	-0.25%
Foreign Exchange Reserve (\$ bn)	267.71	264.58	252.33	3.13	15.39
Nymex Crude	69.45	69.89	49.66	(0.44)	19.79
US Fed Funds Rate	0.25%	0.25%	0.25%	0.00%	0.00%
US 10-yr Gilt	3.48%	3.53%	2.66%	-0.05%	0.82%
INR/USD	47.94	47.91	50.73	0.06%	-5.51%
USD/Euro	1.43	1.40	1.33	-1.60%	-7.60%
USD/Yen	94.68	96.36	98.96	-1.74%	-4.32%

*RBI Repo Rate at 4.75%

Sources - Internal & Bloomberg

Ritesh Jain

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

earnings could grow faster than revenues, once the economy improves and sales growth picks up. The June quarter results make us more confident in the ability of India Inc. to grow earnings at sustainable 15%+ in the medium term in a more normalized economic growth environment. The earnings upgrade cycle, one of the key ingredients of an equity bull market, has picked up momentum.

The changes made in our portfolio strategy, since May this year, have worked quite well. We are overweight on infrastructure related sectors and stocks, more particularly towards utilities and power generation segment. At the same time we are also overweight on domestic consumption themes such as consumer products, cement and pharmaceuticals. Similar to a barbell strategy, we are overweight on sectors and stocks at both ends of the risk spectrum i.e. infrastructure related stocks at the high-risk high-return category and consumer products at low risk - defensive category. Recently, we have reduced our position in banking sector, bringing private banks to equal weight and have no ownership in the public sector banking space. Mid-cap proportion in the portfolio has steadily increased to close to 40%. The impact of large macro factors is fast diminishing and we continue to believe that the equity markets have moved towards more stock specific action. Our focus is on bottom-up stock picking which, we believe, will play an increasingly important role in alpha generation, over the next 6-12 month perspective.

Jayesh Gandhi

Lead Portfolio Manager, Multi/Mid Cap Equities

Morgan Stanley Short Term Bond Fund

(An open-ended Debt Fund)

Details as on July 31, 2009

Portfolio

Security Description	Rating	% of Total Net Assets
Money Market Instruments		50.53%
UCO Bank	P1+	12.78%
Sundaram BNP Paribas Home Finance Ltd	A1+	12.70%
Vijaya Bank	PR1+	8.38%
Kotak Mahindra Bank	P1+	8.34%
Yes Bank	A1+	8.33%
Corporate Debt		26.39%
LIC Housing Finance Ltd	AAA	8.85%
Housing Development Finance Corporation Ltd	AAA	8.81%
Grasim Industries Ltd	AAA	8.73%
PSU		4.67%
National Bank for Agriculture & Rural Development	AAA	4.67%
Floating Rate Instruments		4.41%
Mahindra & Mahindra Financial Service Ltd	P1+	4.41%
Cash & Current Assets		14.00%
Grand Total		100.00%

Performance (in %)

Plan	Fund Returns* (since inception May 26, 2009)	Crisil Short Term Bond Fund Index
Regular Plan	0.95%	0.70%
Institutional Plus Plan	1.04%	0.70%

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

Rating Profile

Rating Category	
AAA	86.00%
Cash & Current Assets	14.00%
Grand Total	100.00%

Asset Allocation

Asset Class	
Money Market Instruments	50.53%
Corporate Debt	26.39%
PSU Bonds	4.67%
Floating Rate Instruments	4.41%
Cash & Current Assets	14.00%
Grand Total	100.00%

Fund Features:

Investment Objective:

The investment objective is to generate income from a diversified portfolio of short to medium term debt and money market securities.

Rating:

Credit risk rating mfAAA by ICRA*

Benchmark Index:

CRISIL Short-Term Bond Fund Index

Plans/Options and NAV:

Institutional Plus Plan

Weekly Dividend
Reinvestment: 10.0299
Monthly Dividend
(Payout and Reinvestment): 10.0697
Growth: 10.1039

Regular Plan

Monthly Dividend
(Payout and Reinvestment): 10.0652
Growth: 10.0951

Expense Ratio:

Institutional Plus Plan 0.40%
Regular Plan 0.90%

Average Maturity: 15.61 months

Modified Duration: 1.13 years

Yield to Maturity: 5.85%

Minimum Investment Amount:

Lumpsum:

Regular Plan - Rs. 5,000/- plus in multiples of Re. 1/-
Institutional Plus Plan - Rs. 50 lacs plus in multiples of Re. 1/-
SIP: Rs. 1,000/- via minimum 6 installments in Regular Plan only

Load Structure:

Entry Load: Nil

Exit Load: Nil

Date of Allotment:

May 26, 2009

Fund Manager:

Ritesh Jain

Fund AUM:

Rs. 113.47 crore

Dividend History

Plan/Frequency	Record Date	Non-Individuals Per Unit (Rs.)	Individuals Per Unit (Rs.)	Ex Dividend NAV (Rs.)
Institutional Plus Plan-Monthly Dividend	July 31, 2009	0.043	0.0462	10.0169
Regular Plan-Monthly Dividend	July 31, 2009	0.0425	0.0457	10.013
Institutional Plus Plan-Monthly Dividend	June 26, 2009	0.0277	0.0298	10.0038
Regular Plan-Monthly Dividend	June 26, 2009	0.0242	0.0260	10.0041

Note: Face Value Rs. 10 per unit.

Morgan Stanley Active Bond Fund

(An open-ended Debt Fund)

Details as on July 31, 2009

Portfolio

Security Description	Rating	% of Total Net Assets
Government Securities		50.04%
06.90% CGL 2019	SOV	25.61%
07.40% CGL 2035	SOV	24.43%
Cash & Current Assets		49.96%
Grand Total		100.00%

Performance (in %)

Plan	Fund Returns* (since inception May 28, 2009)	Crisil Composite Bond Fund Index
Regular Plan	-0.49%	0.61%
Institutional Plus Plan	-0.39%	0.61%

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

Rating Profile

Rating Category	
Sovereign	50.04%
Cash & Current Assets	49.96%
Grand Total	100.00%

Asset Allocation

Asset Class	
Government Securities	50.04%
Cash & Current Assets	49.96%
Grand Total	100.00%

Fund Features:

Investment Objective:

The investment objective is to generate optimal returns through active management of the portfolio consisting of debt and money market securities.

Benchmark Index:

CRISIL Composite Bond Fund Index

Minimum Investment Amount:

Lumpsum:

Regular Plan - Rs. 5,000/- plus in multiples of Re. 1/-
Institutional Plus Plan - Rs. 50 lacs plus in multiples of Re. 1/-
SIP Regular Plan: Rs. 1,000/- via minimum 6 installments.

Load Structure:

Entry Load: Nil

Exit Load: For Regular Plan:

[i] For Purchases below Rs. 50 lacs: 1% if redeemed on or before the expiry of 1 year of allotment.

[ii] For Purchases of Rs. 50 lacs and above: Nil

Institutional Plus Plan: Nil

Date of Allotment:

May 28, 2009

Fund Manager:

Ritesh Jain

Fund AUM:

Rs. 19.38 crore

Plans/Options and NAV:

Institutional Plus Plan

Quarterly Dividend
(Payout and Reinvestment): 9.9611
Growth: 9.9611

Regular Plan

Quarterly Dividend (Payout and Reinvestment): 9.9513
Growth: 9.9513

Expense Ratio:

Institutional Plus Plan 1.20%
Regular Plan 1.75%

Average Maturity: 108.72 months

Modified Duration: 4.5 years

Yield to Maturity: 4.73%

Rating:

Credit risk rating mfAAA by ICRA*

*ICRA has assigned the "Credit Risk Rating mfAAA" to Morgan Stanley Short Term Bond Fund and Morgan Stanley Active Bond Fund which means that both funds carry the lowest credit risk, similar to that associated with long-term debt obligations rated in the highest-credit-quality category. This rating should however, not be construed as an indication of the performance of the aforesaid Funds or of volatility in their returns. Further, the above rating should not be treated as ICRA's recommendation to buy, sell or hold the units issued under the said Funds.

Morgan Stanley Growth Fund

(An open-ended Equity Fund)

Details as on July 31, 2009

Portfolio (✓ Top Ten Holdings)

Industry Classification	Security Description	% of Total Net Assets
Banks		24.50%
	✓ HDFC Bank Limited	9.22%
	✓ Axis Bank Limited	3.63%
	ICICI Bank Limited	3.53%
	Bank of Baroda	3.19%
	Bank of India	1.79%
	State Bank of India	1.58%
	Union Bank of India	1.56%
Industrial Capital Goods		8.65%
	✓ Bharat Heavy Electricals Limited	7.56%
	ABB Limited	1.09%
Construction		8.41%
	✓ Unitech Limited	5.26%
	Hindustan Construction Company Limited	2.27%
	The Phoenix Mills Limited	0.88%
Consumer Non Durables		7.69%
	✓ ITC Limited	3.59%
	Nestle India Limited	3.45%
	Balrampur Chini Mills Limited	0.65%
Auto		7.11%
	✓ Hero Honda Motors Limited	7.11%
Petroleum Products		6.83%
	✓ Reliance Industries Limited	5.53%
	Hindustan Petroleum Corporation Limited	1.30%
Software		6.05%
	✓ Infosys Technologies Limited	4.84%
	Geodesic Limited	1.21%
Cement		5.62%
	✓ Jaiprakash Associates Limited	4.68%
	The India Cements Limited	0.94%
Media & Entertainment		4.53%
	Sun TV Network Limited	2.38%
	Deccan Chronicle Holdings Limited	1.81%
	Television Eighteen India Limited	0.34%
Diversified		3.90%
	✓ Hindustan Unilever Limited	3.90%
Power		3.79%
	GVK Power and Infrastructure Limited	2.00%
	Jyoti Structures Limited	1.79%
Construction Projects		2.68%
	Larsen & Toubro Limited	2.68%
Telecom - Services		1.46%
	Bharti Airtel Limited	1.46%
Pesticides		1.32%
	United Phosphorus Limited	1.32%
Finance		0.99%
	Indiabulls Financial Services Limited	0.99%
Industrial Products		0.94%
	Ess Dee Aluminium Limited	0.94%
Cash and other assets		5.53%
Grand Total		100.00%

Performance (in %)

Period	Fund Returns*	BSE 100
Absolute returns during the half year [(+) (-)]	65.47	70.69
Absolute returns during the trailing year [(+) (-)]	6.67	9.19
Compounded Annualised Growth Rate		
(i) Last 3 years	9.02	14.67
(ii) Last 5 years	22.02	24.30
(iii) Since the launch of the scheme (18th February 1994)	13.13	9.90

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. 50.070 per unit
Dividend* Rs. 16.315 per unit
*option introduced on Jan 19, 2009

Expense Ratio:

1.92% of average daily net assets

Portfolio Turnover:

0.75

Volatility Measures:

(for trailing 3 year period)

Standard Deviation 10.12%
Beta 0.92
Sharpe Ratio 0.07

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:

Nil

Exit Load:

(a) 1% for < Rs. 5 crore, if redeemed/switched on or before the expiry of three years from the date of allotment; otherwise: Nil.
(b) 0.5% for >= Rs. 5 crore, if redeemed/switched on or before the expiry of 90 days from the date of allotment; otherwise: Nil.

Date of Allotment:

18th February, 1994

Fund Managers:

Sridhar Sivaram
Amay Hattangadi

Fund AUM:

Rs. 2065.49 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 July 31, 2009

Portfolio (✓ Top Ten Holdings)

Industry Classification	Security Description	% of Total Net Assets
Consumer Non Durables		10.89%
	✓ Emami Limited	3.18%
	✓ Marico Limited	2.85%
	United Spirits Limited	2.05%
	ITC Limited	1.88%
	Lakshmi Energy and Foods Limited	0.93%
Banks		10.11%
	✓ ICICI Bank Limited	4.84%
	YES Bank Limited	2.22%
	AXIS Bank Limited	2.01%
	HDFC Bank Limited	1.04%
Cement		9.04%
	✓ Shree Cement Limited	2.65%
	Grasim Industries Limited	2.34%
	Jaiprakash Associates Limited	2.04%
	Orient Paper and Industries Limited	2.01%
Gas		8.04%
	✓ Gujarat State Petronet Limited	4.92%
	✓ GAIL India Limited	3.12%
Pharmaceuticals		7.14%
	✓ Aurobindo Pharma Limited	2.87%
	Dr. Reddy's Laboratories Limited	1.72%
	Cadila Healthcare Limited	1.34%
	Jubilant Organosys Limited	1.21%
Petroleum Products		5.27%
	✓ Reliance Industries Limited	5.27%
Software		5.17%
	Infosys Technologies Limited	2.45%
	Tata Consultancy Services Limited	1.76%
	Infotech Enterprises Limited	0.96%
Power		4.49%
	Reliance Infrastructure Limited	1.85%
	GVK Power and Infrastructure Limited	1.41%
	KEC International Limited	1.23%
Non - Ferrous Metals		3.85%
	Hindustan Zinc Limited	2.29%
	Sterlite Industries (India) Limited	1.56%
Industrial Capital Goods		3.82%
	Crompton Greaves Limited	1.96%
	Bharat Heavy Electricals Limited	1.86%
Construction Projects		3.51%
	Voltas Limited	2.20%
	Larsen & Toubro Limited	1.31%
Finance		3.46%
	✓ Housing Development Finance Corporation Limited	3.46%
Telecom - Equipment & Accessories		3.33%
	✓ Sterlite Technologies Limited	3.33%
Oil		3.16%
	Oil & Natural Gas Corporation Limited	2.09%
	Shiv-Vani Oil & Gas Exploration Services Limited	1.07%
Construction		2.46%
	The Phoenix Mills Limited	1.66%
	B L Kashyap and Sons Limited	0.80%
Telecom - Services		1.96%
	Bharti Airtel Limited	1.96%
Diversified		1.70%
	Hindustan Unilever Limited	1.70%
Ferrous Metals		1.42%
	Jindal Steel and Power Limited	1.42%
Computers - Hardware		1.32%
	Redington India Limited	1.32%
Industrial Products		1.28%
	Sintex Industries Limited	1.28%
Auto Ancillaries		1.24%
	Exide Industries Limited	1.24%
Auto		1.09%
	Mahindra & Mahindra Limited	1.09%
Chemicals		1.02%
	Godrej Industries Limited	1.02%
Cash and other assets		5.23%
Grand Total		100.00%

Performance (in %)

Period	Fund Returns	BSE 200
6 months*	76.73	72.5
1 year*	17.68	9.18
Compounded Annualised Return		
Since Inception (3rd April, 2008)	4.93	-1.57

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

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. 10.660 per unit
Dividend Rs. 10.660 per unit

Expense Ratio:

2.50% of average daily net assets

Portfolio Turnover:

2.30

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:

Nil

Exit Load:

(a) 1% for < Rs. 5 crore, if redeemed/switched on or before the expiry of three years from the date of allotment; otherwise: Nil.
(b) 0.5% for >= Rs. 5 crore, if redeemed/switched on or before the expiry of 90 days from the date of allotment; otherwise: Nil.

Date of Allotment:

3rd April, 2008

Fund Manager:

Jayesh Gandhi

Fund AUM:

Rs. 105.62 crore

Morgan Stanley Mutual Fund Branch Offices

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• Chandigarh	0172 4665 295	• Chennai	044 2830 2091
• Delhi	011 6624 9133	• Hyderabad	040 4002 4168
• Kolkata	033 3984 5315	• Mumbai	022 4077 9227
• Pune	020 6500 8349		

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