

Fact Sheet

July 2009

FIXED INCOME OVERVIEW

The Union Budget for 2009-10 is to be tabled in the Parliament on July 6. The bond market, which was circumspect on the extent of overshooting of the fiscal deficit indicated in the earlier vote on account seems to be looking at a manageable fiscal deficit. The fiscal deficit of the central government is likely to be around 6% of GDP as against 5.5% of GDP stated in the vote on account. Bond yields, which had risen up almost 100 bps from levels seen in May on the back of a series of negative factors, are now seeing sideways movement and consolidating in the trading range. The increase in fiscal deficit of 0.5% of GDP would translate into higher government borrowing of around INR 50,000 crores, leading to around INR 30,000 crores of additional borrowing in the next couple of quarters.

The liquidity situation in the market continues to remain benign with system parking more than INR 1,00,000 crores with RBI on a consistent basis through Reverse Repo window. Central banks across the globe including RBI have reaffirmed their intent to keep policy rates at all time lows until they see sustainable signs of economic recovery. In that context, we may see a period of sustainable moderate interest rate environment for some time.

The domestic IIP numbers for April were higher than anticipated at 1.4% against -0.8% YoY last month and consensus expectation of a negative print. The current account registered a surplus of US\$4.7bn (1.6% of GDP, annualized) in QE-Mar 09 compared with a deficit of US\$1.3bn in QE-Dec 08 owing to seasonal effect, lower oil prices and weaker domestic demand.

The latest read on WPI is at negative 1.14% for the week ended 13th June 2009. The fall in inflation was lower than expected during the month due to elevated food prices. Inflation is likely to remain in the negative zone for the next few weeks on the back of high base effect. International Crude prices surged further during the month, closing at \$69.89 per barrel compared to previous month close of \$66.31 per barrel.

The domestic currency lost some ground after a spectacular show during the previous couple of months. Consolidating in a range, the greenback closed at INR 47.91 to a Dollar against the previous month levels of around INR 47.09 per Dollar. The Foreign Exchange reserve closed at around \$263.65 billion as on 19th June 09.

On the interest rate front, the sovereign bond yield curve turned quite steep. The medium/longer segment of the curve lost ground, while the shorter part of the curve remain firm due to abundant liquidity conditions. The benchmark 10-year point closed the month at 7.01% against the previous month level at 6.70%. The benchmark AAA 10-year corporate closed at 8.65% against the previous month level of around 8.80%. The shorter end of the corporate curve also remained flat mirroring benign liquidity conditions.

Portfolio review for June '09

The duration funds added moderate duration and were positioned at the shorter 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 short-term assets in the portfolio with an accrual objective.

EQUITY OVERVIEW

The markets took a breather in June 2009 after the heady rise from early March this year. The BSE 100 was flat for the month with consumer staples and capital goods sub-indices outperforming while Realty and Oil & Gas lagging the index.

The fact that the markets retained the strong gains made after the Union Election results in May 2009 is heartening. We also see the appetite for primary issues that hit the market in June 2009 as an affirmation of positive sentiments by investors. The next big event is the Union Budget in early July and the market is likely to take its next cues from there. The budget exercise is likely to be a delicate balancing act between growth imperatives, reforms and the strains of the fiscal deficit. Globally, macro economic indicators seem to be stabilizing after they fell of a cliff in late 2008 and that has led to revival of risk-taking. Emerging markets with their strong relative growth proposition and the fact that they emerged out of the crisis relatively less affected has attracted capital flows towards them. India has been a beneficiary of this phenomenon due to its large domestic economy, low export dependence and now a strong policy thrust. India's fiscal math also looks much better than late last year when the sudden freeze up of capital flows coupled

Expectations for July '09

The market is waiting for the budget to get an idea of the future Government policies and to get a direction as to how the Government is likely to manage the fiscal scenario. 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
	30/06/09	31/05/09	31/03/09	(Monthly)	(Since March 09)
364 Day T-bill (Primary)	3.99%	3.68%	5.50%	0.31%	-1.51%
5-year Gilt Benchmark	6.49%	6.46%	6.76%	0.03%	-0.27%
10-year Gilt Benchmark	7.01%	6.70%	7.01%	0.31%	0.00%
30-year Gilt Benchmark	7.70%	7.63%	8.42%	0.06%	-0.72%
91 Day Manufacturing CP(P1+)	5.26%	5.25%	9.20%	0.01%	-3.94%
91 day Bank CD	3.70%	4.00%	9.75%	-0.30%	-6.05%
1-yr AAA Spreads	1.45%	2.30%	2.36%	-0.85%	-0.91%
5-yr AAA Spreads	1.40%	1.85%	1.66%	-0.45%	-0.26%
5-yr OIS	6.30%	6.22%	5.61%	0.08%	0.69%
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)	263.65	262.31	252.33	1.35	11.33
Nymex Crude	69.89	66.31	49.66	3.58	20.23
US Fed Funds Rate	0.25%	0.25%	0.25%	0.00%	0.00%
US 10-yr Gilt	3.53%	3.46%	2.66%	0.07%	0.87%
INR/USD	47.91	47.09	50.73	1.73%	-5.57%
USD/Euro	1.40	1.42	1.33	0.88%	-5.91%
USD/Yen	96.36	95.34	98.96	1.07%	-2.63%

*RBI Repo Rate at 4.75%

Sources - Internal & Bloomberg

Ritesh Jain

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

with a gaping trade deficit raised many concerns.

From a portfolio standpoint though we are cautious in chasing beta, we scout for opportunities where underlying business fundamentals are improving and that is not yet fully reflected in valuations. We have not abandoned our defensive positioning and continue to be overweight consumer related sectors. We opt to play the broader India story through financials that remains our largest overweight. At the margin, we perceive that the worries surrounding non-performing loans getting out of hand seem to be receding and that is likely to get reflected in valuations for the sector. We remain cautious on materials and energy sector where we feel that global demand supply dynamics continue to be adverse for pricing.

Sridhar Sivaram and Amay Hattangadi

Lead Portfolio Managers, Large Cap Equities

Morgan Stanley Short Term Bond Fund

(An open-ended Debt Fund)

Details as on June 30, 2009

Portfolio

Security Description	Rating	% of Total Net Assets
Money Market Instruments		68.95%
Reliance Capital Ltd	A1+	14.30%
UCO Bank	P1+	13.83%
Sundaram BNP Paribas Home Finance Ltd	A1+	13.73%
Vijaya Bank	PR1+	9.06%
Kotak Mahindra Bank	P1+	9.02%
Yes Bank	A1+	9.01%
Corporate Debt		19.18%
LIC Housing Finance Ltd	AAA	9.61%
Housing Development Finance Corporation Ltd	AAA	9.57%
PSU/PFI Bonds/Banks		5.04%
National Bank for Agriculture & Rural Development	AAA	5.04%
Floating Rate Instruments		4.79%
Mahindra & Mahindra Financial Service Ltd	P1+	4.79%
Cash & Current Assets		2.04%
Grand Total		100.00%

Performance (in %)

Period (since inception May 26, 2009)	Fund Returns*	Crisil Short Term Bond Fund Index
Regular Plan	0.47%	0.23%
Institutional Plus Plan	0.51%	0.23%

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	97.96%
Cash & Current Assets	2.04%
Grand Total	100.00%

Asset Allocation

ASSET CLASS	
Money Market Instruments	68.95%
Corporate Debt	19.18%
PSU/PFI Bonds/Banks	5.04%
Floating Rate Instruments	4.79%
Cash & Current Assets	2.04%
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: 10.0232

Monthly Dividend
(Payout and Reinvestment): 10.0169

Growth: 10.0510

Regular Plan

Monthly Dividend
(Payout and Reinvestment): 10.0167

Growth: 10.0465

Expense Ratio:

Institutional Plus Plan 0.40%

Regular Plan 0.90%

Average Maturity: 12.22 months

Modified Duration: 0.91 years

Yield to Maturity: 5.97%

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. 104.35 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	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 June 30, 2009

Portfolio

Security Description	Rating	% of Total Net Assets
Government Securities		72.76%
06.07% CGL 2014	SOV	47.46%
08.24% CGL 2027	SOV	25.30%
Cash & Current Assets		27.24%
Grand Total		100.00%

Performance (in %)

Period (since inception May 28, 2009)	Fund Returns*	Crisil Composite Bond Fund Index
Regular Plan	0.52%	0.51%
Institutional Plus Plan	0.57%	0.51%

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	72.76%
Cash & Current Assets	27.24%
Grand Total	100.00%

Asset Allocation

ASSET CLASS	
Government Securities	72.76%
Cash & Current Assets	27.24%
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. 20.70 crore

Plans/Options and NAV:

Institutional Plus Plan

Quarterly Dividend
(Payout and Reinvestment): 10.0575

Growth: 10.0575

Regular Plan

Quarterly Dividend (Payout and Reinvestment): 10.0523

Growth: 10.0523

Expense Ratio:

Institutional Plus Plan 1.20%

Regular Plan 1.75%

Average Maturity: 82.46 months

Modified Duration: 4.27 years

Yield to Maturity: 5.15%

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 carries 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 June 30, 2009

Portfolio (✓ Top Ten Holdings)

Industry Classification	Security Description	% of Total Net Assets
Banks		26.81%
	✓ HDFC Bank Limited	8.91%
	✓ ICICI Bank Limited	3.60%
	✓ Bank of Baroda	3.49%
	Axis Bank Limited	3.12%
	State Bank of India	3.05%
	Bank of India	2.91%
	Union Bank of India	1.73%
Industrial Capital Goods		9.28%
	✓ Bharat Heavy Electricals Limited	7.99%
	ABB Limited	1.29%
Construction		8.89%
	✓ Unitech Limited	5.94%
	Hindustan Construction Company Limited	2.15%
	The Phoenix Mills Limited	0.80%
Petroleum Products		7.75%
	✓ Reliance Industries Limited	6.56%
	Hindustan Petroleum Corporation Limited	1.19%
Consumer Non Durables		6.90%
	Nestle India Limited	3.35%
	ITC Limited	2.94%
	Balrampur Chini Mills Limited	0.61%
Software		6.49%
	✓ Infosys Technologies Limited	5.11%
	Geodesic Limited	1.38%
Auto		6.18%
	✓ Hero Honda Motors Limited	6.18%
Cement		5.19%
	✓ Jaiprakash Associates Limited	4.25%
	The India Cements Limited	0.94%
Diversified		4.27%
	✓ Hindustan Unilever Limited	4.27%
Media & Entertainment		3.81%
	Sun TV Network Limited	1.95%
	Deccan Chronicle Holdings Limited	1.42%
	Television Eighteen India Limited	0.44%
Construction Projects		2.98%
	Larsen and Toubro Limited	2.98%
Power		1.78%
	Jyoti Structures Limited	1.78%
Telecom - Services		1.53%
	Bharti Airtel Limited	1.53%
Pesticides		1.33%
	United Phosphorus Limited	1.33%
Industrial Products		1.09%
	Ess Dee Aluminium Limited	1.09%
Cash and other assets		5.72%
Grand Total		100.00%

Performance (in %)

Period	Fund Returns*	BSE 100
Absolute returns during the half year [(+) (-)]	48.03	51.79
Absolute returns during the trailing year [(+) (-)]	3.58	7.71
Compounded Annualised Growth Rate		
(i) Last 3 years	6.68	12.05
(ii) Last 5 years	21.70	24.21
(iii) Since the launch of the scheme (18th February 1994)	12.69	9.41

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. 46.704 per unit
Dividend* Rs. 15.217 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 10.07%
Beta 0.92
Sharpe Ratio 0.00

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. 1930.61 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 June 30, 2009

Portfolio (✓ Top Ten Holdings)

Industry Classification	Security Description	% of Total Net Assets
Banks		14.93%
	✓ ICICI Bank Limited	4.96%
	✓ AXIS Bank Limited	2.48%
	YES Bank Limited	2.22%
	HDFC Bank Limited	2.13%
	Bank of Baroda	1.16%
	Federal Bank Limited	1.05%
	The South Indian Bank Limited	0.93%
Consumer Non Durables		10.87%
	✓ ITC Limited	3.48%
	✓ Marico Limited	2.54%
	Dabur India Limited	1.90%
	Shaw Wallace and Company Limited	1.81%
	Lakshmi Energy and Foods Limited	0.90%
	Godrej Consumer Products Limited	0.24%
Cement		7.96%
	Grasim Industries Limited	2.12%
	Shree Cements Limited	2.02%
	Orient Paper and Industries Limited	1.95%
	Jaiprakash Associates Limited	1.87%
Power		7.40%
	✓ Reliance Infrastructure Limited	2.52%
	✓ GVK Power and Infrastructure Limited	2.42%
	Power Grid Corporation of India Limited	1.30%
	KEC International Limited	1.16%
Pharmaceuticals		6.62%
	✓ Aurobindo Pharma Limited	2.64%
	Dr.Reddy's Laboratories Limited	1.76%
	Cadila Healthcare Limited	1.17%
	Jubilant Organosys Limited	1.05%
Petroleum Products		5.87%
	✓ Reliance Industries Limited	5.87%
Oil		3.82%
	Oil and Natural Gas Corporation Limited	2.07%
	Shiv Vani Oil and Gas Exploration Services Limited	1.75%
Telecom - Services		3.71%
	✓ Bharti Airtel Limited	2.83%
	Reliance Communications Limited	0.88%
Industrial Capital Goods		3.56%
	Bharat Heavy Electricals Limited	1.98%
	Crompton Greaves Limited	1.58%
Construction Projects		3.53%
	Voltas Limited	2.06%
	Larsen and Toubro Limited	1.47%
Finance		2.45%
	✓ Housing Development Finance Corporation Limited	2.45%
Software		2.26%
	Infosys Technologies Limited	2.26%
Ferrous Metals		2.23%
	Jindal Steel and Power Limited	2.23%
Diversified		2.20%
	Hindustan Unilever Limited	2.20%
Non - Ferrous Metals		2.14%
	Hindustan Zinc Limited	2.14%
Telecom - Equipment & Accessories		2.11%
	Sterlite Technologies Limited	2.11%
Gas		1.94%
	GAIL India Limited	1.94%
Industrial Products		1.94%
	Sintex Industries Limited	1.94%
Construction		1.84%
	The Phoenix Mills Limited	0.98%
	B L Kashyap and Sons Limited	0.86%
Computers - Hardware		1.62%
	Redington India Limited	1.62%
Auto Ancillaries		1.08%
	Exide Industries Limited	1.08%
Chemicals		0.97%
	Godrej Industries Limited	0.97%
Cash and other assets		8.95%
Grand Total		100.00%

Exposure to Derivatives: Nifty Futures 30 July '09 Rs. 2.38 crore (Notional Value)

Performance (in %)

Period	Fund Returns	BSE 200
6 months*	48.84	52.78
1 year*	10.22	7.48
Compounded Annualised Return		
Since Inception (3rd April, 2008)	-3.56	-7.64

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. 9.560 per unit
Dividend Rs. 9.560 per unit

Expense Ratio:

2.50% of average daily net assets.

Portfolio Turnover:

2.44

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. 98.19 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
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• Pune	020 6500 8349		

Registered Office: Morgan Stanley Investment Management Pvt. Ltd., Forbes Building, Charanjit Rai Marg, Fort, Mumbai 400 001; Tel 91 22 2209 6600. Toll free 1800 425 1313, Non-toll-free 040 2342 8757

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