Morgan Stanley Mutual Fund

Morgan Stanley

Fact Sheet

November 2008

OH NO! NOT AGAIN

September ’08 was supposedly one of the worst months for global financial markets but our fears of ‘You ain’t seen nothing yet’ turned out to be true as October was nastier. Crisis in global financial markets deepened leading to policy response unprecedented in recent history. Asset values continued to plunge lower while volatility soared. Governments and central banks are resorting to unconventional measures to bring confidence back into the system. Treasuries are pumping in capital in various forms into the banking system, extending guarantees to their unsecured debt and deposits, buying toxic assets while central banks are doling out massive amount of liquidity into money markets and cutting interest rates. In a synchronized move, US Federal Reserve, European Central Bank (ECB), Bank of England and several other central banks cut policy rates. Economic data coming out of developed as well as developing countries indicate severe slowdown in demand conditions and consequent fall in commodity prices are increasing probability of further easing in monetary policy. Economies of US, Europe and Japan are likely to show stagnation for couple of quarters and will drag down global growth as they together constitute slightly over 60% of the global demand.

Monetary and fiscal stimulus is showing signs of bringing sanity to some segments of the markets that were severely dislocated. However, given the macro economic environment and banking system’s need to repair balance sheets, lending activity will remain subdued for a long period. This will have far-reaching implication on asset prices as well.

Capital outflows have created major liquidity shrinkage in Indian financial system as well. We must not forget that unlike some of the other economies, India doesn’t have a serious solvency crisis in its banking and financial system. Size of banking, NBFC and money market fund industry as percentage of economic output is relatively lower. We also don’t have to deal with problems created by off balance sheet exposures, massive use of derivatives and securitization of the scale witnessed by some of the other countries facing this crisis. Though our problems are slightly compounded due to rigidities on fiscal side and the current account deficit, we believe RBI has ample ammunition to take care of the current liquidity crisis. We should not allow the money and debt market to remain choked for a long time and must use every possible tool in a timely and effective manner to ensure liquidity crisis doesn’t create a solvency crisis. Policy makers have taken a series of measures including cut in interest rates, bank reserve ratios, relaxation in norms related to foreign currency borrowing and targeted measures at relieving pressure on money market and these are likely to have the desired impact.

Investors are faced with a situation where correlation and volatility across all asset classes are increasing amidst fall in their prices. We advise investors to remain focused on long term asset allocation discipline and not get swayed by short term market movements. In bond market, we believe both G-sec and credit markets, particularly at the front end of the curve, offer decent value on risk-adjusted basis.

Navneet Munot

Lead Portfolio Manager, Multi-Strategies

EQUITY OVERVIEW

These are extremely challenging times for equities worldwide and in India. A worldwide recession is getting factored into equity valuations, though the extent and severity of it is still under debate. While the US was the epicenter of ‘Credit Crisis Tsunami’, no market in the world has remained unaffected. Currency or ‘Sovereign Crisis’ emerged as yet another factor, which emerging markets investors found themselves grappling with. The US, in spite of record twin deficit and a weakened banking system, has seen its currency strengthening. This is partly explained by the weakness in Euro Zone economies and the ‘Flight to Safety’ in these uncertain times. All of this has put significant pressure on currencies of all EM economies, India being no exception, with Indian rupee falling over 20% YTD and touching an all time low this month. The falling rupee adds to the woes of foreign investors who continue to sell Indian equities aggressively. Currency stability would be a prerequisite for FII inflows into India.

While adverse news flow has confronted most markets across the globe, Indian equities have seen a slew of positive news with long term positive implications. Firstly, inflation after having touched decade highs in the past quarter has retraced sharply. Secondly, RBI has announced a series of aggressive policy measures with an attempt to improve liquidity and signal the beginning of a lower interest rate era. CRR, SLR, repo-rate have been cut aggressively in the last two weeks. Thirdly, with sharp decline in global commodities particularly in crude and fertilizer prices, there would be a marked improvement in India’s Twin Deficits: Foreign trade and Fiscal. Most of the serious challenges that India has been grappling with over the past few months now appear to be behind us and the fundamental story for India seems positive, especially on a relative basis.

Once the dust settles, investors will start differentiating markets based on fundamentals and Indian equities will stand out. India has a strong banking system, underleveraged corporate sector and consumers, unmatched demographics and ability to sustain strong GDP growth. These factors will stand out in a world marked with recession fears. Currently we may be witnessing what could probably be the last round of this ‘capitulation’ phase which is marked by forced selling by leveraged investors and redemption pressures from panicked investors. While there is a lot of fear, panic and risk aversion today, in hindsight, this could prove to be one of the best times for investing in Indian equity markets.

In terms of our portfolio action, the Sensex break below the recent support levels has prompted us to significantly cut our mid-cap exposure and migrate towards quality large-caps, which we believe is the best way to play the rebound. In terms of sectors, we added Oil and Gas, Software Services and FMCG sectors, re-aligned our overweight exposure to Banking, Capital Goods and Consumer sectors, while still maintaining our underweight position on Commodities and Real Estate sectors. Overall, we believe that the portfolio is well balanced to capture better risk-adjusted returns.

Jayesh Gandhi

Lead Portfolio Manager, Multi/Mid Cap Equities

Morgan Stanley Growth Fund

(A close-ended Equity Fund)

Details as on 31st October, 2008

Portfolio (✓ Top Ten Holdings)

Industry Classification		Security Description	% of Total Net Assets
Banks			**18.81%**
	✓	HDFC Bank Limited	7.68%
	✓	State Bank of India Limited	4.32%
		Axis Bank Limited	1.86%
		Bank of India	1.68%
		ICICI Bank Limited	1.66%
		Bank Of Baroda	1.61%
Software			**12.24%**
	✓	Infosys Technologies Limited	10.65%
		Geodesic Limited	1.46%
		IOL Netcom Limited	0.13%
Diversified			**9.09%**
	✓	Hindustan Unilever Limited	5.42%
	✓	Larsen and Toubro Limited	3.67%
Industrial Capital Goods			**8.85%**
	✓	Bharat Heavy Electricals Limited	5.88%
		ABB Limited	2.11%
		Praj Industries Limited	0.86%
Petroleum Products			**8.07%**
	✓	Reliance Industries Limited	8.07%
Telecom - Services			**6.51%**
	✓	Bharti Airtel Limited	6.51%
Finance			**6.39%**
	✓	Housing Development Finance Corporation Limited	6.39%
Auto			**4.34%**
		Maruti Suzuki India Limited	2.76%
		Hero Honda Motors Limited	1.58%
Consumer Non Durables			**4.25%**
	✓	Nestle India Limited	3.09%
		Balrampur Chini Mills Limited	0.75%
		Bajaj Hindusthan Limited	0.41%
Ferrous Metals			**2.38%**
		Welspun Gujarat Stahl Rohren Limited	1.42%
		Jindal Steel and Power Limited	0.96%
Pharmaceuticals			**2.14%**
		Glenmark Pharmaceutical Limited	2.14%
Pesticides			**2.11%**
		United Phosphorus Limited	2.11%
Oil			**1.65%**
		Cairn India Limited	0.87%
		Aban Offshore Limited	0.78%
Media & Entertainment			**1.28%**
		Deccan Chronicle Holdings Limited	0.82%
		Television Eighteen India Limited	0.46%
Power			**1.12%**
		Jyoti Structures Limited	0.83%
		GVK Power and Infrastructure Limited	0.29%
Construction			**1.06%**
		Jaiprakash Associates Limited	0.47%
		The Phoenix Mills Limited	0.41%
		Madhucon Projects Limited	0.18%
Cement			**0.90%**
		The India Cements Limited	0.90%
Industrial Products			**0.64%**
		Ess Dee Aluminium Limited	0.64%
Transportation			**0.44%**
		Arshiya International Limited	0.44%
Gas			**0.30%**
		Gujarat Fluorochemicals Limited	0.30%
Cash and other assets			**7.43%**
Total Net Assets			**100.00%**

Performance (in %)

Period	Fund Returns*	BSE 100
Returns during the trailing year [(+) (–)]	–53.63	–52.33
Compounded Annualised Growth Rate		
(i) Last 3 years	1.65	6.00
(ii) Last 5 years	12.92	14.79
(iii) Since the launch of the scheme (18th February 1994)	10.40	6.73

Past performance is no indication of future performance. *Performance of the fund 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:
To achieve long term capital appreciation by investing primarily in equity and equity-related securities of Indian companies.

Listed on:
Bombay Stock Exchange, National Stock Exchange, Calcutta Stock Exchange, Delhi Stock Exchange, Madras Stock Exchange and Ahmedabad Stock Exchange.

Asset Allocation:
Under normal circumstances, at least 70% of the Scheme's assets will be invested in Equity and Equity related securities. In addition, the Scheme may purchase debt securities which are considered to present an opportunity for long term capital appreciation.

NAV of the Fund:
Rs. 31.90 per unit

Market Price (Closing Price on BSE):
Rs. 29.17 per unit

Expense Ratio:
1.83% of average daily net assets

Portfolio Turnover:
0.77

Volatility Measures:
(for trailing 3 year period)

Standard Deviation	9.66%
Beta	0.97
Sharpe Ratio[1]	-0.16

Benchmark Index:
BSE 100

Options:
N/A

Minimum Investment Amount:
MSGF lot size on the Exchanges is 100 units.

Date of Inception:
18th February, 1994

Fund Managers:
Sridhar Sivaram
Amay Hattangadi

Fund AUM:
Rs. 1914.64 crore

[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 October, 2008

Portfolio (✓ Top Ten Holdings)

Industry Classification		Security Description	% of Total Net Assets
Banks			**14.18%**
	✓	HDFC Bank Limited	3.74%
	✓	ICICI Bank Limited	3.15%
		Axis Bank Limited	2.50%
		Bank of India	2.25%
		Union Bank of India	1.36%
		Kotak Mahindra Bank Limited	1.18%
Consumer Non Durables			**10.35%**
		Colgate Palmolive (I) Limited	2.35%
		Marico Limited	2.26%
		ITC Limited	1.70%
		Shaw Wallace and Company Limited	1.55%
		United Spirits Limited	1.27%
		Britannia Industries Limited	1.22%
Petroleum Products			**10.17%**
	✓	Reliance Industries Limited	8.73%
		Reliance Petroleum Limited	1.44%
Power			**7.54%**
	✓	Reliance Infrastructure Limited	2.88%
		CESC Limited	2.50%
		GVK Power and Infrastructure Limited	1.69%
		Kalpataru Power Transmission Limited	0.47%
Software			**7.52%**
	✓	Infosys Technologies Limited	4.46%
		Satyam Computer Services Limited	2.14%
		Mphasis Limited	0.92%
Telecom - Services			**6.17%**
	✓	Bharti Airtel Limited	4.76%
		Reliance Communications Limited	1.41%
Finance			**5.64%**
	✓	Housing Development Finance Corporation Limited	5.64%
Construction			**5.39%**
		Punj Lloyd Limited	2.60%
		Jaiprakash Associates Limited	1.56%
		Consolidated Construction Consortium Limited	0.75%
		B L Kashyap and Sons Limited	0.48%
Diversified			**4.79%**
	✓	Larsen and Toubro Limited	3.43%
		Hindustan Unilever Limited	1.36%
Industrial Capital Goods			**4.75%**
	✓	Bharat Heavy Electricals Limited	3.86%
		Crompton Greaves Limited	0.89%
Oil			**2.76%**
	✓	Oil and Natural Gas Corporation Limited	2.76%
Transportation			**2.21%**
		The Great Eastern Shipping Company Limited	1.32%
		IRB Infrastructure Developers Limited	0.89%
Industrial Products			**2.14%**
		Sintex Industries Limited	2.14%
Consumer Durables			**2.01%**
		Voltas Limited	2.01%
Auto Ancillaries			**1.95%**
		Exide Industries Limited	1.95%
Pharmaceuticals			**1.79%**
		Piramal Healthcare Limited	1.79%
Ferrous Metals			**0.92%**
		Tata Steel Limited	0.92%
Gas			**0.81%**
		GAIL India Limited	0.81%
Cash and other assets			**8.91%**
Total Net Assets			**100.00%**

Performance (in %)

Period	Fund Returns*	BSE 200
Since Inception (3rd April, 2008)	–37.73	–41.25

*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. 6.227 per unit
Dividend Rs. 6.227 per unit

Expense Ratio:
2.62% of average daily net assets

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. 69.19 crore

Morgan Stanley Mutual Fund Branch Offices

• **Ahmedabad**	079 2644 9132	• **Bangalore**	080 4180 0702
• **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 4014 7570		

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