

Fact Sheet

October 2011



FIXED INCOME OVERVIEW

The setting for the mid-term RBI policy could not have been better. Pre-policy, the official from the Finance Ministry dropped more than a subtle hint that the current round of rate tightening might not be extended. With the backdrop of the slowdown in industrial production for July (3.3% y-o-y in July vs. 8.8% in June), lingering shadow of the Euro zone crisis all over the world, and slowdown in the first quarter domestic GDP data, it was felt as if the Central Bank may choose to pause. However, the RBI displayed its concern with inflationary expectation and then chose to extend the tightening path further. The Reserve Bank of India (RBI) hiked its repo rate by 25 bps to 8.25%, and stated that its policy action is expected to “reinforce the impact of past policy actions to contain inflation and anchor inflationary expectations”. However, the important change from its last policy statement is that, at the margin the RBI appears to have softened its hawkish stance. The RBI explicitly pointed out that stabilization of energy prices and moderating domestic demand should ease inflationary pressures in the latter part of FY2012. It also acknowledged that the downside risks to growth have increased, highlighting concerns over global growth and slowing domestic demand. In fact, the RBI’s forward guidance stated, “the stance will be influenced by signs of downward movement in the inflation trajectory, to which the moderation in demand is expected to contribute, and the implications of global developments”.

India’s headline inflation as measured by WPI rose to a 13-month high of 9.78% y-o-y in August from 9.22% in July, surprising the market on the upside. Food inflation (primary and manufactured) rose sharply to 9.1% y-o-y in August from 8.0% last month, while the Core inflation, as measured by non-food manufactured WPI, also rose to 7.8% y-o-y in August from 7.5% last month. The steep rise in the August core inflation reading suggest that demand-side pressures have not moderated by as much as earlier thought and they may continue to put upward pressure on headline inflation for a few more months. Encouragingly, global commodity prices have remained lower to stable in the last few months and will help inflation gradually settling lower, despite the depreciating currency shaving off a part of the benefit.

On the economic conditions, the recent fiscal trend paints a dismal picture. Due to declining revenue and rising expenditure, India’s April-Aug. fiscal deficit is coming at INR 2.75 trillion or 66% of budget estimates of INR 4.12 trillion for the year. With higher subsidy and lower disinvestment revenue, the headline FY12 deficit number could well be in excess of 5.1% v/s budget estimates of 4.6% of GDP for the year. The Government has announced the 2H borrowing calendar for the year and was INR 530 billion higher than expected. The entire sovereign curve elevated with the yield on the benchmark 10-year bond crossing 8.44% mark in response to the aggressive calendar.

On the global front, the markets across the asset classes remained in stormy weather. Ongoing sovereign woes in the Euro Area remained at its epicenter with all uncertainties related to the plan that would pull Europe out of its mess. The ECB, on its part, continued its Securities Market Purchase program that it had restarted last month and looks on course to reverse its +50bp interest rate increase very shortly. Risk aversion touched extreme levels with commodities, equities and currencies coming under severe pressure. European banks faced funding pressure as global funding sources like US money market mutual funds reduced lines for them, necessitating ECB intervention through unlimited \$/EUR swaps till end 2011. In the United States, President Obama proposed a US\$ 447 billion economic stimulus plan to the US Congress; equivalent to 3% of GDP through extension of existing tax breaks (payrolls, unemployment benefits) worth \$166

EQUITY OVERVIEW

September 2011 brought back memories of September 2008 with markets worrying about Euro-zone debt crisis and its resultant impact on capital markets similar to those experienced during Lehman collapse. Last couple of months have seen spate of negative news from the developed world impacting global equities. First, the S&P downgrade of US was followed by economists trimming US growth forecasts below 2% for 2011 and 2012 and unemployment in US continues to be at high levels of 9.5%. Historically, US has gone into recession for 7 out of 10 times when growth has fallen below 2% which sent the markets into a tailspin in the world’s largest economy. However, what is more concerning this time around is that the recession comes when the US FED and administration have very limited fire-power or ability to stimulate the economy and government’s debt is at record high levels. In the Euro-zone, Greece hogged the limelight with investors eagerly watching whether the “troika” of EU, ECB and IMF would go ahead with their September aid tranche payouts to avoid impending bankruptcy. While the policy responses in EU, albeit slow, have been able to curtail or rather postpone the damage from the current crisis, we continue to be worried that the fundamental issues related to the crisis are not addressed yet and continue to monitor the situation closely. World economy is facing a classic double dip which has led to global risk aversion and a sell-off in risky assets and flight towards dollar as seen in autumn of 2008, leading a sharp depreciation of emerging market currencies, including rupee closing 10% lower for the quarter.

Back at home, during the last few quarters, political impetus to reforms has taken a back-seat amidst scams, corruption charges and internal government politicking taking a toll on domestic growth. Meanwhile RBI has remained focused on controlling price spiral (read as inflation) and it raised repo rate by 25 bps in mid-September. Domestic interest rates are now at record high levels having a direct fall out on the investment demand creation. GDP growth estimates have come down from 8.5%-9% levels expected at early 2011 to

billion, new tax cuts worth \$136 billion and spending programs worth \$145 billion. The challenge would be to get the proposals through the Congress, especially the ones relating to additional spending.

Portfolio review for Sep. '11

The systemic liquidity continues to remain negative. Yields on treasuries and corporate bonds moved up reflecting concern on higher borrowing calendar for 2H. We marginally increased duration in the Short Term Bond Fund anticipating softening in the yield curve ahead. In the Liquid Fund, we constructed the portfolio buying short-term assets with an accrual view.

Expectations for Oct. '11

All eyes are set on upcoming review of the monetary policy on October 26, as it is likely to reflect RBI’s stance on rates and give direction to markets. We would look to deploy the maturing assets in the portfolio in short/medium term assets with an eye on policy stance and unfolding macro data.

Key Financial Data

| Benchmark | 30/09/11 | 31/08/11 | 31/03/11 | Monthly Change | Change since March |
|----------------------------------|----------|----------|----------|----------------|--------------------|
| 364 Day T-bill (Primary) | 8.46% | 8.31% | 7.64% | 0.15% | 0.82% |
| 5-year Gilt Benchmark | 8.32% | 8.33% | 7.95% | -0.01% | 0.37% |
| 10-year Gilt Benchmark | 8.43% | 8.32% | 7.99% | 0.11% | 0.44% |
| 30-year Gilt Benchmark | 8.62% | 8.62% | 8.36% | 0.00% | 0.25% |
| 91 Day Manufacturing CP(P1+) | 9.55% | 9.40% | 10.36% | 0.15% | -0.81% |
| 91 day Bank CD | 9.15% | 9.25% | 9.70% | -0.10% | -0.55% |
| 1-yr AAA Spreads | 1.06% | 1.11% | 2.02% | -0.05% | -0.96% |
| 5-yr AAA Spreads | 1.06% | 0.97% | 1.28% | 0.09% | -0.22% |
| 5-yr OIS | 7.19% | 7.02% | 7.97% | 0.17% | -0.79% |
| CRR | 6.00% | 6.00% | 6.00% | 0.00% | 0.00% |
| RBI LAF- Reverse Repo Rate* | 7.25% | 7.00% | 5.75% | 0.25% | 1.50% |
| Foreign Exchange Reserve (\$ bn) | 312.71 | 319.18 | 303.48 | -6.47 | 9.22 |
| Nymex Crude | 79.2 | 88.81 | 106.72 | -9.61 | -27.52 |
| US Fed Funds Rate | 0.25% | 0.25% | 0.25% | 0.00% | 0.00% |
| US 10-yr Gilt | 1.92% | 2.22% | 3.47% | -0.31% | -1.55% |
| INR/USD | 48.97 | 46.1 | 44.59 | 6.25% | 9.84% |
| USD/Euro | 1.34 | 1.44 | 1.42 | 6.83% | 5.45% |
| USD/Yen | 77.06 | 76.66 | 83.13 | 0.52% | -7.30% |

*RBI Repo Rate at 8.25%

Sources – Internal & Bloomberg

Ritesh Jain

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

7-7.5% levels for the current fiscal year. Government’s ability to raise finances through disinvestment is under question after the recent postponement of ONGC FPO. The high energy and global commodity prices and the recent announcement of raising additional borrowing of Rs. 53,000 cr. in H2 due to funding mismatches have also put a question on the fiscal year deficit reduction target.

While the markets have continued to be jittery on multiple counts and volatility is high, there are a few silver linings emerging which are worth mentioning. We have seen a sell-off in commodities across the board, particularly, crude oil prices, metals and agro-products which should aid in significant moderation in inflation expectations. A bountiful monsoon, significantly better than earlier prediction, should help put a lid on food prices, and hence inflation.

On the portfolio, we continue to maintain our conservative stance in the event driven macro-economic environment, being overweight in pharmaceuticals and consumer products. Incrementally, we have added stocks in the banking sector in anticipation of peaking interest rate cycle and cheap valuations. We maintain our underweight in commodities and energy as we expect commodities to be under pressure on concerns of global growth, particularly in developed world. Mid-cap allocation in the portfolio is moderate. We continue to track macro-economic issues of the developed world with sharp focus as much as we are eager to hear corporate India commentary after the Q2 results in terms of its ability to manage slow-down and demand moderation, in the next few months.

Jayesh Gandhi

Lead Portfolio Manager Multi/Mid Cap Equities

Morgan Stanley A.C.E. Fund

(An open-ended Across Capitalisations Equity Fund)



Details as on Sep. 30, 2011

Portfolio (✓ Top Ten Holdings)

| Industry Classification | Security Description | % of Total Net Assets |
|------------------------------|-----------------------------------------|-----------------------|
| Banks | | 26.08% |
| | ✓ HDFC Bank Limited | 8.11% |
| | ✓ ICICI Bank Limited | 5.73% |
| | ✓ Bank Of Baroda | 3.25% |
| | ✓ State Bank of India Limited | 3.02% |
| | ✓ Yes Bank Limited | 2.46% |
| | ING Vysya Bank Limited | 2.32% |
| | Union Bank of India | 1.08% |
| | IndusInd Bank Limited | 0.11% |
| Auto | | 10.72% |
| | ✓ Mahindra and Mahindra Limited | 5.17% |
| | ✓ TVS Motor Company Limited | 3.32% |
| | Bajaj Auto Limited | 2.06% |
| | Tata Motors Limited | 0.17% |
| Pharmaceuticals | | 9.14% |
| | Dr. Reddy's Laboratories Limited | 2.09% |
| | Sun Pharmaceutical Industries Limited | 2.04% |
| | Aurobindo Pharma Limited | 1.40% |
| | Cadila Healthcare Limited | 1.37% |
| | Jubilant Life Sciences Limited | 1.19% |
| | Divi's Laboratories Limited | 1.05% |
| Consumer Non Durables | | 8.42% |
| | ✓ ITC Limited | 8.42% |
| Software | | 8.36% |
| | ✓ Infosys Limited | 5.06% |
| | Tata Consultancy Services Limited | 1.94% |
| | HCL Technologies Limited | 1.36% |
| Petroleum Products | | 4.34% |
| | ✓ Reliance Industries Limited | 4.34% |
| Oil | | 3.19% |
| | Oil India Limited | 2.13% |
| | Oil and Natural Gas Corporation Limited | 1.06% |
| Telecom - Services | | 3.16% |
| | Idea Cellular Limited | 1.68% |
| | Bharti Airtel Limited | 1.48% |
| Consumer Durables | | 3.13% |
| | Bajaj Electricals Limited | 1.86% |
| | Tube Investments of India Limited | 1.27% |
| Ferrous Metals | | 2.67% |
| | Jindal Steel and Power Limited | 2.08% |
| | Usha Martin Limited | 0.59% |
| Construction Project | | 2.17% |
| | Larsen and Toubro Limited | 2.17% |
| Gas | | 2.05% |
| | GAIL India Limited | 2.05% |
| Power | | 1.95% |
| | Power Grid Corporation of India Limited | 1.95% |
| Construction | | 1.85% |
| | IRB Infrastructure Developers Limited | 1.85% |
| Industrial Products | | 1.72% |
| | Sintex Industries Limited | 1.72% |
| Textile Products | | 1.45% |
| | Raymond Limited | 1.45% |

| Industry Classification | Security Description | % of Total Net Assets |
|--------------------------------|----------------------------------------------------|-----------------------|
| Media and Entertainment | | 0.97% |
| | Zee Entertainment Enterprises Limited | 0.97% |
| Transportation | | 0.84% |
| | Spice Jet Limited | 0.84% |
| Auto Ancillaries | | 0.43% |
| | Exide Industries Limited | 0.43% |
| Retailing | | 0.39% |
| | Shoppers Stop Limited | 0.39% |
| Finance | | 0.14% |
| | Infrastructure Development Finance Company Limited | 0.14% |
| Cash and other assets | | 6.83% |
| Grand Total | | 100.00% |

Fund Features:

Asset Allocation:

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

NAV (₹):

Growth 13.078 per unit
Dividend 12.312 per unit

Expense Ratio:

2.32% of average daily net assets

Portfolio Turnover:

1.21

Volatility Measures:

(for trailing 3 year period)
Standard Deviation 30.46%
Beta 0.93
Sharpe Ratio¹ 0.37

Average Fund AUM:

₹ 352.11 crore
(Quarter ended Sep. 2011)

¹Risk Free rate is based on 3 month T-Bill rate (5.51%)

Performance

| Period | MSACE | | BSE 200# | | S&P NIFTY ^ | |
|------------------------|-----------|------------|-----------|------------|-------------|------------|
| | Returns % | Value (₹)* | Returns % | Value (₹)* | Returns % | Value (₹)* |
| 30/09/10 to 30/09/11 | -19.36 | 8,064.32 | -19.85 | 8,015.39 | -18.02 | 8,197.83 |
| 30/09/09 to 30/09/10 | 37.42 | 13,742.27 | 20.79 | 12,078.96 | 18.61 | 11,860.76 |
| 30/09/08 to 30/09/09 | 43.51 | 14,351.22 | 34.66 | 13,466.22 | 29.65 | 12,965.29 |
| Since inception (CAGR) | 7.99 | 13,076.84 | 1.13 | 10,400.09 | 1.02 | 10,359.41 |

#Scheme Benchmark. ^ Alternate Benchmark. *Based on standard investment of Rs. 10,000 made at the beginning of the relevant period. Past performance is not a guarantee of future returns. All returns are of Growth Option. Since inception returns are calculated on Rs. 10/- invested at inception of the fund (April 03, 2008).

SIP Performance - Growth option (as on Sep. 30, 2011)

| ₹ 2000 invested every month | Amount Invested (₹) | MSACE | | Benchmark - BSE 200 | |
|-----------------------------|---------------------|-------------------|----------------|---------------------|----------------|
| | | Present Value (₹) | Returns XIRR % | Present Value (₹) | Returns XIRR % |
| 2 years | 48,000 | 44,525.99 | -7.06 | 43,229.33 | -9.75 |
| Since inception* | 82,000 | 1,01,118.81 | 12.33 | 90,382.55 | 5.64 |

Past performance is not a guarantee of future returns. For SIP returns, monthly investment of equal amounts invested on the first business day of every month have been considered. *The 1st SIP date is considered as May 02, 2008.

Dividend History

| Record Date | Dividend Per Unit (₹) | Ex Dividend NAV (₹) |
|---------------|-----------------------|---------------------|
| Nov. 04, 2010 | 1.00 | 16.076 |

Note: Face Value ₹ 10/- per unit.

Ranking Methodology: *Value Research Fund Ratings are a composite measure of historical risk-adjusted returns. In the case of equity and hybrid funds this rating is based on the weighted average monthly returns for the last 3 and 5-year periods. In the case of debt funds this rating is based on the weighted average weekly returns for the last 18 months and 3-year periods and in case of short-term debt funds - weekly returns for the last 18 months. These ratings do not take into consideration any entry or exit load. Each category must have a minimum of 10 funds for it to be rated. Effective, July 2008, we have put an additional qualifying criteria, whereby a fund with less than ₹ 5 crore of average AUM in the past six months will not be eligible for rating. Five-stars indicate that a fund is in the top 10% of its category in terms of historical risk-adjusted returns. Four stars indicate that a fund is in the next 22.5%, middle 35% receive three stars, the next 22.5% are assigned two stars while the bottom 10% receive one star. 43 schemes in the open-ended Equity: Multi Cap category were rated as on Sep. 30, 2011. The Value Research Ratings are published in Monthly Mutual Fund Performance Report and Mutual Fund Insight. The Ratings are subject to change every month. The Rating is based on primary data provided by respective funds, Value Research does not guarantee the accuracy.

Morgan Stanley Growth Fund

(An open-ended Equity Fund)

Details as on Sep. 30, 2011

Portfolio (✓ Top Ten Holdings)

| Industry Classification | Security Description | % of Total Net Assets |
|---------------------------------|-------------------------------------|-----------------------|
| Banks | | 23.88% |
| | ✓ HDFC Bank Limited | 9.66% |
| | ✓ ICICI Bank Limited | 6.98% |
| | ✓ IndusInd Bank Limited | 3.55% |
| | State Bank of India Limited | 2.32% |
| | Bank Of Baroda | 1.37% |
| Consumer Non Durables | | 14.03% |
| | ✓ ITC Limited | 7.56% |
| | Hindustan Unilever Limited | 1.90% |
| | Asian Paints Limited | 1.65% |
| | Nestle India Limited | 1.36% |
| | McLeod Russel India Limited | 1.07% |
| | Ess Dee Aluminium Limited | 0.49% |
| Pharmaceuticals | | 8.13% |
| | ✓ Dr. Reddy's Laboratories Limited | 4.10% |
| | ✓ Glenmark Pharmaceutical Limited | 4.03% |
| Software | | 7.68% |
| | ✓ Tata Consultancy Services Limited | 5.34% |
| | Infosys Limited | 2.34% |
| Auto | | 5.92% |
| | ✓ Mahindra and Mahindra Limited | 4.40% |
| | Bajaj Auto Limited | 1.52% |
| Construction Project | | 4.97% |
| | ✓ Larsen and Toubro Limited | 4.24% |
| | Gammon India Limited | 0.73% |
| Ferrous Metals | | 4.91% |
| | Tata Steel Limited | 2.28% |
| | Jindal Steel and Power Limited | 1.97% |
| | Usha Martin Limited | 0.66% |
| Petroleum Products | | 3.80% |
| | ✓ Reliance Industries Limited | 3.80% |
| Gas | | 3.41% |
| | GAIL India Limited | 1.74% |
| | Indraprastha Gas Limited | 1.12% |
| | Petronet LNG Limited | 0.55% |
| Telecom - Services | | 2.83% |
| | Bharti Airtel Limited | 2.83% |
| Industrial Capital Goods | | 2.36% |
| | AIA Engineering Limited | 1.39% |
| | Thermax Limited | 0.97% |
| Power | | 1.98% |
| | KSK Energy Ventures Limited | 1.98% |
| Fertilisers | | 1.70% |
| | Coromandel International Limited | 1.70% |
| Media and Entertainment | | 1.62% |
| | DB Corp Limited | 0.92% |
| | TV18 Broadcast Limited | 0.70% |
| Industrial Products | | 1.62% |
| | Cummins (India) Limited | 1.62% |
| Engineering Services | | 1.52% |
| | Engineers India Limited | 1.52% |
| Trading | | 1.33% |
| | Redington India Limited | 1.33% |
| Construction | | 1.19% |
| | Oberoi Realty Limited | 1.19% |
| Non - Ferrous Metals | | 0.98% |
| | Hindustan Zinc Limited | 0.98% |
| Auto Ancillaries | | 0.91% |
| | Motherson Sumi Systems Limited | 0.91% |
| Minerals/Mining | | 0.74% |
| | Coal India Limited | 0.74% |
| Finance | | 0.60% |
| | Manappuram Finance Limited | 0.60% |
| Retailing | | 0.29% |
| | Pantaloon Retail India Limited | 0.29% |
| Cash and other assets | | 3.60% |
| Grand Total | | 100.00% |

Fund Features:

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 53.416 per unit
Dividend* 16.307 per unit
*option introduced on Jan. 19, 2009

Expense Ratio:

1.95% of average daily net assets

Portfolio Turnover:

0.49

Volatility Measures:

(for trailing 3 year period)
Standard Deviation 29.78%
Beta 0.93
Sharpe Ratio¹ 0.09

Average Fund AUM:

₹ 1396.05 crore
(Quarter ended Sep. 2011)

¹Risk Free rate is based on 3 month T-Bill rate (5.51%)

Performance

| Period | MSGF | | BSE 100# | | BSE Sensex ^ | |
|------------------------|-----------|------------|-----------|------------|--------------|------------|
| | Returns % | Value (₹)* | Returns % | Value (₹)* | Returns % | Value (₹)* |
| 30/09/10 to 30/09/11 | -22.33 | 7,766.79 | -18.95 | 8,104.73 | -18.01 | 8,198.55 |
| 30/09/09 to 30/09/10 | 26.18 | 12,617.87 | 19.00 | 11,900.37 | 17.18 | 11,717.92 |
| 30/09/08 to 30/09/09 | 29.54 | 12,953.90 | 33.46 | 13,345.61 | 33.18 | 13,317.50 |
| Since inception (CAGR) | 11.83 | 71,749.13 | 8.96 | 45,321.27 | 8.49 | 42,030.71 |

#Scheme Benchmark. ^ Alternate Benchmark. *Based on standard investment of Rs. 10,000 made at the beginning of the relevant period. Past performance is not a guarantee of future returns. All returns are of Growth Option. Since inception returns are calculated on Rs. 10/- invested at inception of the fund (Feb. 18, 1994).

SIP Performance - Growth option (as on Sep. 30, 2011)

| ₹ 2000 invested every month | MSGF | | Benchmark - BSE 100 | | |
|-----------------------------|---------------------|-------------------|---------------------|-------------------|----------------|
| | Amount Invested (₹) | Present Value (₹) | Returns XIRR % | Present Value (₹) | Returns XIRR % |
| 2 years | 48,000 | 42,588.87 | -11.08 | 43,520.02 | -9.14 |
| Since inception* | 64,000 | 64,993.57 | 1.13 | 66,070.29 | 2.34 |

Past performance is not a guarantee of future returns. For SIP returns, monthly investment of equal amounts invested on the 1st business day of every month have been considered. *MSGF became open ended on January 19, 2009, and the first SIP date is considered as February 02, 2009.

Dividend History

| Record Date | Dividend Per Unit (₹) | Ex Dividend NAV (₹) |
|---------------|-----------------------|---------------------|
| Nov. 04, 2010 | 1.50 | 22.258 |

Note: Face Value ₹ 10/- per unit. For details of dividends declared since inception of MSGF, please refer our website.

Morgan Stanley Short Term Bond Fund

(An open-ended Debt Fund)



Details as on Sep. 29, 2011

Portfolio

| Security Description | Rating | % of Total Net Assets |
|-----------------------------------------------------|-----------|-----------------------|
| Money Market Instruments | | 71.92% |
| Bank of Maharashtra | A1+ | 8.11% |
| Indian Overseas Bank | A1+ | 8.10% |
| National Bank for Agriculture and Rural Development | P1+ | 8.10% |
| Canara Bank | A1+ | 8.10% |
| Axis Bank Ltd. | A1+ | 8.08% |
| Corporation Bank | P1+ | 7.94% |
| Andhra Bank | A1+ | 7.94% |
| Federal Bank Ltd. | P1+ | 7.94% |
| Jammu and Kashmir Bank | P1+ | 7.61% |
| Corporate Debt | | 23.42% |
| Bajaj Finance Ltd. | AA+ | 8.25% |
| Housing Development Finance Corporation Ltd. | AAA | 8.22% |
| Tata Capital Ltd. | AA+ | 6.95% |
| Treasury Bills | | 0.41% |
| 91 Days T Bills 23 Dec 11 | Sovereign | 0.41% |
| Cash & Current Assets | | 4.25% |
| Grand Total | | 100.00% |

Rating Profile

| Rating Category | |
|-----------------------|----------------|
| Sovereign | 0.41% |
| AAA | 80.14% |
| AA+ | 15.20% |
| Cash & Current Assets | 4.25% |
| Grand Total | 100.00% |

Asset Allocation

| Asset Class | |
|--------------------------|----------------|
| Money Market Instruments | 71.92% |
| Corporate Debt | 23.42% |
| Treasury Bills | 0.41% |
| Cash & Current Assets | 4.25% |
| Grand Total | 100.00% |

CRISIL Mutual Fund Rank* Open End Debt Short Schemes, June 30, 2011. **Ranking Methodology:** *CRISIL Mutual Fund Rank "1" – The composite performance of Morgan Stanley Short Term Bond Fund - Regular - Growth is "Very Good performance" in the Open End Debt Short Schemes Category, and ranks within the Top 10 percentile of the 32 schemes ranked in this category. The criteria used in computing the CRISIL Mutual Fund Rank are Superior Return Score based on NAVs over the 1-year period ended June 30, 2011, Sectoral concentration, Company concentration and Liquidity of the scheme. The methodology does not take into account the entry and exit loads levied by the scheme. The CRISIL Mutual Fund Rank is no indication of the performance that can be expected from the scheme in future. Ranking Source: CRISIL FundServices, CRISIL Limited

Fund Features:

Plans/Options and NAV (₹):

| | |
|--------------------------------|---------|
| Institutional Plus Plan | |
| Weekly Dividend | |
| Reinvestment: | 10.0958 |
| Monthly Dividend | |
| (Payout and Reinvestment): | 10.1465 |
| Growth: | 11.6144 |
| Regular Plan | |
| Weekly Dividend | |
| Reinvestment: | 10.0891 |
| Monthly Dividend | |
| (Payout and Reinvestment): | 10.1497 |
| Growth: | 11.5268 |

Expense Ratio:

| | |
|-------------------------|-------|
| Institutional Plus Plan | 0.60% |
| Regular Plan | 0.90% |

Average Maturity: 8.13 months

Modified Duration: 0.61 years

Yield to Maturity: 9.39%

Rating:

Credit risk rating mfAAA by ICRA#

Average Fund AUM:

₹ 74.37 crore
(Quarter ended Sep. 2011)

Performance

| Period | MSSTBF | | CRISIL Bond Fund Index# | |
|------------------------|-----------|------------|-------------------------|------------|
| | Returns % | Value (₹)* | Returns % | Value (₹)* |
| 30/09/10 to 30/09/11 | 8.06 | 10,806.00 | 6.81 | 10,680.83 |
| 30/09/09 to 30/09/10 | 4.99 | 10,498.86 | 4.93 | 10,492.53 |
| Since inception (CAGR) | 6.25 | 11,531.44 | 5.48 | 11,334.65 |

#Scheme Benchmark. Alternate Benchmark not available. *Based on standard investment of Rs. 10,000 made at the beginning of the relevant period. Past performance is not a guarantee of future returns. All returns are of Regular Growth Option. Since inception returns are calculated on Rs. 10/- invested at inception of the fund (May 26, 2009).

Dividend History

| Plan/Frequency | Record Date | Non-Individuals Per Unit (₹) | Individuals Per Unit (₹) | Ex Dividend NAV (₹) |
|-------------------------------|---------------|------------------------------|--------------------------|---------------------|
| Regular Plan-Monthly Dividend | Sep. 29, 2011 | 0.0598 | 0.0697 | 10.0705 |
| Regular Plan-Monthly Dividend | Aug. 26, 2011 | 0.0492 | 0.0574 | 10.0756 |
| Regular Plan-Monthly Dividend | Jul. 29, 2011 | 0.0615 | 0.0718 | 10.0759 |

Note: Face Value ₹ 10 per unit.

Morgan Stanley Active Bond Fund

(An open-ended Debt Fund)

Details as on Sep. 29, 2011

Portfolio

| Security Description | Rating | % of Total Net Assets |
|----------------------------------|-----------|-----------------------|
| Treasury Bills | | 13.40% |
| 91 Days T Bills 23 Dec 11 | Sovereign | 13.40% |
| Cash & Current Assets | | 86.60% |
| Total Net Asset | | 100.00% |

Performance

| Period | MSABF | | CRISIL Composite Bond Fund Index# | |
|------------------------|-----------|------------|-----------------------------------|------------|
| | Returns % | Value (₹)* | Returns % | Value (₹)* |
| 30/09/10 to 30/09/11 | 4.62 | 10,461.69 | 5.58 | 10,558.34 |
| 30/09/09 to 30/09/10 | 3.41 | 10,341.49 | 5.46 | 10,546.20 |
| Since inception (CAGR) | 2.72 | 10,649.30 | 4.99 | 11,205.99 |

#Scheme Benchmark. Alternate Benchmark not available. *Based on standard investment of Rs. 10,000 made at the beginning of the relevant period. Past performance is not a guarantee of future returns. All returns are of Regular Growth Option. Since inception returns are calculated on Rs. 10/- invested at inception of the fund (May 28, 2009).

Fund Features:

Plans/Options and NAV (₹):

| | |
|--------------------------------|---------|
| Institutional Plus Plan | |
| Quarterly Dividend | |
| (Payout and Reinvestment): | 10.0000 |
| Growth: | 10.0000 |
| Regular Plan | |
| Quarterly Dividend | |
| (Payout and Reinvestment): | 10.6496 |
| Growth: | 10.6496 |
| Expense Ratio: | |
| Institutional Plus Plan | 1.20% |
| Regular Plan | 1.75% |

Average Maturity: 0.48 months

Modified Duration: 0.04 years

Yield to Maturity: 8.24%

Rating:

Credit risk rating mfAAA by ICRA#

Average Fund AUM:

₹ 0.41 crore
(Quarter ended Sep. 2011)

Rating Profile

| Rating Category | |
|-----------------------|----------------|
| Sovereign | 13.40% |
| Cash & Current Assets | 86.60% |
| Grand Total | 100.00% |

Asset Allocation

| Asset Class | |
|-----------------------|----------------|
| Treasury Bills | 13.40% |
| Cash & Current Assets | 86.60% |
| Grand Total | 100.00% |

*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 Liquid Fund

(An open ended Liquid Fund)

Details as on Sep. 29, 2011

Portfolio

| Security Description | Rating | % of Total Net Assets |
|-------------------------------------------------|-----------|-----------------------|
| Money Market Instruments | | 90.24% |
| Infrastructure Development Finance Company Ltd. | A1+ | 9.16% |
| Kotak Mahindra Bank Ltd. | A1+ | 6.83% |
| HDFC Bank Ltd. | A1+ | 5.78% |
| Andhra Bank | A1+ | 5.77% |
| ING Vyasa Bank Ltd. | A1+ | 5.77% |
| Indian Oil Corporation Ltd. | A1+ | 5.72% |
| IndusInd Bank Ltd. | A1+ | 5.69% |
| Allahabad Bank | A1+ | 5.69% |
| Yes Bank Ltd. | A1+ | 5.69% |
| Vijaya Bank | PR1+ | 5.69% |
| Corporation Bank | P1+ | 5.68% |
| Canara Bank | A1+ | 5.68% |
| Oriental Bank of Commerce | A1+ | 5.68% |
| Aditya Birla Finance Ltd. | A1+ | 5.68% |
| Housing Development Finance Corporation Ltd. | P1+ | 4.59% |
| Bank of Maharashtra | A1+ | 1.14% |
| Treasury Bills | | 0.61% |
| 91 Days T Bills 23 Dec 11 | Sovereign | 0.61% |
| Cash & Current Assets | | 9.15% |
| Grand Total | | 100.00% |

Fund Features:

Options and NAV (₹):

| | |
|----------------------------|------------|
| Daily Dividend | 1,000.4971 |
| Reinvestment: | |
| Weekly Dividend | 1,001.8833 |
| Reinvestments: | |
| Monthly Dividend | 1,005.2804 |
| (Payout and Reinvestment): | |
| Growth: | 1,005.2804 |

Average Maturity: 1.6 months

Modified Duration: 0.13 years

Yield to Maturity: 9.10%

Rating:
[ICRA]A1+mfs*

Expense Ratio:

0.10%

Rating Profile

| Rating Category | |
|-----------------------|----------------|
| Sovereign | 0.61% |
| AAA | 90.24% |
| Cash & Current Assets | 9.15% |
| Grand Total | 100.00% |

Asset Allocation

| Asset Class | |
|--------------------------|----------------|
| Money Market Instruments | 90.24% |
| Treasury Bills | 0.61% |
| Cash & Current Assets | 9.15% |
| Grand Total | 100.00% |

Dividend History

| Plan/Frequency | Record Date | Non-Individuals Per Unit (₹) | Individuals Per Unit (₹) | Ex Dividend NAV (₹) |
|------------------|---------------|------------------------------|--------------------------|---------------------|
| Monthly Dividend | Sep. 29, 2011 | 3.5758 | 3.728 | 1,000.5444 |

Note: Face Value ₹ 1000 per unit.

*ICRA has assigned the rating of "[ICRA]A1+mfs" to Morgan Stanley Liquid Fund. Schemes with [ICRA]A1mfs rating are considered to have very strong degree of safety regarding timely receipt of payments from the investments that have been made. Within this category, Modifier {"+" (plus)} can be used with the rating symbols to reflect the comparative standing. This rating should however, not be construed as an indication of the performance of the aforesaid Fund or of volatility in its returns. Further, the above rating should not be treated as ICRA's recommendation to buy, sell or hold the units issued under the said Fund.

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 6118 2929 |
| • Pune 020 6500 8349 | | | |

Registered Office: Morgan Stanley Investment Management Pvt. Ltd., 18F/19F, Tower 2, One Indiabulls Centre, 841, Senapati Bapat Marg, Mumbai 400 013. Toll free 1800 425 1313, Non-toll-free 040 2342 8757

Note: SIP does not guarantee protection against loss in a declining market. Applicable taxes, exit load, if any have not been considered in calculations and the same, if taken into consideration, may reduce the returns on your actual investments. Please consult your legal/tax/investment advisor before investing.

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 names of the schemes do not in any manner indicate either the quality of the schemes, its future prospects or 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 ₹ 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 Documents/Key Information Memorandum (available at Investor Service Centres, Distributors, and on the Mutual Fund website www.morganstanley.com/indiamf), carefully before investing.**

mf distributorcare@morganstanley.com

www.morganstanley.com/indiamf

mfinvestorcare@morganstanley.com

Funds at a glance

| Particulars | Morgan Stanley A.C.E. Fund | Morgan Stanley Growth Fund | Morgan Stanley Short Term Bond Fund | Morgan Stanley Active Bond Fund | Morgan Stanley Liquid Fund |
|----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Nature of the Fund | An open-ended Across Capitalisations Equity Fund | An open-ended Equity Fund (open-ended from Jan. 19, 2009) | An open-ended Debt Fund | An open-ended Debt Fund | An open-ended Liquid Fund |
| Date of Allotment | April 03, 2008 | February 18, 1994 | May 26, 2009 | May 28, 2009 | Sep. 8, 2011 |
| Fund Manager | Jayesh Gandhi | Sridhar Sivaram and Amay Hattangadi | Ritesh Jain | Ritesh Jain | Ritesh Jain |
| Investment Objective | To generate long-term capital growth from an actively managed portfolio of equity and equity-related securities including equity derivatives. | To achieve long-term capital appreciation by investing primarily in equity and equity related securities of companies having large market capitalization#. | To generate income from a diversified portfolio of short to medium term debt and money market securities. | To generate optimal returns through active management of the portfolio consisting of debt and money market securities. | To provide returns commensurate with low risk and high liquidity, through a portfolio of money market and short-term debt securities with residual maturity of up to 91 days. |
| Scheme Benchmark | BSE 200 | BSE 100 | CRISIL Short-Term Bond Fund Index | CRISIL Composite Bond Fund Index | CRISIL Liquid Fund Index |
| Alternate Benchmark | S&P Nifty | BSE Sensex | NA | NA | NA |
| Investment Plan/ Options | <ul style="list-style-type: none"> Growth Option Dividend Option - Reinvestment and Payout | <ul style="list-style-type: none"> Growth Option Dividend Option - Reinvestment and Payout | Institutional Plus Plan <ul style="list-style-type: none"> Growth Option Dividend Option - Weekly Reinvestment - Monthly Reinvestment and Payout Regular Plan <ul style="list-style-type: none"> Growth Option Dividend Option - Weekly Reinvestment - Monthly Reinvestment and Payout | Institutional Plus Plan <ul style="list-style-type: none"> Growth Option Dividend Option - Quarterly Reinvestment and Payout Regular Plan <ul style="list-style-type: none"> Growth Option Dividend Option - Quarterly Reinvestment and Payout | <ul style="list-style-type: none"> Growth Option Dividend Option - Daily Reinvestment - Weekly Reinvestment - Monthly Reinvestment and Payout |
| Minimum Investment Amount | Lumpsum: ₹ 5,000 and in multiples of ₹ 1/- thereafter SIP: ₹ 1,000/- via minimum 6 installments Group SIP: ₹ 250/- via minimum 6 installments | Lumpsum: ₹ 5,000 and in multiples of ₹ 1/- thereafter SIP: ₹ 1,000/- via minimum 6 installments Group SIP: ₹ 250/- via minimum 6 installments | Lumpsum: Regular Plan - ₹ 5,000/- and multiples of ₹ 1/- thereafter Institutional Plus Plan - ₹ 50 lacs and in multiples of ₹ 1/- thereafter SIP: (Regular Plan Only) ₹ 1,000/- via minimum 6 installments Group SIP: ₹ 250/- via minimum 6 installments | Lumpsum: Regular Plan - ₹ 5,000/- plus in multiples of ₹ 1/- thereafter Institutional Plus Plan - ₹ 50 lacs plus in multiples of ₹ 1/- thereafter SIP: (Regular Plan Only) ₹ 1,000/- via minimum 6 installments Group SIP: ₹ 250/- via minimum 6 installments | Lumpsum: ₹ 5,000/- plus in multiples of ₹ 1/- thereafter SIP: ₹ 1,000/- via minimum 6 installments Group SIP: ₹ 250/- via minimum 6 installments |
| Additional Investment | ₹ 1,000 and in multiples of ₹ 1/- thereafter | ₹ 1,000 and in multiples of ₹ 1/- thereafter | Regular Plan - ₹ 1,000/- and in multiples of ₹ 1/- thereafter Institutional Plus Plan - ₹ 1 lac and in multiples of ₹ 1/- thereafter | Regular Plan - ₹ 1,000/- and in multiples of ₹ 1/- thereafter Institutional Plus Plan - ₹ 1 lac and in multiples of ₹ 1/- thereafter | ₹ 1,000/- and in multiples of ₹ 1/- thereafter |
| Minimum Repurchase amount | ₹ 1,000/- and in multiples of ₹ 1/- thereafter | ₹ 1,000/- and in multiples of ₹ 1/- thereafter | ₹ 1,000/- and in multiples of ₹ 1/- thereafter | ₹ 1,000/- and in multiples of ₹ 1/- thereafter | ₹ 1,000/- and in multiples of ₹ 1/- thereafter |
| SIP/STP Dates | 1st, 5th, 10th, 15th, 20th, 25th of every Month/Quarter | 1st, 5th, 10th, 15th, 20th, 25th of every Month/Quarter | 1st, 5th, 10th, 15th, 20th, 25th of every Month/Quarter | 1st, 5th, 10th, 15th, 20th, 25th of every Month/Quarter | 1st, 5th, 10th, 15th, 20th, 25th of every Month/Quarter |
| Entry Load | NA | NA | NA | NA | NA |
| Exit Load | 1% if redeemed/switched on or before the expiry of one year from the date of allotment; otherwise: Nil. | 1% if redeemed/switched on or before the expiry of one year from the date of allotment; otherwise: Nil. | Nil. | Nil. | Nil. |

#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.