

Fact Sheet

September 2009

FIXED INCOME OVERVIEW

The fixed income market witnessed a choppy trading month with the yield curve progressively moving higher on the back of successive auction supply. The market boredom and reluctance to absorb any more supply resulted in across the board hardening in the interest rate structure. The expectation of inflationary outlook leading to liquidity withdrawal and change in RBI's stance and the inability of the banking sector to absorb any more supply in the HTM book further fuelled the fall. With around 66% of the scheduled borrowing stated to complete in the first half of the calendar, market believes that though absolute pricing remains good to invest, the better is yet to come.

India's real GDP grew by 6.1% y-o-y in 2Q09, marginally below the consensus market expectations of 6.2%. The impact of the deficient monsoon on agriculture GDP will be visible from 3Q09 onwards when kharif harvesting begins.

Having moved gently higher in April and May, Indian industrial production growth leapt to 7.8% in June (from a downwardly revised 2.2% in May). This is the highest rate since December 2007 beating the street consensus for a 3.8% year-on-year increase in production. Although the June production number could well prove something of an aberration, bearing in mind just how strong it was, the trend in industrial output is clear and it is certainly not down. While the poor monsoon is creating justifiable concerns about agricultural sector output, which in turn is prompting some to revise GDP forecasts lower, the IIP release suggests there is plenty of momentum in the ex-agricultural sector as well.

India merchandise trade maintains the trends seen in previous months with exports in June continued to remain in the red, down 27.7% yoy (US\$12.8bn). However, the pace of contraction has moderated from the 30%+ decline seen earlier this year. Imports at US\$19bn contracted 29.3% yoy, led by a 51% decline in oil imports and a 16.5% contraction in non-oil imports. As a result, India's trade deficit came in at US\$6.2bn v/s the US\$10bn range seen last year.

According to the Ministry of Labour and Employment, the CPI inflation for agricultural labourers and rural labourers rose to an 11-year high of 12.9% y-o-y and 12.7%, respectively in July, from 11.5% and 11.3% in June. The increase was mainly due to a drought-induced surge in food price inflation to 14.0% y-o-y in July. CPI inflation for industrial workers rose sharply above expectations to 11.9% y-o-y in July from 9.3% in June, the highest in more than a decade. Though the historical relationship between wholesale and consumer price inflation in India is not that close, what we have seen recently is unprecedented - CPI inflation soaring to double-digit cycle highs while WPI inflation continue to remain into negative territory. As a result, the gap between the two series amounted to an unbelievable double digit. The latest read on WPI is at negative 0.95% for the week ended on 15th August 2009. The Food prices & the Primary article indices will continue to remain elevated through the rest of the year on pressures stemming from actual/perceived supply shortages. The international crude price closed flat at \$69.96 a barrel against the previous month's level of \$69.45 a barrel.

After moving in a volatile range the domestic currency closed at around INR 48.83 to a Dollar, breaching in course a one month low of INR 49 to a \$ against the previous month close of INR 47.94 a Dollar. Demand for USD by Oil marketing Companies and importers brought in weakness for the INR, while the intermittent strength of equity indices counteracted to keep the currency within the range. The Foreign Exchange reserve closed at around \$271.96 Billion as on 24th August '09. The liquidity situation in the market continues to remain benign with system parking more than INR one trillion with RBI on a consistent basis through Reverse Repo window.

On the interest rate front, the sovereign bond yield curve gave up further ground after

EQUITY OVERVIEW

The Indian market took a breather in August after the strong run in the last six months. The large-cap index (BSE Sensex) continued to underperform the mid-cap index (BSE mid-cap index) during the month. Even globally, MSCI India is the fourth best performing emerging market, YTD but slipped up a bit in the return rankings in August. Sectorally, realty and consumer durable continued to do well with strong volume numbers coming through for best sectors whereas the FMCG sector underperformed as money continued to rotate out of it. Both FII and domestic institutions were net buyers in the cash segment of the market with inflows of USD 827 mn and USD 118 mn respectively. Both categories have now remained net buyers for six consecutive months. FII flows into the country have now crossed USD 8 bn in this calendar year.

On the newsflow front, August was a mixed bag. Though the markets remained worried about the weak rainfall till the middle of this month, slight improvement in the last week of the month allayed some fears. Macro-economic data like

remaining volatile for most part of the month. While continued supply in the shorter end of the curve imposed an upside pressure on the segment, the devolvement and higher than expected cut-off propelled yields on the longer end of the curve. The new benchmark 10-year point closed the month at 7.44% against the previous month level at 7.01%. The corporate curve too lost in line with the sovereign benchmark with AAA 10-year corporate closing higher at 8.85% against previous months closing at 8.65%. The five-year benchmark corporate also lost ground to close the month at 8.60% versus previous month's level of around 8.25%.

Portfolio review for August '09

The duration funds maintained moderate duration stance and added the medium segment of the curve to the portfolios. The out of line spread in the 10-12 year sovereign curve is likely to compress gradually to mean. The abundance of liquidity in the system assured that the short maturity yields stayed low during the month with the medium duration plan posing absolute positive return despite the hardening in the yield curve.

Expectations for September '09

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
	08/31/09	07/31/09	03/31/09	(Monthly)	(Since March 09)
364 Day T-bill (Primary)	4.34%	3.80%	5.50%	0.54%	-1.16%
5-year Gilt Benchmark	7.17%	6.72%	6.76%	0.45%	0.41%
10-year Gilt Benchmark	7.44%	7.15%	7.01%	0.28%	0.42%
30-year Gilt Benchmark	8.20%	7.83%	8.42%	0.37%	-0.22%
91 Day Manufacturing CP(P1+)	4.71%	4.56%	9.20%	0.15%	-4.49%
91 day Bank CD	3.50%	3.65%	9.75%	-0.15%	-6.25%
1-yr AAA Spreads	1.50%	1.45%	2.36%	0.05%	-0.86%
5-yr AAA Spreads	1.30%	1.30%	1.66%	-0.05%	-0.41%
5-yr OIS	6.41%	6.36%	5.61%	0.05%	0.79%
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)	271.96	271.64	252.33	0.32	19.63
Nymex Crude	69.96	69.45	49.66	0.51	20.30
US Fed Funds Rate	0.25%	0.25%	0.25%	0.00%	0.00%
US 10-yr Gilt	3.40%	3.48%	2.66%	-0.08%	0.73%
INR/USD	48.83	47.94	50.73	1.86%	-3.76%
USD/Euro	1.43	1.43	1.33	-0.54%	-8.18%
USD/Yen	93.12	94.68	98.96	-1.65%	-5.90%

*RBI Repo Rate at 4.75%

Sources - Internal & Bloomberg

Ritesh Jain

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

IIP growth and GDP (April-June quarter) were positive, news on exports front continued to be uninspiring. The only upshot has been that imports have fallen faster than exports, thus improving the country's trade balance. Globally, the worry points seem centre around policy tightening, especially in China and whether that will scuttle the rally in risk-assets.

From a portfolio standpoint, we have increased our weighting in consumer-related sectors and cut down the portfolio weight in financials sector especially the public sector banks. Thematically, we have been impressed by the resilience of the Indian consumer during the past few quarters and feel that the growing middle class consumer is finally creating tailwinds for the consumer sector in India.

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 Aug. 31, 2009

Portfolio

Security Description	Rating	% of Total Net Assets
Money Market Instruments		47.99%
UCO Bank	P1+	9.72%
Sundaram BNP Paribas Home Finance Ltd	A1+	9.67%
Vijaya Bank	PR1+	9.56%
Kotak Mahindra Bank	P1+	9.52%
Yes Bank	A1+	9.52%
Corporate Debt		19.91%
LIC Housing Finance Ltd	AAA	9.98%
Housing Development Finance Corporation Ltd	AAA	9.94%
PSU Bonds		5.25%
National Bank for Agriculture & Rural Development	AAA	5.25%
Cash & Current Assets		26.85%
Grand Total		100.00%

Performance (in %)

Plan	Fund Returns* (since inception May 26, 2009)	Crisil Short Term Bond Fund Index
Regular Plan	1.20%	0.59%
Institutional Plus Plan	1.33%	0.59%

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	73.15%
Cash & Current Assets	26.85%
Grand Total	100.00%

Asset Allocation

Asset Class	
Money Market Instruments	47.99%
Corporate Debt	19.91%
PSU Bonds	5.25%
Cash & Current Assets	26.85%
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 (Rs.):

Institutional Plus Plan

Weekly Dividend	
Reinvestment:	10.0156
Monthly Dividend	
(Payout and Reinvestment):	10.0000
Growth:	10.1326

Regular Plan

Monthly Dividend	
(Payout and Reinvestment):	10.0167
Growth:	10.1195

Expense Ratio:

Institutional Plus Plan	0.40%
Regular Plan	0.90%

Average Maturity: 10.22 months

Modified Duration: 0.76 years

Yield to Maturity: 5.56%

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. 99.92 crore

Dividend History

Plan/Frequency	Record Date	Non-Individuals Per Unit (Rs.)	Individuals Per Unit (Rs.)	Ex Dividend NAV (Rs.)
Regular Plan-Monthly Dividend	Aug. 28, 2009	0.0167	0.018	10.0128
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 Aug. 31, 2009

Portfolio

Security Description	Rating	% of Total Net Assets
Government Securities		43.83%
07.94% CGL 2021	SOV	43.83%
Cash & Current Assets		56.17%
Grand Total		100.00%

Performance (in %)

Plan	Fund Returns* (since inception May 28, 2009)	Crisil Composite Bond Fund Index
Regular Plan	- 1.92%	- 0.18%
Institutional Plus Plan	- 2.06%	- 0.18%

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	43.83%
Cash & Current Assets	56.17%
Grand Total	100.00%

Asset Allocation

Asset Class	
Government Securities	43.83%
Cash & Current Assets	56.17%
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.

Rating:

Credit risk rating mfAAA by ICRA[#]

Benchmark Index:

CRISIL Composite Bond Fund Index

Plans/Options and NAV (Rs.):

Institutional Plus Plan

Quarterly Dividend	
(Payout and Reinvestment):	9.8078
Growth:	9.8078

Regular Plan

Quarterly Dividend (Payout and Reinvestment):	9.7936
Growth:	9.7936

Expense Ratio:

Institutional Plus Plan	1.20%
Regular Plan	1.75%

Average Maturity: 62.60 months

Modified Duration: 3.25 years

Yield to Maturity: 5.01%

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: Nil

Date of Allotment:

May 28, 2009

Fund Manager:

Ritesh Jain

Fund AUM:

Rs. 22.69 crore

[#]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 A.C.E. Fund

(An open-ended Across Capitalisations Equity Fund)

Details as on Aug. 31, 2009

Portfolio (✓ Top Ten Holdings)

Industry Classification	Security Description	% of Total Net Assets
Consumer Non Durables		11.12%
	✓ Emami Limited	2.96%
	✓ Marico Limited	2.70%
	Lakshmi Energy and Foods Limited	1.89%
	United Spirits Limited	1.88%
	ITC Limited	1.69%
Banks		8.38%
	✓ ICICI Bank Limited	4.18%
	YES Bank Limited	1.76%
	AXIS Bank Limited	1.44%
	HDFC Bank Limited	1.00%
Petroleum Products		8.27%
	✓ Reliance Industries Limited	8.27%
Pharmaceuticals		7.59%
	✓ Aurobindo Pharma Limited	3.34%
	Dr. Reddy's Laboratories Limited	1.62%
	Jubilant Organosys Limited	1.35%
	Cadila Healthcare Limited	1.28%
Gas		6.43%
	✓ Gujarat State Petronet Limited	4.40%
	GAIL India Limited	2.03%
Power		6.06%
	Reliance Infrastructure Limited	2.22%
	GVK Power and Infrastructure Limited	1.52%
	KEC International Limited	1.38%
	NHPC Limited	0.55%
	Adani Power Limited	0.39%
Software		5.19%
	✓ Infosys Technologies Limited	2.46%
	Tata Consultancy Services Limited	1.72%
	Infotech Enterprises Limited	1.01%
Construction Projects		4.16%
	✓ Voltas Limited	2.34%
	Larsen and Toubro Limited	1.82%
Construction		4.14%
	The Phoenix Mills Limited	2.18%
	Sobha Developers Limited	1.14%
	B L Kashyap and Sons Limited	0.82%
Non - Ferrous Metals		4.13%
	Hindustan Zinc Limited	2.16%
	Sterlite Industries (India) Limited	1.97%
Industrial Capital Goods		3.98%
	Crompton Greaves Limited	2.10%
	Bharat Heavy Electricals Limited	1.88%
Cement		3.91%
	Shree Cement Limited	1.88%
	Jaiprakash Associates Limited	1.88%
	Orient Paper and Industries Limited	0.15%
Telecom - Equipment & Accessories		3.52%
	✓ Sterlite Technologies Limited	3.52%
Oil		3.02%
	✓ Oil and Natural Gas Corporation Limited	3.02%
Auto Ancillaries		2.40%
	Exide Industries Limited	1.35%
	Ceat Limited	1.05%
Finance		2.29%
	Housing Development Finance Corporation Limited	2.29%
Auto		2.05%
	Mahindra and Mahindra Limited	2.05%

Industry Classification	Security Description	% of Total Net Assets
Telecom - Services		1.97%
	Bharti Airtel Limited	1.04%
	Reliance Communications Limited	0.93%
Diversified		1.48%
	Hindustan Unilever Limited	1.48%
Computers - Hardware		1.39%
	Redington India Limited	1.39%
Retailing		1.39%
	Shoppers Stop Limited	1.39%
Ferrous Metals		0.93%
	Jindal Steel and Power Limited	0.93%
Industrial Products		0.83%
	Sintex Industries Limited	0.83%
Cash and other assets		5.37%
Grand Total		100.00%

Performance (in %)

Period	Fund Returns	BSE 200
6 months*	94.21	84.74
1 year*	17.94	8.33
Compounded Annualised Return		
Since Inception (3rd April, 2008)	6.99	-0.72

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.

SIP Performance (as on Aug. 31, 2009)

If Rs. 2000/- were invested per month, from Sept. 25, 2008 to Aug. 25, 2009

Total Amount Invested (Rs.)	Present Value (Rs.)	Profit (Rs.)	Annualised Returns % (XIRR)
24,000	37,195	13,195	137.05

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. 11.000 per unit
Dividend Rs. 11.000 per unit

Expense Ratio:

2.50% of average daily net assets

Portfolio Turnover:

2.33

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:

1% if redeemed/switched on or before the expiry of one year from the date of allotment; otherwise: Nil.

Date of Allotment:

3rd April, 2008

Fund Manager:

Jayesh Gandhi

Fund AUM:

Rs. 108.46 crore

Morgan Stanley Growth Fund

(An open-ended Equity Fund)

Details as on Aug. 31, 2009

Portfolio (✓ Top Ten Holdings)

Industry Classification	Security Description	% of Total Net Assets
Banks		21.25%
	✓ HDFC Bank Limited	9.70%
	ICICI Bank Limited	3.01%
	Bank of Baroda	2.01%
	State Bank of India	1.53%
	IndusInd Bank Limited	1.49%
	Union Bank of India	1.43%
	Bank of India	1.06%
	Axis Bank Limited	1.02%
Construction		8.99%
	✓ Unitech Limited	5.67%
	Hindustan Construction Company Limited	2.13%
	The Phoenix Mills Limited	1.19%
Industrial Capital Goods		8.41%
	✓ Bharat Heavy Electricals Limited	7.23%
	ABB Limited	1.18%
Auto		7.34%
	✓ Hero Honda Motors Limited	7.34%
Petroleum Products		7.00%
	✓ Reliance Industries Limited	5.68%
	Hindustan Petroleum Corporation Limited	1.32%
Consumer Non Durables		6.77%
	✓ Nestle India Limited	3.44%
	✓ ITC Limited	3.33%
Software		6.01%
	✓ Infosys Technologies Limited	5.00%
	Geodesic Limited	1.01%
Cement		5.32%
	✓ Jaiprakash Associates Limited	4.42%
	The India Cements Limited	0.90%
Media & Entertainment		5.12%
	Sun TV Network Limited	2.60%
	Deccan Chronicle Holdings Limited	2.13%
	Television Eighteen India Limited	0.39%
Power		4.12%
	GVK Power and Infrastructure Limited	2.22%
	Jyoti Structures Limited	1.34%
	NHPC Limited	0.56%
Diversified		3.93%
	✓ Hindustan Unilever Limited	3.93%
Construction Projects		2.79%
	Larsen and Toubro Limited	2.79%
Oil		1.65%
	Aban Offshore Limited	1.65%
Finance		1.55%
	Indiabulls Financial Services Limited	1.55%
Telecom - Services		1.51%
	Bharti Airtel Limited	1.51%
Pesticides		1.30%
	United Phosphorus Limited	1.30%
Industrial Products		1.08%
	Ess Dee Aluminium Limited	1.08%
Pharmaceuticals		0.57%
	Aurobindo Pharma Limited	0.57%
Travel and Transportation		0.49%
	Mundra Port & Special Economic Zone Ltd	0.49%
Cash and other assets		4.80%
Grand Total		100.00%

Performance (in %)

Period	Fund Returns*	BSE 100
Absolute returns during the half year [(+) (-)]	76.7	82.13
Absolute returns during the trailing year [(+) (-)]	6.02	7.93
Compounded Annualised Growth Rate		
(i) Last 3 years	5.8	11.5
(ii) Last 5 years	21.67	24.15
(iii) Since the launch of the scheme (18th February 1994)	13.17	9.89

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.

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.

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. 50.88 per unit

Dividend* Rs. 16.579 per unit

*option introduced on Jan 19, 2009

Expense Ratio:

1.91% of average daily net assets

Portfolio Turnover:

0.79

Volatility Measures:

(for trailing 3 year period)

Standard Deviation 9.98%

Beta 0.92

Sharpe Ratio¹ – 0.02

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:

1% if redeemed/switched on or before the expiry of one year from the date of allotment; otherwise: Nil.

Date of Allotment:

18th February, 1994

Fund Managers:

Sridhar Sivaram

Amay Hattangadi

Fund AUM:

Rs. 2062.55 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

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 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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