

Fact Sheet

September 2008



VIEW ON BOND MARKET:

The 10-year bond yield softened by 60 bps during the month and closed at 8.71% while most of the other segments of the bond market remained under pressure. 5-year OIS swap closed 50 bps lower at 9%. Credit spreads across the curve widened substantially. We mentioned here last month that bonds could witness a rally as trading positions were light and positive surprise in inflation due to softening in commodity prices. The rally got accentuated due to bank's demand of G-Secs for statutory reasons and improved liquidity condition. Our recommendation of maintaining a cautious stance on duration and credit risk were emanating from the deteriorating macro economic environment and concerns on the fiscal and external account.

Globally, there is growing evidence that policy makers will henceforth, put more emphasis on preventing a serious slowdown/recession and worry less about inflation risk. Central bankers in the developed world will draw comfort from softening in commodity prices and the asset deflation that should ultimately bring down inflationary expectations. The next move from some of the 'hawkish' central banks like Reserve Bank of Australia, Bank of England and European Central Bank is expected to be a rate cut while US Fed is likely to be on hold for sometime. We also expect massive fiscal stimulus over the next couple of quarters as fears of recession loom large. Even in most of the emerging world, fall in commodity prices particularly energy and food is taking the heat off inflation giving more headroom to policy makers. So, from a short to medium term perspective, high quality bonds should do well. Taking a longer term view, we fear that this monetary and fiscal gasoline supplied over the next few quarters could ultimately feed into consumer prices and wages and fuel inflationary expectations in the long run.

As far as our markets are concerned, the recent rally has been sharp but narrow as 10-year benchmark bond and 5-year OIS posted large gains while most of the other segments have remained under pressure. Front and long end of the G-Sec curve have substantially underperformed relative to 10-year G-Sec bond (8.24% GoI 2018) that commands a huge liquidity premium. However, we expect it to face a stiff resistance at 8.50%. Corporate bond yields have moved up across the maturity spectrum. Spreads are looking good, however, they are likely to stay at elevated levels for some more time due to issuance pressure and lack of conviction among investors.

There has been a mixed trend in commodity prices, so WPI inflation is likely to throw surprises over the next few weeks due to the idiosyncratic compilation. This could lead to market witnessing higher volatility. We also believe that gradually market's focus would change to fiscal and exchange rate dynamics as main factors driving the bond market while fears about inflation are likely to decrease.

Navneet Munot

Lead Portfolio Manager, Multi-Strategies

EQUITY OVERVIEW:

Economic growth in India has begun to show signs of deceleration. The first quarter (June 2008) GDP growth estimated by CSO to be at 7.9% is the slowest in the last three years. Most economist's forecast now suggest a 7% Indian GDP growth trajectory for the next two years. Factors such as high domestic interest rates and global economic slowdown have begun to have an impact. The corporate earnings growth estimates have also been scaled down significantly, with broad consensus earnings growth estimates running at 10-12% range for the current year.

While there are strong signs of growth slowdown, the moderation in inflation numbers is yet to be seen. The recent correction in global commodity prices, particularly crude oil, helped Indian equities recover some bit of lost ground. The equity markets may be awaiting evidence of further decline in commodity prices for confirmation on inflation moderation. Street also remains divided on interest rates, whether they have peaked or whether some bit of tightening by the RBI remains. Thus, in the near term, Indian equities remain in uncertain zone, more or less dependent on commodity prices (crude oil) and domestic inflation data.

The unprecedented rise in commodity prices, more particularly crude oil and fertilizers, has significantly damaged India's fiscal and foreign trade position. Currently, India is running a record twin deficit:

- High fiscal deficit on account of subsidies in fuel, fertilizers and agriculture
- High trade deficit on account of higher imports of crude oil and fertilizers

From India's point of view, it is critical that global commodity prices decline. The expected commodity price corrections because of demand destruction from slowdown in Global economic growth and consumption are positive for India.

There is also now a growing realisation within the Indian government that these deficits (fiscal and trade deficit) are unsustainable. Key policy reforms, particularly in the area of fuel and fertilizer pricing, are the need of the hour. The present or next government will have to take these bold policy measures, essentially to build a road map to bring down the deficits over a reasonable period. These reforms will go a long way in improving our macro economic situation and financial standing. We believe, that the longer-term Indian equity story may be determined to a large extent by how the global commodity prices and hence inflation and interest rates behave as well as the key policy initiatives that the present and/or future government initiate to tackle the ballooning issue.

In terms of our portfolio, we continue to remain overweight on select stocks in capital goods and construction sector where there is strong visibility on earnings and reasonable valuations. We increased our banking sector weight reflecting our view of a moderation in interest rates over the medium term. We are underweight commodities (oil, metals and materials) and real estate sector. Overall, we believe that the portfolio is well balanced to capture the changing dynamics of the equity markets.

Jayesh Gandhi

Lead Portfolio Manager, Multi/Mid Cap Equities

Morgan Stanley Growth Fund

(A close-ended Equity Fund)

Details as on 29th August, 2008

Portfolio (✓Top Ten Holdings)

Industry Classification	Security Description	% of Total Net Assets
Software		12.28%
	✓ Infosys Technologies Limited	8.58%
	Geodesic Information Systems Limited	1.77%
	Tata Consultancy Services Limited	1.65%
	IOL Netcom Limited	0.29%
Banks		10.50%
	✓ HDFC Bank Limited**	5.61%
	Axis Bank Limited	2.79%
	ICICI Bank Limited	2.10%
Petroleum Products		8.87%
	✓ Reliance Industries Limited	8.87%
Industrial Capital Goods		8.76%
	✓ Bharat Heavy Electricals Limited	4.49%
	ABB Limited	2.42%
	Praj Industries Limited	1.85%
Diversified		7.91%
	✓ Hindustan Unilever Limited	3.99%
	✓ Larsen and Toubro Limited	3.92%
Finance		6.43%
	✓ Housing Development Finance Corporation Limited	5.57%
	Infrastructure Development Finance Company Limited	0.86%
Ferrous Metals		5.58%
	Welspun Gujarat Stahl Rohren Limited	2.47%
	Tata Steel Limited	1.57%
	Jindal Steel and Power Limited	1.54%
Pharmaceuticals		5.44%
	✓ Glenmark Pharmaceuticals Limited	3.14%
	Ranbaxy Laboratories Limited	2.30%
Consumer Non Durables		4.87%
	✓ Nestle India Limited	2.88%
	Balrampur Chini Mills Limited	1.08%
	Bajaj Hindusthan Limited	0.91%
Telecom - Services		4.21%
	✓ Bharti Airtel Limited	4.21%
Power		3.01%
	Jyoti Structures Limited	1.29%
	Tata Power Company Limited	1.04%
	GVK Power and Infrastructure Limited	0.69%
Construction		2.85%
	The Phoenix Mills Limited	1.02%
	Madhucon Projects Limited	0.72%
	Jaiprakash Associates Limited	0.72%
	Housing Development and Infrastructure Limited	0.39%
Oil		2.52%
	Aban Offshore Limited	1.41%
	Cairn India Limited	1.11%
Media & Entertainment		2.48%
	Deccan Chronicle Holdings Limited	1.58%
	Television Eighteen India Limited	0.91%
Auto		2.09%
	Maruti Suzuki India Limited	2.09%
Pesticides		1.97%
	United Phosphorus Limited	1.97%
Retailing		1.09%
	Pantaloon Retail India Limited	1.09%
Industrial Products		1.06%
	Ess Dee Aluminium Limited	1.06%
Cement		0.95%
	The India Cements Limited	0.95%
Transportation		0.57%
	Arshiya International Limited	0.57%
Non - Ferrous Metals		0.54%
	Hindustan Zinc Limited	0.54%
Gas		0.53%
	Gujarat Fluorochemicals Limited	0.53%
Auto Ancillaries		0.29%
	Balkrishna Industries Limited	0.29%
Cash and other assets		5.20%
Total Net Assets		100.00%

**Includes Local Shares and ADR/GDRs.

Performance (in %)

Period	Fund Returns*	BSE 100
Returns during the trailing year [(+) (-)]	-14.29	-3.01
Compounded Annualised Growth Rate		
(i) Last 3 years	16.20	22.12
(ii) Last 5 years	25.43	27.87
(iii) Since the launch of the scheme (18th February 1994)	13.68	10.03

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.

Expense Ratio:

1.83% of average daily net assets

Portfolio Turnover:

0.70

Listed on:

Bombay Stock Exchange, National Stock Exchange, Calcutta Stock Exchange, Delhi Stock Exchange, Madras Stock Exchange and Ahmedabad Stock Exchange.

Volatility Measures:

(for trailing 3 year period)

Standard Deviation 8.37%
Beta 0.99
Sharpe Ratio¹ 0.32

Benchmark Index:

BSE 100

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.

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. 2880.05 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 29th August, 2008

Portfolio (✓ Top Ten Holdings)

Industry Classification	Security Description	% of Total Net Assets
Banks		15.13%
	✓ HDFC Bank Limited	2.36%
	Axis Bank Limited	2.24%
	ICICI Bank Limited	2.16%
	ING Vysya Bank Limited	1.83%
	Bank Of Baroda	1.58%
	Federal Bank Limited	1.57%
	Kotak Mahindra Bank Limited	1.42%
	Dena Bank	0.99%
	Punjab National Bank	0.97%
Industrial Capital Goods		11.01%
	✓ Bharat Heavy Electricals Limited	3.84%
	✓ Crompton Greaves Limited	2.63%
	Suzlon Energy Limited	1.43%
	Elecon Engineering Company Limited	1.10%
	Reliance Infrastructure Limited	1.02%
	Titagarh Wagons Limited	0.99%
Construction		7.06%
	✓ Punj Lloyd Limited	2.33%
	Consolidated Construction Consortium Limited	1.92%
	Jaiprakash Associates Limited	1.88%
	B L Kashyap and Sons Limited	0.93%
Petroleum Products		6.73%
	✓ Reliance Industries Limited	5.97%
	Reliance Petroleum Limited	0.76%
Consumer Non Durables		6.36%
	Colgate Palmolive (I) Limited	1.69%
	GlaxoSmithkline Consumer Healthcare Limited	1.67%
	Shaw Wallace and Company Limited	1.12%
	Marico Limited	1.03%
	Britannia Industries Limited	0.85%
Software		5.43%
	✓ Infosys Technologies Limited	3.52%
	Mphasis Limited	1.07%
	Satyam Computer Services Limited	0.84%
Telecom - Services		5.40%
	✓ Bharti Airtel Limited	4.44%
	Reliance Communications Limited	0.96%
Finance		4.55%
	✓ Housing Development Finance Corporation Limited	3.48%
	Rural Electrification Corporation Limited	1.07%
Power		4.45%
	GVK Power and Infrastructure Limited	2.20%
	CESC Limited	1.69%
	Kalpataru Power Transmission Limited	0.57%
Ferrous Metals		4.01%
	✓ Tata Steel Limited	2.80%
	Steel Authority of India Limited	1.21%
Diversified		3.42%
	✓ Larsen and Toubro Limited	3.42%
Auto Ancillaries		2.79%
	Exide Industries Limited	1.85%
	Apollo Tyres Limited	0.94%
Industrial Products		1.97%
	Sintex Industries Limited	1.97%
Consumer Durables		1.58%
	Voltas Limited	1.58%
Pharmaceuticals		1.56%
	Piramal Healthcare Limited	1.56%
Transportation		1.53%
	The Great Eastern Shipping Company Limited	1.53%
Gas		1.49%
	GAIL India Limited	1.49%
Fertilisers		1.26%
	Tata Chemicals Limited	1.26%
Pesticides		1.03%
	United Phosphorus Limited	1.03%
Cement		0.74%
	Century Textiles and Industries Limited	0.74%
Cash and other assets		12.50%
Total Net Assets		100.00%

Performance (in %)

Period	Fund Returns*	BSE 200
Since Inception (3rd April, 2008)	-6.73	-8.62

*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. 9.327 per unit
Dividend Rs. 9.327 per unit

Expense Ratio:

2.67% 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. 103.76 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 4354 5293	• Hyderabad	040 4002 4168
• Kolkatta	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

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 liquidity of investments made in the Scheme may be restricted by trading volumes and settlement periods. Investments in close-ended schemes are subject to market risks of infrequent trading, possibility of market price of units being traded at a discount to NAV etc. The Sponsor is not responsible or liable for any loss resulting from the operations of the Scheme beyond their initial contribution of Rs. 5 lac towards setting up of the Mutual Fund and such other accretions and additions to the corpus. **Load Structure: Entry Load:** For purchases of less than Rs. 5 crore: 2.25%, For purchases of Rs. 5 crore and above: Nil, In case of purchases in SIPs under salary saving schemes for groups of employees through an arrangement with their employer: Nil. **Exit Load:** (a) For purchases of less than Rs. 5 crore: If redeemed/switched on or before the expiry of one year from the date of allotment: 1%. After the expiry of one year from the date of allotment: Nil. b) For purchases of Rs. 5 crore and above: Nil. No entry load will be levied where application for investments in the Scheme is not routed through any distributor/agent/broker. Investors may note that the "Exit Load" will be levied as applicable. **Investors should read the Offer Document/Key Information Memorandum (available at Investor Service Centres, Distributors, and on the Mutual Fund website www.morganstanley.com/indiamf), carefully before investing.**