Morgan Stanley Mutual Fund

Morgan Stanley

Fact Sheet

October 2008

YOU AIN'T SEEN NOTHING YET (BUT, THIS TOO SHALL PASS!)

This is one of the most challenging periods in recent history as we go through a major shake up in global financial system. We saw some of the marquee institutions of modern finance either going belly up or bailed out by governments across the Atlantic. US housing and credit markets with a size of $50 trillion are at the epicenter of the crisis and this is rapidly becoming widespread as some of the European banks and institutions are finding themselves in deeper troubles. Losses declared by banks have already crossed $500 billion so far. US home prices as measured by S&P Case-Shiller Index have fallen by 16.4% from the peak and experts opine that correction has a long way to go. Volatility in all markets is at a multi-year high while confidence and trust are probably at a generation low. Credit conditions have tightened significantly. Money markets are facing severe dislocations and Inter-bank rates and credit spreads have risen sharply. This also reduces the effectiveness of central bank policy transmission.

Several reasons have been cited for the crisis including unbridled expansion of credit derivatives, easy money policies of central banks primarily the US Fed, lax regulation, excessive leverage of investment banks, 'originate and sell' model of commercial banks, mercantilist policies of emerging economies leading to generation of excess global liquidity, so on and so forth. Most of these are symptoms of the problem but not the genesis. Bubbles occur when there is excess money and credit generation. Over the last couple of years, excess money chased assets and created bubbles (housing, pockets of equities, credit) while consumer price inflation remained low due to gains from globalization and technological innovation. Noted economist Minsky who argued that a key mechanism that pushes an economy towards a crisis is the accumulation of excessive debt and theorized that in financial markets prolonged period of stability leads to instability. We had a period of great stability in global economy and financial markets that led to risk premiums and volatility touching ultra low levels resulting in excessive risk taking. This era is coming to an end. The correction will be painful. This will be a long process where banking system repairs balance sheets and increase capital base while over-leveraged, asset dependent US households re-build savings by reducing consumption. This will lead to sub-trend global economic growth and pressure on asset prices for a long time. It is unlikely that Asia and other emerging markets would be immune from the after-shocks, however, purely on a relative basis, their economies will perform better.

Commodity producers and export oriented economies have seen rapid build up of foreign currency reserves. This may see deceleration as focus shifts from exports to domestic investment and consumption led growth and commodity prices softens due to global slowdown. This will reduce global pool of excess savings. Add the dimension of lower leverage and multiplier effect and we are talking of further strain on global liquidity.

To counter the danger of the current crisis becoming a systemic failure, policy makers worldwide are resorting to extra ordinary measures. Banking system is facing two crisis: liquidity and solvency crisis. Liquidity crisis is being addressed by central banks by pumping in loads of liquidity into the system. The solvency crisis is being addressed through fiscal measures such as outright nationalization or re-capitalization of financial institutions. The US treasury has proposed a $700 billion package to stabilize markets and restore confidence. Markets are keenly watching fate of this plan as lawmakers have divided views. There is a possibility of rate cut announcements by leading central banks (US Fed, ECB and BoE) as fears of recession loom large. Monetary and fiscal stimulus of this scale may have serious long term repercussions; however, from a short to medium term perspective, high quality bonds would continue to do well.

Indian bond markets:

Indian markets witnessed heightened volatility across asset classes. Liquidity in banking system is severely strained while there is pressure on rupee. Credit spreads have zoomed however, G-sec curve is well bid due to large SLR related demand. Growth in money supply (21%), credit growth (26%) and headline inflation (12%) doesn't leave RBI with many options to deal with current situation. Government's borrowing calendar for the second half is front loaded raising fears of overshoot in the last quarter. Fixed income markets will throw very interesting opportunities in months ahead, however, we continue to advice investors to tread cautiously towards building duration, liquidity and credit risk at this time.

Navneet Munot

Lead Portfolio Manager, Multi-Strategies

EQUITY OVERVIEW

September 2008 will go down as a landmark month in the history of financial markets. A massive sub prime induced credit crisis and an unprecedented proposal for State intervention to bail out the financial system have invoked the "once in a lifetime" label by many commentators. Though the theatre of action has primarily been the United States, no major market has escaped from the contagion effect. The BSE Sensex declined 11.7% in September with Consumer Staples and Banking picking up the baton of sector leadership. Their BSE sectoral indices were down 1.3% and 6.3% respectively.

Over the past couple of years, paying attention to valuation metrics yielded poor results as money kept chasing momentum strategies. The momentum bubble started to burst in early January in India as inflation concerns became prominent. The momentum money then got concentrated in the commodity complex, stretching the relative outperformance of commodity stocks to levels never before seen in history. With the oil led commodity complex now losing steam we feel that the momentum investing era is set to end. A fall in commodity prices takes the heat off inflation and ends the monetary tightening phase that in turn signals the bottom of the bear market and a new beginning.

Value strategies usually perform well in the early stages of market recovery and we are scouting for such opportunities especially in the consumer related space. The cooling off in the oil led commodity complex also augurs well for India from the macro perspective and we have tried to play this by closing our underweight in the financials sector. Within that space, we feel that the risk reward equation is tilted in favour of public sector banks. We have trimmed our positions in the materials and energy sector and will incrementally look to trade out of these sectors and position ourselves in financials and the emerging outright value propositions in the consumer related sectors.

Overall, forming tops and bottoms is a complex and time intensive process and investors want some evidence of a turnaround in the inflation number led by a further taming of the oil beast before jumping in to buy. In the weeks ahead, such favorable news is likely to materialize and even then, value screens will be in vogue.

Sridhar Sivaram and Amay Hattangadi

Lead Portfolio Managers, Large Cap Equities

Morgan Stanley Growth Fund

(A close-ended Equity Fund)

Details as on 30th September, 2008

Portfolio (✓ Top Ten Holdings)

Industry Classification	Security Description	% of Total Net Assets
Banks		**15.64%**
	✓ HDFC Bank Limited	6.22%
	✓ Axis Bank Limited	3.17%
	✓ State Bank of India Limited	3.16%
	ICICI Bank Limited	1.69%
	Bank of Baroda	1.40%
Software		**11.59%**
	✓ Infosys Technologies Limited	8.12%
	Geodesic Limited	1.70%
	Tata Consultancy Services Limited	1.54%
	IOL Netcom Limited	0.23%
Industrial Capital Goods		**9.26%**
	✓ Bharat Heavy Electricals Limited	5.26%
	ABB Limited	2.48%
	Praj Industries Limited	1.52%
Diversified		**8.89%**
	✓ Hindustan Unilever Limited	4.67%
	✓ Larsen and Toubro Limited	4.22%
Petroleum Products		**8.34%**
	✓ Reliance Industries Limited	8.34%
Finance		**6.05%**
	✓ Housing Development Finance Corp. Ltd.	5.55%
	Infrastructure Development Finance Co. Ltd.	0.50%
Telecom - Services		**5.44%**
	✓ Bharti Airtel Limited	5.44%
Consumer Non Durables		**4.52%**
	Nestle India Limited	2.73%
	Balrampur Chini Mills Limited	1.08%
	Bajaj Hindusthan Limited	0.71%
Ferrous Metals		**4.04%**
	Welspun Gujarat Stahl Rohren Limited	2.20%
	Jindal Steel and Power Limited	1.17%
	Tata Steel Limited	0.67%
Pharmaceuticals		**2.94%**
	Glenmark Pharmaceuticals Limited	2.77%
	Ranbaxy Laboratories Limited	0.17%
Oil		**2.60%**
	Aban Offshore Limited	1.52%
	Cairn India Limited	1.08%
Auto		**2.35%**
	Maruti Suzuki India Limited	2.35%
Construction		**2.22%**
	The Phoenix Mills Limited	0.88%
	Jaiprakash Associates Limited	0.56%
	Madhucon Projects Limited	0.52%
	Housing Development and Infrastructure Ltd.	0.26%
Pesticides		**2.10%**
	United Phosphorus Limited	2.10%
Media & Entertainment		**1.99%**
	Deccan Chronicle Holdings Limited	1.21%
	Television Eighteen India Limited	0.78%
Power		**1.54%**
	Jyoti Structures Limited	1.01%
	GVK Power and Infrastructure Limited	0.53%
Cement		**0.97%**
	The India Cements Limited	0.97%
Industrial Products		**0.94%**
	Ess Dee Aluminium Limited	0.94%
Retailing		**0.94%**
	Pantaloon Retail India Limited	0.94%
Transportation		**0.55%**
	Arshiya International Limited	0.55%
Gas		**0.44%**
	Gujarat Fluorochemicals Limited	0.44%
Auto Ancillaries		**0.26%**
	Balkrishna Industries Limited	0.26%
Cash and Other assets		**6.39%**
Total Net Assets		**100.00%**

Performance (in %)

Period	Fund Returns*	BSE 100
Returns during the trailing year [(+) (–)]	–30.91	–25.38
Compounded Annualised Growth Rate		
(i) Last 3 years	8.13	13.58
(ii) Last 5 years	21.39	23.65
(iii) Since the launch of the scheme (18th February 1994)	12.58	8.99

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. 42.08 per unit

Market Price (Closing Price on BSE):
Rs. 37.90 per unit

Expense Ratio:
1.83% of average daily net assets

Portfolio Turnover:
0.72

Volatility Measures:
(for trailing 3 year period)

Standard Deviation	8.60%
Beta	0.99
Sharpe Ratio[1]	0.04

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. 2525.76 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 30th September, 2008

Portfolio (✓ Top Ten Holdings)

Industry Classification		Security Description	% of Total Net Assets
Banks			**17.80%**
	✓	HDFC Bank Limited	2.57%
	✓	Axis Bank Limited	2.51%
		ICICI Bank Limited	2.01%
		Bank of Baroda	1.87%
		ING Vysya Bank Limited	1.85%
		Federal Bank Limited	1.69%
		Punjab National Bank	1.63%
		Kotak Mahindra Bank Limited	1.46%
		Bank of India	1.16%
		Dena Bank	1.05%
Consumer Non Durables			**7.83%**
		Shaw Wallace and Company Limited	1.97%
		Colgate Palmolive (I) Limited	1.89%
		GlaxoSmithkline Consumer Healthcare Limited	1.78%
		Marico Limited	1.13%
		Britannia Industries Limited	1.06%
Industrial Capital Goods			**7.55%**
	✓	Bharat Heavy Electricals Limited	4.03%
		Crompton Greaves Limited	1.46%
		Suzlon Energy Limited	1.13%
		Elecon Engineering Company Limited	0.93%
Petroleum Products			**6.92%**
	✓	Reliance Industries Limited	6.14%
		Reliance Petroleum Limited	0.78%
Construction			**6.49%**
	✓	Punj Lloyd Limited	2.50%
		Consolidated Construction Consortium Limited	1.77%
		Jaiprakash Associates Limited	1.44%
		B L Kashyap and Sons Limited	0.78%
Power			**5.61%**
		Reliance Infrastructure Limited	1.82%
		GVK Power and Infrastructure Limited	1.65%
		CESC Limited	1.57%
		Kalpataru Power Transmission Limited	0.57%
Telecom - Services			**5.60%**
	✓	Bharti Airtel Limited	4.69%
		Reliance Communications Limited	0.91%
Finance			**4.10%**
	✓	Housing Development Finance Corporation Ltd.	4.10%
Diversified			**3.64%**
	✓	Larsen and Toubro Limited	3.64%
Industrial Products			**2.84%**
		Sintex Industries Limited	2.03%
		Bharat Forge Limited	0.81%
Gas			**2.31%**
	✓	GAIL India Limited	2.31%
Software			**2.23%**
	✓	Infosys Technologies Limited	2.23%
Transportation			**2.22%**
		The Great Eastern Shipping Company Limited	1.37%
		IRB Infrastructure Developers Limited	0.85%
Auto Ancillaries			**1.79%**
		Exide Industries Limited	1.79%
Pharmaceuticals			**1.72%**
		Piramal Healthcare Limited	1.72%
Ferrous Metals			**1.40%**
		Tata Steel Limited	1.40%
Consumer Durables			**1.33%**
		Voltas Limited	1.33%
Pesticides			**1.07%**
		United Phosphorus Limited	1.07%
Fertilisers			**0.97%**
		Tata Chemicals Limited	0.97%
Telecom - Equipment & Accessories			**0.69%**
		Sterlite Technologies Limited	0.69%
Cement			**0.59%**
		Century Textiles and Industries Limited	0.59%
Cash and other assets			**15.30%**
Total Net Assets			**100.00%**

Performance (in %)

Period	Fund Returns*	BSE 200
Since Inception (3rd April, 2008)	–17.76	–20.23

*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. 8.224 per unit
Dividend Rs. 8.224 per unit

Expense Ratio:
2.64% 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. 92.03 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