

Fact Sheet

July 2008



GLOBAL OVERVIEW:

Mr. Anonymous who coined the term 'Sell in May and go away' has been proved right this time again! Crude oil continued to boil and financial markets across the world felt the heat. Before investors could recuperate from the after-shocks of the credit market malaise, they are hit by fears of inflation rearing its ugly head mostly due to a sharp rise in commodity prices.

High commodity prices (substantially above marginal cost of production) have changed the terms of trade and are leading to a massive wealth transfer from commodity consumers to commodity producers of a magnitude that is unprecedented in recent history. If it continues unabated then it will have far reaching economic, political and social implications. Presently, this has also polarized the investing world where dramatically divergent performance boils down to just one choice, investing in 'the haves' (commodity producers) or the 'have-nots' (commodity consumers). India, being one of the large importers of crude (in terms of percentage of GDP), is negatively impacted. Equities, bonds and the INR have taken a beating.

While there are structural reasons behind the surge in some of the commodity prices, our belief is that accommodative monetary policies (particularly in the US) have played a big role. Over the last couple of years, excess money chased assets and created bubbles (housing, pockets of equities and credit) while consumer price inflation remained low due to gains from globalization and technological innovation. This era of 'goldilocks economy' seems to be coming to an end as inflation is staying above the comfort zone of most of the central banks while economic growth is likely to soften. If it really turns out to be 'that 70's show again' then this virus named 'Stagflation' (low growth, high inflation) could well become the worst nightmare that policy makers and investors had bargained for.

The only way a significant correction in commodity prices can happen is through a demand contraction orchestrated by monetary tightening. Barring few purists, central banks so far, have been reluctant to bite the bullet. Real interest rates are almost zero or negative in most parts of the world. However, as commodity prices scale new highs, pressure is mounting on them to firmly anchor inflationary expectations. A case in point is the Reserve Bank of India (RBI) that surprised us in April by choosing a status quo on interest rates in its annual monetary policy, however, had to announce multiple steps including rate hikes in June when headline inflation printed double digits. While we expect most of the key central banks to maintain a tightening bias, critical to watch would be the intention and action of the US Fed. The importance of Fed action is not only because US is the largest consumer (e.g. US consumes 25% of world crude production compared to 9% in case of China and just 3% in case of India) but also its impact on value of US dollar. Fed's action will decide the future course of the winning trade of this year i.e. long commodity linked assets and short everything else. The Fed is acknowledging inflation risk and is also showing discomfort over weak dollar. In the face of a weak economy, action will speak louder than words!

Indian debt market outlook:

We maintain our bearish view on India's bond market and believe that yields are likely to inch up further. We expect RBI to raise repo and reverse repo rate by another 50 bps during the next quarter. They will ensure that repo rate acts as the floor rate for overnight money by keeping the systemic liquidity in deficit mode. Though RBI will support INR through direct intervention, it will remain under pressure due to deteriorating current account and slowing capital flows. Short term rates are likely to remain in double digits while 10-year G-sec is likely to touch 9%. We continue to advise cautious approach towards duration and credit risk. In the current environment, "pleasure is all about avoiding pain."

Navneet Munot

Lead Portfolio Manager, Multi-Strategies

EQUITY OVERVIEW:

Oil prices and the resultant inflation continue to maintain an upward journey, and are the key factors influencing Indian and global equity markets today. Crude oil at US \$140 per barrel, accounts for nearly 7% of the global GDP, the highest level in the last 25 years and equal to the proportion reached during the previous oil shock of 1979. Inflation has crossed double digits in as many as 50 countries and in India, inflation accelerated to a 13-year high to cross 11%, mainly led by increase in petroleum prices. RBI, which had so far refrained from major policy rate increase, was forced to act. Bringing inflation under control seems to be the topmost priority for RBI and central government, and economic growth may have to take a back seat for the time being.

India's vulnerability to high Oil prices is known, since we import nearly 70% of our oil requirement. Compounding the Oil led surge in current account deficit is the lower capital inflows, which put pressure on currency and inflation leading to higher interest rates. Sustained high interest rates will most likely slow down the already decelerating economy. Thus, the key question in the minds of investors today is, to what extent will the high Oil prices, inflation and interest rates slow down the Indian economy? The longer the high oil prices sustain, the bigger will be the question mark on economic growth for the next year (medium term). Thus, it is critical from India's growth point of view that oil prices cool down and stabilize. We believe that a meaningful correction in oil prices is essential for India to maintain the 8% GDP growth over the long term and resumption of bull run in Indian equities.

Considering India's vulnerability to high crude oil prices, it is not surprising that Indian equities are amongst the worst performing markets YTD in MSCI. China and India, the growth drivers of global oil demand are the worst performing equity markets this year. On the other hand Brazil and Russia, which are surplus in crude oil and have equity markets dominated by commodity sectors are amongst the best performing. For the time being, it seems that global investors are willing to ignore the long-term growth potential of the Chinese and Indian equities, focusing instead on the short-term disruption caused by high inflation and commodity prices. The Indian equities markets are down over 35% in the last six months, the steepest and longest correction in the last five years. In the short-run, Indian equities may overshoot on the downside as investors panic on rising crude prices and high inflation. For the long-term equity investor's point of view, there is possibly further downside in the short run.

In terms of our A.C.E. Fund portfolio, we continue to remain underweight on Banking and Financial Services, Auto and Real Estate. Our over-weights are Software and Telecom. Mobile telcos is the theme that we like as rising rural income leads to growth in subscribers and valuations look attractive considering higher earnings growth in the medium term. The recent M&A activity in telecom space support our belief that the sector is undervalued and should be an out-performer going forward. We have increased cash levels in the portfolio to capture any opportunity of increasing exposure to stocks that we like at lower levels. Overall, we believe that the portfolio is well balanced to capture better risk-adjusted returns.

Jayesh Gandhi

Lead Portfolio Manager, Multi/Mid Cap Equities

Morgan Stanley Growth Fund

(A close-ended Equity Fund)

Details as on 30th June, 2008

Portfolio (✓ Top Ten Holdings)

Industry Classification	Security Description	% of Total Net Assets
Software		11.54%
	✓ Infosys Technologies Limited	8.20%
	Geodesic Information Systems Limited	1.78%
	Tata Consultancy Services Limited	1.36%
	IOL Netcom Limited	0.21%
Petroleum Products		9.86%
	✓ Reliance Industries Limited	8.50%
	Reliance Petroleum Limited	1.36%
Industrial Capital Goods		8.59%
	✓ Bharat Heavy Electricals Limited	3.52%
	✓ ABB Limited	3.30%
	Praj Industries Limited	1.78%
Banks		6.41%
	✓ HDFC Bank Limited*	3.73%
	AXIS Bank Limited	2.68%
Diversified		6.22%
	✓ Larsen and Toubro Limited	3.52%
	Hindustan Unilever Limited	2.70%
Ferrous Metals		5.93%
	Welspun Gujarat Stahl Rohren Limited	2.39%
	Tata Steel Limited	2.03%
	Jindal Steel and Power Limited	1.50%
Finance		5.83%
	✓ Housing Development Finance Corporation Limited	4.79%
	Infrastructure Development Finance Company Limited	1.03%
Telecom - Services		5.09%
	✓ Bharti Airtel Limited	3.86%
	Reliance Communications Limited	1.23%
Consumer Non Durables		5.07%
	Nestle India Limited	2.91%
	Balrampur Chini Mills Limited	0.86%
	Bajaj Hindusthan Limited	0.83%
	Marico Limited	0.47%
Power		4.86%
	✓ Tata Power Company Limited	2.99%
	Jyoti Structures Limited	1.10%
	GVK Power and Infrastructure Limited	0.77%
Pharmaceuticals		4.73%
	✓ Glenmark Pharmaceuticals Limited	3.36%
	Ranbaxy Laboratories Limited	1.06%
	Biocon Limited	0.31%
Oil		4.46%
	Aban Offshore Limited	2.57%
	Cairn India Limited	1.90%
Media & Entertainment		4.13%
	Deccan Chronicle Holdings Limited	1.46%
	Zee Entertainment Enterprises Limited	1.20%
	Television Eighteen India Limited	0.87%
	Jagran Prakashan Limited	0.58%
	New Delhi Television Limited	0.03%
Construction		3.08%
	Madhucon Projects Limited	0.98%
	Housing Development and Infrastructure Limited	0.77%
	Jaiprakash Associates Limited	0.67%
	The Phoenix Mills Limited	0.66%
Auto		2.11%
	Maruti Suzuki India Limited	2.11%
Retailing		2.01%
	Pantaloon Retail India Limited	2.01%
Cement		1.52%
	The India Cements Limited	1.00%
	Shree Cements Limited	0.52%
Pesticides		1.20%
	United Phosphorus Limited	1.20%
Industrial Products		1.03%
	Ess Dee Aluminium Limited	1.03%
Auto Ancillaries		0.80%
	Balkrishna Industries Limited	0.80%
Gas		0.66%
	Gujarat Fluorochemicals Limited	0.66%
Transportation		0.64%
	Arshiya International Limited	0.64%
Non - Ferrous Metals		0.62%
	Hindustan Zinc Limited	0.62%
Cash and other asstes		3.63%
Total Net Assets		100.00%

*Includes Local Shares and ADR/GDRs.

Performance (in %)

Period	Fund Returns*	BSE 100
Returns during the trailing year [(+) (-)]	-17.76	-7.57
Compounded Annualised Growth Rate		
(i) Last 3 years	18.69	22.76
(ii) Last 5 years	29.32	31.04
(iii) Since the launch of the scheme (18th February 1994)	13.36	9.53

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. 45.09 per unit

Market Price (Closing Price on BSE):

Rs. 42.78 per unit

Expense Ratio:

1.84% of average daily net assets

Portfolio Turnover:

0.76

Volatility Measures:

(for trailing 3 year period)

Standard Deviation 8.43%
Beta 0.99
Sharpe Ratio¹ 0.41

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. 2706.46 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 June, 2008

Portfolio (✓ Top Ten Holdings)

Industry Classification	Security Description	% of Total Net Assets
Software		13.03%
	✓ Infosys Technologies Limited	5.14%
	✓ Satyam Computer Services Limited	3.60%
	NIIT Limited	2.22%
	Mphasis Limited	1.10%
	MindTree Limited	0.96%
Telecom - Services		8.79%
	✓ Bharti Airtel Limited	5.91%
	✓ Reliance Communications Limited	2.88%
Petroleum Products		8.26%
	✓ Reliance Industries Limited	7.19%
	Reliance Petroleum Limited	1.07%
Banks		6.97%
	AXIS Bank Limited	2.07%
	ICICI Bank Limited	1.56%
	Kotak Mahindra Bank Limited	1.25%
	ING Vysya Bank Limited	1.22%
	Dena Bank	0.87%
Finance		5.64%
	✓ Housing Development Finance Corporation Limited	3.82%
	Infrastructure Development Finance Company Limited	1.82%
Consumer Non Durables		5.53%
	Titan Industries Limited	1.93%
	GlaxoSmithkline Consumer Healthcare Limited	1.90%
	Colgate Palmolive (I) Limited	1.70%
Industrial Capital Goods		4.79%
	✓ Bharat Heavy Electricals Limited	3.01%
	Crompton Greaves Limited	1.07%
	Titagarh Wagons Limited	0.72%
Construction		4.59%
	Jaiprakash Associates Limited	1.92%
	Consolidated Construction Consortium Limited	1.60%
	Hindustan Construction Company Limited	1.07%
Power		4.57%
	GVK Power and Infrastructure Limited	2.21%
	CESC Limited	1.72%
	Kalpataru Power Transmission Limited	0.63%
Ferrous Metals		4.03%
	✓ Tata Steel Limited	2.28%
	Steel Authority of India Limited	1.75%
Diversified		2.91%
	✓ Larsen and Toubro Limited	2.91%
Consumer Durables		2.55%
	✓ Voltas Limited	2.55%
Industrial Products		2.02%
	Sintex Industries Limited	1.78%
	Kirloskar Brothers Limited	0.24%
Auto Ancillaries		1.98%
	Exide Industries Limited	1.98%
Transportation		1.72%
	The Great Eastern Shipping Company Limited	1.72%
Pharmaceuticals		1.63%
	Piramal Healthcare Limited	1.63%
Cement		0.93%
	Century Textiles and Industries Limited	0.93%
Telecom - Equipment & Accessories		0.85%
	Sterlite Technologies Limited	0.85%
Fertilisers		0.80%
	Tata Chemicals Limited	0.80%
Cash and other asstes		18.41%
Total		100.00%

Performance (in %)

Period	Fund Returns*	BSE 200
Since Inception (3rd April, 2008)	-13.27	-15.69

*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. 8.67 per unit
Dividend Rs. 8.67 per unit

Expense Ratio:

2.32% 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. 89.49 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.**