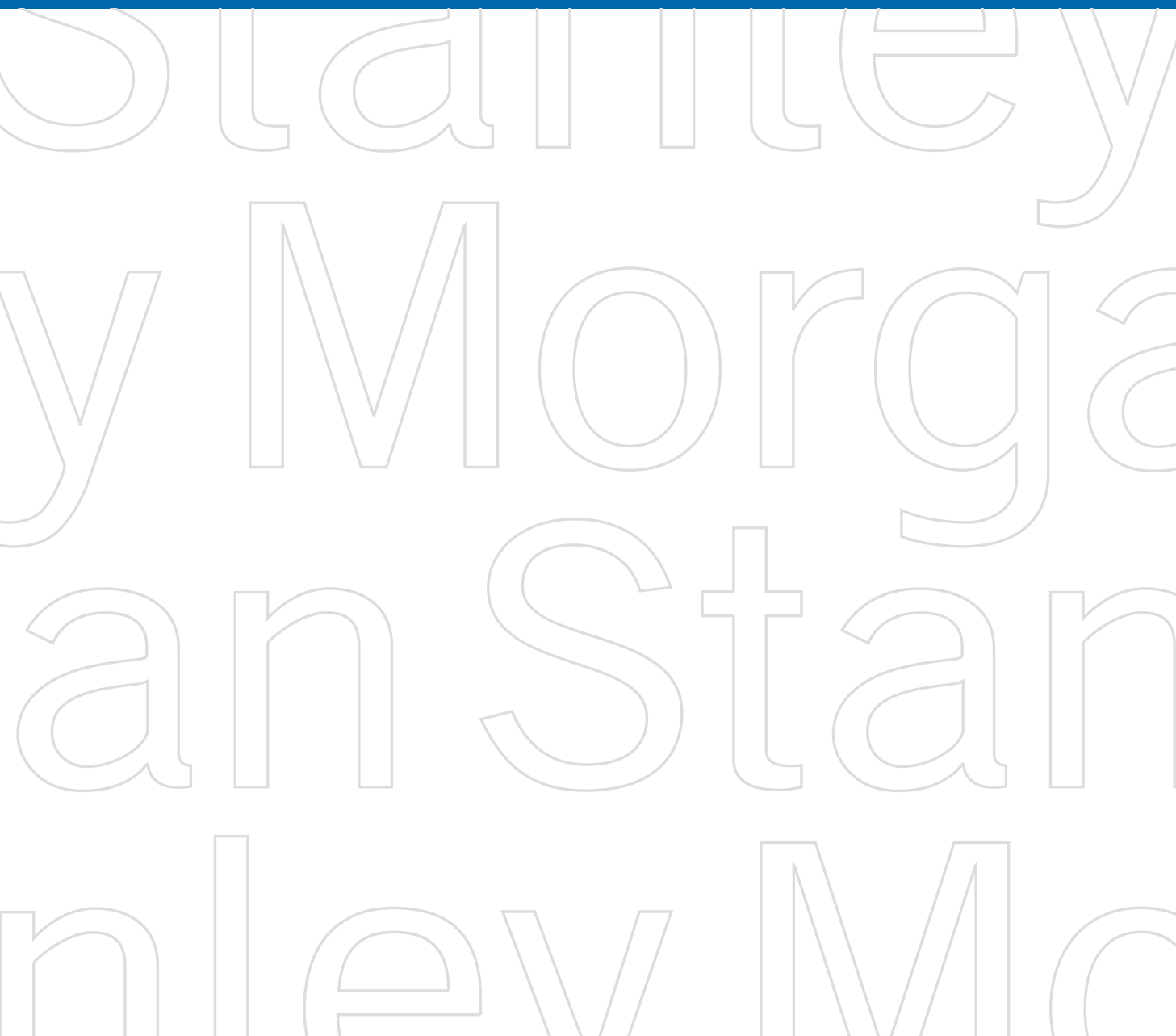


Annual Report
March 31, 2011



AUDITOR'S REPORT

To the Members of
Morgan Stanley Investment Management Private Limited

1. We have audited the attached Balance Sheet of Morgan Stanley Investment Management Private Limited ("the Company") as at 31st March, 2011 and the Profit and Loss Account of the Company for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and the disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 (CARO) issued by the Central Government in terms of Section 227(4A) of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report as follows:
 - (a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - (b) in our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books;
 - (c) the Balance Sheet and the Profit and Loss Account dealt with by this report are in agreement with the books of account;
 - (d) in our opinion, the Balance Sheet and the Profit and Loss Account dealt with by this report are in compliance with the Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956;
 - (e) in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2011 and
 - (ii) in the case of the Profit and Loss Account, of the loss of the Company for the year ended on that date.
5. On the basis of the written representations received from the Directors as on 31st March, 2011 taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March, 2011 from being appointed as a director in terms of Section 274(1)(g) of the Companies Act, 1956.

For **Deloitte Haskins & Sells**
Chartered Accountants
(Registration No. 117366W)

A. Siddharth
Partner
(Membership No. 31467)

Mumbai, June 29, 2011

ANNEXURE TO THE AUDITOR'S REPORT

Re: Morgan Stanley Investment Management Private Limited

(referred to in paragraph 3 of our report of even date)

- (i) Having regard to the nature of the Company's business/activities/result, clauses (ii), (viii), (xiii) and (xiv) of CARO are not applicable.
- (ii) In respect of its fixed assets:
 - (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of the fixed assets.
 - (b) The fixed assets were physically verified during the year by the Management in accordance with a regular programme of verification which, in our opinion, provides for physical verification of all the fixed assets at reasonable intervals. According to the information and explanations given to us, no material discrepancies were noticed on such verification.
 - (c) The fixed assets disposed off during the year, in our opinion, do not constitute a substantial part of the fixed assets of the Company and such disposal has, in our opinion, not affected the going concern status of the Company.
- (iii) The Company has neither granted nor taken loans, secured or unsecured, to/from Companies, firms or other parties listed in the Register maintained under Section 301 of the Companies Act, 1956.
- (iv) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchases of fixed assets and sale of services. The Company being a service Company does not purchase inventory or sell goods. During the course of our audit, we have not observed any major weakness in the internal control system.
- (v) In our opinion and according to the information and explanations given to us, there are no contracts or arrangements referred to in Section 301 of the Companies Act, 1956, particulars of which need to be entered into the Register maintained in pursuance of that section. Consequently, the question of commenting on reasonableness of prices in respect of transactions made in pursuance of such contracts or arrangements exceeding the value of rupees five lakhs in respect of each party does not arise.
- (vi) According to the information and explanations given to us, the Company has not accepted any deposit from the public during the year. According to the information and explanations given to us, no Order has been passed by the Company Law Board or the National Company Law Tribunal or the Reserve Bank of India or any Court or any other Tribunal.
- (vii) In our opinion, the Company has an adequate internal audit system commensurate with the size and the nature of its business.
- (viii) According to the information and explanations given to us, in respect of statutory dues:
 - (a) The Company has generally been regular in depositing undisputed dues, including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income Tax, Sales Tax, Wealth Tax, Service Tax, Customs Duty, Excise Duty, Cess and other material statutory dues applicable to it with the appropriate authorities.
 - (b) There were no undisputed amounts payable in respect of Income Tax, Service Tax, Sales Tax, Wealth Tax, Customs Duty, Excise Duty, Cess and other material statutory dues in arrears as at 31st March, 2011 for a period of more than six months from the date they became payable.
 - (c) There are no cases of non-deposit with appropriate authorities of disputed dues of Income Tax, Service Tax, Sales Tax, Wealth Tax, Customs Duty, Excise Duty and Cess.
- (ix) The Company has no accumulated losses at the end of the financial year. The Company has incurred cash losses during the year. Cash losses were also incurred in the immediately preceding financial year.
- (x) The Company does not have borrowings from financial institutions or banks and has not issued debentures. Consequently, the question of commenting on default in repayment of dues does not arise.
- (xi) The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xii) In our opinion and according to the information and explanations given to us, the Company has not given any guarantee for loans taken by Others from banks or financial institutions.
- (xiii) There were no term loans obtained by the Company during the year and hence the question of commenting on application thereof does not arise.
- (xiv) In our opinion and according to the information and explanations given to us and on an overall examination of the Balance Sheet, we report that funds raised on short-term basis have not been used during the year for long-term investment.
- (xv) During the year, the Company has not made any preferential allotment of shares to parties and Companies covered in the Register maintained under Section 301 of the Companies Act, 1956.

ANNEXURE TO THE AUDITOR'S REPORT *(Contd.)*

- (xvi) There are no debentures issued and outstanding during the year and hence the question of creating security or charge in respect thereof does not arise.
- (xvii) During the year, the Company has not raised money by public issue(s).
- (xviii) To the best of our knowledge and according to the information and explanations given to us, no fraud by and on the Company has been noticed or reported during the year.

For **Deloitte Haskins & Sells**
Chartered Accountants
(Registration No. 117366W)

A. Siddharth
Partner
(Membership No. 31467)

Mumbai, June 29, 2011

BALANCE SHEET

MORGAN STANLEY INVESTMENT MANAGEMENT PRIVATE LIMITED

Balance Sheet as at 31 March, 2011

	Schedule Ref.	As at 31-Mar-11 Rs.	As at 31-Mar-10 Rs.
SOURCE OF FUNDS			
Shareholders' Funds			
Share Capital	A	2,142,186,050	2,194,414,730
Reserves and Surplus	B	60,344,052	249,904,942
TOTAL		<u><u>2,202,530,102</u></u>	<u><u>2,444,319,672</u></u>
APPLICATION OF FUNDS			
Fixed Assets			
Gross block	C	111,380,498	23,413,273
Less : Depreciation/Amortisation		21,345,608	14,413,810
Net block		<u>90,034,890</u>	<u>8,999,463</u>
Investments	D	1,985,500,000	1,985,500,000
Current Assets, Loans and Advances			
Sundry Debtors	E	30,011,479	18,812,995
Cash and Bank Balances	F	118,566,520	374,796,455
Loans and Advances	G	107,243,907	141,503,381
		<u>255,821,906</u>	<u>535,112,831</u>
Less : Current Liabilities and Provisions			
Liabilities	H	92,832,137	51,181,326
Provisions	I	35,994,557	34,111,296
		<u>128,826,694</u>	<u>85,292,622</u>
Net Current Assets		<u>126,995,212</u>	<u>449,820,209</u>
TOTAL		<u><u>2,202,530,102</u></u>	<u><u>2,444,319,672</u></u>
Significant Accounting Policies and Notes to Financial Statements			
M			

The Schedules referred to above form an integral part of the Balance Sheet.

In terms of our report attached
For **Deloitte Haskins & Sells**
Chartered Accountants

Sd/-
A. Siddharth
Partner

Mumbai, June 29, 2011

For and on behalf of the Board of Directors

Sd/-
Anthony Heredia
Director

Sd/-
Sonali Bendke
Company Secretary

Mumbai, June 29, 2011

Sd/-
Nagesh Alai
Director

PROFIT AND LOSS ACCOUNT

MORGAN STANLEY INVESTMENT MANAGEMENT PRIVATE LIMITED

Profit and Loss Account for the year ended 31 March, 2011

	Schedule Ref.	Year Ended 31-Mar-11 Rs.	Year Ended 31-Mar-10 Rs.
INCOME			
Asset Management Fees		223,165,155	215,465,205
Recovery for support services		99,507,462	81,827,872
Other Income	J	40,554,579	40,507,102
Total		363,227,196	337,800,179
EXPENDITURE			
Payments to and Provisions for Employees	K	287,776,884	224,240,176
Operating and Administration Expenses	L	210,117,795	175,309,312
Fund Accounting Fees		5,077,830	4,884,798
Depreciation/Amortisation		8,025,015	5,756,340
Interest - Others		7,618	20,351
Total		511,005,142	410,210,977
Loss before Tax		(147,777,946)	(72,410,798)
Provision for Tax :			
- Deferred Tax		-	13,835,713
Loss after Tax		(147,777,946)	(86,246,511)
Excess provision for tax in respect of earlier years (net)		-	569,684
Loss for the year carried to Balance Sheet		(147,777,946)	(85,676,827)
Earnings Per Share			
Basic (Rs.)		(7.62)	(4.10)

(Refer note 2(vi) of Schedule M)

Significant Accounting Policies and Notes to Financial Statements

M

The Schedules referred to above form an integral part of the Profit and Loss Account

In terms of our report attached
For **Deloitte Haskins & Sells**
Chartered Accountants

Sd/-
A. Siddharth
Partner

Mumbai, June 29, 2011

For and on behalf of the Board of Directors

Sd/-
Anthony Heredia
Director

Sd/-
Nagesh Alai
Director

Sd/-
Sonali Bendke
Company Secretary

Mumbai, June 29, 2011

DIRECTORS' REPORT

To,

The Members of

Morgan Stanley Investment Management Private Limited

The Board of Directors of Morgan Stanley Investment Management Private Limited (the "Company") hereby presents the Eighteenth Annual Report, together with the audited accounts of your Company for the year ended March 31, 2011.

Financial Results

Highlights of the Company's financial results ended on 31st March, 2011 are as follows:

(Rupees in Millions)

Particulars	March 31, 2011	March 31, 2010
Gross Income	363.23	337.80
(Loss)/Profit before Depreciation and Tax	(139.75)	(66.65)
Depreciation	8.03	5.76
Provision for Taxation	-	13.27
(Loss)/Profit after Tax	(147.78)	(85.68)

Performance of the Company

The Company earned an income of Rs. 363.23 million during the year ended March 31, 2011 as compared to Rs. 337.80 million in the previous year.

The Company has recorded a loss after tax of Rs. 147.78 million as compared to a loss after tax of Rs. 85.68 million during previous year.

For managing the assets of the Fund, your Company earned Investment Management fees of Rs. 223.17 million for the year ended March 31, 2011 as compared to Rs. 215.47 million in the previous year.

The assets under management of the schemes of Morgan Stanley Mutual Fund ('the Fund') as of March 31, 2011 stood at Rs. 21,128.02 million as compared to Rs. 22,640.74 million as of March 31, 2010.

During the year, the Company focused on the existing fund range, with a view to building track record, and enhancing distribution capability. In the future, the focus will be to expand the product suite, targeted at both retail and institutional clients.

Buy back of equity shares by the Company:

The Board of Directors in their meeting held on November 22, 2010 approved buy back of Company's fully paid up equity shares of Rs. 10/- each, within the limit of 25% of the total paid-up equity share capital and free reserves of the Company as on 31st March, 2010. The approval of the shareholders for the buy back was obtained at the Extra ordinary General Meeting of the shareholders held on November 25, 2010.

The buy back was made out of free reserves of the Company through tender offer, as per the provisions contained in the Unlisted Public Companies (Buy Back of Securities) Rules, 1999.

The cumulative number of Equity Shares bought back under the scheme was 5,222,868 shares. The equity paid-up capital of the Company after the extinguishment of shares bought back under the scheme stood at Rs. 156,686,050/- comprising 15,668,605 equity shares of Rs. 10/- each.

Change of Registered office of the Company

The registered office of the Company was shifted from Forbes Building, 5th Floor, Charanjit Rai Marg, Fort, Mumbai -400 001 to 18F/19F, One Indiabulls Centre, Tower 2, Jupiter Mills Compound, Elphinstone Road, Mumbai 400 013, India with effect from January 07, 2011.

Performance of Morgan Stanley Growth Fund

The Fund's flagship fund, Morgan Stanley Growth Fund (MSGF) which was launched as a close ended scheme in 1994 was converted in to an open ended fund with effect from January 19, 2009. The open ending of MSGF gave the investors the opportunity to continue with their investments in MSGF and avail advantages associated with open ended funds for e.g. daily subscriptions, redemptions, switches, Systematic Investment Plans etc.

Performance of Morgan Stanley Growth Fund [MSGF] vis-à-vis benchmark index as of March 31, 2011:

[Figures in %]

Period	Fund Returns*	BSE 100
1 year	6.28	8.55
Last 3 years	5.88	7.04
Last 5 years	6.30	11.33
Since inception (18th February, 1994)	13.26	10.25

Past performance is not a guarantee of future returns. *Compounded annualised returns of the 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.

The Net Asset Value of MSGF, as on March 31, 2011 was Rs. 62.736 per unit for Growth Option and Rs. 19.152 per unit for Dividend Option as compared to Rs. 59.029 per unit for Growth Option and Rs. 19.235 per unit for Dividend Option (introduced on Jan. 19, 2009) as of March 31, 2010. The Net assets of MSGF as of March 31, 2011 were Rs. 16,464 million with outstanding corpus of 269 million units. The net deficit for the year transferred from Revenue Reserve was Rs. 22.91 million as against the surplus of Rs. 3,920.56 million last year.

DIRECTORS' REPORT (Contd.)

Performance of Morgan Stanley A.C.E. Fund

Morgan Stanley A.C.E. Fund (MSACE) launched in April 2008, is an open ended equity scheme which proposes to generate long term capital growth from an actively managed portfolio of equity and equity-related securities including equity derivatives. The fund management approach of MSACE fund is to be flexible across capitalizations and choose stocks/sectors/themes on individual merit.

The performance of MS A.C.E. Fund in comparison with benchmark index, as of March 31, 2011 is detailed below:

[Figures in %]

Period	Fund Returns*	BSE 200
1 Year	9.42	8.15
Since inception (April 03, 2008)	14.49	6.86

Past performance is not a guarantee of future returns. Distribution tax has been included in the calculation of returns. 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. * Compounded annualised returns of growth option are computed.

The Net Asset Value of MSACE, as on March 31, 2011 was Rs. 14.994 per unit for Growth Option and Rs. 14.116 per unit for Dividend Option of MSACE as compared to Rs. 13.701 per unit for Growth and Dividend Option of MSACE as of March 31, 2010. The Net assets of MSACE as on March 31, 2011, were Rs. 3,961.70 million with outstanding corpus of 272 million units. The net surplus for the year transferred from Revenue Reserve was Rs. 464.81 million as compared to surplus of Rs. 518.36 million as of March 31, 2010.

Performance of Morgan Stanley Short Term Bond Fund

The Fund launched Morgan Stanley Short Term Bond Fund [MSSTBF], an open ended debt scheme on May 26, 2009 which proposes to generate income from diversified portfolio of short to medium term debt and money market instruments.

The Net Asset Value of MSSTBF as on March 31, 2011 was Rs. 11.1320 per unit under Growth Option of Institutional Plus Plan and Rs. 11.0645 per unit under Growth Option of Regular Plan as compared to Rs. 10.4510 per unit under Growth Option of Institutional Plus Plan and Rs. 10.4189 per unit under Growth Option of Regular Plan as of March 31, 2010. The Net assets of MSSTBF as on March 31, 2011 were Rs. 683.64 million with outstanding corpus of 63 million units. The net surplus for the year transferred from Revenue Reserve was Rs. 35.86 million.

The performance of MSSTBF in comparison with benchmark index, as of March 31, 2011 is detailed below:

[Figures in %]

Period	*Regular Plan	*Institutional Plus Plan	CRISIL Short Term Bond Fund Index
1 year	6.14	6.51	5.12
Since inception (May 26, 2009)	5.61	5.97	4.79

Past performance is not a guarantee of future returns. *Compounded Annualised returns are computed using NAV of Growth Option. Since inception returns are calculated on Rs. 10/- invested at inception.

Performance of Morgan Stanley Active Bond Fund

The Fund launched Morgan Stanley Active Bond Fund [MSABF], an open ended debt scheme on May 28, 2009 which proposes to generate optimal returns through active management of the portfolio consisting of debt and money market securities.

The Net Asset Value of MSABF as of March 31, 2011 was Rs. 10.4027 per unit under Growth Option of Regular Plan and Rs. 10.4027 under Quarterly Dividend Option of Regular Plan and Rs. 10.0000 per unit under Growth Option of Institutional Plan and Rs. 10.0000 per unit Quarterly Dividend of Institutional Plan. The Net assets of MSABF as of March 31, 2011 were Rs. 5.31 million with outstanding corpus of 0.5 million units. The net surplus for the year transferred from Revenue Reserve was Rs. 0.13 million.

The performance of MSABF in comparison with benchmark index, as of March 31, 2011 is detailed below:

[Figures in %]

Period	*Regular Plan	CRISIL Composite Bond Fund Index
1 year	3.48	5.06
Since inception (May 28, 2009)	2.15	4.63

Past performance may or may not be sustained in future, and may not necessarily provide basis for comparison with other investments.

*Annualised returns are computed using NAV of MSABF [Growth Option]. Since inception returns are calculated on Rs. 10/- invested at inception.

Investor Services

During the year, the number of official points of acceptance of transactions increased to 53 locations. In addition to the offices of the transfer agent, the company has Investor Service Centers in 9 locations at its own offices - namely Ahmedabad, Bangalore, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai, New Delhi, and Pune. The internal standards on redemption payouts have been consistently met, with very few exceptions. The number of locations for the ECS Auto Debit facility for investments through Systematic Investment Plan stands at 84 as on March 31, 2011.

On the distribution front, the number of empanelled distributors as of March 31, 2011 stood at 4663 against 4457 as of March 31, 2010. During the year, the number of online channel partner tie-ups for distribution of the Fund's schemes increased to 40 as against 34 as of March 31, 2010.

DIRECTORS' REPORT (Contd.)

Outsourcing to StateStreet

During the year, certain Operations activities namely Equity Trade processing, Reconciliation, Pricing, Set-ups and related activities were outsourced to StateStreet. These activities are managed independently by StateStreet with due oversight being exercised by MSIMPL.

Dividend

The Directors do not recommend dividend for the year ended March 31, 2011.

Particulars of Employees

As required under the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended a statement showing the names and other particulars of employees are set out in the annexure to this Report.

Particulars regarding Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Expenditure.

Particulars under the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 on Conservation of Energy and Technology Absorption are not applicable to your Company. The foreign exchange outflow and inflow of the company are as per disclosures made in Schedule M of the audited accounts of the Company.

Directors

During the financial year, Mr. Joseph Clifford D'Souza resigned as a Director of the Company and Mr. Anthony Lincoln Heredia was appointed as an Additional Director with effect from May 10, 2010 and in the last Annual General Meeting of the Company held on August 16, 2010, he was appointed as a Director. As required by Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 the Board of Directors of the Company comprises of 50% directors who are not associate or associated in any manner with, the Sponsor of Morgan Stanley Mutual Fund.

Directors' Responsibility Statement:

Pursuant to Section 217(2AA) of the Companies (Amendment) Act, 2000, the Board of Directors of your Company state:

- in the preparation of the annual accounts, the applicable accounting standards have been followed;
- they have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the company for that period;
- they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- they have prepared the annual accounts on a going concern basis.

Auditors

The Statutory Auditors, M/s. Deloitte, Haskins and Sells, Chartered Accountants, hold office until the conclusion of the ensuing Annual General Meeting and are eligible for re-appointment. Members are requested to consider their appointment at a remuneration to be decided by the Board.

Appreciation

The Directors would like to place on record their appreciation for the valuable contribution made by the staff to the progress made by the Company. The Directors wish to place on record their deep appreciation for support and co-operation received from the Company's Bankers.

For and on behalf of the Board of Directors

Sd/-

Sd/-

Anthony Heredia
Director

Nagesh Alai
Director

Registered Office:

18F/19F, Tower 2,
One Indiabulls Centre,
841, Senapati Bapat Marg,
Mumbai 400 013

Date: June 29, 2011
Place: Mumbai

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
email: mfinvestorcare@morganstanley.com

Morgan Stanley

www.morganstanley.com/indiamf