

# Fact Sheet

February 2009



## FIXED INCOME OVERVIEW

January was an interesting month for the Indian fixed income markets with volatility reigning supreme and records being broken. The month started with inter policy monetary steps by the central bank. On 2nd January, 2009 the RBI reduced Repo, Reverse Repo and CRR rates to 5.5%, 4% and 5% by 100, 100 and 50 bps respectively. The Credit Policy on 27th January saw the RBI electing to put policy rates on hold.

RBI revised its GDP growth rate forecast to 2008-09 to 7% with a downward bias in its macro-economic third quarter review. The money supply (M3) target growth rate was raised to 19% from 17% earlier. This indicates that the RBI is cognizant of the fact that liquidity overhang is reducing and hence, is committed to pump in liquidity to support growth. Industrial Production (IIP) data for November surprised on the upside with a reading of 2.4% compared to -0.4% for October. This positive surprise however has to be seen in context of the Diwali effect. It may again recede into negative territory in the following months.

Growth can surprise on the lower side during the next few months. This could lead to reduction in key policy rates by RBI in its next policy meeting or what has now become a norm, before it. The RBI, in its statement, also conveyed that inflation is still being monitored closely. However, we believe that barring a sharp rise in commodity prices, this will not be a factor in the short-term and the base effect in March 2009 should cause inflation to decline to 2-3% levels. This coupled with an expected slowdown in growth makes a compelling case for further rate cuts.

## EQUITY OVERVIEW

A rather unfortunate start to 2009 was the fraud at Satyam. Pegged at more than Rs. 7000 crores, it is the largest in Indian corporate history and is not small even by global standards. The fraud spooked not only the Indian equity markets and entire investor community (both global and local), but also forced the government to intervene. Investor reaction was also reflected in the stock price performance of companies perceived to follow weak accounting practices, poor disclosure and corporate governance standards. Needless to say that the reputation of the Indian software services sector and also India Inc. is dependent on quick and satisfactory resolution of the Satyam episode. In the mean time, the Dec. '08 quarterly result season has already seen a significant improvement in disclosures by corporates, which is positive. In the long run we believe, companies with high standards of corporate governance, transparency and sound accounting practices will get rewarded and command significant premium.

The incremental economic news flow from developed markets (OECD countries) continues to remain lacklustre, with little sign of improvement. In response, various governments across the world have announced fiscal stimulus to help revive their respective economies. For instance, in the US, the new Obama administration is working overtime on a huge stimulus package - estimated to be at \$825 bn. The hope is that these measures would help avoid global deflation and falling asset prices, which is the real threat to the global economy.

Under normal circumstances, this would mean a cheerful few months for fixed income investors. However, an area of concern seems to be the level of fiscal deficit. RBI forecasted fiscal deficit of at least 5.9% of the GDP for 2008-09 in its quarterly review. Government borrowing from the market has already exceeded its 2008-09 budget target by Rs. 70,000 crore and expectations are that more borrowings could be announced.

Fixed income investors are thus faced with a dilemma; Whether to invest in Government bonds spurred by low policy rates or stay away, deterred by huge supply? This dilemma is amply showcased by the movement in the 10-year benchmark bond during the month. After touching an all time low of 4.85% on 5th January, 2009 it also had the biggest intraday rise in yield by 60 bps on 7th January on the news of extra borrowing. It finally closed out the month at 5.91% after reaching a peak of 6.25% during the month.

On the whole, we feel that the market should be able to absorb the extra supply on a gradual basis and further rate cuts should provide groundwork for a fresh rally. Good days ahead for Govt bonds but tread with caution!

**Pranay Sinha**

Portfolio Manager, Fixed Income

On the domestic front, over the last couple of months, we saw a series of steps taken by the Government and RBI to stimulate the economy and help spur growth in sectors that have been impacted significantly, such as Real Estate, Automobiles, Metals, and select export oriented sectors. These steps were able to achieve initial desired results, but more needs to be done. Interest rates in the system are now lower to the tune of 200-250 bps, with further room for RBI to cut policy rates.

The Dec. '08 quarterly results season has been a mixed bag, so far. Clearly, the profitability of India Inc. is under significant stress from higher interest burden, falling revenue visibility and margins. Companies in sectors such as Utilities, Telecom, Banking, Consumer Goods have met or exceeded expectations. Big decline in profitability has been seen in sectors such as Commodities, Oil & Gas, Metals, Cement, Automobiles and Industrials.

In terms of our portfolio stance, we have higher allocation to Banking, Consumer Products, Telecom and Utilities Sectors. Oil & Gas and IT services remain our key underweight positions. We are monitoring the macro-economic and ground level business situation closely for early signs of revival and are positioning the portfolio accordingly.

**Jayesh Gandhi**

Lead Portfolio Manager, Multi/Mid Cap Equities

# Morgan Stanley Growth Fund

(An open-ended Equity Fund)\*

Details as on 30th January, 2009

## Portfolio (✓ Top Ten Holdings)

Industry Classification	Security Description	% of Total Net Assets
<b>Banks</b>		<b>26.21%</b>
	✓ HDFC Bank Limited	8.94%
	✓ State Bank of India	6.57%
	✓ ICICI Bank Limited	3.80%
	Bank Of Baroda	2.34%
	Bank of India	2.27%
	Axis Bank Limited	1.53%
	Union Bank of India	0.76%
<b>Software</b>		<b>10.33%</b>
	✓ Infosys Technologies Limited	9.49%
	Geodesic Limited	0.84%
<b>Diversified</b>		<b>10.19%</b>
	✓ Hindustan Unilever Limited	7.12%
	Larsen and Toubro Limited	3.07%
<b>Consumer Non Durables</b>		<b>8.38%</b>
	✓ Nestle India Limited	3.41%
	✓ ITC Limited	3.26%
	Balrampur Chini Mills Limited	1.45%
	Bajaj Hindusthan Limited	0.26%
<b>Industrial Capital Goods</b>		<b>7.70%</b>
	✓ Bharat Heavy Electricals Limited	7.70%
<b>Telecom - Services</b>		<b>7.45%</b>
	✓ Bharti Airtel Limited	7.45%
<b>Petroleum Products</b>		<b>7.03%</b>
	✓ Reliance Industries Limited	6.93%
	Hindustan Petroleum Corporation Limited	0.10%
<b>Auto</b>		<b>4.51%</b>
	Hero Honda Motors Limited	2.80%
	Maruti Suzuki India Limited	1.71%
<b>Cement</b>		<b>2.69%</b>
	Ambuja Cements Limited	1.67%
	The India Cements Limited	1.02%
<b>Ferrous Metals</b>		<b>2.15%</b>
	Jindal Steel and Power Limited	1.36%
	Welspun Gujarat Stahl Rohren Limited	0.79%
<b>Finance</b>		<b>2.08%</b>
	Housing Development Finance Corporation Limited	2.08%
<b>Pesticides</b>		<b>1.96%</b>
	United Phosphorus Limited	1.96%
<b>Construction</b>		<b>1.76%</b>
	The Phoenix Mills Limited	0.75%
	Jaiprakash Associates Limited	0.69%
	Madhucon Projects Limited	0.32%
<b>Media &amp; Entertainment</b>		<b>1.57%</b>
	Deccan Chronicle Holdings Limited	1.00%
	Television Eighteen India Limited	0.57%
<b>Power</b>		<b>0.88%</b>
	Jyoti Structures Limited	0.88%
<b>Industrial Products</b>		<b>0.63%</b>
	Ess Dee Aluminium Limited	0.63%
<b>Pharmaceuticals</b>		<b>0.29%</b>
	Glenmark Pharmaceutical Limited	0.29%
<b>Cash and other assets</b>		<b>4.19%</b>
<b>Grand Total</b>		<b>100.00%</b>

## Performance (in %)

Period	Fund Returns*	BSE 100
Absolute Returns during the trailing year [ (+) (-) ]	-50.52	-49.26
<b>Compounded Annualised Growth Rate</b>		
(i) Last 3 years	-8.92	-2.85
(ii) Last 5 years	8.47	10.21
(iii) Since the launch of the scheme (18th February 1994)	9.83	6.37

Past performance may or may not be sustained in future. \* 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:

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<sup>†</sup>.

#### Asset Allocation:

Equity and Equity related instruments of companies having large capitalization<sup>†</sup>: 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. 30.260 per unit  
Dividend Rs. 9.860 per unit

#### Expense Ratio:

1.85% of average daily net assets

#### Portfolio Turnover:

0.74

#### Volatility Measures:

(for trailing 3 year period)  
Standard Deviation 9.36%  
Beta 0.95  
Sharpe Ratio<sup>1</sup> -0.49

#### 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:

< 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:

18th February, 1994

#### Fund Managers:

Sridhar Sivaram  
Amay Hattangadi

#### Fund AUM:

Rs. 1387.26 crore

<sup>†</sup>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.

<sup>1</sup> 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 January, 2009

## Portfolio (✓ Top Ten Holdings)

Industry Classification	Security Description	% of Total Net Assets
<b>Banks</b>		<b>18.49%</b>
	✓ HDFC Bank Limited	3.20%
	✓ State Bank of India	2.77%
	✓ ICICI Bank Limited	2.65%
	Axis Bank Limited	1.74%
	Punjab National Bank	1.58%
	Bank of India	1.56%
	Dena Bank	1.08%
	Bank Of Baroda	1.03%
	Indian Bank	0.99%
	Union Bank of India	0.95%
	Kotak Mahindra Bank Limited	0.94%
<b>Consumer Non Durables</b>		<b>8.75%</b>
	✓ Marico Limited	2.54%
	Shaw Wallace and Company Limited	1.66%
	Titan Industries Limited	1.61%
	Dabur India Limited	1.57%
	Britannia Industries Limited	1.37%
<b>Power</b>		<b>7.38%</b>
	✓ Reliance Infrastructure Limited	3.21%
	CESC Limited	2.15%
	GVK Power and Infrastructure Limited	2.02%
<b>Petroleum Products</b>		<b>6.94%</b>
	✓ Reliance Industries Limited	6.94%
<b>Telecom - Services</b>		<b>6.54%</b>
	✓ Bharti Airtel Limited	5.50%
	Reliance Communications Limited	1.04%
<b>Pharmaceuticals</b>		<b>4.29%</b>
	Piramal Healthcare Limited	1.88%
	Sun Pharmaceutical Industries Limited	1.38%
	Cipla Limited	1.03%
<b>Diversified</b>		<b>4.14%</b>
	✓ Larsen and Toubro Limited	2.63%
	Hindustan Unilever Limited	1.51%
<b>Software</b>		<b>4.06%</b>
	✓ Infosys Technologies Limited	3.25%
	Mphasis Limited	0.81%
<b>Non - Ferrous Metals</b>		<b>3.51%</b>
	Sterlite Industries (India) Limited	2.04%
	Hindustan Zinc Limited	1.47%
<b>Finance</b>		<b>3.21%</b>
	✓ Housing Development Finance Corporation Limited	3.21%
<b>Ferrous Metals</b>		<b>2.98%</b>
	Jindal Steel and Power Limited	2.22%
	Tata Steel Limited	0.76%
<b>Construction</b>		<b>2.54%</b>
	Jaiprakash Associates Limited	1.56%
	IVRCL Infra and Projects Limited	0.74%
	B L Kashyap and Sons Limited	0.24%
<b>Transportation</b>		<b>2.50%</b>
	The Great Eastern Shipping Company Limited	1.39%
	IRB Infrastructure Developers Limited	1.11%
<b>Industrial Capital Goods</b>		<b>2.37%</b>
	Bharat Heavy Electricals Limited	2.37%
<b>Cement</b>		<b>2.05%</b>
	Ultra Tech Cement Limited	1.06%
	The India Cements Limited	0.99%
<b>Oil</b>		<b>1.77%</b>
	Oil and Natural Gas Corporation Limited	1.77%
<b>Auto Ancillaries</b>		<b>1.52%</b>
	Exide Industries Limited	1.52%
<b>Industrial Products</b>		<b>1.44%</b>
	Sintex Industries Limited	1.44%
<b>Consumer Durables</b>		<b>1.12%</b>
	Voltas Limited	1.12%
<b>Cash and other assets</b>		<b>14.40%</b>
<b>Grand Total</b>		<b>100.00%</b>

Exposure to Derivatives: Nifty Futures Feb. '09 Rs. 3.52 crore (Notional Value)

## Performance (in %)

Period	Fund Returns* BSE 200
Since Inception (3rd April, 2008)	-39.68 -43.23

\*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. 6.032 per unit  
Dividend Rs. 6.032 per unit

#### Expense Ratio:

2.59% of average daily net assets.  
The expenses of the fund have exceeded the 2.50% SEBI limit as the average net assets of the fund are calculated from the date of allotment and management fees is accrued from the date of inflows including the NFO period.

#### 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. 73.08 crore

## Morgan Stanley Mutual Fund Branch Offices

• Ahmedabad	079 2644 9132	• Bangalore	080 4180 0702
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• Delhi	011 6624 9133	• Hyderabad	040 4002 4168
• Kolkata	033 3984 5315	• Mumbai	022 4077 9227
• Pune	020 6500 8349		

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**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. 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. **Investors should read the Statement of Additional Information and Scheme Information Document/Key Information Memorandum (available at Investor Service Centres, Distributors, and on the Mutual Fund website www.morganstanley.com/indiamf), carefully before investing.**