

Fact Sheet

January 2009



RESET TO ZERO FOR 2009

The year 2009 is going to start with a big zero. Cypher, Zip, Nil. The two largest economies in the world – the U.S. and Japan – will start the year with zero interest rates. The Federal Reserve and the Bank of Japan have materially expanded their balance sheets and are in a “quantitative easing” mode. This is akin to calling up the cavalry to support the marines. It is an unprecedented start to a New Year.

Before we take a look at how the movie is likely to play out next year, here is a flashback on a truly extra-ordinary year gone by. It began ordinarily enough with markets rocking to record highs in the first few days of the year, shrugging off sub-prime woes from the previous quarter. Slowly but surely, the bottom began to fall from markets. In March, the Fed engineered a bail-out of nearly bankrupt investment bank Bear Stearns. This was the first signal that no ordinary events were in store. And yet the markets settled down. So much so, that the summer saw record prices for oil and commodities. Supply, they all said, could not keep up with the demand. Central banks and market prognosticators shifted focus to inflation and were caught unawares with the massive confidence related contraction in credit markets that took place in September and October of 2008. In one fateful week during September, Lehman Brothers was allowed to fail, and AIG a global insurance company was bailed out. That turned over the domino and confidence reached a low ebb. The money-markets all but seized after these events.

During this period, there was legitimate fear that the modern financial system was on the verge of collapse. Trust between counter parties which is at the crux of the financial system had completely broken down. It appeared briefly that no matter what the price (of money or swaps) banks were simply not willing to transact with each other. It was only after the U.K. directly recapitalized several private banks and began to guarantee overnight lending and deposits and other countries followed suit, that there was partial recovery. The lessons from the Great Depression of the 1930s had been learnt well, but like all crises this one had dimensions not seen before. It was primarily different because the size of derivative transactions between counter parties (many not regulated by any entity) was magnificently large. The size of the “mark to market” hole will only be known when all this is behind us, but is expected to run into several trillion dollars.

At various points during the year, it seemed possible that emerging markets would partially escape. That was not to be. The oil spike in summer and the subsequent confidence crisis in money markets hit emerging markets particularly hard. Particularly those markets with twin deficits – current and fiscal account. In rapid succession, Iceland, Argentina, Belarus, Pakistan...and many others found themselves on the brink and seeking support from the International Monetary Fund (IMF). Even those that survived saw equity values collapse.

When the definitive movie is made on the “credit market crisis of 2008” excessive leverage and lax regulation will feature as major actors. A tactical villain of the piece will likely be the oil price hike of the summer. The intensity of September and October provide fitting climax to this year’s story.

The show must go on.

And so Central Banks and Governments have turned on the monetary and fiscal taps in unprecedented fashion. China announced a \$586 billion program – the largest fiscal package in recorded history. Early indications are that the new Obama administration will exceed this figure with a new deal. Closer to home the Reserve Bank of India has cut rates several times and long bonds trade with a 5 something yield, down over 500 basis points from the peak. Because of its large fiscal deficit, India has limited fiscal flexibility. Yet, programs have been advanced and the Sixth Pay Commission implementation has greased the system a bit. While credit spreads remain high, each passing day gives a little bit more confidence that the worst is behind us.

Don’t expect too much from the New Year – at least the early part. Third fiscal quarter earnings may not match (already low) expectations and the economy may reach its low point only in the first fiscal quarter of 2009-10. Even though experience teaches us that elections do not much impact the markets in India, many investors are cautious about full commitment before the early summer parliamentary elections. More easing medicine from the RBI and a little bit from the fiscal side is more likely than not. It seems quite possible that short rates in India could be south of 5% in the next few months.

From a markets point of view, we are not likely to return to the heady days of 2007 for quite some time. But conditions are easing, and the effect of this should be palpable in the second half of the year. Credit markets first, then equity markets should improve leading a healthier economy into the second half of the year. The egregiousness of prices has been erased, and prices of many blue chip stocks have begun to reflect a more sober future. This sobriety and all the medicine from the RBI provide opportunity for the long term investor to carefully make his picks. And that is exactly what we shall be doing.

Zero may well be the hero in 2009!

Narayan Ramachandran

Country Head – Morgan Stanley

Morgan Stanley Growth Fund

(A close-ended Equity Fund)*

Details as on 31st December, 2008

Portfolio (✓ Top Ten Holdings)

Industry Classification	Security Description	% of Total Net Assets
Banks		25.48%
	✓ HDFC Bank Limited	8.92%
	✓ State Bank of India Limited	6.21%
	✓ ICICI Bank Limited	3.99%
	Bank of India	2.54%
	Bank Of Baroda	2.27%
	Axis Bank Limited	1.55%
Software		10.59%
	✓ Infosys Technologies Limited	9.25%
	Geodesic Limited	1.27%
	IOL Netcom Limited	0.07%
Diversified		10.39%
	✓ Hindustan Unilever Limited	6.84%
	✓ Larsen and Toubro Limited	3.55%
Telecom - Services		8.35%
	✓ Bharti Airtel Limited	8.35%
Industrial Capital Goods		7.92%
	✓ Bharat Heavy Electricals Limited	7.48%
	Praj Industries Limited	0.44%
Petroleum Products		6.73%
	✓ Reliance Industries Limited	6.73%
Consumer Non Durables		6.29%
	✓ Nestle India Limited	2.95%
	ITC Limited	1.76%
	Balrampur Chini Mills Limited	1.05%
	Bajaj Hindusthan Limited	0.53%
Auto		3.65%
	Hero Honda Motors Limited	2.24%
	Maruti Suzuki India Limited	1.41%
Finance		2.48%
	Housing Development Finance Corporation Limited	2.48%
Ferrous Metals		2.38%
	Welspun Gujarat Stahl Rohren Limited	1.33%
	Jindal Steel and Power Limited	1.05%
Pesticides		2.24%
	United Phosphorus Limited	2.24%
Construction		1.81%
	The Phoenix Mills Limited	0.74%
	Jaiprakash Associates Limited	0.66%
	Madhucon Projects Limited	0.41%
Cement		1.63%
	The India Cements Limited	1.04%
	Ambuja Cements Limited	0.59%
Media & Entertainment		1.60%
	Deccan Chronicle Holdings Limited	1.00%
	Television Eighteen India Limited	0.60%
Pharmaceuticals		1.56%
	Glenmark Pharmaceutical Limited	1.56%
Power		0.94%
	Jyoti Structures Limited	0.94%
Industrial Products		0.70%
	Ess Dee Aluminium Limited	0.70%
Oil		0.52%
	Aban Offshore Limited	0.52%
Cash and other assets		4.74%
Grand Total		100.00%

Performance (in %)

Period	Fund Returns*	BSE 100
Returns during the trailing year [(+) (-)]	-56.76	-55.28
Compounded Annualised Growth Rate		
(i) Last 3 years	-4.81	0.23
(ii) Last 5 years	8.83	10.16
(iii) Since the launch of the scheme (18th February 1994)	10.2	6.7

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.

Volatility Measures:

(for trailing 3 year period)

Standard Deviation	9.48%
Beta	0.96
Sharpe Ratio ¹	-0.36

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.

Benchmark Index:

BSE 100

Options:

N/A

Date of Inception:

18th February, 1994

Fund Managers:

Sridhar Sivaram
Amay Hattangadi

NAV of the Fund:

Rs. 31.55 per unit

Expense Ratio:

1.84% of average daily net assets

Fund AUM:

Rs. 1590.75 crore

Portfolio Turnover:

0.76

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.

*MSGF shall be open ended effective 19th January, 2009. Please refer to www.morganstanley.com/indiamf for further details, including features of MSGF after the open ending.

Morgan Stanley A.C.E. Fund

(An open-ended Across Capitalisations Equity Fund)

Details as on 31st December, 2008

Portfolio (✓ Top Ten Holdings)

Industry Classification	Security Description	% of Total Net Assets
Banks		24.73%
	✓ HDFC Bank Limited	5.45%
	✓ ICICI Bank Limited	3.31%
	✓ State Bank of India Limited	3.07%
	Bank of India	2.51%
	Axis Bank Limited	2.51%
	Union Bank of India	2.08%
	Punjab National Bank	2.05%
	Dena Bank	1.47%
	Kotak Mahindra Bank Limited	1.18%
	Indian Bank	1.10%
Consumer Non Durables		10.12%
	Marico Limited	2.40%
	Shaw Wallace and Company Limited	2.05%
	ITC Limited	1.77%
	Titan Industries Limited	1.60%
	Britannia Industries Limited	1.29%
	United Spirits Limited	1.01%
Power		9.37%
	✓ Reliance Infrastructure Limited	3.42%
	✓ GVK Power and Infrastructure Limited	3.22%
	✓ CESC Limited	2.73%
Telecom - Services		6.72%
	✓ Bharti Airtel Limited	5.35%
	Reliance Communications Limited	1.37%
Petroleum Products		4.67%
	✓ Reliance Industries Limited	4.67%
Software		4.18%
	✓ Infosys Technologies Limited	3.35%
	Mphasis Limited	0.83%
Industrial Capital Goods		3.98%
	✓ Bharat Heavy Electricals Limited	2.90%
	Crompton Greaves Limited	1.08%
Diversified		3.52%
	Larsen and Toubro Limited	2.09%
	Hindustan Unilever Limited	1.43%
Non - Ferrous Metals		3.21%
	Hindustan Zinc Limited	1.28%
	Sterlite Industries (India) Limited	1.01%
	National Aluminium Company Limited	0.92%
Transportation		2.90%
	The Great Eastern Shipping Company Limited	1.64%
	IRB Infrastructure Developers Limited	1.26%
Finance		2.33%
	Housing Development Finance Corporation Limited	2.33%
Pharmaceuticals		2.07%
	Piramal Healthcare Limited	2.07%
Ferrous Metals		2.01%
	Jindal Steel and Power Limited	1.12%
	Tata Steel Limited	0.89%
Construction		2.00%
	Jaiprakash Associates Limited	1.68%
	B L Kashyap and Sons Limited	0.32%
Industrial Products		1.96%
	Sintex Industries Limited	1.96%
Oil		1.79%
	Oil and Natural Gas Corporation Limited	1.79%
Auto Ancillaries		1.78%
	Exide Industries Limited	1.78%
Consumer Durables		1.55%
	Voltas Limited	1.55%
Cash and other assets		11.11%
Grand Total		100.00%

Performance (in %)

Period	Fund Returns*	BSE 200
Since Inception (3rd April, 2008)	-35.77	-40.69

*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. 6.4230 per unit
Dividend Rs. 6.4230 per unit

Expense Ratio:

2.60% 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. 73.89 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 6624 9133	• Hyderabad	040 4002 4168
• Kolkata	033 3984 5315	• Mumbai	022 4077 9227
• Pune	020 6500 8349		

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. 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.**