

Fact Sheet

March 2009



FIXED INCOME OVERVIEW

The fiscal deficit is now the dominant theme in the fixed income market, ahead of the slowdown in growth, evidenced by the Q3 GDP numbers.

Investor confidence was shaken by the additional borrowing of Rs. 46,000 crore announced for the current year. This was much more than the market expectation of Rs. 25,000-30,000 crore. The mood thus was justifiably cautious ahead of the vote-on-account on February 16, 2009. Even then, the announcement of gross borrowing of Rs. 3,60,000 crore and net borrowing of Rs. 3,06,000 crore negatively surprised the market.

The vote-on-account itself disappointed the market not only due to the minimal number of measures announced, but also from a lack of details. Besides not providing a sufficient explanation on the borrowing program for FY10, it also did not have any indirect tax cuts as was expected. This was announced later in form of reduction of excise duty to 8% from 10% and service tax to 10% from 12%. This again will put further pressure on the fiscal deficit.

An overall fiscal deficit (centre + state + off-balance-sheet) in double digits is indeed a cause for worry. Fiscal stimulus is however essential to maintain a higher growth rate which is necessary to reduce unemployment. One of the lessons learnt from the Great Depression is that between high fiscal deficit and high unemployment rate, fiscal deficit is the more preferable evil.

EQUITY OVERVIEW

Stimulus packages and raging debates on nationalizations were the international flavours of the season in February. What started as a sub-prime crisis over 15 months ago seems to have morphed itself into a crisis encompassing borrowing of any kind. Be it corporates on leverage steroids or countries that benefitted from the erstwhile liquidity binge. The liquidity fuelled growth mirage of 2003-2007 seems to be over.

In that context, India should now settle to the trend growth rate of 5.0%-6.0% that we observed from 1980 to 2002. Although this is a sharp step down from the average of about 8.9% in the post 2002 period, we feel this is still attractive from a relative investment opportunity standpoint. On the macro side with cooling of commodity prices, we feel that the trade deficit and current account position of the country will improve. We are also enthused by the fact that India remains a largely inward looking economy with little export dependence and the Indian consumer seems to be healthy at least for the time being. We also feel that market valuations are approaching their long-term troughs.

Perhaps this is the lesson which the finance ministry and RBI have taken to heart and maybe rightly so.

At the same time, there is still scope for monetary action in addition to fiscal ones. The growth data during the month was disappointing. The quarterly GDP for 3rd quarter FY09 came at 5.3%, much lower than the expectations of 6%. Agriculture showed a negative growth at -2.2%, which is bad news as rural consumption was widely expected to hold up the economy in the downturn. IIP data of December came in at -2.2%, again much lower than market expectation of -0.4%. The growth data in the next quarter will show continued weakness. Credit growth data (19.1% YOY) is another cause for worry and may decline to lower teens or even lower in coming months. The slowdown in growth and rapid decline in credit growth are more than enough reasons for cut in rates and it is surprising that RBI has kept rates on hold.

For the investor there are still good opportunities but they might not be as clear-cut as before. Our advice remains the same, tread with caution!

Pranay Sinha

Portfolio Manager, Fixed Income

MSGF OUTLOOK

Overall, we continue to scout for value opportunities and remain extremely wary of elevated growth promises. From a portfolio standpoint, we continue to remain overweight consumer related sectors and financials. We feel that as capital becomes relatively scarce, it can affect capital spending programs and infrastructure funding especially in the private sector. We remain cautious on private infrastructure developers, real estate and construction companies and lay emphasis on companies with limited external funding requirements. Our long-standing investment philosophy of not compromising on management quality and corporate governance has left us unscathed after the recent corporate fraud episode in Satyam Computers. Overall, the portfolio is a mixture of high quality defensive names and companies with sustainable, visible earnings growth.

Sridhar Sivaram and Amay Hattangadi

Lead Portfolio Managers, Large Cap Equities

Morgan Stanley Growth Fund

(An open-ended Equity Fund)*

Details as on 27th February, 2009

Portfolio (✓ Top Ten Holdings)

Industry Classification	Security Description	% of Total Net Assets
Banks		25.13%
	✓ HDFC Bank Limited	9.13%
	✓ State Bank of India	6.22%
	ICICI Bank Limited	3.18%
	Bank of India	2.19%
	Bank of Baroda	2.18%
	Axis Bank Limited	1.30%
	Union Bank of India	0.93%
Software		10.62%
	✓ Infosys Technologies Limited	9.51%
	Geodesic Limited	1.11%
Diversified		10.24%
	✓ Hindustan Unilever Limited	7.33%
	Larsen and Toubro Limited	2.91%
Industrial Capital Goods		8.70%
	✓ Bharat Heavy Electricals Limited	8.70%
Petroleum Products		8.67%
	✓ Reliance Industries Limited	7.05%
	Hindustan Petroleum Corporation Limited	1.62%
Consumer Non Durables		8.49%
	✓ Nestle India Limited	3.70%
	✓ ITC Limited	3.57%
	Balrampur Chini Mills Limited	1.22%
Telecom - Services		7.98%
	✓ Bharti Airtel Limited	7.98%
Auto		5.77%
	✓ Hero Honda Motors Limited	3.61%
	Maruti Suzuki India Limited	2.16%
Cement		2.97%
	Ambuja Cements Limited	1.93%
	The India Cements Limited	1.04%
Construction		2.46%
	Jaiprakash Associates Limited	1.53%
	The Phoenix Mills Limited	0.65%
	Madhucon Projects Limited	0.28%
Pesticides		1.96%
	United Phosphorus Limited	1.96%
Media & Entertainment		1.38%
	Deccan Chronicle Holdings Limited	0.87%
	Television Eighteen India Limited	0.51%
Finance		0.96%
	Housing Development Finance Corporation Limited	0.96%
Power		0.77%
	Jyoti Structures Limited	0.77%
Ferrous Metals		0.70%
	Welspun Gujarat Stahl Rohren Limited	0.70%
Industrial Products		0.69%
	Ess Dee Aluminium Limited	0.69%
Cash and other assets		2.51%
Grand Total		100.00%

Performance (in %)

Period	Fund Returns*	BSE 100
Absolute Returns during the trailing year [(+) (-)]	-51.99	-51.98
Compounded Annualised Growth Rate		
(i) Last 3 years	-11.54	-5.91
(ii) Last 5 years	7.33	9.08
(iii) Since the launch of the scheme (18th February 1994)	9.41	5.93

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[#].

Asset Allocation:

Equity and Equity related instruments of companies having large market capitalization[#]: 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. 28.794 per unit
Dividend Rs. 9.382 per unit

Expense Ratio:

1.85% of average daily net assets

Portfolio Turnover:

0.68

Volatility Measures:

(for trailing 3 year period)
Standard Deviation 9.34%
Beta 0.94
Sharpe Ratio¹ -0.57

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. 1304.51 crore

#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.

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 27th February, 2009

Portfolio (✓ Top Ten Holdings)

Industry Classification	Security Description	% of Total Net Assets
Banks		15.86%
	✓ HDFC Bank Limited	4.05%
	✓ State Bank of India	2.63%
	ICICI Bank Limited	2.22%
	Axis Bank Limited	2.15%
	Bank of India	1.51%
	Punjab National Bank	1.42%
	Bank of Baroda	0.96%
	Kotak Mahindra Bank Limited	0.92%
Consumer Non Durables		9.03%
	✓ Marico Limited	2.69%
	Shaw Wallace and Company Limited	1.83%
	Dabur India Limited	1.73%
	Titan Industries Limited	1.40%
	Britannia Industries Limited	1.38%
Petroleum Products		8.39%
	✓ Reliance Industries Limited	8.39%
Power		8.29%
	✓ Reliance Infrastructure Limited	2.88%
	GVK Power and Infrastructure Limited	2.31%
	CESC Limited	2.06%
	Power Grid Corporation of India Limited	1.04%
Telecom - Services		6.91%
	✓ Bharti Airtel Limited	5.90%
	Reliance Communications Limited	1.01%
Pharmaceuticals		4.88%
	Sun Pharmaceutical Industries Limited	1.93%
	Cipla Limited	1.78%
	Piramal Healthcare Limited	1.17%
Ferrous Metals		4.52%
	✓ Jindal Steel and Power Limited	3.76%
	Tata Steel Limited	0.76%
Software		4.24%
	✓ Infosys Technologies Limited	3.27%
	Mphasis Limited	0.97%
Finance		4.05%
	✓ Housing Development Finance Corporation Limited	2.84%
	Infrastructure Development Finance Company Limited	1.21%
Diversified		4.05%
	Larsen and Toubro Limited	2.49%
	Hindustan Unilever Limited	1.56%
Cement		3.46%
	Ultra Tech Cement Limited	1.97%
	The India Cements Limited	1.49%
Construction		2.92%
	Jaiprakash Associates Limited	1.95%
	IVRCL Infra and Projects Limited	0.79%
	B L Kashyap and Sons Limited	0.18%
Industrial Capital Goods		2.68%
	✓ Bharat Heavy Electricals Limited	2.68%
Oil		1.99%
	Oil and Natural Gas Corporation Limited	1.99%
Non - Ferrous Metals		1.97%
	Hindustan Zinc Limited	1.97%
Transportation		1.96%
	IRB Infrastructure Developers Limited	1.05%
	The Great Eastern Shipping Company Limited	0.91%
Auto Ancillaries		1.61%
	Exide Industries Limited	1.61%
Consumer Durables		1.01%
	Volta Limited	1.01%
Industrial Products		1.00%
	Sintex Industries Limited	1.00%
Cash and other assets		11.18%
Grand Total		100.00%

Exposure to Derivatives: Nifty Futures 26 Mar. '09 Rs. 3.36 crore (Notional Value)

Performance (in %)

Period	Fund Returns* BSE 200
Since Inception (3rd April, 2008)	-43.36 -46.42

*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. 5.664 per unit
Dividend Rs. 5.664 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. 68.62 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. **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.**