



Annual Report
March 31, 2010

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, 2010 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, 2010;
 - (ii) in the case of the Profit and Loss Account, of the loss of the Company for the year ended on that date and
5. On the basis of the written representations received from the Directors as on 31st March, 2010 taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March, 2010 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,
25th June, 2010

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 explanation given to us, no material discrepancies were noticed on such verification.
 - (c) The Company has not disposed off fixed assets during the year; hence the question of commenting on the going concern status of the Company does not arise.
- (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 lakh 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, 2010 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 in the financial year but had not incurred cash losses 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.

ANNEXURE TO THE AUDITOR'S REPORT

- (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.
- (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,

25th June, 2010

BALANCE SHEET

MORGAN STANLEY INVESTMENT MANAGEMENT PRIVATE LIMITED

Abridged Balance Sheet as at March 31, 2010

	Schedule Ref.	As at 31-Mar-10 Rs.	As at 31-Mar-09 Rs.
SOURCE OF FUNDS			
Shareholders' Funds:			
Share Capital	A	2,194,414,730	2,194,414,730
Reserves and Surplus	B	249,904,942	335,581,769
TOTAL		<u>2,444,319,672</u>	<u>2,529,996,499</u>
APPLICATION OF FUNDS			
Fixed Assets:			
C			
Gross block		23,413,273	22,133,942
Less : Depreciation/Amortisation		14,413,810	8,657,470
Net block		8,999,463	13,476,472
Capital Work - in - Progress		-	360,045
		8,999,463	13,836,517
Investments	D	1,985,500,000	1,985,500,000
Deferred Tax Asset (Net)		-	13,835,713
Current Assets, Loans and Advances:			
Sundry Debtors	E	18,812,995	48,466,913
Cash and Bank Balances	F	374,796,455	399,847,732
Loans and Advances	G	141,503,381	138,313,486
		535,112,831	586,628,131
Less : Current Liabilities and Provisions:			
Current Liabilities	H	51,181,326	51,267,701
Provisions	I	34,111,296	18,536,161
		85,292,622	69,803,862
Net Current Assets		449,820,209	516,824,269
TOTAL		<u>2,444,319,672</u>	<u>2,529,996,499</u>

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 25, 2010

For and on behalf of the Board of Directors

Sd/-
Anthony Heredia
Director

Sd/-
Nagesh Alai
Director

Sd/-
Sonali Bendke
Company Secretary
Mumbai, June 25, 2010

PROFIT AND LOSS ACCOUNT

MORGAN STANLEY INVESTMENT MANAGEMENT PRIVATE LIMITED

Profit and Loss Account for the year ended 31st March, 2010

	Schedule Ref.	Year ended 31-Mar-10 Rs.	Year ended 31-Mar-09 Rs.
INCOME			
Asset Management Fees		215,465,205	245,078,590
Recovery for support services		81,827,872	87,454,855
Other Income	J	40,507,102	55,737,246
TOTAL		337,800,179	388,270,691
EXPENDITURE			
Payments to and Provisions for Employees	K	224,240,176	150,412,099
Operating and Administration expenses	L	175,309,312	153,548,314
Fund Accounting Fees		4,884,798	5,407,625
Depreciation/Amortisation		5,756,340	4,913,109
Interest - Others		20,351	114,188
TOTAL		410,210,977	314,395,335
(Loss) / Profit before Tax		(72,410,798)	73,875,356
Provision for Tax:			
- Current Tax		-	13,500,000
- Deferred Tax		13,835,713	10,983,560
- Fringe Benefit Tax		-	1,700,000
		13,835,713	26,183,560
(Loss) / Profit after Tax		(86,246,511)	47,691,796
(Excess) / Short provision for tax in respect of earlier years (net)		(569,684)	265,785
		(85,676,827)	47,426,011
Balance brought forward from previous year		335,581,769	288,155,758
Balance carried to balance sheet		249,904,942	335,581,769
Earnings Per Share			
Basic (Rs.)		(4.10)	2.27
(Refer note 2(viii) of Schedule M)			

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 25, 2010

For and on behalf of the Board of Directors

Sd/-
Anthony Heredia
Director

Sd/-
Nagesh Alai
Director

Sd/-
Sonali Bendke
Company Secretary
Mumbai, June 25, 2010

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") have pleasure in presenting the Seventeenth Annual Report, together with the audited accounts of your Company for the year ended March 31, 2010.

Financial Results

Highlights of the Company's financial results ended on 31st March 2010 are as follows:

Particulars	March 31, 2010	Rupees in Millions
		March 31, 2009
Gross Income	337.80	388.27
(Loss) / Profit before Depreciation and Tax	(66.65)	78.78
Depreciation	5.76	4.91
Provision for Taxation	13.27	26.45
(Loss) / Profit after Tax	(85.68)	47.42

Performance of the Company

The Company earned an income of Rs. 337.80 million during the year ended March 31, 2010 as compared to Rs. 388.27 million in the previous year.

The Company has recorded a loss after tax of Rs. 85.68 million as compared to a profit after tax of Rs. 47.42 million during previous year.

During the year ended March 31, 2010, 2 new schemes, 'Morgan Stanley Short Term Bond Fund' and 'Morgan Stanley Active Bond Fund' were launched.

The assets under management of the schemes of Morgan Stanley Mutual Fund ('the Fund') as of March 31, 2010 stood at Rs. 22,594.67 million as compared to Rs. 14,527.21 million as of March 31, 2009.

For managing the assets of the Fund, your Company earned Investment Management fees of Rs. 215.47 million for the year ended March 31, 2010 as compared to Rs. 245.08 million in the previous year.

During the year, the Company continued to invest resources in building the distribution and customer service infrastructure. In the future, the focus will be to expand the product suite, targeted at both retail and institutional clients.

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, 2010:

Period	Fund Returns*	[Figures in %]
		BSE 100
1 year	90.35	88.17
Last 3 years	7.47	12.18
Last 5 years	19.06	21.71
Since Inception (18th February 1994)	13.71	10.35

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.

DIRECTORS' REPORT (Contd.)

For the 12 months ended March 31, 2010, the Scheme outperformed its Benchmark [BSE100] by 2.18 %. Since inception the scheme has outperformed its Benchmark by 3.36% [annualized]. In the year that passed by, from a sector allocation perspective the overweight in Healthcare and underweights in Energy and Telecom contributed to performance while the underweight in Materials detracted from performance.

The net asset value of MSGF, as on March 31, 2010 was Rs. 59.029 per unit for Growth Option and Rs. 19.235 per unit for Dividend Option as compared to Rs. 31.012 per unit for Growth Option and Rs. 10.104 per unit for Dividend Option (introduced on Jan 19, 2009) as of March 31, 2009. The Net assets of MSGF as of March 31, 2010 were Rs. 19,561.49 million with outstanding corpus of 337.04 million units. The net surplus for the year transferred from Revenue Reserve was Rs. 7,609.80 million as against the deficit of Rs. 7,782.59 million last year.

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 MSACE Fund in comparison with benchmark index, as of March 31, 2010 is detailed below:

Period	[Figures in %]	
	Fund Returns*	BSE 200
1 Year	122.47	92.87
Since Inception (April 03, 2008)	17.12	6.23

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

Despite turbulence and uncertainties in the global and Indian Equities markets, MSACE Fund has been able to deliver above average performance, evident by Scheme's outperformance vis-à-vis its benchmark (BSE 200) of 29.6% and 10.9% in the period of 12 months and since inception, respectively. The scheme has also been maintaining top quartile performance in comparison with its peers.

In line with the plan's objective, the fund gradual increase in exposure to mid cap stocks vis-à-vis large caps per the Investment team's conviction in the mid cap rally has delivered significant positive impact to performance of the scheme. From a sector allocation perspective, the portfolio has been overweight sectors like Consumer Products, Information Technology, Healthcare and Consumer Discretionary and been underweighted in sectors like Materials, Energy & Telecom.

The net asset value of MSACE, as on March 31, 2010 was Rs.13.701 per unit for Growth and Dividend Option of MSACE as compared to Rs. 6.159 per unit for Growth and Dividend Option of MSACE as of March 31, 2009. The Net assets of MSACE as on March 31, 2010, were Rs. 2068.51 million with outstanding corpus of 150.97 million units. The net surplus for the year transferred from Revenue Reserve was Rs. 436.96 million as compared to deficit of Rs.439.09 million as of March 31, 2009.

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, 2010 was Rs. 10.4510 per unit under Growth Option of Institutional Plus Plan and Rs.10.4189 per unit under Growth Option of Regular Plan. The Net assets of MSSTBF as on March 31, 2010 were Rs. 996.17 million with outstanding corpus of 979.40 million units. The net surplus for the year transferred from Revenue Reserve was Rs. 37.34 million.

The performance of MSSTBF in comparison with benchmark index, as of March 31, 2010 is detailed below:

Plan	[Figures in %]	
	Fund Returns* (since inception May 26, 2009)	CRISIL Short Term Bond Fund Index
Regular Plan	4.19	3.71
Institutional Plus Plan	4.51	3.71

Past performance is not a guarantee of future returns. *Absolute returns of MSSTB [Growth Option] are computed. "Since Inception" returns are calculated on Rs. 10/- invested at inception.

DIRECTORS' REPORT (Contd.)

Since inception, the scheme has outperformed its Benchmark [Crisil Short Term Bond Fund Index] by 0.8%. The positioning of the scheme is at the lower end of the risk- return spectrum, thereby running a low duration and predominately investing in low volatile money market instruments. The credit quality of the portfolio is good with the entire portfolio investing in AAA/ P1+ (or equivalent short-term rating).

Performance of Morgan Stanley Active Bond Fund

The Fund launched Morgan Stanley Active Bond Fund [MSABF], an open ended debt scheme was launched 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, 2010 was Rs.10.000 per unit under Growth Option of Institutional Plus Plan and Rs.10.0487 per unit under Growth Option of Regular Plan. The Net assets of MSABF as of March 31, 2010 were Rs. 14.59 million with outstanding corpus of 1.45 million units. The net deficit for the year transferred from Revenue Reserve was Rs. 1.35 million.

The performance of MSABF in comparison with benchmark index, as of March 31, 2010 is detailed below:

[Figures in %]

Plan	Fund Returns* (since inception May 28, 2009)	CRISIL Composite Bond Fund Index
Regular Plan	0.49	3.46

Past performance is not a guarantee of future returns. *Absolute returns of MSABF [Growth Option] are computed. "Since Inception" returns are calculated on Rs. 10/- invested at inception.

Owing to the suboptimum size of the fund, the portfolio is investing only in over night market, leading to underperformance against its Benchmark [Crisil Composite Bond Index] by 2.97% since inception.

Investor Services

During the year, the number of official points of acceptance of transactions increased significantly to about 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, 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, 2010.

On the distribution front, the number of empanelled distributors as of March 31, 2010 stood at 4457 against 4160 as of 31 March 2009. During the year, the number of online channel partner tie-ups for distribution of the Fund's schemes increased to 34 as against 14 as of March 31, 2009.

Call centre operations have been extended to cover the entire country. The Company has outsourced certain back office services including call centre services to Karvy Computer Share Private Limited.

Dividend

The Directors do not recommend dividend for the year ended March 31, 2010

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, there was no change in the Directors of the Company. 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' REPORT (Contd.)

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 and Auditor's Report

The Statutory Auditors, M/s. Deloitte, Haskins and Sells, Chartered Accountants, Mumbai, 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.

Considering the nature of business activities and the operations of the Company, your Directors were of opinion that an internal audit system was not warranted .

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/-
Anthony Heredia
Director

Sd/-
Nagesh Alai
Director

Registered Office:

Forbes Building,
Charanjit Rai Marg, Fort,
Mumbai 400 001,

Place: Mumbai

Date: June 25, 2010

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