

Fact Sheet

June 2008



DEBT OVERVIEW:

Bond market started the month on a positive note after the RBI signaled in April monetary policy that higher risks to growth may prevent it from hiking interest rates. The market got support from Index of Industrial Production (IIP) data that showed YoY growth rate fell to 3% in March 08 as compared to 8.6% in February 08. But the rally in bond market remained short lived as liquidity tightened, crude prices scaled record highs and inflation numbers continued to surprise on upside. Higher than expected GDP data released on May 30 weighed on sentiments and market ended the month on a very weak note. The interest rate swap market led the bearish trend with 5-year OIS hitting a high of almost 8% against an intra month low of 7.17%. G-sec prices started falling after auction supply hit the market. The benchmark 10-year yield moved up 30 bps to close at 8.10%.

Rupee weakened 5% against the dollar due to impact of high oil prices, slowdown in capital flows and RBI's intent to not use the exchange rate as inflation controlling tool. Government eased restrictions on external commercial borrowing (ECB) limits and increased cap on FII's investment in debt market. Rupee's depreciation has largely negated the impact of cuts in custom duties announced recently and further depreciation could add to inflationary pressures. Hence, we expect RBI to actively intervene now to support rupee. Fallout of this would be tightening in domestic rupee liquidity which may be addressed through gradual unwinding of Market Stabilisation Scheme (MSS).

Money market conditions tightened due to outflows on account of increase in CRR, and government security auctions. Overnight call rates started firming up towards the later part of the month as liquidity shrunk. We expect liquidity conditions to remain tight as we move into June due to outflows on account of advance tax payments and government security auctions.

The G-sec yield curve at long end flattened with 10-30 year spread shrinking from 52 bps to 34 bps during the month. We expect a steeper curve as increased supply of surrogate government bonds (issued against oil, food and fertilizer subsidies) keeps the long end under pressure. Fiscal situation is likely to deteriorate as revenue growth tapers off in line with slowdown in economy while the expenditure side balloons due to substantial increase in subsidies, farm loan waiver and proposed pay hike for civil servants.

Five-year AAA benchmark paper yield rose 15 bps from 9.40% to 9.55% while spreads over GOI bond hovered around 135 bps. We expect significant activity in corporate bond market over the next few quarters as corporate India embarks on a massive borrowing programme. Spreads are unlikely to contract from current levels.

Going forward, policy makers will need to confront a more acute dilemma between growth and inflation. A combination of elevated commodity prices, weak currency, expansionary fiscal policy and loose money supply could threaten to turn into a wage-price spiral and entrenched inflationary expectations. RBI has worked hard over the last few years to bring down long term inflationary expectations and it should not wither away the gains. We expect monetary policy to retain a tightening bias, with preference towards measures to absorb liquidity but do not rule out action on policy rates in case price situation worsens.

Navneet Munot

Lead Portfolio Manager, Multi-Strategies

EQUITY OVERVIEW:

Oil prices and inflation continued to dominate the headlines in May. In our opinion, Oil prices have now reached levels where they pose serious headwinds to economic growth and cause a significant deterioration to the Fiscal situation. Inflation numbers continued to move up, despite retail petroleum prices remaining unchanged. The inflation problems in India extend beyond food and commodity prices and are likely to remain sticky for a while, and attract continued action from the Reserve Bank of India. While GDP numbers for the previous quarter came in higher than expectations, there is a risk of a slowdown in the GDP growth in the coming quarters.

The sharp correction in equity markets since January 2008 shifted the paradigm for Indian equities and handed the baton of sector leadership to an entirely new set of sectors. A few erstwhile favorites whose growth characteristics or promised asset creation strategies were being disproportionately rewarded in the liquidity driven surge of late 2007 fell significantly this year at the slightest disappointments. The best performing sectors have been Information Technology, Consumer Staples and Healthcare with the BSE sector indices have returned 3.85%, 2.22% and -0.35% year to date, as against the broad index (BSE 100) returns of -22.52 %. The real exception to this conventionally defensive bias has been the strength of the commodity complex, especially oil.

Industries that consume commodities as their primary inputs have had to face a situation of rising costs and capped realisations. Fears of a deterioration in the twin deficits (Fiscal Deficit and Current Account Deficit) resulting from higher commodity prices and subsidised prices by the Government has resulted in the depreciation of the rupee against the US Dollar in recent times. This could cause an adverse impact on inflation, leading to a vicious cycle. The antidote seems to be an expected good harvest that would alleviate Indian food prices in the second half of the year coupled with a general cool off in the commodity complex.

We have tried to assess our portfolio for vulnerability from inflation-targeting fiscal measures and spiraling commodity prices and continue to like sectors and companies with demonstrated price leadership and minimal Government intervention. We are overweight in Consumer Discretionary and Industrials sector and retain our underweight in Financials. At the margin, we have trimmed our overweight in the Industrials sector and incrementally increased our holding in the Consumer related sectors. We continue to have a strong growth bias but are now more cognizant than ever of execution hurdles and the implications of macro headwinds on earnings growth forecasts.

Sridhar Sivaram and Amay Hattangadi

Lead Portfolio Managers, Large Cap Equities

Morgan Stanley Growth Fund

(A close-ended Equity Fund)

Details as on 30th May, 2008

Portfolio (✓ Top Ten Holdings)

| Industry Classification | Security Description | % of Total Net Assets |
|----------------------------------|--|-----------------------|
| Banks | | 10.38% |
| | ✓ HDFC Bank * | 5.59% |
| | ✓ Axis Bank | 3.72% |
| | State Bank of India | 1.06% |
| Software | | 9.64% |
| | ✓ Infosys Technologies | 7.11% |
| | Geodesic Information Systems | 1.47% |
| | Tata Consultancy Services | 0.78% |
| | IOL Netcom | 0.29% |
| Industrial Capital Goods | | 8.67% |
| | ✓ Bharat Heavy Electricals | 3.46% |
| | ✓ ABB | 3.43% |
| | Praj Industries | 1.78% |
| Petroleum Products | | 7.95% |
| | ✓ Reliance Industries | 7.95% |
| Diversified | | 6.16% |
| | ✓ Larsen and Toubro | 3.92% |
| | Hindustan Unilever | 2.25% |
| Finance | | 5.70% |
| | ✓ HDFC | 4.50% |
| | Infrastructure Development Finance Co | 1.20% |
| Media & Entertainment | | 5.62% |
| | Deccan Chronicle Holdings | 1.50% |
| | New Delhi Television | 1.30% |
| | Zee Entertainment Enterprises | 1.26% |
| | Television Eighteen India | 1.03% |
| | Jagran Prakashan | 0.54% |
| Ferrous Metals | | 5.34% |
| | Welspun Gujarat Stahl Rohren | 2.65% |
| | Jindal Steel and Power | 1.64% |
| | Tata Steel | 1.05% |
| Power | | 5.07% |
| | ✓ Tata Power Co. | 3.13% |
| | Jyoti Structures | 1.07% |
| | GVK Power and Infrastructure | 0.87% |
| Oil | | 5.02% |
| | Aban Offshore | 2.91% |
| | Cairn India | 2.11% |
| Telecom - Services | | 4.92% |
| | ✓ Bharti Airtel | 3.61% |
| | Reliance Communications | 1.31% |
| Construction | | 4.20% |
| | Housing Development and Infrastructure | 1.17% |
| | Phoenix Mills | 1.17% |
| | Madhucon Projects | 1.05% |
| | Jaiprakash Associates | 0.81% |
| Consumer Non Durables | | 4.14% |
| | Nestle India | 2.57% |
| | Bajaj Hindusthan | 0.59% |
| | Balrampur Chini Mills | 0.51% |
| | Marico | 0.47% |
| Pharmaceuticals | | 3.56% |
| | Glenmark Pharmaceuticals | 3.08% |
| | Biocon | 0.48% |
| Auto | | 2.13% |
| | Maruti Suzuki India | 2.13% |
| Retailing | | 2.11% |
| | Pantaloon Retail India | 2.11% |
| Cement | | 1.51% |
| | India Cements | 0.96% |
| | Shree Cements | 0.56% |
| Pesticides | | 1.16% |
| | United Phosphorus | 1.16% |
| Industrial Products | | 1.16% |
| | Ess Dee Aluminium | 1.16% |
| Auto Ancillaries | | 0.84% |
| | Balkrishna Industries | 0.84% |
| Non - Ferrous Metals | | 0.68% |
| | Hindustan Zinc | 0.62% |
| | National Aluminium Company | 0.06% |
| Transportation | | 0.64% |
| | Arshiya International | 0.64% |
| Gas | | 0.60% |
| | Gujarat Fluorochemicals | 0.60% |
| Cash and other assets | | 2.79% |
| Total Net Assets | | 100.00% |

*Includes Local Shares and ADR/GDRs.

Performance

| Period | Fund Returns* | BSE 100 |
|---|---------------|---------|
| Returns during the trailing year [(+) (-)] | 4.25 | 16.26 |
| Compounded Annualised Growth Rate | | |
| (i) Last 3 years | 28.22 | 34.09 |
| (ii) Last 5 years | 37.43 | 39.54 |
| (iii) Since the launch of the scheme (18th February 1994) | 15.06 | 11.22 |

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.

Listed on:

Bombay Stock Exchange, National Stock Exchange, Calcutta Stock Exchange, Delhi Stock Exchange, Madras Stock Exchange and Ahmedabad Stock Exchange.

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.

NAV of the Fund:

Rs. 55.25 per unit

Market Price

(Closing Price on BSE):

Rs. 51.99 per unit

Benchmark Index:

BSE 100

Options:

N/A

Minimum Investment Amount:

MSGF lot size on the Exchanges is 100 units.

Date of Inception:

18th February, 1994

Fund Managers:

Sridhar Sivaram
Amay Hattangadi

Fund AUM:

Rs. 3316.11 crore

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 May, 2008

Portfolio (✓ Top Ten Holdings)

| Industry Classification | Security Description | % of Total Net Assets |
|--|---------------------------------------|-----------------------|
| Software | | 13.62% |
| | ✓ Infosys Technologies | 5.16% |
| | ✓ Satyam Computer Services | 3.83% |
| | 3i Infotech | 1.50% |
| | Mphasis | 1.08% |
| | NIIT | 1.03% |
| | MindTree | 1.02% |
| Telecom - Services | | 9.70% |
| | ✓ Bharti Airtel | 6.37% |
| | ✓ Reliance Communications | 3.33% |
| Petroleum Products | | 8.70% |
| | ✓ Reliance Industries | 6.25% |
| | ✓ Reliance Petroleum | 2.46% |
| Banks | | 7.80% |
| | ✓ Axis Bank | 2.41% |
| | ICICI Bank | 1.78% |
| | Kotak Mahindra Bank | 1.67% |
| | ING Vysya Bank | 1.41% |
| | Dena Bank | 0.30% |
| | Federal Bank | 0.24% |
| Finance | | 6.13% |
| | ✓ HDFC | 3.34% |
| | LIC Housing Finance | 1.60% |
| | Infrastructure Development Finance Co | 1.19% |
| Ferrous Metals | | 5.37% |
| | ✓ Tata Steel | 2.51% |
| | Steel Authority of India | 1.80% |
| | PSL | 1.06% |
| Power | | 5.35% |
| | ✓ GVK Power and Infrastructure | 2.72% |
| | CESC | 1.92% |
| | Kalpataru Power Transmission | 0.70% |
| Construction | | 5.10% |
| | Jaiprakash Associates | 2.21% |
| | Consolidated Construction Consortium | 1.47% |
| | Hindustan Construction Co | 1.42% |
| Consumer Non Durables | | 4.74% |
| | GlaxoSmithkline Consumer Healthcare | 1.93% |
| | Colgate Palmolive (I) | 1.77% |
| | Titan Industries | 1.04% |
| Industrial Capital Goods | | 3.97% |
| | Bharat Heavy Electricals | 2.09% |
| | Crompton Greaves | 0.98% |
| | Titagarh Wagons | 0.89% |
| Diversified | | 2.37% |
| | Larsen and Toubro | 2.37% |
| Consumer Durables | | 2.11% |
| | Voltas | 2.11% |
| Transportation | | 2.08% |
| | The Great Eastern Shipping Co. | 2.08% |
| Industrial Products | | 1.96% |
| | Sintex Industries | 1.71% |
| | Kirloskar Brothers | 0.25% |
| Auto Ancillaries | | 1.72% |
| | Exide Industries | 1.72% |
| Pharmaceuticals | | 1.71% |
| | Nicholas Piramal India | 1.71% |
| Fertilisers | | 1.00% |
| | Tata Chemicals | 1.00% |
| Telecom - Equipment & Accessories | | 0.87% |
| | Sterlite Technologies | 0.87% |
| Cash and other assets | | 15.72% |
| Total | | 100.00% |

Corrigendum: In May 08 Fact Sheet, HDFC was erroneously represented as HDFC Bank.

Performance

| Period | Fund Returns* | BSE 200 |
|-----------------------------------|---------------|---------|
| Since Inception (3rd April, 2008) | 2.82% | 4.51% |

*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.10.282 per unit
Dividend Rs.10.282 per unit

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. 100.82 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 4354 5293 | • Hyderabad | 040 4002 4168 |
| • Kolkatta | 033 3984 5315 | • Mumbai | 022 4077 9227 |
| • Pune | 020 4014 7570 | | |

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. Investments in close-ended schemes are subject to market risks of infrequent trading, possibility of market price of units being traded at a discount to NAV etc. 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.**