

Fact Sheet

June 2009

FIXED INCOME OVERVIEW

The month witnessed gradual hardening in domestic yields, tracking concerns of additional G-Sec supplies after the government increased the borrowings scheduled for the month. In addition, the RBI accepted bids only partially at this month's OMO auction adding to the market woes and globally too yields hardened tracking rising concerns over US creditworthiness after S&P downgraded the sovereign outlook for UK on fiscal concerns. Notwithstanding the enormous domestic liquidity, the spate of bond negative data influenced the sentiment and led to significant erosion in bond valuations. The liquidity situation in the market continues to remain benign with system parking more than Rs.1 lac crores with RBI on a consistent basis through Reverse Repo window.

Sentiment on the trading platform remained dull, even as participants took cues from soaring RBI loans and advances to the central government standing beyond the permissible limit of INR 200 billion for most part of the month. Supply fears seemingly took over the investor sentiment that remained sidelined, for the market to close with sellers' bias and resulting in to upward shift in the yield curve.

The domestic trade data weakened further with export in Dollar for the month of April 2009 witnessing a sharp 33.2% YOY decline compared with a decline of 33% YoY in March 2009. The import growth in Dollar terms also decelerated by 36.6% YOY in April 2009 compared to negative 34% in March 2009. The IIP number maintaining its trend line continues to print negative with a read of -2.3% for the month of March 2009, the overall contraction driven by weakness in manufacturing and mining activity. The credit growth still lying low with a YOY number at 18.1%, however, initial sign of revival looks to be appearing on the horizon.

The latest read on WPI is at 0.61% for the week ended on 11th April 2009. The fall in inflation was lower than expected during the month due to elevated food inflation. The CPI came down; however, the absolute level on CPI still remains high. The average of major baskets for the month of April 2009 was around 8.65%. The food inflation and their higher weight in the basket led to CPI ruling high. Crude oil prices surged during the month, closing at \$66.31 per barrel compared to previous month close of \$49.66 per barrel.

The domestic currency showed immense strength on the back of resurgence in the equity market. The FII inflows remained quite buoyant and led to the domestic currency appreciating by a massive 7.72% during the current fiscal to close at INR 47.09 compared to the previous month close of INR 50.73. The Foreign Exchange reserve closed at around \$260 billion as on April 17, 2009.

India's real GDP grew at 5.8% in 4QFY09, which was higher than consensus estimate of 5.0%, and growth for 3QFY09 also got revised up to 5.8% from earlier 5.3%. Strong construction aided by buoyant steel and cement sales during the quarter led

to the better GDP number.

On the interest rate front, the sovereign bond yield curve lost significant ground during the course of the month. The benchmark 10-year point closed the month at 6.69% against the previous month level at 6.23%. Auction calendar leading to temporary supply, hardening global yield level and negative surprise in inflation numbers kept the market on edge. The benchmark AAA 10-year corporate closed at 8.8% against the previous month level of around 8.45%, however, the shorter end of the curve remained flat mirroring benign liquidity conditions.

Key Financial Data

Benchmark	Current Month	Previous Month	Previous Financial Year	Change	Change
	30/05/09	30/04/09	31/03/09	(Monthly)	(Since March '09)
364 Day T-bill (Primary)	3.68%	3.76%	5.50%	-0.08%	-1.82%
5-year Gilt Benchmark	6.46%	6.06%	6.76%	0.40%	-0.30%
10-year Gilt Benchmark	6.70%	6.23%	7.01%	0.48%	-0.31%
30-year Gilt Benchmark	7.63%	7.25%	8.42%	0.39%	-0.79%
91 Day Manufacturing CP(P1+)	5.25%	6.50%	9.20%	-1.25%	-3.95%
91 day Bank CD	4.00%	3.35%	9.75%	0.65%	-5.75%
1-yr AAA Spreads	2.30%	2.20%	2.36%	0.10%	-0.06%
5-yr AAA Spreads	1.85%	1.45%	1.66%	0.40%	0.19%
5-yr OIS	6.22%	5.27%	5.61%	0.96%	0.61%
CRR	5.00%	5.00%	5.00%	0.00%	0.00%
RBI LAF - Reverse Repo Rate*	3.25%	3.25%	3.50%	0.00%	-0.25%
Foreign Exchange Reserve (\$ bn)	260.64	253.09	252.33	7.55	8.31
Nymex Crude	66.31	51.12	49.66	15.19	16.65
US Fed Funds Rate	0.25%	0.25%	0.25%	0.00%	0.00%
US 10-yr Gilt	3.46%	3.12%	2.66%	0.34%	0.80%
INR/USD	47.09	50.09	50.73	-5.99%	-7.17%
USD/Euro	1.42	1.32	1.33	-7.01%	-6.85%
USD/ Yen	95.34	98.63	98.96	-3.34%	-3.66%

*RBI Repo Rate at 4.75%

Sources - Internal & Bloomberg

Ritesh Jain

Head of Fixed Income & Lead Portfolio Manager, Fixed Income Boutique

EQUITY OVERVIEW

We made history last month in terms of equity market performance. On May 18, 2009 the BSE Sensex hit upper circuit for the first time since its inception in 1979 and saw its best monthly performance since April 1992. The sharp rally and change in the sentiment for Indian equities is a reflection of the positive outcome of two key events last month. First, the excitement in the equity markets came from the surprise results of the General Election, which gave a clear political mandate in favor of the Congress led UPA alliance. The politically stable mandate significantly raises the possibility of serious economic reforms, with significant positive impact in terms of economic growth and corporate earnings, over the next five years. The second, but by no means less important, is the resurgence in global risk appetite. The authorities in US and Europe (OECD countries) are seen to be succeeding in their efforts towards stabilizing the financial and industrial sectors. The positive results of the Stress Test on 20 large financial institutions in the US, the successful bailout/bankruptcy of the US auto industry, improvement in credit spreads and other indicators are giving the global equity markets the confidence that the worst of the financial crisis may be behind us.

It is not surprising that increase in risk appetite has seen a surge in FII inflows to Emerging Markets. EM funds have witnessed inflows for the past 12 consecutive weeks, the total amount being \$23 billion. To put this in perspective, this amount is almost equivalent to inflows that EM funds saw for whole of 2005 and 2006. With the changing outlook, Indian equity markets too have seen substantial high

FII inflows. Indian equity returns YTD are amongst the best and expectations are building that the flows could continue.

The political stability at the centre and resurgence of risk appetite globally should provide India much needed foreign capital to put itself back on accelerated growth trajectory and correct the fiscal and trade imbalances. Economic recovery and higher growth would have positive implication on corporate results, which are turning out to be largely better than expectations. The earnings upgrade cycle has already begun and hope is building for India to return to 15% earnings growth trajectory. Continuous upgrades in growth and earnings cycle are one of the most important ingredients of a bull market and we have already started seeing signs of the same.

In terms of our portfolio, our allocation to mid-cap stocks has gone up significantly. We see increasing attraction to mid & small caps, where valuations are still cheap and economic recovery would provide the much-needed platform for faster earnings improvement. In terms of sectors, we are overweight in private sector banks, cement, construction and consumer staples. Our underweight sectors continue to be software services, oil marketing companies and real estate. On balance, we believe, the portfolio is well positioned in the current market environment.

Jayesh Gandhi

Lead Portfolio Manager, Multi/Mid Cap Equities

Morgan Stanley Short Term Bond Fund

(An open-ended Debt Fund)

Details as on May 29, 2009

Portfolio

Security Description	Rating	% of Total Net Assets
Money Market Instruments		25.06%
ICICI Bank Limited	PR1+	8.47%
Reliance Capital Limited	A1+	8.43%
UCO Bank	P1+	8.15%
PSU/PFI Bonds/Banks		9.34%
Rural Electrification Corporation Limited	AAA	6.35%
National Bank for Agriculture & Rural Development	AAA	2.99%
Floating Rate Instruments		8.51%
Mahindra & Mahindra Financial Service Limited	P1+	8.51%
Corporate Debt		5.64%
Housing Development Finance Corporation Limited	AAA	5.64%
Cash & Current Assets		51.45%
Grand Total		100.00%

Rating Profile

Rating Category	
AAA	48.56%
Cash & Current Assets	51.45%
Grand Total	100.00%

Asset Allocation

ASSET CLASS	
Money Market Instruments	25.06%
PSU/PFI Bonds/Banks	9.34%
Floating Rate Instruments	8.51%
Corporate Debt	5.64%
Cash & Current Assets	51.45%
Grand Total	100.00%

Fund Features:

Investment Objective:

The investment objective is to generate income from a diversified portfolio of short to medium term debt and money market securities.

Benchmark Index:

CRISIL Short-Term Bond Fund Index

Plans/Options and NAV:

Institutional Plus Plan

Weekly Dividend	
Reinvestment:	9.9994
Monthly Dividend	
(Payout and Reinvestment):	9.9994
Growth:	9.9994

Regular Plan

Monthly Dividend	
(Payout and Reinvestment):	9.9990
Growth:	9.9990

Expense Ratio:

Institutional Plus Plan	0.63%
Regular Plan	0.93%

Average Maturity: 7.21 months

Modified Duration: 0.49 years

Yield to Maturity: 3.92%

Rating:

Credit risk rating mfAAA by ICRA*

Minimum Investment Amount:

Lumpsum:

Regular Plan - Rs. 5,000/- plus in multiples of Re. 1/-
Institutional Plus Plan - Rs. 50 lacs plus in multiples of Re. 1/-
SIP: Rs. 1,000/- via minimum 6 installments in Regular Plan only

Load Structure:

Entry Load: Nil

Exit Load: Nil

Date of Allotment:

May 26, 2009

Fund Manager:

Ritesh Jain

Fund AUM:

Rs. 176.22 crore

*ICRA has assigned the "Credit Risk Rating mfAAA" to Morgan Stanley Short Term Bond Fund which means that Morgan Stanley Short Term Bond Fund carries the lowest credit risk, similar to that associated with long-term debt obligations rated in the highest-credit-quality category. This rating should however, not be construed as an indication of the performance of the aforesaid Fund or of volatility in its returns. Further, the above rating should not be treated as ICRA's recommendation to buy, sell or hold the units issued under the said Fund.

Morgan Stanley Growth Fund

(An open-ended Equity Fund)

Details as on May 29, 2009

Portfolio (✓ Top Ten Holdings)

Industry Classification	Security Description	% of Total Net Assets
Banks		31.37%
	✓ HDFC Bank Limited	9.48%
	✓ State Bank of India	7.76%
	✓ ICICI Bank Limited	3.64%
	Bank of Baroda	3.40%
	Axis Bank Limited	2.89%
	Bank of India	2.75%
	Union Bank of India	1.45%
Petroleum Products		9.26%
	✓ Reliance Industries Limited	7.28%
	Hindustan Petroleum Corporation Limited	1.98%
Industrial Capital Goods		7.80%
	✓ Bharat Heavy Electricals Limited	7.80%
Construction		7.35%
	✓ Unitech Limited	6.27%
	The Phoenix Mills Limited	1.08%
Software		6.98%
	✓ Infosys Technologies Limited	5.22%
	Geodesic Limited	1.76%
Consumer Non Durables		6.43%
	ITC Limited	3.08%
	Nestle India Limited	2.85%
	Balrampur Chini Mills Limited	0.50%
Auto		5.84%
	✓ Hero Honda Motors Limited	5.84%
Cement		5.36%
	✓ Jaiprakash Associates Limited	4.27%
	The India Cements Limited	1.09%
Diversified		3.64%
	✓ Hindustan Unilever Limited	3.64%
Telecom - Services		3.13%
	Bharti Airtel Limited	3.13%
Construction Projects		2.63%
	Larsen and Toubro Limited	2.63%
Pesticides		2.07%
	United Phosphorus Limited	2.07%
Media & Entertainment		1.94%
	Deccan Chronicle Holdings Limited	1.43%
	Television Eighteen India Limited	0.51%
Power		1.46%
	Jyoti Structures Limited	1.46%
Industrial Products		1.29%
	Ess Dee Aluminium Limited	1.29%
Cash and other assets		3.45%
Grand Total		100.00%

Performance (in %)

Period	Fund Returns*	BSE 100
Absolute returns during the half year [(+) (-)]	56.83	65.64
Absolute returns during the trailing year [(+) (-)]	-15.72	-12.24
Compounded Annualised Growth Rate		
(i) Last 3 years	5.14	12.27
(ii) Last 5 years	22.35	24.72
(iii) Since the launch of the scheme (18th February 1994)	12.74	9.51

Past performance may or may not be sustained in future. *Performance of the fund (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.

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. 46.562 per unit
Dividend* Rs. 15.171 per unit
*option introduced on Jan 19, 2009

Expense Ratio:

1.94% of average daily net assets

Portfolio Turnover:

0.74

Volatility Measures:

(for trailing 3 year period)
Standard Deviation 10.09%
Beta 0.93
Sharpe Ratio – 0.05

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. 1954.82 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 May 29, 2009

Portfolio (✓ Top Ten Holdings)

Industry Classification	Security Description	% of Total Net Assets
Banks		15.76%
	✓ ICICI Bank Limited	5.12%
	✓ HDFC Bank Limited	3.01%
	✓ AXIS Bank Limited	2.34%
	YES Bank Limited	1.89%
	Kotak Mahindra Bank Limited	1.20%
	Bank of Baroda	1.15%
	Federal Bank Limited	1.05%
Consumer Non Durables		10.45%
	✓ ITC Limited	3.37%
	✓ Marico Limited	2.44%
	Shaw Wallace and Company Limited	1.69%
	Dabur India Limited	1.68%
	Britannia Industries Limited	1.27%
Cement		9.11%
	Shree Cements Limited	2.22%
	Ultra Tech Cement Limited	2.11%
	Orient Paper and Industries Limited	1.93%
	Jaiprakash Associates Limited	1.91%
	Grasim Industries Limited	0.94%
Petroleum Products		8.02%
	✓ Reliance Industries Limited	6.79%
	Reliance Petroleum Limited	1.23%
Power		7.54%
	✓ GVK Power and Infrastructure Limited	2.75%
	✓ Reliance Infrastructure Limited	2.70%
	Power Grid Corporation of India Limited	1.37%
	KEC International Limited	0.72%
Pharmaceuticals		4.67%
	Aurobindo Pharma Limited	1.69%
	Jubilant Organosys Limited	1.10%
	Dr.Reddy's Laboratories Limited	1.00%
	Sun Pharmaceutical Industries Limited	0.88%
Industrial Capital Goods		4.37%
	✓ Bharat Heavy Electricals Limited	2.47%
	Crompton Greaves Limited	1.90%
Telecom - Services		3.84%
	✓ Bharti Airtel Limited	2.91%
	Reliance Communications Limited	0.93%
Construction Projects		3.37%
	Voltas Limited	2.04%
	Larsen and Toubro Limited	1.33%
Software		3.14%
	Infosys Technologies Limited	2.06%
	Tata Consultancy Services Limited	1.08%
Non - Ferrous Metals		2.66%
	Hindustan Zinc Limited	1.53%
	Sterlite Industries (India) Limited	1.13%
Gas		2.63%
	GAIL India Limited	1.52%
	Gujarat State Petronet Limited	1.11%
Finance		2.29%
	Housing Development Finance Corporation Limited	2.29%
Transportation		2.12%
	Container Corporation of India Limited	1.07%
	IRB Infrastructure Developers Limited	1.05%
Industrial Products		2.06%
	Sintex Industries Limited	2.06%
Ferrous Metals		1.89%
	Jindal Steel and Power Limited	1.89%
Oil		1.82%
	Shiv Vani Oil and Gas Exploration Services Limited	1.82%
Computers - Hardware		1.56%
	Redington India Limited	1.56%
Auto Ancillaries		1.11%
	Exide Industries Limited	1.11%
Chemicals		1.01%
	Godrej Industries Limited	1.01%
Diversified		1.00%
	Hindustan Unilever Limited	1.00%
Construction		0.95%
	B L Kashyap and Sons Limited	0.95%
Telecom - Equipment & Accessories		0.05%
	Sterlite Technologies Limited	0.05%
Cash and other assets		8.58%
Grand Total		100.00%

Performance (in %)

Period	Fund Returns	BSE 200
6 months*	58.93	66.88
1 year*	-9.29	-13.02
Compounded Annualised Return		
Since Inception (3rd April, 2008)	-5.83	-7.9

Past performance may or may not be sustained in future. *Absolute returns of the growth option are computed. Since Inception returns are calculated on Rs. 10/- invested at inception.

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. 9.327 per unit
Dividend Rs. 9.327 per unit

Expense Ratio:

2.50% of average daily net assets.

Portfolio Turnover:

2.41

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. 97.42 crore

Morgan Stanley Mutual Fund Branch Offices

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