

## Quarterly Newsletter

Dear Unit Holder,

While 2007 turned out to be another banner year for emerging markets such as India, there was a surprisingly high degree of angst in the financial community regarding the market's behavior. Many fund managers significantly under-performed their respective benchmarks as they struggled to cope with the change in regime.

Financial professionals are typically trained to assume that valuations are all-important in determining the price of any asset and that there is a strong tendency for mean-reversion in financial variables. However, different rules apply at different times in driving performance and the trend of late has been about the so-called expensive stocks and markets getting even more richly valued with few takers for the cheap stuff. Valuations have been almost irrelevant and it has been about growth and price momentum.

The impulsive reaction in much of the financial community is to dub such price action irrational and the hope there is that markets will at least return to behaving as they generally do, when buying low Price-to-Earnings, or P/E, stocks works. But if history is any guide, value-based buying is unlikely to stage a comeback until the bull market ends. Markets are following a classic pattern. Value-oriented buying dominates the first phase of a bull-run as the growth in earnings is usually strong and broad-based.

Investors do not like to pay any premium valuations in an environment where earnings growth is so plentiful. However, during the later stages of a bull market, stocks considered to have the best long-term growth potential command an increasingly greater premium. This is either because earnings growth gets scarce with the economic cycle weakening or because excitement builds up about some asset class exhibiting unusually strong growth.

In our view, financial markets are currently in that later stage of the cycle when overall earnings growth is weakening globally but remains relatively strong in many emerging markets. As a result, investors are willing to pay a premium for all assets related to the growth story in developing countries.

The question then is, how long will such patterns last? This regime is likely to continue until the next major downturn arrives, which in turn is precipitated by monetary policy tightening to contain high inflation. What bears close watching then are inflation trends in both emerging markets and the US.

If policymakers-particularly in the world's main growth engine, China-are forced to shift their priority towards curbing inflation rather than letting their economies boom, then the emerging market story too will crack and growth will re-couple on the downside across regions. For the time being, inflation is concentrated in food prices and that in the past at least has proven to be a transitory phenomenon. The operating assumption then is that decoupling is still at work and the rules of engagement relevant in 2007 are still applicable.

Our portfolio is broadly positioned for a continuation in the sector leadership. While some laggard stocks and sectors may play catch up it is unlikely that there will be any major shift in investment themes. While that leads to a temptation to chase stocks purely driven by momentum we have been careful about not owning companies based on just that criteria. Quality of earnings still matters, it's just that investors have to be prepared to assign higher valuations to such earnings.

**Sridhar Sivaram and Amay Hattangadi**

Portfolio Managers

January 18, 2008

**Ruchir Sharma**

Head, Global Emerging Markets

### MSGF NAV Performance v/s Benchmark Indices (as of December 31, 2007)

Period	MSGF NAV*	BSE Sensex	BSE 100
Returns during the trailing year [ (+) (-) ]	46.47	47.15	59.74
Returns during the half year [ (+) (-) ]	33.08	38.47	46.66
<b>Compounded Annualised Growth Rate</b>			
(i) Last 3 years	43.40	45.38	46.05
(ii) Last 5 years	45.69	43.13	46.29
(iii) Since the launch of the scheme (January 6, 1994)	17.73	13.03	14.15

Past performance is no indication of future performance and may not necessarily provide basis for comparison with other investments.

Past performance may or may not be sustained in future. Distribution tax has been included in the calculation of returns.

All returns except for half year and one year are compounded annualised returns.

\* 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.

MSGF NAV as of December 31, 2007 is Rs. 72.97 per unit.

## Morgan Stanley Growth Fund

Holdings of MSGF as of December 31, 2007		
Sr. No.	Name of the Security	% of Total Net Assets
1	A B B	7.09%
2	Reliance Industries	6.25%
3	HDFC Bank **	6.01%
4	Bharat Heavy Electricals	6.00%
5	Aban Offshore	5.09%
6	Bharti Airtel	3.99%
7	Larsen & Toubro	3.64%
8	Axis Bank	3.60%
9	Infosys Technologies	3.14%
10	Pantaloon Retail (India)	2.91%
11	Maruti Suzuki India	2.79%
12	Tata Power	2.78%
13	Steel Authority of India	2.67%
14	Glenmark Pharma	2.45%
15	Welspun Gujarat	2.35%
16	Nestle India	1.87%
17	Deccan Chronicle	1.85%
18	Praj Industries	1.79%
19	Zee Entertainment Enterprises	1.73%
20	Jyoti Structures	1.73%
21	Cairn India	1.60%
22	Reliance Communication	1.55%
23	Sesa Goa	1.54%
24	Geodesic Information Systems	1.51%
25	Phoenix Mills	1.49%
26	Mundra Port and Special Economic Zone	1.44%
27	India Cements	1.40%
28	Ess Dee Aluminium	1.38%
29	Marico Industries	1.35%
30	Jaiprakash Associates	1.27%
31	Infrastructure Development Finance Co	1.27%
32	Jagran Prakashan	1.25%
33	Gujarat Fluorochemicals	1.12%
34	Biocon Limited	1.12%
35	GVK Power & Infrastructure	1.11%
36	New Delhi Television	1.08%
37	HCL Technologies	1.06%
38	Television Eighteen India	1.01%
39	Bharat Petroleum Corporation	0.87%
40	Balkrishna Industries	0.84%
	Other Securities	3.50%
	Cash and Cash Equivalents	1.51%
	<b>Total Net Assets</b>	<b>100.00%</b>

\*\* Includes Local Shares and ADRs / GDRs

### UNAUDITED FINANCIAL RESULTS FOR THE PERIOD ENDED DECEMBER 31, 2007

ABRIDGED BALANCE SHEET AS AT DECEMBER 31, 2007		ABRIDGED REVENUE ACCOUNT FOR THE PERIOD ENDED DECEMBER 31, 2007	
As at December 31, 2007 (Rs. in lacs)		April 1, 2007 to December 31, 2007 (Rs. in lacs)	
<b>LIABILITIES</b>		<b>1. INCOME</b>	
1. Unit Capital	60,018	1.1 Dividend	1569
2. Reserves & Surplus		1.2 Interest	560
2.1 Unit Premium Reserve		1.3 Net Profit on sale/redemption of Investments (other than inter-scheme transfer/sale)	59,416
2.2 Revenue Reserves	377,955	1.4 Other Income (Provisions Written Back As No Longer Required)	-
3. Current Liabilities & Provisions	3,246	1.5 Realised Gain/(Loss) on Foreign Currency Transactions	(616)
<b>TOTAL</b>	<b>441,219</b>	<b>TOTAL</b>	<b>60,929</b>
<b>ASSETS</b>		<b>2. EXPENSES &amp; LOSSES</b>	
1. Investments		2.1 Management, Trusteeship, Administrative & other Operating Expenses	3,600
1.1 Equity & Preference Shares	431,374	2.2 Provision for Doubtful Deposits/Current Assets/ Investments	-
1.2 Debenture & Bond Listed/Awaiting Listing on Recognised Stock Exchange	-	<b>TOTAL</b>	<b>3,600</b>
1.3 Government Securities ( Treasury ) Bills	-	Excess of Income Over Expenses & Losses	57,329
1.4 Others (Units of Mutual Fund)	-	Net Change in Unrealised Appreciation /(Depreciation) in Value of Investments and Foreign Currency Denominated Assets and Liabilities	95,226
2. Deposits	6,547	<b>Net Surplus/(Deficit) transferred to Revenue Reserve</b>	<b>152,555</b>
3. Other Current Assets	3,298		
<b>TOTAL</b>	<b>441,219</b>		
<b>RECONCILIATION TO NET ASSET VALUE PER UNIT</b>			
Net Assets as per Balance Sheet (Total Assets less Current Liabilities and Provisions)	437,974.99		
Number of Units in Issue (in Lacs)	6002		
Net Asset Value per Unit (in Rs.)	72.97		

**Notes :** 1) Investments are stated at market / fair value at the Balance Sheet date / valuation date. Investments have been valued in accordance with the guidelines for valuation of securities for Mutual Funds dated September 18, 2000 and amendments thereto, as applicable by the Securities and Exchange Board of India (SEBI) and approved by the Board of Trustees. 2) Disclosure Under Regulation 25(8) of the Securities And Exchange Board Of India (Mutual Funds) Regulations, 1996 as amended. During the quarter ended December 2007, Morgan Stanley Investment Management India Pvt. Ltd. (MSIMPL) has not utilized the services of the Sponsor or any of its affiliates, employees or their relatives for the purpose of any securities transaction as specified under Regulation 25(8) of SEBI Regulations. However, during the period the Fund subscribed to the issue of equity shares of the following companies where Morgan Stanley India Company Private Limited (formerly known as JM Morgan Stanley Private Limited), an associate of MSIMPL was the lead manager/co-manager to these issue. The subscriptions were made through non affiliate entities as given: Name of Company: MUNDRA PORT AND SEZ LIMITED; Entities through whom investment made: Merrill Lynch; Amount Invested (Rs in crores): 3.92. 3) In terms of Regulation 25(11) of SEBI Regulations, no investments have been made in companies, which have invested more than 5% of the NAV of the Scheme. 4) No unit holders hold over 25% of the NAV of the Scheme as at December 31, 2007. 5) The Scheme has not declared any bonus, not borrowed any money, not invested in derivative products during the quarter and has no deferred revenue expenditure. 6) No changes have been carried out in the accounting policies during the quarter.

**Name of the Mutual Fund** - Morgan Stanley Mutual Fund

**Name of the Scheme** - Morgan Stanley Growth Fund

**Investment Objective** - Morgan Stanley Growth Fund is a close-ended Fund with long-term capital appreciation as its investment objective. The Scheme will seek to achieve this objective through investment, primarily in equity and equity-related securities of Indian companies.

**Registrars to the Fund: Karvy Computershare Private Limited**  
Unit: Morgan Stanley Growth Fund, 21 Avenue 4, Street No. 1,  
Banjara Hills, Hyderabad - 500 034. Tel: 040 - 2331 2454, 2332 0251

**Forbes Building, Charanjit Rai Marg, Mumbai 400 001. Tel: 022 - 2209 6600**

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#### Dividend History

Record Date	Date of Declaration	Dividend per unit (Rs.)	NAV as of	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

Unit holders who have either not received or encashed their dividend warrants are requested to forward a duly signed written request to Karvy Computershare Private Limited, at the address mentioned herein, indicating the details of their investment in the fund.

**Risk Factors:** All investments in Mutual Funds and securities are subject to market and other risks and the NAV of units issued under the Scheme can go up or down depending on the factors and forces affecting the securities market. There can be no assurance that the objectives of the Scheme of the fund will be achieved. 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 name of the Scheme does not indicate the quality of the Scheme, its future prospects or returns. Please read the Offer Document before investing. The past performance of the Mutual Funds managed by the Sponsors and their affiliates/associates is not necessarily indicative of the future performance of the Scheme. Investors in the Scheme are not being offered a guaranteed or assured rate of return. The liquidity and valuation of the Scheme's investments due to its holdings of unlisted securities may be affected if they have to be sold prior to their target date of divestment. **Statutory Details:** Morgan Stanley Mutual Fund has been set up as a Trust by Morgan Stanley (liability restricted to the seed corpus contributed). The Board of Trustees of Morgan Stanley Mutual Fund have appointed Morgan Stanley Investment Management Private Limited as the asset management company.

**Morgan Stanley Mutual Fund.** Determined to help you succeed.

**Morgan Stanley**  
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