

# Morgan Stanley Growth Fund

## Quarterly Newsletter

Dear Unit Holder,

It was a back to reality quarter for equities. The runaway bull market of the previous year had raised expectations of a new era for the Indian market and the Sensex was on the verge of making a new high in dollar terms at the beginning of this year. However, once again the Sensex failed to break out of what has been a well-defined trading range for over a decade.

The market's inability to head into new territory perhaps reflects the fact that the much talked about new era for the Indian economy is a bit exaggerated. Most 'incrementally reforming' developing countries, which have seen little change in their trend growth rate in the past few years, have remained stuck in a broad trading range. The last time the Indian stock market moved to a higher trajectory was in the early nineties when meaningful economic reforms were undertaken.

From a portfolio management standpoint, the important lessons to be drawn from the sharp sell-off in the equity market is that investors should return to focusing on company-specific analysis rather than relying on broad brush macro themes to generate returns. A powerful combination of abundant global liquidity, a cyclical economic upturn and ebullient foreign investor sentiment towards India made for spectacular gains in 2003. It was easy to make money in that environment.

Well, the times have changed. Excess liquidity can only take markets that far and the leading suppliers of global liquidity, from the US to China, are in the process of tightening monetary policy. Coincidentally, global growth momentum is waning. This is exactly the opposite of the 'sweet spot' witnessed last year.

While global factors continue to drive emerging markets, the Indian market faces the additional problem of the wrong lessons being drawn from the general election results. The election verdict has been interpreted as a vote against traditional economic reforms. While the Union Budget presented by the new government did allay fears of foreign investors that India was going down the socialistic path, there were few policy measures to suggest economic reforms were accelerating.

In such an environment, our strategy has to be more oriented towards stock selection. India is a very diverse market and it has historically been possible to generate positive returns even if the overall market is range bound. In this regard, we continue to favour long-term growth stories, as reflected in our top holdings. The only sector theme we remain convinced about is power, as we believe that the importance of this sector will continue to grow on the back of governmental initiatives.

Sridhar Sivaram and Amay Hattangadi

July 15, 2004

### MSGF NAV Performance v/s Benchmark Indices (as of June 30, 2004)

Period	MSGF NAV*	BSE Sensex	BSE 100
Returns during the year [ (+) (-) ]	40.26%	32.94%	40.77%
Returns during the half year [ (+) (-) ]	-15.35%	-17.87%	-16.71%
<b>Compounded Annualised Growth Rate</b>			
(i) Last 3 years	23.41%	11.53%	16.26%
(ii) Last 5 years	11.64%	3.12%	7.67%
(iii) Since the launch of the Scheme (1st January 1994)	8.50%	2.60%	3.68%

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 1 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 June 30, 2004 is Rs. 18.24 per unit.

Holdings of MSGF as of June 30, 2004		
Sr. No.	Name of the Security	% of Total Net Assets
1	Hero Honda	6.71%
2	Bharat Heavy Electricals	6.53%
3	State Bank of India	4.49%
4	Infosys Technologies	4.25%
5	Oil and Natural Gas Corporation	4.04%
6	Cipla	3.49%
7	Wipro**	3.34%
8	Grasim Industries	3.15%
9	HDFC Bank **	3.10%
10	ABB	3.09%
11	ACC	2.87%
12	Siemens	2.84%
13	HDFC	2.72%
14	Container Corporation of India	2.38%
15	SAIL	2.35%
16	Hindalco Industries	2.17%
17	MTNL	2.13%
18	Hindustan Lever	2.11%
19	TISCO	2.06%
20	IDBI	1.89%
21	Matrix Laboratories	1.86%
22	Indian Oil Corporation	1.77%
23	Asian Paints	1.73%
24	Glaxosmithkline Pharmaceuticals	1.60%
25	Mahindra & Mahindra	1.46%
26	Sun Pharmaceutical Industries	1.42%
27	Bharat Petroleum Corporation	1.42%
28	Indian Petrochemical	1.41%
29	Amtek Auto	1.35%
30	Hindustan Petroleum Corporation	1.32%
31	Cummins India	1.32%
32	MICO	1.31%
33	Punjab National Bank	1.29%
34	Nestle India	1.23%
35	Neyveli Lignite Corporation	1.20%
36	Alok Industries	1.15%
37	I-Flex Solutions	1.08%
38	Dredging Corporation	1.04%
39	Mphasis BFL	1.01%
40	Ballarpur Industries**	0.95%
	Cash and Others	7.37%
	<b>Total Net Assets</b>	<b>100.00%</b>

\*\* Includes Local Shares and ADRs / GDRs

### UNAUDITED FINANCIAL RESULTS FOR THE PERIOD ENDED JUNE 30, 2004

ABRIDGED BALANCE SHEET AS AT JUNE 30, 2004		ABRIDGED REVENUE ACCOUNT FOR THE PERIOD ENDED JUNE 30, 2004	
As at 30-06-2004 (Rs. in Lacs)		01-04-2004 to 30-06-2004 (Rs. in Lacs)	
<b>LIABILITIES</b>		<b>1. INCOME</b>	
1. Unit Capital	60,018	1.1 Dividend	619
2. Reserves & Surplus		1.2 Interest	79
2.1 Unit Premium Reserve	4,124	1.3 Net Profit on sale/redemption of Investments (other than inter-scheme transfer/sale)	10,680
2.2 Revenue Reserves	45,344	1.4 Realised Gain/(Loss) on Foreign Currency Transactions	(5)
3. Current Liabilities & Provisions	6,113	<b>TOTAL</b>	<b>11,373</b>
<b>TOTAL</b>	<b>115,599</b>	<b>2. EXPENSES &amp; LOSSES</b>	
<b>ASSETS</b>		2.1 Management, Trusteeship, Administrative & other Operating Expenses	489
1. Investments		<b>TOTAL</b>	<b>489</b>
1.1 Equity & Preference Shares	103,358	<b>Excess of Income Over Expenses &amp; Losses</b>	<b>10,884</b>
1.2 Debenture & Bond Listed/Awaiting Listing on Recognised Stock Exchange	124	<b>Net Change in Unrealised Appreciation/(Depreciation) in Value of Investments and Foreign Currency Denominated Assets and Liabilities</b>	<b>(27,223)</b>
1.3 Government Securities (Treasury Bills)	4,923	<b>Net Surplus/(Deficit) transferred to Revenue Reserve</b>	<b>(16,339)</b>
2. Deposits	3,952		
3. Other Current Assets	3,242		
<b>TOTAL</b>	<b>115,599</b>		
<b>RECONCILIATION TO NET ASSET VALUE PER UNIT</b>			
Net Assets as per Balance Sheet (Total Assets less Current Liabilities and Provisions)	109,486		
Number of Units in Issue (in Lacs)	6,002		
Net Asset Value per Unit (in Rs.)	18.24		

**NOTES :** (1) Investments are stated at market/fair value at the Balance Sheet date/valuation date. The 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) The AMC has not utilised the services of the sponsor or any of its affiliate, 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 JM Morgan Stanley Private Limited, an associate of Morgan Stanley Investment Management (MSIM) was the lead manager to the issue. The subscription was made through non affiliate entities as given below.

Name of the Company	Amount Invested (Rs.)	Entities through whom investments made
i) ONGC - under reserved category*	130,043,250	DSP Merrill Lynch Ltd.
ii) NDTV	45,500,000	Kotak Mahindra Capital Company Ltd.

\*Application was made in March 2004. However, the confirmation of allocation of the shares was received in April 2004.

(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 June 30, 2004. (5) The Scheme has not declared any bonus, not borrowed any money, not invested in derivative products during the period and no deferred revenue expenditure. (6) No changes have been carried out in the accounting policies during the period.

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 closed end 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.

#### Dividend History

Record Date	Date of Declaration	Dividend per unit	NAV as of	NAV per unit
July 09, 1999	June 23, 1999	Rs. 0.75	June 25, 1999	Rs. 12.83
April 29, 2000	April 18, 2000	Rs. 0.75	April 20, 2000	Rs. 16.60
June 11, 2001	June 4, 2001	Rs. 1.00	June 06, 2001	Rs. 10.72
May 13, 2004	April 28, 2004	Rs. 1.50	April 29, 2004	Rs. 21.82

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.

**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

**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**  
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