Morgan Stanley
Growth Fund

Quarterly Newsletter

Dear Unit Holder,

It's tempting to believe that despite all the violence in May and June this year, little has changed to disturb the long-term uptrend in emerging markets such as India. After all, the end of any major bull market is typically marked by far greater sociological excesses, much higher valuations, substantial balance-sheet damages and a rapid pick-up in inflation.

Our base-case is that for emerging markets at least, this is 1994 redux. Led by the US Federal Reserve, central banks back then raised interest rates sharply and ended a protracted period of easy money. At the end of that year, asset classes with strong underlying fundamentals (i.e. the US market) were left standing while the liquidity hothouses (i.e. emerging markets) never quite recovered. If emerging markets is the asset class of choice this decade - helped by well-documented underlying economic and political changes - these markets should then resume their long-term uptrend once the monetary adjustment is over.

Still, even if we are right about the 1994 US experience being the relevant parallel, something has changed and what we are likely to see within emerging markets is a period of greater discrimination this year. Signs of differentiation are indeed beginning to surface over the past few days. As the markets settle down in a range following the bounce from very oversold conditions, countries with weaker macroeconomic fundamentals are finding it harder to get off the ground while some markets are now well above their June lows.

Turkey is by far the worst performing market in the world year-to-date and justifiably so. The Turkish equity market is down 25% in dollar terms for 2006 as investors are worried about the country's 7% current account deficit, a return to double-digits inflation and growing political tensions in the country. On the other side of the equation, Russia still tops the performance league tables. The Russian market has generated 30% returns this year on the back of a 10% current account surplus and a better-than-expected domestic political situation. India is now performing in line with the average emerging market despite all the noise related to 'high valuations' as investors find enough quality stocks in this market.

In the first month of the sell-off, quality hardly mattered as a differentiating factor, with many stocks with a steady earnings stream falling to the same extent as cyclical stocks. It appeared that the only operating rule in the global financial marketplace in all the violence was: sell down the most what went up the most. As a result, a few stocks in our portfolio faced the brunt of the sell-off after substantially outperforming the market over the past few years. Our strategy has been to use the sell-off to somewhat rebalance the portfolio by buying quality stocks that suffered collateral damage and selling down some cyclical stocks that might be potentially affected by a mid-cycle slowdown.

Beyond the typical mid-cycle correction, the more important long-term challenge is for growth in developing countries to hold up relatively well following the liquidity withdrawal. That will then go a long way in supporting the structural bull case for emerging markets by showing that the robust economic performance of the past three years was more than just a liquidity-driven cyclical phenomenon.

Sridhar Sivaram and Amay Hattangadi
Portfolio Managers

Ruchir Sharma
Co-Head Global Emerging Markets

July 18, 2006

MSGF NAV Performance v/s benchmark Indices (as of June 30, 2006)

Period	MSGF NAV*	BSE Sensex	BSE 100
Returns during the year [(+) (-)]	42.64%	47.48%	41.63%
Returns during the half year [(+) (-)]	5.17%	12.89%	8.66%
Compounded Annualised Growth Rate			
(i) Last 3 years	45.58%	43.28%	43.55%
(ii) Last 5 years	32.82%	25.14%	26.98%
(iii) Since the launch of the scheme (6th January 1994)	14.06%	8.90%	9.41%

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 June 30th, 2006 is Rs. 40.11 per unit

Holdings of MSGF as of June 30, 2006

Sr. No.	Name of the Security	% of Total Net Assets
1	Bharat Heavy Electricals	10.19%
2	Siemens	6.41%
3	Hindustan Lever	5.62%
4	ABB	5.35%
5	ITC	4.96%
6	Infosys Technologies	4.31%
7	HDFC Bank **	4.24%
8	Hind Construction	3.82%
9	HDFC	2.73%
10	Mahindra & Mahindra	2.65%
11	Wipro **	2.63%
12	Cipla	2.56%
13	ACC	2.46%
14	HCL Technologies	2.43%
15	Punjab National Bank	1.84%
16	Aban Lloyds	1.80%
17	Container Corporation	1.76%
18	NTPC	1.74%
19	Hotel Leela	1.73%
20	UTI Bank	1.60%
21	Aventis Pharma	1.51%
22	Gammon India	1.43%
23	Rico Auto	1.30%
24	Marico Industries	1.24%
25	Glenmark Pharma	1.23%
26	Bharti Airtel	1.22%
27	ICICI Bank	1.21%
28	Pantaloon	1.14%
29	Hero Honda	1.03%
30	Bajaj Hindustan	1.03%
31	State Bank Of India	1.02%
32	Gujarat Ambuja Cement	1.00%
33	Shree Cement	0.93%
34	Geodesic Info System	0.91%
35	Indian Oil Corporation	0.87%
36	Jyoti Structures	0.86%
37	Gujarat Fluorochemicals	0.85%
38	Inox Leisure	0.84%
39	Balkrishna Industries	0.83%
40	Hindalco Industries	0.75%
	Cash and Other Securities	7.97%
	Total Net Assets	**100.00%**

**** Includes Local Shares and ADRs / GDRs**

UNAUDITED FINANCIAL RESULTS FOR THE PERIOD ENDED JUNE 30, 2006

ABRIDGED BALANCE SHEET AS AT JUNE 30, 2006

			As at June 30, 2006 (Rs. in Lacs)
LIABILITIES			
1.	**Unit Capital**		**60,018**
2.	**Reserves & Surplus**		
2.1	Unit Premium Reserve	4,124	
2.2	Revenue Reserves	176,569	180,693
3.	**Current Liabilities & Provisions**		2,752
	TOTAL		**243,463**
ASSETS			
1.	**Investments**		
1.1	Equity & Preference Shares	231,405	
1.2	Government Securities (Treasury Bills)	7,537	238,942
2.	**Deposits**		1,003
3.	**Other Current Assets**		
3.1	Cash & Bank Balances	52	
3.2	Others	3,466	3,518
	TOTAL		**243,463**
	RECONCILIATION TO NET ASSET VALUE PER UNIT		
	Net Assets as per Balance Sheet (Total Assets less Current Liabilities and Provisions)		240,711
	Number of Units in Issue (in Lacs)		6,002
	Net Asset Value per Unit (in Rs.)		40.11

ABRIDGED REVENUE ACCOUNT FOR THE PERIOD ENDED JUNE 30, 2006

		April 1, 2006 to June 30, 2006 (Rs. in Lacs)
1.	**INCOME**	
1.1	Dividend	1,033
1.2	Interest	131
1.3	Net Profit on sale/redemption of Investments (other than inter-scheme transfer/sale)	12,909
1.4	Realised Gain/(Loss) on Foreign Currency Transactions	48
	TOTAL	**14,121**
2.	**EXPENSES & LOSSES**	
2.1	Management, Trusteeship, Administrative & other Operating Expenses	940
	TOTAL	**940**
Excess of Income Over Expenses & Losses		**13,181**
Net Change in Unrealised (depreciation)/appreciation in value of Investments and Foreign Currency Denominated Assets and Liabilities		**(61,681)**
Net Surplus/(Deficit) transferred to Revenue Reserve		**(48,500)**

NOTES : (1) Investments are stated at market / fair value at the Balance Sheet / valuation date. Investment 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. Morgan Stanley Investment Management Private Limited (MSIMPL) has not utilised 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 the Regulation. **(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 unitholders hold over 25% of the NAV of the Scheme as at June 30, 2006. **(5)** The Scheme has not declared any bonus, not borrowed any money, nor invested in derivative products during the period 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 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.

Visit us at www.msgfindia.com
Forbes Building, Charanjit Rai Marg, Mumbai 400 001. Tel: 022 - 2209 6600

EMPOWERING INVESTORS

Morgan Stanley

Fortune 2072

size: 42 x 24 cms.