

Morgan Stanley Growth Fund

Quarterly Newsletter

Dear Unit Holder,

In a typical bull market, a major portion of overall returns are attributed to a rise in the Price-Earnings or PE multiple. However, a defining feature of the current bull market has been the relatively limited increase in the PE ratio, with earnings growth largely driving overall gains.

Investor skepticism over the longevity of the bull-run is a major reason for the limited rise in the PE ratio. There's a strong feeling that 'excessive liquidity' in the system has distorted risk levels and artificially propelled 'risky assets' such as emerging markets higher. Such arguments are now being firmly discredited. Interest rates have risen for several quarters and are close to their long-term averages, when adjusted for inflation, in most parts of the world. Yet, emerging markets have been unaffected by the rate hikes.

The recent surge in the US 10-year government bond yield to above 5% was supposed to sound the death knell for risky assets but that didn't cause too many ripples for emerging markets. Similarly, measures of risk in the US have indeed gone up sharply over the past quarter. The widely followed VIX index, which captures market expectations of future volatility and therefore risk, has risen markedly from nine to 16 since late February and yet emerging markets have headed further north.

However, investor sentiment is known to swing from one extreme to another and it's quite possible that the next big theme on the marketplace could be a transition to viewing emerging markets as a genuine productivity-driven growth story. In such an environment, investors will be willing to pay much higher PE multiples for the asset class and price them at a premium valuation to developed markets. That's what happened in the first half of the 1990s before inherent institutional weaknesses, ranging from poor corporate governance to reform fatigue, drowned the bulls.

In the long run, similar fault lines will trip many developing countries as few nations have the wherewithal to make it to higher stages of development. However, the more relevant point now is that far from being too ebullient about the outlook for emerging markets, most analysts have been stuck in viewing the asset class from the prism of the past and have under-appreciated the structural changes.

It's important to recall that in the previous major peak for emerging markets back in September 1994, the asset class traded at a forward PE ratio of 22 - significantly higher than the currently value of 14. Similarly, India's PE ratio in 1994 was 25. The current fuss over India's PE multiple of 17 is then at best premature. Furthermore, the earnings estimates, which dictate the PE ratio, have been ratcheted down significantly in the past few months. The consensus now expects earnings to rise by 15-17% over the coming year, compared to the 25% annualized pace of the past four years. Therefore, we think there is still scope for the market to move higher on the back of both more multiple expansion and upside surprises in earnings growth.

Sridhar Sivaram and Amay Hattangadi

Ruchir Sharma

Portfolio Managers
July 17, 2007

Head Global Emerging Markets

MSGF NAV Performance v/s Benchmark Indices (as of June 30, 2007)

| Period | MSGF NAV* | BSE Sensex | BSE 100 |
|---|-----------|------------|---------|
| Returns during the trailing year [(+) (-)] | 42.53 | 38.09 | 41.31 |
| Returns during the half year [(+) (-)] | 10.06 | 6.26 | 8.92 |
| Compounded Annualised Growth Rate | | | |
| (i) Last 3 years | 46.35 | 45.10 | 43.73 |
| (ii) Last 5 years | 37.84 | 35.19 | 35.74 |
| (iii) Since the launch of the scheme (6th January 1994) | 15.96 | 10.84 | 11.51 |

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, 2007 is Rs. 54.83 per unit

| Holdings of MSGF as of June 29, 2007 | | |
|---|--|-----------------------|
| Sr. No. | Name of the Security | % of Total Net Assets |
| 1 | Infosys Technologies** | 7.74% |
| 2 | ABB | 7.50% |
| 3 | Bharti Airtel | 6.86% |
| 4 | ICICI Bank | 5.52% |
| 5 | Bharat Heavy Electricals | 5.15% |
| 6 | Aban Offshore | 4.16% |
| 7 | HDFC Bank** | 3.66% |
| 8 | Reliance Communication | 3.04% |
| 9 | Praj Industries | 2.59% |
| 10 | HCL Technologies | 2.40% |
| 11 | Pantaloon Retail (India) | 2.31% |
| 12 | Glenmark Pharma | 2.22% |
| 13 | NTPC | 2.20% |
| 14 | Mahindra & Mahindra | 2.15% |
| 15 | UTI Bank | 1.97% |
| 16 | Deccan Chronicle | 1.91% |
| 17 | Reliance Industries | 1.90% |
| 18 | Maruti Udyog | 1.74% |
| 19 | Punjab National Bank | 1.72% |
| 20 | Geodesic Information Systems | 1.71% |
| 21 | Wipro | 1.65% |
| 22 | Nestle India | 1.60% |
| 23 | Jyoti Structures | 1.56% |
| 24 | Marico Industries | 1.45% |
| 25 | Container Corporation of India | 1.38% |
| 26 | ITC | 1.36% |
| 27 | GVK Power | 1.31% |
| 28 | New Delhi Television | 1.30% |
| 29 | Gujarat Fluorochemicals | 1.24% |
| 30 | Hindustan Construction Co. | 1.20% |
| 31 | Ashok Leyland | 1.17% |
| 32 | Cipla | 1.11% |
| 33 | Gujarat Ambuja Cement | 1.09% |
| 34 | Aventis Pharma | 1.09% |
| 35 | Steel Authority of India | 1.06% |
| 36 | Jagran Prakashan | 0.95% |
| 37 | Tata Consultancy Services | 0.92% |
| 38 | Television Eighteen India | 0.86% |
| 39 | Shree Cement | 0.85% |
| 40 | Balkrishna Industries | 0.70% |
| | Other Securities | 3.71% |
| | Cash and Cash Equivalents | 3.99% |
| | Total Net Assets | 100.00% |
| | ** Includes Local Shares and ADRs / GDRs | |

UNAUDITED FINANCIAL RESULTS FOR THE PERIOD ENDED JUNE 30, 2007

| ABRIDGED BALANCE SHEET AS AT JUNE 30, 2007 | | ABRIDGED REVENUE ACCOUNT FOR THE PERIOD ENDED JUNE 30, 2007 | |
|--|-------------------------------------|---|---|
| | As at 30-Jun-07 (Rs. in Lacs) | | April 01, 2007 to June 30, 2007 (Rs. in Lacs) |
| LIABILITIES | | 1. INCOME | |
| 1. Unit Capital | 60,018 | 1.1 Dividend | 639 |
| 2. Reserves & Surplus | | 1.2 Interest | 240 |
| 2.1 Unit Premium Reserve | 4,124 | 1.3 Net Profit on sale/redemption of Investments (other than inter-scheme transfer/sale) | 11,357 |
| 2.2 Revenue Reserves | 264,911 | | |
| 3. Current Liabilities & Provisions | 269,035 | TOTAL | 12,236 |
| TOTAL | 339,601 | 2. EXPENSES & LOSSES | |
| ASSETS | | 2.1 Management, Trusteeship, Administrative & other Operating Expenses | 1,079 |
| 1. Investments | | TOTAL | 1,079 |
| 1.1 Equity & Preference Shares | 315,935 | Excess of Income Over Expenses & Losses | 11,158 |
| 1.2 Government Securities (Treasury Bills) | 8,906 | Net Change in Unrealised Appreciation /(Depreciation) in Value of Investments and Foreign Currency | |
| 2. Deposits | 4,685 | Denominated Assets and Liabilities | 32,478 |
| 3. Other Current Assets | | Net Surplus/(Deficit) transferred to Revenue Reserve | 43,635 |
| 3.1 Cash & Bank Balances | 58 | | |
| 3.2 Others | 10,017 | | |
| TOTAL | 339,601 | | |
| RECONCILIATION TO NET ASSET VALUE PER UNIT | | | |
| Net Assets as per Balance Sheet | | | |
| (Total Assets less Current Liabilities and Provisions) | 329,053.09 | | |
| Number of Units in Issue (in Lacs) | 6002 | | |
| Net Asset Value per Unit (in Rs.) | 54.83 | | |

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. 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, 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 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 | 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.

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 Mutual Fund - In India Since 1994

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Morgan Stanley