Morgan Stanley
Growth Fund

Quarterly Newsletter

Dear Unit Holder,

The July-September period turned out to be the worst quarter for global equities since the third quarter of 1974 – back when the last great momentum bull market had ended up in tears. The nearly 25% decline in global equities year-to-date puts 2002 on course (barring a fourth quarter miracle) to be the third consecutive year of negative returns for global equities – the first such sequence since the Great Depression.

MSGF NAV Performance v/s Benchmark Indices

Period	MSGF NAV*	SENSEX	BSE 100
Returns during the half year [(+) (-)]	-9.39%	-13.78%	-14.12%
Compounded Annualised Growth Rate			
(i) Last 1 year	19.40%	6.39%	12.30%
(ii) Last 3 years	-10.08%	-14.37%	-12.67%
(iii) Last 5 years	7.80%	-5.18%	-2.73%
(iv) Since the launch of the scheme (1st January, 1994)	3.52%	-2.29%	-1.96%

Past performance is no indication of future performance. 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.

The magnitude of the fall turned so severe in the third quarter that it was virtually impossible for emerging markets to be not dragged down by the general aversion towards equities. In fact, one of the defining features of the past quarter was that the few winning strategies of the year were unwound. So even the star performers like Korea saw the year-to-date gains being completely wiped out.

In the Indian context, this trend of a reversal in the winning strategies manifested itself in share prices of public sector and automobile companies. Though the sell-off in public sector stocks was triggered by the slowdown in the privatization process, the extremely sharp negative reaction that followed could partly be explained by nervous investors keen to cash out at the slightest hint of trouble. Similarly, negative shift at the margin in the dynamics of the two-wheeler industry, following the poor monsoon and signs of increased competition, led to a pronounced correction in the share prices of all the companies in the sector. Like public sector companies, the two-wheeler sector had come to be popular with investors, being a source of positive contribution to performance of many portfolios, and so vulnerable to any trend towards en-cashing profits.

Still, despite of such disappointments, at an overall level the Indian market did manage to relatively outperform most other emerging markets. This is partly because some of the other markets, from a Brazil to Turkey, are in outright crisis mode whereas the economies of Taiwan and Korea are more exposed to the risk of a weak global economy. The growth path of the global economy remains the biggest source of concern for investors and will likely determine if and when global equities find valuation support soon enough.

The Fund has long stayed away from the game of positioning the portfolio in an 'aggressive' or 'defensive' way and we continue to expect the environment to be challenging for equity investing in which companies with strong management and sound business models will hold their own. Accordingly, we are happy to note that even as some of the Fund's profitable positions for the year, like Hero Honda and Container Corporation detracted from the Fund's performance for the past quarter, stocks like SBI and HDFC managed to weather the storm rather well, thereby protecting the portfolio's downside.

We do not see any reason to deviate from the current strategy, which has helped the portfolio consistently outperform the relevant benchmarks over the years, and think that when the markets do turn for the better our portfolio will be able to more than capture the upside.

RUCHIR SHARMA

October 15, 2002

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

Date of declaration	Dividend per unit	NAV as of date	NAV per unit
June 4, 2001	Rs. 1.00	June 6, 2001	Rs. 10.72
April 18, 2000	Rs. 0.75	April 20, 2000	Rs. 16.60
June 23, 1999	Rs. 0.75	June 25, 1999	Rs. 12.83

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Holdings of MSGF as of September 30, 2002

Sr. No.	Name of the Security	% of Total Net Assets
1	State Bank of India	7.45%
2	Infosys Technologies	7.16%
3	Hero Honda	6.93%
4	Wipro **	5.49%
5	Container Corporation of India	4.32%
6	HDFC	3.61%
7	Ranbaxy Laboratories	3.48%
8	Bharat Heavy Electricals	3.33%
9	I T C	3.05%
10	Hindustan Lever	2.98%
11	M T N L **	2.70%
12	Gujarat Ambuja Cement **	2.56%
13	Cipla	2.39%
14	Oil and Natural Gas Corporation	2.24%
15	Reliance Petroleum	2.09%
16	Reliance Industries	2.04%
17	TELCO	2.02%
18	Nestle India	1.97%
19	Dr. Reddy's Laboratories	1.94%
20	HCL Technologies	1.93%
21	Hindalco Industries	1.79%
22	HDFC Bank **	1.79%
23	TISCO	1.73%
24	Colgate Palmolive	1.54%
25	Hindustan Petroleum	1.43%
26	Smithkline Beecham Consumer	1.36%
27	S A I L	1.35%
28	Dabur	1.35%
29	A B B	1.31%
30	Asian Paints	1.29%
31	Britannia Industries	1.11%
32	Tata Power	1.09%
33	Larsen & Toubro	1.08%
34	Bharat Petroleum	1.06%
35	Indo Gulf Corporation	0.89%
36	Cash and Others	10.13%
	Total Net Assets	**100.00%**

** Includes Local Shares and ADRs / GDRs

We wish to remind you that MSGF has paid 3 dividends of Rs. 0.75 per unit on 24.07.1999, Rs. 0.75 on 19.05.2000 and Re. 1.00 on 02.07.2001. Unit holders who have either not received or encashed their dividend warrants are requested to forward a duly signed written request to Karvy Consultants Ltd., at the below mentioned address, indicating the details of their investment in the fund.

Registrars to the Fund : Karvy Consultants Limited, 21, Avenue 4, Street No. 1, Banjara Hills, Hyderabad - 500 034. Tel: 040 - 331 2454, 332 0251.

All investments in Mutual funds and securities are subject to market risks and the NAV of the scheme may go up or down depending upon the factors and forces affecting the securities market. The information is not necessarily indicative of future results and may not necessarily provide basis for comparison with other investments.

Morgan Stanley

Forbes Building, Charanjit Rai Marg, Mumbai 400 001
Tel: 022 - 209 6600

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