

# Morgan Stanley Growth Fund

## Quarterly Newsletter

Dear Unit Holder,

The current popular belief in the equity marketplace is that value investing makes for the most profitable investment strategy and analysts are obsessed with looking at Price/Earnings, or P/E ratios. The strategy of buying low P/E stocks has played out so successfully this decade that analysts think the only game in town is to buy a stock trading at a P/E discount regardless of its long-term growth prospects. Similarly, at a country-level many strategists have been caught out by the strong out-performance of the Indian equity market this year because of its apparently high P/E ratio.

However, what many financial market analysts are forgetting is that no particular style works all the time. If investing were as simple as that, then outperforming the market would be the easiest job. Well, the results are very different. Most money managers are unable to beat the market because they are more often than not playing the game by the most recent operating rules. The problem is rules keep changing almost as soon as they are learnt. So if everyone has learnt that buying low P/E stocks is the way to go, then the odds are that the time is up for such a strategy.

That may well be the message from the marketplace with stocks, sectors and countries offering growth at a reasonable price now beginning to out-perform. Investors are once again focusing on metrics such as return on equity and sustainability of earnings growth. In this regard, it should be no surprise that the Indian market has defied all P/E based pessimistic predictions and been a strong performer this year.

The Indian market may indeed trade at a 50% P/E premium over other emerging markets but it also has a return on equity that is 50% higher than that of the average emerging market. Furthermore, given the relatively less cyclical composition of the Indian equity market, earnings growth has been more stable in India.

A regime shift across the equity spectrum is possibly in the works with large capitalization stocks too starting to outperform across different markets. The valuation gaps between cyclical and stable-growth companies or large and small stocks have narrowed down considerably, implying there's little scope left for value buying. A more eclectic investing strategy needs to be adopted.

To be sure, the investing environment may not completely swing back to the go-go growth years of the 1990s, when investors were willing to pay a substantial premium for companies that showed momentum in earnings growth. However, it's quite likely that the mind-numbing days of blindly buying low P/E stocks is over.

**Sridhar Sivaram and Amay Hattangadi**  
Portfolio Managers

**Ruchir Sharma**  
Head Global Emerging Markets

October 17, 2006

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

Period	MSGF NAV*	BSE Sensex	BSE 100
Returns during the trailing year [ (+) (-) ]	36.08%	44.24%	38.58%
Returns during the half year [ (+) (-) ]	-2.01%	10.41%	7.18%
Compounded Annualised Growth Rate			
(i) Last 3 years	41.55%	40.89%	39.83%
(ii) Last 5 years	40.08%	34.67%	36.97%
(iii) Since the launch of the scheme (6th January 1994)	15.23%	10.09%	10.61%

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 September 30, 2006 is Rs. 47.22 per unit

**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.

**Interim Dividend Declaration** - The Board of Trustees of Morgan Stanley Mutual Fund (MSMF) at their meeting held on October 13, 2006 approved and declared an interim dividend of Rs. 2 per unit in Morgan Stanley Growth Fund (MSGF). The record date for the purpose of distribution of interim dividend is October 27, 2006. **The NAV of the scheme, pursuant to payment of dividend would fall to the extent of dividend payout and statutory levy (if applicable). Past performance may or may not be sustained in future.**

#### 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.

Visit us at [www.msgfindia.com](http://www.msgfindia.com)

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



Holdings of MSGF as of September 30, 2006		
Sr No.	Name of the Security	% of Total Net Assets
1	Bharat Heavy Electricals	9.76%
2	Siemens	5.14%
3	Infosys Technologies	5.13%
4	Hindustan Lever	4.89%
5	ABB	4.89%
6	ITC	4.70%
7	HDFC Bank**	4.12%
8	Bharti Airtel	3.01%
9	Punjab National Bank	2.83%
10	HDFC	2.74%
11	Cipla	2.65%
12	ACC	2.64%
13	Mahindra & Mahindra	2.46%
14	HCL Technologies	2.25%
15	Hindustan Construction Co.	2.10%
16	Aban Loyd Chiles Offshore	2.01%
17	NTPC	1.98%
18	Wipro	1.98%
19	UTI Bank	1.93%
20	Hotel Leelaventure	1.86%
21	Pantaloon Retail (India)	1.63%
22	State Bank Of India	1.49%
23	ICICI Bank	1.48%
24	Hindalco Industries	1.43%
25	Aventis Pharma	1.41%
26	Gammon India	1.28%
27	Rico Auto Industries	1.28%
28	Marico Industries	1.25%
29	Container Corporation of India	1.20%
30	Gujarat Fluorochemicals	1.11%
31	Glenmark Pharma	1.09%
32	Shree Cement	1.02%
33	Jyoti Structures	1.00%
34	Gujarat Ambuja Cement	1.00%
35	Indian Oil Corporation	0.97%
36	Geodesic Information Systems	0.89%
37	Inox	0.85%
38	New Delhi Television	0.79%
39	Himatsingka Seide	0.78%
40	Bajaj Hindusthan	0.72%
	Cash and Other Securities	8.26%
	<b>Total Net Assets</b>	<b>100.00%</b>
	<b>** Includes Local Shares and ADRs / GDRs</b>	

#### 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