

PORTFOLIO MANAGERS' LETTER

For the period ended December 31, 2001 the Net Asset Value ("NAV") of the Morgan Stanley Growth Fund ("Fund") rose by 5.4% while the benchmark indices – BSE 200 and S&P CNX 500 fell by 4.5% and 3.5% respectively. For the one year ended December 31, 2001 the Fund's NAV has fell by 16.2% while the BSE 200 fell by 21.9% and S&P CNX 500 by 23.3% (See Table 1 for details)

In the immediate aftermath of September 11, several extreme arguments were put forth on how the world had changed following the tragedy. Instead, as reflected in the stunning rally global financial markets have staged over the past four months, September 11 made for a significant transformation. The global economy was in trouble prior to September 11 but following that event economic policymakers across the world went into stimulus over-drive to more than prevent any growth collapse. The policy efforts appear to have succeeded and most investors are now looking at 2002 as a year of prospective gains.

The year 2001 was otherwise one of the most difficult years for equity investors in recent history with global markets going through their worst phase since 1973-74. The severity of declines was such that it was virtually impossible for any equity mutual fund to generate positive returns. Our strategy was to stick with companies placing importance on corporate governance and management quality that in turn would fit in with our global sector calls. The importance of the latter in the overall investment process cannot be exaggerated as the past few years have dramatically changed the characteristics of the Indian market.

The Indian market now looks and behaves like other major global markets. The correlation between India's and the rest of the world's equity markets (led by the US) is also no longer restricted to sectors like technology. This correlation is also seen in the telecom, financial and industrial sectors. Even the largely domestic oriented consumer sector in the Indian market moves more in line with global trends. A major reason for the strong overall correlation is that the Indian market's composition (on a sector-wide basis) is quite similar to the major global indices. The relative weights of technology, pharmaceuticals, energy and even the overall consumer sector in the Indian market are near identical to the world index. There are glaring exceptions like financials, where the sector weight in India is half that of the world and emerging market indices. But if the past is any guide, then the odds are the weights will get more aligned in the coming years with the financials in the Indian market appreciating more on a relative basis. Therefore, we continue to have a structural overweight in the financial sector led by State Bank of India (SBI). There are other reasons as well for the overweight in the sector including compelling valuations, a structural decline in the interest rate regime and unrecognized gains in the large bond portfolios.

Another sector in which we have moved to an overweight position is basic materials. If indeed a new bull market is underway, premised on a global economic recovery, then the commodity sector is probably the place to be. Commodities have seen the maximum capital discipline over the past decade and have the greatest operating leverage and so a revival in growth will mean disproportionate benefits for commodity sector. Of course, if expectations of a 2002 recovery are dashed, and so far it is not a done deal, then commodities will suffer but then so will the entire equity market universe.

RUCHIR SHARMA
PORTFOLIO MANAGER

Date: January 21, 2002

UNAUDITED FINANCIAL STATEMENTS

ABRIDGED BALANCE SHEET AS AT DECEMBER 31,2001

**As at 31-12-2001
(Rs. in Lacs)**

LIABILITIES

1 Unit Capital

| | | |
|-------------------------------------|---------------|--------|
| 1.1 Initial Contribution by settlor | 5 | |
| 1.2 Unit Capital | <u>65,429</u> | 65,434 |

2 Reserves & Surplus

| | | |
|--------------------------|--------------|-------|
| 2.1 Unit Premium Reserve | 3,808 | |
| 2.2 Revenue Reserves | <u>2,504</u> | 6,312 |

3 Loans & Borrowings

| | | |
|-----------------|----------|---|
| 3.1 From Banks | - | |
| 3.2 From Others | <u>-</u> | - |

4 Current Liabilities & Provisions

| | | |
|---|--------------|-------|
| 4.1 Provision for loss/depreciation in value of Investments | - | |
| 4.2 Provision for doubtful Income/Deposits | - | |
| 4.3 Proposed Income Distribution | - | |
| 4.4 Other Current Liabilities & Provisions | <u>1,502</u> | 1,502 |

TOTAL

73,248

ASSETS

1 Investments

| | | |
|--|----------|--------|
| 1.1 Equity & Preference Shares | 67,698 | |
| 1.2 Privately Placed Debentures/Bonds | | |
| 1.3 Debenture & Bond Listed/Awaiting Listing on Recognised Stock Exchange | 15 | |
| 1.4 Term Loans | - | |
| 1.5 Government Securities | - | |
| 1.6 Others | <u>5</u> | 67,718 |

| | | |
|---|--------------|----------------------|
| 2 Deposits | | |
| 2.1 With Scheduled Banks | 4,350 | |
| 2.2 With Others | <u>-</u> | 4,350 |
| 3 Other Current Assets | | |
| 3.1 Cash & Bank Balances | 1 | |
| 3.2 Others | <u>1,179</u> | 1,180 |
| 4 Fixed Assets (At depreciated value) | | - |
| 5 Deferred Revenue Expenditure (to the extent not written off) | | <u>-</u> |
| TOTAL | | <u><u>73,248</u></u> |

RECONCILIATION TO NET ASSET VALUE PER UNIT

| | |
|--|--------|
| Net Assets as per Balance Sheet (Total Assets less Current Liabilities & Provisions and Settlor's Contribution) | 71,741 |
| Number of Units in Issue (in Lacs) | 6,543 |
| Net Asset Value per Unit (in Rs.) | 10.96 |

ABRIDGED REVENUE ACCOUNT FOR THE PERIOD APRIL 01, 2001 to DECEMBER 31,2001

| | 01-04-2001 to 31-12-2001 (Rs. in Lacs) |
|--|---|
| 1 INCOME | |
| 1.1 Dividend | 1,587 |
| 1.2 Interest | 292 |
| 1.3 Net Profit on sale/redemption of Investments (other than inter-scheme transfer/sale) | - |
| 1.4 Net Profit on inter-scheme transfer/sale of Investments | - |
| 1.5 Other Income | - |
| 1.6 Realised Gain on Foreign Currency Transactions | 9 |

| | | |
|--------------|---|-----------------|
| TOTAL | | 1,888 |
| 2 | EXPENSES & LOSSES | |
| 2.1 | Management, Trusteeship, Administrative & other Operating Expenses | 1,014 |
| 2.2 | Provision for Doubtful Income | 0 |
| 2.3 | Provision for Doubtful Deposits/Current Assets | - |
| 2.4 | Net Loss on sale /redemption of Investments (other than inter-scheme transfer/sale) | 14,403 |
| 2.5 | Net Loss on inter-scheme transfer/sale of Investments | - |
| 2.6 | Realised Loss on Foreign Currency Transactions | - |
| TOTAL | | 15,417 |
| | Excess of Income Over Expenses & Losses | (13,529) |
| | Interim dividend paid | - |
| | Tax paid on dividend (@ 11% on dividend amount) | - |
| | Net change in unrealised depreciation/appreciation of investments | 15,547 |
| | Net Surplus/(Deficit) transferred to Revenue Reserve | 2,018 |

FUND PERFORMANCE:

Table 1

| Calculation of MSGF NAV performance No.s | NAV | BSE 200 | S&P CNX500 |
|--|------------|----------------|-----------------------|
| Returns during the half year [(+) (-)] | 5.4% | -4.5% | -3.5% |
| Compounded Annualised Growth Rate | | | |
| (i) Last 1 year | -16.2% | -21.9% | -23.3% |
| (ii) Last 3 years | 11.8% | 4.0% | 6.1% |
| (iii) Last 5 years | 11.8% | 2.2% | 3.4% |
| (iv) Since the launch of the scheme (1st January 1994) | 3.5% | -3.7% | -4.4% |

Key notes:

- Top 25 securities of MSGF accounts for 77.85% of total portfolio. Approximately 96% of the portfolio is held in Dematerialized form.

- The total cost of Investments and market value as at December 31, 2001 in ADR/GDR's of Indian Companies amounted to approx. Rs. 38.51 crores Rs. 36.15 crores respectively against the approved limit of Rs. 101.85 crores. Further RBI has extended the approval to invest in ADR/GDR's upto September 17, 2002.
- Approximately 95 % of the dividend declared in July 2001 encashed by the MSGF Investors. MSIM are taking continuous steps to encourage remaining investors to claim unpaid dividends.
- Further to the approval of the Board of Trustees in their meeting held on August 18, 2000, we have to inform you that, Morgan Stanley Investment Management is in the process of setting infrastructure and operation modalities to enable MSGF to invest in derivative products.
- In order to expedite speedier credit of the dividend proceeds, we request the unit holders to furnish the Bank account details to Karvy Consultants at the below mentioned address.
- We wish to remind you that MSGF has paid 3 dividends of Rs. 0.75 per unit on 24/7/1999, Rs. 0.75 on 19/05/2000 and Rs. 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.

Karvy Consultants Limited
Unit: Morgan Stanley Growth Fund
 46, Avenue 4, Street No. 1
 Banjara Hills
 Hyderabad – 500 034

| Morgan Stanley Growth Fund | | |
|--|-----------------------------|------------------------------|
| Top 25 holdings as on December 31, 2001 | | |
| Sr No. | SECURITY DESCRIPTION | % of Total Net Assets |
| 1 | Hero Honda | 8.55% |
| 2 | Infosys Technologies | 6.83% |
| 3 | Wipro * | 5.82% |
| 4 | State Bank of India * | 5.47% |
| 5 | HDFC | 5.02% |
| 6 | HDFC Bank * | 4.23% |
| 7 | Container Corporation | 3.93% |
| 8 | M T N L * | 3.09% |
| 9 | DR. Reddy Laboratories * | 3.03% |
| 10 | I T C | 3.02% |
| 11 | Hindustan Lever | 2.98% |
| 12 | Gujarat Ambuja Cement * | 2.94% |
| 13 | Cipla | 2.68% |
| 14 | Bharat Heavy Electricals | 2.20% |
| 15 | Smithkline Beecham Consumer | 1.95% |
| 16 | Reliance Petroleum | 1.89% |
| 17 | Dabur | 1.84% |

| | |
|------------------------|---------------|
| 18 Tata Power | 1.70% |
| 19 Colgate Palmolive | 1.68% |
| 20 Hindalco | 1.64% |
| 21 Hindustan Petroleum | 1.61% |
| 22 HCL Technologies | 1.47% |
| 23 Reliance Industries | 1.45% |
| 24 Cummins | 1.44% |
| 25 TELCO | 1.40% |
| Total | 77.85% |

*Includes local shares and ADR's/GDR's