

# Morgan Stanley Growth Fund

## Quarterly Newsletter

Dear Unit Holder,

It's back to the days of cash is trash. As any attribution analysis would show, cash has been the largest negative contributor to performance in any equity portfolio over the past few months. With the opportunity cost of holding cash so high in a runaway, broad-based bull market, portfolio managers across the world currently have the lowest cash holdings in recent memory.

Given our style of investing, which is to perennially worry about risks, we have been prudent when it comes to shunning of cash and when we scroll down the list of our equity holdings we are still comfortable with the valuations of our core stocks. The underlying earnings momentum is strong, driven by one of the most powerful domestic and global economic recoveries presently underway.

What is important though, particularly when sentiment is so ebullient, is to keep track of the fundamental drivers of the bull market. Here in India, the temptation is to believe that this new dawn for equities is specific to the country. While there are some distinguishing factors that favour Indian equity out-performance, it is more than just coincidence that the defining characteristics of the bull market are common to those cited in almost every emerging market in the world.

The macroeconomic profile is similar across emerging markets, with growth accelerating, inflation dormant and liquidity abundant. From Brazil to Taiwan, foreign fund flows have powered the rally and retail investors have shown greater reluctance to participate. Corporate governance has improved in many economies with promoters respecting shareholder wealth more after they were all starved of capital for many years following a capex binge. The IPO pipeline is now building rapidly from China to Egypt and India too should see virtually an IPO a week in the months ahead.

Many analysts still don't fully comprehend the deep effect global trends have on the local marketplace. For instance, the sharp rally in commodity stocks, the out-performance of small-cap stocks over large-cap stocks and the search for exotic ideas across the world, seemingly very different themes in play, are in a large way being driven by the extremely accommodative monetary policies of the US and China.

It is critical then to keep a watch on such variables apart from continuing with the usual focus on company analysis. Looking at the portfolio on a sector-basis, our biggest overweight is now in the power sector where our basket comprises of BHEL, ABB, Siemens and Neyveli Lignite. Based on our company analyses, our largest overweight positions are SBI, Hero Honda and Container Corporation. At this stage, we remain mindful of the global risks though, and any change in the fundamental drivers of the market would have us running for the cover of cash.

**RUCHIR SHARMA**

January 16, 2004

### MSGF NAV Performance v/s Benchmark Indices (as of December 31, 2003)

Period	MSGF NAV*	BSE Sensex	BSE 100
Returns during the year [ (+) (-) ]	85.91%	72.89%	84.71%
Returns during the half-year [ (+) (-) ]	65.76%	61.87%	69.01%
Compounded Annualised Return			
(i) Last 3 years	20.83%	13.70%	14.80%
(ii) Last 5 years	24.10%	14.53%	18.53%
(iii) Since the launch of the scheme (1st January 1994)	10.77%	4.78%	5.78%

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 the future. Distribution tax has been included in calculation of returns. 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

MSGF NAV as of December 31, 2003 is Rs. 23.09 per unit

Holdings of MSGF as of December 31, 2003		
Sr. No.	Name of the Security	% of Total Net Assets
1	State Bank of India	7.26%
2	Bharat Heavy Electricals	6.11%
3	Infosys Technologies	5.15%
4	Container Corporation of India	4.66%
5	Hero Honda	4.27%
6	Oil & Natural Gas Corporation	4.09%
7	TISCO	3.85%
8	S A I L	3.73%
9	Reliance Industries	3.32%
10	Tata Motors	3.25%
11	Hindustan Lever	3.00%
12	Hindalco Industries	2.74%
13	I T C	2.68%
14	Grasim Industries	2.43%
15	IDBI	2.38%
16	Ranbaxy Laboratories	2.32%
17	Dr. Reddy's Laboratories	2.30%
18	Wipro**	2.29%
19	HDFC	2.04%
20	Siemens	1.85%
21	A B B	1.84%
22	Glaxosmithkline Pharmaceuticals	1.79%
23	HDFC Bank**	1.77%
24	Cipla	1.69%
25	Neyveli Lignite Corporation	1.47%
26	Asian Paints	1.47%
27	Punjab National Bank	1.45%
28	Cummins India	1.35%
29	Nestle India	1.21%
30	Bharat Petroleum Corporation	1.07%
31	Kochi Refineries	1.03%
32	Chennai Petroleum Corporation	1.03%
33	Matrix Laboratories	1.02%
34	Hindustan Petroleum Corporation	1.00%
35	Ballarpur Industries**	0.99%
36	GE Shipping	0.99%
37	Dabur	0.94%
38	Amtek Auto	0.91%
39	Union Bank of India	0.90%
40	Colgate Palmolive	0.85%
	Cash and Others	5.51%
	<b>Total Net Assets</b>	<b>100.00%</b>

\*\* Includes Local Shares and ADRs/GDRs

### UNAUDITED FINANCIAL RESULTS FOR THE PERIOD ENDED DECEMBER 31, 2003

ABRIDGED BALANCE SHEET AS AT DECEMBER 31, 2003		ABRIDGED REVENUE ACCOUNT FOR THE PERIOD ENDED DECEMBER 31, 2003	
As at 31-12-2003 (Rs. in Lacs)		01-04-2003 to 31-12-2003 (Rs. in Lacs)	
<b>LIABILITIES</b>		<b>1 INCOME</b>	
<b>1 Unit Capital</b>	60,020	1.1 Dividend	2,180
<b>2 Reserves &amp; Surplus</b>		1.2 Interest	208
2.1 Unit Premium Reserve	4,125	1.3 Net Profit on sale/redemption of Investments (other than inter-scheme transfer/sale)	5,618
2.2 Revenue Reserves	74,461	1.4 Other Income (Excess Provision written back)	40
<b>3 Current Liabilities &amp; Provisions</b>		1.5 Realised Gain on Foreign Currency Transactions	(12)
3.1 Provision for doubtful Income/Deposits/Investments	36	<b>TOTAL</b>	<b>8,034</b>
3.2 Other Current Liabilities & Provisions	1,520		
<b>TOTAL</b>	<b>140,162</b>	<b>2 EXPENSES &amp; LOSSES</b>	
<b>ASSETS</b>		2.1 Management, Trusteeship, Administrative & other Operating Expenses	1,321
<b>1 Investments</b>		2.2 Provision for Doubtful Deposits/Current Assets/Investments	20
1.1 Equity & Preference Shares	136,090	<b>TOTAL</b>	<b>1,341</b>
1.2 Debenture & Bond Listed/Awaiting Listing on Recognised Stock Exchange	126	<b>Excess of Income Over Expenses &amp; Losses</b>	<b>6,693</b>
1.3 Treasury Bills	1,984	<b>Net change in unrealised depreciation/ appreciation of investments</b>	<b>62,873</b>
1.4 Others (Units of Mutual Funds)	15	<b>Net Surplus/(Deficit) transferred to Revenue Reserve</b>	<b>69,566</b>
<b>2 Deposits</b>	1,590		
<b>3 Other Current Assets</b>	357		
<b>TOTAL</b>	<b>140,162</b>		
<b>RECONCILIATION TO NET ASSET VALUE PER UNIT</b>			
Net Assets as per Balance Sheet (Total Assets less Current Liabilities & Provisions and Settlor's Contribution)	138,606		
Number of Units in Issue (in Lacs)	6,002		
Net Asset Value per Unit (in Rs.)	23.09		

**NOTES:** (1) Investments are stated at market/fair value at the Balance Sheet date/valuation date. The 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) The AMC has not utilised the services of the sponsor or any of its affiliate, employees or their relatives for the purpose of any securities transaction as specified under Regulation 25(8) of SEBI Regulations. During the period the Fund subscribed to the issue of equity shares of Maruti Udyog Limited aggregating to Rs. 28,875,000. JM Morgan Stanley Securities Limited, an associate of Morgan Stanley Investment Management (MSIM) was the lead manager to the issue. The subscription was made through Kotak Mahindra Capital Company Ltd. (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 unit holders hold over 25% of the NAV of the Scheme as at December 31, 2003. (5) The Scheme has not declared any bonus, not borrowed any money, not invested in derivative products during the period and no deferred revenue expenditure. (6) No changes have been carried out in the accounting policies during the period.

**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 04, 2001	Rs. 1.00	June 06, 2001	Rs. 10.72

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 address mentioned herein, indicating the details of their investment in the fund.

**Registrars to the Fund : Karvy Consultants 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. 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

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

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