

# Morgan Stanley Growth Fund

## Quarterly Newsletter

Dear Unit Holder,

With emerging markets such as India registering blockbuster returns for an unprecedented fourth year in a row, many investors are skeptical of the good times continuing to roll in 2007. The sharp correction in the markets during the first few trading days of the New Year only added to concerns over the longevity of the bull trend. While we won't be surprised to see equity markets take a pause to refresh themselves, we still believe that the bull market is in a mid-cycle stage.

In post-World War II history, the global economy has followed a rather standard growth pattern. The first half of a decade has typically witnessed a recovery aided by accommodative central bank policies. As resource utilization levels get stretched by the middle of the decade, central banks switch to monetary tightening that leads to some sort of a mid-cycle correction. Once the policy normalization process is complete, economies and asset classes with strong underlying fundamentals resume their ascent, eventually reaching a bubble-type stage.

To be sure, there are enough cynics who argue that cycles are shortening and, as a result, many different asset classes can't keep compounding returns year after year at the current frenetic pace. While there will undoubtedly be more differentiation in the return profile in 2007 there is little to suggest that the broad uptrend in asset classes such as emerging markets is reaching the final stage. After all, a climax requires much more exuberance and much less fear.

At the portfolio implementation level, our main concern is that some companies may get carried away by the potential for top-line growth and lose focus on profitability. From experience in other emerging markets, we know that high economic growth hasn't always translated into strong profit growth. The Indian corporate sector has distinguished itself by keeping an intense focusing on profitability metrics. As a result, even in the current bull market, CMIE data for a broader universe of 7000+ companies shows that a top-line growth of just over 10% has translated into annual profit growth in excess of 40%, suggesting a very high degree of operating leverage. With corporate India getting more ambitious in its growth plans, such a high level of overall profitability may be hard to sustain.

Our portfolio has a clear tilt in favor of companies benefiting from the higher capex spend. Therefore, we continue with our long-standing overweight in the industrials sector and are underweight some of the large conglomerates that have announced aggressive spending plans. We are also adding to consumer plays, with wireless being the new consumer growth sector in this boom. This is what keeps the investing game so engaging; even while the broad bull trend continues almost uninterrupted, different themes work at various stages of the cycle and the portfolio needs to rotate accordingly.

Sridhar Sivaram and Amay Hattangadi  
Portfolio Managers

Ruchir Sharma  
Head Global Emerging Markets

January 18, 2007

### MSGF NAV Performance v/s benchmark Indices (as of December 31, 2006)

Period	MSGF NAV*	BSE Sensex	BSE 100
Returns during the trailing year [ (+) (-) ]	36.20	46.70	40.97
Returns during the half year [ (+) (-) ]	29.51	29.95	29.74
<b>Compounded Annualised Growth Rate</b>			
(i) Last 3 years	34.09	33.16	31.44
(ii) Last 5 years	38.40	33.41	35.00
(iii) Since the launch of the scheme (6th January 1994)	15.76	10.75	11.24

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 December 31, 2006 is Rs. 49.80 per unit.

Holdings of MSGF as of December 29, 2006		
Sr. No.	Name of the Security	% of Total Net Assets
1	Bharat Heavy Electricals	8.67%
2	Infosys Technologies **	8.15%
3	ABB	5.62%
4	Bharti Airtel	5.61%
5	HDFC Bank **	4.37%
6	ITC	4.00%
7	ICICI Bank	3.45%
8	ACC	3.10%
9	Mahindra & Mahindra	2.98%
10	Hindustan Construction Co.	2.67%
11	Punjab National Bank	2.58%
12	HCL Technologies	2.38%
13	Cipla	2.30%
14	Aban Offshore	2.17%
15	Pantaloon Retail (India)	2.10%
16	Glenmark Pharma	2.00%
17	NTPC	1.97%
18	Wipro	1.90%
19	Gujarat Ambuja Cement	1.71%
20	Siemens	1.70%
21	UTI Bank	1.66%
22	Shree Cement	1.65%
23	Hotel Leelaventure	1.62%
24	Marico Industries	1.56%
25	Container Corporation of India	1.38%
26	Hindalco Industries	1.38%
27	Gammon India	1.35%
28	Deccan Chronicle Holdings	1.22%
29	Jyoti Structures	1.13%
30	Aventis Pharma	1.13%
31	Gujarat Fluorochemicals	1.11%
32	Praj Industries	1.07%
33	Geodesic Information Systems	1.04%
34	Hindustan Lever	1.04%
35	New Delhi Television	0.79%
36	Rico Auto Industries	0.79%
37	Ashok Leyland	0.77%
38	Inox	0.77%
39	Mahindra Gescro	0.72%
40	Himatsingka Seide	0.70%
	Cash and Other Securities	7.69%
	<b>Total Net Assets</b>	<b>100.00%</b>

\*\*Includes Local Shares and ADRs / GDRs

### UNAUDITED FINANCIAL RESULTS FOR THE PERIOD ENDED DECEMBER 31, 2006

ABRIDGED BALANCE SHEET AS AT DECEMBER 31, 2006		ABRIDGED REVENUE ACCOUNT FOR THE PERIOD ENDED DECEMBER 31, 2006	
As at December 31, 2006 (Rs. in Lacs)		April 01, 2006 to December 31, 2006 (Rs. in Lacs)	
<b>LIABILITIES</b>		<b>1. INCOME</b>	
1. Unit Capital	60,018	1.1 Dividend	2,248
2. Reserves & Surplus		1.2 Interest	542
2.1 Unit Premium Reserve	4,124	1.3 Net Profit on sale/redemption of Investments (other than inter-scheme transfer/sale)	49,297
2.2 Revenue Reserves	234,754	238,878	
3. Current Liabilities & Provisions	3,198	1.4 Realised Gain / Loss on foreign currency transactions	82
<b>TOTAL</b>	<b>302,094</b>	<b>TOTAL</b>	<b>52,169</b>
<b>ASSETS</b>		<b>2. EXPENSES &amp; LOSSES</b>	
1. Investments		2.1 Management, Trusteeship, Administrative & other Operating Expenses	2,909
1.1 Equity & Preference Shares	289,988	<b>TOTAL</b>	<b>2,909</b>
1.2 Government Securities (Treasury Bills)	3,720	<b>Excess of Income Over Expenses &amp; Losses</b>	<b>49,260</b>
2. Deposits	7,294	<b>Distribution</b>	
3. Other Current Assets		Interim Dividend	(12,004)
3.1 Cash & Bank Balances	77	<b>Net change in unrealised (depreciation)/appreciation in value of Investments and Foreign Currency Denominated Assets and Liabilities</b>	<b>(27,572)</b>
3.2 Others	1,015	<b>Net Surplus/(Deficit) transferred to Revenue Reserve</b>	<b>9,684</b>
<b>TOTAL</b>	<b>302,094</b>		
<b>RECONCILIATION TO NET ASSET VALUE PER UNIT</b>			
Net Assets as per Balance Sheet			
(Total Assets less Current Liabilities and Provisions)	298,896		
Number of Units in Issue (in Lacs)	6,002		
Net Asset Value per Unit (in Rs.)	49.80		

**Notes :** 1) Investments are stated at market / fair value at the Balance Sheet date / valuation date. Investment 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 December 31, 2006 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. 7) The Scheme has declared dividend @ Rs. 2 per unit on face value of Rs. 10 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.

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