

## Quarterly Newsletter

# Morgan Stanley Growth Fund

Dear Unit Holder,

A strong rotational theme ran through the global equity universe in the first quarter of the year. Several markets and sectors that outperformed in the fourth quarter of last year, underperformed in the first quarter of 2004. While emerging markets had another quarter of more than respectable returns, India was amongst the few markets that generated negative returns. The other markets to end in negative territory for the quarter were Brazil, Thailand and China, all markets that had a spectacular end to 2003, thereby making for a pattern.

Once again, the message from the market is that India's fortunes are linked to the patterns within the broader emerging market asset class. What we can vouch for though is that sentiment towards India is much more ebullient compared to most other markets. Interest in India equities is at all time high and access to capital for Indian companies is remarkably easy as seen by the huge response to most Initial Public Offerings (IPOs).

However, both Indian companies and investors need to be wary of the tremendous appetite for IPOs. To be sure, most companies in emerging markets need to focus more on growth and therefore need capital but the classic 'Asian problem' has been to grow without much respect for shareholder returns. Low return projects have often consumed too much money. Investors need to evaluate the return on capital raised and remember that IPOs are not always a quick profit making opportunity.

Investors in China are currently learning that lesson all over again. Of late, a series of Chinese IPOs saw huge oversubscription to only trade well below issue price on listing. In the final analysis, markets are efficient and with the last IPO feeding frenzy of 2000 still not fully forgotten, the market is likely to turn discerning sooner rather than later.

It is important then to adhere to some rules regarding IPO participation. As a Fund, we have almost never participated in an IPO with the primary objective of selling on rapid expected gains upon listing. We have subscribed to an IPO if the company fits in our overall stock selection criteria of a high management quality backed company in a growth sector with a favourable entry point for the investor. As a result, we have been very selective in IPO participation and passed on several IPOs.

On the secondary market, our strategy is to be stock specific this year. While we do not foresee any major event-risk for the Indian market, with the national elections in all probability a likely non-event, it is a stretch to expect anywhere near the spectacular returns witnessed in the equity market last year. In that regard, the erratic moves of the major stock indices in the first quarter are a timely reminder that there is two-way risk in the market.

Ruchir Sharma

April 15, 2004

Holdings of MSGF as of March 31, 2004		
Sr. No.	Name of the Security	% of Total Net Assets
1	State Bank of India	8.32%
2	Bharat Heavy Electricals	8.30%
3	Hero Honda	4.75%
4	Oil and Natural Gas Corporation	4.17%
5	Container Corporation of India	3.80%
6	Infosys Technologies	3.56%
7	TISCO	3.39%
8	ITC	2.89%
9	Grasim Industries	2.64%
10	Tata Motors	2.56%
11	Punjab National Bank	2.41%
12	Hindalco Industries	2.41%
13	SAIL	2.40%
14	Cipla	2.29%
15	IDBI	2.27%
16	Siemens	2.26%
17	ABB	2.22%
18	Hindustan Lever	2.18%
19	HDFC	2.07%
20	Wipro **	1.89%
21	Indian Oil Corporation	1.83%
22	HDFC Bank **	1.69%
23	Glaxosmithkline Pharmaceuticals	1.60%
24	IPCL	1.50%
25	Asian Paints	1.35%
26	Neyveli Lignite Corporation	1.26%
27	Dr. Reddy's Laboratories	1.25%
28	Hindustan Petroleum Corporation	1.18%
29	Bharat Petroleum Corporation	1.15%
30	Matrix Laboratories	1.15%
31	Nestle India	1.13%
32	Cummins India	1.06%
33	Chennai Petroleum Corporation	1.01%
34	Alok Industries	0.95%
35	ACC	0.90%
36	MICO	0.88%
37	Dabur	0.86%
38	Mphasis BFL	0.85%
39	Amttek Auto	0.84%
40	I-Flex Solutions	0.84%
	Cash and Others	9.94%
	<b>Total Net Assets</b>	<b>100.00%</b>

\*\* Includes Local Shares and ADRs/GDRs

### Proposed Dividend Declaration

Morgan Stanley Investment Management has recommended to the Board of Trustees of Morgan Stanley Mutual Fund, to approve and declare, at their forthcoming meeting, a dividend of Rs. 1.50 per unit of face value Rs. 10 each to the unit holders of MSGF for the Financial Year ended March 31, 2004 and also propose to fix May 13, 2004 as the Record Date for the same.

The amount of dividend, if approved and declared by the Trustees, and related dividend distribution expenses and distribution tax would be provided in the accounts of MSGF for the financial year 2003-2004. To that extent the NAV of MSGF as of March 31, 2004 would fall on the dividend declaration date.

### MSGF NAV Performance v/s benchmark Indices (as of March 31, 2004)

Period	MSGF NAV*	BSE Sensex	BSE 100
Returns during the year [ (+) (-) ]	97.30%	83.38%	97.66%
Returns during the half year [ (+) (-) ]	27.07%	25.54%	28.16%
<b>Compounded Annualised Return</b>			
(i) Last 3 years	29.29%	15.76%	20.59%
(ii) Last 5 years	15.29%	8.37%	12.43%
(iii) Since the launch of the scheme (1st January 1994)	10.30%	4.21%	5.27%

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 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 March 31, 2004 is Rs. 22.67 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.

### 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

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. 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

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