

Morgan Stanley Growth Fund

Quarterly Newsletter

Dear Unit Holder,

It's rather strange to see such a high level of fear prevailing in the marketplace. Following an increase of more than 200% over the past three years, greed should be the more dominant emotion. Instead financial analysts can't stop worrying about the Indian market's valuation.

India currently trades at a premium relative to its own history and to other emerging markets. Its price-earnings (P/E) ratio is 17 (based on 12-month forward consensus earnings) compared to a long-term average P/E ratio of 13 for the country and a P/E multiple of 12 for emerging markets as a whole. For the bears, this is enough ammunition to make the case that the Indian market is fraught with downside risk.

Viewing markets through just the P/E prism is the simplest yet a terribly misleading way of approaching the investing game. Markets almost never trade in line with their long-term average. They are always in a state of disequilibrium - a reflection of human psychology that's manic-depressive. Emerging markets, such as India, have gone from being very cheaply valued to now being priced at multiples almost similar to developed markets. But that doesn't mean the show is over for emerging markets. This asset class can easily become much more overvalued or reach the stage of a bubble, as was the case in 1994 when the P/E ratio in emerging markets rose to 30.

As of now, these markets can hardly be termed as being in a bubble. It's true that earnings growth has been spectacular over the past three years, heavily driven by a boom in commodity prices. That has some analysts arguing that this time the bubble is in earnings, with corporate profits at record levels. But at major bull market peaks, both earnings and P/E multiples typically rise to new highs.

Admittedly, the Indian market could be further along that curve and its relatively higher P/E ratio may be evidence of that. But the only information in the P/E ratio is that expectations from India are higher compared to other emerging markets.

To be sure, nothing goes up in a straight line. Violent corrections are an integral part of major bull runs and a shakeout in emerging markets may be overdue. But it's important not to lose sight of the primary trend through all the noise. Emerging markets, such as India, are in the midst of a powerful rally driven by fundamental change. Such currents don't end because markets are no longer cheap. P/E ratios get very stretched at the peak of a bull market and emerging markets aren't at that point yet.

Sridhar Sivaram and Amay Hattangadi

Portfolio Managers

Ruchir Sharma

Co-Head Global Emerging Markets

April 17, 2006

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

Period	MSGF NAV*	BSE Sensex	BSE 100
Returns during the year [(+) (-)]	87.29%	73.73%	69.57%
Returns during the half year [(+) (-)]	38.88%	30.64%	29.29%
Compounded Annualised Growth Rate			
(i) Last 3 years	65.03%	54.67%	57.87%
(ii) Last 5 years	37.54%	25.63%	28.40%
(iii) Since the launch of the scheme (6th January 1994)	16.10%	9.64%	10.44%

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 annualized 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, 2006 is Rs. 48.19 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
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.

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.

Holdings of MSGF as of March 31, 2006		
Sr No.	Name of the Security	% of Total Net Assets
1	Bharat Heavy Electricals	11.07%
2	Siemens	6.95%
3	Hindustan Lever	5.57%
4	Hindustan Construction Co.	5.19%
5	ABB	5.09%
6	ITC	3.79%
7	Infosys Technologies	3.47%
8	HDFC Bank **	3.41%
9	HDFC	3.27%
10	Cipla	2.62%
11	Wipro **	2.47%
12	Hero Honda	2.44%
13	Container Corporation of India	2.30%
14	HCL Technologies	2.23%
15	Punjab National Bank	2.22%
16	Mahindra & Mahindra	2.22%
17	ACC	2.04%
18	Hotel Leelaventure	1.89%
19	Gammon India	1.86%
20	Gujarat Ambuja Cement	1.82%
21	NTPC	1.75%
22	Aventis Pharma	1.69%
23	Aban Loyd Chiles Offshore	1.69%
24	State Bank of India	1.63%
25	UTI Bank **	1.62%
26	Marico Industries	1.24%
27	Rico Auto Industries	1.23%
28	ICICI Bank	1.22%
29	Glenmark Pharma	1.07%
30	Indian Oil Corporation	1.06%
31	Balkrishna Industries	1.06%
32	Himatsingka Seide	0.96%
33	New Delhi Television	0.91%
34	Inox Leisure	0.87%
35	Geodesic Information Systems	0.87%
36	Pantaloon Retail (India)	0.84%
37	Tata Tea	0.83%
38	Gujarat Flourochemicals	0.82%
39	Indraprastha Gas	0.81%
40	Shree Cement	0.78%
	Cash and Other Securities	5.13%
	Total Net Assets	100.00%
	** Includes Local Shares and ADRs/GDRs	

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