

Morgan Stanley Short Term Bond Fund Scheme Information Document

An Open ended Debt Scheme

Credit Risk Rating mfAAA by ICRA*

Offer of Units of Rs. 10/- each for cash during the New Fund Offer and Continuous offer for Units at NAV based prices

New Fund Offer Opens on: May 12, 2009

New Fund Offer Closes on: May 20, 2009

Scheme re-opens not later than: 30 days from the closure of the NFO period.

Name of Mutual Fund
Morgan Stanley Mutual Fund

Name of Asset Management Company
Morgan Stanley Investment Management Pvt. Ltd.

Name of Trustee Company
The Board of Trustees

Registered Office & Corporate Office of the above entities
Charanjit Rai Marg,
Fort, Mumbai - 400 001.

www.morganstanley.com/indiamf

- The particulars of the Scheme have been prepared in accordance with the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, (herein after referred to as SEBI (MF) Regulations) as amended till date, and filed with SEBI, along with a Due Diligence Certificate from the AMC. The units being offered for public subscription have not been approved or recommended by SEBI nor has SEBI certified the accuracy or adequacy of the Scheme Information Document.

- The Scheme Information Document sets forth concisely the information about the scheme that a prospective investor ought to know before investing. Before investing, investors should also ascertain about any further changes to this Scheme Information Document after the date of this Document from the Mutual Fund / Investor Service Centres / Website / Distributors or Brokers.

- The investors are advised to refer to the Statement of Additional Information (SAI) for details of Morgan Stanley Mutual Fund, Tax and Legal issues and general information on www.morganstanley.com/indiamf

- SAI is incorporated by reference (is legally a part of the Scheme Information Document). For a free copy of the current SAI, please contact your nearest Investor Service Centre or log on to our website.

- The Scheme Information Document should be read in conjunction with the SAI and not in isolation.

*ICRA has assigned the "Credit Risk Rating mfAAA" to Morgan Stanley Short Term Bond Fund which means that Morgan Stanley Short Term Bond Fund carries the lowest credit risk, similar to that associated with long-term debt obligations rated in the highest-credit-quality category. This rating should however, not be construed as an indication of the performance of the aforesaid Fund or of volatility in its returns. Further, the above rating should not be treated as ICRA's recommendation to buy, sell or hold the units issued under the said Fund.

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Highlights / Summary Of The Scheme

NAME OF THE SCHEME

Morgan Stanley Short-Term Bond Fund

TYPE OF THE SCHEME

An Open ended Debt Scheme

INVESTMENT OBJECTIVE

The investment objective is to generate income from a diversified portfolio of short to medium term debt and money market securities.

However, there is no assurance that the objective of the Scheme will be realised. The Scheme does not assure or guarantee any returns.

LIQUIDITY

The Scheme will offer Units for Purchase and Redemption at NAV related prices on every Business Day on an on-going basis, commencing not later than 30 days from the closure of the NFO period.

The Unitholders shall be entitled to redeem their units at any time post allotment, subject to the applicable load. The redemption or repurchase proceeds shall be dispatched to the unit holders within 10 working days from the date of redemption or repurchase. However, the Mutual Fund shall endeavor to dispatch the Redemption proceeds within 3 Business Days from the acceptance of a valid Redemption request.

BENCHMARK

CRISIL Short-Term Bond Fund Index

TRANSPARENCY / NAV DISCLOSURE

The AMC will calculate and disclose the first NAV of the Scheme within 30 days from the closure of the NFO period. Subsequently, the NAVs will be calculated and disclosed on every Business Day. The AMC shall update the NAVs on the website of the Fund (www.morganstanley.com/indiamf) and of the Association of Mutual Fund in India - AMFI (www.amfiindia.com) every Business Day.

Periodic disclosures of the portfolio as well as publication of half-yearly and yearly accounts shall be as per SEBI Regulations.

LOAD STRUCTURE

For applications received during NFO:

Entry Load: Nil

Exit Load: Nil

On an ongoing basis:

Entry Load: Nil

Exit Load - Regular Plan and Institutional Plus Plan : 0.25% if redeemed within 15 days of allotment

MINIMUM APPLICATION AMOUNT

Purchase:

Regular Plan - Rs. 5,000/- plus in multiples of Re. 1/-

Institutional Plus Plan - Rs. 50 lacs plus in multiples of Re. 1/-

Additional Purchase:

Regular Plan- Rs. 1,000 plus in multiples of Re. 1/-

Institutional Plus Plan - Rs. 1 lac plus in multiples of Re. 1/-

I. Introduction

A. RISK FACTORS

Standard Risk Factors:

- Investment in Mutual Fund Units involves investment risks such as trading volumes, settlement risk, liquidity risk, default risk including the possible loss of principal.
- As the price / value / interest rates of the securities in which the scheme invests fluctuate, the value of your investment in the scheme may go up or down.
- Past performance of the Sponsor, Mutual Fund, AMC or any associates of the Sponsor / AMC does not indicate the future performance of the Scheme of the Mutual Fund.
- Morgan Stanley Short-term Bond Fund is only the name of the Scheme and does not in any manner indicate either the quality of the Scheme or its future prospects and returns.
- The Sponsor is not responsible or liable for any loss resulting from the operation of the Scheme beyond the initial contribution of an amount of Rs 5,00,000 (Rupees Five lacs only) towards setting up the Fund.
- The present scheme is not a guaranteed or assured return scheme.
- Dividend payments will be dependent on the returns achieved by the AMC through active management of the portfolio. The dividend distributions may, therefore, vary from day to day, week to week and month to month, based on investment results of the portfolio. Further, it should be noted that the actual distribution of dividends and frequency thereof are indicative and will depend, inter-alia, on availability of distributable surplus. Dividend payouts will be entirely at the discretion of Trustees.

Scheme Specific Risk Factors

- In addition to the factors that affect the values of securities, the NAV of Units of the Scheme will fluctuate with the movement in the broader fixed income, money market and derivatives market and may be influenced by factors influencing such markets in general including but not limited to economic conditions, changes in interest rates, price and volume volatility in the bond and stock markets, changes in taxation, currency exchange rates, foreign investments, political, economic or other developments and closure of the stock exchanges.
- Investments in different types of securities are subject to different levels and kinds of risk. Accordingly, the Schemes' risk may increase or decrease depending upon its investment pattern. E.g. investments in corporate bonds carry a higher level of risk than investments in Government securities. Further, even amongst corporate bonds, bonds which have a higher rating are comparatively less risky than bonds which have a lower rating.

Risk Factors Associated with Fixed Income and Money Market Instruments

- The performance of the Scheme may be affected by changes in Government policies, general levels of interest rates and risks associated with trading volumes, liquidity and settlement systems.
- **Interest rate risk:** As with all debt securities, changes in interest rates may affect the NAV of the Scheme since the price of a fixed income instrument falls when the interest rates move up and vice versa. The effect is more prominent when the duration of the instrument is higher. Hence the NAV movement of the Scheme consisting of predominantly fixed income securities is likely to have inverse correlation with the movement in interest rates. In case of a floating rate instrument, this risk is lower as a result of periodic reset of the coupon.
- **Spread risk:** Though the sovereign yield curve might remain constant, investments in corporate bonds are exposed to the risk of spread widening between corporate bonds and gilts. Typically, if this spread widens, the prices of the corporate bonds tend to fall and so could the NAV of the Scheme. Similar risk prevails for the investments in the floating rate bonds, where the benchmark might remain unchanged, but the spread over the benchmark might vary. In such an event, if the spread widens, the price and the NAV could fall.
- **Credit risk or default risk:** This refers to inability of the issuer of the debt security to make timely payments of principal and / or interest due. It is reflected in the

credit rating of the issuer. Hence if the credit rating of the issuer is downgraded, the price of the security will suffer a loss and the NAV will fall. Credit risk factors pertaining to lower rated securities also apply to lower rated zero coupon and deferred interest kind bonds. Lower rated zero coupon and deferred interest kind bonds carry an additional risk, unlike bonds that pay interest through the period of maturity, the Scheme by investing in these bonds will realize no cash till the cash payment date and if the issuer defaults, the Scheme may obtain no return on its investment.

- **Liquidity risk:** This represents the possibility that the realised price from selling the security might be lesser than the valuation price as a result of illiquid market. If a large outflow from the Scheme is funded by selling some of the illiquid securities, the NAV could fall even if there is no change in interest rates. Illiquid securities are typically quoted at a higher yield than the liquid securities and have higher bid offer spreads. Investment in illiquid securities results in higher current yield for the portfolio. Liquidity risk is a characteristic of the Indian fixed income market today. In addition, money market securities, while fairly liquid, lack a well-developed secondary market, which may restrict the selling ability of the Scheme and may lead to the Scheme incurring losses till the security is finally sold.
- **Reinvestment risk:** This is associated with the fact that the intermediate cash flows (coupons, prepayment of principal in case of securitised transactions or principal payment in case a security gets called or repurchased) may not be reinvested at the same yield as assumed in the original calculations.
- **Settlement risk:** Different segments of Indian financial markets have different settlement periods and such periods may be extended significantly by unforeseen circumstances. Delays or other problems in settlement of transactions could result in temporary periods when the assets of the Scheme are uninvested and no return is earned thereon. The inability of the Scheme to make intended securities purchases, due to settlement problems, could cause the Scheme to miss certain investment opportunities. Similarly, the inability to sell securities held in the Scheme's portfolio, due to the absence of a well developed and liquid secondary market for debt securities, may result at times in potential losses to the Scheme in the event of a subsequent decline in the value of securities held in the Scheme's portfolio.
- **Market risk:** Lower rated or unrated securities are more likely to react to developments affecting the market and the credit risk than the highly rated securities which react primarily to movements in the

general level of interest rates. Lower rated or unrated securities also tend to be more sensitive to economic conditions than higher rated securities.

Risk Factors Associated with Derivatives

- The Scheme may invest in derivative products in accordance with and to the extent permitted under the Regulations and by RBI. Derivative products are specialized instruments that require investment techniques and risk analysis different from those associated with stocks and bonds. The use of a derivative requires an understanding not only of the underlying instrument but of the derivative itself. Trading in derivatives carries a high degree of risk although they are traded at a relatively small amount of margin which provides the possibility of great profit or loss in comparison with the principal investment amount. Thus, derivatives are highly leveraged instruments. Even a small price movement in the underlying security could have an impact on their value and consequently, on the NAV of the Units of the Scheme.
- The derivatives market in India is nascent and does not have the volumes that may be seen in other developed markets, which may result in volatility to the values.
- There is the possibility that a loss may be sustained by the portfolio as a result of the failure of another party (usually referred to as the “counter party”) to comply with the terms of the derivatives contract. Other risks in using derivatives include the risk of mispricing or improper valuation of derivatives and the inability of derivatives to correlate perfectly with underlying assets, rates and indices.
- The Scheme bears a risk that it may not be able to correctly forecast future market trends or the value of assets, indices or other financial or economic factors in establishing derivative positions for the Scheme.
- **Interest Rate Swaps (IRS)** are highly specialized instruments that require investment technique and risk analysis different from those associated with equity shares and other traditional securities. The use of a IRS requires not only an understanding of the referenced asset, reference rate, or index but also of the swap itself, without the benefit of observing the performance of the swap under all possible market conditions. Swap agreements are also subject to liquidity risk, which exists when a particular swap is difficult to purchase or sell. Swap agreements may be subject to pricing risk, which exists when a particular swap becomes extraordinarily expensive (or cheap) relative to historical prices or the prices of corresponding cash market instruments. IRS agreements are also

subject to counterparty risk on account of insolvency or bankruptcy or failure of the counterparty to make required payments or otherwise comply with the terms of the agreement.

Risk Factors Associated with Overseas Investments

- Within the investment objectives of the Scheme, the Scheme may invest in overseas markets which carry risks related to fluctuations in the foreign exchange rates, the nature of the securities market of the country, repatriation of capital due to exchange controls and political circumstances.
- It is the AMC’s belief that investment in foreign securities offers new investment and portfolio diversification opportunities into multi-market and multi-currency products. However, such investments also entail additional risks. Such investment opportunities may be pursued by the AMC provided they are considered appropriate in terms of the overall investment objectives of the Scheme. Since the Scheme would invest only partially in foreign securities, there may not be readily available and widely accepted benchmarks to measure performance of the Scheme. To manage risks associated with foreign currency and interest rate exposure, the Fund may use derivatives for efficient portfolio management including hedging and in accordance with conditions as may be stipulated under the Regulations or by RBI from time to time.
- Overseas investments will be made subject to any/all approvals, conditions thereof as may be stipulated under the Regulations or by RBI and provided such investments do not result in expenses to the Fund in excess of the ceiling on expenses prescribed by the Regulations and consistent with costs and expenses attendant to international investing.
- To the extent that the assets of the Scheme will be invested in securities denominated in foreign currencies, the Indian Rupee equivalent of the net assets, distributions and income may be adversely affected by changes in the value of certain foreign currencies relative to the Indian Rupee. The repatriation of capital to India may also be hampered by changes in regulations concerning exchange controls or political circumstances as well as the application to it of other restrictions on investment.

Risk Factors Associated with Securitised Debt

Generally available asset classes for securitisation in India are :

- Commercial Vehicles
- Auto and Two wheeler pools
- Mortgage pools (residential housing loans)

- Personal Loan, credit card and other retail loans
- Corporate loans / receivables

In terms of specific risks attached to securitisation, each asset class would have different underlying risks. Some of the asset classes such as personal loans, credit card receivables etc., being unsecured credits in nature, may witness higher default rates. As regards corporate loans/receivables, depending upon the nature of the underlying security for the loan or the nature of the receivable the risks would correspondingly fluctuate. However, the credit enhancement stipulated by rating agencies for such asset class pools is typically much higher and hence their overall risks are comparable to other AAA rated asset classes.

The rating agencies have an elaborate system of stipulating margins, over collateralisation and guarantee to bring risk limits in line with the other AAA rated securities. It is relevant to note here that predominantly the scheme intends to invest in only AAA rated securitised debt. This compares favourably with a portfolio, which is constructed on the basis of AA rated securitised debt.

Some of the factors, which are typically analyzed for any pool, are as follows:

- **Size of the loan:** This generally indicates the kind of assets financed with loans. Also indicates whether there is excessive reliance on very small ticket size, which may result in difficult and costly recoveries. To illustrate, the ticket size of housing loans is generally higher than that of personal loans. Hence in the construction of a housing loan asset pool for say Rs. 1 crore it may be easier to construct a pool with just 10 housing loans of Rs. 10 lacs each rather than to construct a pool of personal loans as the ticket size of personal loans may rarely exceed Rs. 5 lacs per individual. Also to amplify this illustration further, if one were to construct a pool of Rs. 1 crore consisting of personal loans of Rs. 1 lac each, the larger number of contracts (100 as against one of 10 housing loans of Rs. 10 lacs each) automatically diversifies the risk profile of the pool as compared to a housing loan based asset pool.
- **Average original maturity of the pool:** This indicates the original repayment period and whether the loan tenors are in line with industry averages and borrower's repayment capacity. To illustrate, in a car pool consisting of 60 month contracts, the original maturity and the residual maturity of the pool viz. number of remaining instalments to be paid gives a better idea of the risk of default of the pool itself. If in a pool of 100 car loans having original maturity of 60 months, if more than 70% of the contracts have paid more than 50% of the instalments and if no default has

been observed in such contracts, this is a far superior portfolio than a similar car loan pool where 80% of the contracts have not even crossed 5 instalments.

- **Loan to Value Ratio:** This indicates how much % value of the asset is financed by borrower's own equity. The lower the LTV, the better it is. This Ratio stems from the principle that where the borrowers own contribution of the asset cost is high; the chances of default are lower. To illustrate for a Truck costing Rs. 20 lacs, if the borrower has himself contributed Rs. 10 lacs and has taken only Rs. 10 lacs as a loan, he is going to have lesser propensity to default as he would lose an asset worth Rs. 20 lacs if he defaults in repaying an installment. This is as against a borrower who may meet only Rs. 2 lacs out of his own equity for a truck costing Rs. 20 lacs. Between the two scenarios given above, the latter would have higher risk of default than the former.
- **Average seasoning of the pool:** This indicates whether borrowers have already displayed repayment discipline. To illustrate, in the case of a personal loan, if a pool of assets consist of those who have already repaid 80% of the installments without default, this certainly is a superior asset pool than one where only 10% of installments have been paid. In the former case, the portfolio has already demonstrated that the repayment discipline is far higher.
- **Default rate distribution:** This indicates how much % of the pool and overall portfolio of the originator is current, how much is in 0-30 DPD (days past due), 30-60 DPD, 60-90 DPD and so on. The rationale here is very obvious, as against 0-30 DPD, the 60-90 DPD is certainly a higher risk category.

Unlike in plain vanilla instruments, in securitization transactions it is possible to work towards a target credit rating, which could be much higher than the originator's own credit rating. This is possible through a mechanism called 'Credit enhancement'. The purpose of credit enhancement is to ensure timely payment to the investors, if the actual collection from the pool of receivables for a given period is short of the contractual payouts on securitisation. Securitisations are normally non-recourse instruments and therefore, the repayment on securitisation would have to come from the underlying assets and the credit enhancement. Therefore, the rating criteria centrally focus on the quality of the underlying assets.

World over, the quality of credit ratings is measured by default rates and stability. An analysis of rating transition and default rates, witnessed in both international and domestic arena, clearly reveals that structured finance ratings have been characterized by

far lower default and transition rates than that of plain vanilla debt ratings. Further, internationally, in case of structured finance ratings, not only are the default rates low but post default recovery is also high.

In the Indian scenario also, more than 95% of issuances have been AAA rated issuances indicating the strength of the underlying assets as well as adequacy of credit enhancement.

- **Limited Liquidity & Price Risk:** Presently, secondary market for securitised papers is not very liquid. There is no assurance that a deep secondary market will develop for such securities. This could limit the ability of the investor to resell them. Even if a secondary market develops and sales were to take place, these secondary transactions may be at a discount to the initial issue price due to changes in the interest rate structure.
- **Limited Recourse, Delinquency and Credit Risk:** Securitised transactions are normally backed by pool of receivables and credit enhancement as stipulated by the rating agency, which differ from issue to issue. The Credit Enhancement stipulated represents a limited loss cover to the Investors. These Certificates represent an undivided beneficial interest in the underlying receivables and there is no obligation of either the Issuer or the Seller or the originator, or the parent or any affiliate of the Seller, Issuer and Originator. No financial recourse is available to the Certificate Holders against the Investors' Representative. Delinquencies and credit losses may cause depletion of the amount available under the Credit Enhancement and thereby the Investor Payouts may get affected if the amount available in the Credit Enhancement facility is not enough to cover the shortfall. On persistent default of an Obligor to repay his obligation, the Servicer may repossess and sell the underlying Asset. However many factors may affect, delay or prevent the repossession of such Asset or the length of time required to realize the sale proceeds on such sales. In addition, the price at which such Asset may be sold may be lower than the amount due from that Obligor.
- **Risks due to possible prepayments-Weighted Tenor / Yield :** Asset securitisation is a process whereby commercial or consumer credits are packaged and sold in the form of financial instruments. Full prepayment of underlying loan contract may arise under any of the following circumstances :
 - Obligor pays the Receivable due from him at any time prior to the scheduled maturity date of that Receivable; or;
 - Receivable is required to be repurchased by the

Seller consequent to its inability to rectify a material misrepresentation with respect to that Receivable; or

- The Servicer recognizing a contract as a defaulted contract and hence repossessing the underlying Asset and selling the same.

In the event of prepayments, investors may be exposed to changes in tenor and yield.

- **Bankruptcy of the Originator or Seller :** If originator becomes subject to bankruptcy proceedings and the court in the bankruptcy proceedings concludes that the sale from originator to Trust was not a sale then an Investor could experience losses or delays in the payments due. All possible care is generally taken in structuring the transaction so as to minimize the risk of the sale to Trust not being construed as a "True Sale".

Legal opinion is normally obtained to the effect that the assignment of Receivables to Trust in trust for and for the benefit of the Investors, as envisaged herein, would constitute a true sale.

- **Bankruptcy of the Investor's Agent :** If Investor's agent becomes subject to bankruptcy proceedings and the court in the bankruptcy proceedings concludes that the recourse of Investor's Agent to the assets / receivables is not in its capacity as agent / Trustee but in its personal capacity, then an Investor could experience losses or delays in the payments due under the swap agreement. All possible care is normally taken in structuring the transaction and drafting the underlying documents so as to provide that the assets / receivables if and when held by Investor's Agent is held as agent and in Trust for the Investors and shall not form part of the personal assets of Investor's Agent. Legal opinion is normally obtained to the effect that the Investors Agent's recourse to assets / receivables is restricted in its capacity as agent and trustee and not in its personal capacity.
- **Credit Rating of the Transaction / Certificate :** The credit rating is not a recommendation to purchase, hold or sell the Certificate in as much as the ratings do not comment on the market price of the Certificate or its suitability to a particular investor. There is no assurance by the rating agency either that the rating will remain at the same level for any given period of time or that the rating will not be lowered or withdrawn entirely by the rating agency.
- **Risk of Co-mingling :** The Servicers normally deposit all payments received from the Obligors into the Collection Account. However, there could be a time gap between collection by a Servicer and depositing the same into the Collection account especially

considering that some of the collections may be in the form of cash. In this interim period, collections from the Loan Agreements may not be segregated from other funds of the Servicer. If the Servicer fails to remit such funds due to Investors, the Investors may be exposed to a potential loss. Due care is normally taken to ensure that the Servicer enjoys highest credit rating on stand alone basis to minimize Co-mingling risk.

Risk Factors Associated with Securities Lending

The risks in lending portfolio securities, as with other extensions of credit, consist of the failure of another party, in this case the approved intermediary, to comply with the terms of agreement entered into between the lender of securities i.e. the Scheme and the approved intermediary. Such failure to comply with can result in the possible loss of rights in the collateral put up by the borrower of the securities, the inability of the approved intermediary to return the securities deposited by the lender and the possible loss of any corporate benefits accruing to the lender from the securities deposited with the approved intermediary. The Mutual Fund may not be able to sell such lent securities and this can lead to temporary illiquidity.

B. REQUIREMENT OF MINIMUM NUMBER OF INVESTORS IN THE SCHEME

The Scheme/Plan shall have a minimum of 20 investors and no single investor shall account for more than 25% of the corpus of the Scheme/Plan(s). However, if such limit is breached during the NFO of the Scheme, the Fund will endeavour to ensure that within a period of three months or the end of the succeeding calendar quarter from the close of the NFO of the Scheme, whichever is earlier, the Scheme complies with these two conditions. In case the Scheme / Plan(s) does not have a minimum of 20 investors in the stipulated period, the provisions of Regulation 39(2)(c) of the SEBI (MF) Regulations would become applicable automatically without any reference from SEBI and accordingly the Scheme / Plan(s) shall be wound up and the units would be redeemed at applicable NAV. The two conditions mentioned above shall also be complied within each subsequent calendar quarter thereafter, on an average basis, as specified by SEBI. If there is a breach of the 25% limit by any investor over the quarter, a rebalancing period of one month would be allowed and thereafter the investor who is in breach of the rule shall be given 15 days notice to redeem his exposure over the 25% limit. Failure on the part of the said investor to redeem his exposure over the 25% limit within the aforesaid 15 days would lead to automatic redemption by the Mutual Fund on the applicable Net Asset Value on the 15th day of the notice period. The Fund shall adhere to the requirements prescribed by SEBI from time to time in this regard.

C. SPECIAL CONSIDERATIONS, IF ANY

- Neither this Scheme Information Document nor the Units have been registered in any other jurisdiction. The distribution of this Scheme Information Document in certain jurisdictions may be restricted or totally prohibited and accordingly, persons who come into possession of this Scheme Information Document are required to inform themselves about, and to observe, any such restrictions.
- Prospective investors should review / study this Scheme Information Document carefully and in its entirety and shall not construe the contents hereof or regard the summaries contained herein as advice relating to legal, taxation, or financial / investment matters and are advised to consult their own professional advisor(s) as to the legal, tax, financial or any other requirements or restrictions relating to the subscription, gifting, acquisition, holding, disposal (by way of sale, switch or Redemption or conversion into money) of Units and to the treatment of income (if any), capitalisation, capital gains, any distribution, and other tax consequences relevant to their subscription, acquisition, holding, capitalisation, disposal (by way of sale, transfer, switch or conversion into money) of Units within their jurisdiction of nationality, residence, incorporation, domicile etc. or under the laws of any jurisdiction to which they or any managed funds to be used to Purchase / gift Units are subject, and also to determine possible legal, tax, financial or other consequences of subscribing / gifting, purchasing or holding Units before making an application for Units.
- Morgan Stanley Mutual Fund / the AMC have not authorised any person to give any information or make any representations, either oral or written, not stated in this Scheme Information Document in connection with issue of Units under the Scheme. Prospective investors are advised not to rely upon any information or representations not incorporated in this Scheme Information Document as the same have not been authorised by the Fund or the AMC. Any subscription, Purchase or sale made by any person on the basis of statements or representations which are not contained in this Scheme Information Document or which are inconsistent with the information contained herein shall be solely at the risk of the investor.
- Subject to the Regulations, from time to time, funds managed by the affiliates /associates of the Sponsor may invest either directly or indirectly in the Scheme. The funds managed by these affiliates/associates may acquire a substantial portion of the Scheme's Units and collectively constitute a major investment in the Scheme. Accordingly, Redemption of Units held by such funds may have an adverse impact on the value of

the Units of the Scheme because of the timing of any such Redemption and may affect the ability of other Unit Holders to redeem their respective Units.

- As the liquidity of the Scheme's investments may sometimes be restricted by trading volumes settlement periods and transfer procedures, the time taken by the Fund for Redemption of Units may be significant in the event of an inordinately large number of Redemption requests or of a restructuring of the Scheme's portfolio. In view of this, the Trustee has the right, in its sole discretion, to limit redemptions under certain circumstances - please refer paragraph "Right to Limit Redemptions" in section III A under Units and Offer.
- The AMC, under powers delegated by the Trustee, shall have absolute discretion to reject any application, prevent further transactions by a Unit Holder, if after due diligence, the investor / Unit Holder / a person making the payment on behalf of the investor does not fulfill the requirements of the "Know Your Customer" or the AMC believes that the transaction is suspicious in nature as regards money laundering. In this behalf the AMC reserves the right to reject any application and effect a mandatory Redemption of Units allotted at any time prior to the expiry of 30 Business Days from the date of the application. If the payment for Purchase of Units are made by a third party (e.g. a Power of Attorney Holder, a Financing agency, a relative, etc.), the Unit Holder may be required to give such details of such transaction so as to satisfy the AMC of the source and / or consideration underlying the transaction.

Investors are urged to study the terms of the Statement of Additional Information and Scheme Information Document before investing in the Scheme and to retain this Scheme Information Document for future reference.

D. DEFINITIONS

In this Scheme Information Document, the following terms shall have the meanings mentioned against the respective term unless the context suggest otherwise:

AMFI - Association of Mutual Funds in India

Asset Management Company, AMC or Investment Manager - Morgan Stanley Investment Management Private Limited incorporated under the provisions of the Companies Act, 1956, and approved by SEBI to act as Investment Manager for the Schemes of Morgan Stanley Mutual Fund.

Applicable NAV - The Net Asset Value applicable for Redemptions / Repurchase / switches etc., based on the Business Day and relevant cut-off times on which the application is accepted at the official points of acceptance.

Application Form/Key Information Memorandum - A form meant to be used by an investor to open a Folio and purchase Units in the Scheme. Any modifications to the application form will be made by way of an addendum. On the issue of such addendum, the application form will be deemed to be updated by the addendum.

Business Day - A day not being:

1. A Saturday or Sunday; or
2. A day on which Banks in Mumbai and /or the Reserve Bank of India are closed for business or clearing, or
3. A day on which there is no RBI clearing / settlement of securities; or
4. A day on which the money markets are closed or otherwise not accessible; or
5. A day on which both The Bombay Stock Exchange Limited and The National Stock Exchange of India Limited are closed, whether or not the banks in Mumbai are open; or
6. A day on which Purchase and Redemption of Units is suspended or a book closure period is announced by the Trustee / AMC; or
7. A day on which normal business cannot be transacted due to storms, floods, bandhs, strikes or such other events as the AMC may specify from time to time.

Provided that the days when the banks in any location where the AMC's Investor Service Centres / Collection Centres are located, are closed due to a local holiday, such days will be treated as non Business Days at such centres for the purposes of accepting fresh subscriptions. However, if the Investor Service Centre in such locations is open on such local holidays, then redemption and switch requests will be accepted at those centres, provided it is a Business Day for the Scheme on an overall basis.

Notwithstanding the above, the AMC reserves the right to change the definition of Business Day and to declare any day as a Business Day or otherwise at any or all ISCs.

CBLO - Collateralised Borrowing and Lending Obligation.

Contingent Deferred Sales Charge / CDSC - A charge to the Unit Holder upon exiting (by way of Redemption) based on the period of holding of Units. The Regulations provide that a CDSC may be charged only for a no-Load Scheme and only for the first four years after the Purchase and caps the percentage of NAV that can be charged in each year.

Custodian - JP Morgan Chase Bank branch registered under the SEBI (Custodian of Securities) Regulations, 1996, currently acting as Custodian to the Scheme or any other custodian who is approved by the Trustee.

Cut-off time - Cut-off timing, in relation to an investor making an application to a mutual fund for purchase or sale of units, shall mean the outer limits of timings within a particular day which are relevant for determination of the NAV that is to be applied for his/her transaction.

Depository - Depository as defined in the Depositories Act, 1996.

Designated Collection Centres - During the New Fund Offer Period and on an Ongoing basis: MSIM Branches and ISCs designated by the AMC where the applications shall be received. Please refer Back Cover/last page of this document and Key Information Memorandum for list of designated collection centres.

Dividend - Income distributed by Scheme on the Units, where applicable.

Entry Load - A Load charged to an investor on Purchase of Units based on the amount of investment or any other criteria decided by the AMC, from time to time.

EFT - Electronic Fund Transfer

Exit Load - A Load (other than CDSC) charged to the Unit Holder on exiting the Scheme (by way of Redemption) based on period of holding, amount of investment, or any other criteria decided by the AMC.

Floating Rate Debt Instruments - Floating rate debt instruments are debt securities issued by Central and / or State Government, Corporate Bodies or PSUs with interest rates that are reset periodically. The periodicity of the interest reset could be daily, monthly, quarterly, half-yearly, annually or any other periodicity that may be mutually agreed with the issuer and the Mutual Fund. Floating rate debt instruments, which can be synthetically created by swapping Money Market Instruments & Fixed Rate Debt Instruments for floating rate returns.

Foreign Institutional Investors / FII - An entity registered with SEBI under Securities and Exchange Board of India (Foreign Institutional Investors) Regulations, 1995 as amended from time to time.

Fund / Mutual Fund / MSMF - Morgan Stanley Mutual Fund, a Trust registered with SEBI under the Regulations, vide Registration No. MF/005/93/1 dated November 5, 1993.

Gilts or Government Securities - Securities created and issued by the Central Government and/or a State Government (including Treasury Bills) or Government Securities as defined in the Public Debt Act, 1944, as amended or re-enacted from time to time.

Investment Agreement / IMA - The agreement dated November 03, 1993, entered into between Board of Trustees and Morgan Stanley Investment Management Private Limited, as amended from time to time.

Investor Service Centre / ISC - Official points of acceptance of transaction / service requests from investors.

These will be designated by the AMC from time to time.

Load - A charge that may be levied to an investor at the time of Purchase of Units of the Scheme or to a Unit Holder at the time of Redemption of Units from the Scheme.

MSSTBF - Morgan Stanley Short-term Bond Fund, an open-ended debt scheme.

Net Asset Value / NAV - Net Asset Value of the Units of the Scheme (including options thereunder) calculated in the manner provided in this Scheme Information Document or as may be prescribed by the Regulations from time to time.

New Fund Offer / NFO - The offer for Purchase of Units at the inception of the Scheme, available to the investors during the NFO Period.

New Fund Offer / NFO period - The period being May 12, 2009 to May 20, 2009 subject to extension, if any

Non Resident Indian/NRI - Non Resident Indian as defined in the Foreign Exchange Management Act, 1999.

Scheme Information Document - This document issued by Morgan Stanley Mutual Fund, offering Units of Morgan Stanley Short-term Bond Fund for subscription. Any modifications to the Scheme Information Document will be made by way of an addendum, which will be attached to Scheme Information Documents. On issuance of addendum, the Scheme Information Document will be deemed to be updated by the addendum.

Ongoing Offer - Ongoing offer is an offer of units under the scheme when it becomes open for continuous purchase/sale after the closure of the New Fund Offer Period.

PIO - Person of Indian Origin means a citizen of any country other than Bangladesh or Pakistan, if (a) he / she at any time held Indian passport; or (b) he / she or either of his / her parents or any of his / her grandparents were a citizen of India by virtue of the Constitution of India or the Indian Citizenship Act 1955 (57 of 1955); or (c) the person is a spouse of a Indian citizen or a person referred to in sub clause (a) or (b) above.

PoA - Power of Attorney

Purchase / Subscription - Subscription to / purchase of units of the scheme

Purchase price - The price at which the units can be purchased and calculated in the manner provided in this Scheme Information Document.

RBI - Reserve Bank of India.

Registrar - Karvy Computershare Private Limited registered under the SEBI (Registrar to an Issue and Share Transfer Agents) Regulations, 1993, appointed as the Registrar and Transfer Agent for the Scheme, or any other registrar that may be appointed by the AMC.

Redemption - Repurchase of Units by the Scheme from a Unit Holder

Redemption Price - The price (being Applicable NAV minus Exit Load / CDSC) at which the Units can be redeemed and calculated in the manner provided in this Scheme Information Document.

Scheme - Morgan Stanley Short-term Bond Fund

SEBI - Securities and Exchange Board of India established under the SEBI Act, 1992.

SEBI Regulations / Regulations - Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 as amended from time to time, including by way of circulars or notifications issued by SEBI and the Government of India.

Sponsor - Morgan Stanley being the settler of Morgan Stanley Mutual Fund.

Switch - Sale of a Unit in one Scheme / Plan / Option against purchase of a Unit in another Scheme / Plan / Option.

Systematic Investment Plan / SIP - A facility enabling investors to save and invest in the Scheme at frequency/dates prescribed by the Mutual Fund, by submitting post-dated cheques / payment instructions.

Systematic Transfer Plan / STP - A facility enabling the unit holders to transfer their investments from/to other schemes of Morgan Stanley Mutual Fund at a frequency/dates prescribed by the Mutual Fund from time to time, by giving a single instruction to the Mutual Fund.

Systematic Withdrawal Plan / SWP - A facility enabling the unit holders to withdraw amount from the Scheme at a frequency prescribed by the Mutual Fund from time to time, by giving a single instruction to the Mutual Fund.

Transaction Slip - A form meant to be used by Unit Holders seeking additional Purchase or Redemption of Units in the Scheme, change in bank account details, switch-in or switch-out and such other facilities offered by the AMC and mentioned in Transaction Slips.

Trustees / Board of Trustees - The Trustees to the Morgan Stanley Mutual Fund.

Trust Deed - The Trust Deed dated November 3, 1993 made by and between the Sponsor and the Board of Trustees, establishing Morgan Stanley Mutual Fund, as amended from time to time.

Unit - The interest of an investor, which consists of one undivided share in the net assets of the Scheme.

Unit Holder - A person holding Units of the Scheme of Morgan Stanley Mutual Fund offered under this Scheme Information Document.

Valuation Day - Business Day

Interpretation

For all purposes of this Scheme Information Document, except as otherwise expressly provided or unless the context otherwise requires:

- The terms defined in this Scheme Information Document include the plural as well as the singular.
- Pronouns having a masculine or feminine gender shall be deemed to include the other.
- All references to “US\$” refer to United States Dollars and “Rs.” refer to Indian Rupees.
- A “Crore” means “ten million” and a “Lac” means a “hundred thousand”.
- References to times of day (i.e. a.m. or p.m.) are to Mumbai (India) times and references to a day are to a calendar day including non Business Day.

E. DUE DILIGENCE BY THE ASSET MANAGEMENT COMPANY

It is confirmed that:

- (i) The draft Scheme Information Document forwarded to SEBI is in accordance with the SEBI (Mutual Funds) Regulations, 1996 and the guidelines and directives issued by SEBI from time to time.
- (ii) All legal requirements connected with the launching of the scheme as also the guidelines, instructions, etc., issued by the Government and any other competent authority in this behalf, have been duly complied with.
- (iii) The disclosures made in the Scheme Information Document are true, fair and adequate to enable the investors to make a well informed decision regarding investment in the proposed scheme.
- (iv) The intermediaries named in the Scheme Information Document and Statement of Additional Information are registered with SEBI and their registration is valid, as on date.

Sd/-

Sonali Bendke
Compliance Officer

Place: Mumbai

Date: October 1, 2008

Note: The aforesaid Due Diligence Certificate dated October 1, 2008 was submitted to Securities and Exchange Board of India on October 1, 2008.

II. Information About The Scheme

A. TYPE OF THE SCHEME

An Open ended Debt Scheme

B. WHAT IS THE INVESTMENT OBJECTIVE OF THE SCHEME?

The investment objective is to generate income from a diversified portfolio of short to medium term debt and money market securities.

The scheme will construct a portfolio consisting of short to medium term debt and money market securities to deliver returns.

However, there is no assurance that the objective of the Scheme will be realised. The Scheme does not assure or guarantee any returns.

C. HOW WILL THE SCHEME ALLOCATE ITS ASSETS?

Under normal circumstances, the asset allocation would be as follows:

Instruments	Indicative allocations (% of total assets)		Risk Profile
	Maximum	Minimum	
Money market & debt instruments* with residual maturity / average maturity / interest rate reset not greater than 1 year	100	25	Low
Debt instruments* including Government Securities with residual maturity greater than 1 year	75	0	Low to Medium

* including securitized debt up to 100% of the net assets. No investment shall be made in foreign securitized debt.

The Scheme may also take fixed income derivatives position up to 50% of the net assets of the Scheme based on the opportunities available subject to guidelines issued by SEBI from time to time. These positions may be taken to hedge the portfolio, rebalance the same or to undertake any other strategy as permitted under SEBI Regulations from time to time.

The Scheme may also invest in foreign debt instruments up to 30% of the net assets of the Scheme in accordance with guidelines prescribed by SEBI and RBI from time to time. The scheme shall not make investments in Foreign Securitised debt.

If permitted by SEBI under Regulations / guidelines, the Scheme may also engage in securities lending. The AMC shall comply with all reporting requirements and

the Trustee shall carry out periodic review as required by SEBI guidelines. Securities lending means the lending of stock to another person or entity for a fixed period of time, at a negotiated compensation. The securities lent will be returned by the Borrower on expiry of the stipulated period.

The Investment Manager will apply the following limits, should it desire to engage in Securities lending:

- Not more than 20% of the net assets of the Scheme can generally be deployed in securities lending; and
- Not more than 5% of the net assets of the Scheme can generally be deployed in securities lending to any single counter party.

Various risk associated with securities lending are described under risk factors of this document.

Change in Investment Pattern:

Subject to the SEBI Regulations, the asset allocation pattern indicated above may change from time to time, keeping in view market conditions, market opportunities, applicable regulations and political and economic factors. It must be clearly understood that the percentages stated above are only indicative and not absolute. These proportions can vary substantially depending upon the perception of the Investment Manager; the intention being at all times to seek to protect the interests of the Unitholders. Such changes in the investment pattern will be for short term period and for defensive considerations only.

D. WHERE WILL THE SCHEME INVEST?

The corpus of the Scheme will be invested in debt and money market instruments. Subject to the Regulations, the corpus of the Scheme can be invested in any (but not exclusively) of the following securities / instruments:

- Securities created and issued by the Central and State Governments and/or repos/reverse repos in such Government Securities as may be permitted by RBI (including but not limited to coupon bearing bonds, zero coupon bonds and treasury bills).
- Securities guaranteed by the Central and State Governments (including but not limited to coupon bearing bonds, zero coupon bonds and treasury bills).
- Debt instruments issued by domestic Government agencies and statutory bodies, which may or may not carry a Central/State Government guarantee.
- Corporate debt and securities (of both public and private sector undertakings) including Bonds, Debentures, Notes, Strips, etc.
- Debt instruments (both public and private sector) issued by banks / development financial institutions.

- Money market instruments permitted by SEBI including alternative investments for the call money market as may be provided by RBI to meet the liquidity requirements.
- Certificate of Deposits (CDs).
- Commercial Paper (CPs).
- Securitised Debt instruments.
- The non-convertible part of convertible securities.
- Any other domestic fixed income securities and money market securities.
- Any overseas debt instrument, as permitted by extant regulations.
- Pass through, Pay through or other Participation Certificates representing interest in a pool of assets including receivables.
- Foreign debt instruments.
- Derivative instruments.
- Debt or money market Mutual Fund schemes.
- Any other securities / instruments as may be permitted by SEBI from time to time.

In addition to the instruments mentioned above, the Scheme may enter into repurchase and reverse repurchase obligations as may be permitted by RBI. A part of the net assets may also be invested in Collateralized Borrowing & Lending Obligations [CBLO] or in alternative investment avenue as may be provided by RBI to meet liquidity requirements.

Investment in Foreign Securities:

Investment in overseas securities shall be made in accordance with the requirements stipulated by SEBI and RBI from time to time. If the Scheme decides to invest in foreign securities, it is the intention of the Investment Manager that such investments will not, normally exceed 30% of the assets of the Scheme. However, the AMC with a view to protecting the interests of the investors, may increase exposure in foreign securities as deemed fit from time to time. Foreign securities would include overseas mutual fund units, including money market and debt instruments, which are permissible under the Regulations or by any other regulatory body. Further, the AMC shall ensure due compliance with SEBI circular dated September 26, 2007 as amended from time to time, pertaining to investment in foreign securities before undertaking any such investment.

As per SEBI circular SEBI/IMD/CIR No. 7/104753/07 dated September 26, 2007, a mutual fund can make overseas investments up to USD 300 million, or such other limit as may be specified by SEBI from time to time.

Investment in short-term deposits of scheduled commercial banks:

Pending deployment of funds of the Scheme in securities in terms of investment objectives of the Scheme, the Scheme may invest the funds of the Scheme in short term deposits of scheduled commercial banks provided:

- Total investment of the scheme in Short term deposit(s) of all the Scheduled Commercial Banks put together shall not exceed 15% of the net assets. However, this limit can be raised up to 20% of the net assets with prior approval of the trustees. Further, investments in Short Term Deposits of associate and sponsor scheduled commercial banks together shall not exceed 20% of total deployment by the mutual fund in short term deposits.
- Scheme shall not invest more than 10% of the net assets in short term deposit(s), of any one scheduled commercial bank including its subsidiaries.
- Scheme shall not invest in short-term deposit of a bank, which has invested in that scheme.
- AMC shall not charge investment management and advisory fees for parking of funds in short term deposits of scheduled commercial banks in case of liquid and debt oriented schemes.
- “Short Term” for such parking of funds by Mutual funds shall be treated as a period not exceeding 91 days. However, in case of the term deposits placed as margin money for trading in derivatives, such limit of 91 days shall not be applicable.
- Such short-term deposits shall be held in the name of the concerned scheme.

Investment in other scheme/s of the Mutual Fund:

For the purpose of further diversification and liquidity, the Scheme may invest in another scheme managed by the same AMC or by the AMC of any other Mutual Fund without charging any fees on such investments, provided that aggregate inter-scheme investment made by all schemes managed by the same AMC or by the AMC of any other Mutual Fund shall not exceed 5% of the net asset value of the Fund.

The securities mentioned above could be listed, unlisted, privately placed, secured, unsecured, rated or unrated and of any maturity. The securities may be acquired through Initial Public Offerings (IPOs), secondary market operations, private placement, rights offers or negotiated deals. The scheme may invest the funds of the scheme in short term deposits of scheduled commercial banks as permitted under extant regulations.

Investment in associate/group companies of the Sponsor:

As per SEBI Regulations, the Scheme shall not make any investments in any un-listed securities of associate / group companies of the Sponsors. The Fund will also not make investment in privately placed securities issued by associate / group companies of the Sponsor. The Scheme may invest not more than 25% of the net assets in listed securities of group companies of the Sponsor/Asset Management Company/Mutual Fund.

Investment by AMC, Sponsor or their affiliates in the Scheme:

Subject to the Regulations, the AMC, the Sponsor, the Trustee and their associates or affiliates, may invest either directly or indirectly in the Scheme. However, AMC shall not charge any investment management and advisory services fee on its own investment in the Scheme.

Procedure and Recording of Investment Decisions:

The Investment Manager will carry out the daily investment activities within the framework of SEBI guidelines in accordance with the investment objective of the scheme.

All investment decisions will be recorded in writing. The Fund Manager will continuously monitor all investment decisions and their impact on the performance of the Scheme and carry out suitable adjustment at periodic intervals. Adherence to overall risk parameters will also be monitored on a regular basis. The Board of AMC and Trustees will review the performance of the Scheme in relation to the benchmark, and other appropriate peer groups, based on performance data available.

The AMC has appointed an Investment Committee comprising of the Chief Executive Officer, the members from Investment Team and Executive Director/s of the AMC. The Committee's role is laid down by the Board of Directors of the AMC and Board of Trustees wherein the Committee will review the investment policy, portfolio and performance of the Scheme periodically. However, the day-to-day investment management decisions will solely be of the Portfolio Manager of the Scheme.

E. WHAT ARE THE INVESTMENT STRATEGIES?

The primary investment objective of the Scheme is to generate income by investing in fixed income securities of short term and/or medium term maturity and ensure reasonable liquidity. The process of allocation to various securities would involve forming a view on interest rates and yield curve based on an analysis of macro economy, monetary policy, public finance and other variables affecting interest rates. Most of the investment will be in short term money market and debt securities including securitized instruments. Investment team will take an

active view on all the key drivers affecting short term interest rates and valuation of different sectors of bond market. Individual securities will be selected based on in-depth credit research and relative valuation. While trying to optimize the portfolio yield, liquidity will be ensured through an appropriate mix of money market and debt securities. Investments in a combination of instruments such as reverse repo, debentures with daily put/call option, treasury bills and other money market instruments will be made to ensure liquidity.

In terms of risk-return profile, the fund is positioned between ultra short term fund and long term bond fund. The portfolio will carry relatively higher interest rate and liquidity risk than ultra short term funds. To generate relatively better returns, it could have higher exposure to medium term securities (1-3 years), and securitized instruments and could move down the credit curve. Investments in debt instruments carry various risks such as interest rate risk, liquidity risk, credit risk, reinvestment risk etc. Whilst such risks cannot be completely eliminated, they may be minimized by diversification and effective use of hedging techniques.

The investment team will carry out in-depth credit evaluation of the securities proposed to be invested in. The credit evaluation will include assessment of financial position, management quality, business and industry dynamics and overall operating environment of the company. The AMC will also be guided by the ratings given to individual issuer and instruments by rating agencies that are approved by the regulators.

Investment in Derivatives:

Derivatives products are leveraged instruments and can provide disproportionate gains as well as disproportionate losses to the investor. Execution of such strategies depends upon the ability of the fund manager to identify such opportunities. Identification and execution of the strategies to be pursued by the fund manager involve uncertainty and decision of fund manager may not always be profitable. No assurance can be given that the fund manager will be able to identify or execute such strategies.

In terms of Circular No. MFD.BC.191/07.01.279/1999-2000 and MPD.BC.187/07.01.279/1999-2000 dated November 1, 1999 and July 7, 1999 respectively issued by Reserve Bank of India permitting participation by Mutual Funds in Interest Rate Swaps and Forward Rate Agreements, the fund will use derivative instruments for the purpose of hedging and portfolio balancing. Further, the guidelines issued by Reserve Bank of India from time to time for forward rate agreements and interest rate swaps and other derivative products would be adhered to by the mutual fund.

Interest Rate Swaps (IRS)

An IRS is an agreement between two parties to exchange stated interest obligations for an agreed period in respect of a notional principal amount. The most common form is a fixed to floating rate swap where one party receives a fixed (pre-determined) rate of interest while the other receives a floating (variable) rate of interest.

Forward Rate Agreement (FRA)

A FRA is basically a forward starting IRS. It is an agreement between two parties to pay or receive the difference between an agreed fixed rate (the FRA rate) and the interest rate (reference rate) prevailing on a stipulated future date, based on a notional principal amount for an agreed period. The only cash flow is the difference between the FRA rate and the reference rate. As is the case with IRS, the notional amounts are not exchanged in FRAs.

Illustration of a derivatives transaction

Basic Structure of a Swap

Bank A has a 6 month Rs. 10 crore liability, currently being deployed in call. Bank B has a Rs. 10 crore 6 month asset, being funded through call. Both banks are running an interest rate risk.

To hedge this interest rate risk, they can enter into a 6 month MIBOR (Mumbai Inter Bank Offered Rate) swap.

Through this swap, A will receive a fixed pre agreed rate (say 7%) and pay "call" on the NSE MIBOR ("the benchmark rate"). Bank A's paying at "call" on the benchmark rate will hedge the interest rate risk of lending in call. B will pay 7% and receive interest at the benchmark rate. Bank A's receiving of "call" on the benchmark rate will hedge his interest rate risk arising from his call borrowing.

The mechanism is as follows:

- Assume the swap is for Rs.10 crore March 1, 2008 to September 1, 2008. A is a fixed rate receiver at 7% and B is a floating rate receiver at the overnight compounded rate.
- On March 1, 2008, A and B will exchange only an agreement of having entered this swap. This documentation would be as per International Swaps and Derivatives Association (ISDA).
- On a daily basis, the benchmark rate fixed by NSE will be tracked by them. On September 1, 2008 they will calculate the following:
 - A is entitled to receive interest on Rs.10 crore at 7% for 184 days i.e. Rs. 35.28 lacs, (this amount is known at the time the swap was concluded) and will pay the compounded benchmark rate.

- B is entitled to receive daily compounded call rate for 184 days & pay 7% fixed.
- On September 1, 2008, if the total interest on the daily overnight compounded benchmark rate is higher than Rs. 35.28 lacs, A will pay B the difference. If the daily compounded benchmark rate is lower, then B will pay A the difference.
- Effectively, Bank A earns interest at the rate of 7% p.a. for six months without lending money for 6 months fixed, while Bank B pays interest @ 7% p.a. for 6 months on Rs. 10 crore, without borrowing for 6 months fixed.

As per above said RBI circulars, mutual funds are permitted to do Interest Rate Swaps / Forward Rate Agreements, for hedging purposes only. Accordingly, the AMC would undertake the same for similar purposes only. IRS and FRAs do also have inherent credit and settlement risks. However, these risks are substantially reduced as they are limited to the interest streams and not the notional principal amounts.

Investments in derivatives will be in accordance with the extant SEBI regulations / guidelines. Presently, derivatives shall be used for hedging and / or portfolio balancing purposes, as permitted under the Regulations. The circumstances under which such transactions would be entered into would be when, using the IRS route it is possible to generate better returns / meet the objective of the scheme at a lower cost. For e.g. if buying a 2 Yr Mibor based instrument and receiving the 2 Yr swap rate yields better return than the 2 Yr AAA corporate instrument, the scheme would endeavour to do that. Alternatively, the scheme would also look to hedge existing fixed rate positions if the view on interest rates is that it would likely rise in the future.

Overview of the Debt Market in India

The Indian fixed income market is increasingly becoming sophisticated with a wide variety of participants, instruments and is now getting integrated with the global financial markets. Increase in the limit of foreign institutional investors' investment in the domestic fixed income market will result in attracting global investors to the Indian Market. Screen based order matching system developed by the Reserve Bank of India (RBI) for trading in government securities, straight through settlement system for the same, settlements guaranteed by the Clearing Corporation of India and innovative instruments like CBLO have contributed in reducing the settlement risk and increasing the confidence level of the market participants. Screen based currency futures have

recently been launched and there are plans to launch exchange traded interest rate futures. Availability of these hedging instruments will increase volumes in the cash market also.

The RBI reviews the monetary policy four times a year giving the guidance to the market on direction of interest rate movement, liquidity and credit expansion. The central bank has been operating as an independent authority, formulating the policies to maintain price stability and adequate liquidity. Bonds are traded in dematerialised form and institutional investors' preference for listed instruments has resulted in most of the bonds getting listed. This has improved the disclosure standards by the issuers. Credit rating agencies have been playing an important role in the market and are an important source of information to manage the credit risk.

Government (Central and State) is the largest issuer of debt in the market. Public sector enterprises, quasi government bodies and private sector companies are other issuers. Insurance companies, provident funds, banks, mutual funds, financial institutions, corporates and FIIs are major investors in the market. Government loans are available up to 30 years maturity. Variety of instruments available for investments including plain vanilla bonds, floating rate bonds, money market instruments, structured obligations and interest rate derivatives, make it possible to manage the interest rate risk effectively. The securities available are listed or unlisted, secured or unsecured, public issue or private placements.

Indicative levels of the instruments currently trading are as follows:

Instrument	Maturity	Yield	Liquidity
CBLO / Repo	Short	2.75-3.5%	Very High
CP / CD / T Bills	Short	3.5-7.0%	Very High
Securitized Debt	Short / Medium	8.0-10.0%	Low
PSU Bonds / Corporate Bonds	Medium	7.0-8.5%	Medium
Central / State Government Securities	Low to High	5-7.5%	High

These are only indicative levels in April 2009 and may change depending upon the prevailing market conditions.

F. FUNDAMENTAL ATTRIBUTES

Following are the Fundamental Attributes of the scheme, in terms of Regulation 18 (15A) of the SEBI (MF) Regulations:

(i) Type of a scheme

- Open ended Scheme
- Debt Scheme

(ii) Investment Objective

- **Main Objective** - The investment objective is to generate income from a diversified portfolio of short to medium term debt and money market securities.

Asset Allocation pattern is mentioned in part C under section II titled "Information about the Scheme".

(iii) Terms of Issue

- Liquidity provisions such as listing, repurchase, redemption.

The Fund will sell and redeem the Units on an ongoing basis. As the Scheme stands ready to redeem Units on a continuous basis as laid down herein, the transfer facility is found redundant. Units of the Scheme shall therefore be non-transferable. However, if a transferee becomes a holder of Units by operation of law including upon enforcement of a pledge, then the fund may, subject to production of such evidence, which in their opinion is sufficient, proceed to effect the transfer within 30 days from the date of lodgment if the intended transferee is otherwise eligible to hold the Units.

- Aggregate fees and expenses charged to the scheme.

Recurring Expenses structure is mentioned in Section IV titled "Fees and Expenses".

In accordance with Regulation 18(15A) of the SEBI (MF) Regulations, the Trustees shall ensure that no change in the fundamental attributes of the Scheme(s) and the Plan(s) / Option(s) hereunder or the trust or fee and expenses payable or any other change which would modify the Scheme(s) and the Plan(s) / Option(s) there under and affect the interests of Unit holders is carried out unless:

- A written communication about the proposed change is sent to each Unitholder and an advertisement is given in one English daily newspaper having nationwide circulation as well as in a newspaper published in the language of the region where the Head Office of the Mutual Fund is situated; and
- The Unitholders are given an option for a period of 30 days to exit at the prevailing Net Asset Value without any exit load.

G. HOW WILL THE SCHEME BENCHMARK ITS PERFORMANCE?

The investment performance of the Scheme shall be benchmarked against CRISIL Short-Term Bond Fund Index.

CRISIL Short-Term Bond Fund Index being a widely used benchmark for products with similar portfolio attributes in the market, the same has been selected as a standard benchmark for the purpose of this Scheme.

H. WHO MANAGES THE SCHEME?

Name of the Fund Manager	Age/Qualification	Experience
Mr. Ritesh Jain Lead Portfolio Manager - Fixed Income	34 years PGDBA (Finance), B.Com.	Ritesh joined Morgan Stanley Investment Management Private Limited as a part of the Investment Team in March 2009. Prior to joining Morgan Stanley, he worked with Principal PNB Asset Management Company Pvt. Ltd. where he headed Fixed Income managing around Rs. 6000 crore under different fixed income plans. Ritesh holds a PGDBA from K.J. Somaiya Institute of Management Studies & Research, Mumbai and B.Com (Hons.) from University of Calcutta. He has over 10 years of experience in investment management.

Mr. Sridhar Sivaram, Executive Director and Mr. Amay Hattangadi, Executive Director shall be the dedicated Fund Managers for investment in foreign securities. Further, the AMC shall ensure due compliance with SEBI circular dated September 26, 2007 as amended from time to time, pertaining to investment in foreign securities before undertaking any such investment.

As of the date of this document, Morgan Stanley Mutual Fund has only two equity schemes. This Fixed Income Scheme will be managed by Mr. Ritesh Jain.

I. WHAT ARE THE INVESTMENT RESTRICTIONS?

As per the Trust Deed read with the Regulations, the following investment restrictions apply in respect of the Scheme at the time of making investments. However, all investments by the Scheme will be made in accordance with the investment objective, investment strategy and investment pattern described previously.

- i) The Scheme shall not invest more than 15% of its net assets in debt instruments issued by a single issuer which are rated not below investment grade by a credit rating agency authorised to carry out such activity under the Act. Such investment limit may be extended to 20% of the net assets of the Scheme with the prior approval of the Board of Trustees and the Board of the AMC.
Provided that such limit shall not be applicable for investments in government securities and money market instruments.
Provided further that investment within such limit can be made in mortgaged backed securitised debts which are rated not below investment grade by a credit rating agency registered with SEBI
- ii) The Scheme shall not invest more than 10% of its NAV in unrated debt instruments issued by a single issuer and the total investment in such instruments shall not exceed 25% of the NAV of the Scheme. All such investments shall be made with the prior approval of the Board of Trustees and the Board of the asset management company.
- iii) Debentures, irrespective of any residual maturity period (above or below one year), shall attract the investment restrictions as applicable for debt instruments as specified under Clause 1 and 1 A of Seventh Schedule to the Regulations.
- iv) Transfers of investments from one scheme to another scheme in the Fund shall be made only if :-
 - a) such transfers are done at the prevailing market price for quoted instruments on spot basis and
Explanation - "spot basis" shall have the same meaning as specified by stock exchange for spot transactions
 - b) the securities so transferred shall be in conformity with the investment objective of the scheme to which such transfer has been made.
- v) The Scheme may invest in another scheme under the same AMC or any other mutual fund without charging any fees, provided that aggregate inter-scheme investment made by all schemes under the same management or in schemes under the management of any other asset management company shall not exceed 5% of the net asset value of the Fund.
- vi) The Scheme shall buy and sell securities on the basis of deliveries and shall in all cases of purchases, take delivery of relative securities and in all cases of sale, deliver the securities and shall in no case put itself in a position whereby it has to make short sale or carry forward transaction or engage in badla finance.
- vii) The Fund shall, get the securities purchased or transferred in the name of the Fund on account of the Scheme, wherever investments are intended to be of long term nature.
- viii) Pending deployment of funds of the Scheme in securities in terms of investment objectives of the Scheme, the Scheme can invest the funds of the Scheme in short term deposits of scheduled commercial banks provided:
 - a) Total investment of the scheme in Short term deposit(s) of all the Scheduled Commercial Banks put together shall not exceed 15% of the net assets. However, this limit can be raised up to 20% of the net assets with prior approval of the trustees. Further, investments in Short Term Deposits of

associate and sponsor scheduled commercial banks together shall not exceed 20% of total deployment by the mutual fund in short term deposits.

- b) Scheme shall not invest more than 10% of the net assets in short term deposit(s), of any one scheduled commercial bank including its subsidiaries.
 - c) Scheme shall not invest in short-term deposit of a bank, which has invested in that scheme.
 - d) AMC shall not charge investment management and advisory fees for parking of funds in short term deposits of scheduled commercial banks in case of liquid and debt oriented schemes.
 - e) "Short Term" for such parking of funds by Mutual funds shall be treated as a period not exceeding 91 days. However, in case of the term deposits placed as margin money for trading in derivatives, such limit of 91 days shall not be applicable.
 - f) Such short-term deposits shall be held in the name of the concerned scheme.
- ix) The Scheme shall not make any investment in;
- a) any unlisted security of an associate or group company of the Sponsor; or
 - b) any security issued by way of private placement by an associate or group company of the Sponsor; or
 - c) the listed securities of group companies of the Sponsor which is in excess of 25% of the net assets.
- x) The Scheme shall not make any investment in any fund of fund scheme.
- xi) The Scheme will comply with any other Regulations applicable to the investments of Mutual Funds from time to time

The Trustees / AMC may alter these above stated limitations from time to time, and also to the extent the Regulations change and as permitted by RBI, so as to permit the Scheme to make its investments in the full spectrum of permitted investments in order to achieve its investment objective.

J. HOW HAS THE SCHEME PERFORMED?

This scheme is a new scheme and does not have any performance track record.

III. Units And Offer

This section provides details you need to know for investing in the scheme.

A. NEW FUND OFFER (NFO) DETAILS

New Fund Offer Period

This is the period during which a new scheme sells its units to the investors.

NFO opens on: May 12, 2009

NFO closes on: May 20, 2009

The Board of Trustees reserves the right to extend the closing date, subject to the condition that the NFO shall not be kept open for more than 30 days.

New Fund Offer Price:

This is the price per unit that the investors have to pay to invest during the NFO.

Units of Rs. 10/- each for cash during the New Fund Offer and Continuous offer for Units at NAV based prices.

Minimum Amount for Application in the NFO

Regular Plan- Rs. 5,000/- plus in multiples of Re. 1/-

Institutional Plus Plan - Rs. 50 lacs plus in multiples of Re. 1/-

Minimum Target amount

This is the minimum amount required to operate the scheme and if this is not collected during the NFO period, then all the investors would be refunded the amount invested without any return. However, if AMC fails to refund the amount within 6 weeks, interest as specified by SEBI (currently 15% p.a.) will be paid to the investors from the expiry of six weeks from the date of closure of the subscription period.

The minimum target amount shall be Rs. 1 crore.

Maximum Amount to be raised (if any)

This is the maximum amount which can be collected during the NFO period, as decided by the AMC.

There is no upper limit for collection during the NFO period.

Plans / Options offered

Regular Plan and Institutional Plus Plan.

The following are the plans / options available under the Scheme:

Plan	Option	Sub-Options	Frequency	Record date
Regular	Dividend	Dividend Reinvestment and Pay out	Monthly	Last Friday* of the month
Regular	Growth	-	-	-
Institutional Plus	Dividend	Dividend Reinvestment	Weekly	Every Friday*
Institutional Plus	Dividend	Dividend Reinvestment and Pay out	Monthly	Last Friday* of the month.
Institutional Plus	Growth	-	-	-

* If Friday is a holiday, then the record date shall be the previous Business day.

Growth option: Under this Option, income earned on the Scheme's corpus will remain invested in the Scheme and

will be reflected in the Net Asset Value (NAV). Unitholders who opt for this Option will not receive any dividend in normal circumstances.

If the investor does not clearly specify the choice of Option/Sub Option/Frequency at the time of investing, it will be treated as a Dividend /Reinvestment/ Monthly for both Regular Plan and Institutional Plus plan as applicable. If the investor does not specify the plan, the plan allotted will be based on the minimum application amount criteria for each plan.

Dividend Policy

The Trustees may decide to distribute by way of dividend, the surplus by way of realised profit, dividends and interest, net of losses, expenses and taxes, if any, to Unit Holders in the dividend option of the Scheme if such surplus is available and adequate for distribution in the opinion of the Trustees. The Trustees decision with regard to availability and adequacy, rate, timing and frequency of distribution shall be final. The dividend will be due to only those Unit Holders whose names appear in the register of Unit Holders in the Dividend option of the Scheme on the record date. The Unit Holders have the option of receiving the dividend or reinvesting the same. Though it is the intention of the Mutual Fund to make regular dividend distribution, there is no assurance or guarantee that the dividends will be regularly paid.

Pursuant to SEBI circular no. SEBI/IMD/CIR No. 1/64057/06, dated April 4, 2006, in case of dividend option/s where the frequency of dividend declaration is up to and including Monthly basis, the requirement of issuing a notice [in one English daily newspaper having nationwide circulation as well as in a newspaper published in the language of the region where the head office of the Mutual Fund is situated] to the public communicating the decision of declaring dividend [including the record date], is not mandatory. Accordingly, no notice as mentioned above will be published by AMC in case of dividend declared under the scheme under dividend option where the frequency of dividend declaration is upto and including Monthly basis.

The AMC shall dispatch to the Unit Holders, the dividend warrants within 30 days of the date of declaration of dividend.

Allotment

Subject to the receipt of the specified minimum subscription amount to be received during NFO, full allotment of Units applied for will be made within 30 days from the date of closure of the NFO Period for all valid applications received during the NFO Period.

Account Statements

An account statement will be sent by ordinary post / courier / electronic mail to each Unit Holder, stating the

number of Units purchased, not later than 30 days from the close of the NFO Period.

In case the investor provides the e-mail address, the Fund will provide the Account Statement only through e-mail message. The Account Statements shall be non-transferable. When an investor has communicated his / her e-mail address, the Mutual Fund / Registrars having sent e-mail to such registered address are not responsible for e-mail not reaching the investor and for all consequences thereof. The Investor shall from time to time intimate the Mutual Fund / its transfer agents about any changes in the email address.

Refund

If application is rejected, full amount will be refunded within 6 weeks of closure of NFO. If refunded later than 6 weeks, interest @ 15% p.a. for delayed period will be paid and charged to the AMC.

Who can invest?

This is an indicative list and you are requested to consult your financial advisor to ascertain whether the scheme is suitable to your risk profile.

The following is an indicative list of persons who are generally eligible and may apply for subscription to the Units of the Scheme:

- Indian resident adult individuals, either singly or jointly (not exceeding three);
- Minor through parent / lawful guardian; (please see the note below)
- Companies, bodies corporate, public sector undertakings, association of persons or bodies of individuals and societies registered under the Societies Registration Act, 1860;
- Religious and Charitable Trusts, Wakfs or endowments of private trusts (subject to receipt of necessary approvals as required) and Private Trusts authorised to invest in mutual fund schemes under their trust deeds;
- Partnership Firms constituted under the Partnership Act, 1932;
- A Hindu Undivided Family (HUF) through its Karta;
- Banks (including Co-operative Banks and Regional Rural Banks) and Financial Institutions;
- Non-Resident Indians (NRIs) / Persons of Indian Origin (PIO) on full repatriation basis or on non-repatriation basis;
- Foreign Institutional Investors (FIIs) registered with SEBI on full repatriation basis;

- Army, Air Force, Navy and other para-military funds and eligible institutions;
- Scientific and Industrial Research Organisations;
- Provident / Pension / Gratuity and such other Funds as and when permitted to invest;
- International Multilateral Agencies approved by the Government of India / RBI;
- The Trustee, AMC or Sponsor or their associates (if eligible and permitted under prevailing laws); and
- A Mutual Fund through its schemes, including Fund of Funds schemes.

Note: Minor Unit Holder on becoming major may inform the Registrar about attaining majority and provide his specimen signature duly authenticated by his banker as well as his details of bank account and PAN (if required) to enable the Registrar to update their records and allow him to operate the Account in his own right.

It should be noted that the following entities cannot invest in the scheme:

- Overseas Corporate Bodies (OCBs) shall not be allowed to invest in the Scheme. These would be firms and societies which are held directly or indirectly but ultimately to the extent of at least 60% by NRIs and trusts in which at least 60% of the beneficial interest is similarly held irrevocably by such persons (OCBs).
- Non-Resident Indians residing in the United States of America and Canada.
- Non-Resident Indians residing in the Financial Action Task Force (FATF) Non Compliant Countries and Territories (NCCTs) (as on June 20, 2007 there are no countries as non - co-operative).

The Fund reserves the right to include / exclude new / existing categories of investors to invest in the Scheme from time to time, subject to SEBI Regulations and other prevailing statutory regulations, if any.

Subject to the Regulations, any application for Units may be accepted or rejected in the sole and absolute discretion of the Trustee. For example, the Trustee may reject any application for the Purchase of Units if the application is invalid or incomplete or if, in its opinion, increasing the size of any or all of the Scheme's Unit capital is not in the general interest of the Unit Holders, or if the Trustee for any other reason does not believe that it would be in the best interest of the Scheme or its Unit Holders to accept such an application.

The AMC / Trustee may need to obtain from the investor verification of identity or such other details relating to a subscription for Units as may be required under any

applicable law, which may result in delay in processing the application.

Where can you submit the filled up applications?

During the NFO period, the applications duly filled up and signed by the applicants should be submitted at the ISCs and official points of acceptance whose name and addresses are mentioned at the end of this document including the back cover page.

How to Apply?

Please refer to the SAI and Application form for the instructions.

Listing

This being an open-ended scheme, it is not proposed be listed on any stock exchange.

Special Products / facilities available during the NFO:

Systematic Investment Plan, Systematic Transfer Plan, Systematic Withdrawal Plan would be available during the NFO as well as on an ongoing basis. For details, please refer section B titled "Ongoing offer details - Special Products available."

The policy regarding reissue of repurchased units, including the maximum extent, the manner of reissue, the entity (the scheme or the AMC) involved in the same:

The number of Units held by the Unit Holder in his folio will stand reduced by the number of Units redeemed. Units once redeemed will be extinguished and will not be reissued.

Restrictions, if any, on the right to freely retain or dispose of units being offered:

Pledge of units for loan

In conformity with the guidelines and notifications issued by SEBI / Government of India / any other regulatory body from time to time, Units under the Scheme may be offered as security by way of a lien / charge in favour of scheduled banks, financial institutions, non-banking finance companies (NBFCs), or any other body. The Registrar will note and record the lien against such Units. A standard form for this purpose is available on request with the Registrar.

The Unit Holder will not be able to redeem / switch Units under lien until the Lien Holder provides written authorisation to the Fund that the lien / charge may be vacated. As long as Units are under lien, the Lien Holder will have complete authority to exercise the lien, thereby redeeming such Units and receiving payment proceeds. In such instance, the Unit Holder will be informed by the Registrar through an account statement. All benefits accruing on the units under lien during the period of the lien in the form of bonus, dividend or otherwise shall be subject to lien.

Lien on Units

On an ongoing basis, when existing and new investors make subscriptions, a lien on units allotted will be created, and such units shall not be available for redemption until the payment proceeds are realised by the Fund. In case a Unit holder redeems units soon after making purchases, the redemption cheque will not be dispatched until sufficient time has elapsed to provide reasonable assurance that cheques or drafts for units purchased have been cleared.

In case the cheque / draft is dishonoured by the bank, the transaction shall be reversed and the units allotted earlier shall be cancelled, and a fresh Account Statement / Confirmation slip shall be dispatched to the Unit holder.

For NRIs, the Fund may mark a lien on units in case documents, which need to be submitted, are not given in addition to the application form and before the submission of the redemption request. However, MSIM reserves the right to change operational guidelines for lien on units from time to time.

Suspension of Purchase and Redemption of units:

Subject to the approval of the Boards of the AMC and of the Trustees, and subject also to necessary communication of the same to SEBI, the determination of the NAV of the Units of the Scheme, and consequently of the Purchase, Redemption and switching of Units, may be temporarily suspended in any of the conditions described below:

- i. When one or more stock exchanges or markets which provide the basis of valuation for a substantial portion of the assets of the Scheme is closed otherwise than for ordinary holidays.
- ii. When, as a result of political, economic or monetary events or any other circumstances outside the control of the Trustee and the AMC, the disposal of the assets of the Scheme is not considered to be reasonably practicable or might otherwise be detrimental to the interests of the Unit Holders.
- iii. In the event of breakdown in the means of communication used for the valuation of investments of the Scheme, so that the value of the securities of the Scheme cannot be accurately or reliably arrived at.
- iv. If, in the opinion of the AMC, extreme volatility of markets causes or might cause, prejudice to the interests of the Unit Holders of the Scheme.
- v. In case of natural calamities, war, strikes, riots, and bandhs.
- vi. In case of any other event of force majeure or disaster that in the opinion of the AMC affects the normal functioning of the AMC or the Registrar.
- vii. If so directed by SEBI.

In any of the above eventualities, the time limits for processing requests for subscription and Redemption of Units will not be applicable. All types of subscription and Redemption of Units will be processed on the basis of the immediately next Applicable NAV after the resumption of dealings in Units.

Right to limit redemptions

The Trustees may, in the general interest of the Unit Holders of the Scheme and when considered appropriate to do so based on unforeseen circumstances / unusual market conditions, limit the total number of Units which may be redeemed on any Business Day to 5% of the total number of Units then in issue, under the Scheme and option(s) thereof, or such other percentage as the Trustee may determine. Any Units which consequently are not redeemed on a particular Business Day will be carried forward for Redemption to the next Business Day, in the order of receipt. Redemptions so carried forward will be priced on the basis of the Applicable NAV (subject to the prevailing Load) of the Business Day on which Redemption is made. Under such circumstances, to the extent multiple Redemption requests are received at the same time on a single Business Day, redemptions will be made on a prorata basis, based on the size of each Redemption request, the balance amount being carried forward for Redemption to the next Business Day. In addition, the Trustees reserve the right, in its sole discretion, to limit redemptions with respect to any single account to an amount of Rs. 1 Lac in a single day.

B. ONGOING OFFER DETAILS

Ongoing Offer Period

This is the date from which the scheme will reopen for subscriptions/redemptions after the closure of the NFO period.

The Scheme will offer purchase/switch-in and redemption/switch-out on every business day on an ongoing basis commencing from not later than 30 days from the closure of the NFO.

Ongoing price for subscription (purchase)/switch-in (from other schemes/plans of the mutual fund) by investors:

This is the price you need to pay for purchases/switch-in.

Example: If the applicable NAV is Rs. 10, entry load is 2% then sales price will be:

*Rs. $10 * (1 + 0.02) = Rs. 10.20$*

Subscriptions/Switch-ins on an ongoing basis shall be done at the applicable NAV.

Ongoing price for redemption (sale) /switch outs (to other schemes/plans of the Mutual Fund) by investors.

This is the price you will receive for redemptions/switch outs.

Example: If the applicable NAV is Rs. 10, exit load is 2% then redemption price will be:

$$Rs. 10 * (1 - 0.02) = Rs. 9.80$$

Redemptions/Switch-outs on an ongoing basis shall be done at the applicable NAV subject to prevailing exit load.

For Regular Plan and Institutional Plus Plan:

Exit Load - 0.25% if redeemed within 15 days of allotment.

Cut-off timing for subscriptions / redemptions / switches:

This is the time before which your application (complete in all respects) should reach the official points of acceptance.

The Cut-off time for the Scheme is 3.00 p.m. and the Applicable NAV will be as under:

For Purchase/Switch-in:

- a) In respect of valid Purchase applications (alongwith necessary documents) accepted at an Official Point of acceptance alongwith a local cheque or demand draft payable at par at the place where it is received up to 3.00 p.m. on a Business Day, the closing NAV of the day of receipt of application will be applicable; and
- b) In respect of valid Purchase applications (alongwith necessary documents) accepted at an Official Point of Acceptance alongwith a local cheque or demand draft payable at par at the place where it is received after 3.00 p.m. on a Business Day, the closing NAV of the next Business Day will be applicable.

Please note that in respect of purchase of units with amount equal to or more than Rs. 1 crore, irrespective of the time of receipt of application, the closing NAV of the day on which the funds are available for utilisation shall be applicable.

For Redemption/Switch-out:

- a) In respect of valid applications accepted at an Official Point of Acceptance upto 3.00 p.m. the closing NAV of the day of receipt of application will be applicable; and
- b) In respect of valid applications accepted at an Official Point of Acceptance after 3.00 p.m. the closing NAV of the next Business Day will be applicable.

Where can the applications for purchase/redemption switches be submitted?

Please refer to the last page / back cover page for the detailed list of Official Points of Acceptance.

Minimum amount for purchase/redemption/swiches

a) Subscription of Units

Minimum Application Amount (first time in the scheme)

Regular Plan - Rs. 5,000/- plus in multiples of Re. 1/-

Institutional Plus Plan - Rs. 50 lacs plus in multiples of Re. 1/-

Minimum Additional Application Amount

Regular Plan - Rs. 1,000 plus in multiples of Re. 1/-

Institutional Plus Plan - Rs. 1 lac plus in multiples of Re. 1/-

b) Redemption of Units

The Unit Holder has the option to request for Redemption either in amount in rupees or in number of units. In case the request for redemption specifies both i.e. the amount in Rupees as well as the number of units to be redeemed, then the later will be considered as the redemption request and the request will be processed accordingly. The minimum amount in rupees for Redemption shall be Rs. 1,000/-.

Units can be redeemed (sold back to the Fund) at the Redemption Price. If an investor has purchased Units of a Scheme on more than one Business Day the Units will be redeemed on a first-in-first-out basis. If multiple Purchases are made on the same day, the Purchase appearing earliest in the account statement will be redeemed first.

c) Switches

Valid applications for 'switch-out' shall be treated as applications for Redemption and valid applications for 'switch-in' shall be treated as applications for Purchase, and the provisions of the minimum redemption amount as stated in (b) above and Minimum Application Amount (first time in the scheme) or Minimum Additional Application Amount for purchase as stated in (a) above, as the case may be, shall apply.

Minimum balance to be maintained and consequences of non maintenance:

Investors may note that in case balance in the account of the unit holder does not cover the amount of redemption request, the Mutual Fund is authorized to close the account of such unit holder and redeem the entire balance to the unit holder.

Closure of Unit holder's account:

Investors may note that AMC at its sole discretion may close a unit holder's account under a plan/option, if at the time of any part redemption, if value of the balance falls below Rs. 1,000 [or such other amount as AMC may decide from time to time] or where the units are held by the unit holder in breach of any Regulation.

Special Products available

Systematic Investment Plan (SIP) [available under Regular Plan only]:

- a) SIP Frequency : Monthly
- b) Minimum SIP instalment amount: Rs. 1,000/- and in multiples of Re.1/- thereafter.
- c) Minimum No. of SIP instalments : 6 instalments (including the first SIP cheque)

- d) SIP Dates : 1st / 5th / 10th / 15th / 25th of the month
- e) Registration period: There must be at least 21 days between the first SIP cheque and subsequent due date of ECS (debit clearing).

Systematic Transfer Plan (STP):

- a) STP Frequency : Monthly
- b) Minimum STP instalment amount[^] : Rs. 1,000/- and in multiples of Re.1/- thereafter for Monthly option
- c) Minimum No. of STP instalments : Monthly - 6 instalments
- d) STP Dates* : Monthly Option: 1st / 5th / 10th / 15th / 25th of the month
- e) Registration period: 7 days gap for registration
- f) Minimum Balance for registration of STP - Rs. 6,000/-

Systematic Withdrawal Plan (SWP):

- a) SWP Frequency : Monthly
- b) Minimum SWP instalment amount[^]: Rs. 1,000/- and in multiples of Re.1/- thereafter.
- c) Minimum No. of SWP instalments : 6 instalments
- d) SWP Dates* : 1st of every month
- e) Registration period: 7 days gap for registration
- f) Minimum Balance for registration of STP - Rs. 6,000/-
- g) SWP is not available for investments under lock-in period and for investments which are pledged.

* The Units will be redeemed at the Applicable NAV of the dates specified by AMC on which such transactions are sought. However, if any of the dates on which the transaction is sought is a non Business Day, the transaction will be effected at the Applicable NAV of the next Business Day.

[^] If the amount of instalment is greater than the amount available in that account for transfer (under STP) / redemption (under SWP), the entire available amount will be transferred (under STP) / redeemed (under SWP) and the STP / SWP will terminate automatically.

The Trustee/AMC reserves the right to modify the facilities at any time in future on a prospective basis. Please read the Scheme Information Document carefully before investing.

Application via Electronic mode

Subject to the investor fulfilling certain terms and conditions stipulated by the AMC as under, Morgan Stanley Investment Management Private Limited, Morgan Stanley Mutual Fund or any other agent or representative of the AMC, Mutual Fund, the Registrar may accept transactions through any electronic mode (“fax / web /

electronic transactions”) as permitted by SEBI or other regulatory authorities:

- i) The acceptance of the fax / web / electronic transactions will be solely at the risk of the transmitter of the fax / web / electronic transactions and the recipient shall not in any way be liable or responsible for any loss, damage caused to the transmitter directly or indirectly, as a result of the transmitter sending or purporting to send such transactions.
- ii) The recipient will also not be liable in the case where the transaction sent or purported to be sent is not processed on account of the fact that it was not received by the recipient.
- iii) The transmitter’s request to the recipient to act on any fax / web / electronic transmission is for the transmitter’s convenience and the recipient is not obliged or bound to act on the same.
- iv) The transmitter acknowledges that fax / web / electronic transactions is not a secure means of giving instructions / transactions requests and that the transmitter is aware of the risks involved including those arising out of such transmission.
- v) The transmitter authorizes the recipient to accept and act on any fax / web / electronic transmission which the recipient believes in good faith to be given by the transmitter and the recipient shall be entitled to treat any such fax / web / electronic transaction as if the same was given to the recipient under the transmitter’s original signature.
- vi) The transmitter agrees that security procedures adopted by the recipient may include signature verification, telephone call backs which may be recorded by tape recording device and the transmitter consents to such recording and agrees to cooperate with the recipient to enable confirmation of such fax / web / electronic transaction requests.
- vii) The transmitter accepts that the fax / web / electronic transactions shall not be considered until time stamped as a valid transaction request in the Scheme in line with SEBI regulations.
- viii) In consideration of the recipient from time to time accepting and at its sole discretion acting on any fax / web / electronic transaction request received / purporting to be received from the transmitter, the transmitter agrees to indemnify and keep indemnified the AMC, Directors, employees, agents, representatives of the AMC, Morgan Stanley Mutual Fund and Trustees from and against all actions, claims, demands, liabilities, obligations, losses, damages, costs and expenses of whatever nature (whether actual or

contingent) directly or indirectly suffered or incurred, sustained by or threatened against the indemnified parties whatsoever arising from or in connection with or any way relating to the indemnified parties in good faith accepting and acting on fax / web / electronic transaction requests including relying upon such fax / electronic transaction requests purporting to come from the transmitter even though it may not come from the transmitter.

The AMC reserves the right to discontinue the facility at any point of time.

Accounts Statements

For transactions (other than SIP/STP) during ongoing sales and repurchase:

- The AMC shall issue to the investor whose application (other than SIP/STP) has been accepted, an account statement specifying the number of units allotted. An account statement will be sent by ordinary post/ courier/electronic mail to each unit holder, generally within 4 business days, but not later than 30 days from the date of acceptance of valid Transaction Form.
- For those unit holders who have provided an e-mail address, the AMC will send the account statement by e-mail.
- The unit holder may request for a physical account statement by writing/calling the AMC/ISC/R&T.

For SIP / STP transactions:

- Account Statement for SIP and STP will be despatched once every quarter ending March, June, September and December within 10 business days of the end of the respective quarter.
- A soft copy of the Account Statement shall be mailed to the investors under SIP/STP to their e-mail address on a monthly basis.
- However, the first Account Statement under SIP/STP shall be issued within 10 business days of the initial investment/transfer.
- In case of specific request received from investors, Mutual Funds shall provide the account statement (SIP/STP) to the investors within 5 business days from the receipt of such request without any charges.

Annual Account Statement:

- The Mutual Funds shall provide the Account Statement to the Unit holders who have not transacted during the last six months prior to the date of generation of account statements. The Account Statement shall reflect the latest closing balance and

value of the Units prior to the date of generation of the account statement,

- The account statements in such cases may be generated and issued along with the Portfolio Statement or Annual Report of the Scheme.
- Alternatively, soft copy of the account statements shall be mailed to the investors' e-mail address, instead of physical statement.

Dividend

The dividend warrants shall be dispatched to the unitholders within 30 days of the date of declaration of the dividend.

Redemption

The redemption or repurchase proceeds shall be dispatched to the unitholders within 10 working days from the date of redemption or repurchase.

Delay in payment of redemption / repurchase proceeds

The Asset Management Company shall be liable to pay interest to the unitholders at such rate as may be specified by SEBI for the period of such delay (presently @ 15% per annum).

C. PERIODIC DISCLOSURES

Net Asset Value:

This is the value per unit of the scheme on a particular day.

You can ascertain the value of your investments by multiplying the NAV with your unit balance.

The AMC will calculate and disclose first NAV of the Scheme not later than 30 days from the closure of the NFO. Subsequently, the NAV will be calculated and disclosed on every business day. The NAV of the Scheme shall be disclosed on AMFI's website www.amfiindia.com by 9.00 p.m. and also on the fund website www.morganstanley.com/indiamf. The NAVs of the Scheme shall be published at least in two daily newspapers on a daily basis as per SEBI (Mutual Funds) Regulations.

In case of delay in declaring the NAV beyond 9.00 p.m. on any business day, the reasons for such delay would be explained to AMFI in writing. NAVs would however be endeavoured to be made available before commencement of business hours the following business day, failing which a press release explaining the material reasons for non-availability would be released.

Half yearly Disclosures: Portfolio / Financial Results:

This is a list of securities where the corpus of the scheme is currently invested. The market value of these investments is also stated in portfolio disclosures.

The Fund shall before the expiry of one month from the close of each half-year [March 31st and September 30th] publish a complete statement of Scheme portfolio, in the prescribed format, in one national English daily newspaper circulating in the whole of India, and in the language of the region where the Head office of the Mutual Fund is situated. Alternatively, a complete statement of Scheme portfolio may be mailed to the respective unit holders.

Scheme portfolio details shall also be hosted on the website of the Mutual Fund namely, www.morganstanley.com/indiamf and on the website of AMFI namely, www.amfiindia.com

Half Yearly Results

The Fund shall before the expiry of one month from the close of each half-year [March 31st and September 30th] publish Unaudited Financial Results of the schemes of Mutual Fund in one national English daily newspaper circulating in the whole of India and in a Marathi daily newspaper.

The Unaudited Financial Results shall also be hosted on the website of the Mutual Fund namely, www.morganstanley.com/indiamf and on the website of AMFI namely, www.amfiindia.com

Annual Report:

An annual report of the Scheme will be prepared as at the end of each financial year [March 31st] and copies of the annual report or an abridged summary thereof will be mailed to all Unit Holders as soon as possible but not later than 6 months from the closure of the relevant financial year. If the report is mailed in a summary form, the full report will be available for inspection at the registered office of the Trustees and a copy thereof on request to the Unit Holders on payment of a nominal fee.

Associate Transactions:

Please refer to Statement of Additional Information (SAI).

Taxation:

The information is provided for general information only. However, in view of the individual nature of the implications, each investor is advised to consult his or her own tax advisors/ authorised dealers with respect to the specific amount of tax and other implications arising out of his or her participation in the schemes.

Debt Fund	Resident Investors	Mutual Fund
Tax on Dividend	NIL, in the hands of investors	Dividend Distribution Tax: For investments by individual / HUF investors - 14.1625% For investments by other than individual / HUF investors - 22.66%

Debt Fund	Resident Investors	Mutual Fund
Capital Gains: Long Term	10% (plus surcharge and education cess) without indexation benefit & 20% (plus surcharge and education cess) with indexation benefit	Nil
Short Term	At marginal tax rate applicable to the investor	Nil

For further details on taxation, please refer to the clause on Taxation in the SAI

Investor services

Investors may contact the ISCs and/or offices of the AMC for any queries/complaints or clarifications.

Mr. Sidhartha Gupta has been appointed as the Investor Relations Officer and he may be contacted at 5th Floor, Forbes Building, Charanjit Rai Marg, Fort, Mumbai - 400 001 for written communication and mfinvestorcare@morganstanley.com

Customer Service Executives of Morgan Stanley Mutual Fund can be reached at the following toll free number: - 1800 425 1313.

D. COMPUTATION OF NAV

The NAV of Units under the Scheme shall be calculated by either of the following methods shown below:

$$\text{NAV} = \frac{\text{Market or fair value of the Scheme's current investments} + \text{Current assets} - \text{Current Liabilities and Provisions}}{\text{No. of Units outstanding under the Scheme}}$$

OR

$$\text{NAV} = \frac{\text{Unit Capital} + \text{Reserves and Surplus}}{\text{No. of Units outstanding under the Scheme}}$$

The NAV will be calculated for up to four decimal places for the Scheme.

The NAV will be calculated on each business day. The valuation of the Scheme's assets and calculation of the Scheme's NAV shall be subject to audit on an annual basis and such regulations as may be prescribed by SEBI from time to time.

IV. Fees And Expenses

This section outlines the expenses that will be charged to the schemes.

A. NEW FUND OFFER (NFO) EXPENSES

These expenses are incurred for the purpose of various activities related to the NFO like sales and distribution fees paid, marketing and advertising, registrar expenses, printing and stationary, bank charges, etc.

No New Fund Offer expenses shall be charged to the scheme.

B. ANNUAL SCHEME RECURRING EXPENSES

These are the fees and expenses for operating the Scheme. These expenses include Investment Management and Advisory Fee charged by the AMC, Registrar and Transfer Agents' fee, marketing and selling costs etc. as given in the table below:

The AMC has estimated that upto 2.25% of the daily average net assets of the scheme will be charged to the scheme as expenses. For the actual current expenses being charged, the investor should refer to the website of the mutual fund.

Particulars	% of Net Assets	
	Regular Plan	Institutional Plus Plan
Investment Management & Advisory Fee	1.25	1.25
Custodial Fees	0.05	0.05
Registrar & Transfer Agent Fees including cost related to providing accounts statement, dividend/redemption cheques/warrants etc.	0.20	0.10
Marketing & Selling Expenses including Agents Commission and statutory advertisement	0.20	0.10
Brokerage & Transaction Cost pertaining to the distribution of units	0.40	0.10
Audit Fees / Fees and expenses of trustees	0.01	0.01
Costs related to investor communications	0.05	0.05
Costs of fund transfer from location to location	0.01	0.01
Other Expenses as permitted by SEBI	0.08	0.08
Total Recurring Expenses	2.25	1.75

The above expenses are as permitted under the Regulation 52 of SEBI (Mutual Funds) Regulations.

These estimates have been made in good faith as per the information available to the Investment Manager based on past experience and are subject to change inter-se. Types of expenses charged shall be as per the SEBI (Mutual Funds) Regulations.

Regulatory limits on Annual Recurring Expenses and Investment Management & Advisory fees in terms of Regulation 52 are as follows:

Maximum Recurring Expenses that can be charged to the Scheme (including Investment management fees)

Average Daily Net Assets	Maximum, as a % average Daily Net Assets
First 100 Crore	2.25%
Next 300 Crore	2.00%
Next 300 Crore	1.75%
Balance Assets	1.50%

Maximum Investment Management Fee to be charged by the AMC

Average Daily Net Assets	Maximum, as a % average Daily Net Assets
First 100 Crore	1.25%
Balance Assets	1.00%

However, an additional Management Fee of up to 1% may be charged in case of a No-Load scheme.

The mutual fund would update the current expense ratios on the website within two business days mentioning the effective date of the change.

C. LOAD STRUCTURE

Load is an amount, which is paid by the investor to subscribe to the units or to redeem the units from the scheme. This amount is used by the AMC to pay commissions to the distributor and to take care of other marketing and selling expenses. Load amounts are variable and are subject to change from time to time. For the current applicable structure, please refer to the website of the AMC www.morganstanley.com/indiamf or call toll free no. - 1800 425 1313 or your distributor.

(i) Load structure including SIP transactions:

• During Ongoing Offer:

Type of Load	Load chargeable (as %age of NAV)
Entry	NIL
Exit	Regular Plan & Institutional Plus Plan: 0.25% if redeemed within 15 days of allotment

Please also note that:

No entry and exit load shall be charged in case of:

- [a] issue and redemption of bonus units,
- [b] dividend reinvested,
- [c] investments by Fund-of-Funds Scheme(s),
- [d] SWP and STP transactions,
- [e] switches made inter-se between different Plans / Options of Morgan Stanley Short Term Bond Fund.

All loads including Contingent Deferred Sales Charge (CDSC) for the Scheme shall be maintained in a separate account and may be utilised towards meeting the selling and distribution expenses. Any surplus in this account may

be credited to the scheme, whenever felt appropriate by the AMC.

Inter-scheme switch-in and switch-out shall attract the applicable Entry and Exit Loads like any Purchase and Redemption respectively.

The Trustees retain the right to change / impose an Entry / Exit Load / CDSC, subject to the provisions below.

- a) Any such changes / impositions would be chargeable only for prospective Purchases and Redemptions from such prospective Purchases (applying First in First Out basis).
- b) The AMC shall arrange to display a notice in all the ISCs before changing the prevalent Load structure. An addendum detailing the changes in Load structure will be attached to Scheme Information Documents and Application Forms. Unit Holders / Prospective investors will be informed of changed / prevailing Load structures through various means of communication such as public notice and / or display at ISCs / Distributors' offices, on account statements, acknowledgements, investor newsletters, etc.
- c) The Redemption Price will not be lower than 93% of the Applicable NAV and the Purchase Price will not be higher than 107% of the Applicable NAV, provided that the difference between the Redemption Price and the Purchase Price at any point in time shall not exceed the permitted limit as prescribed by SEBI from time to time, which is currently 7% calculated on the Purchase Price.

The investor is requested to check the prevailing load structure of the scheme before investing.

For any change in load structure AMC will issue an addendum and display it on the website/Investor Service Centres.

D. WAIVER OF LOAD FOR DIRECT APPLICATIONS

Pursuant to SEBI Circular No. SEBI/IMD/ CIR No.10/112153/07 dated December 31, 2007 regarding waiver of entry load for Direct applications (where applications are not routed through any distributor/ agent/ broker) investors are advised to take note of the following procedure for submission of 'Direct' applications:

1. Investors should ensure to write the word 'DIRECT' in the column 'Distributor's Name and ARN No.' or 'Broker Code' in their applications for purchases/ additional purchases/switches in cases where such applications are not routed through any distributor/ agent/broker.

Compliance with the above mentioned procedure would ensure allotment of units without levy of entry load, if any.

2. In cases where unit holder uses a pre-printed transaction slip/application form where details in the 'Distributor's Name and ARN No.' or 'Broker Code' is already printed, alterations, if any, in the column 'Distributor's Name and ARN No.' or 'Broker Code' should be counter signed by all the unit holders. If the alterations on the pre-printed transaction slip/ application form are not countersigned by the unit holder(s), the application will be processed as if no alterations were made.
3. Transactions slips/application forms where the column under 'Distributor's Name and ARN No.' or 'Broker Code' is left blank, the same will be processed as 'Direct' applications.

V. Rights Of Unitholders

Please refer to SAI for details.

VI. Penalties, Pending Litigation Or Proceedings, Findings Of Inspections Or Investigations For Which Action May Have Been Taken Or Is In The Process Of Being Taken By Any Regulatory Authority

1. Penalties/fines imposed in case of foreign Sponsor:

Top ten penalties imposed on Morgan Stanley during the last three years are provided below:

1. In 2004, the NYSE brought an administrative action against MSDW and MS & Co. alleging that MSDW and MS & Co. (1) failed to deliver certain prospectuses; (2) failed to timely and accurately file daily program trade reports; (3) erroneously executed certain sell orders on a minus tick for securities in which MSDW held a short position; (4) failed to timely submit RE-3s in connection with certain matters; (5) hired certain individuals subject to statutory disqualification and failing to file fingerprint cards for certain non-registered employees; (6) failed to comply with requirements concerning certain market-on- close and limit-on-close orders; (7) failed to supervise certain incoming and/or outgoing communications; and (8) failed to reasonably supervise certain activities. On December 9, 2004, without admitting or denying guilt, MSDW and MS & Co. consented to a censure and fine of \$13 million and to offer rescission to those clients who should have received a prospectus during the period from June 2003 to September 2004.

2. On January 25, 2005, Morgan Stanley announced a settlement with the SEC regarding allegations that it violated Rule 101 of Regulation M by attempting to induce certain customers that received shares in IPOs to place purchase orders for additional shares in the aftermarket. Under the terms of the agreement, MS agreed, without admitting or denying the allegations, to payment of a \$40 million civil penalty.
3. On May 12, 2006, MS & Co. reached a settlement with the SEC, the NYSE and NASD regarding allegations that MS & Co. failed to timely produce email in the research analyst and IPO investigations from December 2000 through at least July 2005. Without admitting or denying the allegations of the complaint, MS & Co. consented to payment of a \$15 million civil penalty.
4. On June 27, 2006, the SEC alleged that MS & Co. and MSDW failed to maintain and enforce written policies and procedures reasonably designed to prevent the misuse of material nonpublic information by them or persons associated with them. MS & Co. and MSDW consented, without admitting or denying the findings, to a payment of a civil penalty of \$10 million.
5. On December 11, 2006, the NASD alleged that Morgan Stanley failed to establish, maintain and enforce a supervisory system and procedures reasonably designed to identify opportunities for investors to purchase mutual funds at NAV, and ensure that investors received the benefit of available NAV transfer programs. Without admitting or denying the allegations, MSDW agreed to pay a \$100,000 fine and to pay restitution of approximately \$12 million.
6. On May 9, 2007, the SEC alleged that MS & Co. had fraudulently failed to provide best execution for certain retail orders for over-the-counter securities. Without admitting or denying the Commission's allegations, the Firm consented to pay disgorgement of \$5,949,222 and a civil money penalty of \$1.5 million.
7. On September 27, 2007 FINRA announced that Morgan Stanley agreed, without admitting or denying, to findings that Morgan Stanley provided inaccurate information to arbitration claimants and regulators regarding the existence of pre-September 11, 2001 emails; failed to provide such emails in response to discovery requests and regulatory inquiries; failed adequately to preserve books and records by overwriting back-up tapes that contained pre-September 11, 2001 emails and by allowing users to delete pre-September 11, 2001 emails that had been restored to active email servers after September 11, 2001; and failed to establish and maintain systems and written procedures reasonably designed to preserve required records and to ensure that it conducted adequate searches in response to regulatory inquiries and discovery requests. FINRA also found that Morgan Stanley failed to provide arbitration claimants with updates to a supervisory manual when called for in discovery from late 1999 through the end of 2005. On the basis of these findings, FINRA found that Morgan Stanley violated NASD Conduct Rules 2110, 3010(a), 3010(b) and 3110; Procedural Rule 8210; the Code of Arbitration Procedure; Section 17(a) of the Securities Exchange Act of 1934 (regarding record-keeping) and Rule 17a-4 thereunder. Morgan Stanley paid \$12.5 million (\$3 million of which was paid as a fine and \$9.5 million of which was used to establish a fund for the benefit of potentially affected arbitration claimants). In addition, Morgan Stanley was censured and agreed to retain an independent consultant to review its procedures for complying with discovery requirements in arbitration proceedings relating to its retail brokerage operations. Morgan Stanley also agreed to retain an Administrator to administer the \$9.5 million fund as described in the relevant Plan of Distribution.
8. On October 10, 2007, Morgan Stanley & Co. Incorporated, on behalf of itself and as successor to Morgan Stanley DW Inc. (collectively referred to as "Morgan Stanley"), consented, without admitting or denying, to the entry of an order by the SEC alleging that Morgan Stanley failed to provide to its customers accurate and complete written trade confirmations for certain fixed income securities in violation of Rule 10b-10 under the Exchange Act, Section 15B(c)(1) of the Exchange Act and Rule G-15 of the Municipal Securities Rulemaking Board (MSRB). Morgan Stanley paid a \$7.5 million penalty, and agreed to retain an independent consultant to review the Firm's policies and procedures.
9. On December 18, 2007, Morgan Stanley & Co. Incorporated, on behalf of itself and as successor to Morgan Stanley DW Inc. (collectively referred to as "Morgan Stanley"), consented, without admitting or denying, to the entry of an order by the SEC alleging that Morgan Stanley failed to supervise four former financial advisors with respect to market timing and late trading of mutual funds in 2002-2003. The Order censures Morgan Stanley, and orders it to cease and desist from committing or causing any violations and any future violations of Section 17(a)(1) of the Exchange Act and Rule 17a-3 thereunder, and Rule 22c-1(a) under the Investment Company Act. Morgan Stanley paid a disgorgement of \$4,400,000, prejudgment interest of \$720,000, and a civil money penalty in the amount of \$11,880,000, for a total of \$17 million.

10. In May 2005, Morgan Stanley discovered that from at least January 1997 until May 2005, certain order entry systems at the Firm and the Firm's predecessor retail firm, Morgan Stanley DW, Inc., failed to check whether certain secondary market securities transactions complied with state registration requirements (Blue Sky laws). The Firm conducted an internal investigation, repaired the deficient systems, self-reported the problem to all affected states and the NYSE, identified transactions which were executed in violation of the Blue Sky laws, and offered rescission to such customers with terms and conditions consistent with the law of the state of residence of each investor. The Firm also cooperated with a multi-state investigation of this matter and has agreed to settle the state regulatory issues in a multi-state settlement with the 46 affected state and territorial jurisdictions. The Firm agreed to consent to an administrative order with each of the 46 state and territorial jurisdictions and to pay a total civil monetary penalty of \$8.5 million to be divided among the 46 state and territorial jurisdictions. The first order issued under the multi-state settlement was issued by Alabama on March 19, 2008. The issuance of nearly identical orders for the subsequent states is ongoing and expected to take several months to complete. In each order, there are identical findings of facts, conclusions of law, and an order which requires the Firm to cease and desist from violating each states' securities laws and to pay a fine comprised of each states' proportionate share of the \$8.5 million penalty.
 2. Details of all enforcement actions taken by SEBI in the last three years and/ or pending with SEBI for the violation of SEBI Act, 1992 and Rules and Regulations framed there under including debarment and/ or suspension and/ or cancellation and/ or imposition of monetary penalty/adjudication/enquiry proceedings, if any, to which the Sponsor(s) and/ or the AMC and/ or the Board of Trustees /Trustee Company and/ or any of the directors and/ or key personnel (especially the fund managers) of the AMC and Trustee Company were/ are a party. The details of the violation shall also be disclosed. **None.**
 3. Any pending material civil or criminal litigation incidental to the business of the Mutual Fund to which the Sponsor(s) and/ or the AMC and/ or the Board of Trustees /Trustee Company and/ or any of the directors and/ or key personnel are a party should also be disclosed separately. **None.**
 4. Any deficiency in the systems and operations of the Sponsor(s) and/ or the AMC and/ or the Board of Trustees/Trustee Company which SEBI has specifically advised to be disclosed in the SID, or which has been notified by any other regulatory agency, shall be disclosed. **None.**
- Notes:**
1. The Scheme under this Scheme Information Document was approved by the Board of Trustees on September 30, 2008.
 2. The Board of Trustees have ensured that Morgan Stanley Short Term Bond Fund is a new product offered by Morgan Stanley Mutual Fund and is not a minor modification of the existing scheme of the Mutual Fund.
 3. Notwithstanding anything contained in this Scheme Information Document, the provisions of the SEBI (Mutual Funds) Regulations, 1996 and the guidelines thereunder shall be applicable.

OFFICIAL POINTS OF ACCEPTANCE DURING ONGOING OFFER AND NFO PERIOD

Morgan Stanley Investment Management Pvt. Ltd.

Ahmedabad: Broadway Business Center, 1st Floor, Sahajanand Complex, C. G. Road, Ahmedabad 380 006

Bangalore: 928, Regus Business Centre, Level 9, Raheja Towers, 26/27 Mahatma Gandhi Road, Bangalore 560 001

Chandigarh: Office No. 303, 3rd Floor, Reliant Business Centre, SCO No. 60-61-62, Sector 17 C, Chandigarh 160 017

Chennai: 208/209, Apeejay Business Centre, Apeejay House, 39/12 Haddows Road, Nungambakkam,

Chennai 600 006 **Hyderabad:** Office No. 214 DBS Business Centre, 43 - 46 Sardar Patel Road, Secunderabad 500 003

Kolkata: Office No. 8, 8th Floor, Apeejay Business Centre, Apeejay House, Block A, 15 Park Street, Kolkata 700 016.

Mumbai: DBS House, Prescott Street, Opp. Cathedral Senior School, Fort, Mumbai 400 001. **New Delhi:** 11th Floor,

HT House, 18-20, K G Marg, Connaught Place, New Delhi 110 001 **Pune:** Master's Executive Centre, Cabin No. 5, 1237 Sneh Leela, Apte Road, Pune 411 001.

Karvy Computershare Private Limited

Bhubaneswar: 624, Sahid Nagar, 1st Floor, Bhubaneswar - 751 007 **Cochin:** Shop No. II, 2nd Floor, Jewel Arcade,

Above Oriental Insurance Ltd., Layam Road, Cochin - 682 011 **Coimbatore:** 29/1, 1st Floor, Chinthamani Nagar,

Opp. Indian Overseas Bank, NSR Road, Saibaba Colony, Coimbatore - 641 011 **Dehradun:** Kaulagarh Road, Near Sirmaur Marg, Above Reliance Webworld, Dehradun - 248 001 **Jaipur:** S-16 A, 3rd Floor, Land Mark, Opp. Jaipur Club,

Mahavir Marg, C-Scheme, Jaipur - 302 001 **Jamshedpur:** Kanchan Tower, 3rd Floor, Chhaganlal Dayalji Sons, 3-S B Shop Area, (Near Traffic Signal), Main Road, Bistupur, Jamshedpur - 831 001 **Kanpur:** 15/46, Opp. Muir Mills, Civil

Lines, Kanpur - 208 001 **Lucknow:** Usha Sadan, 24, Prem Nagar, Ashok Marg, Lucknow - 226 001 **Ludhiana:** SCO-3,

BAWA Building, Feroze Gandhi Market, Ludhiana - 141 001 **Mangalore:** Ground Floor, Mahendra Arcade, Kodial Bail,

Mangalore - 575 003 **Nagpur:** Sadoday Arcade, Above Top 'n' Town, Dharampeth, Nagpur - 440 001 **Surat:** G-16 Empire State Building, Near Udhna Darwaja, Ring Road, Surat - 395 009 **Vadodara:** Piccadilly, Office # 5, First Floor, Opp.

Adani Super Market, Jetalpur Road, Vadodara - 390 007

OFFICIAL POINTS OF ACCEPTANCE DURING ONGOING OFFER

Karvy Computershare Private Limited

Ahmedabad: 201-202, Shail Buildings, Opp. Madhusudhan House, Off C. G. Road, Nr. Navrangpura Telephone

Exchange, Ahmedabad - 380 006 **Amritsar:** 72A, Taylor's Road, Aga Heritage, Gandhi Ground, Amritsar - 143 001

Asansol: 18, G. T. Road, 1st Floor, Asansol - 713 301 **Bangalore:** No. 51/25, 1st Floor, Surya Building, Ratna Avenue,

Richmond Road, Bangalore - 560 025 **Bhavnagar:** Surabhi Mall, 301, 3rd Floor, Waghawadi Road, Bhavnagar - 364 001

Burdwan: 63 G. T. Road, Birhata, Halder Complex, 1st Floor, Burdwan -713 101 **Calicut:** 2nd Floor, Sowbhagya Shopping Complex, Mavoor Road, Calicut - 673 004 **Chandigarh:** SCO-371-372, First Floor, Above HDFC Bank,

Sector 35B, Chandigarh - 160 022 **Chennai:** Flat No. F11, First Floor, Akshya Plaza, (Erstwhile Harris Road), Opp.

Chief City Metropolitan Court, #108, Adhithanar Salai, Egmore, Chennai - 600 002 **Cuttack:** Dargha Bazar, Opp.

Dargha Bazar Police Station, Buxibazar, Cuttack - 753 001 **Durgapur:** Old Dutta Automobiles Building, 1st Floor,

Nachan Road, Benachity, Durgapur - 713 213 **Guntur:** Door No. 6-10-18, Sai House, 10/1, Arundelpet, Guntur - 522

002 **Guwahati:** 54 Sagarika Bhawan, R. G. Baruah Road (AIDC Bus Stop), Guwahati - 781 024 **Hubli:** 8 & 9, Upper Ground Floor, C Block, Akshaya Park, Gokul Road, Hubli - 580 030 **Hyderabad:** 8-2-596 Karvy Plaza, Avenue 4, Street

No.1, Banjara Hills, Hyderabad - 500 034 **Indore:** LG-3, Bombay Trade Centre, Lower Ground Floor, Grand Hotel,

Opp. Bombay Hospital, Scheme No. 54, Indore - 452 010 **Jalandhar:** Lower Ground Floor, Office No. 3, Arora Prime

Tower, Plot No. 28, G T Road, Jalandhar - 144 004 **Jamnagar:** 108 Madhav Plaza, Opp. SBI Bank, Near Lal Bangalaw,

Jamnagar - 361 001 **Jodhpur:** 203, Modi Arcade, Chupasni Road, Jodhpur - 342 001 **Kolkata:** 16, Jatin Bagchi Road,

Kolkata - 700 029 **Madurai:** Rakesh Towers, 30-C, Bye-pass Road, 1st Floor, Opp. Nagappa Motors, Madurai - 625 010 **Margao:** 2nd Floor, Dalal Commercial Complex, Opp. Hari Mandir, Pajifond, Margao - 403 601 **Moradabad:** Om Arcade, Parker Road, Above Syndicate Bank, Tari Khana Chowk, Moradabad - 244 001 **Mumbai:** DAS Chambers, Ground Floor, Opp. BSE & next to Corporation Bank, Dalal Street, Fort, Mumbai - 400 023 **Mysore:** L-350, Silver Tower, Clock Tower, Ashoka Road, Mysore - 570 001 **Nasik:** S-12, 2nd Floor, Suyojit Sankul, Sharanpur Road, Nasik - 422 002 **Navsari:** 1st Floor, Chinmay Arcade, Opp. Sattapir, Tower Road, Navsari - 396 445 **New Delhi:** 2E/23, Jhandewalan Extn., New Delhi - 110 055 **Panipat:** 1st Floor, Krishna Tower, Near HDFC Bank, Opp. Railway Road, G T Road, Panipat - 132 103 **Patna:** 3A, 3rd Floor, Anand Tower, Beside Chankya Cinema Hall, Exhibition Road, Patna - 800 001 **Pune:** Srinath Plaza, C Wing, Office No. 58 and 59, 3rd Floor, Dnyaneshwar Paduka Chowk, Survey No. 184/4, F. C. Road, Pune - 411 004 **Rajkot:** 104, Siddhi Vinayak Complex, Dr. Yagnik Road, Opp. Ramkrishna Ashram, Rajkot - 360 001 **Ranchi:** Commerce Towers, 3rd Floor, Room No. 307, Beside Mahabir Towers, Main Road, Ranchi - 834 001 **Salem:** 49/50, Fort Main Road, Old No. 17, First Floor, Shevapet, Salem - 636 002 **Trichy:** 60, Srikrishna Arcade, 1st Floor, Thennur High Road, Trichy 621 017 **Trivandrum:** 2nd Floor, Akshaya Towers, Sasthamangalam, Trivandrum - 695 010 **Varanasi:** D64/132, 1st Floor, Anant Complex, Sigra, Varanasi 221 010 **Vijayawada:** 39-10-7, Opp. Municipal Water Tank, Labbipet, Vijayawada - 520 010 **Visakhapatnam:** 47-14-5/1 Eswar Paradise, Dwaraka Nagar, Main Road, Visakhapatnam - 530 016

For updated and detailed list of Official Points of Acceptance refer to the Customer Service section on our website.

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