

SPONSOR

Morgan Stanley
Principal place of business:
1585, Broadway,
New York, 10036
United States of America.

BOARD OF TRUSTEES

Dr. Abid Hussain
Mr. Jagdish Baijal
Mr. Dorab Sopariwala
Mr. Blair Pickerell
Mr. James Garrett

ASSET MANAGEMENT COMPANY

Morgan Stanley Investment Management Pvt. Ltd.
Forbes Building, Charanjit Rai Marg,
Fort, Mumbai 400 001

REGISTRAR AND TRANSFER AGENT

Karvy Computershare Private Limited
Karvy Registry House
Unit: Morgan Stanley Mutual Fund
21, Avenue 4, Street no.1, Banjara Hills,
Hyderabad – 500 034

CUSTODIAN

JPMorgan Chase Bank
Mafatlal Centre, 9th Floor,
Nariman Point, Mumbai 400 021.

AUDITORS TO THE MUTUAL FUND

Price Waterhouse
252, Veer Savarkar Marg,
Shivaji Park, Mumbai 400 028.

LEGAL ADVISORS

J. Sagar Associates
Advocates & Solicitors
Vakils House, 18 Sprott Road,
Ballard Estate,
Mumbai 400 001.

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STATEMENT OF ADDITIONAL INFORMATION (SAI)

This Statement of Additional Information (SAI) contains details of Morgan Stanley Mutual Fund, its constitution, and certain tax, legal and general information. It is incorporated by reference (is legally a part of the Scheme Information Document).

This SAI is dated August 20, 2009.

I. INFORMATION ABOUT SPONSOR, AMC AND TRUSTEE COMPANIES

A. Constitution of the Mutual Fund

Morgan Stanley (the “Mutual Fund”) has been constituted as a trust on November 3, 1993 in accordance with the provisions of the Indian Trusts Act, 1882 (2 of 1882) with Morgan Stanley, as the Sponsor and the Board of Trustees as Trustees to the Fund. The Trust Deed has been registered under the Indian Registration Act, 1908. The Mutual Fund was registered with SEBI on November 5, 1993 under Registration Code MF/005/93/1.

B. Sponsor

Morgan Stanley Mutual Fund is sponsored by Morgan Stanley, a corporation organised and existing under the laws of the State of Delaware, United States of America, with its principal place of business at 1251, Avenue of the Americas, New York, 10020, United States of America. Morgan Stanley is one of the global financial services firms, which through its subsidiaries serve a diversified group of corporations, governments, financial institutions and individuals. Morgan Stanley is one of the world’s largest diversified financial services companies with nearly 48,256 people employed in 600 offices across 33 countries. Morgan Stanley provides wide spectrum of financial & advisory services and its operations span across North America, Asia, Europe & Latin America.

Morgan Stanley is a worldwide leader in investment banking and is ranked among the top institutions in the mergers and acquisitions, underwriting of equity and equity-related transactions, high yield debt financing and corporate debt issuance. It has major presence in every major securities market, with traders in numerous countries around the world offering a unique distribution and breadth of products.

Morgan Stanley is a predominant player in the following segments of the financial services industry apart from its virtually unmatched origination and distribution skills:

- Securities
- Investment Management
- Credit Services and
- Investment Banking

The Sponsor is the Settlor of the Mutual Fund Trust. The Sponsor has entrusted a sum of Rs. 5 lacs to the Board of Trustees as the initial contribution towards the corpus of the Mutual Fund. Morgan Stanley Mauritius Company Limited, a 100% subsidiary of Morgan Stanley having its registered office at Frere Felix de Valois Street, Port Louis, Mauritius is the Co-Sponsor of Morgan Stanley Mutual Fund by virtue of its contribution of more than 40% to the networth of Morgan Stanley Investment Management Private Limited.

Financial Performance of the Sponsor for past three years:

[Amount in US \$ million]

Particulars	Year ended November 2008	Year ended November 2007	Year ended November 2006
Net Worth	50,831	31,269	35,364
Total Income	62,262	85,328	70,736
Profit after tax	1,707	3,209	7,472
Assets Under Management (in US \$ billion)	399	597	496

C. The Board of Trustees

The Board of Trustees vide Trust Deed dated November 03, 1993 have been appointed as the Trustees to manage and supervise the functioning of Morgan Stanley Mutual Fund set up as a Trust in accordance with Indian Trust Act, 1882 and SEBI (Mutual Fund) Regulations, 1996 as amended from time to time. The details of the Board of Trustees of Morgan Stanley Mutual Fund is as under:

Details of Trustee Directors:

Name	Age/Qualification	Brief Experience
Dr. Abid Hussain (Independent Trustee)	82 years Retired I.A.S. Officer	<p>Dr. Abid Hussain is currently a Member of The International Panel on Democracy and Development of UNESCO and Professor Emeritus at the Indian Institute of Foreign Trade (IIFT) as well as Professor Emeritus at the Foreign Service Institute of the Ministry of External Affairs, Govt. of India. He is a member of the Academy of the Kingdom of Morocco, and B.P. Koirala Foundation, Kathmandu. He was the Trustee of Indira Gandhi National Centre for the Arts Trust; President of Katha, Chairman of Research Council of National Institute of Science, Technology and Development Studies (CSIR); India-China Economic & Cultural Council; Bharatiya Vidya Bhavan, Gautam Buddha Nagar (NOIDA) Kendra, Member of Board of Trustees of Observer Research Foundation and several other educational and cultural organizations. He is a member of the Nehru Memorial Fund; the Population Foundation of India; Foundation for Academic Excellence & Access; Administrative Staff College, Hyderabad; Shankar Lall Murli Dhar Memorial Society; and the Governing Council of Ranbaxy Science Foundation. He has been a member of the Indian Administrative Service and served in various capacities at the Centre. He was Secretary, Ministry of Heavy Industries, Commerce Secretary, Government of India and Chairman, IIFT. He became Member, Planning Commission in 1985. Later on, he became India's Ambassador to the United States of America. In the year 1988, he was honoured with PADMA BHUSHAN for meritorious services. Thereafter, he became Vice Chairman, Rajiv Gandhi Foundation, New Delhi, and was also the Chancellor of Central University, Hyderabad.</p> <p>Dr. Hussain has presided over several national and international Conferences and contributed papers on contemporary issues. Dr. Hussain had chaired six</p>

		important committees set up by the Government of India, namely, Trade Policy Reforms; Project Exports; CSIR Review Committee for Development of Science and Technology; Textile Policy of the Government of India; Development of Capital Market; and Abid Hussain Committee on Small Scale Industries.
Mr. Jagdish S. Baijal (Independent Trustee)	78 years M.A. in Economics	Mr. Baijal did his M.A. in Economics and joined I.A.S in 1954. After serving in many senior government positions in the state and centre, including Finance Secretary at the State level, Minister Economic, Embassy of India Washington D.C., Additional Secretary Ministry of Finance, Government of India in charge of external finance, he retired as Secretary Planning Commission Government of India in 1989. During his tenure with the Government of India he was involved in many International Economic negotiations. Subsequently, he joined the Board of Directors of the World Bank Group as Executive Director. From 1993 onwards he has been a non executive director in several major Indian Companies including State Bank of India and HDFC Bank. He has also spent one academic year in Harvard University as a Senior Fellow.
Mr. Dorab Sopariwala (Independent Trustee)	68 years B.Sc. (Econ.), London School of Economics and M.Sc. (Engg.), Imperial College of Science and Technology	<p>He worked with Metra Consulting Group, London (1966-1972), the Indian Market Research Bureau (1972-1983) where he rose to be Deputy Chief Executive and MARG Marketing & Research Group Pvt. Ltd. (1983-1994), where he was the Founder Managing Director.</p> <p>From 1994 to 2004, he was successively on the Board of MARG Marketing & Research Group Pvt. Ltd., ORG-MARG Pvt. Ltd. and A.C.Nielsen ORG-MARG Pvt. Ltd. From 1996 to 2003, he served on the India Advisory Board of Citibank N.A. Between 1994 and 2004, he served as a member of the Board of Governors of the Advertising Standards Council of India (ASCI), including two terms as Chairman of ASCI.</p> <p>Since 1994, he has been a consultant / advisor to companies in the fields of media, communication and financial services.</p>
Mr. Blair Pickerell	52 years BA in Political Science, MA in East Asian Studies from Stanford University, MBA from Harvard Business School	<p>At present, Mr. Pickerell is the Managing Director & Chief Executive Officer, Asia Pacific, Morgan Stanley Investment Management and responsible for overseeing Morgan Stanley's investment management business in the Asia Pacific region.</p> <p>Prior to joining Morgan Stanley, he was the Chief Executive Officer, Asia Pacific for HSBC Investments(Hong Kong) Limited and responsible for overseeing HSBC's asset management business in the Asia Pacific region. He has also worked with JF Asset Management Limited, Jardine Pacific Limited in the capacity of Managing Director and Chairman.</p>

Mr. James Garrett	40 years Bachelor of Science Degree in Accounting, Lehigh University	At present, Mr. James Garrett is the Head of Fund Administration at Morgan Stanley Investment Management (MSIM) in the U.S. He continues to have a long relationship with Morgan Stanley with more than 10 years of experience in overseeing MSIM's fund accounting operations in the U.S. He holds a degree in Accounting [Bachelor of Science] from the Lehigh University.
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Under 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 and in terms of the SEBI Regulations the rights and obligations of the Trustees are as follows :-

- a) The Board of Trustees shall ensure before the launch of any scheme that the asset management company has:
 - i) systems in place for its back office, dealing room and accounting,
 - ii) appointed all key personnel including fund manager(s) for the scheme(s) and market, to the Board of Trustees, within fifteen days of their appointment, submitted their bio-data, which shall contain the educational qualifications, past experience in the securities
 - iii) appointed auditors to audit the accounts,
 - iv) appointed a compliance officer who shall be responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions etc. issued by SEBI or the Central Government and for redressal of investor's grievances,
 - v) appointed registrars and laid down parameters for their supervision,
 - vi) prepared a compliance manual and designed internal control mechanisms including internal audit systems,
 - vii) specified norms for empanelment of brokers and marketing agents.

- b) The Board of Trustees shall obtain consent of the unit holders of the Scheme(s):
 - i) When the Board of Trustees is required to do so by SEBI in the interests of the unitholders; or
 - ii) Upon the request of three-fourths of the unit holders of any scheme(s) under the Mutual Fund; or
 - iii) If a majority of the Board of Trustees decide to wind up the scheme(s) or prematurely redeem the units

- c) In carrying out his/her responsibilities as a member of the Board of Trustees each Trustee shall maintain an arms' length relationship with other companies, or institutions or financial intermediaries or any body corporate with which he may be associated in any transaction also involving the Mutual Fund.

- d) No Trustee shall participate in the meetings of the Board of Trustees when any decisions for investments in which he / she may be interested are taken.

- e) All the Trustees shall furnish to the Board of Trustees, particulars of interest which he/she may have in any other company, or institution or financial intermediary or any corporate by virtue of his/her position as director, partner or with which he-she may be associated in any other capacity.

- f) The Board of Trustees shall have the right to obtain from the AMC such information as is considered necessary by the Board of Trustees.

- g) The Board of Trustees shall ensure that the AMC has been diligent in empanelling brokers, in monitoring securities transactions with brokers and avoiding undue concentration of business with any broker.

- h) The Board of Trustees shall ensure that the AMC has not given any undue or unfair advantage to any associates or dealt with any of the associates of the AMC in any manner detrimental to the interest of unit holders.
- i) The Board of Trustees shall ensure that the transactions entered into by the AMC are in accordance with the SEBI Regulations and the Scheme.
- j) The Board of Trustees shall ensure that the AMC has been managing the Scheme independently of other activities and have taken adequate steps to ensure that the interest of the Scheme are not being compromised with those of any other Scheme or of other activities of the AMC.
- k) The Board of Trustees shall ensure that all the activities of the AMC are in accordance with the provisions of SEBI Regulations.
- l) Where the Board of Trustees have reason to believe that the conduct of business of the Mutual Fund is not in accordance with SEBI Regulations, they shall forthwith take remedial steps as are considered necessary by them and shall inform the SEBI of the violation and the action taken by them.
- m) Each Board of Trustees shall file the details of his/her transactions in securities on a quarterly basis with the trust.
- n) The Board of Trustees shall be accountable for, and be the custodian of, the funds and property of the Scheme and shall hold the same in trust for the benefit of the unit holders in accordance with SEBI Regulations and the provisions of the trust deed.
- o) The Board of Trustees shall take steps to ensure that the transactions of the Mutual Fund are in accordance with the trust deed.
- p) The Board of Trustees shall be responsible for the calculation of any income due to be paid to the Mutual Fund and also of any income received in the Mutual Fund for the holders of the units of the Scheme in accordance with the SEBI Regulations and the trust deed.
- q) The Board of Trustees shall call for the transactions in securities of the key personnel of the AMC in his own name or on behalf of the AMC and shall report to SEBI as and when required.
- r) The Board of Trustees shall review, on a quarterly basis, all transactions carried out between the Mutual Fund, AMC and its associates.
- s) The Board of Trustees shall review the net worth of the AMC on a quarterly basis and in case of any shortfall, ensure that the AMC make up for the shortfall as per clause (f) of sub-regulation (1) of regulation 21 of the SEBI Regulations.
- t) The Board of Trustees shall periodically review all service contracts such as custody arrangements, transfer agency and satisfy itself that such contracts are executed in the interest of the unit holders.
- u) The Board of Trustees shall ensure that there is no conflict of interest between the manner of deployment of its net worth by the AMC and the interests of the unit holders.
- v) The Board of Trustees shall periodically review the investor complaints received and the redressal of the same by the AMC.
- w) The Trust Deed can be amended only with the prior approval of SEBI and Unit holders, where it affects the interests of the unit holders.

Modifications, if any, in the rights and/or obligations and duties of the Board of Trustees are on account of amendments to the Regulations and the Regulations supersede/override the provisions of the Trust Deed, wherever the two are in conflict.

The Trustees shall exercise due diligence as under:

a) General Due Diligence:

- (i) The Trustees shall be discerning in the appointment of the key personnel of the Asset Management Company.

- (ii) The Trustees shall review the desirability or continuance of the Asset Management Company if substantial irregularities are observed in any of the Schemes and shall not allow the Asset Management Company to float new schemes.
- (iii) The Trustees shall ensure that the Trust Property is properly protected, held and administered by proper persons and by a proper number of such persons.
- (iv) The Trustees shall ensure that all service providers hold appropriate registrations from SEBI or concerned regulatory authorities.
- (v) The Trustees shall arrange for test checks of service contracts.
- (vi) The Trustees shall report to SEBI of any special developments in the Mutual Fund.

b) Specific Due Diligence:

- (i) Obtain compliance certificates at regular intervals from the AMC.
- (ii) Consider the reports of the independent auditor and compliance reports of the AMC at the meetings of trustees for appropriate action.
- (iii) Maintain records of the decisions of the Trustee at their meetings and of the minutes of the meetings.
- (iv) Prescribe and adhere to a code of ethics by the Trustee, AMC and its personnel.
- (v) Communicate in writing to the AMC of the deficiencies and checking on the rectification of deficiencies.

The Independent Directors of the AMC or the Independent Trustees shall pay specific attention to the following, as may be applicable, namely:

- (i) The Investment Management Agreement and the compensation paid under the agreement.
- (ii) Service contracts with affiliates - whether the AMC has charged higher fees than outside contractors for the same services.
- (iii) Selection of the AMC's independent directors.
- (iv) Securities transactions involving affiliates to the extent such transactions are permitted.
- (v) Selecting and nominating individuals to fill independent directors vacancies.
- (vi) Code of ethics must be designed to prevent fraudulent, deceptive or manipulative practices by insiders in connection with personal securities transactions.
- (vii) The reasonableness of fees paid to the Sponsor, AMC and any others for services provided.
- (viii) Principal underwriting contracts and their renewals.
- (ix) Any service contract with the associates of the AMC.
- (x) Report received from the AMC regarding the investments by the mutual fund in the securities of group companies of the sponsor.

Notwithstanding anything contained in the SEBI Regulations 18(1) to 18(25), the Trustee shall not be held liable for acts done in good faith if they have exercised due diligence honestly.

c) Trustee – Fees and Expenses:

In accordance with the agreement dated November 3, 1993 between Morgan Stanley (“the Settlor”) and the Board of Trustees, the Fund has paid or provided for an annual fee of the rupee equivalent of US\$ 5,000 and a fee of the rupee equivalent of US\$ 500 per meeting attended to each of the Trustees not affiliated with the Settlor.

d) Trustee - Supervisory Role:

The supervisory role of the Trustees will be discharged by reviewing the information and the operations of the Fund based on the reports submitted at the meetings of the Trustees. Presently, the Board of Trustees are required to hold a meeting at least once in 2 calendar months and at

least 6 such meetings are required to be held every year. During the financial year 2008-2009 (April- March), the Trustee had held 7 Board Meetings and since April 2009 till the date of this document, Trustees held 2 Board meetings. The Audit Committee, comprising of 3 Trustees, with an independent trustee as its chairman, has been constituted pursuant to the SEBI circular MFD/CIR/010/024/2000 dated January 17, 2000 to inter alia, review internal audit systems and various reports placed before it.

D. Asset Management Company

Morgan Stanley Investment Management Pvt. Ltd. is a private limited company incorporated under the Companies Act, 1956 on October 12, 1993, having its Registered Office at 5th Floor, Forbes Building, Charanjit Rai Marg, Mumbai – 400 001. Morgan Stanley Investment Management Pvt. Ltd. has been appointed as the Asset Management Company of Morgan Stanley Mutual Fund by the Board of Trustees vide Investment Management Agreement (IMA) dated November 3, 1993 and executed between the Board of Trustees and Morgan Stanley Investment Management Pvt. Ltd.

Shareholding Pattern of the AMC

The Shareholding pattern of the AMC as on March 31, 2009 is as follows:-

Name of the Shareholder	Number of Equity Shares of Rs. 10/- each	Percentage
Morgan Stanley Dean Witter Mauritius Company Limited	15,668,602	74.990000%
Alanoushka Finlease and Investments Private Limited	5,222,869	25.000000 %
Mr. Vinod Sethi	1	0.000005 %
Mr. Dara Pherozshah Mehta	1	0.000005%
Total	20,891,473	100.000000%

Details of AMC Directors:

Name	Age/Qualification	Brief Experience
Mr. Narayan Ramachandran, [Associate Director]	46 years B. Tech., M.B.A, C.F.A.	<p>Narayan joined Morgan Stanley Investment Management in 1996 as Executive Director at New York. Subsequently, he worked as the Head and co-lead portfolio manager of Morgan Stanley's Global Emerging Markets and Global Asset Allocation teams from 1996 to August 2006 in New York and Singapore. In September 2006 he was appointed as the Chief Executive Officer of Morgan Stanley Investment Management Private Limited in India. He has over 20 years of investment experience and holds the CFA designation.</p> <p>Prior to joining Morgan Stanley, he was a managing director at RogersCasey (now CRA RogersCasey) from 1988 to 1996. In addition, Narayan was director of research at RogersCasey and president of its investment advisory subsidiary from 1991 to 1996. Previously, he was a research associate at Goldman Sachs from 1987 to 1988.</p> <p>Additionally, Narayan is a Director of Impax Corporation since 1995. He writes articles for the academic and trade press, and is a frequent speaker at industry conferences.</p>

Morgan Stanley

<p>Mr. Joseph Clifford D'Souza, [Associate Director]</p>	<p>46 years MCOM</p>	<p>Joseph Clifford D'Souza joined Morgan Stanley Investment Management in December 1993 as Operations Manager. Clifford was appointed as Vice-President and Head of Operations in December 1997 and was promoted to Executive Director in December 2000. In June 2005, Clifford was appointed Chief Operations Officer of MSIM Mumbai and the Managing Director in December 2007. Clifford has over 20 years of experience in the Investment Management Industry.</p> <p>Prior to joining Morgan Stanley, Clifford was a Deputy Manger at Unit Trust of India Investment Advisory Services Limited– a subsidiary of the Unit Trust of India – the largest public sector Mutual Fund in India. He was responsible for the Operations and Fund Administration functions for the India Growth Fund Inc (listed on NYSE) and the India Fund (listed on Dublin) – both offshore funds investing in India.</p> <p>Clifford graduated from the Bombay University with a Master of Commerce Degree in 1984.</p>
<p>Mr. Sanjay Asher, [Independent Director]</p>	<p>44 years Solicitor, Incorporated Law Society, A.C.A.</p>	<p>Mr. Asher had joined M/s. Crawford Bailey & Co. in Dec 1989 as an Associate and became an equity partner in Jan 2001. Some of the work undertaken by him are as under :</p> <p>He has advised and acted as a legal counsel to the Government of India in respect of disinvestment of, namely, Videsh Sanchar Nigam Limited (“VSNL”), National Aluminum Company Limited (“NALCO”), Oil and Natural Gas Corporation Limited (“ONGC”), etc.</p> <p>He has also advised large private corporations in the privatization of various government owned companies, namely, Air India, Indian Airlines, etc.</p> <p>He has also advised several initial public offerings including, ONGC Limited, Maruti Limited, Allahabad Bank Limited, Meghmani Organics Limited – listing in Singapore, etc.</p> <p>Mr. Asher was an invitee to the committee formed by the Government of India, Department of Disinvestment for the purposes of standardizing the transaction documents in relation to privatization of the public sector enterprises of the Government of India. He is also a member of the committee in respect of Indo-US Financial Institutions Reforms and Expansion Projects - Capital Markets for the purpose of development of securities law bar and the securities law course in India.</p>

<p>Mr. Nagesh Alai [Independent Director]</p>	<p>51 years M.Com, LL.B, AICWA, ACS</p>	<p>Mr. Alai is the Chief Financial Officer, Asia Pacific & Africa of DRAFTFCB Worldwide (2007 till date). He is also a Director on the Board of DRAFTFCB-ULKA Advertising Pvt. Ltd. and Interface Communications Pvt. Ltd. He also served as Executive Director, Group CFO and Counsel, DRAFTFCB-ULKA Group (1990-2007). Prior to that he worked as Chief Accountant and Secretary, John Wyeth (India) Limited, a US pharma multinational company.</p> <p>He has more than 3 decades of work experience across various functions namely, finance, accounting & auditing, business plan & budgeting, system & process studies and implementation of operating manuals, corporate laws and company secretarial practices, corporate governance, HR and administrative policies.</p>
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Duties and obligations of Asset Management Company:

(1) The asset management company shall take all reasonable steps and exercise due diligence to ensure that the investment of funds pertaining to any scheme is not contrary to the provisions of Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 as amended from time to time [“the regulations”] and the trust deed.

(2) The asset management company shall exercise due diligence and care in all its investment decisions as would be exercised by other persons engaged in the same business.

(3) The asset management company shall be responsible for the acts of commission or omission by its employees or the persons whose services have been procured by the asset management company.

(4) The asset management company shall submit to the trustees quarterly reports of each year on its activities and the compliance with the regulations.

(5) The trustees at the request of the asset management company may terminate the assignment of the asset management company at any time:

Provided that such termination shall become effective only after the trustees have accepted the termination of assignment and communicated their decision in writing to the asset management company.

(6) Notwithstanding anything contained in any contract or agreement or termination, the asset management company or its directors or other officers shall not be absolved of liability to the mutual fund for their acts of commission or omission, while holding such position or office.

(6A) The Chief Executive Officer (whatever his designation may be) of the asset management company shall ensure that the mutual fund complies with all the provisions of the regulations and the guidelines or circulars issued in relation thereto from time to time and that the investments made by the fund managers are in the interest of the unit holders and shall also be responsible for the overall risk management function of the mutual fund.

(6B) The fund managers (whatever the designation may be) shall ensure that the funds of the schemes are invested to achieve the objectives of the scheme and in the interest of the unit holders.

(7)(a) An asset management company shall not through any broker associated with the sponsor, purchase or sell securities, which is average of 5 per cent or more of the aggregate purchases and sale of securities made by the mutual fund in all its schemes :

Provided that for the purpose of this sub-regulation, the aggregate purchase and sale of securities shall exclude sale and distribution of units issued by the mutual fund:

Provided further that the aforesaid limit of 5 per cent shall apply for a block of any three months.

(b) An asset management company shall not purchase or sell securities through any broker [other than a broker referred to in clause (a) of sub-regulation (7)] which is average of 5 per cent or more of the aggregate purchases and sale of securities made by the mutual fund in all its schemes, unless the asset management company has recorded in writing the justification for exceeding the limit of 5 per cent and reports of all such investments are sent to the trustees on a quarterly basis:

Provided that the aforesaid limit shall apply for a block of three months.

(8) An asset management company shall not utilise the services of the sponsor or any of its associates, employees or their relatives, for the purpose of any securities transaction and distribution and sale of securities:

Provided that an asset management company may utilise such services if disclosure to that effect is made to the unit holders and the brokerage or commission paid is also disclosed in the half-yearly annual accounts of the mutual fund :

[Provided further that the mutual funds shall disclose at the time of declaring half-yearly and yearly results :

(i) any underwriting obligations undertaken by the schemes of the mutual funds with respect to issue of securities associate companies,

(ii) devolvement, if any,

(iii) subscription by the schemes in the issues lead managed by associate companies,

(iv) subscription to any issue of equity or debt on private placement basis where the sponsor or its associate companies have acted as arranger or manager.]

(9) The asset management company shall file with the trustees the details of transactions in securities by the key personnel of the asset management company in their own name or on behalf of the asset management company and shall also report to the Board, as and when required by the Board.

(10) In case the asset management company enters into any securities transactions with any of its associates a report to that effect shall be sent to the trustees at its next meeting.

(11) In case any company has invested more than 5 per cent of the net asset value of a scheme, the investment made by that scheme or by any other scheme of the same mutual fund in that company or its subsidiaries shall be brought to the notice of the trustees by the asset management company and be disclosed in the half-yearly and annual accounts of the respective schemes with justification for such investment 40[provided the latter investment has been made within one year of the date of the former investment calculated on either side].

(12) The asset management company shall file with the trustees and the Board—

(a) detailed bio-data of all its directors along with their interest in other companies within fifteen days of their appointment;

(b) any change in the interests of directors every six months; and

(c) a quarterly report to the trustees giving details and adequate justification about the purchase and sale of the securities of the group companies of the sponsor or the asset management company, as the case may be, by the mutual fund during the said quarter.

(13) Each director of the asset management company shall file the details of his transactions of dealing in securities with the trustees on a quarterly basis in accordance with guidelines issued by the Board.

(14) The asset management company shall not appoint any person as key personnel who has been found guilty of any economic offence or involved in violation of securities laws.

(15) The asset management company shall appoint registrars and share transfer agents who are registered with the Board:

Provided if the work relating to the transfer of units is processed in-house, the charges at competitive market rates may be debited to the scheme and for rates higher than the competitive market rates, prior approval of the trustees shall be obtained and reasons for charging higher rates shall be disclosed in the annual accounts.

(16) The asset management company shall abide by the Code of Conduct as specified in the Fifth Schedule.

Information on Key Personnel:

Name/Designation	Age/Qualification	Brief Experience
Mr. Joseph Clifford D'souza Managing Director & Chief Operations Officer	46 years M.Com	Joseph Clifford D'Souza joined Morgan Stanley Investment Management in December 1993 as Operations Manager. Clifford was appointed as Vice-President and Head of Operations in December 1997 and was promoted to Executive Director in December 2000. In June 2005, Clifford was appointed Chief Operations Officer of MSIM Mumbai and Managing Director in December 2007. Clifford has over 20 years of experience in the Investment Management Industry Prior to joining Morgan Stanley, Clifford was a Deputy Manger at Unit Trust of India Investment Advisory Services Limited– a subsidiary of the Unit Trust of India – the largest public sector Mutual Fund in India. He was responsible for the Operations and Fund Administration functions for the India Growth Fund Inc (listed on NYSE) and the India Fund (listed on Dublin) – both offshore funds investing in India. Clifford graduated from the Bombay University with a Master of Commerce Degree in 1984.
Mr. Anthony Heredia Chief Executive Officer	37 years B. Com., A.C.A.	Anthony joined Morgan Stanley Investment Management Private Limited as Head of Sales and Marketing in February 2007. Prior to joining Morgan Stanley, he worked for HSBC Asset Management (India) Private Limited as Head of Sales and Distribution from December 2001 to February 2007 and in Birla SunLife Asset Management Company as Assistant Vice President - Business Development from October 1995 to November 2001. He has over 10 years experience in sales and distribution.

<p>Ms. Sonali Bendke Vice President</p>	<p>32 years B.Com, A.C.S.</p>	<p>Sonali joined Morgan Stanley Investment Management Pvt. Ltd. as Vice President-Legal & Compliance in October 2007.</p> <p>Prior to joining Morgan Stanley, she worked for Principal PNB Asset Management Company Pvt. Ltd. as Company Secretary & Compliance Officer from May 2004 to October 2007, and in Reliance Capital Asset Management Company Ltd. from August 2001 to May 2004. She has over 8 years experience in Legal, Compliance and Corporate Secretarial area.</p>
<p>Mr. Sidhartha Gupta Investor Relations Officer</p>	<p>35 years B. Com, C.A.</p>	<p>Sidhartha joined Morgan Stanley Investment Management Pvt. Ltd. as an Associate in December 2003.</p> <p>Prior to joining Morgan Stanley Investment Management, he worked with ING Investment Management in their operations division. He Has over 6 years of experience in Mutual Fund industry.</p>
<p>Mr. Sridhar Sivaram Lead Portfolio Manager - Equity</p>	<p>40 years B.Com, A.C.A., A.C.S.</p>	<p>Sridhar joined Morgan Stanley Investment Management Private Limited in 1994. He has been working with the Investment Team since 1995. Subsequently, in 2004 he was appointed as the Portfolio Manager of Morgan Stanley Growth Fund. He has over 13 years of investment experience.</p> <p>Prior to joining Morgan Stanley, he worked with Citibank N.A. as Assistant Manager from October 1992 to March 1994 and with ANZ Grindlays Bank as an Industrial Trainee from April 1991 to September 1992.</p>
<p>Mr. Amay Hattangadi Lead Portfolio Manager -Equity</p>	<p>36 years B.Com, A.C.A., C.F.A.</p>	<p>Amay joined Morgan Stanley Investment Management Private Limited as an Analyst in 1997. He was appointed as the Portfolio Manager of Morgan Stanley Growth Fund in 2004. He has over 8 years of investment experience.</p>
<p>Mr. Jayesh Gandhi Lead Portfolio Manager - Equity</p>	<p>41 years C.A., C.F.A., Master of International Management</p>	<p>Jayesh joined Morgan Stanley Investment Management Private Limited as part of the Investment Team in August 2007. Prior to joining Morgan Stanley, he worked with Birla Sun Life Asset Management Company Ltd from September 2004 to July 2007 and was the designated Fund Manager of certain equity funds. He worked with Zacks Investment Research, Chicago, USA, Think Values, Salt Lake City, USA, J V Gokal Finance & Investments Private Limited, J M Shares and Stock Brokers and Dalal Street Communication. He has over 12 years of experience in investment management and equity research.</p>

<p>Mr. Ritesh Jain Lead Portfolio Manager – Fixed Income</p>	<p>35 years PGDBA, B.Com</p>	<p>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.</p>
<p>Mr. Pranay Sinha Portfolio Manager – Fixed Income</p>	<p>29 years PGDM, IIM Calcutta; B.Tech, IIT Kharagpur</p>	<p>Pranay joined Morgan Stanley Investment Management Private Limited as part of the Investment Team in March 2008. Prior to joining Morgan Stanley, he worked with ICICI Prudential Asset Management Company from November 2005 to February 2008 and Axis Bank from June 2005 to November 2005.</p>

E. Service providers

Custodian

J P Morgan Chase Bank Mumbai has been appointed as custodian (the Custodian) of the Schemes. The Custodian has been registered with SEBI and has been awarded registration no IN/CUS/014 dated November 10, 1998.

Transfer agent

[a] Karvy Computershare Private Limited ("Karvy") has been appointed to act as registrar and transfer agent to the Scheme in accordance with the Registrar and Transfer Agent Agreement dated September 20, 1996.

Principal Business Address: Karvy Computershare Pvt. Ltd;
Karvy Registry House, 21, Avenue 4, Street No. 1, Banjara Hills, Hyderabad 500 034

[b] The Registrar is registered with SEBI under the SEBI (Registrar and Transfer Agents) Regulations, 1993 vide registration no. INR000000221

The Board of the Trustees and the AMC has ensured that the Registrar has adequate capacity to discharge responsibilities with regard to processing of applications and dispatching unit certificates to unit holders within the time limit prescribed in the Regulations and also has sufficient capacity to handle investor complaints.

Dividend paying agent:

Standard Chartered Bank,
Ground Floor, 270,
Dr. D. N. Road,
Fort, Mumbai 400 001

HDFC Bank Ltd,

Maneckji Wadia Bldg, Ground Floor,
Nanik Motwani Marg, Fort, Mumbai 400 001

Statutory auditor:

Price Waterhouse, Chartered Accountants,
252, Veer Savarkar Marg,
Shivaji Park, Mumbai - 400 028.

Legal counsel:

J. Sagar Associates
Advocates & Solicitors
Vakils House, 18 Sprott Road,
Ballard Estate,
Mumbai - 400 001.

Fund Accountant:

J P Morgan Chase Bank,
Mafatlal Centre, 9th Floor,
Nariman Point,
Mumbai - 400 021.

Collecting Bankers:

	Bank	SEBI Registration No.	Address
1	HDFC Bank	INBI00000063	Manekji Wadia Bldg, Ground Floor, Nanik Motwani Marg, Fort, Mumbai - 1
2	Standard Chartered Bank	INBI00000885	90 M.G. Road, Fort, Mumbai - 400 001
3	HSBC	IN / CUS / 009	52/ 60 MG Road, Fort, Mumbai 400 001
4	ICICI Bank	INBI00000004	Backbay Reclamation, Mumbai.
5	Kotak Bank	INBI00000927	13 th Floor, Nariman Bhavan, 227, Nariman Point, Mumbai: 400021
6	Centurian Bank of Punjab	Merged with HDFC Bank	
7	IDBI Bank	INBI00000076	224 , A Wing, Mittal Court, Nariman Point, Mumbai -21
8	Axis Bank	INBI00000017	Mumbai Main Branch, Universal Insurance Bldg, Sir P M Road, Mumbai - 1
9	BNP Paribas Bank	INBI00000893	62 Homji Street, Fort, Mumbai - 400 001.
10	Deutsche Bank	INBI00000003	Kodak House, 222, Dr D. N. Road, Fort, Mumbai 400 001.
11	Citi Bank	INBI00000037	Fort Branch, 4th Floor, Fort House, D N road, Fort, Mumbai
12	Yes Bank	INBI00000935	1A, Mittal Chambers, Nariman Point, Mumbai-400021
13	ABN Amro Bank	INBI00000034	Brady House, 14 V Nariman Road, Fort, Mumbai - 400 002
14	ING Vysa Bank Ltd	INBI00000022	12,Mittal Tower, 'C' wing, 210, Nariman Point, Mumbai 400 021

F. Condensed financial information (CFI) of the Schemes launched by the Mutual Fund during the last three financial years:

Morgan Stanley Mutual Fund has launched Morgan Stanley A.C.E. Fund, an Across Capitalizations Equity Scheme on February 11, 2008. However since the allotment was done on April 3, 2008, the

details of Historical statistics of the said scheme for 2007-2008 are not applicable. The said details for the financial year 2008-2009 are provided below:

HISTORICAL PER UNIT STATISTICS OF MORGAN STANLEY A.C.E. FUND

Historical P.U. Statistics	2008-2009	2007-2008	2006-2007
NAV at the beginning of the year [April 3, 2009]	Rs. 10.00	N.A.	N.A.
Dividends	-	N.A.	N.A.
NAV at the end of the year [March 31, 2009]	Rs. 6.158	N.A.	N.A.
Annualised Return – Growth Option	-38.42%	N.A.	N.A.
Net Assets at the end of Period [Rs. in crore] [Unaudited]	Rs. 74.22 crore	N.A.	N.A.
Ratio of Recurring Expenses to net assets [Unaudited]	2.58% * of average daily net assets	N.A.	N.A.

* The expenses of the fund have exceeded the 2.50% SEBI limit as the average net assets of the Fund are calculated from the date of allotment and management fees is accrued from the date of inflows including the NFO period.

No other scheme was launched by Morgan Stanley Mutual Fund in the last three financial years, namely, 2008-2009, 2007-2008, and 2006-2007.

III. HOW TO APPLY?

Describe briefly the manner in which the units of the scheme being offered under the Scheme Information Document.

II. HOW TO APPLY?

Application Forms / Transaction Slips for the Purchase of Units of the Scheme will be available at the Official Points of Acceptance / distributors. Applications filled up and duly signed by all joint investors should be submitted along with the cheque payable locally, to a Designated Collection Centre.

Applications should be made in adherence to the minimum amount requirements as mentioned in paragraph “Minimum Amount for applying in the Scheme”.

It is mandatory for every applicant to provide the name of the bank, branch, address, account type and number as per SEBI requirements and any Application Form without these details will be treated as incomplete. Such incomplete applications will be rejected. The Registrar / AMC may ask the investor to provide a blank cancelled cheque or its photocopy for the purpose of verifying the bank account number.

For every application including application in joint names, each of the applicants, irrespective of amount should mention his / her permanent account number (PAN) allotted under the Income Tax Act, 1961 and also submit a photocopy of the PAN card(s) or a communication from the Income Tax authority indicating allotment of PAN ("PAN Communication") along with the application for the purpose of verification of the number. Further, the PAN card copy is required to be verified with the original either by the ISCs or verified / attested by ARN distributors, bank managers or judicial authorities.

Applications incomplete in any respect will be liable to rejection.

In order to protect investors from frauds, it is advised that the Application Form number / folio number and name of the first investor should be written overleaf the cheque / draft, before they are handed over to any courier / messenger / distributor / ISC.

In order to protect investors from fraudulent encashment of cheques, the Regulations require that cheques for Redemption of Units specify the name of the Unit Holder and the bank name and account number where payments are to be credited. Hence, all applicants for Purchase of Units must provide a bank name, bank account number, branch address, and account type in the Application Form.

III. RIGHTS OF UNITHOLDERS OF THE SCHEME

1. Unit holders of the Scheme have a proportionate right in the beneficial ownership of the assets of the Scheme.
2. When the Mutual Fund declares a dividend under the Scheme, the dividend warrants shall be despatched within 30 days of the declaration of the dividend. Account Statement reflecting the new or additional subscription as well as Redemption / Switch of Units shall be despatched to the Unit holder within 10 business days of the Specified Redemption Date. Provided if a Unit holder so desires the Mutual Fund shall issue a Unit certificate (non-transferable) within 30 days of the receipt of request for the certificate.
3. The Mutual Fund shall dispatch Redemption proceeds within 10 Business Days of receiving the Redemption request.
4. The Trustee is bound to make such disclosures to the Unit holders as are essential in order to keep the unit holders informed about any information known to the Trustee which may have a material adverse bearing on their investments.
5. The appointment of the AMC for the Mutual Fund can be terminated by majority of the Directors of the Trustee Board or by 75% of the Unit holders of the Scheme.
6. 75% of the Unit holders of a Scheme can pass a resolution to wind- up a Scheme.
7. The Trustee shall obtain the consent of the Unit holders:
 - whenever required to do so by SEBI, in the interest of the Unit holders.
 - whenever required to do so if a requisition is made by three- fourths of the Unit holders of the Scheme.
 - when the Trustee decides to wind up the Scheme or prematurely redeem the Units.
 - The Trustee shall ensure that no change in the fundamental attributes of any Scheme or the trust or fees and expenses payable or any other change which would modify the Scheme and affects the interest of Unit holders, shall be carried out unless :

(i) a written communication about the proposed change is sent to each Unit holder 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

(ii) the Unit holders are given an option to exit at the prevailing Net Asset Value without any Exit Load.

8. In specific circumstances, where the approval of unit holders is sought on any matter, the same shall be obtained by way of a postal ballot or such other means as may be approved by SEBI.

IV. INVESTMENT VALUATION NORMS FOR SECURITIES AND OTHER ASSETS

i) Traded Securities

(a) The securities would be valued at the last quoted closing price on the selected stock exchange (NSE).

(b) When on a particular Valuation Day, a security listed on the selected stock exchange has not been traded, the value at which it has been traded on another stock exchange is used (BSE).

When a debt security (other than Government Securities) is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the selected stock exchange or any other stock exchange, as the case may be, on the earliest previous day may be used, provided such date is not more than 15 days prior to the valuation date.

When a debt security (other than Government Securities) is purchased by way of private placement, the value at which it was bought may be used for a period of 15 days beginning from the date of purchase.

(c) All Government bonds are to be valued at the prices provided by the agency nominated by AMFI on a daily basis. In the event of non-availability of the prices from such agency, for any reason whatsoever, prices released by FIMMDA will be used. When prices from both the aforesaid sources are not available, Reuters or Bloomberg price quotes (bid price quotes) will be used, failing which the average of the indicative bid price quotes obtained from two Government securities brokers will be used.

Traded Treasury Bills (T-Bills) are to be valued at last traded yield to maturity (YTM) and are amortized at YTM on a straight-line basis from that level.

Thinly Traded Equity / Non-traded / Unlisted – Equity:

Thinly Traded Equity Securities:

Thinly traded equity securities will be valued as per fair valuation guidelines issued by SEBI.

Non traded Equity Securities:

Non traded equity securities will be fair valued as per valuation guidelines issued by SEBI.

Unlisted Equity Securities: Unlisted securities will be fair valued as per guidelines issued by SEBI.

Illiquid securities: Non-traded / thinly traded / unlisted equity security in excess of 15% of total net assets of the scheme in case of open-ended funds and 20% in case of close-ended funds shall be valued at NIL.

ADRs/GDRs: ADRs/GDRs shall be valued at closing quote on principal Stock Exchange.

ii) Thinly traded / non-traded Debt Securities

(a) Thinly Traded Debt Securities

A debt security (other than Government Securities) shall be considered as a thinly traded if on the valuation date, there are no individual trades in that security in marketable lots (currently Rs. 5 crore) on the selected stock exchange or any other stock exchange. A thinly traded debt security as defined above would be valued as per the norms set for non-traded debt security.

(b) Non-traded / Thinly Traded Debt Securities

Upto 182 days to Maturity

As the money market securities are valued on the basis of amortization (cost plus accrued interest till the beginning of the day plus the difference between the redemption value and the

cost spread uniformly over the remaining maturity period of the instruments) a similar process shall be adopted for non-traded debt securities with residual maturity of upto 182 days, in the absence of any other standard benchmarks in the markets.

Debt securities purchased with residual maturity period upto 182 days are to be valued at cost (including accrued interest till the beginning of the day) plus the difference between the redemption value (inclusive of interest) and the cost spread uniformly over the remaining maturity period of the instrument.

In case of a debt security with maturity greater than 182 days at the time of purchase, the last valuation price plus accrued interest should be used instead of purchase cost.

All other non-traded non-Government debt instruments shall be valued using the method suggested in (ii) below.

Over 182 days to Maturity

For the purpose of valuation, all the Non-traded debt securities would be classified into “Investment grade” and “Non-investment grade” securities based on their credit ratings. The non-investment grade securities would further be classified as “Performing” and “Non-Performing” assets.

- a. All Non-Government investment grade debt securities, classified as non-traded, shall be valued on yield to maturity basis as defined in the applicable SEBI circular.
- b. All Non-Government non-investment grade debt securities, classified as non-traded, shall be valued at a discount of 25% to the face value.
- c. All Non-Government non-investment grade non-performing debt securities would be valued based on the provisioning norms.

iii) Valuation of convertible Debentures and Bonds

The non-convertible and convertible components of convertible debentures and bonds shall be valued separately. The non-convertible component would be valued on the same basis as would be applicable to a debt instrument. The convertible component shall be valued on the same basis as would be applicable to an equity instrument. If, after conversion the resultant equity instrument would be traded pari passu with an existing instrument, which is traded, the value of the latter instrument can be adopted after an appropriate discount for the non-tradability of the instrument during the period preceding the conversion. While valuing such instruments, the fact whether the conversion is optional will also be factored in.

iv) Valuation of Warrants

In respect of warrants to subscribe for shares attached to instruments, the warrants would be valued at the value of the share which would be obtained on exercise of the warrant as reduced by the amount which would be payable on exercise of the warrant. A discount similar to the discount to be determined in respect of convertible debentures shall be deducted to account for the period, which must elapse before the warrant can be exercised.

v) Money Market Securities (including Collateralised Borrowing and Lending Obligations)

While investments in Call money, Bills purchased under rediscounting plan, Collateralised Borrowing and Lending Obligation and short-term deposits with banks shall be valued at cost plus accrual, other money market instruments shall be amortized at YTM on a straight-line basis from that level.}

vi) Valuation of securities with Put / Call option

The option embedded securities would be valued as follows:

Securities with Call Option:

The securities with Call option shall be valued at the lower of the value as obtained by valuing the security to final maturity and valuing the security to Call option.

In case there are multiple call options, the lowest value obtained by valuing to the various call dates and valuing to the maturity date is to be taken as the value of the instrument.

Securities with Put Option:

The securities with Put option shall be valued at the higher of the value as obtained by valuing the security to final maturity and valuing the security to Put option.

In case there are multiple put options, the highest value obtained by valuing to the various call dates and valuing to the maturity date is to be taken as the value of the instrument.

Securities with both Put and Call option on the same day:

The securities with both Put and Call option on the same day would be deemed to mature on the Put / Call day and would be valued accordingly.

vii) Valuation of “Repo”

Where an instrument has been bought on a 'Repo' basis, the instrument would be valued at the resale price after deduction of applicable interest upto the date of resale. Where an instrument has been sold on a 'Repo' basis, adjustment would be made for the difference between the repurchase price (after deduction of applicable interest up to date of repurchase) and the value of the instrument. If the repurchase price exceeds the value of the instrument, the depreciation would be provided for, and if the repurchase price is lower than the value, credit would be taken for the appreciation.

viii) Valuation of a derivative product

(a) The traded derivatives shall be valued at market price in conformity with the stipulations of sub clause (i) to (v) of clause 1 of the Eighth Schedule to the SEBI (Mutual Funds) Regulations, 1996.

(b) The valuation of unrated derivatives shall be done in accordance with the valuation method for unrated investments prescribed in sub clause (i) and (ii) of clause 2 of the Eighth Schedule to the SEBI (Mutual Funds) Regulations, 1996.

ix) Valuation of Non-Performing Assets

All Non-Performing Assets shall be valued in accordance with the Guidelines for Identification and Provisioning for Non-Performing Assets (Debt securities) for Mutual Funds issued by SEBI vide Circular dated September 18, 2000.

INTEREST RATE SWAPS (IRS) –

In case the IRS is traded, it shall be valued at traded price. In case it is non traded, valuation shall be as under:

- | | |
|---|---|
| i. IRS having maturity less than 182 days | At cost |
| ii. IRS having maturity greater than 182 days | Fair valued as per guidelines by fair valuation committee |

iii IRS having maturity greater than 182 days, At Amortised Price

Investment in MF schemes (inter/intra investments): At current End of Day NAV

V. TAX & LEGAL & GENERAL INFORMATION

D) Taxation on investing in Mutual Funds

THE FOLLOWING INFORMATION IS PROVIDED FOR GENERAL INFORMATION PURPOSES ONLY AND APPLIES TO THE SCHEME. IN VIEW OF THE INDIVIDUAL NATURE OF TAX BENEFITS, EACH INVESTOR IS ADVISED TO CONSULT HIS OR HER OWN TAX CONSULTANT WITH RESPECT TO THE SPECIFIC TAX IMPLICATIONS ARISING OUT OF HIS OR HER PARTICIPATION IN THE SCHEME.

A) TAX IMPLICATIONS TO UNIT HOLDERS

The details of the relevant tax provisions stated herein are as per the Income-tax Act, 1961 as amended by the Finance Bill, 2009¹. The following is provided for general information purposes only. In view of the peculiarities that may arise as a result of each individual's circumstances, each client is advised to consult his/her own tax consultant with respect to the implication arising out of his or her investments. A high level discussion on the taxability of income arising from investment in securities is discussed in the following paragraphs.

1) Income-tax Act, 1961 ('the Act')

a. Income from units

As per section 10(35) of the Act, any income (other than income arising from transfer of the units) received in respect of the units of a Mutual Fund specified under section 10(23D) of the Act, is exempt in the hands of the Unit Holders.

b. Income arising from transfer of units

i) Long term capital gains

Under section 2(29A) read with section 2(42A) of the Act, units of the Scheme held as a capital asset are treated as a long-term capital asset if they are held for a period of more than twelve months immediately preceding the date of their transfer.

From the full value of consideration, the following amounts should be deducted to arrive at the amount of long-term capital gains:

- i. Cost of acquisition as adjusted by the cost inflation index notified by the Central Government in the Official Gazette; and
- ii. Expenditure incurred wholly and exclusively in connection with such transfer.

The additional units issued under the 'Reinvest Dividend' Option available in the Scheme and held as capital asset would get the benefit of long-term capital gains tax if sold after being held for more than 12 months. For this purpose, 12 months will be computed from the date when such additional units are allotted.

Please refer to the tax rates in **Annexure A**.

¹ The Finance Bill 2009 is subject to change before the same is enacted by the Parliament. The Bill is currently awaiting the Presidential assent.

In case of non-resident Unit Holders eligible for availing tax treaty benefits, please refer to paragraph (e) below.

ii) Short-term capital gains

Under section 2(42A) of the Act, units of a mutual fund held as capital assets for a period of 12 months or less immediately preceding the date of their transfer are regarded as short-term capital assets.

Please refer to the tax rates in **Annexure A**.

In case of non-resident Unit Holders eligible for availing tax treaty benefits, please refer to paragraph (e) below.

iii) Business Income

Under section 28 of the Act, profit arising on transfer of units of a mutual fund which are held as stock in trade or trading asset, is taxed under the head ‘Profits and Gains of Business or Profession’. Such profit is added to the total income of the assessee and taxed at the rates mentioned below:

Assessee Status	Tax Rate² (excluding surcharge and education cess, if applicable)
<u>Residents</u>	
Individuals, HUF's, association of persons, body of individuals and artificial juridical person	At the slab rates applicable
Firms, companies and local authority	30%
Non-residents (other than Company)	At the slab rates applicable
Foreign Company	40%

In case of non-resident Unit Holders eligible for availing tax treaty benefits, please refer to paragraph (e) below.

iv) Avoidance of Tax by certain Transactions in Securities

As per section 94(7) of the Act, losses arising from the sale/transfer of units (including redemption) purchased up to 3 months prior to the record date and sold within 9 months after such date, will be disallowed to the extent of income distribution (excluding redemptions) on such units claimed as tax exempt by the unit holder.

Further, section 94(8) of the Act provides that any person who buys or acquires any units within a period of 3 months prior to the record date and such person is allotted additional units without consideration (bonus units) based on the original holding, any subsequent loss on sale of original units within a period of 9 months from the record date, will be ignored for computing the income chargeable to tax if the Unit Holder continues to hold all or any of the bonus units at the time of sale of original units. The loss so ignored will be deemed to be the cost of purchase or acquisition of Bonus units (held at such time) when these Bonus units are subsequently sold.

² For surcharge and education cess, please refer paragraph d

v) Securities Transaction Tax ('STT')

STT is levied on purchase or sale of a unit of an equity-oriented fund entered in a recognised stock exchange. The responsibility for the collection of the STT and payment to the credit of the Government is with the Stock Exchange. STT is also levied on sale of a unit of an equity-oriented fund to the Mutual Fund. In such a case, the responsibility for the collection of the STT and payment to the credit of the Government is with the Mutual Fund. The rates of STT are as follows:

	Nature of transaction	Rate of STT
A.	<u>Settled by actual delivery or transfer</u> Purchase of units of an equity oriented fund entered in a recognized stock exchange	Purchaser to pay 0.125 percent
	Sale of units of an equity oriented fund entered in a recognised stock exchange	Seller to pay 0.125 percent
B.	<u>Settled otherwise then by actual delivery or transfer</u> Sale of units of an equity oriented fund entered in a recognised stock exchange	Seller to pay 0.025 percent
C.	Sale of units of an equity oriented fund to the mutual fund	Seller to pay 0.25 percent

(Note: Equity-oriented fund means a fund, (i) which has been set up under a scheme of a Mutual Fund specified under clause (23D) of section 10 of the Act and (ii) where the investible funds are invested by way of equity shares in domestic companies to the extent of more than sixty five percent of the total proceeds of such fund)

vi) Set off and Carry-forward

Short-term Capital Loss on transfer of units is available for set off against both short-term and long-term capital gains arising on sale of other assets and the balance short-term capital loss shall be carried forward for set off against capital gains, both short-term and long-term, in subsequent years.

Long-term Capital Loss on transfer of units is available for set off against only Long-term capital gains arising on sale of other assets and the balance Long-term capital loss shall be carried forward for set off only against long-term capital gains in subsequent years.

Carry forward of losses is admissible upto maximum of eight assessment years immediately succeeding the assessment year for which the loss was first computed.

c. Tax deducted at source ('TDS')**i) On income in respect of units**

As per section 194K and section 196A, no tax shall be deducted at source from any income (other than income on transfer of units) credited or paid to Unit Holders in respect of units of a mutual fund specified under section 10(23D) of the Act.

ii) On capital gains

Resident investors

No tax is required to be deducted at source from capital gains arising at the time of repurchase/redemption of the units.

Non-resident investors – Other than FIIs

Please refer to the table provided in **Annexure A** for tax rates.

Non-resident investors - FIIs

No tax is deductible at source from capital gains arising to an FII on repurchase/redemption of units in view of the provisions of section 196D(2) of the Act.

d. Surcharge and Cess

Resident Investors

A surcharge @ 10% is levied on tax payable by resident corporates if the total taxable income exceeds Rs.10 million. All non-corporate resident assesseees would not be required to pay surcharge.

Non Resident Investors

In case of Foreign companies, surcharge is levied @ 2.5% on the tax payable, if the total taxable income exceeds Rs.10 million. All non-corporate non-resident assesseees would not be required to pay surcharge.

An Education Cess of 2% and Secondary and Higher Education Cess of 1% (collectively referred to as 'education cess') is levied on tax plus surcharge, if applicable, payable by all assesseees.

Accordingly, the rates of tax mentioned above (other than TDS rates), will be increased by the applicable surcharge and cess.

In case of TDS on payments made to foreign companies, the tax rates (mentioned in **Annexure A**) would be increased by surcharge and education cess. In cases of TDS on payments made to non-residents (other than foreign companies), the tax rates would be increased only by education cess.

In case of TDS on payments made to residents, the tax rates would not be increased by surcharge and education cess.

e. Tax Treaty Benefits

As per Section 90 of the Act, in the case of a non-resident Unit Holder who is resident of a country with which India has signed a Double Taxation Avoidance Agreement ('DTAA'), which is in force, income tax is payable at the rate provided in the Act or at the rate provided in the such agreement, whichever is more beneficial to such non resident Unit Holder.

Further, where the rate of tax prescribed under the relevant DTAA is lower than that prescribed under the Act, tax would be withheld at such lower rate.

However, in order to obtain the benefit of the lower rate under the DTAA, the Unit Holder would be required to provide a certificate under Section 197 of the Act from his Assessing Officer stating the eligibility of the investor to claim such benefit.

f. Religious and Charitable Trust

Investment in Units of the Fund by Religious and Charitable Trusts is an eligible investment under section 11(5) of the Act, read with Rule 17C of the Income Tax Rules, 1962. However, such

investment may be permitted only subject to the state legislation governing Religious and Charitable Trusts in this regard, wherever applicable.

2) Wealth Tax Act, 1957

Units held under the Scheme of the Fund are not treated as assets as defined under section 2(ea) of the Wealth tax Act, 1957 and therefore, would not be liable to wealth– tax.

3) Gift Tax Act, 1958

The Gift Tax Act, 1958 is now abolished.

B) TAX IMPLICATIONS FOR THE FUND

As the Fund has been registered with the Securities and Exchange Board of India (‘SEBI’) under the SEBI (Mutual Fund) Regulations, 1996, the entire income of the Fund is exempt from income tax under section 10(23D) of the Act.

The Money market, Liquid and Debt scheme would be subject to Dividend Distribution Tax (DDT).

Please refer to the tax rates in **Annexure A**.

An Equity oriented Mutual Fund is liable to pay STT at the prescribed rate as outlined in paragraph (b-v) above,

At present, the Mutual Fund is liable for payment of service tax in the capacity of a service recipient, under “Business Auxiliary Services” for services received from distributors of mutual funds / agents and services, received from service providers located outside India which qualifies as taxable import into India under the Finance Act, 1994 and allied rules. Presently, the effective rate of service tax is 10.3 percent (tax rate of 10 percent plus education cess of 3 percent).

Annexure A

Particulars	Open ended scheme		
	Equity (Note 1)	Money market, Liquid (Note 2)	Debt (Note 3)
Tax implications on investors			
Capital gains			
<i>Resident</i>			
<i>Short term capital gains</i>			
- Individuals and HUF	15%	slab rates	slab rates
- Corporates and firms	15%	30%	30%
<i>Long term capital gains</i>	Exempt	10% (without indexation)	10% (without indexation)
		20% (with indexation)	20% (with indexation)
<i>Non resident - other than FII</i>			

<i>(Note 4)</i>			
<i>Short term capital gains</i>			
- Corporates	15%	40%	40%
- Individuals	15%	slab rates	slab rates
- AOP/ BOI	15%	40% (Note 5)	40% (Note 5)
Long term capital gains	Exempt	20% ³	20% ³
<i>Non resident - FII (Note 4)</i>			
Short term capital gains	15%	30%	30%
Long term capital gains	Exempt	10%	10%
Dividends	Exempt	Exempt	Exempt
Rates for TDS			
<i>Resident</i>	Nil	Nil	Nil
<i>Non resident - other than FII (Note 4)</i>			
Short term capital gains			
- Non-residents (other than Company)	15%	30%	30%
- Foreign Company	15%	40%	40%
Long term capital gains	Exempt	20%	20%
<i>Non resident - FII (Note 4)</i>	Nil	Nil	Nil
Tax implications on Mutual Fund			
Income Tax	Exempt	Exempt	Exempt
Dividend Distribution Tax	Exempt	25%	12.5% (individual and HUF) 20% (corporate)
Securities Transaction Tax	0.25% on the value of redemption	Not applicable	Not applicable
Service Tax	10% on payments to the distributors	10% on payments to the distributors	10% on payments to the distributors

³ Based on judicial precedents, the tax payer may opt to apply the concessional rate of 10% plus applicable surcharge and cess on long-term capital gains earned (without indexation) on units of mutual fund.

Notes:

1. Being an equity oriented fund i.e. a fund where the investible funds are invested by way of equity shares in domestic companies to the extent of more than 65 percent of total proceeds of the fund.
2. Being a money market mutual fund or liquid fund as defined in the explanation to chapter XII-E of the Income Tax Act, 1961
3. Not being a money market mutual fund or liquid fund as defined in the explanation to chapter XII-E of the Income Tax Act, 1961
4. Non residents may claim treaty benefits
5. In cases where the shares of members are indeterminate and one of its member is a company. In other cases, the gains would be taxable at 30 percent.
6. The above rates (except STT) will be increased by applicable surcharge and education cess

II) Legal Information**[1] Nomination Facility**

A Unit Holder can, at the time an application is made or by subsequently writing to an ISC, request for a nomination form in order to nominate any person to receive the Units upon his / her death, subject to the completion of certain necessary formalities e.g. providing proof of the death of the Unit Holder, signature of the nominee, furnishing proof of guardianship if the nominee is a minor, and the execution of an indemnity bond or such other documents as may be required from the nominee in favour of and to the satisfaction of the AMC / Registrar.

Nomination can be made only by individuals on their own behalf, either singly or jointly. If the Units are held jointly, all joint Unit Holders must sign the nomination form.

Only the following categories of Indian residents can be nominated: (a) individuals; (b) minors through parent / legal guardian (whose name and address must be provided); and (c) religious or charitable trusts.

A nomination in respect of Units will be treated as rescinded upon the Redemption of the Units. Cancellation of a nomination can be made only by the Unit Holders who made the original nomination and must be notified in writing. On receipt of a valid cancellation, the nomination shall be treated as rescinded and the AMC / Fund shall not be under any obligation to transfer the Units in favour of the nominee. The transfer of Units / payment to the nominee of the Redemption proceeds shall be valid and effectual against any demand made upon the Fund / AMC / Trustee and shall discharge the Fund / AMC / Trustee of all liability towards the estate of the deceased Unit Holder and his / her legal personal representative or other successors.

Maximum number of Nominees:

The maximum number of nominees shall be limited to 3.

Percentage of allocation/share:

- (i) Investors shall indicate clearly the percentage of allocation/share in favour of each of the nominees against their name and such allocation/share should be in whole numbers without any decimals making a total of 100 percent.
- (ii) In the event of the Unit holders not indicating the percentage of allocation/share for each of the nominees, the AMC, by invoking default option shall settle the claim equally amongst all the nominees.

The Fund, the AMC and the Trustee are entitled to be indemnified from the deceased Unit Holder's estate against any liabilities whatsoever that any of them may suffer or incur in connection with a nomination.

This facility is subject to the law applicable to succession.

[2] Anti Money Laundering and Know Your Customer (KYC):

In terms of the Prevention of Money Laundering Act, 2002 ("PMLA") the rules issued there under and the guidelines/circulars issued by SEBI regarding the Anti Money Laundering (AML) Laws, all intermediaries, including Mutual Funds, are required to formulate and implement a client identification programme, and to verify and maintain the record of identity and address(es) of investors.

Know Your Client (KYC)

The need to "Know Your Customer" is vital for the prevention of money laundering. The AMC may seek information or obtain and retain documentation used to establish identity either on its own or through another agency. It may re-verify identity and obtain any missing or additional information for this purpose. The AMC, under powers delegated by the Trustee, shall have absolute discretion to reject any application, prevent further transactions by a Unit Holder, delay in processing redemption as per applicable laws or regulations if -

- (i) 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.
- (ii) The AMC determines in its sole discretion that the application does not or will not comply with any applicable laws or regulations. 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.

In order to make the data capture and document submission easy and convenient for the investors, Mutual Fund Industry has collectively entrusted this responsibility of collection of documents relating to identity, address and record-keeping to an independent agency namely, CDSL Ventures Ltd. ["Central Agency"]. As a token of having verified the identity and address and for efficient retrieval of records, the Central Agency will issue a KYC Acknowledgement letter to each investor who submits an application and the prescribed documents to the Central Agency. Investor/s who has obtained a KYC Acknowledgement letter can invest in the schemes of the mutual fund by attaching a copy of the KYC letter in lieu of submitting information and documents required under Anti Money Laundering laws.

Investors who wish to obtain a KYC Acknowledgement Letter have to submit a completed KYC application Form ('the Form') along with all the prescribed documents listed in the Form along with PAN, at any of the Point of Service ('POS'). POS are the designated centres appointed by the Central Agency for receiving the application forms, processing data and issuing the KYC Acknowledgement Letter. The Form is available on the AMFI website [www.amfiindia.com], Mutual Funds website [www.morganstanley.com/indiamf] and any POS. POS are the designated centers appointed by the Central Agency for receiving the Forms, processing data and providing the KYC Acknowledgement letter. List of and location of POS are available at www.amfiindia.com. On submission of application, documents and information to the satisfaction of the POS, the investor will be given a KYC Acknowledgement letter across the counter. Subsequently, the Central Agency will scrutinize the information and documents submitted by the investor, and in case of any deficiency in the document / information, the form will be rejected.

In the event of any Form being subsequently rejected for lack of information / deficiency / insufficiency of mandatory documentation, the investment transaction will be cancelled and the amount may be redeemed at Applicable NAV, subject to payment of Exit Load, wherever applicable. All investors (both individual and non-individual) can submit the Form for the purpose of KYC. However, applicants should note that minors cannot make an application and any investment in the name of minors should be along with a guardian, who should obtain the KYC Acknowledgement letter for the purpose of investing with a Mutual Fund. Also, applicants / Unit Holders intending to apply for units / currently holding units and operating their Mutual Fund folios through a Power of Attorney (PoA) must ensure that the issuer of the PoA and the holder of the PoA must obtain the KYC Acknowledgement letter at the time of investment of value of Rs. 50,000 and above. Separate procedures are prescribed for change in name, address and other related details, should the applicant desire to change such information. POS will extend the services of effecting such changes.

Presently, it is mandatory for all applications for subscription of Rs. 50,000 and above to attach the KYC Acknowledgement letter for all applicants [both individual and non-individual] including joint holders, PoA holders, and guardian in case of minor, along with the Investment Application Form/s, Transaction Form/s while investing for the first time in every folio. Applications submitted without a copy of the KYC Acknowledgement letter could be rejected.

Permanent Account Number [PAN] Details:

SEBI has made it mandatory for all applicants [in case of application in joint names, each of the applicants] to mention his/her Permanent Account Number [PAN] irrespective of the amount of investment*. If the applicant is a minor, and does not possess his/her own PAN, he/she shall quote the PAN of his/her father or mother or guardian, as the case may be. In order to verify whether the PAN details are quoted correctly in the application form, the applicants shall enclose a photocopy of the PAN card duly attested by the ARN distributors, ISCs of Morgan Stanley Mutual Fund, bank managers or judicial authorities. Attestation will be done after verification with the original PAN card.

* includes fresh purchase, additional purchase, Systematic Investment.

Applications which do not comply with the above shall be rejected. Investors may please note that transactions accompanied with Form 49A and Form 60/61 will be rejected.

Systematic Investment Plan [SIPs] up to Rs. 50,000/- exempt from Permanent Account Number [PAN]

In compliance with SEBI letter No. MRD/DoP/PAN/PM/166999/2009, dated June 19, 2009 issued to Association of Mutual Funds in India [AMFI], and subsequent guidelines issued by AMFI in this regard, effective August 1, 2009, SIPs up to Rs. 50,000/- per year per investor at Fund House level i.e. aggregate of installments in a rolling 12 month period or in a financial year i.e. April to March [to be referred as "Micro SIP"] shall be exempt from the requirement of PAN.

This exemption shall be applicable to investments by individuals [including NRIs], minors, and sole proprietary firms. Such exemption shall be applicable to joint holders also. However, PIOs, HUFs, Partnership Firms, Companies, Societies, Trusts and any other category of investors investing up to Rs. 50,000/- as above shall not be eligible for such exemption. Further, this exemption will not be applicable for lump-sum purchase transaction up to Rs. 50,000/- which will continue to be subject to PAN requirement.

In lieu of PAN, any one of the following photo identification documents can be submitted along with Micro SIP applications as proof of identification:

1. Voter Identity Card
2. Driving License
3. Government/Defense identification card
4. Passport
5. Photo Ration Card
6. Photo Debit Card
7. Employee ID cards issued by companies registered with Registrar of Companies
8. Photo Identification issued by Bank Managers of Scheduled Commercial Banks/Gazette Officer/Elected Representatives to the Legislative Assembly/Parliament
9. ID card issued to employees of Scheduled Commercial/State/District Co-operative Banks
10. Senior citizen/Freedom Fighter ID card issued by Government
11. Cards issued by Universities/Deemed Universities or Institutes under statutes like ICAI, ICWA, ICSI
12. Permanent Retirement Account Number [PRAN] card issued to New Pension System [NPS] subscribers by Central Recordkeeping Agency [NSDL] and
13. Any other photo ID card issued by Central Government/State Governments/Municipal authorities/ Government organizations like ESIC/EPFO.

The Photo identification document has to be current and valid and also either self-attested or attested by an ARN holder mentioning the ARN number.

Suspicious Transaction Reporting:

If after due diligence, the AMC believes that the transaction is suspicious in nature as regards money laundering, the AMC shall report any suspicious transactions to competent authorities under the PMLA and rules / guidelines issued there under by SEBI and RBI, furnish any such information in connection therewith to such authorities and take any other actions as may be required for the purposes of fulfilling its obligations under the PMLA without obtaining the prior approval of the investor / Unit Holder / a person making the payment on behalf of the investor.

[3] Listing and Transfer of Units

The Scheme being open ended, the Units are not proposed to be listed on any stock exchange and no transfer facility is provided. However, the Fund may at its sole discretion list the Units on one or more stock exchanges or provide for transfer and issue of transferable unit certificates at a later date.

The Fund will offer and redeem the Units on a continuous basis after the NFO Period.

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 lodgement if the intended transferee is otherwise eligible to hold the Units.

[4] Transmission of Units

If Units are held in a single name by the Unit Holder, Units shall be transmitted in favour of the nominee where the Unit Holder has appointed a nominee upon production of death certificate or any other documents to the satisfaction of the AMC / Registrar. If the Unit Holder has not appointed a nominee or in the case where the nominee dies before the Unit Holder, the Units shall be transmitted in favour of or as otherwise directed by the Unit Holder's personal representative(s) on production of the death certificate and / or any other documents to the satisfaction of the AMC / Registrar. If Units

are held by more than one registered Unit Holder, then, upon death of one of the Unit Holders, the Units shall be transmitted in favour of the remaining Holder(s) (in the order in which the names appear in the register of Unit Holders with the Registrar) on production of a death certificate and/or any other documents to the satisfaction of the AMC/Registrar and to the nominee only upon death of all the Unit Holders. This facility is subject to the law applicable to such succession.

[5] Duration of the Scheme [Open Ended Schemes]

The duration of the Scheme is perpetual. However, in accordance with the Regulations, the Scheme may be wound up, after repaying the amount due to the Unit Holders:

- a) on the happening of any event which, in the opinion of the Trustees, require the Scheme to be wound up; or
- b) if 75% of the Unit Holders of the Scheme pass a resolution that the Scheme be wound up; or
- c) if SEBI so directs in the interests of Unit Holders. If the Scheme is so wound up, the Trustees shall give notice of the circumstances leading to the winding up of the Scheme:
 - i) to SEBI; and
 - ii) in two daily newspapers having a circulation all over India, and in a vernacular newspaper with circulation in Mumbai.

On and from the date of the publication of notice of winding up, the Trustees or the AMC, as the case may be, shall

- a) cease to carry on any business activities in respect of the Scheme so wound up;
- b) cease to create or cancel Units in the Scheme; and
- c) cease to issue or redeem Units in the Scheme.

[6] Procedure and manner of Winding Up

The Trustees shall call a meeting of the Unit Holders to approve, by simple majority of the Unit Holders present and voting at the meeting, a resolution authorising the Trustees or any other person to take steps for winding up of the Scheme.

The Trustees, or other person authorised as above, shall dispose of the assets of the Scheme concerned in the best interest of Unit Holders of the Scheme. The proceeds of sale shall be first utilised towards discharge of such liabilities as are due and payable under the Scheme, and, after meeting the expenses connected with the winding up, the balance shall be paid to the Unit Holders in proportion to their respective interests in the assets of the Scheme, as on the date when the decision for winding up was taken.

On completion of the winding up, the Trustees shall forward to SEBI and Unit Holders a report on the winding up, detailing, the circumstances leading to the winding up, the steps taken for disposal of the assets of the Scheme before winding up, net assets available for distribution to the Unit Holders and a certificate from the Auditors of the Fund.

Notwithstanding anything contained herein above, the provisions of the SEBI Regulations in respect of disclosures of half-yearly reports and annual reports shall continue to be applicable until winding up is completed or the Scheme ceases to exist.

After the receipt of the Trustees report referred to above, and if SEBI is satisfied that all measures for winding up of the Scheme have been complied with, the Scheme shall cease to exist.

On and from the date of the publication of the notice of winding up as stated above, the Trustees or the AMC as the case may be, shall:

- (a) cease to carry on any business activities in respect of the Scheme so wound up;
- (b) cease to create or cancel Units in the Scheme;
- (c) cease to issue or redeem Units in the Scheme.

III) General Information

[1] Inter-Scheme Transfer of Investments:

Transfers of investments from one scheme to another scheme in the same mutual fund shall be allowed only if -

- (a) such transfers are done at the prevailing market price for quoted instruments on spot basis.
Explanation : "spot basis" shall have 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.

[2] Associate Transactions:

- [i] Subscription by the scheme/s in the issues lead managed by associate companies:

AMC has not utilised the services of the Sponsor or any of its affiliates, employees or their relatives for the purpose of any securities transaction as specified under Regulation 25(8) of the regulations. However, during the financial years namely, 2007-2008 and 2006-2007, Morgan Stanley Growth Fund subscribed to the issue of equity shares of the following companies where Morgan Stanley India Company Private Limited [formerly known as JM Morgan Stanley Securities Private Limited], an associate of AMC was the lead manager/co-manager to these issue. The subscriptions were however made through non-affiliate entities as given below:

Name of Company	Entities through whom investment made	Amount invested (Rs. in crore)	Period
Idea Cellular	DSP Merrill Lynch Limited	5.54	2006-2007
HDFC ADR	DSP Merrill Lynch Limited	49.93	2007-2008
Phoenix Mills (QIP)	IL&FS	50.40	2007-2008
Mundra Port	DSP Merrill Lynch Limited	3.92	2007-2008

Please note that during 2008-2009, no subscriptions were made to issues where Morgan Stanley India Company Private Limited was the lead manager/co-manager to the issue.

- [ii] Associate companies of the Sponsor/Asset Management Company whose services are utilized/may be utilized by the Asset Management Company:

[a] The AMC, has entered into an agreement with MSIM Global and Support Technology Services Pvt. Ltd. ["MSIM GSTS"], appointing them for execution of equity trade orders placed by the fund manager for schemes of the Fund and certain services in the nature of some of the back office operations of the AMC. The cost of obtaining such services is entirely borne by the AMC and is not charged to the scheme/s.

[b] The Asset Management Company may utilize the services of Morgan Stanley India Financial Services Pvt. Ltd. ["MSFS"] to market and/or distribute the scheme/s of the Mutual Fund. The services, whenever utilized, will be in accordance with/subject to SEBI Regulations, and on

commercial terms, on arms-length basis at mutually agree terms and conditions. The AMC shall ensure that no undue advantage is given to MSFS while utilizing their services.

[c] The Asset Management Company may also utilize the services of Morgan Stanley India Company Pvt. Ltd. ["MSIC"] to purchase or sell securities through MSIC, the associate broker. The services, whenever utilized, will be in accordance with/subject to SEBI Regulations, and on commercial terms, on arms-length basis at mutually agree terms and conditions. The AMC shall ensure that no undue advantage is given to MSFS while utilizing their services.

The AMC may utilize any other services of the aforesaid companies to the extent permitted under the SEBI Regulations on commercial terms, and on arms-length basis at mutually agreed terms and conditions. Further, apart from the above, AMC may, in future, utilize the services of Sponsor, group companies and any other subsidiary or associate companies of the Sponsor established or to be established at a later date, who is in a position to provide the requisite services to the AMC. In such circumstances, appropriate disclosure shall be made in this regard in SAI.

[iii] None of the schemes of the Mutual Fund has invested more than 25% of its net assets in group companies of the Sponsor at any point of time.

[iv] Other activities of the AMC:

The AMC has also entered into agreements with Morgan Stanley Investment Management Inc. ["MSIM Inc."], for providing services in the nature of management and advisory, financial consultancy and exchange of economy, industry, sector and industry related research and other ancillary support services to the various funds under management of MSIM Inc. The AMC has systems in place to ensure that there is no conflict of interest between the aforesaid activities.

[3] Documents Available for Inspection

The following documents shall be available for inspection at the office of the Mutual Fund at Forbes Building, Charanjit Rai Marg, Mumbai – 400 001 during business hours on any day (excluding Saturdays, Sundays and public holidays):

- Memorandum and Articles of Association of the AMC
- Investment Management Agreement
- Trust Deed and amendments thereto, if any
- Mutual Fund Registration Certificate
- Agreement between the Mutual Fund and the Custodian
- Agreement with Registrar and Share Transfer Agents
- Consent of Auditors to act in the said capacity
- Consent of Legal Advisors to act in the said capacity
- Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 and amendments from time to time thereto. Indian Trusts Act, 1882.

[4] Investor Grievances Redressal Mechanism

The Mutual Fund believes in providing the investor with superior services to make the investor's experience in dealing with the Mutual Fund an efficient and satisfactory one. In order to achieve these goals, the Mutual Fund will endeavour to continuously establish and upgrade systems to handle transactions efficiently and resolve any investor grievances promptly.

The investors can enquire about NAVs, Unit holdings, Dividends etc. or lodge any service request at Karvy Computershare Private Limited. 21, Avenue 4, Street Number 1, Banjara Hills, Hyderabad 500 034. Alternatively, investors can call at the AMC branch offices or the toll free number 1800 425 1313 for any information. In order to protect confidentiality of information, the service representatives may require personal information of the investor for verification of his/her identity.

The AMC will at all times endeavour to handle transactions efficiently and to resolve any investor grievances promptly.

Investor grievances should be addressed to Investor Services at the AMC branch offices, or Karvy Investor Service Centres. All grievances will then be forwarded to the Registrar, for necessary action. The complaints will closely be followed up the Registrar, and AMC shall ensure timely redressal and prompt investor service.

Investors can also address their queries to the Investor Relations Officer, Mr. Sidhartha Gupta, 5th Floor, Forbes Building, Charanjit Rai Marg, Fort, Mumbai – 400 001. Investors may also send their complaints by e-mail to mfinvestorcare@morganstanley.com

The investor complaints history for last three financial years, namely, 2008-2009, 2007-2008, and 2007-2006, is provided below:

Nature of Complaint	Total no. of complaints received for the period from April 1, 2006 to March 31, 2009	Total no. of complaints received for the period from April 1, 2009 to July 31, 2009	Complaints pending resolution as of July 31, 2009
Received from Stock Exchange	29	2	Nil
Received from SEBI	101	17	Nil
Legal Enquiry/ Notice	9	Nil	Nil
Complaints/Queries received directly	25499	549	Nil

As prescribed by SEBI, the data on the number of complaints received, redressed and pending is required to be updated every two months. Accordingly, the same is updated upto July 31, 2009.

[5] Securities Lending by the Mutual Fund:

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:

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

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.

[6] Borrowing by the Mutual Fund:

Under the Regulations, the Fund is allowed to borrow to meet the temporary liquidity needs of the Scheme for the purpose of repurchase, Redemption of Units or payment of interest or dividend to the Unit Holders. Further, as per Regulations, the Fund shall not borrow more than 20% of the net assets of the Scheme and the duration of such borrowing shall not exceed a period of 6 months. The Fund may enter into necessary arrangements with banks / financial institutions for borrowing purposes. The Scheme may bear the interest charged on such borrowing provided the total recurring expenses of the scheme are within the limits prescribed under the regulations.

None of the schemes of the Mutual Fund borrowed for the year ended March 31, 2009, as well as for the period from April 1, 2009 to July 31, 2009.

[7] Underwriting by the Mutual Fund:

Subject to SEBI Regulations, the Scheme(s) may enter into underwriting agreements after the Mutual Fund obtains the necessary registration in terms of the Securities and Exchange Board of India (Underwriters) Regulations, 1993 and the Securities and Exchange Board of India (Underwriters) Rules, 1993 authorising it to carry on activities as underwriters. The capital adequacy norms for the purpose of underwriting shall be the net assets of the Scheme(s) and the underwriting obligation of the Scheme(s) shall not at any time exceed the total Net Asset Value of the Scheme(s). For the purposes of the Regulations, the underwriting obligation will be deemed as if investments are made in such securities.

Notwithstanding anything contained in this Statement of Additional Information, the provisions of the SEBI (Mutual Funds) Regulations, 1996 and the guidelines there under shall be applicable.
