MORGAN STANLEY
GROWTH FUND

Annual Report
March 31, 1999

To Our Valued Unit Holder,

We are pleased to present to you the fifth annual report of the Morgan Stanley Growth Fund (the "Fund") for the year ended March 31, 1999.

The year under review was a most interesting one for fund managers. The broad market remained largely unchanged and recorded only a marginal increase over the year. However, the market offered a number of opportunities in select sectors, which were a stock picker's delight.

The Fund realised significant benefits from these opportunities and recorded a huge outperformance against the benchmark indices, BSE 200 and S & P CNX 500. The Fund also retained its better ranking against its peers in the closed end mutual funds category. The combined strategy of weeding out marginal positions and restructuring the portfolio to orient it towards growth sectors helped achieve this performance.

You will find enclosed detailed results of the Fund for the financial year ended March 31, 1999 along with a commentary from the portfolio manager in which he shares with you his views on the Indian economy and equity markets, their prospects and the factors influencing the Fund's performance. We do hope that you find the report useful and informative.

In the last annual report, we shared with you the benefits of holding the Fund's units in an electronic form at the depository. We are pleased to inform you that as on date, nearly a quarter of the Fund's outstanding capital is currently held in an electronic form. We would encourage all investors to take advantage of this opportunity and eliminate the risk of holding securities in physical or paper form.

As Trustees of your Fund, it is our duty to safeguard the assets of the Fund and to ensure that the Fund is managed in accordance with the law and good business practice. To this end, we are pleased to report that over the past year, your Fund and its asset management company have maintained their high standards in reporting and control systems. We greatly appreciate your participation as a unit holder of the Fund and look forward to another successful year.

Sincerely,

Michael F. Klein
Principal Trustee

May 13, 1999

The price and redemption value of the units, and income from them, can go up as well as down with the fluctuations in the market value of its underlying investments. Past performance is no indication of future performance.

Dear Unit Holder,

The Morgan Stanley Growth Fund (the "Fund") net asset value ("NAV") appreciated by 47% to register a record high of Rs 13.41 for the year ended March 31, 1999. During this period, the benchmark indices – BSE 200 and S & P CNX 500 – increased by 1% and 6% respectively. Since inception in January 1994, the Fund has outperformed the benchmark indices (see Table 1). The opportunity presented for stock picking in the last year coupled with the benefits of the portfolio restructuring exercise of previous years, helped achieve this outperformance. The Fund continues to remain amongst the best performing funds while compared with its peers in the closed end mutual funds category (see Table 2).

Review

The Indian equity market has put in a surprisingly strong performance since late November. Most observers would characterize the rise as 'surprising' given the apparently negative developments during that period. The fourth quarter of 1998 was a particularly difficult time for the political economy. Economic activity decelerated sharply and the political situation was seen as being far from certain. However, as it seems with the help of hindsight, the fourth quarter may have marked an important inflection point for the political economy and set the base for better things to come.

The New Year has brought in some cheer with economic data coming in better than expected and a growing feeling amongst business houses that the worst may well be behind us. In what has become typical over the past few years, the Indian stock market managed to again stage a strong rally in the first quarter of the calendar year. Right through the bear market, now in its fifth year, the stock market has on average registered its strongest performance in the first quarter of the calendar year.

There was no apparent trigger for the sharp up-move but the rise in general was attributed to a) significant fall in the rate of inflation, a major issue with the electorate, which in turn facilitated the central bank to be more accommodative on the monetary side b) a feeling that the economic cycle could well be turning around and c) probably most importantly, a renewed attempt on the part of policymakers to push ahead with key economic reforms. Also, sentiment had gotten very bearish late last year and in such circumstances it takes only marginal net buying to liven price action.

The leadership to the market, for the most part, was provided by the technology sector, which has for a fair while been operating in a bull-market zone of its own. While the technology sector did grab the headlines, along with some consumer goods and pharmaceutical stocks, the real story of the year on the Indian stock market, in our minds, has been the stellar performance of stocks outside the popular technology, pharmaceuticals and consumer goods sectors. Even in some of the most run-down sectors, certain large-cap stocks have managed to rise by anywhere between 50-500 per cent over the past quarter.

So contrary to popular perception, the latest bull-run has not been confined to just three sectors. Market breadth has widened considerably and is reflected in the fact that the number of stocks traded this year has doubled from 900 to around 2,000. The sharp rallies in stocks outside the core growth sectors is also in keeping with the emerging global theme that favours economic cycle sensitive stocks. As Table 3 shows, our portfolio incorporates this new theme.

Outlook and Strategy for 1999

The gruelling bear market conditions of the past four years and the recessionary trend in the real economy of the past thirty months has forced the Indian corporate sector to get into a very lean shape. Even though many corporates continue to reel under the pressure of an economy growing below trend, global experience clearly shows that when the macro-economy does turn around the return on equity in the micro-economy would stand to be very large. Here even though signs of any V-shaped recovery remain far from apparent there are the first indications that the economy could be past its worst point in the current cycle. The government's tax receipts along with the export numbers for the past couple of months endorse such a view with both these variables, for example, showing some growth.