# MORGAN STANLEY
## GROWTH FUND

Annual Report
March 31, 2000

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***To our Valued Unit Holder,***

*We are pleased to present to you the sixth annual report of the Morgan Stanley Growth Fund (the "Fund") for the year ended March 31, 2000.*

*The year under review was an eventful one for investment managers and investors. The significantly upbeat market conditions during the past year were a defining moment for the Indian capital market after the protracted bear phase of previous years. This year was also marked by the long awaited return of the retail investor to the Indian stock market. Sustained investment by your Fund in growth stocks contributed to significant returns for the year and provided an opportunity for realizing gains. A consolidation and restructuring of the portfolio has provided the Fund opportunities for improved performance, while maintaining adequate risk diversification.*

*The Fund's strong performance for the year was reflected in the market price of the units as they reached a high of Rs. 17.50 in January 2000. We are pleased that the Fund was in a position to reward its unitholders with an initial interim dividend distribution of 7.5% in June 1999, followed by an additional dividend declaration of 7.5% in April 2000.*

*We were pleased to report that nearly half of the Fund's outstanding capital has been dematerialised. Effective November 29, 1999, the Fund was included in the list of securities for compulsory dematerialisation. We encourage those of you who have not dematerialised your holdings to do so and eliminate the risk of holding securities in physical or paper form.*

*You will find enclosed detailed results of the Fund for the financial year ended March 31, 2000 along with a commentary from the portfolio manager in which he shares with you his view on the Indian economy and equity markets, their prospects and factors influencing the Fund's performance. We do hope that you find the report useful and informative.*

*We wish to inform you that Michael F. Klein, former Principal Trustee, resigned from Morgan Stanley Dean Witter in March 2000 and has also resigned from the Board of Trustees of Morgan Stanley Mutual Fund. We take this opportunity to express our sincere appreciation of Mr. Klein's contributions to the Fund and wish him the very best.*

*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 unitholder of the Fund and look forward to another successful year.*

*Sincerely,*

*Harold J. Schaaff Jr.**
*Principal Trustee*

*May 8, 2000*

**Effective May 8, 2000, Mr. Schaaff was appointed to the Board of Trustees of the Fund. Mr. Schaaff has been associated with Morgan Stanley Dean Witter since 1989.*

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.



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*Dear Unit Holder*

For the year ended March 31, 2000, the net asset value ("NAV") of the Morgan Stanley [illegible] appreciated by [illegible]%, including dividend. During this period, the benchmark indices, BSE 200 and S&P CNX 500 increased by 64% and 74% respectively. Since inception in January 1994, the Fund has outperformed the benchmark indices (see Table 1). The upbeat market conditions coupled with the benefits of the portfolio restructuring exercise of previous years contributed to this outperformance. The Fund continues to rank high among the best performing funds compared with its peers in the closed end mutual funds category (see Table 2).

Sustained bull market conditions and our continued focus on maximising shareholder value has enabled us to reward our unit-holders with a dividend of 15% for the financial year ended March 31, 2000. We were able to more than capture the high returns provided by this market and accordingly distribute a part of the gains, without taking too much risk in the overall portfolio.

As you are probably only too aware, we have been through an extraordinary phase in the market cycle. This cycle was distinctly different from the past bull market phases. Never before had the market seen such divergence on a sector-wise basis. In fact, many stocks outside the TMT (technology, media and entertainment) universe were trading close to their 52-week lows while the TMT stocks themselves were reaching record highs. Otherwise, the popular notion is that a bull market is typically a tide that lifts all boats even though there will be a group of superior performers.

In such an environment it is easy to get further drawn into the momentum of the cycle and sharply tilt the portfolio in favour of the apparent winning strategy. While we were sensitive to the fact that the global economy is witnessing an unprecedented technological revolution, which would obviously benefit companies in the TMT universe, history shows that sentiment tends to get over-extended leading to valuations being stretched. At such a point in this cycle, we think it was important to stick to the basic principles of investing.

Our investment philosophy is to invest in companies with high return on equity, enterprising management teams and sound business models. We have adhered to these basic ground rules when investing in technology companies and found enough strong candidates in the TMT field that meet our criteria. We believe that exposure to the technology revolution can be gained by holding on to a basic investment philosophy and any dilution of such a strategy is fraught with risk.

Another way of tracking risk is to be conscious of the portfolio's position vis-à-vis the benchmark indices. On a sector-wise basis, our portfolio is roughly in line with index weights. Given the uncertainty surrounding the valuations and how long the cycle will last, we have decided to have a sector-neutral strategy and yet be very discriminating when it comes to buying the companies in the sectors. Currently, our exposure to the TMT universe is under 40 per cent, which is marginally less than the weight of the sector in the benchmark indices.

We think it pays over time not to get carried away by sweeping market trends. It is also important to recognise that the game of waiting to exit at the right time, i.e. when the market turns sour on technology stocks, is an extremely difficult one and has humbled many a great investor in the past. Bear markets sneak in and don't come widely announced. It all then suggests that the best way to enjoy this extraordinary period is to participate in it but with all the standard risk parameters firmly in place.

**VINOD SETHI**
**Portfolio Manager**

**Mumbai**
**May 8, 2000**



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