

Morgan Stanley  
Growth Fund

Annual Report  
March 31, 2003



Morgan Stanley

*To our valued Unit Holders,*

*We are pleased to present to you the ninth annual report of the Morgan Stanley Growth Fund ("The Fund") for the year ended March 31, 2003.*

*You will find enclosed detailed results of the Fund for the financial year ended March 31, 2003 along with a commentary from the portfolio manager in which he shares with you his views on the Indian economy and equity markets and factors impacting your Fund's performance.*

*During the year Securities and Exchange Board of India (SEBI) announced various measures having a positive bearing on the mutual fund industry. The measures covered various areas including valuation of securities, disclosure and investor reporting, enhanced corporate governance, rules for mutual funds relating to trading in derivatives, investments in foreign securities and establishment of an independent risk management function for the Fund. SEBI has actively initiated various steps in improving the efficiency of the settlement practices in the Indian stock exchanges and towards this shortened the settlement cycle to Trade date (T) +2 day effective April 1, 2003. SEBI also mandated straight through processing (STP) for mutual funds effective December 2, 2002 with a view to bring in increased transparency, eliminate manual processes and further align Indian markets with international trading and settlement best practices. We are pleased to report that your Fund was STP ready on December 2, 2002 and was amongst the first funds to establish electronic connectivity enabling electronic exchange of trade information with brokers and custodians. We continue to challenge our service providers to improve service levels with an objective to serve our unit holders in an efficient manner.*

*We wish to inform you that Barton M. Biggs resigned from the Board of Trustees of the Fund in February 2003. We wish to place on record our appreciation for the guidance and direction provided by Barton Biggs during his tenure as a Trustee of the Fund. Effective April 29, 2003, Rajesh K. Gupta was appointed as a Trustee of the Fund.*

*As Trustees of the Fund, it is our duty to safeguard the assets of the Fund and to ensure that the Fund is managed in accordance with applicable 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 high standards in their reporting and control systems.*

*We greatly appreciate your participation as a unit holder of the Fund and look forward to your continued support.*

*Sincerely,*

**Ronald E. Robison**  
**Principal Trustee**

*April 29, 2003*

**Important information**

● **Nomination Facility** is available and individual unit holders desirous of availing the same can contact Karvy Consultants Ltd. at below mentioned address. Nomination Form is also available on the Fund's website [www.msgfindia.com](http://www.msgfindia.com).

● In order to avoid fraudulent encashment of dividend warrants, unit holders are requested to intimate name, address and account number details of their bank to Karvy Consultants Ltd. at below mentioned address.

**Karvy Consultants Limited**

Unit: Morgan Stanley Growth Fund  
21, Avenue 4, Street No. 1, Banjara Hills,  
Hyderabad - 500 034.

Tel: 040 - 2331 2454, 2332 0251

The price and net asset 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. Investments in securities denominated in foreign currencies, the Indian Rupee equivalent of the net assets, distributions and income may be adversely affected by exchange rate fluctuations.

Please refer to page 13 for investment objective of the fund, liabilities of the Trustees and settlor, statutory details and other risk factor and disclosures.

# PORTFOLIO MANAGER'S LETTER

Dear Unit Holders,

For the year ended March 31, 2003, the total return of the Morgan Stanley Growth Fund ("The Fund"), based on its net assets and assuming reinvestment of all dividend payouts, were down by 7.04%. For the same period the benchmark indices, Sensex and BSE 100 were down by 12.12% and 12.56% respectively. Since inception in January 1994, the Fund has outperformed the indices as shown in Table 1 below.

Table 1

MSGF NAV Performance v/s Benchmark Indices (as of March 31, 2003)

PERIOD	MSGF NAV*	SENSEX	BSE 100
Last 1 year	-7.04%	-12.12%	-12.56%
Last 3 years	-12.95%	-15.21%	-19.74%
Last 5 years	8.65%	-4.77%	-2.43%
Inception (Jan 94) to March 31, 2003	3.68%	-2.02%	-1.71%

Past performance is no indication of the future performance and may not necessarily provide basis for comparison with other investments. All returns except for the 1 year are compounded annualised returns.

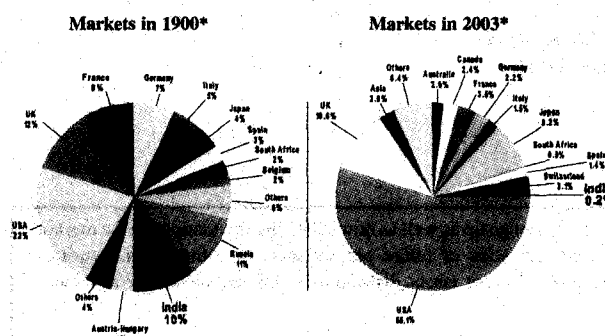
\* Performance of the fund has been calculated based on the assumption that all dividends during the period except for the 1 year have been reinvested in the scheme at the then prevailing NAV.

Equity markets across the world continue to face stiff headwinds due to a combination of factors, ranging from structural economic issues in the world's largest economies to increased geopolitical tensions. Attracting portfolio money in such an environment is even more difficult.

In this regard, it is important to note that reform-based investing, always one of the main drivers of country returns within emerging markets, is regaining some lost importance. Accelerated reform momentum appears to be one of the few ways of breaking away from the pack. Investors are searching for secular growth themes, typically provided by reforming countries, after their love-hate relationship with tech-led sector-oriented investing.

A look at the performance of various emerging markets in the recent past reflects this trend. Russia, Indonesia and Thailand have been some of the best performing emerging markets, with investors impressed by the pace of reforms in these countries. In contrast, markets like Brazil were impacted last year by investor concerns about the country's debt situation and the commitment of the political class to carrying out economic reforms while the likes of Philippines have completely fallen off the investor map due to a disappointing reform drive.

Interest in the Indian market last year was just about kept alive by the privatisation programme. Some more such catalysts will be required in the coming months if India is to relatively outperform within the emerging market universe. Such out-performance is also required for India to become more relevant in the global portfolio universe. India's share in the global market capitalisation pie has systematically declined over the years, in line with its reduced share of global trade.



\* Source: Triumph of the Optimists: 101 Years of Global Investment Returns by Dimson, Marsh and Staunton

Hopefully, India will have some reform effort to show that will positively differentiate its equity market in a more discerning environment. Here a lot of microeconomic blocks are falling in place for a bigger India story to materialise. For example, India is emerging as a global hub for Information Technology services. The key is for a few more such globally competitive industries to emerge in scale. Our effort in the portfolio continues to be directed towards searching for these new opportunities.

**RUCHIR SHARMA**

Portfolio Manager

Mumbai  
April 29, 2003

Table 2

Top Twenty Five holdings of MSGF

March 31, 2003	
State Bank of India	9.54%
Infosys Technologies	7.96%
Bharat Heavy Electricals	5.61%
Wipro	5.61%
Hero Honda	4.77%
HDFC	3.96%
Ranbaxy Laboratories	3.84%
I T C	3.69%
Container Corporation of India	3.66%
Oil and Natural Gas Corporation	3.39%
Reliance Industries	3.34%
Hindalco Industries	3.11%
Hindustan Lever	2.92%
TELCO	2.81%
Hindustan Petroleum	2.65%
M T N L	2.50%
TISCO	2.42%
Gujarat Ambuja Cement	2.38%
HDFC Bank	2.04%
Asian Paints	2.01%
Nestle India	1.95%
SAIL	1.95%
Cipla	1.91%
Colgate Palmolive	1.72%
Glaxo Smithkline Pharma	1.71%
<b>87.45 % of Portfolio</b>	

# AUDITORS' REPORT

To the Board of Trustees of

## MORGAN STANLEY MUTUAL FUND

1. We have audited the Balance Sheet of MORGAN STANLEY MUTUAL FUND - MORGAN STANLEY GROWTH FUND ("The Fund") as at March 31, 2003, and the related Revenue Account for the year ended on that date, both of which we have signed under reference to this report. These financial statements are the responsibility of the Board of Trustees of Morgan Stanley Mutual Fund and the Management of Morgan Stanley Investment Management Private Limited (the "Management"). Our responsibility is to express an opinion on these financial statements based on our audit.
2. We have conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned at March 31, 2003 by correspondence with the custodians and others. An audit also includes assessing the accounting principles used and significant estimates made by the Management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit. The Balance Sheet and the Revenue Account referred to above are in agreement with the books of account of the Fund.
4. In our opinion and to the best of our information and according to the explanations given to us;
  - (i) The Balance Sheet and the Revenue Account together with the notes thereon give the information required by the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 and amendments thereto, as applicable, and also give respectively a true and fair view of the state of affairs of Morgan Stanley Mutual Fund - Morgan Stanley Growth Fund as at March 31, 2003 and its net surplus for the year ended on that date.
  - (ii) The Balance Sheet as at March 31, 2003, and the Revenue Account for the year ended on that date, together with the notes thereon, have been prepared in all material respects in accordance with the accounting policies and standards specified in the Ninth Schedule of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 and amendments thereto, as applicable.
  - (iii) The methods used to value;
    - (a) non-traded securities in accordance with the guidelines for valuation of securities for mutual funds dated September 18, 2000 and amendments thereto, as applicable, issued by the Securities and Exchange Board of India (SEBI) and;
    - (b) privately placed equity shares in accordance with the guidelines for valuation of unlisted equity shares from mutual funds dated May 09, 2002 issued by SEBIas at March 31, 2003 as determined by Morgan Stanley Investment Management Private Limited under procedures approved by the Board of Trustees of Morgan Stanley Mutual Fund are fair and reasonable.

**K. H. VACHHA**

*Partner*

For and on behalf of

**PRICE WATERHOUSE**

*Chartered Accountants*

**Mumbai**

**April 29, 2003.**