

Morgan Stanley  
Growth Fund

Annual Report  
March 31, 2004

Morgan Stanley

*To our valued Unit Holders,*

*We are pleased to present to you the tenth annual report of the Morgan Stanley Growth Fund (the "Fund") for the year ended March 31, 2004.*

*You will find enclosed detailed results of the Fund for the financial year ended March 31, 2004 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.*

*The Fund's strong performance for the year was reflected in the market price of the units as they reached a high of Rs. 19 in January 2004. We are pleased that the Fund was in a position to reward its unitholders with a dividend distribution of Rs. 1.50 per unit for the financial year 2003-04. The NAV of MSGF as of March 31, 2004 has been adjusted downward in the audited year-end financial statements to reflect the dividend pay-out, distribution tax and expenses associated with the declaration of dividend. (Please note that past performance may or may not be sustained in future)*

*The year under review has been an active year from the standpoint of significant amendments to the Securities and Exchange Board of India (SEBI) Regulations. The amendments covered topics relating to increased investor protection guidelines, investor reporting, enhanced corporate governance, rules for mutual funds trading in debts. In 2002 SEBI introduced Straight Through Processing (STP) norms for domestic mutual funds. We are pleased to inform you that your Fund was one of the few funds, which established electronic connectivity to enable electronic exchange of contract notes with brokers and custodians. SEBI has now announced that all institutional trades executed on the stock exchange should be processed through STP systems from July 1, 2004. We are taking steps to ensure that your fund ensures adherence to SEBI guidelines.*

*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 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 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 28, 2004*

#### Important information

1 Nomination Facility is available and individual unit holders desirous of availing the same can contact Karvy Computershare Private Limited at below mentioned address. Nomination form is also available on the Fund's website [www.msgfindia.com](http://www.msgfindia.com).

1 In order to avoid fraudulent encashment of dividend warrants, unitholders are requested to intimate name, address and account number details of their bank to Karvy Computershare Private Limited at below mentioned address.

**Karvy Computershare  
Private 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 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. 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 factors and disclosures.

# PORTFOLIO MANAGER'S LETTER

*Dear Unit Holders,*

For the year ended March 31, 2004, the total return of the Morgan Stanley Growth Fund (the "Fund"), based on its net assets and assuming reinvestment of all dividend payouts, rose by 95.52%. For the same period the benchmark indices, Sensex and BSE 100 rose by 83.38% and 97.66% 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, 2004)**

PERIOD	MSGF NAV*	SENSEX	BSE 100
Returns during the year [(+) (-)]	95.52%	83.38%	97.66%
Returns during the half year [(+) (-)]	25.86%	25.54%	28.16%
Compounded Annualised Return			
(i) Last 3 years	28.88%	15.76%	20.59%
(ii) Last 5 years	15.07%	8.37%	12.43%
(iii) Since the launch of the scheme (1st January 1994)	10.20%	4.21%	5.27%

Past performance is no indication of future performance and may not necessarily provide basis for comparison with other investments. Past performance may or may not be sustained in future. Distribution tax has been included in the calculation of returns. All returns except for half year and 1 year are compounded annualised returns.

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

At this time last year, the local financial commentary suggested India could do little right. The economy seemed mired in a disappointingly low growth trajectory. Policymakers appeared jaded and the political-economic cycle argued against any major reform initiatives in the midst of a busy election schedule. Even such lame topics as the fiscal deficit threatened to make a comeback in the public discourse.

It all looks dramatically different today. There is a rush to extrapolate last quarter's 10.4% GDP growth rate. The disinvestment target has been exceeded for the first time in history. Central bankers are grappling with an appreciating rupee and a new investment cycle is evidently at work with the over-investment of the mid-nineties weeded out of the system.

Most equity markets across the world have witnessed a similar change in sentiment. The close relationship between markets extends well beyond the headline level. It is surprising though to see much of this lost on local analysts, who continue to confuse global influences for local trends. India's correlation with emerging markets, both at the overall market and sector level, has increased even more in the current bull market.

Of late though, more of a rotational theme has been running through the global equity universe. Several markets and sectors that outperformed in the fourth quarter of 2003, underperformed in the first quarter of 2004. While emerging markets had another quarter of more than respectable returns, India was among the few markets that generated negative returns. The other markets to end in negative territory for the quarter were Brazil, Thailand and China, all markets that had a spectacular end to 2003, thereby making a pattern.

Both Indian companies and investors need to be wary of the tremendous appetite for IPOs. To be sure, most companies in emerging markets need to focus more on growth and therefore need capital but the classic 'Asian problem' has been to grow without much respect for shareholder returns. Low return projects have often consumed too much money. Of late, a series of Chinese IPOs saw huge oversubscription to only trade well below issue price on listing.

In the final analysis, markets are efficient and with the last IPO feeding frenzy of 2000 still not fully forgotten, the market is likely to turn discerning sooner rather than later. As a Fund, we have almost never participated in an IPO with the primary objective of selling on rapid expected gains upon listing. We have subscribed to an

IPO if the company fits in our overall stock selection criteria of a high management quality backed company in a growth sector with a favourable entry point for the investor.

On the secondary market, our strategy is to be stock specific this year. While we do not foresee any major event-risk for the Indian market, it is a stretch to expect anywhere near the spectacular returns witnessed in the equity market last year. In that regard, the erratic moves of the major stock indices in the quarter ended March 2004 are a timely reminder that there is two-way risk in the market.

**Ruchir Sharma**

**Mumbai**

**April 28, 2004**

**Table 2**

**Top Twenty Five holdings of MSGF**

March 31, 2004	
State Bank of India	8.99%
Bharat Heavy Electricals	8.98%
Hero Honda	5.13%
Oil and Natural Gas Corporation	4.51%
Container Corporation of India	4.11%
Infosys Technologies	3.85%
TISCO	3.66%
I T C	3.13%
Grasim Industries	2.86%
Tata Motors	2.77%
Punjab National Bank	2.61%
Hindalco Industries	2.61%
S A I L	2.60%
Cipla	2.48%
IDBI	2.46%
Siemens	2.44%
A B B	2.40%
Hindustan Lever	2.35%
HDFC	2.24%
Wipro **	2.04%
Indian Oil Corporation	1.98%
HDFC Bank **	1.82%
Glaxosmithkline Pharmaceuticals	1.73%
Indian Petrochemical	1.62%
Asian Paints	1.46%
	<b>80.83%</b>
	<b>of Portfolio</b>
<b>** Includes Local Shares and ADRs/GDRs</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, 2004, 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, 2004 by correspondence with the custodians and others. An audit also includes assessing the accounting principles used and significant estimates made by 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, 2004 and its net surplus for the year ended on that date.
  - (ii) The Balance Sheet as at March 31, 2004, 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 and thinly 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);
    - (b) privately placed equity shares in accordance with the guidelines for valuation of unlisted equity shares for mutual funds dated May 9, 2002 issued by the SEBI; and
    - (c) equity shares awaiting listing in good faithas at March 31, 2004 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*

M. No. F30798

**Mumbai**

**April 28, 2004**