Morgan Stanley

Growth Fund

Annual Report

March 31, 2006

Morgan Stanley

To our valued Unit Holders,

We are pleased to present to you the twelfth annual report of the Morgan Stanley Growth Fund (the "Fund") for the year ended March 31, 2006.

You will find enclosed detailed results of the Fund for the financial year ended March 31, 2006 along with a commentary from the portfolio managers in which they share with you their views on the Indian economy and equity markets and factors impacting your Fund's performance.

The year under review was an eventful one with significant upbeat market conditions. Sustained investment by your Fund in growth stocks contributed to significant returns and out-performance compared to benchmarks for the year. The Fund's strong performance for the year was reflected in the net asset value of the Fund's units reaching an all time high of Rs. 48.19 during the year.

We wish to inform you that Rajesh K Gupta resigned from the Board of Trustees of the Fund in February 2006. We wish to place on record our appreciation for the guidance and direction provided by Rajesh K Gupta during his tenure 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 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 26, 2006

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, other risk factors and disclosures and important investor information.

PORTFOLIO MANAGER'S LETTER

Dear Unit Holders,

For the year ended March 31, 2006, 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 87.29%. For the same period the benchmark indices, Sensex and BSE 100 rose by 73.73% and 69.57% 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, 2006)

PERIOD	MSGF NAV*	BSE SENSEX	BSE 100
Returns during the year [(+) (-)]	87.29%	73.73%	69.57%
Returns during the half year [(+) (-)]	38.88%	30.64%	29.29%
Compounded Annualised Growth Rate			
(i) Last 3 years	65.03%	54.67%	57.87%
(ii) Last 5 years	37.54%	25.63%	28.40%
(iii) Since the launch of the scheme (6th January 1994)	16.10%	9.64%	10.44%

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 annualized 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.

It's rather strange to see such a high level of fear prevailing in the marketplace. Following an increase of more than 200% over the past three years, greed should be the more dominant emotion. Instead financial analysts can't stop worrying about the Indian market's valuation.

India currently trades at a premium relative to its own history and to other emerging markets. Its price-earnings (P/E) ratio is 17 (based on 12-month forward consensus earnings) compared to a long-term average P/E ratio of 13 for the country and a P/E multiple of 12 for emerging markets as a whole. For the bears, this is enough ammunition to make the case that the Indian market is fraught with downside risk.

Viewing markets through just the P/E prism is the simplest yet a terribly misleading way of approaching the investing game. Markets almost never trade in line with their long-term average. They are always in a state of disequilibrium - a reflection of human psychology that's manic-depressive. Emerging markets, such as India, have gone from being very cheaply valued to now being priced at multiples almost similar to developed markets. But that doesn't mean the show is over for emerging markets. This asset class can easily become much more overvalued or reach the stage of a bubble, as was the case in 1994 when the P/E ratio in emerging markets rose to 30.

As of now, these markets can hardly be termed as being in a bubble. It's true that earnings growth has been spectacular over the past three years, heavily driven by a boom in commodity prices. That has some analysts arguing that this time the bubble is in earnings, with corporate profits at record levels. But at major bull market peaks, both earnings and P/E multiples typically rise to new highs.

Admittedly, the Indian market could be further along that curve and its relatively higher P/E ratio may be evidence of that. But the only information in the P/E ratio is that expectations from India are higher compared to other emerging markets.

To be sure, nothing goes up in a straight line. Violent corrections are an integral part of major bull runs and a shakeout in emerging markets may be overdue. But it's important not to lose sight of the primary trend through all the noise. Emerging markets, such as India, are in the midst of a powerful rally driven by fundamental change. Such currents don't end because markets are no longer cheap. P/E ratios get very stretched at the peak of a bull market and emerging markets aren't at that point yet.

Sridhar Sivaram and
Amay Hattangadi
Portfolio Managers

Ruchir Sharma
Co-Head Global
Emerging Markets

Mumbai
April 26, 2006

Table 2

Top Twenty Five holdings of MSGF

March 31, 2006	
Bharat Heavy Electricals	11.07%
Siemens	6.95%
Hindustan Lever	5.57%
Hindustan Construction Co.	5.19%
ABB	5.09%
ITC	3.79%
Infosys Technologies	3.47%
HDFC Bank **	3.41%
HDFC	3.27%
Cipla	2.62%
Wipro **	2.47%
Hero Honda	2.44%
Container Corporation of India	2.30%
HCL Technologies	2.23%
Punjab National Bank	2.22%
Mahindra & Mahindra	2.22%
ACC	2.04%
Hotel Leelaventure	1.89%
Gammon India	1.86%
Gujarat Ambuja Cement	1.82%
NTPC	1.75%
Aventis Pharma	1.69%
Aban Loyd Chiles Offshore	1.69%
State Bank of India	1.63%
UTI Bank **	1.62%
	80.30% of Portfolio

***Includes Local Shares and ADRs / GDRs**

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, 2006, 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 a 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, 2006 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 statements 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 purposes 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 the 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, 2006 and its net surplus for the year on that date.

   (ii) The Balance Sheet as at March 31, 2006, and the Revenue Account for the year ended on that date, together with the notes thereon, have been prepared in all material aspects 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 method used to value:

      (a) non traded and thinly traded securities, in accordance with the guidelines for valuation of securities for the mutual funds dated September 18, 2000 and amendments thereto, as applicable, issued by the Securities and Exchange Board of India (SEBI);
      (b) privately placed / unlisted 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) privately placed equity shares of listed companies with lock in period in good faith as at March 31, 2006 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
M. No. F/ 30798
For and on behalf of
PRICE WATERHOUSE
Chartered Accountants

Mumbai
April 26, 2006