Morgan Stanley

# Growth Fund



## Annual Report

March 31, 2007

Morgan Stanley

***To our valued Unit Holders,***

*We are pleased to present to you the thirteenth annual report of the Morgan Stanley Growth Fund (the "Fund") for the year ended March 31, 2007.*

*You will find enclosed detailed results of the Fund for the financial year ended March 31, 2007 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.*

*We are pleased that the Fund was in a position to reward its unitholders with a dividend distribution of Rs. 2.00 per unit for the financial year 2006-07. (Please note that past performance may or may not be sustained in future). We also wish to remind you that the Fund has so far paid five dividends since inception viz., Rs.1.50 per unit for year 2000 (Rs. 0.75 per unit on 24.07.1999 and 19.05.2000 respectively), Rupee 1.00 for year 2001 on 2.07.2001, Rupees 1.50 per unit for the year 2003-04 on 24.05.2004 and Rupees 2.00 per unit for the year 2006-07 on 10.11.2006. Unitholders who have either not received or encashed their dividend instrument are requested to forward a duly signed written request to Karvy Computershare Pvt. Ltd. for issuance of a fresh dividend instrument.*

*As you are aware, effective 29.11.1999, the units of the Fund were included in the list of securities for compulsory dematerialisation. We are pleased to inform you that as on date, more than 75% of the Fund's outstanding capital is held in electronic form. We encourage all unitholders who have not dematerialised their holdings to do so and eliminate the risk of holding shares in physical or paper form.*

*Effective December 12, 2006 Anthony Archer was appointed as an associate Trustee of the Fund replacing Rajesh K Gupta who resigned last year.*

*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 24, 2007*

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.

*Dear Unit Holders,*

For the year ended March 31, 2007, the total return of the Morgan Stanley Growth Fund (the "Fund"), based on it's net assets and assuming reinvestment of all dividend payouts, rose by 2.90%. 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, 2007)**

| PERIOD | MSGF NAV* | BSE SENSEX | BSE 100 |
|---|---|---|---|
| Returns during the trailing year [ (+) (-) ] | 2.90 | 15.89 | 11.57 |
| Returns during the half year [ (+) (-) ] | 5.02 | 4.96 | 4.09 |
| Compounded Annualised Growth Rate | | | |
| (i) Last 3 years | 33.25 | 32.73 | 30.47 |
| (ii) Last 5 years | 33.87 | 30.38 | 30.86 |
| (iii) Since the launch of the scheme (6th January 1994) | 15.04 | 10.10 | 10.53 |

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 one 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

A violent correction has often punctuated bull markets, but a remarkable feature of the current bull-run is the amazing regularity with which lightning has struck at the same time and the same place. Ever since the secular uptrend in global equities began in 2003, every year somewhere between March and May, asset prices have been slammed.

However, it is not the nature of the beast to let most people anticipate its movements for too long. The script was overdue for a change and that's why this year's correction turned out to be rather shallow even though most market participants were readying themselves for more violence at the first sign of a wobble.

What helped the market achieve the benign outcome is the stunningly high degree of fear in the marketplace, which is highly unusual for a bull-run that has extended so long. Bull markets climb a wall of worry and it seems there are plenty of walls left for stocks to mount.

A time will come in the ongoing cycle when investors completely buy into the secular bull market thesis and become certain about its longevity. The feeling of acrophobia will make way for an ever-rising comfort level with higher valuations. Markets are still some distance away from such sociological excesses.

Historically, the single most important factor that has terminated bull markets is rapidly rising real interest rates. Bear markets occur when earnings collapse due to an economic recession, which in turn is brought about by real interest rates crossing the threshold of pain. In developed economies, higher rates are the consequence of central banks either trying to contain inflation or attempting to prick an asset market bubble. In emerging markets, in addition to inflation, currency weakness has often precipitated higher interest rates.

Benign inflation, which has allowed central banks in most countries to maintain low real interest rates, has given the current global economic cycle its legs. To be sure, there are enough central banks out there raising interest rates but they are all doing so at a very measured pace; their objective is to normalize low short-term interest rates rather than squeeze economic growth to contain inflation.

India is a bit of an oddball in this regard with inflation gaining precedence as a central issue. It is for the first time in recent history that India's inflation rate is running above the average level in developing countries. However, in a globalised world, it's difficult to imagine that India's inflation profile, and by implication its interest rate policy, will get too out of sync with the rest of the world to precipitate a local bear market. More likely, global inflation trends and interest rate movements will still play a dominant role in setting the local market's direction as well.

The odds then favor a continuation of the broad bull market even as some parts of the financial complex, from small caps last year to real estate plays this year, keep imploding.

**Sridhar Sivaram and**
**Amay Hattangadi**
Portfolio Managers

**Ruchir Sharma**
Head Global
Emerging Markets

**Mumbai**
**April 24, 2007**

***Table 2***

**Top Twenty Five Holdings of MSGF**

| **March 31, 2007** | |
|---|---|
| Infosys Technologies ** | 9.12% |
| Bharti Airtel | 7.13% |
| ICICI Bank | 6.51% |
| ABB | 5.61% |
| Bharat Heavy Electricals | 4.36% |
| HDFC Bank ** | 3.51% |
| Aban Offshore | 3.33% |
| ITC | 3.17% |
| Mahindra & Mahindra | 2.68% |
| HCL Technologies | 2.35% |
| NTPC | 2.34% |
| Praj Industries | 2.28% |
| Cipla | 2.27% |
| Glenmark Pharma | 2.12% |
| Pantaloon Retail (India) | 2.11% |
| Wipro | 2.05% |
| Maruti Udyog | 1.95% |
| Marico Industries | 1.85% |
| UTI Bank | 1.84% |
| Punjab National Bank | 1.74% |
| ACC | 1.70% |
| Jyoti Structures | 1.60% |
| Deccan Chronicle | 1.45% |
| Geodesic Information Systems | 1.42% |
| Ashok Leyland | 1.37% |
| | **75.86% 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, 2007, 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, 2007 by correspondence with the custodian 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 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, 2007 and its net surplus for the year on that date.

   (ii) The Balance Sheet as at March 31, 2007, 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) privately placed equity shares of listed companies with lock in period in good faith as at March 31, 2007 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 24, 2007**